

## AUDITORS' REPORT

SASKATOON, SASKATCHEWAN  
March 24, 2010

TO THE MEMBERS OF  
SHERWOOD CO-OPERATIVE ASSOCIATION LIMITED  
REGINA, SASKATCHEWAN

We have audited the Balance Sheet of Sherwood Co-operative Association Limited as at January 31, 2010 and the statements of operations and changes in cash flows 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.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Co-operative as at January 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Federated Co-operatives Limited*

RETAIL AUDIT DEPARTMENT

**SHERWOOD CO-OPERATIVE ASSOCIATION LIMITED**  
**Regina, Saskatchewan**

**STATEMENT OF OPERATIONS**  
**for the year ended January 31, 2010**

	<u>THIS YEAR</u>	<u>%</u>	<u>LAST YEAR</u>	<u>%</u>
SALES	125,601,428	100.0	124,700,244	100.0
Cost of Goods Sold	<u>105,540,341</u>	<u>84.0</u>	<u>107,522,100</u>	<u>86.2</u>
Gross Margin	<u>20,061,087</u>	<u>16.0</u>	<u>17,178,144</u>	<u>13.8</u>
<b>EXPENSES</b>				
Operating and Administration	19,786,419	15.8	17,656,705	14.2
Interest Revenue (Note 9)	<u>(186,288)</u>	<u>(0.1)</u>	<u>(480,402)</u>	<u>(0.4)</u>
	<u>19,600,131</u>	<u>15.7</u>	<u>17,176,303</u>	<u>13.8</u>
SAVINGS FROM OPERATIONS	460,956	0.3	1,841	-
Patronage Refunds	<u>5,360,551</u>	<u>4.3</u>	<u>7,464,009</u>	<u>6.0</u>
SAVINGS BEFORE INCOME TAXES AND PATRONAGE REFUND TO MEMBERS (Note 1)	<u>5,821,507</u>	<u>4.6</u>	<u>7,465,850</u>	<u>6.0</u>
<b>DISTRIBUTION OF SAVINGS</b>				
Patronage Refund to Members	3,137,518		3,757,413	
Provision for Income Taxes	644,787		1,305,544	
Retained Savings	<u>2,039,202</u>		<u>2,402,893</u>	
	<u>5,821,507</u>		<u>7,465,850</u>	

**SHERWOOD CO-OPERATIVE ASSOCIATION LIMITED**  
**Regina, Saskatchewan**

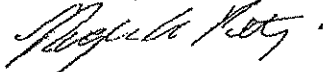
**BALANCE SHEET**  
**as at January 31, 2010**

	<u>THIS YEAR</u>	<u>LAST YEAR</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	475,391	179,303
FCL Special Deposit (Note 11)	14,000,000	14,000,000
Accounts Receivable - Customer (Note 7)	2,386,495	1,671,504
- Other	324,408	294,240
Inventories (Note 1)	6,598,735	6,205,060
	23,785,029	22,350,107
<b>INVESTMENTS</b>		
Federated Co-operatives Limited (Note 1)	15,090,813	14,021,793
Other Organizations	7,918	8,120
<b>FIXED ASSETS (Note 1)</b>	<b>7,051,172</b>	<b>4,344,956</b>
	45,934,932	40,724,976
<b>CURRENT LIABILITIES</b>		
Accounts Payable - FCL	7,065,018	5,055,324
- Other	1,365,030	1,255,695
	8,430,048	6,311,019
<b>MEMBER'S SHARE CAPITAL (Note 5)</b>	<b>21,520,214</b>	<b>20,612,118</b>
<b>RESERVES &amp; RETAINED SAVINGS (Note 6)</b>	<b>15,984,670</b>	<b>13,801,839</b>
	45,934,932	40,724,976

Approved on behalf of the Board of Directors



Director



Director

**SHERWOOD CO-OPERATIVE ASSOCIATION LIMITED**  
Regina, Saskatchewan

**STATEMENT OF CASH FLOWS**  
for the year ended January 31, 2010

	<u>THIS YEAR</u>	<u>LAST YEAR</u>
<b>OPERATING ACTIVITIES</b>		
Savings Before Income Taxes and Patronage Refund to Members	5,821,507	7,465,850
Expenses (Revenue) Not Requiring (Providing) a Current Outlay (Inflow of Cash)		
- Depreciation	928,315	825,273
- FCL Patronage Refund	(5,360,512)	(7,463,989)
- Current Income Tax	(644,787)	(1,305,544)
- Loss (Gain) on the Disposal of Fixed Assets	12,067	(10,971)
Changes in non-cash operating working capital:		
Accounts Receivable	(745,159)	(110,147)
Inventories	(393,675)	157,921
Accounts Payable	2,119,029	5,104,293
Prepaid Supplier Account - FCL	-	536,298
	<u>1,736,785</u>	<u>5,198,984</u>
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>INVESTING ACTIVITIES</b>		
Redemption of FCL Shares	4,291,492	5,984,183
Additions to Fixed Assets	(3,654,112)	(616,068)
Proceeds from the Disposal of Fixed Assets	7,514	50,412
Investment in Other Organizations	202	244
	<u>645,096</u>	<u>5,418,771</u>
<b>CASH PROVIDED BY INVESTING ACTIVITIES</b>		
<b>FINANCING ACTIVITIES</b>		
Repayment of Long Term Debt	-	(8,393)
Share Capital Issued	15,820	15,640
GST on Allocation	120,982	130,649
Redemption of Share Capital	(2,222,595)	(1,705,042)
	<u>(2,085,793)</u>	<u>(1,567,146)</u>
<b>CASH USED FOR FINANCING ACTIVITIES</b>		
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	296,088	9,050,609
Cash and Cash Equivalents, Beginning of Year	14,179,303	5,128,694
Cash and Cash Equivalents, End of Year	<u>14,475,391</u>	<u>14,179,303</u>

**SHERWOOD CO-OPERATIVE ASSOCIATION LIMITED**  
Regina, Saskatchewan

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended January 31, 2010

**Note 1 - Summary of Significant Accounting Policies:**

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 sales and expenses for each year presented and in the disclosure of commitments. Changes in estimates and assumptions may occur with the passage of time and the occurrence of future events.

(a) Inventories

Inventories are valued using a weighted average cost formula, FIFO and the retail method. Inventories are stated at the lower of cost and net realizable value.

(b) Investment in Federated Co-operatives Limited, at Cost

Sherwood Co-operative Association Limited along with other Co-operatives in Western Canada own Federated Co-operatives Limited (FCL). At the end of each year, FCL divides substantially the total 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, 2009, Sherwood Co-operative Association Limited purchased goods amounting to \$77,074,989 (last year - \$81,389,747) 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:

	<u>THIS YEAR</u>	<u>LAST YEAR</u>
FCL Patronage Refunds	5,360,512	7,463,989
FCL Share Redemption	4,291,492	5,984,183

(c) Fixed Assets

The major categories of the Co-operative's fixed assets are:

<u>Description</u>	<u>Original Cost</u>	<u>Current Depreciation</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Land	1,276,381	-	-	1,276,381
Pavement	791,735	13,727	467,880	323,855
Buildings	3,292,929	124,533	2,309,983	982,946
Tanks	53,735	1,098	43,852	9,883
Furn & Equip	8,473,225	589,800	5,394,188	3,079,037
Vehicles	286,843	10,220	262,994	23,849
Vehicles Equipment	202,490	18,893	95,434	107,056
P.O.S. Equipment	740,053	95,689	520,051	220,002
Leasehold Improvement	1,802,959	74,355	779,385	1,023,574
Under Construction	4,589	-	-	4,589
<b>Totals</b>	<u>16,924,939</u>	<u>928,315</u>	<u>9,873,767</u>	<u>7,051,172</u>

**SHERWOOD CO-OPERATIVE ASSOCIATION LIMITED**  
Regina, Saskatchewan

**NOTES TO FINANCIAL STATEMENTS - Continued**  
for the year ended January 31, 2010

**Note 1 - Summary of Significant Accounting Policies - cont'd:**

(c) Fixed Assets - cont'd

Fixed assets are recorded at cost. Depreciation is calculated on the straight-line basis over the estimated useful life or on the declining balance method using varying rates.

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 major property and equipment are reflected in the year of disposition.

An impairment loss is recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. No impairment loss was recorded in 2009.

(d) Income Tax

The provision for income taxes is calculated after providing for a patronage allocation to members of \$3,137,518.

(e) Comprehensive Income

Comprehensive income consists of net savings and other comprehensive income. Since comprehensive income is the same as savings before income taxes and patronage refund to members, a statement of comprehensive income is not provided.

(f) Federated Co-operatives Limited Contract Sales

The Co-operative has entered into an arrangement with Federated Co-operatives Limited whereby the Co-operative will deliver bulk petroleum to Federated Co-operatives Limited contract customers. The Co-operative's policy is to treat these deliveries as sales of the Co-operative. During the year ended January 31, 2010, these sales amounted to \$10,895,135 (2009 - \$13,541,210).

**Note 2 - Pension Plan**

The Co-operative participates in a multi-employer defined contribution plan whereby the Co-operative and participating employees contribute equal amounts 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 \$264,068 (2008 - \$252,301) of expense relating to the plan. During the year, there were no significant changes to the rate of employer contributions.

**SHERWOOD CO-OPERATIVE ASSOCIATION LIMITED**  
Regina, Saskatchewan

**NOTES TO FINANCIAL STATEMENTS - Continued**  
for the year ended January 31, 2010

**Note 3 - Debt**

		<u>TOTAL</u>	<u>CURRENT PORTION</u>	<u>DEFERRED PORTION</u>
1.	Operating Loan			
	<p>The Co-operative has available a \$970,000 line of credit of which no amount has been drawn as at January 31, 2010. As security for this loan, the Credit Union holds a Specific Security Agreement over inventory and accounts receivable and an assignment of fire insurance over business assets (insofar as the Credit Union's interests apply)</p>			

**Note 4 - Operating Leases**

- (a) The Co-operative has entered into a lease agreement with Federated Co-operatives Limited for the lease of Quance Food Store. The term of the lease is from November 4, 2002 to October 31, 2022. Future yearly lease payments are 2.5% of the Quance Food Store sales.
  
- (b) The Co-operative has entered into lease agreements for other facilities with a total commitment of \$19,636,841. The future minimum lease payments for the next 5 years amount to:

2010	1,121,726
2011	1,121,726
2012	1,127,209
2013	1,187,516
2014	1,190,849

**SHERWOOD CO-OPERATIVE ASSOCIATION LIMITED**  
Regina, Saskatchewan

**NOTES TO FINANCIAL STATEMENTS - Continued**  
for the year ended January 31, 2010

**Note 5 - Members' Share Capital**

	<u>THIS YEAR</u>	<u>LAST YEAR</u>
Authorized, Unlimited @ \$1		
Balance, Beginning of Year	20,612,118	18,900,142
Allocation to Members	3,137,518	3,757,413
Cash From New Members	15,820	15,640
GST on Allocation	120,982	130,649
Shares Transferred from Reserves	10,905	-
	<u>23,897,343</u>	<u>22,803,844</u>
Shares Transferred To Reserves	154,534	486,684
Withdrawals and Retirements	1,920,745	1,454,787
Withholding Tax	301,850	250,255
	<u>2,377,129</u>	<u>2,191,726</u>
Balance, End of Year	<u>21,520,214</u>	<u>20,612,118</u>

**Note 6 - Reserves and Retained Savings**

	<b>Statutory Reserve</b>	<b>General Reserve</b>	<b>Retained Savings</b>	<b>Total</b>	<b>Last Year</b>
Balance, Beginning of Year	3,454,347	8,295,956	2,051,536	13,801,839	10,912,262
Net Savings Distributed to Retained Savings	-	-	2,039,202	2,039,202	2,402,893
Shares Transferred	143,629	-	-	143,629	486,684
Appropriation From Retained Savings	291,075	2,040,000	(2,331,075)	-	-
Balance, End of Year	<u>3,889,051</u>	<u>10,335,956</u>	<u>1,759,663</u>	<u>15,984,670</u>	<u>13,801,839</u>

**SHERWOOD CO-OPERATIVE ASSOCIATION LIMITED**  
**Regina, Saskatchewan**

**NOTES TO FINANCIAL STATEMENTS - Continued**  
**for the year ended January 31, 2010**

**Note 7 - Accounts Receivable - Customer**

Shown net of an allowance for doubtful accounts of \$150,000 (last year - \$68,000) .

	<u>THIS YEAR</u>	<u>LAST YEAR</u>
<b>Note 8 - Bad Debts Included in Expenses:</b>		
Increase (Decrease) in Allowance for Doubtful Accounts	82,000	(12,000)
Bad Debts Written Off During the Year	14,761	37,735
	<u>96,761</u>	<u>25,735</u>
Less: Recovery of Bad Debts Written Off Previously	<u>(496)</u>	<u>(40)</u>
Bad Debts Expense	<u>96,265</u>	<u>25,695</u>

**Note 9 - Interest Revenue Consists of the Following:**

Interest Expense on		
- Short Term Debt	605	1,952
Interest Revenue	<u>(186,893)</u>	<u>(482,354)</u>
	<u>(186,288)</u>	<u>(480,402)</u>

**SHERWOOD CO-OPERATIVE ASSOCIATION LIMITED**  
**Regina, Saskatchewan**

**NOTES TO FINANCIAL STATEMENTS - Continued**  
**for the year ended January 31, 2010**

**Note 10 - Financial Instruments and Risk Management**

(a) Capital Management

The Co-operative applies prudent fiscal management policies and practices designed to generate adequate levels of earnings, 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.

(b) Credit Risk

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

(c) Interest Rate Risk

The Co-operative's sensitivity to fluctuations in interest rates is limited to certain of its cash and funds on deposit. The Co-operative manages its exposure to interest rate risk through floating rate borrowings.

(d) Fair Value

The carrying amounts of financial assets and liabilities, except the investment in FCL, approximate their fair value due to the relatively short periods to maturity, demand nature or floating nature of interest related to these instruments. The estimated fair value of the investment in FCL is not determinable as no available comparative market information exists.

**Note 11 - FCL Special Deposit:**

Amounts held as special deposit earned interest at rates based on prime rates.

**SHERWOOD CO-OPERATIVE ASSOCIATION LIMITED**  
**Regina, Saskatchewan**

**NOTES TO FINANCIAL STATEMENTS - Continued**  
**for the year ended January 31, 2010**

**Note 12 - Segmented Information**

The Co-operative's business operations are grouped into two business segments, the principal activities of which are as follows:

- a) Food Division, which consists of the sale and distribution of food products.
- b) Non Food Division, which consists of the sale and distribution of petroleum, lumber, hardware, agro, gas bar and convenience store products.

	<u>2009</u>	<u>2008</u>
Sales:		
Food Division	\$ 36,590,251	\$ 32,960,821
Non Food Division	89,011,177	91,739,423
	<u>125,601,428</u>	<u>124,700,244</u>
 Savings (Loss) From Operations		
Food Division	(475,194)	(922,657)
Non Food Division	936,150	924,498
	<u>460,956</u>	<u>1,841</u>

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

**Note 13 - Commitments**

The Co-operative is committed to the construction of a C-Store in Regina. The estimated cost of construction in the next year is approximately \$4,611,000 which will be financed by FCL and through operations.

**SHERWOOD CO-OPERATIVE ASSOCIATION LIMITED**  
**Regina, Saskatchewan**

**STATISTICAL INFORMATION**

**RECORD OF SALES AND SAVINGS**

	<u>YEAR</u>	<u>SALES</u>	<u>SAVINGS</u> *	<u>PERCENTAGE</u>
From Date of Incorporation April 8, 1931 to January 31,	2000	1,207,326,905	26,367,301	2.2
For the Year Ended January 31,	2001	57,350,773	440,533	0.8
	2002	57,293,323	1,510,616	2.6
	2003	64,710,482	1,856,732	2.9
	2004	69,746,978	1,688,157	2.4
	2005	76,348,787	1,985,780	2.6
	2006	83,306,654	2,347,926	2.8
	2007	88,795,376	3,697,029	4.1
	2008	101,008,869	6,470,411	6.4
	2009	124,700,244	7,465,850	6.0
	2010	125,601,428	5,821,507	4.6
		<u>2,056,189,819</u>	<u>59,651,842</u>	<u>2.9</u>

\*This is savings before income taxes and patronage refund to members.

**MEMBERSHIP**

Members Purchasing During the Year	38,022
Inactive Members	<u>11,141</u>
Total Members	<u>49,163</u>