

**THE PRINCETON UNIVERSITY STORE  
(A Cooperative Organization)**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEARS ENDED  
JUNE 25, 2011 AND JUNE 26, 2010**

**THE PRINCETON UNIVERSITY STORE**  
**(A Cooperative Organization)**  
**FOR THE FISCAL YEARS ENDED**  
**JUNE 25, 2011 AND JUNE 26, 2010**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
The Princeton University Store

We have audited the accompanying balance sheets of The Princeton University Store (A Cooperative Organization) (the "Store") as of June 25, 2011 and June 26, 2010, and the related statements of operations, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Store's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Princeton University Store as of June 25, 2011 and June 26, 2010, and the results of its operations and cash flows for the fiscal year then ended June 25, 2011 and June 26, 2010 in conformity with accounting principles generally accepted in the United States of America.

*Schulman Wolfson & Abruzzo, LLP*  
CERTIFIED PUBLIC ACCOUNTANTS

North Brunswick, NJ  
August 11, 2011

THE PRINCETON UNIVERSITY STORE  
A Cooperative Organization  
BALANCE SHEETS  
JUNE 25, 2011 AND JUNE 26, 2010

|  | <u>2011</u>         | <u>2010</u>         |
|--|---------------------|---------------------|
| <b><u>ASSETS</u></b>                           |                     |                     |
| CURRENT ASSETS:                                |                     |                     |
| Cash   | \$ 894,791          | \$ 669,156          |
| Accounts receivable                            | 2,183               | 11,685              |
| Merchandise inventory                          | 1,014,425           | 966,858             |
| Deferred taxes asset, short term               | 38,500              | 39,500              |
| Prepaid expenses                               | <u>27,351</u>       | <u>13,784</u>       |
| TOTAL CURRENT ASSETS                           | 1,977,250           | 1,700,983           |
| PROPERTY AND EQUIPMENT, NET                    | 1,327,144           | 1,570,771           |
| OTHER ASSETS:                                  |                     |                     |
| Deferred taxes asset, long term                | 150,500             | 154,500             |
| Prepaid pension costs - funded status          | <u>356,651</u>      | <u>442,508</u>      |
| TOTAL ASSETS                                   | <u>\$ 3,811,545</u> | <u>\$ 3,868,762</u> |
| <b><u>LIABILITIES AND EQUITY</u></b>           |                     |                     |
| CURRENT LIABILITIES:                           |                     |                     |
| Current maturities of long term debt           | \$ 222,128          | \$ 161,044          |
| Accounts payable                               | 609,926             | 655,891             |
| Accrued expenses and other current liabilities | <u>438,311</u>      | <u>341,554</u>      |
| TOTAL CURRENT LIABILITIES                      | 1,270,365           | 1,158,489           |
| LONG TERM DEBT, NET OF CURRENT MATURITIES      | 1,444,652           | 1,662,694           |
| EQUITY:  |                     |                     |
| Capital contribution                           | 453,700             | 453,700             |
| Members' investments                           | 268,604             | 268,604             |
| Accumulated other comprehensive (loss)/Income  | (11,568)            | 114,326             |
| Retained earnings                              | <u>385,792</u>      | <u>210,949</u>      |
| TOTAL EQUITY                                   | <u>1,096,528</u>    | <u>1,047,579</u>    |
| TOTAL LIABILITIES AND EQUITY                   | <u>\$ 3,811,545</u> | <u>\$ 3,868,762</u> |

See independent auditors' report and notes to financial statements.

THE PRINCETON UNIVERSITY STORE  
A Cooperative Organization  
STATEMENTS OF INCOME/(OPERATIONS)  
FOR THE YEARS ENDED JUNE 25, 2011 AND JUNE 26, 2010

|   | 2011              | Percent<br>of Sale | 2010              | Percent<br>of Sale |
|---|-------------------|--------------------|-------------------|--------------------|
| NET SALES                                       | \$ 7,479,642      | 100.0%             | \$ 6,864,120      | 100.0%             |
| COST OF MERCHANDISE SOLD                        | <u>4,254,758</u>  | <u>56.9%</u>       | <u>3,862,038</u>  | <u>56.3%</u>       |
| GROSS PROFIT                                    | 3,224,884         | 43.1%              | 3,002,082         | 43.7%              |
| SELLING, GENERAL AND ADMINISTRATIVE<br>EXPENSES | <u>3,123,147</u>  | <u>41.8%</u>       | <u>3,070,406</u>  | <u>44.7%</u>       |
| INCOME/(LOSS) FROM OPERATIONS                   | 101,737           | <u>1.4%</u>        | (68,324)          | <u>-1.0%</u>       |
| OTHER INCOME AND EXPENSES:                      |                   |                    |                   |                    |
| Other income                                    | 183,594           | 2.5%               | 192,429           | 2.8%               |
| Interest expense                                | <u>(90,688)</u>   | <u>-1.2%</u>       | <u>(115,064)</u>  | <u>-1.7%</u>       |
| TOTAL OTHER INCOME/(EXPENSES)                   | <u>92,906</u>     | <u>1.2%</u>        | <u>77,365</u>     | <u>1.1%</u>        |
| INCOME BEFORE INCOME TAXES                      | <u>194,643</u>    | <u>2.6%</u>        | <u>9,041</u>      | <u>0.1%</u>        |
| INCOME TAXES                                    |                   |                    |                   |                    |
| Current income taxes                            | 2,080             | 0.0%               | 10,250            | 0.1%               |
| Deferred income taxes                           | <u>17,720</u>     | <u>0.2%</u>        | <u>8,160</u>      | <u>0.1%</u>        |
| TOTAL INCOME TAXES                              | <u>19,800</u>     | <u>0.3%</u>        | <u>18,410</u>     | <u>0.2%</u>        |
| NET INCOME/(LOSS)                               | <u>\$ 174,843</u> | <u>2.3%</u>        | <u>\$ (9,369)</u> | <u>-0.1%</u>       |

See independent auditors' report and notes to financial statements.

THE PRINCETON UNIVERSITY STORE  
A Cooperative Organization  
STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED JUNE 25, 2011 AND JUNE 26, 2010

|  | Capital<br>Contribution | Members'<br>Investments | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Comprehensive<br>Income (loss) | Total Equity        |
|--|-------------------------|-------------------------|----------------------|---|--------------------------------|---------------------|
| Balance at June 27, 2009   | \$ 453,700              | \$ 268,604              | \$ 220,318           | \$ 78,000                                       | \$ -                           | \$ 1,020,622        |
| Net loss   | -                       | -                       | (9,369)              | -   | (9,369)                        | (9,369)             |
| Other comprehensive loss:  |                         |                         |                      |   |                                |                     |
| Adjustment to pension (net of income tax<br>benefit of \$20,160) | -                       | -                       | -                    | 36,326  | <u>36,326</u>                  | 36,326              |
| Comprehensive income   | <u>-</u>                | <u>-</u>                | <u>-</u>             | <u>-</u>  | <u>\$ 26,957</u>               | <u>-</u>            |
| Balance at June 26, 2010   | 453,700                 | 268,604                 | 210,949              | 114,326   | -                              | 1,047,579           |
| Net Income   | -                       | -                       | 174,843              | -   | 174,843                        | 174,843             |
| Other comprehensive loss:  |                         |                         |                      |   |                                |                     |
| Adjustment to pension (net income tax<br>benefit of \$12,720)    | -                       | -                       | -                    | (125,894)                                       | <u>(125,894)</u>               | (125,894)           |
| Comprehensive income   | <u>-</u>                | <u>-</u>                | <u>-</u>             | <u>-</u>  | <u>\$ 48,949</u>               | <u>-</u>            |
| Balance at June 25, 2011   | <u>\$ 453,700</u>       | <u>\$ 268,604</u>       | <u>\$ 385,792</u>    | <u>\$ (11,568)</u>                              |                                | <u>\$ 1,096,528</u> |

See independent auditors' report and notes to financial statements.

THE PRINCETON UNIVERSITY STORE  
A Cooperative Organization  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 25, 2011 AND JUNE 26, 2010

|  | <u>2011</u>       | <u>2010</u>       |
|--|-------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                   |                   |
| Net Income/(loss)  | \$ 174,843        | \$ (9,369)        |
| Adjustments to reconcile net income to net cash provided by<br>(used in) operating activities: |                   |                   |
| Depreciation   | 276,612           | 281,991           |
| Bad debt expense   | 496               | 1,793             |
| Changes in operating assets and liabilities:   |                   |                   |
| Decrease/(Increase) in deferred income tax asset   | 5,000             | (12,000)          |
| Decrease in accounts receivable  | 9,006             | 3,740             |
| (Increase)/Decrease in inventories   | (47,567)          | 28,852            |
| (Increase)/Decrease in prepaid expenses  | (13,567)          | 11,745            |
| Decrease in accounts payable   | (45,965)          | (42,547)          |
| Decrease/(Increase) in prepaid pension costs   | 85,857            | (100,342)         |
| Increase in accrued expenses and other current liabilities                                     | <u>96,757</u>     | <u>35,048</u>     |
| NET CASH PROVIDED BY OPERATING ACTIVITIES  | 541,472           | 198,911           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                   |                   |
| Capital additions  | (32,985)          | (41,792)          |
| (Decrease)/Increase in accumulated comprehensive income  | <u>(125,894)</u>  | <u>36,326</u>     |
| NET CASH USED IN INVESTING ACTIVITIES  | (158,879)         | (5,466)           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                   |                   |
| Repayments on long term debt   | <u>(156,958)</u>  | <u>(151,472)</u>  |
| NET INCREASE IN CASH   | 225,635           | 41,973            |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR   | <u>669,156</u>    | <u>627,183</u>    |
| CASH AND CASH EQUIVALENTS, END OF YEAR   | <u>\$ 894,791</u> | <u>\$ 669,156</u> |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>                                      |                   |                   |
| Cash paid for interest expense   | <u>\$ 90,688</u>  | <u>\$ 115,821</u> |
| Cash paid for income tax   | <u>\$ 2,080</u>   | <u>\$ 2,080</u>   |

See independent auditors' report and notes to financial statements.

THE PRINCETON UNIVERSITY STORE  
(A Cooperative Organization)  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 25, 2011 AND JUNE 26, 2010

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Princeton University Store (the "Store") is a retailer of Princeton University insignia items, school supplies, dormitory furnishings, food and other merchandise to students, faculty and alumni of Princeton University and to the general public. Prior to November 2007, the Store also sold textbooks and trade books. During November 2007, the Store discontinued book operations. The Store generates sales through two locations at Princeton University and its internet website. The store is a cooperative and is owned entirely by its membership. A person is required to pay a onetime fee to become a "Member". Members receive discounts on their purchases and sale prices that are unavailable to nonmember customers. The member discounts approximated \$507,000 for the fiscal year ended June 25, 2011 and \$500,000 for fiscal year ended June 26, 2010.

Fiscal Year

The Store's fiscal year-end is the Saturday nearest to June 30. The fiscal year 2011 and 2010 are comprised of 52 weeks each.

Accounts Receivable and Allowance for Doubtful Accounts

Bad debts are provided for on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable. Accounts are written off when they are deemed uncollectable. The Store does not require collateral from its customers. Allowance for doubtful accounts had a balance of \$96 and \$178 as of fiscal years ending June 25, 2011 and June 26, 2010, respectively.

Merchandise Inventories

Inventories are stated at the lower of cost or market as determined under the retail inventory method. Inventories presented are net of obsolescence reserves of \$1,000 for the year ended June 25, 2011 and June 26, 2010, respectively.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is provided over the estimated useful lives of the assets using the straight-line method as follows:

THE PRINCETON UNIVERSITY STORE  
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NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 25, 2011 AND JUNE 26, 2010

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

|                               | <u>Estimated<br/>Useful Life</u> |
|-------------------------------|----------------------------------|
| Leasehold Improvements        | 10 years                         |
| Store furniture and equipment | 10 years                         |
| Data processing equipment     | 5 years                          |
| Delivery equipment            | 5 years                          |

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and may have an impact on future periods.

Revenue Recognition

Revenue from sales of the Store's product is recognized at the time of sale. Sales of merchandise are paid for at the time of sale, mostly with cash or by credit card.

Pension Plan

The Store accounts for its Pension Plan (the "Plan") in accordance with Financial Accounting Standards Codification 715 ("ASC 715"). ASC 715 requires employers to fully recognize the obligations associated with single-employer defined benefit pension, retiree healthcare and other postretirement plans in their financial statements. The funded status is shown on the Balance Sheet and the Change in funding is reflected as "Accumulated Other Comprehensive (loss)/ income" net of income tax.

Until January 2011, the Plan invested in various investment securities. After January 2011, the plan assets are 100% invested in money market accounts and cash. Investment securities are exposed to various risks, such as interest rate, market risk and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term.

THE PRINCETON UNIVERSITY STORE  
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NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 25, 2011 AND JUNE 26, 2010

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pension Plan (Continued)

Users of these financial statements should be aware that the financial markets' volatility subsequent year-end may impact the subsequent valuation of the Plan's investments.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

Advertising Costs

The Store expenses advertising costs as incurred. Advertising costs for fiscal years 2011 and 2010 were approximately \$22,000 and \$32,000, respectively. This is net of cooperative advertising reimbursements received from vendors during the past two years of approximately \$40,000 and \$25,000, respectively.

Income Taxes

The Store operates as a nonexempt cooperative for federal income tax purposes and is subject to taxes on all income not paid or allocable to members as patronage dividends, if any. There were no patronage dividends for the fiscal years ended 2011 and 2010.

NOTE 2: CONCENTRATION OF RISK

The Store maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Store has not experienced any losses on such accounts. The Store believes it is not exposed to any significant credit risk on cash.

During the year ended June 25, 2011, two vendors accounted for 31% of cost of sales. One vendor accounted for 17% of total cost of sales and the other accounted for 14% of total cost of sales during the year ended June 25, 2011. Major vendors are considered to be those who accounted for more than 10% of total cost of sales.

THE PRINCETON UNIVERSITY STORE  
(A Cooperative Organization)  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 25, 2011 AND JUNE 26, 2010

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NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

|                                | <u>June 25, 2011</u> | <u>June 26, 2010</u> |
|--------------------------------|----------------------|----------------------|
| Leasehold improvements         | \$ 1,755,680         | \$ 1,753,290         |
| Store furniture and equipment  | 43,151               | 43,151               |
| Data processing equipment      | 523,644              | 493,046              |
| Delivery equipment             | 22,184               | 22,184               |
|                                | 2,344,659            | 2,311,671            |
| Less: accumulated depreciation | (1,017,515)          | (740,900)            |
| Property and equipment, net    | \$ 1,327,144         | \$ 1,570,771         |

Depreciation expense for the fiscal years ending 2011 and 2010 approximated \$276,600 and \$282,000, respectively.

NOTE 4: LINE OF CREDIT

In January 2011, the Store entered into a line of credit agreement with PNC Bank with maximum borrowings not to exceed \$500,000. Interest is at a rate per year equal to the Prime Rate published in the Wall Street Journal and is collateralized by the substantially all assets of the Store. The line of credit expires on January 21, 2012. The interest rate on the line of credit was 3.25% at June 25, 2011 and June 26, 2010, respectively. The Store had no borrowings on the line of credit as of June 25, 2011 and June 26, 2010, respectively.

NOTE 5: LONG TERM LOAN

In January 2011, the Store refinanced its term debt from the Bank of Princeton to PNC Bank in the amount of \$1,737,113. The proceeds of the initial loan were used primarily to finance the leasehold improvements and fixtures at the new Nassau Street Store and a remodel of the remaining selling space at the University Place Store. The loan is collateralized by inventory, chattel paper, accounts, equipment, general intangibles and consumer goods. Interest is at a 4.00% fixed rate per year which is down from 5.99% prior to the refinance. Payment terms are 84 equal payments of principal and interest, maturing February 1, 2018.

THE PRINCETON UNIVERSITY STORE  
(A Cooperative Organization)  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 25, 2011 AND JUNE 26, 2010

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NOTE 5: LONG TERM LOAN (Continued)

The loan balance was \$1,666,780 and \$1,823,738 as of June 25, 2011 and June 26, 2010, respectively. The future minimum loan repayments required under the long term loan agreement are as follows:

| <u>Fiscal Year Ending June 30,</u> | <u>Annual Repayment</u> |
|------------------------------------|-------------------------|
| 2012                               | \$ 222,128              |
| 2013                               | 231,477                 |
| 2014                               | 241,041                 |
| 2015                               | 251,000                 |
| 2016                               | 261,309                 |
| 2017 and Thereafter                | 459,825                 |
| Total                              | <u>1,666,780</u>        |
| Less: current portion              | <u>(222,128)</u>        |
| Long term debt, net                | <u>\$ 1,444,652</u>     |

NOTE 6: RETIREMENT PLAN

Since 1998, The Company has maintained a 401(k) salary reduction benefit plan (the 401(k) Plan) for its eligible employees. Effective June 28, 2009, the Company began matching a portion of the contributions made by each eligible employee. The Company matches 100% of the first one percent of the employee's contributions, and 50% of the next four percent contributed by the employees for a maximum Company contribution of three percent. Company matching contributions are fully vested to the employee after completion of three years of service. Eligible employees must be 21 years of age and have at least six months of service with the Company.

During the fiscal year ended June 25, 2011, the company contributed \$32,873 to the plan on behalf of the plan's participants.

THE PRINCETON UNIVERSITY STORE  
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NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 25, 2011 AND JUNE 26, 2010

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**NOTE 7: PENSION PLAN**

In addition, The Store has a contributory defined benefit pension plan covering all full-time employees who have completed six months employment by January 1 of the respective fiscal year. In May 2009, the Board of Directors decided to freeze the pension to all existing and future employees as of June 27, 2009

There were no employer or employee contributions to the plan during fiscal years 2011 and 2010. The plan paid benefits of \$147,358 and \$314,294 during fiscal years 2011 and 2010, respectively.

Pension fund assets were invested 59% in equity securities, 40% in debt securities and 1% in other investments as of June 26, 2010. Pension funds are invested 100% in money market accounts and cash as of June 25, 2011. Pension fund assets were invested 58% in equity securities, 40% in debt securities and 2% in other investments as of June 27, 2009.

The expected long-term rate of return for the plan's total assets is based on the expected return of each of the above categories, weighted based on the median of the target allocation for each class. Cash and fixed income is expected to return 1%.

The company's intention is to terminate the plan in the near term.

THE PRINCETON UNIVERSITY STORE  
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NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 25, 2011 AND JUNE 26, 2010

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NOTE 7: PENSION PLAN (Continued)

A summary of the plan's funded status and the amounts recognized in the balance sheets are as follows:

|  | <u>June 25, 2011</u> | <u>June 26, 2010</u> |
|--|----------------------|----------------------|
| Change in Benefit Obligation:                |                      |                      |
| Benefit obligation, beginning of year        | \$ 1,381,865         | \$ 1,600,401         |
| Service cost                                 | 19,990               | -                    |
| Interest cost                                | 97,155               | 98,250               |
| Actuarial loss                               | 212,237              | (2,492)              |
| Benefit paid                                 | <u>(147,358)</u>     | <u>(314,294)</u>     |
| Benefit obligation, end of year              | <u>\$ 1,563,889</u>  | <u>\$ 1,381,865</u>  |
| Change in Plan Assets:                       |                      |                      |
| Fair value of plan assets, beginning of year | \$ 1,824,373         | \$ 1,942,387         |
| Actual return on plan assets                 | 268,088              | 225,269              |
| Benefits paid                                | (147,358)            | (314,294)            |
| Expenses                                     | (24,563)             | (28,989)             |
| Plan participant contributions               | <u>-</u>             | <u>-</u>             |
| Fair value of plan assets at end of year     | <u>\$ 1,920,540</u>  | <u>\$ 1,824,373</u>  |
| Funded status                                | \$ 356,651           | \$ 442,508           |
| Unrecognized prior service cost              | -                    | -                    |
| Unrecognized net (gain) loss                 | <u>122,448</u>       | <u>(16,166)</u>      |
| Prepaid pension cost                         | <u>\$ 479,099</u>    | <u>\$ 426,342</u>    |

Net pension expense consists of the following for the fiscal year ended:

|                                   | <u>June 25, 2011</u> | <u>June 26, 2010</u> |
|-----------------------------------|----------------------|----------------------|
| Service cost                      | \$ 19,990            | \$ -                 |
| Interest cost                     | 97,155               | 98,250               |
| Expected return on plan assets    | (268,088)            | (225,269)            |
| Net periodic loss during the year | <u>98,186</u>        | <u>42,843</u>        |
| Total pension benefit cost        | <u>\$ (52,757)</u>   | <u>\$ (84,176)</u>   |

THE PRINCETON UNIVERSITY STORE  
(A Cooperative Organization)  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 25, 2011 AND JUNE 26, 2010

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NOTE 7: PENSION PLAN (Continued)

|                                | <u>2011</u> | <u>2010</u> |
|--------------------------------|-------------|-------------|
| Weighted average assumptions:  |             |             |
| Discount rate                  | 6.25%       | 6.25%       |
| Expected return on plan assets | 1.00%       | 8.00%       |
| Rate of compensation increase  | -           | -           |

Estimated future benefit reflecting expected future service is as follow:

| <u>Fiscal Year Ending June,</u> | <u>Amount</u> |
|---------------------------------|---------------|
| 2012                            | \$ 245,000    |
| 2013                            | 373,000       |
| 2014                            | 95,000        |
| 2015                            | 104,000       |
| 2016                            | 97,000        |
| 2017-2020                       | 1,209,000     |

NOTE 8: RETAINED EARNINGS

Although there is no intent to dissolve the Store, in the event of dissolution, the amended certificate of incorporation provides that after liquidation of all indebtedness, any assets remaining are to be transferred, pursuant to the direction of the Board of Trustees of the Store, to one or more domestic or foreign corporations engaged in activities substantially similar to those of the Store, or other non-profit, charitable, benevolent or educational corporations or institutions.

NOTE 9: COMMITMENTS

Operating Lease - Princeton University (University Place)

The Store and Princeton University entered a lease agreement for the University Place location in July 2007. The lease was amended in July 2009 and July 2011. Rent and property taxes are reduced by 10% effective July 1, 2011 as a result of vacating approximately 1,000 square feet on the mezzanine. The lease is for a 10 year period expiring October 31, 2017. The store has an option to extend the lease for two additional five year terms.

THE PRINCETON UNIVERSITY STORE  
(A Cooperative Organization)  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 25, 2011 AND JUNE 26, 2010

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NOTE 9: COMMITMENTS (Continued)

Operating Lease - Princeton University (University Place, Continued)

Rental payments were fixed at \$165,000 annually for years one through two of the lease, \$120,000 annually for years three through four of the lease, \$108,000 for year five, \$127,636 annually for years six through ten, and \$147,273 annually for years eleven through twenty of the lease extension option. In addition, the Store shall pay during the remaining term of the lease 29.7% of the taxes, assessments and other public charges levied or imposed upon the building and including the Store's proportionate share of the parking area.

Operating Lease - Princeton University (114 and 116 Nassau Street)

The Store and Princeton University entered a lease agreement for a location at 114 and a portion of 116 Nassau Street in August 2007. The lease provides for 4,052 square feet in 114 Nassau Street and 2,217 square feet in the adjacent 116 Nassau Street location. The lease will terminate on October 31, 2017. The Store has an option to extend the lease for two additional five-year terms for the 114 Nassau Street location and for the portion of the 116 Nassau Street location contingent upon Princeton University having control of the property.

The rental payments for the combined 114 and 116 store location are fixed at \$223,062 annually for the period of November 1, 2007 through March 31, 2012. Beginning April 1, 2012 through March 31, 2017 the combined annual rent will be \$140,000 plus \$93,062 adjusted for the Consumer Price Index. Beginning April 1, 2017 through March 31, 2022 the combined annual rent will be \$150,000 plus \$93,062 adjusted for the Consumer Price Index. In addition, the Store will pay 6% of all gross sales in this location in excess of \$6,000,000 in a single year during years 1 to 10, and 6% of all gross sales in this location in excess of \$6,500,000 in a single year during years 11 to 20.

Total rent expense including property taxes under all operating leases described above were approximately \$675,000 and \$657,000 for fiscal years 2011 and 2010, respectively.

THE PRINCETON UNIVERSITY STORE  
(A Cooperative Organization)  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 25, 2011 AND JUNE 26, 2010

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NOTE 9: COMMITMENTS (Continued)

Operating Lease - Princeton University (112 Nassau Street)

The Store and Princeton University entered a lease agreement effective on June 28, 2009 for a location at 112 Nassau Street. It will be used for the corporate offices which were relocated from 36 University Place. The lease provides for approximate 4519 square feet. The lease term is 5 years and will terminate at June 30, 2014. The rent is \$114,718 for the fiscal year 2011 which includes property taxes. The rent will increase 2.1% annually plus any additional increase in property taxes.

Future minimum lease payments required under operating leases are as follows:

| <u>Fiscal Years Ending June,</u> | <u>36 University<br/>Place</u> | <u>114 &amp; 116<br/>Nassau Street</u> | <u>112 Nassau<br/>Street</u> | <u>Total</u>     |
|----------------------------------|--------------------------------|--|------------------------------|------------------|
| 2012                             | \$ 108,000                     | \$ 225,561                             | \$ 114,669                   | \$ 448,230       |
| 2013                             | 127,636                        | 233,062                                | 117,076                      | 477,774          |
| 2014                             | 127,636                        | 233,062                                | 119,535                      | 480,233          |
| 2015                             | 127,636                        | 233,062                                | -                            | 360,698          |
| 2016                             | 127,636                        | 233,062                                | -                            | 360,698          |
| 2017 and thereafter              | 127,636                        | 316,583                                | -                            | 444,219          |
|                                  | <u>\$ 746,180</u>              | <u>\$ 1,474,392</u>                    | <u>\$ 351,280</u>            | <u>2,571,852</u> |

NOTE 10: LABOR UNION

Approximately 60% of the Store's labor force is covered by a collective bargaining agreement which expired February 2011. A new contract was negotiated and signed and is effective through February 11, 2015.

THE PRINCETON UNIVERSITY STORE  
(A Cooperative Organization)  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 25, 2011 AND JUNE 26, 2010

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NOTE 11: INCOME TAXES

The Store operates as a cooperative and is subjected to federal and state corporate income taxes. The provision for income taxes, which is included in continuing operation for fiscal years 2011 and 2010, includes the following:

|                                       | <u>June 25 2011</u> | <u>June 26, 2010</u> |
|---------------------------------------|---------------------|----------------------|
| Current Tax Expense                   |                     |                      |
| State                                 | \$ 2,080            | \$ 10,250            |
| Deferred provision for/(benefit from) |                     |                      |
| Combined federal and state            | 17,720              | 7,160                |
| Net change in valuation allowance     | -                   | 1,000                |
|                                       | <u>\$ 19,800</u>    | <u>\$ 18,410</u>     |

Temporary differences, which give rise to deferred tax assets and liabilities, are as follows:

|                                    | <u>June 25, 2011</u>      |                               | <u>June 26, 2010</u>      |                               |
|------------------------------------|---------------------------|-------------------------------|---------------------------|-------------------------------|
|                                    | <u>Deferred Tax Asset</u> | <u>Deferred Tax Liability</u> | <u>Deferred Tax Asset</u> | <u>Deferred Tax Liability</u> |
| <b>Current</b>                     |                           |                               |                           |                               |
| Allowance for doubtful accounts    | \$ 60                     | \$ -                          | \$ 70                     | -                             |
| Inventory costing                  | 240                       | -                             | 230                       | -                             |
| Inventory allowance                | 24,700                    | -                             | 25,200                    | -                             |
| Vacation accrual                   | 13,500                    | -                             | 14,000                    | -                             |
| Net current deferred tax asset     | <u>\$ 38,500</u>          | <u>\$ -</u>                   | <u>\$ 39,500</u>          | <u>\$ -</u>                   |
| <b>Noncurrent</b>                  |                           |                               |                           |                               |
| Property and equipment             | \$ 95,300                 | \$ -                          | \$ 50,000                 | \$ -                          |
| Pension benefits                   | -                         | (87,000)                      | -                         | 107,000                       |
| Net operating loss carryforward    | 250,200                   | -                             | 319,500                   | -                             |
|                                    | <u>345,500</u>            | <u>\$ (87,000)</u>            | <u>369,500</u>            | <u>\$ 107,000</u>             |
| Valuation allowance                | (108,000)                 | -                             | (108,000)                 | -                             |
| Net non-current deferred tax asset | <u>\$ 237,500</u>         | <u>\$ (87,000)</u>            | <u>\$ 261,500</u>         | <u>\$ 107,000</u>             |

THE PRINCETON UNIVERSITY STORE  
(A Cooperative Organization)  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 25, 2011 AND JUNE 26, 2010

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NOTE 11: TAXES INCOME (Continued)

The effective tax rate is disproportionate to the statutory rate due to the net operating loss carry forward, the establishment of a valuation allowance, state taxes, net of federal benefit, and increase in the book-tax depreciation difference. The change in valuation allowance is due to a change in circumstances about the recovery of net operating loss carry forwards.

As of June 25, 2011, the Store has available the following net operating loss carries forwards for tax purposes:

| <u>Expiration Date</u><br><u>Fiscal Year Ending</u> | <u>Federal</u>      | <u>State</u> |
|---|---------------------|--------------|
| 2012  | \$ -                | \$ -         |
| 2014  | -                   | -            |
| 2015  | -                   | -            |
| 2020  | 137,000             | -            |
| 2021  | 724,000             | -            |
| 2022  | 464,000             | -            |
| 2023  | 94,000              | -            |
| 2024  | 81,000              | -            |
| 2025  | 56,000              | -            |
| 2026  | 4,000               | -            |
| 2028  | <u>108,000</u>      | <u>-</u>     |
|   | <u>\$ 1,668,000</u> | <u>\$ -</u>  |

**SUPPLEMENTARY INFORMATION**

# Schulman Wolfson & Abruzzo, LLP



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## INDEPENDENT ACCOUNTANTS' REVIEW REPORT ON SUPPLEMENTARY INFORMATION

The Board of Trustees  
The Princeton University Store

Our report on our audit of the basic financial statements of The Princeton University Store as of June 25, 2011 and for the year ended June 26, 2010 appears on page 1. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Schulman Wolfson & Abruzzo, LLP*  
CERTIFIED PUBLIC ACCOUNTANTS

North Brunswick, New Jersey  
August 11, 2011

**THE PRINCETON UNIVERSITY STORE**  
**SCHEDULES OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**  
**FOR THE YEARS ENDED JUNE 25, 2011 AND JUNE 26, 2010**

|   | 2011                       | Percent<br>of Sales  | 2010                       | Percent<br>of Sales  |
|---|----------------------------|----------------------|----------------------------|----------------------|
| Salaries and wages  | \$ 1,390,959               | 18.60%               | \$ 1,326,588               | 19.33%               |
| Fringe benefits   | 280,160                    | 3.75%                | 265,935                    | 3.87%                |
| Pension benefit   | (52,757)                   | -0.71%               | (84,176)                   | -1.23%               |
| Advertising   | 22,200                     | 0.30%                | 31,565                     | 0.46%                |
| Supplies  | 47,784                     | 0.64%                | 43,248                     | 0.63%                |
| Utilities   | 109,712                    | 1.47%                | 137,257                    | 2.00%                |
| Services purchased  | 67,496                     | 0.90%                | 68,650                     | 1.00%                |
| Travel expenses   | 10,179                     | 0.14%                | 9,125                      | 0.13%                |
| Communications  | 16,922                     | 0.23%                | 20,061                     | 0.29%                |
| Insurance   | 43,757                     | 0.59%                | 39,011                     | 0.57%                |
| Depreciation  | 276,612                    | 3.70%                | 281,991                    | 4.11%                |
| Professional fees   | 40,740                     | 0.54%                | 50,929                     | 0.74%                |
| Donations   | 2,219                      | 0.03%                | 1,461                      | 0.02%                |
| Bad debt expense  | 496                        | 0.01%                | 1,793                      | 0.03%                |
| Equipment rentals and maintenance                             | 14,489                     | 0.19%                | 5,977                      | 0.09%                |
| Real property rentals   | 675,177                    | 9.03%                | 657,641                    | 9.58%                |
| Credit card processing charges                                | 160,689                    | 2.15%                | 153,181                    | 2.23%                |
| Miscellaneous expense   | <u>16,313</u>              | <u>0.22%</u>         | <u>60,169</u>              | <u>0.88%</u>         |
| <b>Total selling, general and<br/>administrative expenses</b> | <b><u>\$ 3,123,147</u></b> | <b><u>41.76%</u></b> | <b><u>\$ 3,070,406</u></b> | <b><u>44.73%</u></b> |

See independent auditors' report on supplementary information.

THE PRINCETON UNIVERSITY STORE  
SCHEDULES OF OTHER INCOME  
FOR THE YEARS ENDED JUNE 25, 2011 AND JUNE 26, 2010

|                           | 2011              | Percent<br>of Sales | 2010              | Percent<br>of Sales |
|---------------------------|-------------------|---------------------|-------------------|---------------------|
| <b>Commission Income:</b> |                   |                     |                   |                     |
| Lease concessions         | \$ 98,447         | 1.32%               | \$ 102,353        | 1.49%               |
| MBNA royalty commissions  | <u>-</u>          | <u>0.00%</u>        | <u>10,946</u>     | <u>0.16%</u>        |
| Total commission income   | 98,447            | 1.32%               | 113,299           | 1.65%               |
| <b>Other Sources:</b>     |                   |                     |                   |                     |
| Membership income         | 63,345            | 0.85%               | 63,399            | 0.92%               |
| Miscellaneous             | <u>21,802</u>     | <u>0.29%</u>        | <u>15,731</u>     | <u>0.23%</u>        |
| Total other sources       | <u>85,147</u>     | <u>1.14%</u>        | <u>79,130</u>     | <u>1.15%</u>        |
| Total other income        | <u>\$ 183,594</u> | <u>2.45%</u>        | <u>\$ 192,429</u> | <u>2.80%</u>        |

See accompanying independent auditors' report on supplementary information.