

Cornerstone Co-operative

# 2019 Annual Report

*You're at home here.*



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# President's Message

A century ago, we were built by a generation that pooled their resources, banded together, and believed that the Co-op Model was a better way to secure their goods.

Cornerstone Co-op has served our owners and communities since 1919. We take pride in providing **Outstanding Co-op Experiences** that connect our Owners, Communities, and Employees, while making life better in our communities. This is the fabric of who we are, and what makes us unique. Our incredible brand and business are supported by our local owners who keep us **relevant and successful** in our communities.

I am proud to say we are a different kind of business. We are a **locally owned business which invests in our local communities**. We are a Co-operative. The benefits of a Co-op extend beyond the member

owner patronage we most notably identify with. **Our strength is working together to succeed.** The financial contributions Co-op and our team of employees make in our communities are **just a part** of the numerous benefits that is returned to our communities.

In our business lines and markets, we understand the many challenges and struggles of **finding local profitability in an economic downturn**. Today, with the COVID-19 Crisis, and its impact on the global markets, we face new challenges that we have not experienced in the past several decades or longer.

In our journey of recovery, it is vital to **support local business in our communities**. It's time we band together, be united, and support each other. Much like our legacy members did a century ago.

**Cliff Martin**  
Board President

# Directors

**Cliff Martin**  
President

**Keith Brower**  
Vice-President

**Don Zarowny**  
Second Vice-President

**Cole Jackson**  
Corporate Secretary

**Ron Boisvert**  
Director

**Terry Holmgren**  
Director

**John Trefanenko**  
Director

**Ken Wasmuth**  
Director

## Board Committees

### **Governance Committee**

Takes a leadership role to build and enhance the board's effectiveness and continuous improvement.

### **Growth & Business Development Committee**

Reviews and advises management of long term planning for the Retail. The Committee also assists in identifying sustainable and financially sound opportunities for the Retail that is aligned with the Retail Goals and the Guiding Statements of the Co-op.

### **Finance Committee**

Ensures that the co-operative remains financially sound by regularly reviewing financial performance against goals. It also reviews and recommends financial policies that support and advance the co-operative's mission, vision and strategic goals.

### **Nominations Committee**

Assumes the primary responsibility for matters pertaining to the board's recruitment and nominations function, in accordance with established policies and practices approved by the board.

### **Owner and Community Engagement Committee**

Assists the board to strategically plan to increase ownership and owner awareness and engagement in the co-operative, and to provide guidance to enhance the co-operative's presence, image and reputation in the community.

The President of the Board sits as an ex-officio member on all committees.

# GM's Message

2019 was another remarkable year for Cornerstone Co-op. With support from our owners, our team launched new programs, improved existing operations and invested for the future. The following are highlights and challenges focusing forward.

## Teamwork

Our strength is working together to succeed. We continue to enhance, develop, and engage our most important asset, our team. In 2019, we rolled out several action plans to enhance our employee experience and talent management framework including a retail session plan. Our Team Brand Committee and Team Sustainability Committee were both busy launching initiatives to fulfill our commitments and bring the Cornerstone brand to life.

I want to thank our entire team for their extra effort and their ability to adapt in our current reality, as we provide essential services to our owners, fellow employees, and communities. We are providing a safe and healthy Co-op Experience.

## Commitment

We understand our purpose is making life better in our communities. In 2019, we invested in our communities by supporting 189 local community groups, teams, clubs, and charities with over \$117,000 in donations and sponsorships. Our "Bags of Breakfast" program

continues to raise funds for nutritional programs with our 32 school partners. Proud to enter our 8th community of Two Hills, with our new Cardlock, we also completed projects at our St. Paul Gas Bar, St. Paul Cardlock, Mannville Food Store, and opened our fourth Liquor Store in Vermilion. We are also very eager to soon open our first Booster Location in Vermilion!

## Integrity

Our environmental reduction results are being realized by diverting 59% of our waste away from landfills through our green initiatives, including food waste through our Food Bank and Loop Programs. With our co-operative roots in mind, we are proud to give back over \$2 million to our owners in cash back and equity. Today we are immersed in challenging times. Pandemic risks, economic backlash, trends, government policies and regulations, consumer behaviours, technology risks and demands, et cetera. So much has changed at such a fast pace and altered the dynamic of the local economy and we all must learn and understand the new normal.

As we all navigate our new journey that lies ahead, I want to thank all our owners for their past support, dedication and commitment, and future support, patience, and appreciation.

**Graham Getz**  
General Manager

## Operations Highlights

Looking back at 2019 I would describe it as a transformational year in Operations. It concluded a phase where we completed some long-term asset commitments in core commodities like pump and cardlock petroleum. It also saw us take advantage unexpectedly of a competitor divesting of an asset and us incorporating it into our liquor store network that now grew to 4.

**Food and Pharmacy** locations had a stable year in all markets. We have reached new levels of efficiencies while maintaining exceptional service benchmarks. Vermilion Pharmacy completed its first full year of operations and continues to forge relationships with the local Health Region and offerings of home health and active living lines and through product knowledge sessions and seminars in-house and in care homes and lodges.

**Home & Agro Centres** battled some economic factors and deflation in products. Building permits and new construction was down significantly in 2019. Farm and Ag products had a tough finish to the year with an unfortunate turn of cold weather and snow which prevented much of harvest from coming off. We hope for a more optimistic farming and construction year ahead.

**Liquor** presented itself with an opportunity to expand our beer/ wine/ spirits into Vermilion. We acquired the assets on Solo Liquor and did a quick flip and remodel of the store to bring a whole new level of liquor and entertainment offerings to our district.

**Petroleum Division** added an 8th cardlock to the network and in an 8th community to proudly hang the Co-op shield. In November the Two Hills

cardlock was complete. The bulk petroleum team again had a strong year with providing fuel and energy products across all of Cornerstone. Bulk propane had a solid year with all the grain drying at the end of harvest. Our gas bars continue to fuel Northeast Alberta travel. A major renovation in St Paul saw an expansion of fuel pumps as well as the newest in technology using contactless credit and debit card payment right at the pumps.

**Marketing & Communications and Facilities** are trusted advisors and supporters of commodity success. Co-op was your community builder again in 2019, coordinating hundreds of events from parades to BBQ fundraisers, from community donations to the relaunch of our Kid's Club program, we continue to build strategic partnerships which make life better in our communities everyday. Our digital presence has been enhanced, now with the ability to become a Co-op Owner completely on-line as well as complete a cardlock card application through our website. We now process grocery deliveries online and are working towards an E Commerce platform for food and home centres in the near future. Facilities Dept continued to maintain our world class facilities while leading project management for all Cornerstone projects.

As we head into a very unknown state of operations and a new normal post COVID, we feel very confident that all past projects and investments have positioned us favorably to whether any storm and stay relevant and resilient. That you for your unwavering support in 2019!

**Kory Kralkay**  
Director of Operations

# Talent & Culture Highlights

Talent and Culture contributes to the strategic direction of talent-related responsibilities for the organization; as well as the day-to-day talent-related responsibilities such as: acquisition; onboarding and introduction to the Cornerstone Brand; performance management, total rewards administration, safety administration; recognition; retirements and other turnover, etc.

During 2019 the Talent and Culture Team was formed and brought together health and safety, talent acquisition, total rewards management, with strategic support to our Team Leaders in all of these areas.

## Total Rewards

In 2019 we successfully completed a huge transition with our payroll system. The "TIS" project (talent insight solutions) transitioned us to an automated time-keeping system as well as a multi-functional human resource software system. Both of these systems provide us with better business data being more readily available for important decision making capability. This was a huge change management initiative for our whole organization and impacted every employee in the way their work time is recorded and managed.

## Talent Acquisition and Management

These programs continues to evolve with direction from FCL. Talent Acquisition and Onboarding as well as introducing a new job evaluation system for Team Leaders were all new initiatives during 2019. We were happy to assist the Consumer Division with talent acquisition for the newly opened 4th Liquor Store in summer 2019.

## Safety

The Health and Safety Advisor contributed to further development in the area of National Safety Code (NSC) compliance with assistance from our Home and Agro and Petroleum Divisions. In 2019 an internal COR (Certificate of Recognition) Audit was completed with success and we continue to evolve our safety program to remain relevant and proactive.

**Judy Grimwood**  
Director of Talent & Culture

# Finance Highlights

Our 2019 fiscal year was another difficult year for our commercial customers and area farmers. A further slowdown in the oil patch in our trading area was experienced and crops from the fall have still not been harvested in some areas. This resulted in lower fuel and agricultural equipment sales compared to previous years. The FCL refinery margins decreased from the record year in 2018 resulting in lower FCL Patronage refunds in 2019.

## Financial highlights for 2019 include:

- Total sales in 2019 of \$169.5 million (\$178.9 million last year)
- Net savings before taxes in 2019 of \$3,975,000 (\$6,994,000 last year)
- Patronage allocation to our owners of \$2,160,000 (\$2,862,000 last year)
- Co-op Equity paid back to our owners in 2019 of \$2,918,000 (\$2,481,000 last year)
- Investment into new and existing facilities over the last two years is \$10.7 million

- Patronage allocation from FCL in 2019- \$9.87 million (\$12.6 million last year)
- Cash repayments on FCL Patronage received in 2019 - \$7.9 million (\$10.1 million last year)

While it is still too early to know the total effects of COVID-19 on the economy in 2020, we anticipate this event will be unprecedented in our Co-operative's entire history. Our operational and finance teams are currently working very hard to minimize any impacts we are going to experience throughout 2020 and beyond. Thank you to our owners for all the patience and support in 2019.

**Brad Belton**  
Director of Finance

# Ownership Returns

Allocation is based upon 2019 financial results and 2019 purchases you've made using your Cornerstone Co-op ownership number. Each year your Co-op's elected board of directors decides whether to put aside a percentage of purchases to be given to owners in the form of cash back and deposits into owners' equity accounts. The 2019 equity allocation percentages are:

**4.0%**

Propane Purchases

**4.0%**

Oil Purchases

**2.5%**

Gas & Diesel Purchases

**3.0%**

Car Wash Purchases

**3.0%**

Health Care Purchases

**0.75%**

Food & Convenience, Home Centre

# Year in Review

## Making Life Better in our Communities



ACCA CAMP RECIPIENT  
KAYLA MANGATAL



BAGS FOR BREAKFAST



COMMUNITIES IN FULL  
COLOUR



MANNVILLE CENTENNIAL



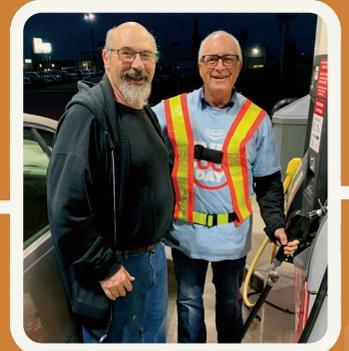
CRACKING THE PARM IN  
VERMILION



DELIVERY VAN IN  
ST. PAUL



DEWBERRY PARADE



FUEL GOOD DAY



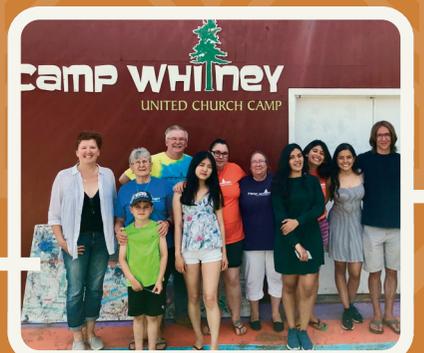
HAYING IN THE 30'S  
VOLUNTEER SUPPER



HEARTY HARVEST



LAKELAND COLLEGE  
AWARDS



CAMP WHITNEY FOOD  
DRIVE



TWO HILLS CARDLOCK



VERMILION LIQUOR STORE  
GRAND OPENING

# SUSTAINABILITY HIGHLIGHTS



**33.5 tonnes**  
of food donated to  
Food Banks in 2019



Recycled  
**12,552 lbs**  
of plastic



Diverted  
**59%** of waste  
from landfills



**\$32,155** benefiting  
breakfast & lunch  
programs at 32  
community schools



**\$3,103** raised on  
Fuel Good Day



**\$117,458** in  
member relations &  
donations, supporting  
**189** community  
groups



More than **480**  
team members



**\$16 million** in  
salaries and benefits  
invested back into  
local economies



Invested **\$45 million**  
in world class facilities  
& assets since 2013



Over **50** Alberta  
sourced products  
from vendor partners

**Locally Invested  
Community-Minded  
Lifetime Benefits**



# ANNUAL REPORT 2020

Cornerstone Co-operative

## Management's Responsibility

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To the Members of Cornerstone Co-operative:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian accounting standards for private enterprises. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors is composed entirely of Directors who are neither management nor employees of the Co-operative. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management, internal auditors, and external auditors. The Board is also responsible for recommending the appointment of the Co-operative's external auditors.

MNP LLP is appointed by the members to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board and management to discuss their audit findings.

April 23, 2020

*signed "Graham Getz"*

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General Manager

## Independent Auditor's Report

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To the Members of Cornerstone Co-operative:

### Opinion

We have audited the financial statements of Cornerstone Co-operative (the "Co-operative"), which comprise the balance sheet as at January 31, 2020, and the statements of net savings and retained savings, 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 Co-operative as at January 31, 2020, 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 Co-operative 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 Co-operative'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 Co-operative or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Co-operative'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 Co-operative'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 Co-operative'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 Co-operative 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.

Edmonton, Alberta

April 23, 2020

*MNP LLP*

Chartered Professional Accountants

**MNP**

**Cornerstone Co-operative**  
**Balance Sheet**  
**As at January 31, 2020**

	<b>2020</b>	<b>2019</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,528,205	\$ 1,899,794
Accounts receivable - Customer (Note 5)	7,342,149	6,721,548
- Other	77,151	158,718
Income taxes recoverable	1,701,298	1,191,444
Inventories	17,076,457	16,250,515
Prepaid expenses	293,919	273,813
Current portion long-term receivable (Note 6)	64,241	6,043
	<u>29,083,420</u>	<u>26,501,875</u>
<b>Long-term receivable (Note 6)</b>	60,058	3,780
<b>Investments</b>		
Federated Co-operatives Limited (Note 4(a))	22,429,207	20,454,127
Other organizations	65,894	63,481
<b>Property, plant and equipment (Note 7)</b>	49,747,987	48,174,945
<b>Goodwill (Note 8)</b>	126,902	-
<b>Total assets</b>	<b>\$ 101,513,468</b>	<b>\$ 95,198,208</b>
<b>Current liabilities</b>		
Accounts payable and trust liabilities (Note 10)	\$ 15,704,154	\$ 11,915,871
Customer prepaid accounts	309,798	321,089
Current portion of long-term debt (Note 11)	5,157,138	3,779,683
	<u>21,171,090</u>	<u>16,016,643</u>
<b>Long-term debt (Note 11)</b>	10,662,500	10,498,433
<b>Asset retirement obligation (Note 4(b))</b>	104,152	101,352
<b>Total liabilities</b>	<u>31,937,742</u>	<u>26,616,428</u>
<b>Members' equity</b>		
Share capital (Note 12)	37,844,944	38,487,923
Reserves and retained savings (Note 13)	31,730,782	30,093,857
	<u>69,575,726</u>	<u>68,581,780</u>
<b>Total liabilities and members' equity</b>	<b>\$ 101,513,468</b>	<b>\$ 95,198,208</b>

Subsequent events (Note 18)

Commitments (Note 19)

Approved on behalf of the Board of Directors

*signed "Cliff Martin"*

\_\_\_\_\_  
Director

*signed "Keith Brower"*

\_\_\_\_\_  
Director

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



**Cornerstone Co-operative**  
**Statement of Net Savings and Statement of Retained Savings**  
**For the Year Ended January 31, 2020**

	2020	%	2019	%
<b>Sales</b> (Note 14)	\$ 169,545,597	100.0	\$ 178,907,378	100.0
<b>Cost of goods sold</b>	<u>143,825,053</u>	<u>84.8</u>	<u>153,642,201</u>	<u>85.9</u>
<b>Gross margin</b>	<u>25,720,544</u>	<u>15.2</u>	<u>25,265,177</u>	<u>14.1</u>
<b>Expenses</b>				
Operating and administration	31,941,544	18.8	30,637,072	17.1
Net interest (Note 15)	<u>365,033</u>	<u>0.2</u>	<u>246,600</u>	<u>0.1</u>
	<u>32,306,577</u>	<u>19.0</u>	<u>30,883,672</u>	<u>17.2</u>
<b>Loss from operations</b>	(6,586,033)	(3.8)	(5,618,495)	(3.1)
FCL loyalty program (Note 4(c))	<u>683,336</u>	<u>0.4</u>	<u>-</u>	<u>-</u>
<b>Local loss</b>	(5,902,697)	(3.4)	(5,618,495)	(3.1)
Patronage refunds	<u>9,877,999</u>	<u>5.8</u>	<u>12,612,523</u>	<u>7.0</u>
<b>Savings before income taxes</b>	3,975,302	2.4	6,994,028	3.9
Income tax expense (Note 17)	<u>177,550</u>	<u>0.1</u>	<u>738,181</u>	<u>0.4</u>
<b>Net savings</b>	<u><b>\$ 3,797,752</b></u>	<u>2.3</u>	<u><b>\$ 6,255,847</b></u>	<u>3.5</u>
<b>Retained savings, beginning of year</b>	<b>\$ -</b>		<b>\$ -</b>	
Net savings	3,797,752		6,255,847	
Transfer to general reserve (Note 13)	(1,636,925)		(3,393,505)	
Patronage allocation to members (Note 18)	<u>(2,160,827)</u>		<u>(2,862,342)</u>	
<b>Retained savings, end of year</b> (Note 13)	<u><b>\$ -</b></u>		<u><b>\$ -</b></u>	

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



**Cornerstone Co-operative**  
**Statement of Cash Flows**  
**For the Year Ended January 31, 2020**

	2020	2019
<b>Operating activities</b>		
Net savings	\$ 3,797,752	\$ 6,255,847
Adjustments for:		
Depreciation	4,391,258	3,975,595
Accretion	3,871	1,131
FCL patronage refund	(9,875,398)	(12,608,237)
Loss on the disposal of property, plant and equipment	174,259	43,418
Changes in non-cash operating working capital:		
Accounts receivable	(539,034)	1,785,689
Income taxes recoverable	(509,854)	(20,613)
Inventories	(825,942)	550,725
Prepaid expenses	(20,106)	5,624
Long-term receivable	(114,476)	15,057
Accounts payable and trust liabilities	3,788,283	1,113,246
Customer prepaid accounts	(11,291)	(375,091)
Asset retirement obligation	(9,313)	(2,738)
Cash provided by operating activities	<u>250,009</u>	<u>739,653</u>
<b>Investing activities</b>		
Redemption of FCL shares	7,900,318	10,086,590
Additions to property, plant and equipment	(6,219,292)	(4,549,165)
Additions to goodwill	(126,902)	-
Proceeds from the disposal of property, plant and equipment	88,975	355,201
Investment in other organizations	(2,413)	(834)
Cash provided by investing activities	<u>1,640,686</u>	<u>5,891,792</u>
<b>Financing activities</b>		
Increase in long-term debt	104,916	745,299
Repayment of long-term debt	(300,891)	(3,842,183)
Change in line of credit	1,737,497	-
Share capital issued	16,680	16,590
GST on allocation	97,594	58,264
Redemption of share capital	(2,918,080)	(2,481,311)
Cash used for financing activities	<u>(1,262,284)</u>	<u>(5,503,341)</u>
<b>Net increase in cash and cash equivalents</b>	<b>628,411</b>	<b>1,128,104</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>1,899,794</b>	<b>771,690</b>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 2,528,205</u></b>	<b><u>\$ 1,899,794</u></b>

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



**Cornerstone Co-operative**  
**Notes to the Financial Statements**  
**For the Year Ended January 31, 2020**

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**1. Incorporation and operations**

Cornerstone Co-operative ("the Co-operative") was incorporated under the Co-operatives Act of Alberta on January 29, 2017 following the amalgamation of St. Paul & District Co-operative Association Limited (incorporated May 6, 1932) and Eastalta Co-op Ltd. (incorporated June 5, 1969). The primary business of the Co-operative is operating hardware, food, and petroleum outlets in St. Paul and Vermillion, Alberta and area.

**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, plant and equipment, impairment of long-lived assets, goodwill, income taxes, asset retirement obligations, accrued liabilities, and potential contingencies. 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 the Saturday closest to January 31.

**(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 a weighted average formula, 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.

**(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).



**Cornerstone Co-operative**  
**Notes to the Financial Statements**  
**For the Year Ended January 31, 2020**

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**(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, which are subsequently measured at amortized cost, are adjusted by transaction and financing costs incurred on acquisition.

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:

Pavement & dykes	Declining balance	8%
Buildings	Straight-line	3 to 25 years
Tanks & fences	Declining balance	10%
Furniture & equipment	Declining balance	20%
Vehicles	Declining balance	30%
Computer equipment	Straight-line & declining balance	5 years, 45% to 100%

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) Asset retirement obligation**

The Co-operative has a liability for an asset retirement obligation in the period in which a legal liability is incurred. The liability is based on management's best estimate. The liability is subsequently adjusted for the passage of time, which is recognized as an accretion expense in the statement of operations. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. Actual costs incurred upon settlement of the asset retirement obligations are charged against the asset retirement obligation to the extent of the liability recorded.



**Cornerstone Co-operative**  
**Notes to the Financial Statements**  
**For the Year Ended January 31, 2020**

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**(h) 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 members at the time it has been approved by the Board of Directors.

**(i) Revenue recognition**

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

**(j) 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.

**(k) Goodwill**

Goodwill resulting from business combinations represents the portion of the purchase price that was in excess of the fair value of the net identifiable assets acquired. Goodwill is not amortized and is tested for impairment whenever changes in circumstances indicate that the carrying amount of the reporting unit to which goodwill is assigned exceeds the fair value of the reporting unit. If the carrying value of the reporting unit to which goodwill has been assigned exceeds its fair value, then, with respect to the reporting unit's goodwill, any excess of its carrying value over its fair value is expensed. Impairment losses relating to goodwill cannot be reversed in future years.

**(l) Business combinations**

Business combinations are accounted for using the acquisition method. The application of this method requires certain estimates and assumptions especially concerning the determination of the fair value of the acquired intangible assets, property, plant and equipment, as well as the liabilities assumed at the date of the acquisition, based on information available at that date.

At the acquisition date, the Co-operative recognizes, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the subsidiary. Identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair values. Any non-controlling interest in a subsidiary is measured either at fair value or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets.

The consideration transferred for each acquisition is measured as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred, and equity instruments issued by the Co-operative to obtain control of the subsidiary.



**Cornerstone Co-operative**  
**Notes to the Financial Statements**  
**For the Year Ended January 31, 2020**

**3. Financial instruments and risk management**

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

**(a) Credit risk**

The Co-operative is exposed to credit risk on accounts receivable from its customers. The Co-operative manages credit risk through an active credit management program. The Co-operative does not have a significant exposure to any individual customer.

**(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 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.

**(c) Liquidity risk**

Liquidity risk is the risk that the Co-operative will encounter difficulty in meeting obligations associated with financial liabilities. The Co-operative is exposed to liquidity risk arising primarily from the current obligations. The Co-operative's ability to meet obligations depends on funds generated by its operations.

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

**(a) 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, 2019, the Co-operative purchased goods amounting to \$123,957,165 (2018 - \$129,318,044) 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:

	2020	2019
Opening investment balance	\$ 20,454,127	\$ 17,932,480
Patronage refund	9,875,398	12,608,237
Share redemptions	<u>(7,900,318)</u>	<u>(10,086,590)</u>
Closing investment balance	<u>\$ 22,429,207</u>	<u>\$ 20,454,127</u>



**Cornerstone Co-operative**  
**Notes to the Financial Statements**  
**For the Year Ended January 31, 2020**

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**(b) 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 eight sites 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. As of January 31, 2020, the Co-operative has accrued a liability in the amount of \$104,152 (2019 - \$101,352). A corresponding amount has been capitalized as an asset retirement cost and added to the carrying value of tanks. For the year ended January 31, 2020, the Co-operative has recorded \$3,871 in accretion expense (2019 - \$1,131).

**(c) Purchase commitments**

(i) 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 and cardlock operations over a ten year period commencing from November 2010. Failure to meet this commitment would require the Co-operative to immediately pay outstanding gas bar and cardlock loan balances owed to FCL, plus repay any gas bar and cardlock grants received, including interest on the grants compounded annually at 10% from the grant date. Total grants received during this period amounted to approximately \$4,243,136 (2019 - \$5,475,133). Management intends to fulfill all existing contracts with FCL.

(ii) Under the terms of the agreement with FCL, the Co-operative has committed to purchase petroleum products, at market price, from the FCL corporate bulk plant over a ten year period commencing from September 2010. Failure to meet this commitment would require the Co-operative to pay a portion of the capital costs of the bulk plant to FCL determined by a formula based upon usage. Management intends to fulfill all existing contracts with FCL.

(iii) Under the terms of the agreement with FCL, the Co-operative has committed to purchase (food and food-related/pharmacy/home centre) products, from FCL and continue to operate certain food/pharmacy/home centre stores over a ten year period commencing from November 2017. Failure to meet this commitment would require the Co-operative to repay the assistance received on a prorated basis. Total assistance that would be repayable if commitments were not met without FCL approval amounted to \$1,493,711 as at January 31, 2020 (2019 - \$1,493,711). Management intends to fulfill all commitments with FCL.

(iv) Under the terms of the agreement with FCL, the Co-operative has committed to purchase at least 90% of its total goods from FCL and commits, to the best of its ability, to use FCL's services. If the eligibility requirements are met, FCL will pay the Co-operative, on a quarterly basis, a Loyalty Payment based on cents per litre.

**5. Accounts receivable - customer**

Shown net of an allowance for doubtful accounts of \$307,367 (2019 - \$637,503).



**Cornerstone Co-operative**  
**Notes to the Financial Statements**  
**For the Year Ended January 31, 2020**

**6. Long-term receivable**

	Total	2020 Current Portion	2020 Deferred Portion	2019 Current Portion	2019 Deferred Portion
Tank receivable	\$ 124,299	\$ 64,241	\$ 60,058	\$ 6,043	\$ 3,780

The Co-operative has long-term interest free receivables covering petroleum tank equipment which are recoverable over three years. The receivables are secured by the petroleum tank equipment.

**7. Property, plant and equipment**

	Original Cost	Accumulated Depreciation	2020 Book Value	2019 Book Value
Land	\$ 7,103,872	\$ -	\$ 7,103,872	\$ 7,064,738
Pavement & dykes	6,379,161	1,883,018	4,496,143	2,300,201
Buildings	32,752,129	5,820,973	26,931,156	28,159,725
Tanks & fences	117,401	52,534	64,867	72,075
Furniture & equipment	16,071,646	7,240,677	8,830,969	8,116,447
Vehicles	3,858,760	2,598,839	1,259,921	1,289,211
Computer equipment	2,438,973	1,426,006	1,012,967	1,010,316
Asset retirement cost	83,257	35,165	48,092	38,696
Assets under construction	-	-	-	123,536
	<u>\$ 68,805,199</u>	<u>\$ 19,057,212</u>	<u>\$ 49,747,987</u>	<u>\$ 48,174,945</u>

Depreciation for the current year included in operating and administration expense was \$4,391,258 (2019 - \$3,975,595).

**8. Goodwill**

The changes in the carrying amount of goodwill for current year are as follows:

	2020	2019
Balance, beginning of year	\$ -	\$ -
Additions to goodwill	126,902	-
Impairment losses	-	-
Balance, end of year	<u>\$ 126,902</u>	<u>\$ -</u>



**Cornerstone Co-operative**  
**Notes to the Financial Statements**  
**For the Year Ended January 31, 2020**

**9. Line of credit**

The Co-operative has a \$1,000,000 line of credit with Servus Credit Union of which no amount has been drawn as at January 31, 2020 (2019 - \$nil). The line of credit is secured by a Business Security Agreement and a General Security Agreement. Interest on the line of credit is prime plus 1.0%.

**10. Accounts payable and trust liabilities**

	<b>2020</b>	2019
FCL payables	\$ 13,661,772	\$ 9,891,841
Other payables	1,990,883	1,937,151
Trust liabilities:		
Payroll deductions	-	82,036
Goods and services tax	51,499	-
Workers Compensation Board	-	4,843
	<b>\$ 15,704,154</b>	<b>\$ 11,915,871</b>

**11. Long-term debt**

		<b>2020</b>	<b>2020</b>	2019	2019
	Total	Current Portion	Deferred Portion	Current Portion	Deferred Portion
FCL LOC <sup>(1)</sup>	\$ 15,518,747	\$ 4,856,247	\$ 10,662,500	\$ 3,531,250	\$ 10,250,000
FCL loan <sup>(2)</sup>	300,891	300,891	-	248,433	248,433
	<b>\$ 15,819,638</b>	<b>\$ 5,157,138</b>	<b>\$ 10,662,500</b>	<b>\$ 3,779,683</b>	<b>\$ 10,498,433</b>

<sup>(1)</sup> Vermillion food store/Wainwright liquor store, St. Paul home centre/food store, St. Paul gas bar, and Two Hills cardlock, loans bear interest at the prime rate of 3.95% (2019 - 3.95%) and are repayable via an annual reduction in available credit. The loans are subject to certain non-financial covenants. The Co-operative believes it is in compliance with these covenants as at year end and has been in compliance since the loan start dates. Security for the lines of credit is a General Security Agreement. The available credit per year is as follows:

	Vermillion food store/ Wainwright liquor store	St. Paul home centre/ food store	St. Paul gas bar	Two Hills cardlock	Total
2021	\$ 4,687,500	\$ 2,000,000	\$ 2,025,000	\$ 1,950,000	\$ 10,662,500
2022	3,125,000		1,350,000	1,300,000	5,775,000
2023	1,562,500		675,000	650,000	2,887,500



**Cornerstone Co-operative**  
**Notes to the Financial Statements**  
**For the Year Ended January 31, 2020**

<sup>(2)</sup> Vermillion carlock loan is repayable over the next year without interest. The remaining balance is due in November 2020. Security for the loan is a first security interest in the equipment purchases with a net book value of \$481,204 (2019 - \$604,091).

The loan is subject to certain measurable covenants. As at January 31, 2020, the Co-operative is in compliance with all such covenants.

The scheduled principal repayments on the long-term debt for the next four years are as follows:

2021	\$ 5,157,138
2022	4,887,500
2023	2,887,500
2024	<u>2,887,500</u>
	<u>\$ 15,819,638</u>

**12. Share capital**

Authorized, unlimited @ \$1	2020	2019
Balance, beginning of year	\$ 38,487,923	\$ 38,032,038
Allocation to members	2,160,827	2,862,342
Cash from new members	16,680	16,590
GST on allocation	97,594	58,264
	<u>40,763,024</u>	<u>40,969,234</u>
General repayment	1,613,962	1,157,738
Withdrawals and retirements	1,040,081	1,190,278
Withholding tax	264,037	133,295
	<u>2,918,080</u>	<u>2,481,311</u>
Balance, end of year	<u>\$ 37,844,944</u>	<u>\$ 38,487,923</u>

**13. Reserves and retained savings**

	General Reserve	Retained Savings	2020	2019
Balance, beginning of year	\$ 30,093,857	\$ -	\$ 30,093,857	\$ 26,700,352
Net savings distributed to retained savings	-	3,797,752	3,797,752	6,255,847
Patronage allocation	-	(2,160,827)	(2,160,827)	(2,862,342)
Reserve transfers	<u>1,636,925</u>	<u>(1,636,925)</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 31,730,782</u>	<u>\$ -</u>	<u>\$ 31,730,782</u>	<u>\$ 30,093,857</u>



**Cornerstone Co-operative**  
**Notes to the Financial Statements**  
**For the Year Ended January 31, 2020**

**14. Sales**

	<b>2020</b>	2019
Food division	\$ 74,578,300	\$ 69,229,747
Home centre division	13,154,545	15,411,455
Petroleum division	<u>81,812,752</u>	<u>94,266,176</u>
	<u><u>\$ 169,545,597</u></u>	<u><u>\$ 178,907,378</u></u>

All sales are to external customers and no single customer accounts for more than 10% of sales.

**15. Net interest**

	<b>2020</b>	2019
Interest expense on		
- Short-term debt	\$ 130,397	\$ 136,980
- Long-term debt	614,550	607,518
Interest revenue	<u>(379,914)</u>	<u>(497,898)</u>
	<u><u>\$ 365,033</u></u>	<u><u>\$ 246,600</u></u>

**16. 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 \$654,851 (2019 - \$625,497) of expense relating to the plan. There were no significant changes to the rate of employer contributions during the year.



**Cornerstone Co-operative**  
**Notes to the Financial Statements**  
**For the Year Ended January 31, 2020**

**17. 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:

	<b>2020</b>	2019
Savings before income taxes	\$ 3,975,302	\$ 6,994,028
Expected income tax expense at the combined tax rate of 26.2% (2019 - 27.0%) net of the small business deduction/general rate reduction	1,041,529	1,888,388
Increase (decrease) in income tax expense resulting from:		
Non-taxable income and non-deductible expense	41,918	14,968
Patronage allocation to members of \$2,160,827 (2019 - \$2,862,342)	(566,137)	(772,832)
Income or expenses claimed in different periods for income tax purposes:		
Capital cost allowance in excess of depreciation	(458,875)	(236,432)
Other items that impact income taxes:		
Patronage dividends available for carryforward	48,915	(154,315)
Prior year tax adjustment	<u>70,199</u>	<u>(1,596)</u>
Income tax expense	<u>\$ 177,550</u>	<u>\$ 738,181</u>

**18. Subsequent events**

**(a) Patronage allocation to members**

Subsequent to January 31, 2020 the Board of Directors approved a patronage allocation to members in the amount of \$2,160,827 (2019 - \$2,862,342).

**(b) COVID-19**

Subsequent to year-end, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Co-operative as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus



**Cornerstone Co-operative**  
**Notes to the Financial Statements**  
**For the Year Ended January 31, 2020**

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**19. Commitments**

The Co-operative is committed to the completion of a gas bar upgrade in Vermillion Alberta. The estimated total cost of the project is \$400,000 of which \$30,000 has been paid. This project will be financed from operations.

**20. Operating leases**

The Co-operative is committed to operating leases. Total minimum lease payments are as follows:

2021	\$	138,708
2022		103,658
2023		84,800
2024		84,800
2025		84,800
		<hr/>
	\$	<u>496,766</u>



**Cornerstone Co-operative**  
**Statistical Information**  
**For the Year Ended January 31, 2020**

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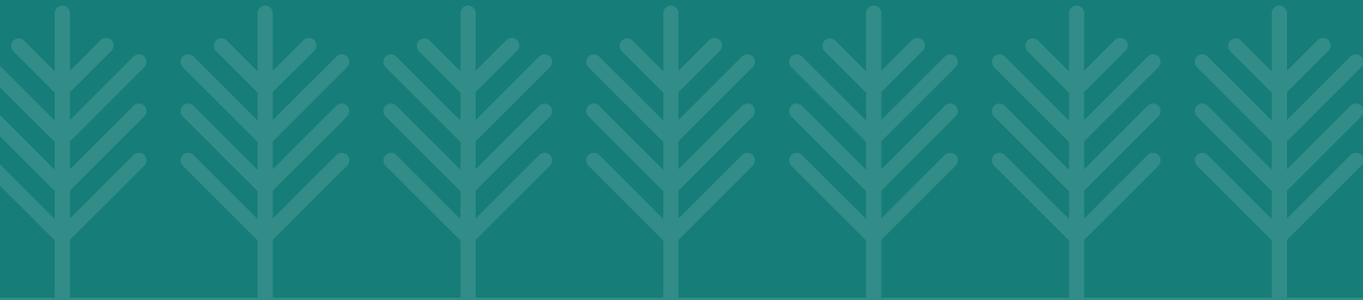
**Record of Sales and Net Savings**

	<u>Year</u>	<u>Sales</u>	<u>Net Savings <sup>(1)</sup></u>	<u>%</u>
From Date of Incorporation, May 6, 1932, to January 31,	2011	\$ 924,548,750	\$ 44,968,826	4.9
	2012	81,509,520	6,160,585	7.6
	2013	87,720,403	6,630,845	7.6
	2014	99,173,089	7,113,236	7.2
	2015	107,153,529	6,030,297	5.6
	2016	88,165,368	4,109,911	4.7
	2017	83,745,484	2,599,374	3.1
	2018	167,037,409	8,777,409	5.3
	2019	178,907,378	6,255,847	3.5
	2020	169,545,597	3,797,752	2.3
		<u>\$ 1,987,506,527</u>	<u>\$ 96,444,082</u>	<u>4.9</u>

<sup>(1)</sup> 2010 and prior years - savings is before income taxes and patronage refund to members.







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