



MEYERS NORRIS PENNY LLP

MID-ISLAND CONSUMER SERVICES CO-OPERATIVE

(Incorporated under the Co-operative Associations Act, Province of British Columbia)

FINANCIAL STATEMENTS

JANUARY 31, 2004

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CHARTERED ACCOUNTANTS & BUSINESS ADVISORS  
96 WALLACE STREET, P.O. BOX 514, NANAIMO, BC V9R 5L5  
1-877-340-3330 PH.(250) 753-8251 FAX (250) 754-3999 [www.mnp.ca](http://www.mnp.ca)



MEYERS NORRIS PENNY LLP

## AUDITORS' REPORT

To the Members  
Mid-Island Consumer Services Co-operative

We have audited the balance sheet of Mid-Island Consumer Services Co-operative as at January 31, 2004 and the statements of operations, reserves, retained savings and cash flow for the year then ended. These financial statements are the responsibility of the co-operative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The co-operative reflects its patronage rebate to members as an allocation from retained savings. Canadian generally accepted accounting principles require that patronage rebates to members be a reduction of net savings for the year.

In our opinion, except for the effect on net savings referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the co-operative as at January 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Co-operative Associations Act (British Columbia), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

*Meyers Norris Penny LLP*

Nanaimo, B.C.

CHARTERED ACCOUNTANTS

March 19, 2004

CHARTERED ACCOUNTANTS & BUSINESS ADVISORS  
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1-877-340-3330 PH.(250) 753-8251 FAX (250) 754-3999 www.mnp.ca

MID-ISLAND CONSUMER SERVICES CO-OPERATIVE

BALANCE SHEET

AS AT JANUARY 31, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 277,129	\$ 1,126,872
Accounts receivable - customers	1,143,024	1,452,427
Accounts receivable - other	41,384	90,628
Inventories	1,805,674	1,686,629
Income taxes receivable	110,183	239,957
Prepaid expenses	<u>81,760</u>	<u>74,754</u>
	3,459,154	4,671,267
INVESTMENTS		
- Federated Co-operatives Limited (note 2)	8,103,370	7,514,904
- Other organizations (note 2)	33,180	32,810
FUTURE INCOME TAXES	156,421	-
PROPERTY, PLANT & EQUIPMENT (note 3)	8,764,636	8,232,331
GOODWILL	<u>70,000</u>	<u>-</u>
	<u>\$ 20,586,761</u>	<u>\$ 20,451,312</u>
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable		
- Federated Co-operatives Limited	\$ 1,125,665	\$ 2,144,415
- Other	712,455	980,392
Unearned rent subsidy	22,948	28,684
Unearned gas card revenue	206,056	150,742
Current portion of long term debt (note 4)	<u>744,674</u>	<u>557,256</u>
	2,811,798	3,861,489
PATRONAGE REBATE PAYABLE TO MEMBERS	835,318	737,235
LONG TERM DEBT (note 4)	3,008,561	2,937,117
SHARE CAPITAL (note 5)	8,919,870	8,731,601
RESERVES	5,011,214	4,183,870
RETAINED SAVINGS	<u>-</u>	<u>-</u>
	<u>\$ 20,586,761</u>	<u>\$ 20,451,312</u>

APPROVED BY THE BOARD

*Doug Creba*

Director

*Elinor Martin-Law*

Director

See notes to financial statements

MID-ISLAND CONSUMER SERVICES CO-OPERATIVE

STATEMENT OF RESERVES

FOR THE YEAR ENDED JANUARY 31, 2004

	<u>2004</u>	<u>2003</u>
<b>STATUTORY RESERVE</b>		
Balance at beginning of year	\$ 873,160	\$ 855,041
Increase is lesser of amount required to maintain reserve at the minimum level of 10% of paid up share capital, and 10% of net savings	<u>18,827</u>	<u>18,119</u>
Balance at end of year	<u>\$ 891,987</u>	<u>\$ 873,160</u>
<b>GENERAL RESERVE</b>		
Balance at beginning of year	\$ 3,310,710	\$ 2,584,794
Transfer from retained savings	803,642	726,106
Transfer of unallocated equity amounts	<u>4,875</u>	<u>(190)</u>
Balance at end of year	<u>\$ 4,119,227</u>	<u>\$ 3,310,710</u>
<b>TOTAL RESERVES</b>	<u>\$ 5,011,214</u>	<u>\$ 4,183,870</u>

See notes to financial statements

MID-ISLAND CONSUMER SERVICES CO-OPERATIVE

STATEMENT OF RETAINED SAVINGS

FOR THE YEAR ENDED JANUARY 31, 2004

	<u>2004</u>	<u>2003</u>
BALANCE AT BEGINNING OF YEAR	\$ -	\$ -
Net savings	<u>1,672,730</u>	<u>1,480,303</u>
	1,672,730	1,480,303
Patronage rebate to members:		
Current year's estimate	(835,318)	(737,235)
Adjustment to prior year's estimate	<u>(14,943)</u>	<u>1,157</u>
	822,469	744,225
Transfer to statutory reserve	(18,827)	(18,119)
Transfer to general reserve	<u>(803,642)</u>	<u>(726,106)</u>
BALANCE AT END OF YEAR	\$ <u>          -</u>	\$ <u>          -</u>

See notes to financial statements

MID-ISLAND CONSUMER SERVICES CO-OPERATIVE

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED JANUARY 31, 2004

	<u>2004</u>	<u>%</u>	<u>2003</u>	<u>%</u>
SALES	\$ 46,936,172	100.00	\$ 46,437,910	100.00
COST OF PRODUCTS SOLD	<u>41,196,762</u>	<u>87.77</u>	<u>40,935,422</u>	<u>88.15</u>
GROSS PROFIT	5,739,410	12.23	5,502,488	11.85
OTHER INCOME	<u>432,430</u>	<u>0.92</u>	<u>459,249</u>	<u>0.99</u>
	<u>6,171,840</u>	<u>13.15</u>	<u>5,961,737</u>	<u>12.84</u>
EXPENSES				
Amortization of property, plant & equipment	886,752	1.88	836,663	1.80
Interest on long term debt	135,019	0.29	149,899	0.32
Operating and administration	<u>6,208,364</u>	<u>13.23</u>	<u>6,366,816</u>	<u>13.71</u>
	<u>7,230,135</u>	<u>15.40</u>	<u>7,353,378</u>	<u>15.83</u>
LOSS FROM OPERATIONS	(1,058,295)	(2.25)	(1,391,641)	(2.99)
LOSS ON DISPOSAL OF PROPERTY, PLANT & EQUIPMENT	-	0.00	(84,845)	(0.18)
PATRONAGE REBATE FROM FEDERATED CO-OPERATIVES LIMITED	<u>2,982,517</u>	<u>6.35</u>	<u>3,197,022</u>	<u>6.88</u>
SAVINGS BEFORE INCOME TAXES	1,924,222	4.10	1,720,536	3.71
INCOME TAXES (note 6)	<u>251,492</u>	<u>0.54</u>	<u>240,233</u>	<u>(0.52)</u>
NET SAVINGS	<u>\$ 1,672,730</u>	<u>3.56</u>	<u>\$ 1,480,303</u>	<u>3.19</u>

See notes to financial statements

MID-ISLAND CONSUMER SERVICES CO-OPERATIVE

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED JANUARY 31, 2004

	<u>2004</u>	<u>2003</u>
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Net savings	\$ 1,672,730	\$ 1,480,303
Items not involving cash:		
Amortization of property, plant & equipment	886,752	836,663
Patronage rebate received in shares	(588,836)	(642,397)
Future income taxes benefit	(156,421)	-
Loss on disposal of property, plant & equipment	<u>-</u>	<u>84,845</u>
	1,814,225	1,759,414
Change in non-cash working capital balances related to operations (note 8)	<u>(874,739)</u>	<u>707,885</u>
	<u>939,486</u>	<u>2,467,299</u>
<b>CASH USED IN FINANCING ACTIVITIES</b>		
Additions to long term debt	1,161,548	752,793
Repayment of long term debt	(902,687)	(944,225)
Patronage rebate paid in cash to members	(1,764)	(206,966)
Increases in paid up share capital	16,370	6,497
Repayment of share capital	<u>(573,639)</u>	<u>(331,356)</u>
	<u>(300,172)</u>	<u>(723,257)</u>
<b>CASH USED IN INVESTING ACTIVITIES</b>		
Acquisition of goodwill	(70,000)	-
Acquisition of property, plant & equipment	(1,419,057)	(1,387,214)
Proceeds on disposal of property, plant & equipment	<u>-</u>	<u>731,208</u>
	<u>(1,489,057)</u>	<u>(656,006)</u>
<b>CASH INFLOW (OUTFLOW)</b>	(849,743)	1,088,036
<b>CASH POSITION AT BEGINNING OF YEAR</b>	<u>1,126,872</u>	<u>38,836</u>
<b>CASH POSITION AT END OF YEAR</b>	<u>\$ 277,129</u>	<u>\$ 1,126,872</u>

See notes to financial statements

MID-ISLAND CONSUMER SERVICES CO-OPERATIVE

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JANUARY 31, 2004

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Inventory

Inventories are valued at the lower of discounted cost and net realizable value. Inventories which are taken at retail values are discounted to cost by applying the standard discount rate for that commodity.

(b) Investments are recorded at cost, less any provisions for other than temporary impairment.

(c) Property, Plant, & Equipment

Property, plant & equipment are recorded at cost. Amortization of property, plant & equipment has been calculated annually over their estimated useful lives at the following rates:

Pavement	8% declining balance
Buildings	5% declining balance
Equipment	20% declining balance
Computer equipment	30% declining balance
Automotive	30% declining balance
Equipment under capital lease	20% and 30% declining balance

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

(d) Goodwill

Goodwill, representing the excess of purchase price over the fair market value of net tangible assets acquired, is recorded at cost, less any provision for permanent impairment. The co-operative assesses impairment based on the estimated undiscounted future cash flows from operations. Impairment of goodwill is measured by comparing its book value against the estimated undiscounted future cash flows, and any permanent impairment is included in current period earnings.

(e) Statutory Reserve

The statutory reserve is established in accordance with the Co-operative Associations Act, Section 16 and the rules of the co-operative whereby 10% of the current year's net savings are to be set aside each year until the reserve is equal to 10% of the paid up share capital.



MEYERS NORRIS PENNY LLP

MID-ISLAND CONSUMER SERVICES CO-OPERATIVE

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JANUARY 31, 2004

1. SIGNIFICANT ACCOUNTING POLICIES - continued

(f) General Reserve

The Board of Directors established the general reserve to assist with financing the general operations and capital improvements planned for the co-operative in the future.

(g) Income Tax Provision

The co-operative follows the asset and liability method of accounting for future income taxes. Under this method, future income tax assets and liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

Income taxes are determined based upon estimated taxable income after providing for a patronage rebate to the members. The actual patronage rebate is not determined until the annual general meeting. However, the estimate is established by the directors and recorded at the year end date.

(h) Financial Instruments

The co-operative's financial instruments consist of cash, accounts receivable, investments, accounts payable, patronage rebate payable to members, long term debt and share capital. Unless otherwise noted, it is management's opinion that the co-operative is not exposed to significant interest, currency or credit risks arising from these financial instruments. The majority of the accounts receivable are from creditors who operate in the trucking industry in the Vancouver Island area. The Co-operative has mitigated this credit risk through the use of a credit policy and by regular monitoring of receivable balances throughout the year.

For each of the above-noted financial instruments, the fair value closely approximates the carrying value shown on the balance sheet. For cash, accounts receivable, accounts payable and patronage rebate payable to members this is because of the relatively short-term nature of the instruments. For long term debt, this is because the majority of the debt's interest rates are close to current market rates and the remainder of the debt is interest-free but with a term of three years or less, so the discounted present values would not be significantly different from carrying value. For investments and share capital, this is because the amounts are repayable at the carrying value only and there is no opportunity for open market transactions.



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MID-ISLAND CONSUMER SERVICES CO-OPERATIVE

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JANUARY 31, 2004

1. SIGNIFICANT ACCOUNTING POLICIES - continued

(i) Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Accounts receivable are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventory. Amortization is based on the estimated useful lives of property, plant & equipment.

2. INVESTMENTS

Federated Co-operatives Limited

	<u>2004</u>	<u>2003</u>
Owned directly by Mid-Island Consumer Services Co-operative	\$ 6,699,849	\$ 6,171,406
Held by Vancouver Island Central Services Co-operatives Association on behalf of Mid-Island Consumer Services Co-operative	<u>1,403,521</u>	<u>1,343,498</u>
	<u>\$ 8,103,370</u>	<u>\$ 7,514,904</u>

The investment in Federated Co-operatives Limited is redeemable upon the withdrawal of Mid-Island Consumer Services Co-operative from the Association and may then be paid out over a period of one to five years.

During the year, the co-operative purchased goods from Federated Co-operatives Limited amounting to \$32,361,240 (2003 - \$31,458,020).

Other Organizations

	<u>2004</u>	<u>2003</u>
Vancouver Island Central Services Co-operative Association (non-FCL)	\$ 25,808	\$ 25,808
Coastal Community Credit Union	7,152	6,502
B.C. Central Credit Union	100	100
Other	<u>120</u>	<u>400</u>
	<u>\$ 33,180</u>	<u>\$ 32,810</u>



MID-ISLAND CONSUMER SERVICES CO-OPERATIVE

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JANUARY 31, 2004

3. PROPERTY, PLANT & EQUIPMENT

	<u>2004</u>			<u>2003</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Land	\$ 512,104	\$ -	\$ 512,104	\$ 336,430
Pavement	1,112,147	447,735	664,412	647,935
Buildings - retail	5,533,809	1,618,684	3,915,125	3,627,877
- Co-op Centre	1,436,885	333,531	1,103,354	1,161,425
Equipment	6,687,290	4,392,870	2,294,420	2,230,557
Computer equipment	313,821	224,226	89,595	96,024
Automotive	114,094	55,615	58,479	1,072
Equipment under capital lease	475,758	382,081	93,677	128,033
Construction in progress	<u>33,470</u>	<u>-</u>	<u>33,470</u>	<u>2,978</u>
	<u>\$ 16,219,378</u>	<u>\$ 7,454,742</u>	<u>\$ 8,764,636</u>	<u>\$ 8,232,331</u>

4. LONG TERM DEBT

	<u>2004</u>	<u>2003</u>
Royal Bank of Canada term loan, repayable at \$33,070 per month including interest at prime plus 0.25%, due June 2004, secured by a general security agreement over all of the co-operative's assets, a demand collateral mortgage of \$5.0 million on property and improvements with a net book value of \$4,696,367 and an assignment of inventory	\$ 2,012,046	\$ 2,300,291
Coastal Community Credit Union mortgage, repayable at \$6,708 per month including interest at 5.95%, secured by a first mortgage on a building with a net book value of \$1,103,354, an assignment of rents and a general security agreement, due February 2008	285,881	347,378
Federated Co-operatives Limited, petroleum upgrade loans, interest free, due in annual instalments of \$239,921 and \$88,896 respectively over the next two years, secured by FCL title and security interest in the projects	328,817	675,660



MID-ISLAND CONSUMER SERVICES CO-OPERATIVE

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JANUARY 31, 2004

4. LONG TERM DEBT - continued

	<u>2004</u>	<u>2003</u>
Royal Bank of Canada, capital lease obligations, repayable at \$1,348 per month including interest at 5.61%, secured by the leased equipment, lease due June 2005	21,977	86,281
Royal Bank of Canada term loan, repayable at \$13,324 per month including interest at prime, due June 2004, secured by a general security agreement over all of the co-operative's assets, a demand collateral mortgage of \$5.0 million on property and improvements with a net book value of \$4,696,367 and an assignment of inventory	1,104,514	-
Member loan certificates, repayable on demand	-	75,863
Other	-	8,900
	3,753,235	3,494,373
Less: Current portion	<u>744,674</u>	<u>557,256</u>
	<u>\$ 3,008,561</u>	<u>\$ 2,937,117</u>

Principal payments for the next five years are as follows:

2005	\$ 744,674
2006	608,150
2007	536,908
2008	562,341
2009	506,341

MID-ISLAND CONSUMER SERVICES CO-OPERATIVE

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JANUARY 31, 2004

5. SHARE CAPITAL

Authorized:

Unlimited number of common shares with  
a par value of \$10 each

	<u>2004</u>	<u>2003</u>
Balance at beginning of year	\$ 8,731,601	\$ 8,550,413
Issues to new members	16,370	6,497
Member patronage allocation	<u>750,413</u>	<u>505,860</u>
	9,498,384	9,062,770
Redemptions	<u>(578,514)</u>	<u>(331,169)</u>
Balance at end of year	<u>\$ 8,919,870</u>	<u>\$ 8,731,601</u>

6. INCOME TAXES

The co-operative's income tax expense for the years ended January 31, 2004 and February 1, 2003, respectively, consists of the following:

	<u>2004</u>	<u>2003</u>
Current tax expense	\$ 407,913	\$ 240,233
Future income tax benefit	<u>(156,421)</u>	<u>-</u>
	<u>\$ 251,492</u>	<u>\$ 240,233</u>

The co-operative's future income tax asset relates entirely to deductible temporary differences between the carrying amount of property, plant and equipment and its tax bases.

Reconciliation of the income tax expense to the statutory amount is as follows:

	<u>2004</u>	<u>2003</u>
Tax at 31.5% statutory rate (2003 - 32.1%)	\$ 606,130	\$ 623,588
Member patronage deduction	(267,832)	(342,669)
Previously unrecorded deductible temporary differences related to property, plant and equipment	(156,421)	-
Other	<u>69,615</u>	<u>(40,686)</u>
Income tax expense	<u>\$ 251,492</u>	<u>\$ 240,233</u>



MID-ISLAND CONSUMER SERVICES CO-OPERATIVE

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JANUARY 31, 2004

7. OPERATING LEASE COMMITMENTS

The co-operative has entered into operating lease agreements for three gas bars and two cardlock stations with expiry dates from 2009 to 2012. Minimum annual lease payments for the next five years are as follows:

2005	\$ 251,448
2006	251,448
2007	251,448
2008	251,448
2009	<u>251,448</u>
	\$ <u>1,257,240</u>

8. CHANGES IN WORKING CAPITAL BALANCES

Cash provided by operations is calculated in part by eliminating changes in non-cash balance sheet items related to operations. The changes are as follows:

	<u>2004</u>	<u>2003</u>
Decrease (increase) in accounts receivable	\$ 358,647	\$ (496,853)
(Increase) in inventories	(119,045)	(101,817)
(Increase) in prepaid expenses	(7,006)	(16,213)
Decrease in income taxes receivable	129,774	114,852
(Decrease) increase in accounts payable	(1,286,687)	1,063,516
Increase in unearned gas card revenue	55,314	115,716
(Decrease) increase in unearned rent subsidy	<u>(5,736)</u>	<u>28,684</u>
Change in non-cash working capital balances related to operations	\$ <u>(874,739)</u>	\$ <u>707,885</u>

9. COMPARATIVE FIGURES

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

MID-ISLAND CONSUMER SERVICES CO-OPERATIVE

SCHEDULE OF OPERATIONS

FOR THE YEAR ENDED JANUARY 31, 2004

	2004			2003
	<u>Bowen</u>	<u>Petroleum</u>	<u>Total</u>	<u>Total</u>
SALES	\$ 10,204,310	\$ 36,731,862	\$ 46,936,172	\$ 46,437,910
COST OF PRODUCTS SOLD	<u>7,769,074</u>	<u>33,427,688</u>	<u>41,196,762</u>	<u>40,935,422</u>
GROSS PROFIT	2,435,236	3,304,174	5,739,410	5,502,488
OTHER INCOME	<u>150,161</u>	<u>282,269</u>	<u>432,430</u>	<u>459,249</u>
	<u>2,585,397</u>	<u>3,586,443</u>	<u>6,171,840</u>	<u>5,961,737</u>
EXPENSES				
Amortization of property, plant & equipment	<u>323,376</u>	<u>563,376</u>	<u>886,752</u>	<u>836,663</u>
Interest on long term debt	<u>55,493</u>	<u>79,526</u>	<u>135,019</u>	<u>149,899</u>
Operating and Administration				
Building operations	607,078	909,666	1,516,744	1,446,292
Staff costs	2,372,710	1,493,245	3,865,955	3,832,786
Advertising	182,156	49,890	232,046	293,420
Supplies	87,366	135,825	223,191	202,049
Other operational costs	<u>130,884</u>	<u>239,544</u>	<u>370,428</u>	<u>592,269</u>
	<u>3,380,194</u>	<u>2,828,170</u>	<u>6,208,364</u>	<u>6,366,816</u>
Total expenses	<u>3,759,063</u>	<u>3,471,072</u>	<u>7,230,135</u>	<u>7,353,378</u>
INCOME (LOSS) FROM OPERATIONS	\$ <u>(1,173,666)</u>	\$ <u>115,371</u>	\$ <u>(1,058,295)</u>	\$ <u>(1,391,641)</u>

See notes to financial statement



MEYERS NORRIS PENNY LLP