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# ANNUAL REPORT 2009

**YOUR Credit Union's Success  
is Built One Member at a Time**



Where Membership is Ownership

# TCSBECU Annual Report 2009

## TCSBECU BOARD OF DIRECTORS



Horace E. Moore  
President /Chair



Waldo Aristizábal  
Vice President



Althea Parsons  
Corporate Secretary



Lewis Thomas  
Director



Paula Chambers  
Director



Courtney Doldron  
Director



Maria Leitao  
Director

## TCSBECU STAFF



Sonia Coombs-Carpio  
CEO/General Manager



Faye Castle  
Branch Administrator



Kathleen Vieira  
Senior Lending  
Services Officer



Charmaine Coy  
Lending Services Officer



Amanda Matthews  
Member Services Officer



Kimberly Kavanagh  
Member Services  
Representative



Sezina D'Souza  
Member Services  
Representative

# TCSBECU Annual Report 2009

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## REPORT OF THE GENERAL MANAGER



Welcome to our 38th Annual General Meeting.

2009 was an exciting but challenging year for our credit union. The recession that prevailed during the year affected several sectors of the economy and had a negative impact on our credit union. Our operation has been severely affected by low interest rates, high loan costs and ATM fraud. The strategies we implemented in the last quarter of 2008 and into 2009 had a positive result which is reflected in our asset growth of 17.26%. With regulatory changes, and our requirement

to implement the new accounting standards, we remained committed to our mission, vision, core values and our strong commitment to you, our member owners. With that in mind, I am pleased to present the management report to the membership of the Toronto Catholic School Board Employees Credit Union.

During the year ended December 31, 2009, total assets increased from \$24,149,461 to \$28,317,178. This represents an increase of \$4,167,717 or 17.26%.

Net interest and other income decreased by \$140,119 or 16% from \$877,639 in 2008 primarily due to low interest rates. Total expenses decreased during 2009 by \$43,662 or 5.13% from \$850,581 in 2008 despite the fact that we had our best growth ever. As a result of our ability to closely monitor our investments we were able to realize a capital gain of \$35,614 in 2009 compared to \$21,700 in 2008.

### OUR 2009 ACCOMPLISHMENTS:

- Chip Card implementation on target
- E-statements successfully launched
- Stronger relationship with The Angel Foundation for Learning and community initiatives
- Continued commitment to building a high performing service team
- Continued to facilitate presentations and visit our schools
- Created "Our Credit Union Story" booklet

I would like to acknowledge the assistance of our past Director, Mary Ellen Lawless in creating Our Credit Union Story. Mary Ellen was also a recipient of the Distinguished Service Award.

With other pressing financial priorities the Member Survey development has been put on hold until 2011. We do continue to receive member feedback in other ways in order to monitor our performance.

As well as the day to day operations of the credit union we began to prepare for the required conversion from Canadian Generally Accepted Accounting Principles (GAAP) to the newly adopted International

Financial Reporting Standards (IFRS). While the impact of these changes will be minimal, it will require that TCSBECU plan and prepare for this conversion effective January 1, 2011. The Credit Unions and Caisses Populaires Act was amended and the credit union was faced with a number of significant changes which took effect on October, 1, 2009. In addition, changes were required to our capital and liquidity management policies. We have updated our by-laws which the Board of Directors has approved to ensure we are in compliance with the new regulations. These by-laws are brought to you, the membership, for consideration and approval at this annual meeting.

### OUR 2010 COMMITMENTS

- Return the credit union to profitability
- Reduce Operational Expenses
- Focus on Deposit and Loan growth
  - Member growth initiatives
  - Competitive rates
  - Quarterly loan campaigns
  - Introduction of new products
  - Employee Group presentations
  - Membership Drive/Promotional Incentives

Your credit union does not share information with other entities of the Toronto Catholic District School Board.

### OUR 2010 ACTIVITIES

- School Bursary Award
- School Community Award
- Distinguished Service Awards
- Angel Foundation Strategic Alliance
- Complimentary monthly coffee breaks in partnership with the Angel Foundation for Learning

Management, with the support of the Board of Directors continues to take the necessary steps to reduce operating expenses while looking for innovative ways to grow our business and attract new members. We remain dedicated to our credit union's financial success in the immediate future and beyond.

Your Board of Directors, Management and staff acknowledge the trust you put in us every day and we thank you for your continued support of the Toronto Catholic School Board Employees Credit Union.

Sincerely,  
**Sonia Coombs-Carpio,**  
CEO/General Manager

## REPORT OF THE BOARD OF DIRECTORS

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The 2009 annual report of the Toronto Catholic School Board Employees Credit Union reflects a year of challenges in a difficult global economic climate. We have faced and continue to experience the significance of an economic downturn and the consequences arising from the reality of this situation.

The prime rate reduction to its lowest historical level, has impacted the main source of our Credit Union revenue base. Essentially when interest rates are this low, margins are slim and there is little room for profit.

This year's interest revenues declined by approximately twelve percent (12%). Our Credit Union also saw an escalation in member card fraud and loan cost remained at a very high level. All these factors contributed to an erosion of our bottom line and a decline in profitability. This trend was replicated throughout the Credit Union industry especially among Credit Unions of similar size.

Positives for 2009 included an asset growth of over four million dollars and a quadruple increase in fixed investment income. During this period our expenses remained fairly stable, however our loan demand was low, leading to a decline in profit margins. Throughout the year your Board of Directors and Management team collaborated on strategies to guide the Credit Union towards growth opportunities. To this end, we formulated an action plan (included in our vision for tomorrow) to assist in the process of full recovery.

On the legislative front, we are working at bringing the Toronto Catholic School Board Employees Credit Union into compliance with recent amendments to the Credit Unions and Caisses Populaires Act 1994 and new regulations passed under that legislation. It is to be noted that the merger between Ontario Central and B.C. Central is now complete. **Central 1** has emerged from the partnership.

### A VISION FOR TOMORROW

Recent pronouncements of a more vibrant Canadian economic future and the projections of increasing interest rates, support our vision of complete recovery. We have adopted the following action plan to mitigate future similar difficult situations:

- Zero Based Budgeting (All expenditures will be meticulously examined as to profitability impact, before approval)
- Aggressive Marketing of Loans, other products and services (Surveying and making recommendations to individual members)
- A Creative but Prudent Investment Strategy (Seeking better returns on cash reserves through diversification)
- Joining together with Credit Unions of similar size and bond to identify areas of cooperation in reducing costs to better compete and seize every opportunity.

I applaud the efforts of our management and staff in helping our members to reach a brighter financial future. I would also like to extend my personal thanks to a hard working Board of Directors.

We remain confident that the Toronto Catholic School Board Employees Credit Union will be able to successfully respond to the challenges of our times and seize all opportunities that lie ahead.

Respectfully Submitted,

**Horace E. Moore**

President/Chair, TCSBECU Board of Directors

## REPORT OF THE LOAN DEPARTMENT

On behalf of the credit union loan department, it is my pleasure to report on the lending activities during the year of 2009.

A total of 284 loan applications were submitted for consideration as outlined below:

TYPE OF LOAN	NUMBER	DOLLAR VALUE
Personal	173	\$ 1,701,431.82
Lines of Credit	25	\$ 102,800.00
Mortgages	3	\$ 389,270.95
Meritlines®	33	\$ 3,889,517.10
Bridge Loans	0	\$ 0
<b>Total Approved</b>	<b>234</b>	<b>\$ \$6,083,019.87</b>
<b>Declined</b>	<b>50</b>	

***Your Credit Union is autonomous and independent from all departments of the School Board and member confidentiality is strictly observed.***

### APPROVED LOANS

Applications are submitted for many and varied purposes, debt consolidation, vehicle purchases, education, vacations and home renovations.

The purpose and security offered are integral components of the evaluation process.

### DECLINED LOANS

The Credit Union has an obligation to protect members' deposits. We would like to assure members that each application is given fair and careful consideration. The loan is reviewed by both the Senior Lending

Services Officer and the General Manager. Regrettably a number of applications were still declined, due to credit weakness and undue risk to the Credit Union.

### DELINQUENT LOANS

At the end of fiscal year 2009 there were 2 (two) personal loans in arrears greater than 90 days, for an aggregate total of **\$31,885.65**, with accrued interest owing of **\$712.95**.

### BANKRUPTCY ASSIGNMENT AND CONSUMER PROPOSAL

Although every effort is made to ensure that loans granted are as risk free as possible, members' circumstances change and unfortunately some loans do become uncollectable.

We regret to report that there were 2 (two) bankruptcy assignments in 2009 for an aggregate total amount of **\$20,945.48**.

We also had a total of 3 (three) consumer proposals in 2009 for an aggregate total amount of **\$16,592.37**.

### MEMBER CARD LOSS

Every effort is being made to monitor compromised ATM activity and educate members on safeguarding their cards and PINs to minimize loss, however member card loss in 2009 totaled **\$6,099.31**.

### Loan Department

**Kathleen Vieira**, Senior Lending Services Officer  
**Charmaine Coy**, Lending Services Officer



**Kathleen Vieira**,  
Senior Lending Services Officer



**Charmaine Coy**,  
Lending Services Officer

## REPORT OF THE GOVERNANCE COMMITTEE



Dear TCSB Employees Credit Union Members:

This was the fourth year that I have had the pleasure of chairing the Governance Committee. Committee members were: **Horace Moore, ex officio; Courtney Doldron; Althea Parsons; Lew Thomas; and myself, Paula Chambers, Chair.**

During the 2009 year, the Governance Committee met formally throughout the year to review policy as outlined in the Credit Union Policy Binder and completed the review of the entire binder.

The completion of updates to the binder came at a fortunate time because this year heralded revisions to the Credit Unions Act. An Ad Hoc Committee consisting of Horace Moore, Chair, a consultant, and I reviewed policies of TCSBECU and presented the findings to the Board of Directors in a written report for discussion and approval with the full Board. Any immediate changes, after being voted on for approval, were then referred to the appropriate committee for implementation.

The 2010 year will mean a continued review of TCSBECU regulations to ensure that they are in compliance with the new changes to the Credit Unions Act.

Respectfully Submitted,  
**Paula Chambers**,  
Chair, Governance Committee

## REPORT OF THE MEMBER RELATIONS COMMITTEE

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It is my pleasure to present this report on behalf of the Member Relations Committee. The committee also consists of **Horace Moore, ex officio, Lewis Thomas, Althea Parsons, Maria Leitao and the CEO/General Manager Sonia Coombs-Carpio.**

The Member Relations Committee meets not more than twice yearly with 3 to 5 members, to review service and technology in respect to quality of service, Credit Union image and service delivery channels. This is vital to ensure continued and future viability and growth, reaching as many members and potential members as possible.

We continually research innovative ways to convey our Credit Union message to members and those who have yet to join the Credit Union family. We consistently strive to bring value-added products and services to our members and to keep up with evolving technology. The Credit Union has transferred our paper statement delivery to E-statements in 2009 to decrease our global carbon footprint, while contributing to cost savings and convenience for all Credit Union members.

The Board of Directors once again through our partnership with The Angel Foundation for Learning, awarded a School Community Award in 2009, to a deserving school who promotes school spirit and stronger community relationships and a Bursary award to a secondary student to help defray the costs of continuing education.

We would like all our members to spread the good news that your family members and fellow employees can benefit from membership in your Credit Union where "Membership is Ownership".

In closing, I would like to extend our sincerest appreciation to you, our members and the Toronto Catholic District School Board Community for your continued loyalty and support.

Respectfully Submitted,  
**Waldo Aristizábal,**  
Chair, Member Relations Committee

## REPORT OF THE NOMINATING COMMITTEE

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The Nominating Committee consists of myself, **Horace Moore, Althea Parsons, Courtney Doldron and Lewis Thomas.**

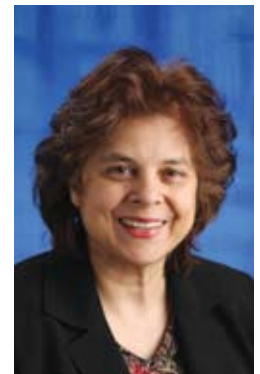
The committee's main responsibility is to ensure that Credit Union members are aware of their opportunity to run for election for the Board of Directors each year.

Call For Nomination is available to all members prior to each Annual General Meeting and we ensure the Nomination Form, Nomination Information and Orientation Package are all available on our website.

The committee sets a timeline for nominations to be accepted, assesses all candidates for eligibility criteria and meets with all candidates for an

Orientation to review duties and obligations of a Director.

Respectfully Submitted,  
**Maria Leitao,**  
Chair, Nominating Committee



## REPORT OF THE AUDIT COMMITTEE



The Audit Committee is mandated by provincial legislation. It has oversight responsibility for our Credit Union's financial reporting process and the quality of its financial reporting.

Section 27 (2) of the regulations prescribes the contents of the report as:

1. The number of meetings held by the committee during the year.
2. A summary of the significant activities undertaken by the committee during the year and a description of the actual and expected results.

3. Confirmation that the committee is conducting its affairs in accordance with the Act and the accompanying regulations.
4. Information on any failure of the credit union to implement or complete the implementation of any significant recommendation previously made by the Audit Committee.
5. Details of any other matter that are required to be disclosed pursuant to the Act or Regulations.

Section 27 (3) of the Regulations:

The Audit Committee may, in its annual report, report on such other matters as the committee considers appropriate.

The Committee is made up of five Directors including myself as Chair, the president as an ex officio member and **Sonia Coombs-Carpio**, General Manager/CEO. The Committee met five times during the year.

**During 2009 the Committee continued to focus on 3 areas:**

- Reviewing key financial disclosure reports
- Ensuring adequacy of internal controls
- Overseeing the work of our external auditors

**In addition, the committee addressed:**

- Monitoring the adherence of the Credit Union's Directors, Officers and employees, to its Code of Conduct
- Reviewing the Credit Union's policies and procedures governing the way in which it meets the requirements under the Act regarding liquidity, capital adequacy and interest rate risk management
- Reviewing the Credit Union's Disaster Recovery Plan
- Making recommendations for the audit appointment for the coming fiscal year

**A resolution confirming our Credit Union's adherence to the Deposit Insurance Corporation of Ontario By-law #5 Standards of Business and Financial Practices has been approved by the Board of Directors and a copy forwarded to DICO as prescribed, within 75 days of our institution's fiscal year end.**

Respectfully Submitted,  
**Courtney Doldron, OCT**  
Chair, Audit Committee

## AUDITORS' REPORT

To the Members of

**Toronto Catholic School Board Employees Credit Union Limited:**

We have audited the balance sheet of Toronto Catholic School Board Employees Credit Union Limited as at December 31, 2009 and the statements of members' equity, comprehensive income, operations and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union'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 Credit Union as at December 31, 2009 and the results of its operations and the changes in its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



**Retford Lane Bates LLP**  
Licensed Public Accountants  
February 3, 2010

## BALANCE SHEET AS AT DECEMBER 31, 2009

	2009	2008
<b>ASSETS</b>		
Cash resources	\$ 1,716,656	\$ 527,572
Investments (Note 3)	6,259,036	2,948,729
Loans to members (Note 4 and 5)	20,280,789	20,600,333
Other assets (Note 6)	24,527	27,504
Capital assets (Note 7)	36,170	45,323
	\$ 28,317,178	\$ 24,149,461
<b>LIABILITIES</b>		
Members' deposits (Note 8)	\$ 26,664,303	\$ 22,433,140
Other liabilities	51,351	72,112
Member shares (Note 9)	411,082	412,255
	27,126,736	22,917,507
<b>MEMBERS' EQUITY</b>		
Retained earnings	1,217,529	1,231,954
Accumulated other comprehensive loss	(27,087)	-
	1,190,442	1,231,954
	\$ 28,317,178	\$ 24,149,461

Commitments (Notes 5 and 16)

Approved by the Board,

  
Director

  
Director

## STATEMENT OF MEMBERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2009

	2009	2008
<b>Retained earnings</b>		
Balance, beginning of the year	\$ 1,231,954	\$ 1,229,400
Net (loss) income for the year	(14,425)	2,554
Retained earnings, end of the year	1,217,529	1,231,954
<b>Accumulated other comprehensive loss</b>		
Balance, beginning of the year	-	-
Other comprehensive loss for the year	(27,087)	-
Balance, end of the year	(27,087)	-
<b>Total members' equity, end of the year</b>	<b>\$ 1,190,442</b>	<b>\$ 1,231,954</b>

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2009

	2009	2008
Net (loss) income for the year	\$ (14,425)	\$ 2,554
<b>Other comprehensive loss</b>		
Unrealized (loss) gain on investments classified as available for sale, net of tax effect	(27,087)	-
Other comprehensive loss for the year	(27,087)	-
<b>Comprehensive (loss) income, for the year</b>	<b>\$ (41,512)</b>	<b>\$ 2,554</b>

## STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2009

	2009	2008
<b>Interest income (Note 11)</b>		
Member loans	\$ 976,852	\$ 1,102,482
Investment income	88,523	110,828
	<b>1,065,375</b>	<b>1,213,310</b>
<b>Interest expense</b>		
Member deposits (Note 12)	424,713	371,449
External borrowings	231	3,996
	<b>424,944</b>	<b>375,445</b>
<b>Net interest income</b>	<b>640,431</b>	<b>837,865</b>
<b>Provision for impaired loans (Note 5)</b>	<b>40,181</b>	<b>51,510</b>
<b>Net interest income after loan losses</b>	<b>600,250</b>	<b>786,355</b>
<b>Other income</b>	<b>137,000</b>	<b>91,014</b>
<b>Net interest and other income</b>	<b>737,250</b>	<b>877,369</b>
<b>Operating expenses</b>		
Amortization	11,850	11,764
Deposit insurance	21,932	19,992
Administrative (Schedule)	420,624	476,442
Salaries and benefits	352,513	342,383
	<b>806,919</b>	<b>850,581</b>
<b>(Loss) income before the undernoted</b>	<b>(69,669)</b>	<b>26,788</b>
<b>Investment gains and losses</b>		
Gain (loss) on ABCP 2008 Limited Partnership units (Note 3)	16,982	(34,911)
Write-down of CUCO shares (Note 3)	-	(10,523)
Gain on other investments	35,614	21,700
	<b>52,596</b>	<b>(23,734)</b>
<b>(Loss) income before income taxes</b>	<b>(17,073)</b>	<b>3,054</b>
<b>Income taxes (recovered)</b>		
Current	(3,648)	700
Future	1,000	(200)
	<b>(2,648)</b>	<b>500</b>
<b>Net (loss) income for the year</b>	<b>\$ (14,425)</b>	<b>\$ 2,554</b>

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2009

	2009	2008
<b>Cash flows from operating activities</b>		
Net (loss) income for the year	\$ (14,425)	\$ 2,554
Items not affecting cash:		
Amortization	11,850	11,764
Provision for impaired loans	40,181	51,510
Gain (loss) on ABCP 2008 Limited Partnership units	(16,982)	34,911
Write-down of CUOCO shares	-	10,523
Gain on other investments	(35,614)	(21,700)
Future income taxes	1,000	(200)
	(13,990)	89,362
Changes in non-cash working capital:		
Other assets	1,977	(10,629)
Other liabilities	(20,762)	(32,966)
	(32,775)	45,767
<b>Cash flows from investing activities</b>		
Purchase of capital assets	(2,696)	(21,266)
Loans to members - net	279,363	(1,086,012)
Investments	(3,284,798)	34,095
	(3,008,131)	(1,073,183)
<b>Cash flows from financing activities</b>		
Decrease in term loan	-	(400,000)
Members' deposits	4,231,164	1,616,793
Member shares	(1,174)	(8,612)
	4,229,990	1,208,181
<b>Increase in cash resources</b>	<b>1,189,084</b>	<b>180,765</b>
<b>Cash resources, beginning of the year</b>	<b>527,572</b>	<b>346,807</b>
<b>Cash resources, end of the year</b>	<b>\$ 1,716,656</b>	<b>\$ 527,572</b>
<b>SUPPLEMENTARY INFORMATION:</b>		
Interest paid	\$ 389,151	\$ 392,574
Income taxes paid (recovered)	(17,680)	8,309

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

### NATURE OF BUSINESS

Toronto Catholic School Board Employees Credit Union Limited (the "Credit Union") is a financial institution incorporated in Ontario under the Credit Unions and Caisses Populaires Act, and operates in accordance with this statute and the accompanying regulations. The Credit Union is a member of the Deposit Insurance Corporation of Ontario ("DICO") and Central 1 Credit Union ("Central 1"). The Credit Union provides financial products and services to members throughout Ontario.

### 1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with the preceding year. Outlined below are the accounting policies considered to be significant.

#### THE CREDIT UNIONS AND CAISSES POPULAIRES ACT, 1994 (THE "ACT")

Regulations to the Act specify that certain items are required to be disclosed in the financial statements which are presented at annual meetings of members. It is management's opinion that the disclosures in these financial statements and notes comply, in all material respects, with the requirements of the Act. Where necessary, estimates and interpretations have been made in presenting this information.

#### USE OF ESTIMATES

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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the year. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the year in which they become known.

#### INVESTMENTS

Investments designated as held for trading are carried at fair value based primarily on published market prices. Gains and losses are included in investment income for the period in which they arise.

Investments classified as loans and receivables are accounted for at amortized cost using the effective interest method.

Investments designated as available for sale are carried at fair value where such a value can be reliably measured, otherwise they are carried at cost. Unrealized gains and losses are recognized directly in other comprehensive income. In the period in which the asset is sold, or otherwise derecognized, the cumulative gain or loss, previously recorded in accumulated other comprehensive income, is recognized in net income.

#### COMPREHENSIVE INCOME

Comprehensive income is comprised of Net income and Other comprehensive income (OCI). For the Credit Union, OCI represents the change in Members' equity during the year that is attributable to unrealized gains and losses on financial assets classified as available for sale, net of taxes. Consequently, the financial statements include a Statement of Comprehensive Income for the changes during the year, while cumulative changes in OCI are included in Accumulated other comprehensive income, which is presented as a category of Members' equity on the Balance Sheet.

### CAPITAL ASSETS

Capital assets are stated at acquisition cost. Amortization is calculated using the methods set out below at annual rates based on their estimated useful lives as follows:

Asset	Rate	Method
Furniture and equipment	10 years	straight line
Computer and office equipment	5 years	straight line
Leasehold improvements	15 years	straight line

### LOANS TO MEMBERS

Loans to members are stated at cost which includes amounts advanced and applicable charges, less repayments. Interest is accounted for on the accrual basis for all loans other than impaired loans.

A loan is classified as impaired when a specific provision has been established or a write-off taken or when, in the opinion of management, there is reasonable doubt as to the ultimate collectibility of principal or interest. A loan is also classified as impaired when interest or principal is contractually 90 days past due, unless the loan is fully secured and in the process of collection. Fully secured loans are classified as impaired after a delinquency period of 180 days.

Once a loan is classified as impaired, all previously accrued interest is reversed and charged against current income unless the amount is fully secured. Loans are generally returned to accrual status when all delinquent principal and interest payments are brought current and the timely collection of both principal and interest is reasonably assured.

### ALLOWANCE FOR IMPAIRED LOANS

The allowance for impaired loans is maintained in an amount considered adequate to absorb estimated credit related losses in the loan portfolio. The allowance for impaired loans reflects management's best estimate of the losses existing in the loan portfolio and their judgements about current economic conditions. If the circumstances under which these estimates were made change, there could be a significant change to the allowance for impaired loans.

The allowance is increased by provisions for impaired loans which are charged to earnings and reduced by amounts written off, net of recoveries. Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and there is no realistic prospect of recovery.

### MEMBERS' DEPOSITS

Members' deposits are recorded at amortized cost. Interest expense is recorded using the effective interest rate method over the terms of the deposits.

### MEMBER SHARES

As the Credit Union's shares are retractable at the option of the member, they are presented in the balance sheet as financial liabilities. Notwithstanding their financial statement classification, these liabilities qualify as capital for regulatory purposes. Dividends or other payments related to member shareholdings are reported in the statement of operations and retained earnings as a financial expense.

### REVENUE RECOGNITION

Interest revenue is recognized using the effective yield method when collectibility is reasonably assured. Other income is recorded as services are performed.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

### INCOME TAXES

The Credit Union follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases.

### FOREIGN CURRENCIES

The monetary assets and liabilities of the Credit Union denominated in foreign currencies are translated at the rates of exchange at the balance sheet date. Revenues and expenses are translated at the actual rates in effect at the transaction date. Exchange gains or losses are included in earnings.

## 2. FUTURE CHANGES IN ACCOUNTING POLICY

In January 2010, the Canadian Accounting Standards Board introduced International Financial Reporting Standards (IFRS) into Part 1 of the Canadian Institute of Chartered Accountants Handbook to replace Canadian GAAP for publicly accountable enterprises for interim and annual periods beginning on or after January 1, 2011, including the restatement of the comparative period financial statements on the same basis. As a credit union, we are included in the definition of a publicly accountable enterprise and, as such, we will be required to prepare the December 31, 2011 financial statements, including comparative information for 2010, in compliance with IFRS.

The Credit Union's project plan includes three phases: (1) scope and plan, (2) design and build, and (3) implement and review. The scope and plan phase is underway and the standards that are expected to have a significant impact on the Credit Union's recognition, measurement, presentation and disclosure of its financial statements are being identified.

We are in the process of assessing the differences between our current accounting policies and those provided by IFRS, as well as the elections and policy choices available on adoption. Our assessment will include the potential impact of the conversion effort on our systems, internal controls over financial reporting, disclosure controls and business activities.

Significant changes to IFRS accounting standards are expected to be issued by the International Accounting Standards Board throughout 2010 and 2011. As a result, there is uncertainty regarding the expected accounting standards that will ultimately be in place in 2011 and, therefore, applicable to our first IFRS financial statements, including comparatives and opening IFRS balance sheet. Our IFRS project plan includes activities to ensure we monitor these changes. At this point in the project, we are not able to reasonably estimate the quantitative impact of transitioning to IFRS on our financial statements.

## 3. INVESTMENTS

	2009	2008
<b>Loans and receivables</b>		
Central 1		
Liquidity reserve deposit	\$ 1,849,815	\$ -
Term deposits	10,499	-
Accrued interest	16,177	-
	<b>1,876,491</b>	-
<b>Held for Trading</b>		
Central 1		
Liquidity reserve deposit	-	1,717,742
Corporate notes and bonds	-	256,538
Bank extendible notes and debentures	-	520,074
RBC Money Market Fund	-	137,840
ABCP 2008 Limited Partnership	111,000	120,184
	<b>111,000</b>	<b>2,752,378</b>
<b>Available for Sale</b>		
Corporate notes and bonds	4,090,974	-
Credit Union Central of Ontario shares	31,782	196,350
Central 1 Class A shares	59,989	1
Central 1 Class E shares	88,800	-
	<b>4,271,545</b>	<b>196,351</b>
	<b>\$ 6,259,036</b>	<b>\$ 2,948,729</b>
<b>Market Value</b>	<b>\$ 6,264,664</b>	<b>\$ 2,948,779</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

### 3. INVESTMENTS (CONTINUED)

#### Central 1 Credit Union liquidity reserve deposit

As a condition of maintaining membership in Central 1 in good standing, the Credit Union is required to maintain on deposit in Central 1 an amount equal to 7% of the Credit Union's total assets updated at each calendar quarter end. The liquidity reserve deposit bears interest at a rate which is fixed periodically and is callable by the Credit Union on ninety days notice.

#### Central 1 Credit Union shares

Effective July 1, 2008, Credit Union Central of Ontario (CUCO) merged with Credit Union Central of British Columbia to form a new entity, Central 1. Central 1 assumes the responsibility of being the credit union central in both provinces.

As a condition of maintaining membership in Central 1, the Credit Union is required to maintain a minimum level of investment in shares of Central 1. The minimum level of investment is determined annually based on the Credit Union's total assets at year end. The merger was affected through the acquisition of CUCO's net assets and the Credit Union has received the Class A and Class E shares in Central 1.

During the prior year, the value of the remaining CUCO shares were determined to be impaired and were written down based on guidance provided by CUCO.

No market exists for the shares of CUCO or Central 1. The shares may be surrendered upon withdrawal from membership. The proceeds and terms of payment are to be negotiated at the time.

#### ABCP 2008 Limited Partnership

As a pre-condition of the merger to form Central 1, CUCO was required to divest itself of investments in certain third-party asset-backed commercial paper (ABCP). The resolution approved the creation of a limited partnership, ABCP 2008 Limited Partnership ("ABCP LP"), to acquire these investments

funded by member credit unions in proportion to their share investment in CUCO. The Credit Union owns ABCP LP units equal to 0.1323% of the partnership. The ABCP LP is governed by a board of directors that was elected by the unit holders.

Approximately 80% of the ABCP held in the partnership was subject to a court-sanctioned restructuring process known as the "Montreal Accord". The remaining investment was in Apex Trust which was restructured by the sponsor. Both restructurings involved replacing the original short-term ABCP with various classes of long-term notes. The notes bear a variety of interest rates between 0% and 5% with most floating with a premium or discount to the Bankers' Acceptance rate.

As at September 30, 2009, the ABCP LP determined or estimated the principal characteristics of its notes, including the interest rate, maturity date and credit rating. It then estimated the yield that a potential investor would require to purchase each class of notes. The ABCP LP used this information to calculate a fair value for each class of notes. Based upon a sensitivity analysis of the assumptions used, the expected yield required by a potential investor remains the most significant assumption included in the fair value estimate.

Although there has been some trading activity in the notes held by ABCP LP, it is felt that an active market on which a fair value could be based has not been established for the following reasons: there are only a small number of brokers and buyers; transactions are not regularly occurring; there is a very wide difference between bid and ask values and final prices are negotiated; and relative to a discounted cash flow value, sales are occurring on a distressed basis.

The Credit Union carries its investment in the ABCP LP at its share of the fair value of the partnership as estimated by the general partner. There can be no assurance that this estimate will be realized. Subsequent adjustments, which could be material, may be required in the future.

### 4. LOANS TO MEMBERS

	2009	2008
Mortgages	\$ 17,760,310	\$ 18,265,445
Personal	2,620,989	2,392,822
Accrued interest	41,209	57,443
	<b>20,422,508</b>	20,715,710
Less allowance for impaired loans (Note 5)	<b>(141,719)</b>	(115,377)
	<b>\$ 20,280,789</b>	\$ 20,600,333

The loan classifications set out above are as defined in the regulations to the Act. The Credit Union has established loan concentration policies to ensure a prudent diversification of the types of loans in its portfolio. Additionally, the Credit Union has a maximum limit on the value of loans to an individual and connected parties. The maximum amount varies depending on the type of loan.

Mortgage loans are repayable in weekly, bi-weekly, semi-monthly or monthly blended principal and interest instalments over a maximum term of five years based on a maximum amortization period of thirty years. Line of credit loans, secured by mortgages, require monthly interest only payments.

Personal loans are repayable in weekly, bi-weekly, semi-monthly or monthly blended

principal and interest instalments and have a maximum term of five years. Contract loans are revolving lines of credit with no fixed maturity dates. They are repayable in monthly blended principal and interest instalments equal to 3.00% of the principal outstanding.

As at December 31, 2009, the approved and unused line of credit limits amount to \$5,877,446 (2008 - \$4,717,393).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

### 5. ALLOWANCE FOR IMPAIRED LOANS

	2009		2008	
Balance at beginning of year	\$	115,377	\$	71,760
Loans written off		(14,313)		(7,893)
Loans recovered		474		-
		<b>101,538</b>		63,867
Provision charged to operations		<b>40,181</b>		51,510
Balance at end of year	\$	<b>141,719</b>	\$	115,377

The allowance for impaired loans provided for in the accounts of the Credit Union is in accordance, in all material respects, with DICO's by-law governing such allowances.

	Allowance for impaired loans balance		Aggregate impaired loans	
	2009	2008	2009	2008
Mortgages	\$ -	\$ -	\$ -	\$ -
Personal	<b>141,719</b>	115,377	<b>159,555</b>	96,057
	<b>\$ 141,719</b>	\$ 115,377	<b>\$ 159,555</b>	\$ 96,057

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of the loans that are past due, but not considered impaired.

	2009		2008	
Mortgages	\$	378,897	\$	-
Personal		54,672		88,709
Total	\$	<b>433,569</b>	\$	88,709

### 6. OTHER ASSETS

	2009		2008	
Other receivable	\$	9,706	\$	2,722
Prepaid expenses		1,315		1,596
Income taxes receivable		9,306		17,986
Future income taxes		4,200		5,200
	\$	<b>24,527</b>	\$	27,504

### 7. CAPITAL ASSETS

	Cost	Accumulated Amortization	2009 Net Book Value	2008 Net Book Value
Furniture and equipment	\$ 34,665	\$ 23,985	\$ <b>10,680</b>	\$ 12,359
Computer and office equipment	67,033	54,198	<b>12,835</b>	18,002
Leasehold improvements	44,267	31,612	<b>12,655</b>	14,962
	\$ 145,965	\$ 109,795	\$ <b>36,170</b>	\$ 45,323

Amortization expense for the year amounted to \$11,850 (2008 - \$11,764).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

### 8. MEMBERS' DEPOSITS

	2009	2008
Demand	\$ 3,711,292	\$ 3,088,752
Savings accounts	10,990,812	8,426,633
Term deposits	3,545,093	3,151,490
Registered savings plans	7,973,538	7,310,335
Registered income funds	350,931	349,587
Accrued interest	92,637	106,343
	<b>\$ 26,664,303</b>	<b>\$ 22,433,140</b>

**Term deposits** - Term deposits extend for terms up to five years. Certain deposits may be withdrawn prior to maturity dates subject to an interest penalty.

**Registered plans** - Concentra Trust is the trustee of the registered plans offered to the members. Under an agreement with the trust company,

members' contributions to these plans, as well as income earned on them, are deposited in the Credit Union. On withdrawal, payment of the plan proceeds is made to the members or their designates, by the Credit Union on behalf of the trust company.

### 9. MEMBER SHARES

As a condition of membership, each member must hold 27 shares with an issue price of \$5 each. As at December 31, 2009, there were 3,045 members (2008 - 3,053). Shares are redeemable only on withdrawal from membership, subject to the Credit Union meeting capital adequacy requirements, and the discretion of the directors who may require notice.

### 10. CAPITAL ADEQUACY

The Credit Union's capital management policy outlines the overall objectives to ensure that the Credit Union has sufficient capital needed to address the inherent risks of the Credit Union, ensure the long term viability of the Credit Union, and support its current and future operating plans.

The processes for managing capital include setting the policy for capital management, setting policies in related areas, establishing budgets and

reporting regularly to the board of directors regarding financial results and capital adequacy, in relation to the statutory minimum.

In accordance with the requirements of the Act and accompanying regulations, credit unions are required to maintain regulatory capital amounting to at least 5.0% of total assets. The Credit Union has established an internal policy to maintain regulatory capital at no less than of 6.0% of total assets.

As at December 31, 2009, the Credit Union is in compliance with the minimum statutory requirements for regulatory capital, as outlined in the following table:

	2009	2008
<b>Tier 1 capital</b>		
Membership shares	\$ 411,082	\$ 412,255
Retained earnings	1,217,529	1,231,954
	<b>\$ 1,628,611</b>	<b>\$ 1,644,209</b>
<b>Tier 2 capital</b>		
Non-specific loan loss provisions	3,189	20,400
Future tax asset (2008 only)	-	(5,200)
	<b>3,189</b>	<b>15,200</b>
<b>Total Regulatory Capital</b>	<b>\$ 1,631,800</b>	<b>\$ 1,659,409</b>
<b>Leverage test ratio:</b>	<b>5.8%</b>	<b>6.9%</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

### 11. INTEREST INCOME

Interest income is generated as follows:

	2009		2008	
Mortgage loans	\$	774,868	\$	868,635
Personal loans		201,984		233,847
Member loans		976,852		1,102,482
Investments classified as loans and receivable		20,080		-
Investments classified available for sale		9,919		-
Financial assets other than those held for trading		1,006,851		1,102,482
Investments classified as held for trading		58,524		110,828
	\$	1,065,375	\$	1,213,310

### 12. INTEREST EXPENSE ON MEMBER DEPOSITS

Interest expense on member deposits is generated as follows:

	2009		2008	
Demand	\$	135,490	\$	47,728
Term		84,712		113,739
Registered savings plans		195,803		198,051
Registered income funds		8,708		11,931
	\$	424,713	\$	371,449

### 13. INCOME TAXES

The Credit Union's basic statutory tax rate is approximately 16.5%. Future income taxes included in other assets is the cumulative amount of tax applicable to temporary differences between the carrying amount of

the assets and liabilities and their values for tax purposes. The temporary differences relate primarily to the amortized value of capital assets and the allowance for impaired loans.

### 14. COMMITMENTS

The Credit Union is committed under a lease agreement for premises expiring on June 30, 2013 to minimum annual occupancy costs as follows:

2010.....	\$10,851
2011.....	\$11,176
2012.....	\$11,512
2013.....	\$11,857

The Credit Union is party to a technology services agreement for core banking and other services. This agreement expires on December 31, 2013. The fees due under the agreement vary with transaction volumes. At December 31, 2009, the amount of this monthly commitment was approximately \$5,821.

### 15. RESTRICTED PARTY TRANSACTIONS

As at December 31, 2009, the aggregate value of interest-bearing personal and mortgage loans outstanding to directors, officers and their related parties totalled \$1,516,402 (2008 - \$1,975,928). There was no allowance for impaired loans required in respect of these loans as at December 31, 2009.

The regulations require the financial statements to disclose a general description of the nature, number and aggregate value of Restricted Party

transactions, as defined, and the allowance for loan losses related to such transactions. Restricted Party has been defined to include a person, and the person's relative, spouse, or relative of the spouse, who has been a director, officer or committee member in the preceding twelve months, and corporations in which the person owns more than 10% of the voting shares.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

### 16. ADDITIONAL DISCLOSURES REQUIRED BY THE ACT

Directors and committee members receive discounted interest rates on loans and an honorarium for attendance at meetings. The total honorarium expense for the year was \$10,425 (2008 - \$10,358).

Other board and committee meeting expenses total \$11,215 (2008 - \$11,316). Included in professional development expenses are \$2,347 (2008 - \$3,535) pertaining to director training.

### 17. FINANCIAL INSTRUMENTS

#### FAIR VALUE

The estimated fair value amounts approximate the amounts at which instruments could be exchanged in a current transaction between willing partners who are under no compulsion to act. The estimated fair values of the Credit Union's financial instruments and the valuation techniques and assumptions are set out below. The valuations may vary significantly based on the judgement used in estimating the amount and timing of future cash flows. As a result, the estimated fair values are not necessarily comparable across different organizations and may not be realizable. The estimation of fair values are based on market conditions at a specific point in time and may not be reflective of future fair values.

	Book Value	Estimated Fair Value	2009 Difference	2008 Difference
<b>Assets</b>				
Cash resources	\$ 1,716,656	\$ 1,716,656	\$ -	\$ -
Investments	6,259,036	6,264,664	5,628	-
Loans to members	20,280,789	20,408,916	128,127	(369,425)
<b>Liabilities</b>				
Members' deposits	(26,664,303)	(26,962,347)	(298,044)	(66,261)

The following methods and assumptions were used to estimate the fair value of financial instruments:

- (a) The fair value of cash resources are assumed to approximate their book value due to their short-term nature.
- (b) The fair value of investments are based on quoted market values.
- (c) The estimated fair value of variable rate loans and deposits are assumed to be equal to book value as the interest rates reprice to market on a periodic basis.
- (d) The estimated fair value of fixed rate loans and deposits is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

### 18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

#### LIQUIDITY RISK

The business of the Credit Union necessitates the management of liquidity risk. Liquidity risk is the risk that the Credit Union will be unable to pay obligations when they fall due, including the withdrawal of members' deposits or the funding of loans to members.

The Credit Union's liquidity management policy outlines the processes for managing liquidity risk, including maintaining high quality liquid investments, maintaining a credit facility with Central 1 and regularly reporting to the board of directors regarding the Credit Union's liquidity level, in relation to the statutory minimum. In addition, the Credit Union continually monitors cash flows, the significance of large deposits and loan commitments relative to its liquidity.

The Credit Union has available a total credit facility with Central 1 of \$1,505,000, as needed. This facility consists of: lines of credit in the

amount of \$455,000 CAD and \$5,000 USD; a \$45,000 capital market account; a \$400,000 term loan and a \$600,000 extraordinary term loan. The credit facility is secured by an assignment of book debts and a general security agreement covering all assets of the Credit Union and bears interest at the prime rate of interest. The term loan bears interest at the market rate established when the loan is initiated. At December 31, 2009, no portion of the facility was utilized.

The liquidity ratio represents the ratio of assets qualifying as liquid assets under the Act to the sum of members' deposits and borrowings. The Credit Union is subject to a statutory requirement of maintaining a liquidity ratio of no less than 5.0% and has established a target range for maintaining a liquidity ratio of between 12% and 25%. At December 31, 2009, the liquidity ratio is 13.4% (2008 - 11.2%), which is in compliance with policy.

The assets that are eligible for liquidity purposes are as follows:

	2009	2008
Cash resources	\$ 1,732,916	\$ 527,571
Liquidity reserve deposits with Central 1	1,849,814	1,717,742
	<b>\$ 3,582,730</b>	<b>\$ 2,245,313</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

### CREDIT RISK

The business of the Credit Union necessitates the management of credit risk. Credit risk is the potential for loss due to the failure of a borrower to meet his or her financial obligations.

The Credit Union's credit management policy sets out the processes for managing credit risk, including the following:

- Exposure limits to individuals and connected parties;
- Exposure limits by loan type;
- Nature and scope credit analysis;
- Security requirements;
- Risk-based pricing;
- Loan approval authorities and limits;
- Regular reporting to the board of directors on loan activities; and
- Procedures to be followed for loans that are in arrears.

### INTEREST RATE RISK

Interest rate risk refers to the potential impact of changes in interest rates on the Credit Union's earnings when maturities of its financial liabilities are not matched with the maturities of its financial assets. It is the policy of the Credit Union to keep exposure to interest rate fluctuations within limits set by the Board of Directors and by the Act.

The table below summarizes amounts by maturity dates and effective interest rates for the following on-balance sheet financial instruments:

	Variable Rate	Less than one year	One to five years	Non-rate Sensitive	Total	Effective Interest Rate
Cash resources	\$ 1,660,664	\$ -	\$ -	\$ 55,992	\$ 1,716,656	1.07%
Investments	-	1,101,053	4,866,411	291,572	6,259,036	3.01%
Loans to members	10,847,145	2,896,195	6,537,449	-	20,280,789	4.30%
<b>Total</b>	<b>12,507,809</b>	<b>3,997,248</b>	<b>11,403,860</b>	<b>347,564</b>	<b>28,256,481</b>	
Members' deposits	16,712,219	1,147,572	8,804,512	-	26,664,303	1.41%
Members' shares	-	-	-	411,082	411,082	-
<b>Total</b>	<b>16,712,219</b>	<b>1,147,572</b>	<b>8,804,512</b>	<b>411,082</b>	<b>27,075,385</b>	
Matching gap	\$ (4,204,410)	\$ 2,849,676	\$ 2,599,348	\$ (63,518)	\$ 1,181,096	

The Credit Union performs analysis to monitor the sensitivity of earnings to changes in interest rates. The Credit Union has established a policy for its earnings at risk to a possible change in interest rates to within 15 basis points

of assets as per regulatory requirement. At December 31, 2009, management estimates that its exposure is between negative 10 and positive 4 basis points of assets.

## SCHEDULE OF EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2009

	2009	2008
<b>Administrative</b>		
Advertising and promotion	\$ 20,456	\$ 33,218
Annual dues	10,015	15,172
Board and committee	21,640	21,675
Bonding, fire and liability insurance	28,138	27,354
Collection costs	1,784	1,292
Data processing	146,372	162,564
Equipment maintenance	2,772	2,431
Interest and bank charges	2,687	3,495
Occupancy	13,301	13,524
Office and general	51,883	53,581
Professional development	10,326	36,190
Professional and consulting fees	101,859	99,743
RRSP management fees	9,391	6,203
	<b>\$ 420,624</b>	<b>\$ 476,442</b>