



ANNUAL REPORT 2018

**ARMSTRONG
REGIONAL COOPERATIVE**
For the Year Ending 02 February 2019

**Armstrong Regional Cooperative
Financial Statements
For the Year Ended February 2, 2019**

**Armstrong Regional Cooperative
Financial Statements
For the Year Ended February 2, 2019**

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Independent Auditor's Report

To the members of Armstrong Regional Cooperative

Opinion

We have audited the financial statements of Armstrong Regional Cooperative (the Cooperative), which comprise the balance sheet as at February 2, 2019, the statements of operations, retained earnings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Cooperative as at February 2, 2019, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Cooperative in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Cooperative's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Cooperative or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Cooperative's financial reporting process.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Cooperative's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Cooperative to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO Canada LLP

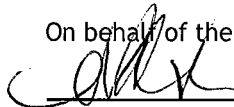
Chartered Professional Accountants

Vernon, British Columbia
April 4, 2019

Armstrong Regional Cooperative Balance Sheet

February 02	2019	2018
Assets		
Current		
Cash	\$ 7,172,662	\$ 5,353,250
Accounts receivable (Note 2)	3,791,009	3,048,106
Income taxes receivable	200,731	213,227
Inventory (Note 3)	1,929,785	1,924,668
Prepaid expenses	2,460	18,147
Deposits	-	68,944
	13,096,647	10,626,342
Investment in Federated Co-operatives Limited (Note 4)	10,586,442	9,091,738
Property, plant and equipment (Note 5)	9,272,257	9,039,908
	\$32,955,346	\$ 28,757,988
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities (Note 6)	\$ 407,627	\$ 351,937
Patronage dividend payable	4,864,378	3,717,779
Due to Federated Co-operatives Limited (Note 7)	4,664,786	4,449,096
Debt repaid during the year	-	378,094
	9,936,791	8,896,906
Shareholders' Equity		
Share capital (Note 8)	7,284,770	6,852,002
Retained earnings	15,733,785	13,009,080
	23,018,555	19,861,082
	\$32,955,346	\$ 28,757,988

On behalf of the Board:

 Director

**Armstrong Regional Cooperative
Statement of Retained Earnings**

For the year ended February 02	2019	2018
Balance, beginning of the year	\$ 13,009,080	\$ 12,418,240
Net income	7,589,083	4,308,619
Patronage dividends	<u>(4,864,378)</u>	<u>(3,717,779)</u>
Balance, end of the year	\$ 15,733,785	\$ 13,009,080

The accompanying notes are an integral part of these financial statements.

Armstrong Regional Cooperative Statement of Operations

For the year ended February 02	2019	2018
Revenue (Note 14)	\$77,647,892	\$ 62,652,979
Cost of sales	<u>71,653,727</u>	<u>56,748,534</u>
Gross profit	<u>5,994,165</u>	<u>5,904,445</u>
Operating expenses		
Advertising and promotion	103,784	96,628
Amortization	716,943	713,693
Automotive	393,681	295,615
Bad debt expense (recovery)	11,700	(188,025)
Collections fees	298,515	227,477
Directors' fees and training	25,340	33,026
Donations	66,481	45,527
Insurance	91,026	74,831
Office expenses	176,640	154,439
Professional fees	46,115	42,633
Property taxes	127,605	109,972
Rent	-	71,488
Repairs and maintenance	789,362	621,306
Salaries and benefits	2,177,029	2,083,286
Staff training	8,431	6,473
Staff travel	10,806	10,239
Utilities	111,258	110,577
	<u>5,154,716</u>	<u>4,509,185</u>
Income before other income and income taxes	<u>839,449</u>	<u>1,395,260</u>
Other income		
Gain on disposal of property, plant and equipment	-	93,499
Interest income	196,399	163,130
Patronage dividend from Federated Co-operatives Limited	7,473,517	2,860,893
	<u>7,669,916</u>	<u>3,117,522</u>
Income before income taxes	<u>8,509,365</u>	<u>4,512,782</u>
Income taxes - current (Note 9)	<u>920,282</u>	<u>204,163</u>
Net income	<u>\$ 7,589,083</u>	<u>\$ 4,308,619</u>

The accompanying notes are an integral part of these financial statements.

Armstrong Regional Cooperative Statement of Cash Flows

For the year ended February 02	2019	2018
Cash flows from operating activities		
Cash received from customers	\$76,904,989	\$ 61,898,693
Cash paid to suppliers and employees	(75,740,606)	(58,614,280)
Interest received	196,399	163,130
Income taxes paid	(907,786)	(297,262)
Cash receipts for patronage dividends	7,473,517	2,860,893
	7,926,513	6,011,174
Cash flows from investing activities		
Acquisition of property, plant and equipment	(949,292)	(893,425)
Proceeds on disposal of property, plant and equipment	-	98,652
Purchases of investments in FCL	(1,494,704)	(286,089)
	(2,443,996)	(1,080,862)
Cash flows from financing activities		
Repayment of long term debt	(378,094)	(523,382)
Proceeds from issued shares	25,790	27,320
Shares redeemed and member payouts	(59,824)	(24,348)
Patronage dividends paid	(3,250,977)	(2,673,522)
	(3,663,105)	(3,193,932)
Net increase in cash	1,819,412	1,736,380
Cash, beginning of the year	5,353,250	3,616,870
Cash, end of the year	\$ 7,172,662	\$ 5,353,250

Non-cash transactions:

Increase in members' equity due to patronage allocation	\$ 466,802	\$ 286,089
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Armstrong Regional Cooperative Notes to Financial Statements

February 2, 2019

1. Significant Accounting Policies

Nature of Business	Armstrong Regional Cooperative (the "Cooperative") was incorporated on February 4, 1922 under the Co-operative Associations Act of British Columbia and commenced operations on March 3, 1922. The Cooperative's primary business is the sale of fuel and convenience store merchandise in the region surrounding the cities of Armstrong, Salmon Arm, and Vernon.
Basis of Accounting	These financial statements have been prepared in accordance with Canadian accounting standards for private enterprises.
Revenue Recognition	<p>Revenue from sales is recognized when the significant risks and rewards of ownership are transferred to the customer, which generally coincides with the time of shipment, collectability is reasonably assured, persuasive evidence of an arrangement exists and the sales price is fixed and determinable.</p> <p>Service station and bulk fuel sales are recognized at the time of sale, indicated by transfer of ownership. Associated receivables are reviewed on a regular basis by management and an allowance is charged to expense if collection is not reasonably assured.</p> <p>Dividend revenue from Federated Co-operative Limited is recognized when the right the payment is established provided that collection is reasonably assured.</p>
Income Taxes	The Cooperative uses the income taxes payable method of accounting for income taxes. Under this method, the Cooperative reports as an expense (income) of the year only the cost (benefit) of current income taxes determined in accordance with the rules established by taxation authorities.

Armstrong Regional Cooperative Notes to Financial Statements

February 2, 2019

1. Significant Accounting Policies (continued)

Financial Instruments Financial instruments are recorded at fair value at initial recognition.

In subsequent years, financial instruments are reported at cost or amortized cost less impairment. Transaction costs on the acquisition, sale or issue of financial instruments are expensed for those items measured at fair value and charged to the financial instrument for those measured at amortized cost.

Financial assets are tested for impairment when indicators of impairment exist. When a significant change in the expected timing or amount of the future cash flows of the financial asset is identified, the carrying amount of the financial asset is reduced and the amount of the write-down is recognized in net income. A previously recognized impairment loss may be reversed to the extent of the improvement, provided it is not greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously, and the amount of the reversal is recognized in net income.

Inventory Inventory is stated at the lower of cost and net realizable value. Cost for fuel inventory is determined using the weighted average cost method. The cost for all other inventory is determined using the first-in, first-out method. Net realizable value is the estimated selling price less the estimated cost of completion and the estimated costs necessary to make the sale.

Property, Plant and Equipment Property, plant and equipment are stated at cost less accumulated amortization. Expenditures for repairs and maintenance are expensed as incurred. Betterments that extend the useful life of the asset are capitalized.

Amortization based on the estimated useful life of the asset is calculated as follows:

	Method	Rate
Automotive	Declining balance	30%
Buildings	Straight-line	30 years
Concrete and paving	Declining balance	8%
Equipment	Declining balance	20%

Assets purchased during the year are amortized at one-half of the above rates.

Armstrong Regional Cooperative Notes to Financial Statements

February 2, 2019

1. Significant Accounting Policies (continued)

Impairment of Long-lived Assets	<p>In the event that facts and circumstances indicate that the Cooperative's long-lived assets may be impaired, a test of recoverability would be performed.</p> <p>Such a test entails comparing the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if a write down to market value or discounted cash flow value is required.</p> <p>For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.</p>
Use of estimates	<p>The preparation of financial statements in conformity with Canadian accounting standards for private enterprise requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and sales and expenses for each period</p>
Employee future benefits	<p>The Cooperative has defined contribution pension plan all employees. Pension costs are charged to operations as contributions are due. Contributions are a defined amount based upon a set percentage of salary.</p>
Asset retirement obligation	<p>A liability for an asset retirement obligation is recognized in the period in which it is incurred at an amount that is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. This obligation is subsequently reviewed at each balance sheet date and adjusted for the passage of time and for any revisions to the timing or amount required to settle the obligation. Upon the initial measurement of an asset retirement obligation, a corresponding asset retirement cost is added to the carrying value of the related long-lived asset. This cost is amortized on the same basis as the related asset.</p>

Armstrong Regional Cooperative Notes to Financial Statements

February 2, 2019

2. Accounts and Notes Receivable

	2019	2018
Trade receivables	\$ 4,068,176	\$ 3,325,273
Allowance for doubtful accounts	(277,167)	(277,167)
	\$ 3,791,009	\$ 3,048,106

3. Inventory

	2019	2018
Confectionary	\$ 111,751	\$ 95,246
Fuel	1,326,472	1,338,752
Grease & Oil	311,006	353,900
Lotto	15,806	14,062
Tobacco	164,750	122,708
	\$ 1,929,785	\$ 1,924,668

Inventories of \$71,653,727 (2018 - \$56,748,534) are recognized as an expense and included in cost of sales.

4. Investment in Federated Co-operatives Limited

	2019	2018
Balance beginning of year	\$ 9,091,738	\$ 8,805,648
Patronage dividend	7,473,517	2,860,893
Withholding taxes	(1,121,013)	(428,681)
Distributions	(4,857,800)	(2,146,122)
	\$10,586,442	\$ 9,091,738

Armstrong Regional Cooperative Notes to Financial Statements

February 2, 2019

5. Property, Plant and Equipment

	2019		2018	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 3,421,789	\$ -	\$ 3,388,949	\$ -
Automotive	937,489	668,423	684,189	607,383
Buildings	4,268,070	1,287,632	4,253,750	1,114,655
Concrete and paving Equipment	895,199	367,353	885,947	321,852
	<u>5,821,968</u>	<u>3,748,850</u>	<u>5,182,388</u>	<u>3,311,425</u>
	<u>15,344,515</u>	<u>6,072,258</u>	<u>14,395,223</u>	<u>5,355,315</u>
		<u>\$ 9,272,257</u>		<u>\$ 9,039,908</u>

6. Accounts Payable and Accrued Liabilities

	2019	2018
Trade payables and accrued liabilities	\$ 193,243	\$ 137,532
Employee wage and benefits payable	93,888	85,098
Government remittances payable	5,696	16,707
Bonus payables	114,800	112,600
	<u>\$ 407,627</u>	<u>\$ 351,937</u>

7. Due to Federated Co-operatives Limited

	2019	2018
FCL trade payables outstanding	<u>\$ 4,664,786</u>	<u>\$ 4,449,096</u>

Armstrong Regional Cooperative Notes to Financial Statements

February 2, 2019

8. Share Capital

Authorized, unlimited at \$1 per share:

	2019	2018
Balance, beginning of year	\$ 6,852,002	\$ 6,562,941
Add:		
Prior year patronage dividend allocated to members	3,717,779	2,959,611
GST on allocation remitted to CRA	185,893	147,984
Less:		
Payments to members	(3,034,281)	(2,424,143)
Withholding tax	(402,589)	(327,595)
Patronage dividends paid in shares	466,802	355,857
Shares sold to new members during the year	25,790	27,230
Shares redeemed during the year	(59,824)	(94,026)
Balance, end of year	\$ 7,284,770	\$ 6,852,002

The Cooperative is authorized to issue an unlimited number of common shares, with a par value of \$1 per share.

Shares may be redeemed at their par value by members, at the discretion of the Board of Directors and provided that the financial position of the Cooperative permits, in order of the following priority provided that notice has been received:

1. To estates of individual members;
 2. To individual member who are at least 65 years of age or older;
 3. To individual members who have permanently moved out of the trading area or for member eligible organizations, where they have permanently moved their registered offices out of the trading area;
 4. To remaining members according to a formula as determined from time to time by the Board of Directors provided that the minimum number of membership shares is not reduced below the threshold as established in the Bylaws;
 5. Lastly, to members who have requested redemption for other reasons.
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Armstrong Regional Cooperative Notes to Financial Statements

February 2, 2019

9. Income Taxes

The Cooperative accounts for income taxes using the taxes payable method. As a result, the Cooperative's income tax expense varies from the amount that would otherwise result from the application of the statutory income tax rates as set out below:

	<u>2019</u>	<u>2018</u>
Income before income taxes	\$ 8,509,365	\$ 4,512,782
Combined basic federal and provincial tax rates	<u>27.00 %</u>	<u>26.00 %</u>
Expected income tax expense	\$ 2,297,529	\$ 1,173,323
Increase (decrease) in income tax expense resulting from:		
Non-taxable income or non-deductible expenses	253	(5,160)
Capital cost allowance in shortage (excess) of amortization	11,336	21,171
Patronage dividend deduction	<u>(1,388,836)</u>	<u>(985,171)</u>
Income tax expense	<u>\$ 920,282</u>	<u>\$ 204,163</u>

Armstrong Regional Cooperative Notes to Financial Statements

February 2, 2019

10. Financial Instruments

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Cooperative is exposed to credit risk resulting from the possibility that a customer or counterparty to a financial instrument defaults on their financial obligations; if there is a concentration of transactions carried out with the same counterparty; or of financial obligations which have similar economic characteristics such that they could be similarly affected by changes in economic conditions. The Cooperative's financial instruments that are exposed to concentrations of credit risk relate primarily to its accounts receivable from companies that operate in the same region. The Cooperative provides credit to its clients in the normal course of its operations.

The Cooperative mitigates credit risk on its receivables through diversification of its customer base and limiting its exposure to any one customer. The Cooperative also mitigates this risk by performing credit valuations on a regular basis; granting credit upon review of the credit history of the applicant and creating an allowance for bad debts when applicable. The Cooperative maintains strict credit policies and limits in respect to counterparties.

There have not been any changes in the risk from the prior year.

Price risk

Price risk is the risk that the commodity prices that the Cooperative charges are significantly influenced by its competitors and the commodity prices that the Cooperative must charge to meet its competitors may not be sufficient to meet its expenses. The Cooperative reduces its exposure to price risk by ensuring that it obtains information regarding the commodity prices that are set by the competitors in the region to ensure that its prices are appropriate. In addition, management closely monitors expenses and matches capital outlays to its revenue stream.

There have not been any changes in the risk from the prior year.

Armstrong Regional Cooperative Notes to Financial Statements

February 2, 2019

11. Credit facilities

The Cooperative established credit facilities with the Canadian Imperial Bank of Commerce, of which they have not yet used.

The Cooperative has available to it a revolving line of credit to a maximum of \$3,000,000 which is payable on demand, with interest at prime plus 0.50% per annum.

Also available to it is a revolving term facility to a maximum of \$500,000. Each advance under this facility will be a demand instalment loan with interest at prime plus 0.50% per annum. Both credit facilities are secured by a security agreement granting a first security in all present and after acquired personal property including the following specific personal property: property, plant & equipment, inventory and accounts receivable.

The Cooperative has agreed with the Canadian Imperial Bank of Commerce to maintain certain financial covenants.

12. Economic dependence

The Cooperative operations consists primarily from the sale of fuel and petroleum products, which accounts for approximately 94.7% of total revenues. The Cooperative relies on Federated Co-operatives Ltd. for the supply of its fuel inventory and for data processing and collection fees. An abrupt change or in supply flow or loss of its key supplier could have a material adverse effect on operations, processing and collection fees.

13. Commitments

The Cooperative maintains bulk fuel tanks above and below ground, both of which will require environmental cleanup on discontinued use. The remaining useful life of these tanks and the costs associated with such cleanup is undeterminable at this point in time, and therefore, no amount has been accrued in the financial statements. An amount shall be accrued in the year that such information becomes reasonably estimable, with the associated expense being reported in that year. The Cooperative participates in the Contaminated Sites Management Program, which is an agreement with the Federated Co-operatives Limited that if they have any environmental issues, the Cooperative will be responsible for a \$25,000 deductible for each issue with Federated Co-operatives Limited being responsible for any remaining costs. This agreement is subject to eligibility, legal compliance and due diligence requirements that the Cooperative must comply with in order to participate in the program.

Armstrong Regional Cooperative Notes to Financial Statements

February 2, 2019

14. Revenue

	2019	2018
Fuel	\$72,991,683	\$ 59,093,631
Confectionary	1,119,479	933,165
Tobacco	2,030,089	1,549,580
Gift cards	55,836	51,758
Lottery	899,513	564,492
Grease & oil	551,292	460,353
	<u>\$77,647,892</u>	<u>\$ 62,652,979</u>

15. Employee future benefits

The Cooperative makes contributions to the Co-operative Superannuation Society, which is a multi-employer plan, on behalf of members of its staff. The plan is a defined contribution pension plan. The plan specifies the amount of the retirement benefit plan to be received by the employees based on length of service and rates of pay. The plan is accounted for as a defined contribution plan. The Cooperative is only one of a number of employers that participates in the plan and the financial information provided to the Cooperative on the basis of the contractual agreements is usually insufficient to reliably measure the Cooperative's proportionate share in the plan assets and liabilities on defined benefit accounting requirements.

The Cooperative is committed to a defined contribution pension plan administered by the Cooperators Superannuation Society. Amounts paid by Armstrong Regional Cooperative for 2019 were \$68,142 (2018 - \$52,556).
