



Cornerstone Co-operative

# 2020 Annual Report

# WE ARE : CO-OP



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# President's Message

How proud I am to be a part of an organization where our people led the way in our communities, continued operations, while focused on protecting our employees, customers, and communities? I want to start off by thanking our entire Cornerstone Team of champions for their efforts and resiliency in 2020.

A Co-op is not a building. It's not a grocery store, it's not a gas station. A Co-op is a group of people who come together and build up their community. To help their neighbours, to make a difference, and so they start local businesses that are member owned. They support businesses that are locally owned.

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 and invested to our communities.

Cornerstone Co-op and our communities were there for each other, in a time of difficulty. We came together to benefit the communities. It's our time to shine, and build upon of efforts and success.

Let us remember the lessons of 2020 and go forward with the purpose of **Making Life Better in our Communities**. We'll continue to do what is challenging and position this Co-op for the future.

**Cliff Martin**

Board President

# Directors

**Cliff Martin**

President

**Keith Brower**

Vice-President

**Don Zarowny**

Director

**Cole Jackson**

Corporate Secretary

**Ron Boisvert**

Director

**Terry Holmgren**

Director

**Justin Anderson**

Director

**Ken Wasmuth**

Director

**Doug Zarowny**

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 & 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

2020 was an incredible year filled with challenges, uncertainties, triumphs, and accomplishments. I am so proud of how our team adapted, and how our owners and communities responded.

We pivoted, embraced innovation, and lived our values of teamwork, commitment, and integrity.

Despite the challenges of 2020, our team consistently demonstrated heroic acts through executing our commitment to our communities through living our Cornerstone Co-op Purpose statement of **Making Life Better in our Communities**.

Our team, united as one, proved that Cornerstone Co-op is a different kind of business that provides a positive and memorable experience for all customers in a safe, clean, familiar,

stable and transparent environment.

The entire customer experience was a complete evolution. Throughout 2020, the only constant, other than change, was the support, the trust, and the understanding displayed by our communities, our owners, and customers. Cornerstone Co-op is well positioned for the future. We have proven we are resilient community builders and leaders, just like we have been for over 100 years.

We thought differently, challenged assumptions, and relied on one another. To our talented Team, and the amazing Owners of Cornerstone Co-op, thank you for our 2020.

**Graham Getz**  
General Manager

## Operations Highlights

2020 established that our operational leaders are resilient and committed to Co-op's values, mission and vision. The support received from our member-owners reaffirmed that our local roots, and ability to adapt and react to the delivery of essential services, truly makes lives better in our communities.

Our front-line Team rose to the challenge of epic proportions. We kept our food shelves full considering supply and distribution was under extreme duress for several months. We sourced treated wood and other building materials despite the demand exceeding the supply during the construction season. Our fuel locations retained fuel despite a labour disruption that effected supply from our Co-op Refinery for the first several months of the year.

Despite confirmed COVID cases at locations throughout our pandemic, we were able to keep services intact and locations open to serve our Owners by collaborating and sharing our talent from other stores and sometimes other Divisions. All the while doing our best at being transparent and open in our communications with you, our Owners.

Your Co-op adjusted to the changing environment to serve you best. The introduction of online shopping and curbside pick-up through shop.crs in the Food Store and call-in requests in the Home Centres, alongside our traditional home delivery, allowed members to have a convenient alternative to shopping in store.

In May, all 3 of our gas bars completed transitions to 24 Hour Pay at the Pump and able to serve all customers all grades of quality Co-op fuels at our Gas Bar 24hrs a day, 7 days a week. When demand for flu shots in the fall rose, and we got creative and safely executed a drive-through flu shot clinic. We will continue to enhance our online shop experiences for the future.

In May we opened a Booster Juice franchise inside our Vermilion Gas Bar that was very well received, amid a slow economy and pandemic. At Co-op, we strive for viable growth and expansion opportunities to keep our member-owners serviced and satisfied. Our business model endeavours to offer diversity in product that keeps us relevant for the next 100 years.

**Kory Kralkay**  
Director of Operations

# Talent & Culture Highlights

The Talent and Culture Team provided support to our team during the many COVID-19 workplace challenges. Our participation in the Pandemic Team included the development and implementation of new and unique processes and programs and we quickly pivoted to deliver several Team Appreciation initiatives in new ways, for example.

In addition to the extraordinary challenges of 2020, three significant Talent and Culture initiatives this year included:

- The administration of our bi-annual Employee Engagement Survey, which was followed up with guiding the Team Leaders in developing and documenting action plans to guide
- ongoing employee engagement improvements

- The successful completion of our Safety COR (Certificate of Recognition) external audit with our safety association and,
- All Team Leaders at Cornerstone participated in the Inspire Leadership Training programs offered virtually by FCL. This program is to support and develop all levels of leadership to ensure we are building strong teams to positively impact the customer and the employee experiences within our organization now and in the future.

**Judy Grimwood**  
Director of Talent & Culture

# Finance Highlights

Our 2020 fiscal year is a story of navigating the complexities of the global pandemic. The year unfolded with unprecedented decreases in fuel sales at our service stations and cardlocks due to the imposed lockdowns. The decrease in fuel sales were offset with increased Food, Building Materials and Liquor sales as our community members stayed closer to home.

Financial highlights for 2020 include:

- Total sales in 2020 of \$162.7 million (\$169.5 million last year)
- Net savings before taxes in 2020 were \$6,383,000 (\$3,975,000 last year)
- Patronage allocation to our owners in the amount of \$2,519,000 (\$2,160,000 last year)

- Co-op Equity paid in cash to our owners in 2020 was \$2,574,000 (\$2,918,000 last year)
- Patronage allocation and loyalty payments from FCL in 2020- \$5.208 million (\$10.561 million last year)

Despite the reduction in revenue from our wholesaler and increased expenses incurred due to COVID, our entire team worked very hard to minimize the impact. This is reflected in our earnings improvement over 2019. I would like to thank all the Cornerstone team for a job well done and we are sincerely grateful to our owners for their patience and support in 2020. Stay safe!

**Brad Belton**  
Director of Finance

# Ownership Returns

Allocation is based upon 2020 financial results and 2020 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 2020 equity allocation percentages are:

**4.0%**  
Propane & Oil

**3.5%**  
Dyed Diesel

**2.75%**  
Clear Fuel &  
Dyed Gasoline

**3.0%**  
Car Wash

**3.0%**  
Health Care

**1.25%**  
Food & Convenience,  
Home Centre

# Year in Review

## Making Life Better in our Communities



**BOOSTER JUICE  
VERMILION**



**BAGS FOR BREAKFAST**



**COMMUNITIES IN FULL  
COLOUR**



**BRAND DAY WITH  
DARCI LANG**



**GOLDEN HOUR  
SHOPPING**



**THANK YOU  
FARMERS**



**COVID-19  
PROTOCOLS**



**FUEL GOOD  
DAY**



**SCHOLARSHIPS**



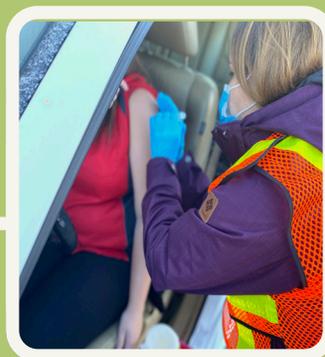
**HAYING IN THE 30'S  
VOLUNTEER SUPPER**



**SHOP.CRS**



**ZOOM WITH SANTA**

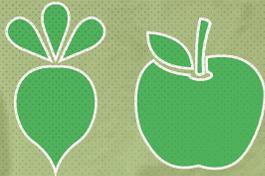


**DRIVE THRU FLU SHOTS**



**STATIONARY PARADE**

# SUSTAINABILITY HIGHLIGHTS



**\$76,000**  
of food donated  
to Food Banks  
in 2020



Recycled  
**472**  
**metric tons**  
of cardboard

**Loop**



Diverted  
**83%** of  
waste  
from landfills



**Over \$2700** raised  
on Fuel Good Day!



**Bags for  
Breakfast**

**\$25,000** to breakfast  
& lunch programs at 29  
community schools



**\$72,900** in donations,  
supporting **75** groups



More than **450**  
team members



**\$18.6 million** in salaries  
and benefits invested back  
into local economies



Invested **\$31.5M** in  
world class facilities &  
assets since 2016



Over **350** Alberta  
sourced products  
from vendor partners

Locally Invested  
Community-Minded  
Lifetime Benefits

Cornerstone Co-operative

# 2020 Annual Report

*You're at home here.*



## 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 and ensuring all information in the annual report is consistent with the statements. 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 22, 2021

*signed by "Graham Getz"*

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General Manager

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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, 2021, 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, 2021, 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.

## Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

## 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 22, 2021

*MNP LLP*

Chartered Professional Accountants

**Cornerstone Co-operative**  
**Balance Sheet**  
**As at January 31, 2021**

	<b>2021</b>	<b>2020</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,271,382	\$ 2,528,205
Accounts receivable - Customer (Note 5)	4,286,870	7,342,149
- Other	789,856	77,151
Income taxes recoverable	-	1,701,298
Inventories	16,599,408	17,076,457
Prepaid expenses	276,407	293,919
Current portion long-term receivable (Note 6)	94,602	64,241
	<u>24,318,525</u>	<u>29,083,420</u>
<b>Long-term receivable</b> (Note 6)	149,800	60,058
<b>Investments</b>		
Federated Co-operatives Limited (Note 4(a))	22,653,878	22,429,207
Other organizations	68,011	65,894
<b>Property, plant and equipment</b> (Note 7)	45,836,647	49,747,987
<b>Goodwill</b> (Note 8)	126,902	126,902
<b>Total assets</b>	<b>\$ 93,153,763</b>	<b>\$ 101,513,468</b>
<b>Current liabilities</b>		
Accounts payable and trust liabilities (Note 10)	\$ 10,007,835	\$ 15,704,154
Income taxes payable	459,320	-
Customer prepaid accounts	145,371	309,798
Current portion of long-term debt (Note 11)	4,052,066	5,157,138
	<u>14,664,592</u>	<u>21,171,090</u>
<b>Long-term debt</b> (Note 11)	5,743,741	10,662,500
<b>Asset retirement obligation</b> (Note 4(b))	119,984	104,152
<b>Total liabilities</b>	<u>20,528,317</u>	<u>31,937,742</u>
<b>Members' equity</b>		
Share capital (Note 12)	37,874,857	37,844,944
Reserves and retained savings (Note 13)	34,750,589	31,730,782
	<u>72,625,446</u>	<u>69,575,726</u>
<b>Total liabilities and members' equity</b>	<b>\$ 93,153,763</b>	<b>\$ 101,513,468</b>
Subsequent event (Note 20)	-	

Approved on behalf of the Board of Directors

signed by "Cliff Martin"

\_\_\_\_\_  
 Director

signed by "Ken Wasmuth"

\_\_\_\_\_  
 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, 2021**

	2021	%	2020	%
<b>Sales</b> (Note 14)	\$ 162,769,464	100.0	\$ 169,545,597	100.0
<b>Cost of goods sold</b>	<u>132,251,014</u>	<u>81.3</u>	<u>143,825,053</u>	<u>84.8</u>
<b>Gross margin</b>	<u>30,518,450</u>	<u>18.7</u>	<u>25,720,544</u>	<u>15.2</u>
<b>Expenses</b>				
Operating and administration	29,294,945	18.0	31,941,544	18.8
Net interest (Note 16)	<u>50,076</u>	<u>-</u>	<u>365,033</u>	<u>0.2</u>
	<u>29,345,021</u>	<u>18.0</u>	<u>32,306,577</u>	<u>19.0</u>
<b>Savings (loss) from operations</b>	1,173,429	0.7	(6,586,033)	(3.8)
FCL loyalty program (Note 4(c)(iv))	2,961,233	1.8	683,336	0.4
Patronage refunds	<u>2,248,847</u>	<u>1.4</u>	<u>9,877,999</u>	<u>5.8</u>
<b>Savings before income taxes</b>	6,383,509	3.9	3,975,302	2.4
Income tax expense (Note 18)	<u>843,720</u>	<u>0.5</u>	<u>177,550</u>	<u>0.1</u>
<b>Net savings</b>	<u><b>\$ 5,539,789</b></u>	<u>3.4</u>	<u><b>\$ 3,797,752</b></u>	<u>2.3</u>
<b>Retained savings, beginning of year</b>	<b>\$ -</b>		<b>\$ -</b>	
Net savings	5,539,789		3,797,752	
Transfer to general reserve (Note 13)	(3,019,807)		(1,636,925)	
Patronage allocation to members (Note 20)	<u>(2,519,982)</u>		<u>(2,160,827)</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, 2021**

	2021	2020
<b>Operating activities</b>		
Net savings	\$ 5,539,789	\$ 3,797,752
Adjustments for:		
Depreciation	4,297,889	4,391,258
Accretion	4,895	3,871
FCL patronage refund	(2,246,715)	(9,875,398)
Loss (gain) on the disposal of property, plant and equipment	(7,050)	174,259
Changes in non-cash operating working capital:		
Accounts receivable	2,342,574	(539,034)
Income taxes recoverable	1,701,298	(509,854)
Inventories	477,049	(825,942)
Prepaid expenses	17,512	(20,106)
Long-term receivables	(120,103)	(114,476)
Accounts payable and trust liabilities	(5,696,319)	3,788,283
Income taxes payable	459,320	-
Customer prepaid accounts	(164,427)	(11,291)
Asset retirement obligation	10,937	(9,313)
Cash provided by operating activities	<u>6,616,649</u>	<u>250,009</u>
<b>Investing activities</b>		
Redemption of FCL shares	2,022,044	7,900,318
Additions to property, plant and equipment	(395,160)	(6,219,292)
Additions to goodwill	-	(126,902)
Proceeds from the disposal of property, plant and equipment	15,661	88,975
Investment in other organization	(2,117)	(2,413)
Cash provided by investing activities	<u>1,640,428</u>	<u>1,640,686</u>
<b>Financing activities</b>		
Increase in long-term debt	-	104,916
Repayment of long-term debt	(300,891)	(300,891)
Change in line of credit	(5,722,940)	1,737,497
Share capital issued	13,780	16,680
GST on allocation	70,855	97,594
Redemption of share capital	(2,574,704)	(2,918,080)
Cash used for financing activities	<u>(8,513,900)</u>	<u>(1,262,284)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(256,823)	628,411
<b>Cash and cash equivalents, beginning of year</b>	<u>2,528,205</u>	<u>1,899,794</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 2,271,382</u></u>	<u><u>\$ 2,528,205</u></u>

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, 2021**

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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, Elk Point, Manville, Dewberry, Two Hills, Vermilion, Wainwright and Provost, 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, 2021**

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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%
Asset retirement cost	Straight-line	20 - 30 years

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, 2021**

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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. Patronage allocations are recognized in earnings when allocated to the Co-operative.

**(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.



**(m) Government assistance**

The Co-operative recognizes government assistance when there is a reasonable assurance that it will comply with the conditions required to qualify for the assistance, and that the assistance will be received. The Co-operative recognizes government assistance related to the Canada Emergency Wages Subsidy (“CEWS”) as a reduction to the expense which the assistance program is meant to fund.

**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 (2020 - no 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 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 and debt. The Co-operative's ability to meet obligations depends on funds generated by its operations.



**Cornerstone Co-operative**  
**Notes to the Financial Statements**  
**For the Year Ended January 31, 2021**

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**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, 2020, the Co-operative purchased goods amounting to \$112,958,858 (2019 - \$123,957,165) 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:

	<b>2021</b>	<b>2020</b>
Opening investment balance	\$ 22,429,207	\$ 20,454,127
Patronage refund	2,246,715	9,875,398
Share redemptions	<u>(2,022,044)</u>	<u>(7,900,318)</u>
Closing investment balance	<u><u>\$ 22,653,878</u></u>	<u><u>\$ 22,429,207</u></u>

**(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 nine 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 at January 31, 2021, the Co-operative has accrued a liability in the amount of \$119,984 (2020 - \$104,152). A corresponding amount has been capitalized as an asset retirement cost and added to the carrying value of tanks. Accretion for the current year included in operating and administration expense was \$4,895 (2020 - \$3,871).

**(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 February 2011. 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 \$2,716,470 (2020 - \$4,243,136). 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 for the Vermilion River corporate bulk plant, at market price, from the FCL corporate bulk plant over a ten year period commencing from July 2014. 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.



**Cornerstone Co-operative**  
**Notes to the Financial Statements**  
**For the Year Ended January 31, 2021**

(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, 2021 (2020 - \$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. The Loyalty Payment revenue is accrued as earned.

**5. Accounts receivable - customer**

Shown net of an allowance for doubtful accounts of \$299,130 (2020 - \$307,367).

**6. Long-term receivable**

	Total	2021 Current Portion	2021 Deferred Portion	2020 Current Portion	2020 Deferred Portion
Petroleum tanks	\$ 244,402	\$ 94,602	\$ 149,800	\$ 64,241	\$ 60,058

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

**7. Property, plant and equipment**

	Original Cost	Accumulated Depreciation	2021 Book Value	2020 Book Value
Land	\$ 7,103,872	\$ -	\$ 7,103,872	\$ 7,103,872
Pavement & dykes	6,395,992	2,243,382	4,152,610	4,496,143
Buildings	32,752,129	7,192,875	25,559,254	26,931,156
Tanks & fences	117,401	59,020	58,381	64,867
Furniture & equipment	16,328,069	9,031,488	7,296,581	8,830,969
Vehicles	3,769,217	2,852,976	916,241	1,259,921
Computer equipment	2,442,919	1,748,032	694,887	1,012,967
Asset retirement cost	94,194	39,373	54,821	48,092
	<u>\$ 69,003,793</u>	<u>\$ 23,167,146</u>	<u>\$ 45,836,647</u>	<u>\$ 49,747,987</u>

Depreciation for the current year included in operating and administration expense was \$4,297,889 (2020 - \$4,391,258).



**Cornerstone Co-operative**  
**Notes to the Financial Statements**  
**For the Year Ended January 31, 2021**

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**8. Goodwill**

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

	<b>2021</b>	2020
Balance, beginning of year	\$ 126,902	\$ -
Additions to goodwill	-	126,902
Balance, end of year	<u>\$ 126,902</u>	<u>\$ 126,902</u>

**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, 2021 (2020 - \$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% (3.45%) (2020 - 4.95%).

**10. Accounts payable and trust liabilities**

	<b>2021</b>	2020
FCL payables	\$ 7,042,409	\$ 13,661,772
Other payables	2,371,479	1,990,883
Trust liabilities:		
Payroll deductions	162,376	-
Goods and services tax	-	51,499
Workers Compensation Board	185,683	-
Federal fuel charge	245,888	-
	<u>\$ 10,007,835</u>	<u>\$ 15,704,154</u>



**Cornerstone Co-operative**  
**Notes to the Financial Statements**  
**For the Year Ended January 31, 2021**

**11. Long-term debt**

	Total	2021 Current Portion	2021 Deferred Portion	2020 Current Portion	2020 Deferred Portion
FCL LOC <sup>(1)</sup>	\$ 9,795,807	\$ 4,052,066	\$ 5,743,741	\$ 4,856,247	\$ 10,662,500
FCL loan <sup>(2)</sup>	-	-	-	300,891	-
	<u>\$ 9,795,807</u>	<u>\$ 4,052,066</u>	<u>\$ 5,743,741</u>	<u>\$ 5,157,138</u>	<u>\$ 10,662,500</u>

<sup>(1)</sup> Vermilion 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 2.45% (2020 - 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 January 31, 2021 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:

	Vermilion food store/ Wainwright liquor store	St. Paul gas bar	Two Hills cardlock	Total
2022	\$ 3,125,000	\$ 1,350,000	\$ 1,300,000	\$ 5,775,000
2023	1,562,500	675,000	650,000	2,887,500

<sup>(2)</sup> Vermilion cardlock loan was paid in full during 2020.

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

2022	\$ 4,052,066
2023	2,887,500
2024	<u>2,856,241</u>
	<u>\$ 9,795,807</u>



**Cornerstone Co-operative**  
**Notes to the Financial Statements**  
**For the Year Ended January 31, 2021**

**12. Share capital**

	<b>2021</b>	<b>2020</b>
Authorized, unlimited @ \$1		
Balance, beginning of year	\$ 37,844,944	\$ 38,487,923
Allocation to members	2,519,982	2,160,827
Cash from new members	13,780	16,680
GST on allocation	70,855	97,594
	<u>40,449,561</u>	<u>40,763,024</u>
General repayment	1,209,962	1,613,962
Withdrawals and retirements	1,182,203	1,040,081
Withholding tax	182,539	264,037
	<u>2,574,704</u>	<u>2,918,080</u>
Balance, end of year	<u>\$ 37,874,857</u>	<u>\$ 37,844,944</u>

**13. Reserves and retained savings**

	<b>General Reserve</b>	<b>Retained Savings</b>	<b>2021</b>	<b>2020</b>
Balance, beginning of year	\$ 31,730,782	\$ -	\$ 31,730,782	\$ 30,093,857
Net savings distributed to retained savings	-	5,539,789	5,539,789	3,797,752
Patronage allocation	-	(2,519,982)	(2,519,982)	(2,160,827)
Reserve transfers	<u>3,019,807</u>	<u>(3,019,807)</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 34,750,589</u>	<u>\$ -</u>	<u>\$ 34,750,589</u>	<u>\$ 31,730,782</u>

**14. Sales**

	<b>2021</b>	<b>2020</b>
Food division	\$ 87,426,948	\$ 74,578,300
Home centre division	16,391,803	13,154,545
Petroleum division	<u>58,950,713</u>	<u>81,812,752</u>
	<u>\$ 162,769,464</u>	<u>\$ 169,545,597</u>

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



**Cornerstone Co-operative**  
**Notes to the Financial Statements**  
**For the Year Ended January 31, 2021**

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**15. Government assistance**

In response to the negative economic impact of COVID-19 the Government of Canada has announced the TWS program in March 2020 and the CEWS program in April 2020. CEWS provides wage subsidies on eligible remuneration, subject to limits per employee, to eligible employers based on certain criteria, which for CEWS includes demonstration of revenue declines as a result of COVID-19.

The Co-operative has determined that it has qualified for the CEWS. The Co-operative has applied for \$1,172,994, of which they received \$273,818 prior to year end. This has been reflected as a reduction to operating and administration expenses.

**16. Net interest**

	2021	2020
Interest expense on		
- Short-term debt	\$ 16,472	\$ 130,397
- Long-term debt	350,588	614,550
Interest revenue	<u>(316,984)</u>	<u>(379,914)</u>
	<u>\$ 50,076</u>	<u>\$ 365,033</u>

**17. 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 \$626,715 (2020 - \$654,851) 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, 2021**

**18. Income tax expense**

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>2021</b>	<b>2020</b>
Savings before income taxes	\$ 6,383,509	\$ 3,975,302
Expected income tax expense at the combined tax rate of 23.8% (2020 - 26.2%) net of the small business deduction	1,520,552	1,041,529
Increase (decrease) in income tax expense resulting from:		
Non-taxable income and non-deductible expense	(893)	41,918
Patronage allocation to members of \$2,519,982 (2020 - \$2,160,827)	(600,260)	(566,137)
Patronage carryforward claimed	(42,721)	-
Income or expenses claimed in different periods for income tax purposes:		
Capital cost allowance in excess of depreciation	(33,831)	(458,875)
Other items that impact income taxes:		
Patronage dividends available for carryforward	-	48,915
Prior year tax adjustment	873	70,199
Income tax expense	<b>\$ 843,720</b>	<b>\$ 177,550</b>

**19. Economic conditions**

During the year, 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.

**20. Subsequent event**

**Patronage allocation to members**

Subsequent to January 31, 2021 the Board of Directors approved a patronage allocation to members in the amount of \$2,519,982 (2020 - \$2,160,827).



**Cornerstone Co-operative**  
**Notes to the Financial Statements**  
**For the Year Ended January 31, 2021**

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**21. Operating leases**

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

2022	\$	136,202
2023		135,900
2024		140,006
2025		141,375
2026		56,575
Subsequent payments		14,144
		<hr/>
	\$	<u>624,202</u>



**Cornerstone Co-operative**  
**Audited Statistical Information**  
**For the Year Ended January 31, 2021**

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**Record of Sales and Net Savings**

	<u>Year</u>	<u>Sales</u>	<u>Net Savings</u>	<u>%</u>
From Date of Incorporation, May 6, 1932, to January 31,	2012	\$ 1,006,058,270	\$ 51,129,411	5.1
	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
	2021	162,769,464	5,539,789	3.4
		<u>\$ 2,150,275,991</u>	<u>\$ 101,983,871</u>	<u>4.7</u>





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