



ANNUAL REPORT 2020

Otter Farm & Home
Co-operative

Management's Responsibility

To the Members of Otter Farm & Home 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 that 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 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 fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Committee 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 Committee and management to discuss their audit findings.

April 29, 2020



Chief Financial Officer



Chief Executive Officer

Independent Auditor's Report

To the Members of Otter Farm & Home Co-operative:

Opinion

We have audited the financial statements of Otter Farm & Home Co-operative (the "Co-operative"), which comprise the balance sheet as at February 29, 2020, and the statements of net savings and retained savings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Co-operative as at February 29, 2020, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Co-operative in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management 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.

Abbotsford, British Columbia

April 29, 2020

MNP LLP

Chartered Professional Accountants

Otter Farm & Home Co-operative

Balance Sheet

As at February 29, 2020

(\$ in thousands)

	2020	2019
Current assets		
Cash and cash equivalents	\$ 3,095	\$ 3,222
Accounts receivable	8,313	8,159
- Customer (Note 5)		
- Other	567	160
Income taxes recoverable	650	-
Inventories (Note 15)	12,928	11,070
Prepaid expenses	278	324
	25,831	22,935
Investments		
Federated Co-operatives Limited "FCL" (Note 4(a))	28,687	26,055
Other organizations, at cost	8	7
Property, plant and equipment (Note 10)	58,209	50,086
Other assets (Note 19)	8,393	5,226
Total assets	\$ 121,128	\$ 104,309
Current liabilities		
Trust liabilities (Note 6)	\$ 392	\$ 168
Accounts payable	15,567	15,345
- FCL		
- Other	5,131	5,325
Customer prepaid accounts	46	47
Income taxes payable	-	146
Current portion of long-term debt (Note 14)	3,881	1,907
	25,017	22,938
Long-term debt (Note 14)	18,560	9,093
Total liabilities	43,577	32,031
Members' equity		
Share capital (Note 8)	26,058	26,411
Reserves and retained savings (Note 9)	51,493	45,867
	77,551	72,278
Total liabilities and members' equity	\$ 121,128	\$ 104,309
Commitments (Note 16)		
Subsequent events (Note 18)		

Approved on behalf of the Board of Directors



Director



Director



Otter Farm & Home Co-operative
Statement of Net Savings and Statement of Retained Savings
For the Year Ended February 29, 2020
(\$ in thousands)

	2020	%	2019	%
Sales (Note 12)	\$ 249,137	100.0	\$ 255,257	100.0
Cost of goods sold	219,424	88.1	227,097	89.0
Gross margin	29,713	11.9	28,160	11.0
Expenses				
Operating and administration	31,424	12.6	27,946	10.9
Net interest (Note 7)	680	0.3	210	0.1
	32,104	12.9	28,156	11.0
Savings (loss) from operations	(2,391)	(1.0)	4	-
FCL loyalty program	964	0.4	-	-
Patronage refunds (Note 4(a))	13,164	5.3	16,585	6.5
Savings before income taxes	11,737	4.7	16,589	6.5
Income taxes (Note 11)	1,325	0.5	2,633	1.0
Net savings	\$ 10,413	4.2	\$ 13,956	5.5
Retained savings, beginning of year	\$ 3,966		\$ 457	
Net savings	10,413		13,956	
Transfer to general reserve (Note 9)	(3,186)		(3,782)	
Patronage allocation to members (Note 18)	(4,787)		(6,664)	
Retained savings, end of year (Note 9)	\$ 6,406		\$ 3,966	



Otter Farm & Home Co-operative
Statement of Cash Flows
For the Year Ended February 29, 2020
(\$ in thousands)

	2020	2019
Operating activities		
Net savings	\$ 10,413	\$ 13,956
Adjustments for:		
Depreciation of property, plant and equipment	4,424	3,676
Amortization of intangible asset	-	-
FCL patronage refund	(13,161)	(16,582)
Gain on the disposal of property, plant and equipment	(11)	(25)
Changes in non-cash operating working capital:		
Accounts receivable	(561)	(413)
Loan receivable	-	12
Income taxes recoverable (payable)	(796)	361
Inventories	(1,858)	(1,428)
Prepaid expenses	46	(74)
Trust liabilities	224	(36)
Accounts payable	30	2,655
Customer prepaid accounts	(1)	(27)
Cash provided by (used for) operating activities	<u>(1,251)</u>	<u>2,076</u>
Investing activities		
Redemption of FCL shares	10,528	13,265
Investments in other organizations	(1)	(1)
Additions to property, plant and equipment	(15,732)	(13,573)
Proceeds from the disposal of property, plant and equipment	30	625
Cash provided by (used for) investing activities	<u>(5,175)</u>	<u>315</u>
Financing activities		
Increase in long-term debt	13,928	4,317
Repayment of long-term debt	(2,487)	(1,117)
Share capital issued	76	63
GST on patronage allocation	231	231
Redemption of share capital	(5,448)	(4,913)
Cash provided by (used for) financing activities	<u>6,300</u>	<u>(1,419)</u>
Net increase (decrease) in cash and cash equivalents	(126)	972
Cash and cash equivalents, beginning of year	<u>3,222</u>	<u>2,250</u>
Cash and cash equivalents, end of year	<u>\$ 3,095</u>	<u>\$ 3,222</u>



Otter Farm & Home Co-operative
Notes to the Financial Statements
For the Year Ended February 29, 2020
(\$ in thousands)

1. Incorporation and operations

Otter Farm & Home Co-operative (the "Co-operative") was incorporated under the Societies Act of British Columbia on November 13, 1922 and under the Co-operative Association Act of British Columbia on June 22, 1979. The primary business of the Co-operative is operating retail, agricultural, food and petroleum outlets in the Lower Mainland, Armstrong, West Kelowna & Penticton, British Columbia, and surrounding areas.

2. Significant accounting policies

These financial statements have been prepared in accordance with Canadian accounting standards for private enterprises (ASPE) and are in accordance with Canadian generally accepted accounting principles as applicable to a going concern which contemplates the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future.

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 February 28. The 2020 fiscal year was 52 weeks (2019 - 53 weeks).

(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 cost formula, the 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 estimated to be not recoverable due to obsolescence, damage, or permanent declines in selling prices. Inventories are the only component of cost of sales.

(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 4(a).



Otter Farm & Home Co-operative
Notes to the Financial Statements
For the Year Ended February 29, 2020
(\$ in thousands)

2. Significant accounting policies *(continued from previous page)*

(e) Asset retirement obligation

The Co-operative recognizes 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.

(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:

	Method	Rate
Buildings	Straight-line	25 years
Pavement	Declining balance	8%
Furniture & equipment	Declining balance	10% to 25%
Tanks	Declining balance	20%
Vehicles	Declining balance	15% to 40%
Computer equipment	Declining balance	45% to 100%

Leasehold improvements are depreciated on a straight-line basis over the lease term. Property, plant and equipment under construction are not amortized.

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 grant programs are recorded as a reduction of the cost of related assets in the period in which eligible expenditures are incurred, with any amortization 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) Goodwill and intangible assets

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.

Intangible assets with limited lives are amortized on a straight-line basis over the estimated life of the related asset when put in use.



Otter Farm & Home Co-operative
Notes to the Financial Statements
For the Year Ended February 29, 2020
(\$ in thousands)

2. Significant accounting policies *(continued from previous page)*

(h) 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 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.

(i) Revenue recognition

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

(j) Assets under capital lease

Leases, which transfer substantially all of the benefits and risk incident to ownership of property, are recorded as an acquisition of an asset and the incurrence of an obligation. Under this method of accounting for leases, the asset is depreciated over its estimated useful life and the obligation, including interest thereon, over the life of the lease. Rents on non-capital leases are expensed as incurred.

(k) 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.

(l) Lease revenue

Certain assets are leased under an arrangement whereby the benefits and risks of ownership related to the leased assets are substantially retained by the lessor. Accordingly, the Co-operative records these assets as operating leases.



Otter Farm & Home Co-operative
Notes to the Financial Statements
For the Year Ended February 29, 2020
(\$ in thousands)

2. Significant accounting policies *(continued from previous page)*

(m) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The amounts of such items are based upon the Co-operative's best information and judgment. Actual amounts could differ from these estimates.

Accounts receivable and loans receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary.

Significant estimation or judgment is required in the determination of (i) inventories valued at retail and adjusted to cost; (ii) estimated inventory provisions due to spoilage and shrinkage occurring between the last physical inventory count and the balance sheet date; and (iii) estimated inventory provisions associated with vendor allowances and internal charges.

Depreciation is based on the estimated useful lives of property, plant and equipment.

The application of the acquisition 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. Moreover, the useful lives of the acquired intangible assets, and property, plant and equipment have to be determined.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in net savings in the year in which they become known.

(n) 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 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.



Otter Farm & Home Co-operative
Notes to the Financial Statements
For the Year Ended February 29, 2020
(\$ in thousands)

2. Significant accounting policies *(continued from previous page)*

(o) 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 accrues a liability for an amount of share capital to be paid to the members at the time it has been approved by the Board of Directors.

3. Financial instruments and risk management

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

(a) Credit risk

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

(b) Interest rate risk

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

(c) Commodity price risk

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

(d) 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 accounts payable and long-term debt. The Co-operative's ability to meet obligations depends on funds generated by its operations.

(e) Capital management

The Co-operative applies prudent fiscal management policies and practices designed to generate adequate levels of net savings, member's equity and other appropriate financial strengths. The Co-operative builds reserves so there are adequate levels of capital on hand to meet the short term and long term needs of the organization and pay out cash dividends to its members. Cash is monitored through the budgeting and planning cycle to analyze the Co-operatives capital structure under various potential scenarios.



Otter Farm & Home Co-operative
Notes to the Financial Statements
For the Year Ended February 29, 2020
(\$ in thousands)

4. Transactions with Federated Co-operatives Limited "FCL"

(a) Patronage refund

The Co-operative, along with other Co-operatives in Western Canada, own FCL. At the end of each year, FCL divides a substantial portion of its net savings among these retail Co-operatives in proportion to the business done by each with FCL. During FCL's fiscal year ended October 31, 2019 the Co-operative purchased goods amounting to \$126,111 (2019 - \$139,436) 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. During the year, FCL, based on its available cash flow, redeemed an amount of shares held by the Co-operative. The amounts of the patronage refund and shares redeemed are as follows:

	2020	2019
Opening investment balance	\$ 26,055	\$ 22,738
Patronage refund	13,161	16,582
Share redemptions	<u>(10,528)</u>	<u>(13,265)</u>
Closing investment balance	<u>\$ 28,687</u>	<u>\$ 26,055</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 per site as long as the Co-operative continues to exercise due diligence. The Co-operative has 13 (2019 - 13) sites under this program. Management believes that due diligence has been exercised and that the impact of the asset retirement obligation on the Co-operative's financial statements is not significant.

(c) Petroleum purchase commitment

Under the terms of an 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 March 2007. 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 plus interest on the grants compounded annually at 10% from the grant date. Total grants received during this period amounted to approximately \$18,235 (2019 - \$16,189). Management intends to fulfill all existing contracts with FCL.

5. Accounts receivable - customer

Accounts receivable are shown net of an allowance for doubtful accounts of \$192 (2019 - \$200).



Otter Farm & Home Co-operative
Notes to the Financial Statements
For the Year Ended February 29, 2020
(\$ in thousands)

6. Trust liabilities

	2020	2019
Payroll remittances	\$ 223	\$ 52
Provincial Sales Tax	135	88
Workers Compensation Board	34	28
	<u>\$ 392</u>	<u>\$ 168</u>

7. Net interest

	2020	2019
Interest expense on long-term debt	\$ 852	\$ 370
Interest revenue	(172)	(160)
	<u>\$ 680</u>	<u>\$ 210</u>

8. Share capital

	2020	2019
Authorized, unlimited at \$10 (not in thousands)		
Balance, beginning of year (table amounts in thousands)	\$ 26,411	\$ 24,366
Allocation to members	4,787	6,664
Cash from new members	76	63
Goods and Services Tax on allocation	231	231
	<u>31,505</u>	<u>31,324</u>
General repayment	4,467	3,889
Withdrawals and retirements	280	324
Withholding tax	700	700
	<u>5,448</u>	<u>4,913</u>
Balance, end of year	<u>\$ 26,058</u>	<u>\$ 26,411</u>

9. Reserves and retained savings

	General Reserve	Retained Savings	2020	2019
Balance, beginning of year	\$ 41,901	\$ 3,966	\$ 45,867	\$ 38,575
Net savings distributed to retained savings	-	10,413	10,413	13,956
Patronage allocation	-	(4,787)	(4,787)	(6,664)
Appropriation from retained savings	3,186	(3,186)	-	-
Balance, end of year	<u>\$ 45,087</u>	<u>\$ 6,406</u>	<u>\$ 51,493</u>	<u>\$ 45,867</u>



Otter Farm & Home Co-operative
Notes to the Financial Statements
For the Year Ended February 29, 2020
(\$ in thousands)

10. Property, plant and equipment

	Original Cost	Accumulated Depreciation	2020 Book Value	2019 Book Value
Land	\$ 16,167	\$ -	\$ 16,167	\$ 15,659
Buildings	30,792	11,437	19,355	18,745
Pavement	8,040	3,073	4,967	4,388
Furniture & equipment	33,901	22,729	11,172	8,150
Vehicles	4,861	4,024	837	1,059
Computer equipment	3,237	2,536	701	522
Leasehold improvements	1,693	230	1,463	92
Assets not available for use	3,548	-	3,548	1,471
	<u>\$ 102,238</u>	<u>\$ 44,029</u>	<u>\$ 58,209</u>	<u>\$ 50,086</u>

Depreciation for the current year and included in operating and administration expense was \$4,424 (2019 - \$3,676).

11. 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:

	2020	2019
Net savings before income taxes	\$ 11,737	\$ 16,589
Expected income tax expense at the combined tax rate of 27% (2019 - 27%) net of the small business deduction and general rate reduction	3,168	4,478
Increase (decrease) in income tax expense resulting from:		
Non-taxable income and non-deductible expense	20	12
Capital cost allowance in excess of depreciation	(567)	(58)
Non-capital losses carried forward from previous years	(4)	-
Patronage allocation to members of \$4,787 (2019 - \$6,664)	(1,292)	(1,799)
Income tax expense	<u>\$ 1,325</u>	<u>\$ 2,633</u>



Otter Farm & Home Co-operative
Notes to the Financial Statements
For the Year Ended February 29, 2020
(\$ in thousands)

12. Revenue

	2020	2019
Feed Division	\$ 43,205	\$ 45,912
Petroleum Division	162,450	179,090
Retail Division	43,482	30,255
	<u>\$ 249,137</u>	<u>\$ 255,257</u>

13. Line of credit

The Co-operative has a \$250,000 line of credit bearing interest at prime plus 1% with Aldergrove Credit Union, of which no amount has been drawn as at February 29, 2020. The line of credit is secured by an assignment of all book accounts.

14. Long-term debt

		2020	2020	2019	2019
	Total	Current portion	Deferred portion	Current portion	Deferred portion
FCL ⁽¹⁾	\$ -	\$ -	\$ -	\$ 620	\$ -
FCL ⁽²⁾	2,984	497	2,486	497	2,984
FCL ⁽³⁾	4,130	590	3,540	590	4,130
FCL ⁽⁴⁾	1,400	200	1,200	200	1,400
FCL ⁽⁵⁾	3,520	440	3,080	-	579
FCL ⁽⁶⁾	1,120	140	980	-	-
FCL ⁽⁷⁾	5,200	650	4,550	-	-
FCL ⁽⁸⁾	2,042	-	2,042	-	-
FCL ⁽⁹⁾	2,046	1,364	682	-	-
	<u>\$ 22,441</u>	<u>\$ 3,881</u>	<u>\$ 18,560</u>	<u>\$ 1,907</u>	<u>\$ 9,093</u>

⁽¹⁾ Federated Co-operatives Limited revolving term loan repaid during the year.

⁽²⁾ Federated Co-operatives Limited revolving term loan bears interest at the bank prime rate (currently at 3.95% (2019 - 3.95%)) per annum, with a maximum credit limit of \$2,984 and has a maximum credit reduction of \$497 per year, due on September 30, 2025.

⁽³⁾ Federated Co-operatives Limited revolving term loan bears interest at the bank prime rate (currently at 3.95% (2019 - 3.95%)) per annum, with a maximum credit limit of \$4,130 and has a maximum credit reduction of \$590 per year, due on September 30, 2026.

⁽⁴⁾ Federated Co-operatives Limited revolving term loan bears interest at the bank prime rate (currently at 3.95% (2019 - 3.95%)) per annum, with a maximum credit limit of \$1,400 and has a maximum credit reduction of \$200 per year, due on September 30, 2026.

⁽⁵⁾ Federated Co-operatives Limited revolving term loan bears interest at the bank prime rate (currently at 3.95% (2019 - 3.95%)) per annum, with a maximum credit limit of \$3,520 and has a maximum credit reduction of \$440 per year, due on September 30, 2027.



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14. Long-term debt *(continued from previous page)*

- (6) Federated Co-operatives Limited revolving term loan bears interest at the bank prime rate (currently at 3.95% (2019 - 3.95%)) per annum, with a maximum credit limit of \$1,120 and has a maximum credit reduction of \$140 per year, due on September 30, 2027.
- (7) Federated Co-operatives Limited revolving term loan bears interest at the bank prime rate (currently at 3.95% (2019 - 3.95%)) per annum, with a maximum credit limit of \$5,200 and has a maximum credit reduction of \$650 per year, due on October 31, 2027.
- (8) Federated Co-operatives Limited revolving term loan bears interest at the bank prime rate (currently at 3.95%) per annum, with a maximum credit limit of \$3,600 and has a maximum credit reduction of \$400 per year, due on January 31, 2029.
- (9) Federated Co-operatives Limited loan bears no interest and is repayable at \$1,364 on January 31, 2021 and \$682 due on January 31, 2022.
- (10) Federated Co-operatives Limited revolving term loan bears interest at the bank prime rate (currently at 3.95%) per annum, with a maximum credit limit of \$3,000 and has a maximum credit reduction of \$300 per year, due on August 31, 2029.
- (11) Federated Co-operatives Limited revolving term loan bears interest at the bank prime rate (currently at 3.95%) per annum, with a maximum credit limit of \$5,500 and has a maximum credit reduction of \$550 per year, due on November 30, 2029.

The loans are subject to certain measurable covenants. As at February 29, 2020, the Co-operative is in compliance with all such covenants. It is management's opinion that the Co-operative is likely to remain in compliance with all debt covenants through the subsequent 12 months.

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

2021	\$	3,881
2022		3,199
2023		2,517
2024		2,559
2025		2,917
	<u>\$</u>	<u>15,074</u>

FCL reserves the right to take a security interest in the property and associated assets of the Co-operative at any time, upon reasonable notice to the Co-operative, over the term of the loan or until all amounts owing have been repaid in full.



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15. Inventories

	2020	2019
Raw materials	\$ 2,215	\$ 2,004
Goods for resale	10,713	9,066
	\$ 12,928	\$ 11,070

16. Commitments

The Co-operative is committed by contract to take future deliveries of grain at specified prices. The total of these contracts at February 29, 2020 amounts to approximately \$6,194 (2019 - \$5,836).

The Co-operative is committed to certain construction contracts. The total of these contracts at February 29, 2020 amounts to approximately \$6,056 (2019 - \$4,954).

17. Operating leases

The Co-operative leases properties to others. The leases are classified as operating leases and rental revenues are included in operating and administrative expenses. The cost of the properties held for leasing purposes are \$8,367 (2019 - \$8,200) and the accumulated depreciation is \$2,043 (2019 - \$2,021).

18. Subsequent events

Patronage allocation to members

Subsequent to February 29, 2020, the Board of Directors approved a patronage allocation to members in the amount of \$4,787 (2019 - \$6,664).

COVID-19 pandemic

Subsequent to year-end, the COVID-19 pandemic is causing significant financial market and social dislocation. The situation is dynamic with various cities and countries around the world responding in different ways to address the outbreak. The Co-operative continues to monitor the situation and assess the impact COVID-19 will have on its business activities. The extent of the effect of the COVID-19 pandemic on the Co-operative is uncertain.



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19. Other assets

	2020	2019
Goodwill		
Ladner	\$ 851	\$ 851
Gloucester	850	850
Hatzic	778	778
Armstrong	202	202
Blue Jay	1,795	1,795
Kamloops	47	-
Sumas Way	253	-
Whatcom Road	331	-
	5,107	4,476
Other		
Liquor vending rights	3,286	750
	\$ 8,393	\$ 5,226

The above goodwill amounts, listed by location, represent the carrying amount of goodwill.

Liquor vending rights, issued under the Government of BC Liquor Control and Licensing Act, are recorded at cost.

20. 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 \$595 (2019 - \$532) of expense relating to the plan. There were no significant changes to the rate of employer contributions during the year.

21. Comparative figures

Certain comparative figures have been reclassified to conform to current year financial statement presentation.

