



ANNUAL REPORT 2018

NORTH ISLAND CONSUMER
SERVICES CO-OPERATIVE



INDEPENDENT AUDITORS' REPORT

To the Members of North Island Consumer Services Co-Operative

We have audited the accompanying financial statements of the North Island Consumer Services Co-Operative which comprise the balance sheet as at March 31, 2018 and the statements of net savings, retained savings and cash flows for the year 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 generally accepted 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 auditor's 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 auditor considers internal control relevant to the entity'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 entity'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 the North Island Consumer Services Co-Operative as at March 31, 2018 and its financial performance and cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Chan Nowosad Boates Inc.

Chartered Professional Accountants
Campbell River, BC

September 6, 2018

North Island Consumer Services Co-operative
Balance Sheet
As at March 31, 2018

	March 31 2018	July 1 2017
Current assets		
Cash and cash equivalents	\$ 136,355	\$ 104,301
FCL special deposit (Note 4 (a))	167,162	167,162
Accounts receivable - Customer (Note 6)	35,857	34,123
- Other	-	124
Income taxes recoverable	17,821	19,410
Inventories (Note 2)	105,742	111,019
Prepaid expenses	-	6,443
	462,937	442,582
Investments		
Federated Co-operatives Limited (Note 4(b))	638,187	612,301
Vancouver Island Central Services Co-operative (Note 5)	107,920	107,703
Other organizations, at cost	1,936	2,376
	652,473	657,601
Property, plant and equipment (Note 7)	652,473	657,601
Total assets	\$ 1,863,453	\$ 1,822,563
Current liabilities		
Accounts payable and trust liabilities (Note 8)	\$ 256,508	\$ 224,104
Total liabilities	256,508	224,104
Members' equity		
Share capital (Note 9)	627,812	636,777
Reserves and retained savings (Note 10)	979,133	961,682
	1,606,945	1,598,459
Total liabilities and members' equity	\$ 1,863,453	\$ 1,822,563

Subsequent events (Note 16)

Approved on behalf of the Board of Directors



Director



Director

The accompanying notes are an integral part of these financial statements



North Island Consumer Services Co-operative
Statement of Net Savings and Statement of Retained Savings
For the nine months ended March 31, 2018 and the twelve months ended July 1, 2017

	March 31 2018	%	July 1 2017	%
Sales (Note 11)	\$ 2,546,503	100.0	\$ 3,203,500	100.0
Cost of goods sold	2,325,815	91.3	2,912,129	90.9
Gross margin	220,688	8.7	291,371	9.1
Expenses				
Operating and administration	338,627	13.3	423,685	13.2
Net interest (Note 12)	(3,678)	(0.1)	(3,865)	(0.1)
	334,949	13.2	419,820	13.1
Loss from operations	(114,261)	(4.5)	(128,449)	(4.0)
Patronage refunds	136,075	5.3	128,397	4.0
Savings (loss) before income taxes	21,814	0.8	(52)	-
Income taxes (income tax recovery) (Note 14)	2,560	0.1	(181)	-
Net savings	\$ 19,254	0.7	\$ 129	-
Retained savings, beginning of year	\$ -		\$ -	
Net savings	19,254		129	
Transfer to general reserve (Note 10)	(19,254)		(129)	
Retained savings, end of year (Note 10)	\$ -		\$ -	

The accompanying notes are an integral part of these financial statements



North Island Consumer Services Co-operative
Statement of Cash Flows
For the nine months ended March 31, 2018 and the twelve months ended July 1, 2017

	March 31 2018	July 1 2017
Operating activities		
Net savings	\$ 19,254	\$ 129
Adjustments for:		
Depreciation	11,390	17,026
FCL patronage refund	(133,907)	(125,108)
VICSCA patronage refund	(2,167)	(3,289)
Changes in non-cash operating working capital:		
Accounts receivable	(1,610)	(10,361)
Income tax recoverable	1,589	(3,121)
Inventories	5,277	(2,658)
Prepaid expenses	6,443	60
Accounts payable and trust liabilities	32,404	52,040
Cash used for operating activities	(61,327)	(75,282)
Investing activities		
Redemption of FCL shares	108,021	112,844
Redemption of VICSCA shares	1,950	2,960
Additions to property, plant and equipment	(6,262)	(651)
Investment in other organization	440	(1)
Cash provided by investing activities	104,149	115,152
Financing activities		
Share capital issued	1,620	1,440
Redemption of share capital	(12,388)	(16,823)
Cash used for financing activities	(10,768)	(15,383)
Net increase in cash and cash equivalents	32,054	24,487
Cash and cash equivalents, beginning of year	271,463	246,976
Cash and cash equivalents, end of year	\$ 303,517	\$ 271,463
Cash and cash equivalents are comprised of:		
Cash and cash equivalents	\$ 136,355	\$ 104,301
FCL special deposit	167,162	167,162
	\$ 303,517	\$ 271,463

The accompanying notes are an integral part of these financial statements



North Island Consumer Services Co-operative
Notes to the Financial Statements
For the nine months ended March 31, 2018 and the twelve months ended July 1, 2017

1. Incorporation and operations

North Island Consumer Services Co-operative ("the Co-operative") was incorporated under the Co-operatives Act of British Columbia on July 27, 1972. The primary business of the Co-operative is operating a retail petroleum outlet in Campbell River, British Columbia.

2. Significant accounting policies

These financial statements have been prepared by management in accordance with Canadian accounting standards for private enterprises. A precise determination of many assets and liabilities is dependent upon future events and consequently, the preparation of these financial statements involves the use of estimates and approximations. Areas subject to estimation include valuation of accounts receivable, inventory, useful life of property and equipment and accrued liabilities. These estimates also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

These financial statements have been prepared to reflect the following significant accounting policies:

(a) Definition of financial year

The Co-operative's financial year ends on March 31, 2018. It is a deemed year end due to the amalgamation with Peninsula Consumer Services Co-operative. See Note 16 for further information.

(b) Cash and cash equivalents

Cash and cash equivalents are defined as cash and investments with an initial maturity of less than three months.

(c) Inventories

Inventories are valued using first-in first-out method and the retail method. Inventories are stated at the lower of cost and net realizable value.

The Co-operative estimates net realizable value as the amount that inventories are expected to be sold for, taking into consideration fluctuations of retail price due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is determined to be not recoverable due to obsolescence, damage or permanent declines in selling prices.

	2018	2017
Confectionary	\$ 8,661	\$ 10,009
Cigarettes	32,903	30,386
Lottery	5,622	5,402
Oil & grease	2,592	3,541
Propane	1,558	1,458
Petroleum	<u>54,406</u>	<u>60,223</u>
	<u>\$ 105,742</u>	<u>\$ 111,019</u>

(d) Investments

The Co-operative's investments are accounted for using the cost method. Accordingly, the investments are recorded at acquisition cost, less any provisions for permanent impairment or adjustments for patronage refunds or share redemptions. All transactions with FCL are disclosed in a separate note (Note 4). All transactions with VICSCA are disclosed in a separate note (Note 5).



North Island Consumer Services Co-operative
Notes to the Financial Statements
For the nine months ended March 31, 2018 and the twelve months ended July 1, 2017

(e) Financial instruments

Financial instruments are recorded at fair value on initial recognition and are subsequently recorded at amortized cost, unless management has elected to carry the instruments at fair value. The Co-operative has not elected to carry any such financial instruments at fair value. Financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are subsequently measured at amortized cost.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Co-operative determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Co-operative could realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is taken over the estimated useful lives of the assets using the following methods and rates:

Buildings	Declining balance	4%
Pavement	Declining balance	8%
Tanks	Declining balance	10%
Furniture & equipment	Declining balance	20%
Computer equipment	Declining balance	55%

In the year of acquisition, depreciation is taken at half the annual rate.

Expenditures for maintenance and repairs are charged to operating expenses as incurred. Significant expenditures for improvements are capitalized. Gains or losses realized on the disposal of property, plant and equipment are reflected in operations in the year of disposition.

Claims for assistance under various FCL programs are recorded as a reduction of the cost of related assets in the period in which eligible expenditures are incurred, with any depreciation calculated on the net amount.

An impairment loss is recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. No such impairment loss was recorded during the year.

(g) Share capital

The Co-operative approves an allocation to members subsequent to year end. The amount is recorded as an addition to share capital and a reduction in retained savings. The Co-operative records the redemption of shares that is to be paid to its members at the time it has been approved by the Board of Directors.

(h) Revenue recognition

The Co-operative recognizes revenue when evidence of an arrangement exists, delivery or change of ownership has occurred, and the price to the buyer is determined.



North Island Consumer Services Co-operative
Notes to the Financial Statements
For the nine months ended March 31, 2018 and the twelve months ended July 1, 2017

(i) Income taxes

The Co-operative follows the taxes payable method whereby only current income tax assets and liabilities are recognized to the extent they remain unpaid or are recoverable. In addition, the benefit relating to a tax loss incurred in the current period and carried back to prior periods is recognized as a current asset. Current income tax assets and liabilities are measured using substantively enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

3. Financial instruments and risk management

The significant financial risks to which the Co-operative is exposed are credit risk and interest rate risk.

(a) Credit risk

The Co-operative is exposed to credit risk on the accounts receivable from its customers. The Co-operative manages the credit risk through an active credit management program. Three customers account for 43.69% (2017 - Two customers account for - 39.6%) of the account receivable balance.

(b) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Co-operative's sensitivity to fluctuations in interest rates is limited to its cash, funds on deposit and debt. The Co-operative manages its exposure to interest rate risk through floating rate deposits and borrowings.

4. Transactions with Federated Co-operatives Limited (FCL)

(a) FCL special deposit

Amounts held with FCL as special deposits earn interest at rates based on prime rates.

(b) Patronage refund

The Co-operative, along with other Co-operatives in Western Canada, own FCL. At the end of each year, FCL divides a substantial portion of its net savings among these retail Co-operatives in proportion to the business done by each with FCL. During FCL's fiscal year ended October 31 2017, the Co-operative purchased goods amounting to \$2,154,934 (2016 - \$1,955,107) from FCL in the normal course of operations.

These purchases resulted in a patronage refund from FCL which was received as non-cash consideration in the form of additional shares in FCL. FCL, based on its available cash flow, redeemed an amount of FCL shares held by the Co-operative. The amounts of the patronage refund and shares redeemed are as follows:

	March 31 2018	July 1 2017
Opening investment balance	\$ 612,301	\$ 600,037
Patronage refund	133,907	125,108
Share redemptions	<u>(108,021)</u>	<u>(112,844)</u>
Closing investment balance	<u>\$ 638,187</u>	<u>\$ 612,301</u>



North Island Consumer Services Co-operative
Notes to the Financial Statements
For the nine months ended March 31, 2018 and the twelve months ended July 1, 2017

(c) Asset retirement obligation

The Co-operative participates in a contaminated site management program established by FCL to manage its asset retirement obligations. This program limits the Co-operative's liability to \$25,000 per site as long as the Co-operative continues to exercise due diligence. The Co-operative has one site under this program. Management believes that due diligence has been exercised and that the impact of the asset retirement obligation to the Co-operative's financial statements is not significant.

(d) Petroleum purchase commitment

Under the terms of the agreement with FCL, the Co-operative has committed to purchase petroleum products, at market price, from FCL for its gas bar over a ten year period commencing from November 15, 2011. Failure to meet this commitment would require the Co-operative to pay immediately outstanding gas bar and cardlock loan balances owed to FCL plus repay any gas bar grants received plus interest on the grants compounded annually at 10% from the grant date. Total grants received over the previous ten year period amounted to approximately \$95,000 (2017 - \$95,000). Management intends to fulfill all existing contracts with FCL.

5. Investment in Vancouver Island Central Services Co-operative Association (VICSCA)

North Island Consumer Services Co-operative, along with other Co-operatives on Vancouver Island, own VICSCA. At the end of December in each year, VICSCA divides substantially the total of its net savings among these retail Co-operatives in proportion to the business done by each with VICSCA. In 2018, North Island Consumer Services Co-operative purchased goods amounting to \$50,841 (2017 - \$74,143) from VICSCA in the normal course of operations. These purchases resulted in a patronage refund from VICSCA which was received as non-cash consideration in the form of additional shares in VICSCA. VICSCA based on its available cash flow, redeemed an amount of VICSCA shares held by the Co-operative. The amounts of the patronage refund and shares redeemed are as follows:

	March 31 2018	July 1 2017
Opening investment balance	\$ 107,703	\$ 107,374
Patronage refund	2,167	3,289
Share redemptions	<u>(1,950)</u>	<u>(2,960)</u>
Closing investment balance	<u>\$ 107,920</u>	<u>\$ 107,703</u>

6. Accounts receivable - customer

Shown net of an allowance for doubtful accounts of \$0 (2017 - \$1,000).

7. Property, plant and equipment

	Original Cost	Accumulated Depreciation	March 31 2018 Book Value	July 1 2017 Book Value
Land	\$ 536,495	\$ -	\$ 536,495	\$ 536,495
Buildings	105,784	60,673	45,111	46,506
Pavement	75,916	62,085	13,831	14,714
Tanks	90,472	79,313	11,159	12,064
Furniture & equipment	262,931	221,986	40,945	47,212
Computer equipment	<u>30,247</u>	<u>25,315</u>	<u>4,932</u>	<u>610</u>
	<u>\$ 1,101,845</u>	<u>\$ 449,372</u>	<u>\$ 652,473</u>	<u>\$ 657,601</u>

Depreciation for the current year included in operating and administration expense was \$11,390 (2017 - \$17,026).



North Island Consumer Services Co-operative
Notes to the Financial Statements
For the nine months ended March 31, 2018 and the twelve months ended July 1, 2017

8. Accounts payable and trust liabilities

	March 31 2018	July 1 2017
FCL payables	\$ 220,990	\$ 192,105
Other payables	30,279	29,907
Trust liabilities:		
Payroll deductions	3,837	-
Goods and services tax	1,286	1,937
Provincial sales tax	116	155
	<u>\$ 256,508</u>	<u>\$ 224,104</u>

9. Share capital

	March 31 2018	July 1 2017
Authorized, unlimited @ \$1		
Balance, beginning of year	\$ 636,777	\$ 651,102
Cash from new members	1,620	1,440
Shares transferred from reserves	1,803	1,058
	<u>640,200</u>	<u>653,600</u>
Withdrawals and retirements	12,388	16,823
	<u>12,388</u>	<u>16,823</u>
Balance, end of year	<u>\$ 627,812</u>	<u>\$ 636,777</u>

10. Reserves and retained savings

	General Reserve	Retained Savings (Deficit)	March 31 2018	July 1 2017
Balance, beginning of year	\$ 961,682	\$ -	\$ 961,682	\$ 962,611
Net savings distributed to retained savings	-	19,254	19,254	129
Patronage allocation	-	-	-	-
Shares transferred	(1,803)	1,803	(1,803)	(1,058)
Reserve transfers	19,254	(19,254)	-	-
Balance, end of year	<u>\$ 979,133</u>	<u>\$ 1,803</u>	<u>\$ 979,133</u>	<u>\$ 961,682</u>

11. Sales

The Co-operative's business operations consist of one segment, which is the gas bar. All sales are to external customers.



North Island Consumer Services Co-operative
Notes to the Financial Statements
For the nine months ended March 31, 2018 and the twelve months ended July 1, 2017

12. Net interest

	March 31 2018	July 1 2017
Interest expense on		
- short term debt	\$ 26	\$ 37
Interest revenue	<u>(3,704)</u>	<u>(3,902)</u>
	<u>\$ (3,678)</u>	<u>\$ (3,865)</u>

13. Pension plan

The Co-operative participates in a multi-employer defined contribution plan whereby the Co-operative and participating employees contribute equal amounts up to the maximum allowed under the Income Tax Act. The Co-operative has no unfunded liability under this plan. During the year, the Co-operative recorded \$2,332 (2017 - \$2,803) of expense relating to the plan. There were no significant changes to the rate of employer contributions during the year.

14. Income taxes

The Co-operative accounts for income taxes using the taxes payable method. As a result, the Co-operative'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:

	March 31 2018	July 1 2017
Net savings (loss) before income taxes	\$ 21,814	\$ (52)
Expected income tax expense (recovery) at the combined tax rate of 12.4% (2017 - 13.0%) net of the small business deduction	2,697	(7)
Income or expenses claimed in different periods for income tax purposes:		
Capital cost allowance in excess of depreciation	<u>(137)</u>	<u>(174)</u>
Income tax expense (recovery)	<u>\$ 2,560</u>	<u>\$ (181)</u>

15. Comparative figures

Certain comparative figures have been reclassified to conform to current year financial statement presentation. This did not affect prior year earnings.

16. Subsequent events

Peninsula Consumer Services Co-operative amalgamation

North Island Consumer Services Co-operative amalgamated with Peninsula Consumer Services Co-operative on April 1, 2018. The financial effect of this amalgamation cannot be estimated at this time.



North Island Consumer Services Co-operative
Unaudited Statistical Information
For the nine months ended March 31, 2018 and the twelve months ended July 1, 2017

Record of Sales and Savings

	<u>Year</u>	<u>Sales</u>	<u>Net Savings (Loss) ⁽¹⁾</u>	<u>%</u>
From Date of Incorporation, July 27, 1972 to March 31, 2018	2008	\$ 212,979,902	\$ 2,483,906	1.2
	2009	3,353,317	202,463	6.0
	2010	3,488,923	71,067	2.0
	2011	2,955,269	69,283	2.3
	2012	2,795,857	(75,026)	(2.7)
	2013	2,987,450	79,777	2.7
	2014	3,184,165	42,644	1.3
	2015	3,381,446	11,052	0.3
	2016	3,427,844	24,667	0.7
	2017	3,203,500	129	0.0
	2018	2,546,503	19,254	0.8
		<u>\$ 244,304,176</u>	<u>\$ 2,929,216</u>	<u>1.2</u>

⁽¹⁾ 2010 and prior years - savings (loss) is before income taxes and patronage refund to members.

Membership

Members purchasing during the year	1,971
Inactive members	<u>1,076</u>
Total members	<u>3,047</u>



North Island Consumer Services Co-operative

Directors and Officers

For the nine months ended March 31, 2018 and the twelve months ended July 1, 2017

<u>Position</u>	<u>Name</u>	<u>Address</u>	<u>Year Term Expires</u>
President	Comeau, Joan	Campbell River, B.C.	2018
Vice-President	Egan, Francois	Campbell River, B.C.	2018
Secretary	Cooley, Steve	Campbell River, B.C.	2018
Director	Nash, Lynn	Campbell River, B.C.	2018
Director	Dumont, Linda	Campbell River, B.C.	2018
Director	Sego, Darcy	Campbell River, B.C.	2018
Director	Flinn, Doris	Campbell River, B.C.	2018

