



ANNUAL REPORT 2015

ARMSTRONG
REGIONAL COOPERATIVE
For the Year Ending 30 January 2016

94th Annual General Meeting



ARMSTRONG REGIONAL COOPERATIVE

Wed, 04 May 2016 7:00 pm Odd Fellows Hall

Agenda

1. Call Meeting to Order
2. Notice of Meeting
3. Minutes of FY2014 Annual General Meeting
4. Business Arising from the Minutes
5. Directors' Reports
6. Managers' Report / Financial Statements
7. Auditors' Report
8. Appointment of Auditors
9. Other Reports
10. New Business
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 30, 2016

ARMSTRONG REGIONAL COOPERATIVE

January 30, 2016

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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 30, 2016, 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.

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

INDEPENDENT AUDITORS' REPORT, continued

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Armstrong Regional Cooperative as at January 30, 2016, 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
May 4, 2016

Chartered Professional Accountants

ARMSTRONG REGIONAL COOPERATIVE

Balance Sheet

As at January 30, 2016

	January 30, 2016	January 31, 2015
Assets		
Current		
Cash	\$ 8,064,120	\$ 7,941,454
Accounts receivable (Note 2)	1,691,467	2,434,983
Inventory (Note 3)	1,206,365	1,285,931
Income taxes receivable	92,889	301,769
	<u>11,054,841</u>	<u>11,964,137</u>
Investment in Federated Co-operatives Limited	8,565,463	8,337,173
Property, plant and equipment (Note 5)	4,123,945	3,986,552
	<u>\$ 23,744,249</u>	<u>\$ 24,287,862</u>
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 6)	\$ 485,023	\$ 368,374
Patronage dividend payable	3,071,459	3,686,461
Due to Federated Co-operatives Ltd. (Note 4)	2,216,809	3,726,812
Current portion of long-term debt	-	15,489
	<u>5,773,291</u>	<u>7,797,136</u>
Paid-up shares (Note 7)	6,171,810	5,356,105
	<u>11,945,101</u>	<u>13,153,241</u>
Shareholders' equity		
Retained earnings	11,799,148	11,134,621
	<u>\$ 23,744,249</u>	<u>\$ 24,287,862</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 30, 2016

	January 30, 2016	January 31, 2015
Retained earnings, beginning of period	\$ 11,134,621	\$ 10,729,465
Net income for the period	3,735,986	4,091,617
Dividends paid	<u>(3,071,459)</u>	<u>(3,686,461)</u>
Retained earnings, end of period	<u>\$ 11,799,148</u>	<u>\$ 11,134,621</u>

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

ARMSTRONG REGIONAL COOPERATIVE

Statement of Income

Fifty two weeks ended January 30, 2016

	January 30, 2016	January 31, 2015
Sales	\$ 49,794,774	\$ 56,768,872
Cost of sales	44,766,861	52,732,809
Gross margin	5,027,913	4,036,063
Expenses		
Advertising and promotion	42,503	37,239
Amortization	497,788	517,182
Automotive	248,090	280,215
Bad debts (recovery)	(3,155)	(160,672)
Collection fees	157,435	196,903
Data processing	13,978	14,243
Directors' fees and training	39,517	35,444
Donations	42,892	26,712
Insurance	80,116	79,523
Office	98,870	109,313
Professional fees	37,391	38,532
Property taxes	65,796	63,259
Rent	101,595	101,328
Repairs and maintenance	441,466	190,240
Salaries and related benefits	1,453,249	1,306,855
Staff training	5,642	2,893
Staff travel	18,449	19,337
Throughput - FCL	99,848	110,863
Utilities and communication	79,841	76,438
	3,521,311	3,045,847
Income before the following items	1,506,602	990,216
Other income		
Interest	196,050	219,020
Patronage refund from Federated Co-operatives Limited	2,282,859	3,035,996
	2,478,909	3,255,016
Income before income taxes	3,985,511	4,245,232
Income taxes	249,525	153,615
Net income for the period	\$ 3,735,986	\$ 4,091,617

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

ARMSTRONG REGIONAL COOPERATIVE
Statement of Cash Flows

Fifty two weeks ended January 30, 2016

	January 30, 2016	January 31, 2015
Operating		
Cash receipts from customers	\$ 50,538,290	\$ 57,420,940
Cash receipts from interest	196,050	219,019
Cash paid to suppliers and employees	(47,594,169)	(54,990,434)
Cash paid for patronage dividends	(2,840,614)	(3,525,515)
Cash receipts from FCL for patronage dividends	2,054,569	2,428,797
Income taxes paid	(40,645)	(28,433)
	<u>2,313,481</u>	<u>1,524,374</u>
Investing		
Advances from (to) related party	(1,510,003)	4,391,846
Purchase of property, plant and equipment	(635,181)	(94,648)
	<u>(2,145,184)</u>	<u>4,297,198</u>
Financing		
Repayment of long-term debt	(15,489)	(15,489)
New members	6,870	7,590
Shares redeemed and member payouts	(55,722)	(49,410)
Cancelled patronage cheques transferred to member equity	18,710	82,474
	<u>(45,631)</u>	<u>25,165</u>
Increase in cash	122,666	5,846,737
Cash, beginning of period	<u>7,941,454</u>	<u>2,094,717</u>
Cash, end of period	<u>\$ 8,064,120</u>	<u>\$ 7,941,454</u>
Non-cash transactions:		
Patronage dividends received as additional shares in Federated Co-operatives Limited	\$ 228,290	\$ 607,199
Increase in members equity due to patronage allocation	<u>845,847</u>	<u>512,752</u>

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

ARMSTRONG REGIONAL COOPERATIVE

Notes to the Financial Statements

January 30, 2016

Nature of operations

Armstrong Regional Cooperative (the "Cooperative") operates a petroleum retailing business.

1. Significant accounting policies

The Cooperative follows accounting principles generally accepted in Canada in preparing its financial statements. The significant accounting policies used are as follows:

(a) Inventory

Inventory is valued at the lower of cost, calculated on a cost basis using first-in, first-out method, and net realizable value.

(b) Long-term investments

Long-term investments consist of investments in Federated Co-operative Limited, which have been recorded at cost as there is no quoted market rate available.

(c) Property, plant and equipment

Property, plant and equipment are recorded at cost. The Cooperative provides for amortization using the following methods at rates designed to amortize the cost of the property, plant and equipment over their estimated useful lives. The annual amortization rates and methods are as follows:

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

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

Assets under construction are not amortized until completed.

Property, plant and equipment are tested for impairment on an annual basis by determining if the carrying amount of property, plant and equipment exceeds the sum of undiscounted cash flows expected to result from its use and eventual disposition. If an impairment loss exists, the amount of the loss is measured as the amount by which the property, plant and equipment carrying amount exceeds its fair value.

(d) Future income taxes

The Cooperative uses the future income taxes method of accounting for income taxes. Under the future income taxes method, future tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax basis. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability is settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that the substantive enactment or enactment occurs.

ARMSTRONG REGIONAL COOPERATIVE

Notes to the Financial Statements

January 30, 2016

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 30, 2016

2. Accounts receivable

Accounts receivable consists of the following:

	<u>January 30, 2016</u>	<u>January 31, 2015</u>
Trade receivables	\$ 2,138,843	\$ 2,809,042
GST/HST receivable	6,127	53,525
	<u>2,144,970</u>	<u>2,862,567</u>
Allowance for doubtful accounts	<u>(453,503)</u>	<u>(427,584)</u>
	<u>\$ 1,691,467</u>	<u>\$ 2,434,983</u>

3. Inventory

Inventory consists of the following:

	<u>January 30, 2016</u>	<u>January 31, 2015</u>
Confectionary	\$ 57,673	\$ 50,191
Fuel	820,004	943,319
Grease & Oil	242,332	205,202
Lotto	5,142	6,350
Tobacco	81,214	80,869
	<u>\$ 1,206,365</u>	<u>\$ 1,285,931</u>

During the year, \$44,741,232 (2015 - \$52,705,752) of inventory was charged to cost of sales.

4. Due to Federated Co-operatives Limited

	<u>January 30, 2016</u>	<u>January 31, 2015</u>
FCL trade payables outstanding	\$ 2,216,809	\$ 3,726,812

ARMSTRONG REGIONAL COOPERATIVE

Notes to the Financial Statements

January 30, 2016

5. Property, plant and equipment

			January 30, 2016	January 31, 2015
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 82,839	\$ -	\$ 82,839	\$ 82,839
Automotive	766,191	630,263	135,928	194,187
Buildings	2,977,515	770,950	2,206,565	2,237,056
Concrete and paving	532,739	234,831	297,908	306,447
Equipment	3,845,470	2,444,765	1,400,705	1,166,023
	<u>\$ 8,204,754</u>	<u>\$ 4,080,809</u>	<u>\$ 4,123,945</u>	<u>\$ 3,986,552</u>

6. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consists of the following:

	January 30, 2016	January 31, 2015
Trade payables	\$ 402,504	\$ 289,586
Payroll remittance payables	10,298	10,592
Employee wage and benefits payable	68,124	64,430
PST payable	2,869	2,540
WCB payable	1,228	1,226
	<u>\$ 485,023</u>	<u>\$ 368,374</u>

ARMSTRONG REGIONAL COOPERATIVE

Notes to the Financial Statements

January 30, 2016

7. Paid-up shares

	<u>January 30, 2016</u>	<u>January 31, 2015</u>
Balance, beginning of year	\$ 5,356,105	\$ 4,802,699
Allocation from patronage payment	845,847	512,752
New members	6,870	7,590
Shares redeemed during the year	(55,722)	(49,410)
Stale dated patronage cheques transferred to member equity	18,710	82,474
	<u>\$ 6,171,810</u>	<u>\$ 5,356,105</u>

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.

8. Related party transactions

The Cooperative, along with other co-operatives in Western Canada, own Federated Co-operatives Limited ("FCL"). At October 31st 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, 2015, the Cooperative purchased goods amounting to \$36,791,096 (2014 - \$46,060,681) 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:

	<u>January 30, 2016</u>	<u>January 31, 2015</u>
Cash received	\$ 2,054,573	\$ 2,428,797
Shares received	228,289	607,199
	<u>\$ 2,282,862</u>	<u>\$ 3,035,996</u>

ARMSTRONG REGIONAL COOPERATIVE

Notes to the Financial Statements

January 30, 2016

9. 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 \$1,691,467 (2015 - \$2,434,983). 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 to moderate.

(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.

ARMSTRONG REGIONAL COOPERATIVE

Notes to the Financial Statements

January 30, 2016

10. Economic dependence

The Cooperative is economically dependent on Federated Co-operatives Limited for approximately 82% (2015 - 87%) of its purchases, data processing and collection fees.

11. 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.
 - (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 2016 were \$40,295 (2015 - \$37,792).
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12. Subsequent events

Subsequent to year-end, the Cooperative is committed to Southborough Vernon Investments Ltd. for a land lease of the new Vernon Gas Bar location. The leases expire April 2035 with total expected lease payments of \$2,649,500.

In addition, the Cooperative has committed to construct the Vernon Gas Bar for a total estimated cost of \$3,690,725 for which \$1,326,632 will be received from Federated Co-operatives Ltd. by way of subsidy to assist with covering the costs. Of the remaining \$2,364,093, the Cooperative will acquire a loan from Federated Co-operatives Ltd. for \$1,094,606 of which will be due in 3 equal payments beginning 30 days after construction is completed and annually thereafter.

13. Comparative amounts

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.

Patricia Paterson CPA, CA (Patti)

I have lived in Armstrong since 1989. I am a Chartered Professional Accountant and have worked for accounting firms in Red Deer, Vernon and Armstrong (including 12 years working for the Co-op auditor). In 2005 I opened my own accounting practice.

I was first elected to the Board of the Armstrong Regional Co-op in 2007. I've served as secretary and board chair. In addition to being on the finance committee I have been involved with the Policy Review Committee since its inception in 2013. I completed the board training certificates for Director Level 1 and 2 under FCL's old training model.

I would like to be re-elected to the board to continue developing the Board Policy Manual and my director training. I'm excited about our expansion into Vernon and would like help promote the co-op in our new market.

Now that our children are grown, my husband and I enjoy road trips on our motorcycles.

Ken Earl

Ken has 28 years of experience in the financial service industry, 17 of which have been in senior management positions. He also owned and operated two businesses during his active working years. His education includes two certificates each from BCIT and the Institute of Canadian Bankers (ICB) in Business Administration and Finance. Prior to moving to Salmon Arm, Ken lived in Terrace, BC for 26 years and was active in community based organizations. Ken was a Rotarian for 28 years and served on many boards including the Northwest Regional Airport Society, Snow Valley Nordic Ski Club, and the City of Terrace Housing Task Force. Ken and his wife of 42 years have two children and two grandchildren. They moved to Salmon Arm in October 2015 to be closer to family and enjoy the active recreational activities the area has to offer. Since moving to Salmon Arm, Ken has joined the Larch Hills Nordic Ski Club, Salmon Arm Toastmasters, Shuswap Trail Alliance and is the Treasurer for the St. Andrews United Church in Enderby, BC.

If elected, Ken would welcome the opportunity to serve on the ARC Board.

Chuck Bulmer

Chuck joined the Armstrong Co-op shortly after moving to the Okanagan in 1998. Currently living just north of Enderby at Gardom Lake, Chuck works for the BC Forest Service as a soil scientist. His previous community experience includes 4 years on the Board at the Okanagan Science Centre including one year as President; one previous term as a Director of the Armstrong Regional Cooperative, and 4 years on the Board of the North Okanagan Minor Hockey Association, including 2 years as President. Chuck studied Forestry and Soil Science at University of Alberta and at University of British Columbia. He is a member of the BC Institute of Agrolgists, and the Pacific Region Society of Soil Science.

DIRECTORS

Nairn Von Hahn – President

Andrew Laird – Vice-president

*Mike Beck - Secretary

Keith Thompson

Hugh Chalmers

*Patricia Paterson

Barrie Seed

* Term expires in May 2016