

ANNUAL REPORT

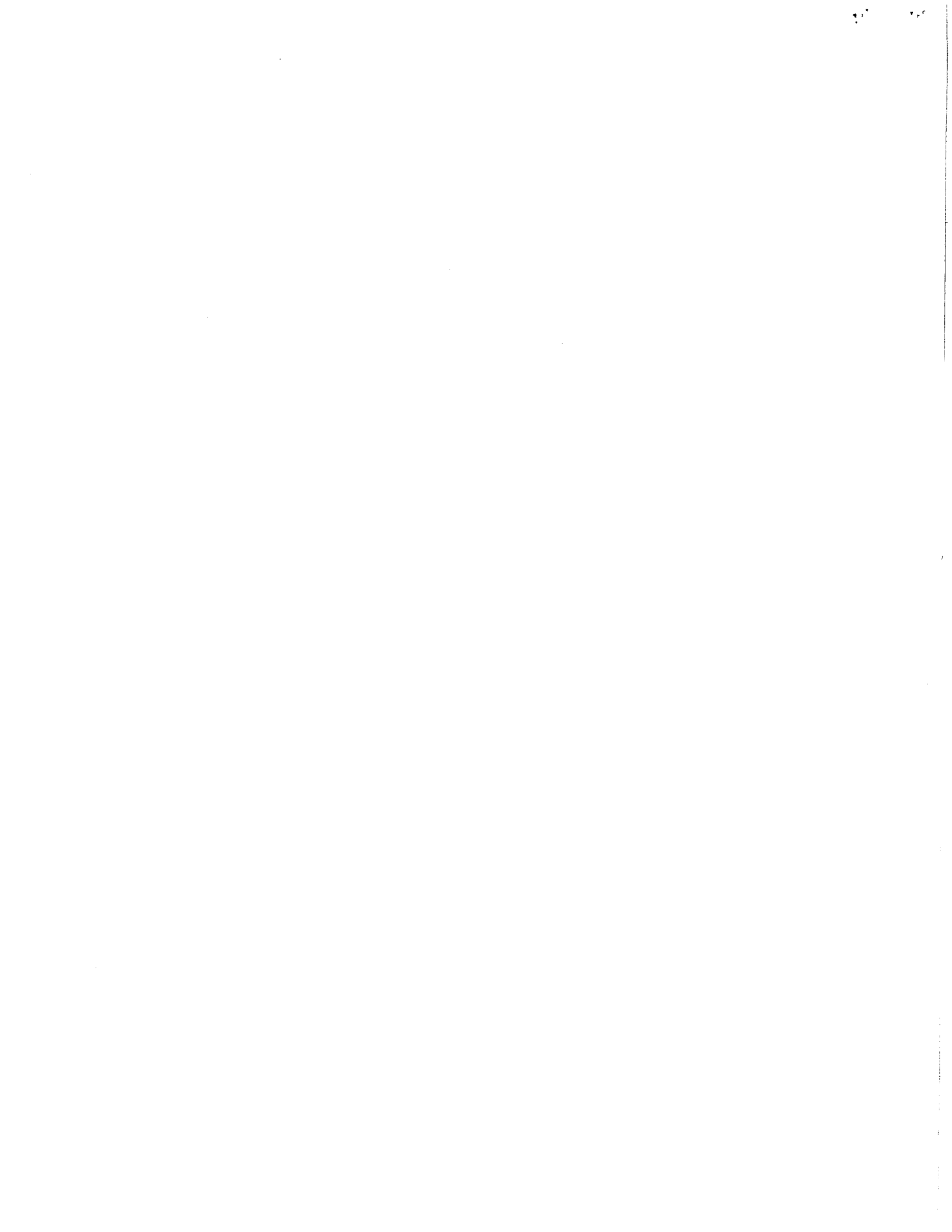
ARMSTRONG
REGIONAL COOPERATIVE

2014 ANNUAL REPORT

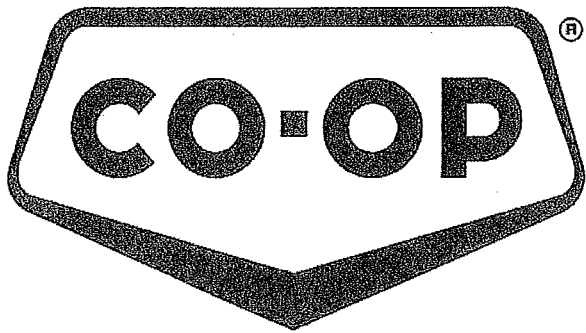
For the Year Ending 31 January 2015



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93rd Annual General Meeting



ARMSTRONG REGIONAL COOPERATIVE

Wed, 06 May 2015 7:00 pm Odd Fellows Hall

Agenda

1. Call Meeting to Order
2. Notice of Meeting
3. Minutes of FY2013 Annual General Meeting
4. Business Arising from the Minutes
5. Directors' Reports
6. Managers' Report / Financial Statements
7. Auditors' Report
8. Appointment of Auditors – Board Recommendation
9. Other Reports
10. New Business – 2 Special Resolutions Attached
11. Election of Directors: Two 3-yr terms
12. Service Awards – GM Presentation
13. Adjournment

Refreshments Served

Mission Statement

The Armstrong Regional Cooperative with good, friendly and efficient service, will sell retail and wholesale products to its members and the general public, while operating in a financially sound and environmentally responsible manner.

ARMSTRONG REGIONAL COOPERATIVE

FINANCIAL STATEMENTS

January 31, 2015

Rossworn Henderson LLP
Chartered Accountants

ARMSTRONG REGIONAL COOPERATIVE

January 31, 2015

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ROSSWORN HENDERSON LLP *Chartered Accountants*

C.L. Henderson, BBA, CPA, CA, Partner*

* providing professional services through a corporation

D.W. Stadnyk, CPA, CA, Partner*

N.R. Merrill, CPA, CMA, Associate*

INDEPENDENT AUDITORS' REPORT

To the Members of
Armstrong Regional Cooperative

Report on the Financial Statements

We have audited the accompanying financial statements of Armstrong Regional Cooperative, which comprise the balance sheet as at January 31, 2015, and the statements of retained earnings, income and cash flows for the fifty two weeks then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Cooperative's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Armstrong Regional Cooperative as at January 31, 2015, and the results of its operations and its cash flows for the fifty two weeks then ended in accordance with Canadian accounting standards for private enterprises.



Armstrong, BC
April 13, 2015

Chartered Accountants

Rossborn Henderson LLP is a Limited Liability Partnership registered in British Columbia

ARMSTRONG REGIONAL COOPERATIVE

Balance Sheet

As at January 31, 2015

	January 31, 2015	February 1, 2014
Assets		
Current		
Cash	\$ 7,941,454	\$ 2,094,717
Accounts receivable (Note 2)	2,390,892	3,087,050
Inventory (Note 3)	1,285,931	1,460,754
Income taxes receivable	301,769	426,951
Due from Federated Co-operatives Limited (Note 4)	-	665,034
	<u>11,920,046</u>	<u>7,734,506</u>
Investment in Federated Co-operatives Limited	8,337,173	7,729,969
Property, plant and equipment (Note 5)	<u>3,986,552</u>	<u>4,409,085</u>
	<u>\$ 24,243,771</u>	<u>\$ 19,873,560</u>
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 6)	\$ 324,283	\$ 272,150
Patronage dividend payable	3,686,461	4,038,267
Due to Federated Co-operatives Ltd. (Note 4)	3,726,812	-
Current portion of long-term debt	<u>15,489</u>	<u>15,489</u>
	<u>7,753,045</u>	<u>4,325,906</u>
Long-term debt (Note 7)	-	15,489
Paid-up shares (Note 8)	<u>5,356,105</u>	<u>4,802,700</u>
	<u>13,109,150</u>	<u>9,144,095</u>
Shareholders' equity		
Retained earnings	<u>11,134,621</u>	<u>10,729,465</u>
	<u>\$ 24,243,771</u>	<u>\$ 19,873,560</u>

Approved by the Directors

Director

Director

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

ARMSTRONG REGIONAL COOPERATIVE
Statement of Retained Earnings

Fifty two weeks ended January 31, 2015

	<u>January 31, 2015</u>	<u>February 1, 2014</u>
Retained earnings, beginning of period	\$ 10,729,465	\$ 9,969,857
Net income for the period	4,091,617	4,797,875
Dividends paid	<u>(3,686,461)</u>	<u>(4,038,267)</u>
Retained earnings, end of period	<u>\$ 11,134,621</u>	<u>\$ 10,729,465</u>

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

ARMSTRONG REGIONAL COOPERATIVE

Statement of Income

Fifty two weeks ended January 31, 2015

	January 31, 2015	February 1, 2014
Sales	\$ 56,768,872	\$ 57,875,292
Cost of sales	<u>52,732,809</u>	<u>53,800,336</u>
Gross margin	<u>4,036,063</u>	<u>4,074,956</u>
Expenses		
Advertising and promotion	37,239	38,646
Amortization	517,182	539,591
Automotive	280,215	237,089
Bad debts (recovery)	(160,672)	688,152
Collection fees	196,903	212,056
Data processing	14,243	85,626
Directors' fees and training	35,444	31,025
Donations	26,712	24,565
Insurance	79,523	81,636
Office	109,313	76,924
Professional fees	38,532	19,774
Property taxes	63,259	61,346
Rent	101,328	101,328
Repairs and maintenance	190,240	264,831
Salaries and related benefits	1,306,855	1,213,839
Staff training	2,893	3,195
Staff travel	19,337	20,100
Throughput - FCL	110,863	117,905
Utilities and communication	76,438	69,403
	<u>3,045,847</u>	<u>3,887,031</u>
Income before the following items	<u>990,216</u>	<u>187,925</u>
Other income		
Interest	219,020	248,946
Patronage refund from Federated Co-operatives Limited	3,035,996	4,628,280
	<u>3,255,016</u>	<u>4,877,226</u>
Income before income taxes	4,245,232	5,065,151
Income taxes	<u>153,615</u>	<u>267,276</u>
Net income for the period	<u>\$ 4,091,617</u>	<u>\$ 4,797,875</u>

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

ARMSTRONG REGIONAL COOPERATIVE

Statement of Cash Flows

Fifty two weeks ended January 31, 2015

	January 31, 2015	February 1, 2014
Operating		
Cash receipts from customers	\$ 57,465,266	\$ 58,065,291
Cash receipts from interest	219,019	248,946
Cash paid to suppliers and employees	(55,034,760)	(57,125,809)
Cash paid for patronage dividends	(3,525,515)	(3,617,022)
Cash receipts from FCL for patronage dividends	2,428,797	3,702,624
Income taxes paid	(28,433)	(352,068)
	<u>1,524,374</u>	<u>921,962</u>
Investing		
Advances from related party	4,391,846	-
Advances to related party	-	501,872
Purchase of property, plant and equipment	(94,648)	(732,195)
Proceeds on disposal of property, plant and equipment	-	1,200
	<u>4,297,198</u>	<u>(229,123)</u>
Financing		
Repayment of long-term debt	(15,489)	(15,488)
Proceeds of long-term debt	-	46,466
New members	7,590	6,880
Shares issued (redeemed) and member payouts	33,064	(37,807)
	<u>25,165</u>	<u>51</u>
Increase in cash	5,846,737	692,890
Cash, beginning of period	<u>2,094,717</u>	<u>1,401,827</u>
Cash, end of period	<u>\$ 7,941,454</u>	<u>\$ 2,094,717</u>
Non-cash transactions:		
Patronage dividends received as additional shares in Federated Co-operatives Limited	\$ 607,199	\$ 925,656
Increase in members equity due to patronage allocation	<u>512,752</u>	<u>422,696</u>

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

ARMSTRONG REGIONAL COOPERATIVE

Notes to the Financial Statements

January 31, 2015

1. Significant accounting policies, continued

(e) Revenue recognition

Service station and bulk plant 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.

(f) Financial instruments

(i) Measurement of financial instruments

The Cooperative initially measures its financial assets and financial liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument. Amounts due to and from related parties are measured at the exchange amount, being the amount agreed upon by the related parties.

The Cooperative subsequently measures its financial assets and financial liabilities at amortized cost. Changes in fair value are recognized in net income.

Financial assets measured at amortized cost include cash, accounts receivable, due from Federated Co-operatives Limited and investment in Federated Co-operatives Limited.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, patronage payable and long-term debt.

(ii) Impairment

Financial assets measured at amortized cost are tested for impairment when there are indicators of possible impairment. When a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the financial asset or group of assets, a write-down is recognized in net income. The write down reflects the difference between the carrying amount and net realizable value.

(g) Use of estimates

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 year presented and in the disclosure of commitments. Changes in estimates and assumptions may occur with the passage of time and the occurrence of future events, and any impact on revenue and expenses will be recorded on a prospective basis in the year that the estimate is amended or actual results are realized.

ARMSTRONG REGIONAL COOPERATIVE

Notes to the Financial Statements

January 31, 2015

2. Accounts receivable

Accounts receivable consists of the following:

	<u>January 31, 2015</u>	<u>February 1, 2014</u>
Trade receivables	\$ 2,809,042	\$ 3,682,978
GST/HST receivable	53,525	1,143
	<u>2,862,567</u>	<u>3,684,121</u>
Allowance for doubtful accounts	<u>(471,675)</u>	<u>(597,071)</u>
	<u>\$ 2,390,892</u>	<u>\$ 3,087,050</u>

3. Inventory

Inventory consists of the following:

	<u>January 31, 2015</u>	<u>February 1, 2014</u>
Confectionary	\$ 50,191	\$ 30,349
Fuel	943,319	1,122,307
Grease & Oil	205,202	226,170
Lotto	6,350	2,823
Tobacco	<u>80,869</u>	<u>79,105</u>
	<u>\$ 1,285,931</u>	<u>\$ 1,460,754</u>

During the year, \$52,700,711 (2014 - \$53,766,074) of inventory was charged to cost of sales.

4. Due from/to Federated Co-operatives Limited

	<u>January 31, 2015</u>	<u>February 1, 2014</u>
Special deposit	\$ -	\$ 4,000,000
FCL trade payables outstanding	<u>(3,726,812)</u>	<u>(3,334,966)</u>
	<u>\$ (3,726,812)</u>	<u>\$ 665,034</u>

ARMSTRONG REGIONAL COOPERATIVE

Notes to the Financial Statements

January 31, 2015

5. Property, plant and equipment

			January 31, 2015	February 1, 2014
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 82,839	\$ -	\$ 82,839	\$ 82,839
Automotive	766,191	572,004	194,187	277,413
Buildings	2,878,858	641,802	2,237,056	2,304,377
Concrete and paving	516,095	209,648	306,447	333,096
Equipment	3,325,590	2,159,567	1,166,023	1,411,360
	<u>\$ 7,569,573</u>	<u>\$ 3,583,021</u>	<u>\$ 3,986,552</u>	<u>\$ 4,409,085</u>

6. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consists of the following:

	January 31, 2015	February 1, 2014
Trade payables	\$ 245,495	\$ 207,138
Payroll remittance payables	10,592	9,488
Employee wage and benefits payable	64,430	54,168
PST payable	2,540	22
WCB payable	1,226	1,334
	<u>\$ 324,283</u>	<u>\$ 272,150</u>

ARMSTRONG REGIONAL COOPERATIVE

Notes to the Financial Statements

January 31, 2015

7. Long-term debt

	January 31, 2015	February 1, 2014
Federated Co-operatives Limited loan, repayable in annual instalments of \$8,638, non-interest bearing, due March 2015	\$ 8,638	\$ 17,276
Federated Co-operatives Limited loan, repayable in annual instalments of \$6,851, non-interest bearing, due August 2015	6,851	13,702
	15,489	30,978
Less current portion	15,489	15,489
Due beyond one year	\$ -	\$ 15,489
Estimated principal repayments are as follows: 2016	\$ 15,489	

8. Paid-up shares

	January 31, 2015	February 1, 2014
Balance, beginning of year	\$ 4,802,700	\$ 4,410,931
Allocation from patronage payment	512,751	422,696
New members	7,590	6,880
Shares issued (redeemed) during the year	33,064	(37,807)
	\$ 5,356,105	\$ 4,802,700

Shares may be redeemed at their par value by members if the following conditions are met:

1. the member is at least 65 years of age, or
2. the member no longer has residence in the trading area, or
3. the member is deceased, and
4. the Cooperative has sufficient working capital to redeem the shares.

ARMSTRONG REGIONAL COOPERATIVE

Notes to the Financial Statements

January 31, 2015

9. Related party transactions

The Cooperative, along with other co-operatives in Western Canada, own Federated Co-operatives Limited ("FCL"). At October 31 of each year FCL divides substantially all of its net earnings among these retail co-operatives in proportion to the purchases by each. During the twelve month period ending October 31, 2014, the Cooperative purchased goods amounting to \$46,060,681 (2013 - \$45,552,381) from FCL in the normal course of operations. These purchases resulted in a patronage refund from FCL that was received as cash and additional shares as follows:

	January 31, 2015	February 1, 2014
Cash received	\$ 2,428,797	\$ 3,702,624
Shares received	607,199	925,656
	<u>\$ 3,035,996</u>	<u>\$ 4,628,280</u>

10. Financial instruments and risk management

Transactions in financial instruments may result in an entity assuming or transferring to another party one or more of the financial risks described below. The required disclosures provide information that assists users of financial statements in assessing the extent of risk related to financial instruments.

(a) Fair value

The fair value of all financial instruments approximate their carrying values due to their short-term maturity dates.

(b) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. In the opinion of management, the Cooperative is not exposed to currency risk.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. In the opinion of management the market risk exposure to the Cooperative is low and is not material.

(d) Credit risk

The Cooperative has credit risk in accounts receivable of \$2,390,892 (2014 - \$3,087,050). Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. The Cooperative reduces its exposure to credit risk by performing credit valuations on a regular basis; granting credit upon a 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. In the opinion of management the credit risk exposure to the Cooperative is low and is not material.

ARMSTRONG REGIONAL COOPERATIVE

Notes to the Financial Statements

January 31, 2015

10. Financial instruments and risk management, continued

(e) Interest rate risk

Interest rate risk is the risk that the Cooperative has interest rate exposure on its liabilities and long-term debt. In the opinion of management, the Cooperative is not exposed to interest rate risk.

(f) 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. In the opinion of management the price risk exposure to the Cooperative is low and is not material.

11. Economic dependence

The Cooperative is economically dependent on Federated Co-operatives Limited for approximately 87% (2014 - 84%) of its purchases, data processing and collection fees.

12. Commitments

- (a) 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, 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 has an agreement with 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.
 - (b) The Cooperative is committed to Federated Co-operatives Limited for a land lease of the Salmon Arm and Scotch Creek locations. The leases expire April 2028 with minimum annual lease payments of \$80,136.
 - (c) The Cooperative is committed to Federated Co-operatives Limited for a facility lease of the Canoe location. The lease expires April 2018 with minimum annual lease payments of \$24,396. There is also a lease premium calculated with reference to the annual volume of fuel delivered at that location. At current volumes, the annual lease payment is estimated to be approximately \$117,904.
 - (d) The Cooperative is committed to a defined contribution pension plan administered by the Co-operators Superannuation Society. Amounts paid by Armstrong Regional Cooperative for 2015 were \$37,792 (2014 - \$34,217).
-

ARC Special Resolution - A

For consideration at the 06 May 2015 AGM

Background

- The operation of the board requires confidential, professional and unbiased treatment of all issues that come before it.
- The function of the board is best served when the directors have an 'arm's length' relationship with the operations of the Association and its employees.

Resolved

That the ARC change section 77 of their bylaws as follows:

Existing

Qualifications for directors

- 77 (1) A majority of the directors of the Association must be individuals ordinarily resident in Canada.
- (2) At least one of the directors of the Association must be an individual ordinarily resident in British Columbia.
- (3) All of the directors must be members of the Association or representatives of an eligible organization that is a member of the Association.
- (4) No individual is entitled to become or act as a director of the Association if:
- (a) the individual is under the age of 18 years;
 - (b) the individual is found by a court, in Canada or elsewhere, to be incapable of managing the individual's own affairs;
 - (c) the individual is an undischarged bankrupt;
 - (d) the individual is convicted in or out of British Columbia of an offence in connection with the promotion, formation or management of a corporation, or an offence involving fraud, unless the events described in the Act have occurred;
 - (e) the individual is an employee of the Association;
 - (f) the individual is related to an employee of the Association in any of the following ways:
 - (i) spouse;
 - (ii) person living with the employee in an arrangement equivalent to spouse;
 - (iii) sibling;
 - (iv) child;
 - (v) parent;
 - (vi) grandchild;
 - (vii) grandparent;
 - (viii) spouse of any of the people listed in (iii) to (vii), inclusive;
 - (g) the individual or a member eligible organization of which the individual is a director has an account with the Association that is more than 60 days in arrears.

Where the new section would look as follows if the Special Resolution is carried:

Qualifications for directors

- 77 (1) A majority of the directors of the Association must be individuals ordinarily resident in Canada.
- (2) At least one of the directors of the Association must be an individual ordinarily resident in British Columbia.
- (3) All of the directors must be members of the Association or representatives of an eligible organization that is a member of the Association.
- (4) No individual is entitled to become or act as a director of the Association if:
- (a) the individual is under the age of 18 years;
 - (b) the individual is found by a court, in Canada or elsewhere, to be incapable of managing the individual's own affairs;
 - (c) the individual is an undischarged bankrupt;
 - (d) the individual is convicted in or out of British Columbia of an offence in connection with the promotion, formation or management of a corporation, or an offence involving fraud, unless the events described in the Act have occurred;
 - (e) the individual is:**
 - (i) an employee of the Association, or**
 - (ii) a former employee of the Association with less than 1 year since their departure, or**
 - (iii) a former employee of the Association who was dismissed from the employ of the Association;**
 - (f) the individual is related to an employee of the Association in any of the following ways:
 - (i) spouse;
 - (ii) person living with the employee in an arrangement equivalent to spouse;
 - (iii) sibling;
 - (iv) child;
 - (v) parent;
 - (vi) grandchild;
 - (vii) grandparent;
 - (viii) spouse of any of the people listed in (ii) to (vii), inclusive;
 - (g) the individual or a member eligible organization of which the individual is a director has an account with the Association that is more than 60 days in arrears.

ARC Special Resolution - B

For consideration at the 06 May 2015 AGM

Background

- In advance of the AGM, the members of the ARC deserve and require information regarding the director candidates and their qualifications in order to make informed decisions when voting for a board of directors.

Resolved

That the ARC change section 80 of their bylaws as follows:

Existing

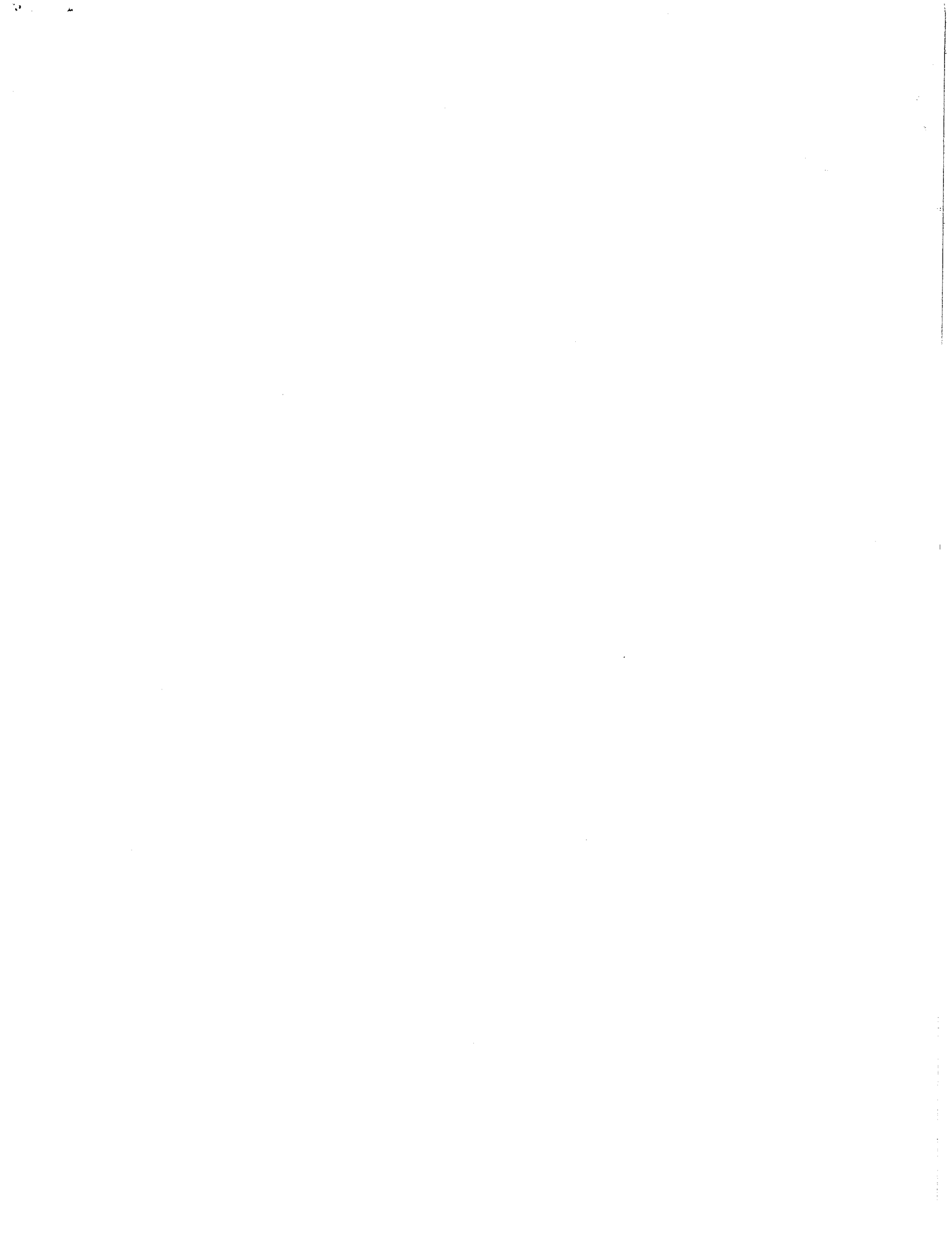
Nomination of candidates

80 A member may nominate a candidate for director either before or at an annual general meeting at which a director is to be elected.

Where the new section would look as follows if the Special Resolution is carried:

Nomination of candidates

80 A member may nominate a candidate for director **up to one month before** an annual general meeting at which a director is to be elected.



DIRECTORS

Nairn von Hahn – President

Andrew Laird – Vice President

Mike Beck - Secretary

Steve Gunner*

Hugh Chalmers

Patricia Paterson

Barrie Seed*

*Term expires this year