



ANNUAL REPORT

Management's Responsibility

To the Members of The Saskatoon Co-operative Association Limited:

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.

May 27, 2019



Chief Executive Officer

Independent Auditor's Report

To the Members of The Saskatoon Co-operative Association Limited:

Opinion

We have audited the financial statements of The Saskatoon Co-operative Association Limited (the "Co-operative"), which comprise the balance sheet as at January 31, 2019, and the statements of net savings, 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, 2019, 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.

Report on Other Legal and Regulatory Requirements

As required by paragraph 11 of the Co-operatives Regulations, 1998, we report that, in our opinion, Canadian accounting standards for private enterprises have been applied on a basis consistent with that of the preceding year.

Saskatoon, Saskatchewan

May 27, 2019

MNP LLP

Chartered Professional Accountants

The Saskatoon Co-operative Association Limited

Balance Sheet

As at January 31, 2019

	2019	2018
Current assets		
Cash and cash equivalents	\$ 889,272	\$ 440,103
Accounts receivable (Note 4)	10,140,313	5,779,253
Income taxes recoverable	1,469,651	1,888,276
Inventories (Note 6)	37,480,076	30,457,360
Prepaid expenses	960,555	1,403,387
	50,939,867	39,968,379
Investments		
Federated Co-operatives Limited (Note 5(a))	53,359,291	46,008,521
Property, plant and equipment (Note 7)	148,122,276	145,887,147
Goodwill (Note 8)	11,930,111	11,930,111
Intangible assets (Note 9)	2,844,176	2,262,063
Total assets	\$ 267,195,721	\$ 246,056,221
Current liabilities		
Accounts payable and trust liabilities (Note 11)	\$ 36,610,355	\$ 49,420,084
Customer prepaid accounts	1,761,080	1,512,047
Current portion of long-term debt (Note 12)	296,785	393,619
	38,668,220	51,325,750
Long-term debt (Note 12)	27,580,000	13,643,617
Total liabilities	66,248,220	64,969,367
Members' equity		
Share capital (Note 13)	97,160,536	90,998,019
Reserves and retained savings (Note 14)	103,786,965	90,088,835
	200,947,501	181,086,854
Total liabilities and members' equity	\$ 267,195,721	\$ 246,056,221
Commitments (Note 5(c))		
Subsequent events (Note 22)		
Contingency (Note 23)		

Approved on behalf of the Board of Directors



Director



Director

The accompanying notes are an integral part of these financial statements



The Saskatoon Co-operative Association Limited
Statement of Net Savings and Statement of Retained Savings
For the Year Ended January 31, 2019

	2019	%	2018	%
Sales (Note 15)	\$ 426,470,577	100.0	\$ 439,838,488	100.0
Cost of goods sold	<u>355,595,422</u>	<u>83.4</u>	<u>361,342,109</u>	<u>82.2</u>
Gross margin	<u>70,875,155</u>	<u>16.6</u>	<u>78,496,379</u>	<u>17.8</u>
Expenses				
Staff	44,639,796	10.5	48,877,188	11.1
Operating and administration	33,561,682	7.9	31,973,049	7.2
Net interest (Note 17)	<u>696,919</u>	<u>0.2</u>	<u>364,029</u>	<u>0.1</u>
	<u>78,898,397</u>	<u>18.6</u>	<u>81,214,266</u>	<u>18.4</u>
Loss from operations	(8,023,242)	(2.0)	(2,717,887)	(0.6)
Patronage refund (Note 5(a))	<u>30,059,986</u>	<u>7.0</u>	<u>15,585,504</u>	<u>3.5</u>
Savings before gain on amalgamation and income taxes	22,036,744	5.0	12,867,617	2.9
Gain from amalgamation (Note 21)	<u>4,213,076</u>	<u>1.0</u>	<u>-</u>	<u>-</u>
Savings before income taxes	26,249,820	6.0	12,867,617	2.9
Income taxes (Note 19)	<u>3,314,690</u>	<u>0.8</u>	<u>755,441</u>	<u>0.1</u>
Net savings	<u>\$ 22,935,130</u>	<u>5.2</u>	<u>\$ 12,112,176</u>	<u>2.8</u>
Retained savings, beginning of year	\$ -		\$ 786,345	
Net savings	22,935,130		12,112,176	
Transfer to statutory reserve (Note 14)	(1,324,743)		(643,381)	
Transfer to general reserve (Note 14)	(12,056,356)		(3,205,655)	
Patronage allocation to members (Note 22(a))	<u>(9,554,031)</u>		<u>(9,049,485)</u>	
Retained savings, end of year (Note 14)	<u>\$ -</u>		<u>\$ -</u>	

The accompanying notes are an integral part of these financial statements



The Saskatoon Co-operative Association Limited
Statement of Cash Flows
For the Year Ended January 31, 2019

	2019	2018
Operating activities		
Net savings	\$ 22,935,130	\$ 12,112,176
Adjustments for:		
Depreciation	10,203,291	9,313,627
Amortization of intangible asset	125,670	125,670
FCL patronage refund	(30,059,986)	(15,585,504)
Gain on the disposal of property, plant and equipment	(18,241)	(519)
Gain on amalgamation	(4,213,076)	-
Changes in non-cash operating working capital:		
Accounts receivable	(4,361,060)	5,058,216
Income taxes recoverable	418,625	(752,884)
Inventories	(7,022,716)	(4,107,887)
Prepaid expenses	442,832	779,425
Accounts payable and trust liabilities	(12,809,729)	11,701,642
Customer prepaid accounts	249,033	(198,666)
Net working capital acquired on amalgamation	374,091	-
Cash provided by (used for) operating activities	<u>(23,736,136)</u>	<u>18,445,296</u>
Investing activities		
Redemption of FCL shares	25,386,762	14,026,954
Additions to property, plant and equipment	(8,883,332)	(27,497,146)
Additions to intangible assets	(707,783)	-
Proceeds from the disposal of property, plant and equipment	72,395	26,780
Cash acquired on amalgamation	49,791	-
Cash provided by (used for) investing activities	<u>15,917,833</u>	<u>(13,443,412)</u>
Financing activities		
Increase in long-term debt	14,875,146	1,421,591
Repayment of long-term debt	(1,035,597)	(1,573,969)
Share capital issued	35,830	46,780
GST on allocation	311,447	359,946
Redemption of share capital	(5,919,354)	(6,471,172)
Cash provided by (used for) financing activities	<u>8,267,472</u>	<u>(6,216,824)</u>
Net increase (decrease) in cash and cash equivalents	449,169	(1,214,940)
Cash and cash equivalents, beginning of year	440,103	1,655,043
Cash and cash equivalents, end of year	<u>\$ 889,272</u>	<u>\$ 440,103</u>

The accompanying notes are an integral part of these financial statements



The Saskatoon Co-operative Association Limited

Notes to the Financial Statements For the Year Ended January 31, 2019

1. Incorporation and operations

The Saskatoon Co-operative Association Limited was incorporated under the Co-operatives Act of Saskatchewan on January 2, 1936 and The Watrous Co-operative Association Limited was incorporated under the Co-operatives Act of Saskatchewan on March 23, 1935. On August 19, 2018, the two co-operatives amalgamated to form The Saskatoon Co-operative Association Limited ("the Co-operative"). The primary business of the Co-operative is operating retail petroleum, food, home centre, agricultural and liquor outlets in Saskatoon, Saskatchewan 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, intangibles, income taxes, 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. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the most appropriate method for that particular inventory class.

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 Note 5.



The Saskatoon Co-operative Association Limited

Notes to the Financial Statements For the Year Ended January 31, 2019

2. Significant accounting policies (continued)

(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:

Buildings	Straight-line & declining balance	25 years or 4% - 10%
Leasehold improvements	Straight-line	5 - 22 years
Tanks	Declining balance	10% - 20%
Furniture & equipment	Declining balance	20% - 55%
Computer equipment	Straight-line	3 - 5 years
Pavement	Declining balance	8%
Vehicles	Declining balance	30%
Parking lot equipment	Declining balance	10%

Amortization for assets acquired from amalgamation was prorated for the period of use.

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.



The Saskatoon Co-operative Association Limited

Notes to the Financial Statements For the Year Ended January 31, 2019

2. Significant accounting policies (continued)

(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.

(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) Intangible assets

Intangible assets are carried at cost, less accumulated amortization and accumulated impairment losses, if any. Finite life intangible assets are tested for impairment when events or circumstances indicate the carrying value may not be recoverable. When the recoverable amount is less than the carrying value, an impairment loss is recognized in net savings for the year. Intangible assets, once functional, are amortized on a straight-line basis over their useful lives.



The Saskatoon Co-operative Association Limited

Notes to the Financial Statements For the Year Ended January 31, 2019

2. Significant accounting policies (continued)

(m) 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.

3. Financial instruments and risk management

The significant financial risks to which the Co-operative is exposed are credit risk, interest rate risk, liquidity risk, and commodity price 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 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 long-term debt. The Co-operative's ability to meet obligations depends on funds generated by its operations.



The Saskatoon Co-operative Association Limited

Notes to the Financial Statements For the Year Ended January 31, 2019

3. Financial instruments and risk management (continued)

(d) Commodity price risk

The Co-operative enters into transactions to purchase crop production products, for which market prices fluctuate. The nature of the Co-operative's activities exposes it to risk of changes in commodity prices related to crop inputs that may occur between the time products are received from the supplier and actual date of sale to customers. To mitigate a portion of this risk, the Co-operative enters into contracts with the supplier to purchase the product at specified prices.

4. Account receivable

	2019	2018
Customer accounts receivable	\$ 6,149,615	\$ 6,388,919
Other receivables	4,990,698	390,334
Allowance for doubtful accounts	<u>(1,000,000)</u>	<u>(1,000,000)</u>
	<u>\$ 10,140,313</u>	<u>\$ 5,779,253</u>

5. 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, 2018, the Co-operative purchased goods amounting to \$337,887,557 (2017 - \$286,991,648) 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:

	2019	2018
Opening investment balance	\$ 46,008,521	\$ 44,449,971
Patronage refund	30,059,986	15,585,504
FCL shares from The Watrous Co-operative Association Limited	2,677,546	-
Share redemptions	<u>(25,386,762)</u>	<u>(14,026,954)</u>
Closing investment balance	<u>\$ 53,359,291</u>	<u>\$ 46,008,521</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 19 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.

The Co-operative has one fertilizer site that is covered under the contaminated site management program established by FCL. Management cannot make a reasonable estimate of the future asset retirement obligation due to the uncertainty of the environmental impact from its fertilizer division.



The Saskatoon Co-operative Association Limited

Notes to the Financial Statements For the Year Ended January 31, 2019

5. Transactions with Federated Co-operatives Limited (FCL) (continued)

(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 April 2009. 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 \$25,734,165 (2018 - \$28,100,000).

(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 March 2009. 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.

(iii) Under the terms of the agreement with FCL, the Co-operative has committed to purchase food, pharmacy and food-related products from FCL and continue to operate certain food stores over periods of ten to thirty years depending on the specific contract. Failure to meet this commitment without FCL approval 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 as at January 31, 2019 amounted to \$8,000,000 (2018 - \$8,400,000).

(iv) Under the terms of the agreement with FCL, the Co-operative has committed to purchase fertilizer products, at market price, from FCL over a five year period commencing from July 2016. Failure to meet this commitment would require the Co-operative to pay a termination charge to FCL determined by a formula based on purchases and years remaining in the contract.

Management intends to fulfill all existing contracts with FCL.

(d) Management agreement

The Co-operative has a five year management agreement with FCL expiring on January 31, 2022. The agreement provides for the provision of management services, including business and financial planning and operational assistance, by FCL to the Co-operative. The cost to the Co-operative with respect to this agreement was \$488,523 (2018 - \$383,112).

6. Inventories

	2019	2018
Raw material	\$ 989,262	\$ -
Goods for resale	36,490,814	30,457,360
	<u>\$ 37,480,076</u>	<u>\$ 30,457,360</u>

The cost of inventories recognized as an expense during the year was \$355,578,115 (2018 - \$361,457,360).



The Saskatoon Co-operative Association Limited

Notes to the Financial Statements For the Year Ended January 31, 2019

7. Property, plant and equipment

	Original Cost	Accumulated Depreciation	2019 Book Value	2018 Book Value
Land	\$ 40,325,208	\$ -	\$ 40,325,208	\$ 32,824,272
Buildings	101,718,702	29,063,427	72,655,275	69,914,554
Leasehold improvements	9,239,439	1,993,249	7,246,190	6,545,527
Tanks	4,177,688	2,892,514	1,285,174	1,543,248
Furniture & equipment	51,830,165	33,060,628	18,769,537	16,515,651
Computer equipment	3,381,726	2,591,375	790,351	680,128
Pavement	9,490,670	3,561,859	5,928,811	5,340,667
Vehicles	3,820,940	2,804,300	1,016,640	860,783
Parking lot equipment	201,716	103,968	97,748	88,571
Under construction	7,342	-	7,342	11,573,746
	<u>\$ 224,193,596</u>	<u>\$ 76,071,320</u>	<u>\$ 148,122,276</u>	<u>\$ 145,887,147</u>

Depreciation for the current year included in operating and administration expense was \$10,203,291 (2018 - \$9,313,627).

8. Goodwill

The changes in the carrying amount of goodwill for January 31, 2019 are as follows:

	2019	2018
Balance, beginning of year	\$ 11,930,111	\$ 11,930,111
Impairment losses	-	-
Balance, end of year	<u>\$ 11,930,111</u>	<u>\$ 11,930,111</u>

9. Intangible assets

	Original Cost	Accumulated Amortization	2019 Book Value	2018 Book Value
Liquor permit	\$ 707,783	\$ -	\$ 707,783	\$ -
Market lease	2,764,743	628,350	2,136,393	2,262,063
	<u>\$ 3,472,526</u>	<u>\$ 628,350</u>	<u>\$ 2,844,176</u>	<u>\$ 2,262,063</u>

In 2018 the Co-operative purchased a commercial liquor permit that has an indefinite life.

Market lease with a definite life is amortized on a straight-line basis over 22 years. Amortization for the current year end, included in operating and administration expenses was \$125,670 (2018 - \$125,670).

10. Line of credit

The Co-operative has a \$1,000,000 line of credit of which no amount has been drawn as at January 31, 2019 (2018 - \$nil). The line of credit is secured by a General Security Agreement covering all present and after acquired property. Interest on the line of credit is at the prime rate of 3.95% (2018 - 3.45%).



The Saskatoon Co-operative Association Limited

Notes to the Financial Statements For the Year Ended January 31, 2019

11. Accounts payable and trust liabilities

	2019	2018
FCL payables	\$ 24,650,457	\$ 40,097,066
Other payables	11,642,525	8,735,260
Trust liabilities:		
Payroll deductions	24,593	437
Provincial sales tax	225,467	501,540
Liquor consumption tax	67,313	85,781
	\$ 36,610,355	\$ 49,420,084

12. Long-term debt

	2019	2019	2018	2018
Total	Current Portion	Deferred Portion	Current Portion	Deferred Portion
FCL ⁽¹⁾	\$ 27,580,000	\$ -	\$ 27,580,000	\$ -
FCL ⁽²⁾	296,785	296,785	-	296,764
FCL ⁽³⁾	-	-	-	96,854
	\$ 27,876,785	\$ 296,785	\$ 27,580,000	\$ 393,619
		\$ 27,580,000	\$ 393,619	\$ 13,643,617

⁽¹⁾ Warman Food, Centre Food 1, Centre Food 2, Westview Food, Martensville Food and Watrous Food Store loans bear interest at the prime rate of 3.95% (2018 - 3.45%) 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 have been in compliance since the loan start dates. The loans are unsecured. The available credit per year is as follows:

	Warman Food Store	Centre Food Store 1	Westview Food Store	Martensville Food Store	Centre Food Store 2
2020	\$ 6,000,000	\$ 11,484,000	\$ 17,500,000	\$ 9,000,000	\$ 9,900,000
2021	5,000,000	9,570,000	15,000,000	8,000,000	8,910,000
2022	4,000,000	7,656,000	12,500,000	7,000,000	7,920,000
2023	3,000,000	5,742,000	10,000,000	6,000,000	6,930,000
2024	2,000,000	3,828,000	7,500,000	5,000,000	5,940,000
2025	1,000,000	1,914,000	5,000,000	4,000,000	4,950,000
2026	-	-	2,500,000	3,000,000	3,960,000
2027	-	-	-	2,000,000	2,970,000
2028	-	-	-	1,000,000	1,980,000
2029	-	-	-	-	990,000
	Watrous Food Store	Total			
2020	\$ 700,000	\$ 54,584,000			
2021	-	46,480,000			
2022	-	39,076,000			
2023	-	31,672,000			
2024	-	24,268,000			
2025	-	16,864,000			
2026	-	9,460,000			
2027	-	4,970,000			
2028	-	2,980,000			
2029	-	990,000			



The Saskatoon Co-operative Association Limited

Notes to the Financial Statements For the Year Ended January 31, 2019

12. Long-term debt (continued)

⁽²⁾ Federated Co-operatives Limited Colonsay gas bar loan is repayable in annual instalments at \$296,765 without interest. The remaining balance is due in 2020. Security for this loan is a first security interest in the equipment purchased with a net book value of \$1,169,875.

⁽³⁾ Federated Co-operatives Limited Warman gas bar loan was fully paid in 2019.

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

2020	\$ 296,785
2021	-
2022	-
2023	-
2024	3,312,000
Subsequent payments	<u>24,268,000</u>
	<u>\$ 27,876,785</u>

13. Share capital

Authorized, unlimited @ \$1	2019	2018
Balance, beginning of year	\$ 90,998,019	\$ 88,139,743
Allocation to members	9,554,031	9,049,485
Cash from new members	35,830	46,780
New members from The Watrous Co-operative Association Limited	2,497,594	-
GST on allocation	311,447	359,946
Shares transferred from reserves	<u>12,970</u>	<u>10,724</u>
	<u>103,409,891</u>	<u>97,606,678</u>
General repayment	3,377,112	3,934,143
Shares transferred to reserves	330,001	137,487
Withdrawals and retirements	1,903,788	1,735,890
Withholding tax	<u>638,454</u>	<u>801,139</u>
	<u>6,249,355</u>	<u>6,608,659</u>
Balance, end of year	<u>\$ 97,160,536</u>	<u>\$ 90,998,019</u>



The Saskatoon Co-operative Association Limited
Notes to the Financial Statements
For the Year Ended January 31, 2019

14. Reserves and retained savings

	Statutory Reserve	General Reserve	Retained Savings	2019	2018
Balance, beginning of year	\$ 17,414,919	\$ 72,673,916	\$ -	\$ 90,088,835	\$ 86,899,381
Net savings distributed to retained savings	-	-	22,935,130	22,935,130	12,112,176
Patronage allocation	-	-	(9,554,031)	(9,554,031)	(9,049,485)
Shares transferred	317,031	-	-	317,031	126,763
Reserve transfers	1,324,743	12,056,356	(13,381,099)	-	-
Balance, end of year	<u>\$ 19,056,693</u>	<u>\$ 84,730,272</u>	<u>\$ -</u>	<u>\$ 103,786,965</u>	<u>\$ 90,088,835</u>

15. Sales

	2019	2018
Gas Bars	\$ 177,494,828	\$ 184,982,943
Food Stores	135,873,025	147,037,564
Ag and Petroleum	64,391,755	56,090,112
Home Centres	25,321,766	28,474,357
Liquor	18,312,665	19,097,990
Other	5,076,538	4,155,522
	<u>\$ 426,470,577</u>	<u>\$ 439,838,488</u>

The Co-operative's business operations consist of six segments. All sales are to external customers and no single customer accounts for more than 10% of sales.

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 \$1,684,394 (2018 - \$1,916,118) of expense relating to the plan. There were no significant changes to the rate of employer contributions during the year.



The Saskatoon Co-operative Association Limited

Notes to the Financial Statements For the Year Ended January 31, 2019

17. Net interest

	2019	2018
Interest expense on		
- Short-term debt	\$ 2,216	\$ 1,755
- Long-term debt	1,136,049	749,081
Interest revenue	<u>(441,346)</u>	<u>(386,807)</u>
	<u>\$ 696,919</u>	<u>\$ 364,029</u>

18. Lease to others

The Co-operative leases property, plant and equipment to others. The lease is classified as an operating lease and rental revenues are included in operating and administration expenses. The cost of the property, plant and equipment held for leasing purposes is \$12,559,521 (2018 - \$10,080,037) and the accumulated depreciation is \$3,900,807 (2018 - \$3,517,547). Revenue generated from operating leases is \$1,680,979 (2018 - \$1,846,469).

19. 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:

	2019	2018
Savings before income taxes	\$ 26,249,820	\$ 12,867,617
Expected income tax expense at the combined tax rate of 27% (2018 - 26.75%) net of the general rate reduction	7,087,451	3,442,088
Increase (decrease) in income tax expense resulting from:		
Non-taxable income and non-deductible expense	2,680	(2,080)
Patronage allocation to members of \$9,554,031 (2018 - \$9,049,485)	(2,579,588)	(2,420,737)
Gain on amalgamation	(1,137,531)	-
Income or expenses claimed in different periods for income tax purposes:		
Capital cost allowance in excess of depreciation	(4,787)	(254,377)
Reserves for accounting purposes	(8,060)	8,000
Other items that impact income taxes:		
Manufacturing and processing investment tax credit	(5,824)	(17,453)
Use of losses carried forward from prior years	(39,646)	-
Prior year adjustment	<u>(5)</u>	<u>-</u>
Income tax expense	<u>\$ 3,314,690</u>	<u>\$ 755,441</u>



The Saskatoon Co-operative Association Limited

Notes to the Financial Statements For the Year Ended January 31, 2019

20. Operating leases

The Co-operative has entered into contracts for the leasing of certain land and buildings. Lease terms expire between October 2020 and October 2037 with 5 year renewal options of one to four terms. Future committed minimum lease payments including anticipated lease payments on leases expected to be renewed, over the next five years amount to:

January 31, 2020	\$	2,257,075
2021		2,260,541
2022		2,263,605
2023		2,266,761
2024		2,290,011

Occupancy costs are in addition to the future committed minimum lease payments.

21. The Watrous Co-operative Association Limited amalgamation

On August 19, 2018, the Co-operative amalgamated with The Watrous Co-operative Association Limited (the "acquiree"). This amalgamation is accounted for using the acquisition method. This method results in the acquiree's identifiable assets acquired and liabilities assumed being measured at their acquisition date fair values. For amalgamations involving co-operatives, the consideration is deemed to be the amount of the acquiree's share capital at the acquisition date. The following is a summary of the fair value of the assets acquired and liabilities assumed in the amalgamation as well as the deemed consideration and calculation of the gain on amalgamation.

Current assets	\$	3,218,630
Property, plant and equipment		3,609,242
Other assets		<u>2,677,550</u>
Total net assets	\$	<u>9,505,422</u>
Less: Total net liabilities	\$	2,794,752
Deemed consideration		<u>2,497,594</u>
Gain on amalgamation	\$	<u><u>4,213,076</u></u>

22. Subsequent events

(a) Patronage allocation to members

Subsequent to January 31, 2019 the Board of Directors approved a patronage allocation to members in the amount of \$9,554,031 (2018 - \$9,049,485).

(b) Share redemption

Subsequent to January 31, 2019 the Board of Directors approved a redemption of shares in the amount of \$4,733,075 (2018 - \$4,249,808).



The Saskatoon Co-operative Association Limited

Notes to the Financial Statements For the Year Ended January 31, 2019

22. Subsequent events (continued)

(c) Hepburn Co-operative amalgamation

Immediately following the Co-operatives' year-end, the Co-operative amalgamated with Hepburn Co-operative Association Limited (the "acquiree"). This amalgamation is accounted for using the acquisition method. This method results in the acquiree's identifiable assets acquired and liabilities assumed being measured at their acquisition date fair values. For amalgamations involving co-operatives, the consideration is deemed to be the amount of the acquiree's share capital at the acquisition date. As at the date of these financial statements the fair value of the assets and liabilities have not yet been determined. The following is a summary of the unaudited book value of the assets and liabilities for Hepburn Co-operative Association Limited as at the date of the amalgamation.

Current assets	\$ 2,719,294
Other assets	3,043,194
Property, plant and equipment	6,845,414
Total assets	<u>\$ 12,607,902</u>
Current liabilities	\$ 1,062,447
Other liabilities	4,076,667
Equity	7,468,788
Total liabilities and equity	<u>\$ 12,607,902</u>

23. Contingency

Certain claims are pending against the Co-operative. While it is not possible to determine the ultimate outcome of such actions at this time, it is management's opinion that the ultimate resolution of such matters will not have an adverse affect on the Co-operative's financial condition or results of operation.



