



# Annual Business Report 2009

**CREDIT UNION**  
DEPOSIT GUARANTEE CORPORATION



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## CHAIRPERSON'S REPORT

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On behalf of the Board of Directors of the Credit Union Deposit Guarantee Corporation (the Corporation) I am pleased to report on the results of the Business Plan of the Corporation for the calendar year ended 2009.

The mandate of the Credit Union Deposit Guarantee Corporation is to protect the qualifying investments of credit union members. The Corporation facilitates the financial stability of the credit union system by monitoring credit unions to ensure they comply with legislation and exercise sound business practices.

I am pleased to report that a new *Credit Union Act* received Royal Assent on May 28, 2009 and was proclaimed on July 1, 2009. The new *Credit Union Regulations* were filed and became effective on July 2, 2009.

The Board of the Corporation held eleven meetings during 2009: four regular board meetings and seven meetings with boards of credit unions. In addition, directors of the Corporation attended seven annual general meetings of credit unions.

The Corporation continued to support the professional development of its directors. During the year several directors of the Corporation attended a joint national meeting of Stabilization Funds/Insurers and Regulators, the Credit Union Conference for Credit Union Leaders, The International Credit Union Regulators Roundtable and the Newfoundland and Labrador Credit Union Directors' Conference.

The Board of the Corporation acknowledges it is accountable for the actual results reported. This report provides an overview of the Corporation, results achieved to plan in 2009 and its objectives for 2010.

On behalf of the Board of the Corporation I would like to thank the credit unions for the excellent cooperation received during the past year. I would also like to thank the directors, management and staff of the Corporation for their dedication and support.

On behalf of the Board of Directors,



**WINSTON MORRIS**

Chairperson

# PUBLIC BODY OVERVIEW

## Vision

Newfoundlanders and Labradorians having access to a credit union system that is strong, stable and successful.

## Mission

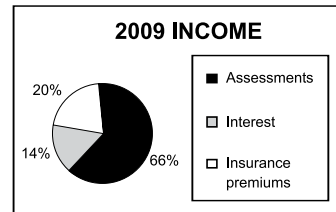
The Credit Union Deposit Guarantee Corporation's mission is to have improved systems in place to facilitate credit union compliance with sound business practices by 2010.

## Lines of Business

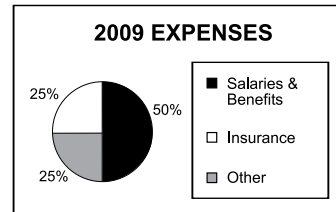
The Credit Union Deposit Guarantee Corporation provides the following services to its primary clients:

1. Regulation of Credit Unions
2. Deposit Insurance
3. Stabilization

Further details on these services can be found on pages 2 & 3 of Business Plan 2008-2010 of the Credit Union Deposit Guarantee Corporation.



The Corporation has seven employees, six situated in Marystown and one in St. John's (four male and three female). The Board has six directors (four male and two female) with three directors selected from Credit Union System nominees. The Chief Executive Officer is also the Superintendent of Credit Unions and Secretary/Treasurer of the Board.



The Corporation is self funding and is operated outside of Government's budgetary process. The Board of directors of the Corporation is responsible for the approval of the budget and expenditures of the Corporation.

The Corporation's revenues are generated from insurance assessments received from credit unions, premiums received on insurance programs and investment income.

The Corporation's primary operating expenses include salaries and benefits, bonding insurance and other operating costs such as travel and administration.

In 2009, the Corporation paid out \$19,083 to support a loan guarantee in respect to the amalgamation of two credit unions in 2005 and recovered \$45,781 on loans previously paid out under the loan guarantee. The Corporation also provided a grant of \$481,367 to another credit union to assist in its deficit recovery. The Corporation's Deposit Guarantee Fund Balance at the end of 2009 was \$5,346,912.

## HIGHLIGHTS AND ACCOMPLISHMENTS

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The Credit Union Deposit Guarantee Corporation continued to perform well in 2009.

### **Financial:**

The Corporation's reported net income was \$522,331 in 2009 as compared to \$498,380 in 2008.

The Deposit Guarantee Fund Balance at the end of 2009 was \$5,346,912 as compared to \$5,279,250 at the end of 2008. During 2009 the Corporation provided net assistance from the Fund in the amount of \$454,669.

The Corporation reported assets of \$5,526,296 in 2009, compared to \$5,350,549 in 2008.

The audited financial statements of the Corporation are contained in pages 9 to 19 of this report.

### **Operational:**

In accordance with its legislative mandate, the Corporation continued to monitor and examine credit unions in 2009 and continued its supervision of five credit unions. As a result of two amalgamations that occurred in 2009 the number of credit unions under supervision reduced to three. By year end, based on audited financial statements, another credit union reached the regulatory capital requirement and, as a result, will be released from supervision early 2010. This leaves two credit unions that will remain under supervision in 2010.

The Corporation completed 8 examinations of credit unions in 2009 covering 9 branches. There were no deficiencies or non-compliance issues identified that posed significant risk to these credit unions.

The Corporation continued its focus on good governance and risk management practices. The Corporation continued its sponsorship of the NL Credit Union Directors Conference which included such sessions as Identity Theft, Management Recruitment, Performance Planning and Evaluation and Effective meetings. The Corporation also encouraged management training by financially supporting training sessions on Enterprise Risk Management and International Financial Reporting Standards (IFRS).

In its role as Master Policy Holder for five insurance policies, the Corporation processed one claim which resulted in a net recovery to a credit union of \$2,831. In addition, the Corporation processed sixty-nine bonding applications which were all approved.

The Corporation staff participated in national and regional meetings, having representation on the National Risk Management Committee, the Credit Union Funds/ Insurers Committee, the International Regulators Committee and the National Regulators Committee. Currently, the Chief Executive Officer is also the Atlantic representative on the National Credit Union Funds/Insurers IFRS Committee.

## OUTCOME OF OBJECTIVES

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The following section presents the outcome of objectives fulfilling the requirements outlined in the *Transparency and Accountability Act*, which designates the Corporation a Category 2 entity, to report to the people of Newfoundland and Labrador on progress in the areas of Corporate Governance of Credit Unions and Balanced Regulation during 2009.

### **Strategic Issue 1: Corporate Governance of Credit Unions**

By facilitating the improvement of corporate governance of credit unions the Credit Union Deposit Guarantee Corporation is enhancing the long term viability of the Newfoundland and Labrador Credit Union system and at the same time mitigating any potential for loss to the Corporation and its Fund.

#### **Goal 1**

##### **Three-year strategic Goal:**

By 2010: The Credit Union Deposit Guarantee Corporation will have facilitated the improvement of the corporate governance of credit unions.

##### **Objective for current reporting year:**

By 2009: The Credit Union Deposit Guarantee Corporation will commence monitoring of credit unions under the new Standards of Sound Business Practices and provide the training for new credit directors.

##### **Measure:**

Delivery of a training program for new directors and the monitoring of credit unions for compliance with the new Standards of Sound Business Practices.

##### **Indicators:**

- Training delivered to new directors
- Monitoring of credit unions for compliance with the new Standards of Sound Business Practices commenced.

##### **Results Achieved**

A one-day director orientation program was provided covering the following training areas that are considered essential to any new credit union director carrying out his/her responsibilities:

- History and Philosophy of Credit Unions
- Credit Union Structure
- Roles, Responsibilities and Relationships
  - Board / Management Teamwork
  - Planning
  - Policy and Compliance
  - Monitoring
  - Performance Management
- Legal Responsibilities and Legislation
  - Duties of Care, Skill and Diligence
  - Director Liability Insurance

## OUTCOME OF OBJECTIVES (CONTINUED...)

- Effective Board Meetings
- System Partners
  - Credit Union Central
  - Office of the Superintendent of Credit Unions
  - Credit Union Deposit Guarantee Corporation
  - CUSOURCE
- Introduction to Financial Statements

The presenter for the first Director Orientation program that was held in Gander on May 28, 2009 was Ms. Vivian Campbell, Manager of Credit Union Consulting with Credit Union Central of Nova Scotia.

In 2009 CUDGC commenced monitoring of credit unions for compliance with the new Standards of Sound Business Practices that were issued in 2008. In 2009 Credit Unions were requested to file with the Corporation the following with respect to requirements contained in the Standards of Sound Business Practices. The focus was on whether or not these documents existed.

1. Strategic Business Plan  
An approved Strategic Business Plan.
2. Management Objectives and Performance Review  
Approved objectives for the CEO, GM or Manager and support indicating reviews had been completed of management performance compared to the objectives.
3. Standards of Ethical Conduct  
An approved code of conduct communicated to all directors and staff.
4. Policies  
Board approved policies for lending, capital, liquidity and internal auditing.
5. Audit Committees  
Copies of terms of reference, minutes of audit committee meetings and written reports to the Board.
6. Risk Management  
Each credit union must provide information showing that they have identified existing and emerging risks.

In 2010 the reasonability and adequacy of these documents will be reviewed. In addition information will be requested from Credit Unions to ensure that for each risk identified the likelihood and impact of the risk has been assessed and an action plan documented dealing the identified risk, if necessary.

## OUTCOME OF OBJECTIVES (CONTINUED...)

### **Objective for the year 2010:**

The Credit Union Deposit Guarantee Corporation will have completed training for corporate governance of credit union directors.

### **Measure:**

Completion of training for corporate governance of credit union directors.

### **Indicators:**

- Facilitate specialized training in the areas of Audit Committees, Directors' Liability and Due Diligence, Board Development and Performance Evaluation, and Post Modern Governance.
- Continue annual financial support for directors who complete courses on the Credit Union Director Training Program and sponsorship of an annual directors' conference.
- Facilitate a director orientation program for new directors.
- Review the reasonability and adequacy of documents obtained during the review on compliance of credit unions with the new Standards of Business Practices in 2009.

## **Strategic Issue 2: Balanced Regulation**

Achieving and maintaining the appropriate level of Government regulation is a challenge in the financial industry given the rapid changes that are occurring. Some regulations are outdated and need to be changed or eliminated. This is also consistent with government's Red Tape Reduction Initiative.

## **Goal 2**

### **Three-year strategic Goal:**

By 2010: There will be a new *Credit Union Act* and Regulations and information sessions will be delivered to credit union directors and management.

### **Objective for current reporting year:**

By 2009: The *Credit Union Deposit Guarantee Corporation* has delivered information sessions on the new *Credit Union Act* and Regulations.

### **Measure:**

Information sessions have been delivered.

### **Indicators:**

- Information session delivered to credit union directors
- Information session delivered to credit union management

The *Credit Union Act* received Royal Assent on May 28, 2009 and was proclaimed on July 1, 2009. The *Credit Union Regulations* were filed and became effective on July 2, 2009. Three regional information sessions were held on the new *Credit Union Act* and Regulations, and as well information sessions were held during several board on board meetings the Corporation held with credit unions. Seventy directors or approximately 50% of credit union directors attended these sessions. In addition a presentation on the



## OUTCOME OF OBJECTIVES (CONTINUED...)

new *Credit Union Act and Regulations* was provided at the Credit Union Managers Association meetings in 2009 at which all CEO's, General Managers, Managers and other credit union staff attended.

### **Objective for the year 2010:**

A new Credit Union Act will be proclaimed and new regulations approved and information sessions delivered.

### ***Measure:***

Approved Act proclaimed, regulations approved and information sessions delivered.

### ***Indicators:***

- All directors provided with official versions of the new Credit Union Act and Regulations
- Follow up meetings/discussions held to answer any questions directors and management may have with respect to the new legislation.

## OPPORTUNITIES AND CHALLENGES AHEAD

### **Opportunities**

1. To reduce risk to the System and the Credit Union Deposit Guarantee Corporation by assisting in providing training to directors and staff of credit unions.
2. To maintain and enhance communication with credit union boards by the Corporation continuing its bi-annual meetings with boards of directors and continuing to support the Newfoundland and Labrador Credit Union Directors Conference
3. To support the growth of the credit union movement by the Corporation making the public more aware of the deposit guarantee and the services provided by the Credit Union Deposit Guarantee Corporation.

### **Challenges**

1. To ensure that the credit unions in the province remain solvent as failure of a credit union to operate could result in depletion of the guarantee fund.
2. To ensure legislation, regulation and policies are kept current to meet the ever changing needs in today's financial marketplace.
3. To ensure the Corporation's staff and directors remain current in the rapid changes taking place in the financial industry.

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*Financial Statements of*

**CREDIT UNION DEPOSIT GUARANTEE CORPORATION**

*Year Ended December 31, 2009*

# AUDITOR'S REPORT



P.O. Box 29024  
St. John's, NL A1A 5B5  
P: 709.699.1135  
E: brian@briantscammell.ca

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## AUDITOR'S REPORT

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To the Directors of Credit Union Deposit Guarantee Corporation

I have audited the balance sheet of Credit Union Deposit Guarantee Corporation as at December 31, 2009 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

St. John's, NL  
March 16, 2010

CHARTERED ACCOUNTANT

# BALANCE SHEET


## Credit Union Deposit Guarantee Corporation

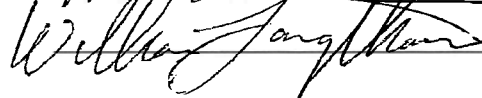
### Balance Sheet

December 31, 2009

	2009	2008
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 175,244	\$ 324,842
Marketable securities (Note 3)	5,238,888	4,902,662
Accounts receivable	2,072	641
Interest receivable	70,673	70,110
Hamonized sales tax recoverable	23,828	24,671
Prepaid expenses	2,981	4,050
	<b>5,513,686</b>	<b>5,326,976</b>
<b>CAPITAL ASSETS (Note 4)</b>	<b>12,610</b>	<b>23,573</b>
	<b>\$ 5,526,296</b>	<b>\$ 5,350,549</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT</b>		
Accounts payable	\$ 179,384	\$ 71,299
<b>FUND BALANCE</b>	<b>5,346,912</b>	<b>5,279,250</b>
	<b>\$ 5,526,296</b>	<b>\$ 5,350,549</b>

#### APPROVED ON BEHALF OF THE BOARD

  
Director

  
Director

# STATEMENT OF INCOME AND FUND BALANCE

**Credit Union Deposit Guarantee Corporation**  
**Statement of Income and Retained Earnings**  
**Year Ended December 31, 2009**

	2009	2008
<b>FEEES</b>		
Assessments	\$ 1,024,069	\$ 904,402
Interest	211,826	213,081
Bonding insurance	300,427	317,924
Other	650	700
	<b>1,536,972</b>	<b>1,436,107</b>
<b>EXPENSES</b>		
Salaries and wages	503,990	466,356
Bonding insurance	250,124	268,600
Training	65,143	37,850
Travel	39,906	36,868
Meetings and conventions	36,710	19,658
Rental	31,333	32,606
Office	13,585	20,917
Professional fees	14,899	8,285
Telephone	12,315	10,845
Data access costs	11,330	-
Vehicle	10,836	8,882
Directors fees	9,375	7,420
Advertising and promotion	8,664	8,956
Amortization	3,516	9,028
Memberships	-	1,456
	<b>1,011,726</b>	<b>937,727</b>
<b>INCOME FROM OPERATIONS</b>	<b>525,246</b>	<b>498,380</b>
<b>OTHER EXPENSES</b>		
Loss on disposal of assets	<b>(2,915)</b>	-
<b>NET INCOME</b>	<b>522,331</b>	<b>498,380</b>
<b>DEPOSIT GUARANTEE FUND BALANCE - BEGINNING OF YEAR</b>	<b>5,279,250</b>	<b>5,461,899</b>
	<b>5,801,581</b>	<b>5,960,279</b>
Assistance to credit unions	<b>(454,669)</b>	<b>(681,029)</b>
<b>DEPOSIT GUARANTEE FUND BALANCE - END OF YEAR</b>	<b>\$ 5,346,912</b>	<b>\$ 5,279,250</b>

# STATEMENT OF CASH FLOWS

## Credit Union Deposit Guarantee Corporation

### Statement of Cash Flows

Year Ended December 31, 2009

	2009	2008
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 522,331	\$ 498,380
Items not affecting cash:		
Amortization of capital assets	7,266	9,028
Loss on disposal of capital assets	2,915	-
	<b>532,512</b>	<b>507,408</b>
Changes in non-cash working capital:		
Accounts receivable	(1,431)	5,607
Interest receivable	(563)	(45,088)
Accounts payable	108,086	(417,832)
Prepaid expenses	1,069	(554)
HST payable (receivable)	843	536
	<b>108,004</b>	<b>(457,331)</b>
Cash flow from operating activities	<b>640,516</b>	<b>50,077</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of capital assets	(6,297)	(3,355)
Proceeds on disposal of capital assets	7,078	-
Purchase of marketable securities	(1,210,851)	(81,463,074)
Redemption of marketable securities	874,625	82,430,784
Cash flow from (used by) investing activities	<b>(335,445)</b>	<b>964,355</b>
<b>FINANCING ACTIVITY</b>		
Assistance to credit unions	(454,669)	(681,029)
<b>INCREASE (DECREASE) IN CASH FLOW</b>	<b>(149,598)</b>	<b>333,403</b>
Cash (deficiency) - beginning of year	<b>324,842</b>	<b>(8,561)</b>
<b>CASH - END OF YEAR</b>	<b>\$ 175,244</b>	<b>\$ 324,842</b>

# NOTES TO THE FINANCIAL STATEMENTS

## CREDIT UNION DEPOSIT GUARANTEE CORPORATION

### Notes to Financial Statements

Year Ended December 31, 2009

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#### 1. DESCRIPTION OF BUSINESS

The Credit Union Deposit Guarantee Corporation (the "Corporation") is established as a corporation without share capital under the provisions of Section 133 of the Credit Union Act.

#### 2. OTHER SIGNIFICANT ACCOUNTING POLICIES

##### *Cash*

Cash consists of balances with banks.

##### *Financial instruments*

###### *Classification*

A financial instrument is a contract that establishes a financial asset for one party and a financial liability or equity instrument for the other party. CICA Handbook Section 3855 establishes a framework for the recognition and measurement of financial assets and financial liabilities. All financial instruments have been classified either based on the type of instrument or the Corporation's intention regarding the instrument, as described below:

###### *Held for Trading*

Financial assets classified as held for trading are typically acquired for resale prior to maturity or designated as held for trading. They are measured at fair value on the balance sheet. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in investment income. Cash and cash equivalents have been classified as held-for-trading.

Financial liabilities designated as held for trading are those non-derivative financial liabilities that the Corporation elects to designate on initial recognition as instruments that it will measure at fair value through other interest expense. These are accounted for in the same manner as held for trading assets. The Corporation has not designated any non-derivative financial liabilities as held for trading.

###### *Held to Maturity*

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables, that an entity has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. The Corporation has classified its investments as held to maturity.

###### *Available for Sale*

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale, or that are not classified as loans and receivables, held for trading, or held to maturity. Except as mentioned below, available for sale financial assets are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized when the cumulative gain or loss is transferred to other income. Available for sale financial assets that do not have quoted market prices in an active market are recorded at cost. Interest on interest bearing available for sale financial assets is calculated using the effective interest method. No financial assets have been classified as available for sale.

(continues)

# NOTES TO THE FINANCIAL STATEMENTS

## CREDIT UNION DEPOSIT GUARANTEE CORPORATION

### Notes to Financial Statements

Year Ended December 31, 2009

#### 2. OTHER SIGNIFICANT ACCOUNTING POLICIES *(continued)*

##### *Loans and Receivables*

Loans and receivables are recorded at amortized cost using the effective interest method. Amortized cost is a reasonable estimate of the fair value of these instruments.

##### *Other Liabilities*

Other liabilities, such as bank indebtedness and accounts payable and accrued liabilities, are recorded at amortized cost using the effective interest method and include all financial liabilities other than derivative instruments. Amortized cost is a reasonable estimate of the fair value of these instruments

##### *Transaction Costs*

Transaction costs are expensed as incurred.

##### *Fair Values*

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or asking prices in an active market. In the absence of an open market, the Corporation determines fair values based on internal or external valuation models such as discounted cash flow analysis or using observable market-based inputs.

##### *Effective Interest Method*

The Corporation uses the effective interest method to recognize interest income or expense, premiums or discounts earned or incurred for financial instruments.

##### **Capital assets**

Capital assets are stated at cost less accumulated amortization. Capital assets are amortized over their estimated useful lives at the following rates and methods:

Motor vehicles	30%	declining balance method
Computer equipment	30%	declining balance method
Furniture and fixtures	20%	declining balance method

The company regularly reviews its capital assets to eliminate obsolete items.

Capital assets acquired during the year but not placed into use are not amortized until they are placed into use.

##### **Severance pay**

Severance pay, which is included with accounts payable and accrued liabilities, is accrued for all employees for whom the right to such compensation is vested.

*(continues)*



# NOTES TO THE FINANCIAL STATEMENTS

## CREDIT UNION DEPOSIT GUARANTEE CORPORATION

### Notes to Financial Statements

Year Ended December 31, 2009

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#### 2. OTHER SIGNIFICANT ACCOUNTING POLICIES *(continued)*

##### ***Revenue recognition***

The Corporation recognizes assessment revenue based on a percentage of insured deposits of individual credit unions operating within the Province of Newfoundland & Labrador. Interest revenue is recognized based on the investment interest collected and accrued during the year, and bonding revenue is recognized based on a percentage of individual credit unions' assets plus a \$60,000 fee that is allocated to the Newfoundland and Labrador credit unions based on a pre-determined formula.

##### ***Assistance to credit unions***

Assistance to credit unions is recorded only when it can be reasonably determined by the Corporation that such a payment will be required and when the Board of Directors has assessed the reasonableness of such a charge and authorized the assistance as a commitment of the Fund. The determination of the assistance requires the exercise of judgement because the precise amount, method and timing of such assistance is dependent on future events. The amount of actual assistance paid and possible future assistance is disclosed in the financial statements.

##### ***Pension costs***

Employees of the Corporation other than the Chief Executive Officer are included in the Public Service Pension Plan of the Government of Newfoundland and Labrador. Contributions to the plans are required from both the employees and the Corporation. The annual contributions for pension are recognized in the accounts on a current basis. Contributions to this plan totalled \$26,234 (2008- \$21,751).

The Corporation also contributed to a private registered retirement savings plan for the Chief Executive Officer based on a percentage of his annual salary. Contributions to this plan totalled \$6,605 (2008- \$5,923.)

##### ***Future income taxes***

The liability method of tax allocation is used in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

##### ***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 disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

# NOTES TO THE FINANCIAL STATEMENTS

## CREDIT UNION DEPOSIT GUARANTEE CORPORATION

### Notes to Financial Statements

Year Ended December 31, 2009

#### 3. MARKETABLE SECURITIES

	2009	2008
Concentra Financial, 3.75%	\$ 5,235,851	\$ 4,800,000
Concentra Financial, 1.25%	1,927	101,552
Credit Union Central of Nova Scotia shares	1,000	1,000
Newfoundland and Labrador Credit Union share	100	100
Concentra shares	10	10
	<b>\$ 5,238,888</b>	<b>\$ 4,902,662</b>

#### 4. CAPITAL ASSETS

	Cost	Accumulated amortization	2009 Net book value	2008 Net book value
Motor vehicles	\$ -	\$ -	\$ -	\$ 12,495
Computer equipment	72,391	64,580	7,811	9,084
Furniture and fixtures	28,203	23,404	4,799	1,994
	<b>\$ 100,594</b>	<b>\$ 87,984</b>	<b>\$ 12,610</b>	<b>\$ 23,573</b>

#### 5. CAPITAL MANAGEMENT

The Corporation's objectives with respect to capital management are to safeguard the entity's ability to continue as a going concern so that it can continue to operate as a deposit insurance provider for the Newfoundland & Labrador credit unions, including the provision of stabilization funds as needed.

The Corporation defines its capital as the balance in the Deposit Guarantee Fund Balance; the changes in this balance for 2009 are presented in the Statement of Income and Fund Balance.

#### 6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Corporation's financial instruments are comprised of cash, investments, receivables and accounts payable.

Cash is reported at fair value on the balance sheet. Receivables and accounts payable are reported at amortized cost which approximates fair value due to their short term nature. Investments are reported at amortized cost using the effective interest method which approximates their fair value.

# NOTES TO THE FINANCIAL STATEMENTS

## CREDIT UNION DEPOSIT GUARANTEE CORPORATION

### Notes to Financial Statements

Year Ended December 31, 2009

#### 7. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS

The Corporation is exposed to the following risks as a result of holding financial instruments: credit risk, market risk and liquidity risk. The following is a description of those risks and how the Corporation manages the exposure to them.

##### ***Credit Risk***

Credit risk is the risk that a financial loss will occur due to the failure of a counterparty to discharge its contractual commitment or obligation to the Corporation. Credit risk may arise principally through its investments included in the Corporation's asset portfolio.

The Corporation manages this risk by making investments in accordance with the investment policy established by the Board of Directors which permits the Corporation to invest in high quality, liquid short-term investments. Equity investments are not permitted.

##### **Market Risk**

Market risk arises from changes in interest rates on investments in its portfolio that affect the Corporation's net interest income. The Corporation's goal is to maximize its return on these portfolios, without taking unreasonable risk and retaining a high degree of liquidity.

The Corporation manages this risk by investing in securities that are not susceptible to significant changes in rates of return to the Corporation caused by changes in market values of the investments.

##### ***Liquidity Risk***

Liquidity risk is the risk of having insufficient financial resources to meet the Corporation's funding requirements.

The Corporation's liquidity policies and practices include the measurement and forecast of cash flows and maintenance of a pool of high quality liquid assets.

#### 8. COMMITMENTS

The Corporation has entered into a lease agreement for office space which expires June 30, 2011. The amount of the annual rent payable is \$30,895.

# NOTES TO THE FINANCIAL STATEMENTS

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## CREDIT UNION DEPOSIT GUARANTEE CORPORATION

### Notes to Financial Statements

Year Ended December 31, 2009

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#### 9. INCOME TAXES

The Corporation has the following non-capital losses available which can be used to reduce future years' taxable income.

Year of Expiry	Amount
2010	463,065
2014	438,667
2015	362,558
2026	350,333
2027	255,907
2028	387,654
2029	434,291
	<hr/>
	\$ 2,692,475
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The undepreciated capital cost for income tax purposes of the Corporation's depreciable assets exceeds the net book value by \$111,285.

The potential income tax benefits associated with these items have not been recognized in the financial statements

Credit union assessments and assistance are excluded from the calculation of taxable income.

