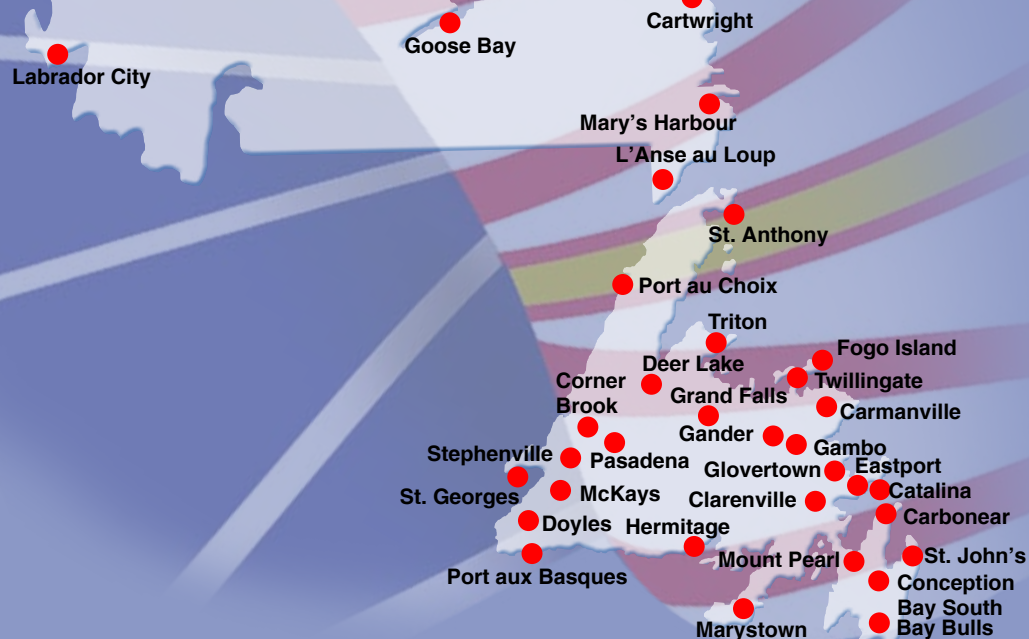




# Annual Business Report 2010

**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 2010.

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.

The Board of the Corporation held seven meetings during 2010: five regular board meetings and two meetings with boards of credit unions. In addition, directors of the Corporation attended ten 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 Atlantic meeting of Stabilization Funds/Insurers and Regulators, 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 and results achieved to plan 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,



**LILLIAN JOY**  
Chair (Acting)

# PUBLIC BODY OVERVIEW

## Vision

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

## Mission

By 2010, the Credit Union Deposit Guarantee Corporation will have improved systems in place to facilitate credit union compliance with sound business practices.

By 2010, the Credit Union Deposit Guarantee Corporation supported director training and education in good corporate governance and sound business practices; released a manual on sound business practices that are to be followed by all credit unions, facilitated the approval of a new *Credit Union Act and Regulations*, and amended its examination process to review compliance with the sound business practices and new legislation. Completion of this work enabled the Corporation to successfully accomplish its overall mission.

## 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

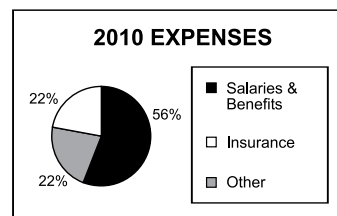
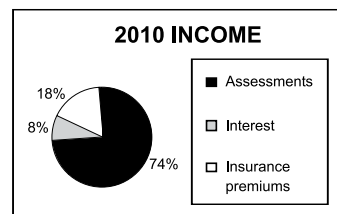
Further details on these services can be found on pages 2 & 3 of Business Plan 2008-2010 of the Credit Union Deposit Guarantee Corporation.

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 deposit 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 in-



## **PUBLIC BODY OVERVIEW (CONTINUED...)**

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surance and other operating costs such as travel and administration.

In 2010, the Corporation recovered \$30,728 on loans previously paid out under a loan guarantee in respect to the amalgamation of two credit unions in 2005. The Corporation also provided a grant of \$482,000 to another credit union to assist in its deficit recovery. The Corporation's Deposit Guarantee Fund Balance at the end of 2010 was \$5,367,904.

## **HIGHLIGHTS AND ACCOMPLISHMENTS**

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The Credit Union Deposit Guarantee Corporation continued to perform well in 2010.

### **Financial:**

The Corporation's reported net income was \$472,264 in 2010 as compared to \$522,331 in 2009.

The Deposit Guarantee Fund Balance at the end of 2010 was \$5,367,904 as compared to \$5,346,912 at the end of 2009. During 2010 the Corporation provided net assistance from the Fund in the amount of \$451,272.

The Corporation reported assets of \$5,607,146 in 2010 compared to \$5,526,296 in 2009.

The audited financial statements of the Corporation are contained in pages 12 to 22 of this report.

### **Operational:**

In accordance with its legislative mandate, the Corporation continued to monitor and examine credit unions in 2010 and continued its supervision of two credit unions. 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 2011. This leaves one credit union that will remain under supervision in 2011.

The Corporation completed 5 examinations of credit unions in 2010 covering 8 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 Role of Audit Committees, Directors

## HIGHLIGHTS AND ACCOMPLISHMENTS (CONTINUED...)

Liability and Due Diligence, Post Modern Governance of Credit Unions and Board Development and Performance Evaluation. The Corporation also encouraged management training by financially supporting a training session on Leading Change.

The Corporation is Master Policy Holder for five insurance policies. There were no claims processed in 2010. The Corporation processed sixty bonding applications which were all approved.

The Corporation's 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 Regulators Working Group on Risk Weighted Capital.

## 2010 MISSION OUTCOME

### 2010 Mission Outcome

By 2010, as indicated in the Credit Union Deposit Guarantee Corporation's Business Plan 2008-2010, the Corporation planned to improve credit union compliance with sound business practices as measured by improved corporate governance.

The indicators that were provided in the plan and the actions taken to accomplish this were:

- **Increases in the training and education courses offered to credit unions directors** Prior to 2008, many credit union directors did not participate in director development or if they did participation was limited. In order to increase the number of training courses taken by credit union directors, the Corporation agreed to pay for fifty percent of Credit Union Director Achievement courses. During the period covered by the plan, in excess of 75 credit union directors participated in 21 courses for a total cost to the Corporation in excess of \$40,000.
- **Continuation of the facilitation of annual director conferences designed on good corporate governance practices**  
During the period covered by the plan, the Corporation developed and provided a new director orientation program for/to new credit union directors. The orientation training ensured new directors were ready to contribute to the corporate governance



## 2010 MISSION OUTCOME (CONTINUED...)

of credit unions and significantly shortened their learning curve. The orientation program provided the following information considered essential to their development:

- The credit union system in Canada
  - overview of the Canadian credit union system including the role of national, regional and provincial credit union organizations;
  - overview of affiliated organizations and the services they provide
- Directors legal responsibilities and the role of directors' insurance
- Key areas of legislation
- Credit Union Deposit Guarantee Corporation and its role
- Key concepts
  - strategic planning
  - budgeting
  - financial statement review
  - performance monitoring
  - liquidity
  - capital
- Effective board meetings: role of chair and directors
- Communication between board and management
- Standards of Sound Business Practices
- Credit Union Director Training Program (CUDA)

This program also included a director's manual which can be used by a director as a reference guide during his/her directorship.

During the period 2008-2010 the corporation also organized and financially supported Newfoundland and Labrador directors' conferences. The courses that were offered during these conferences included:

- The Proceeds of Crime (Money Laundering) and Terrorist Financing Act
- International Financial Reporting Standards
- Enterprise Risk Management
- Sound Business Practices
- Strategic Business Planning
- Responsibility for Loss Control within a Credit Union
- Identity Theft
- Management Recruitment
- Performance Planning and Evaluation
- Effective Meetings
- Audit Committees
- Directors Liability and Due Diligence
- Board Development and Performance Evaluation
- Post Modern Governance

## 2010 MISSION OUTCOME (CONTINUED...)

The new director orientation and NL Directors Conference sessions were well attended with approximately 75% of new directors attending the new director orientation each year and an average of 60 directors attending the NL directors' conference each year. The total cost of sponsoring the orientation program and conference for the three years was in excess of \$50,000.

- **Continuation of periodic meetings between the board of the Corporation and the boards of credit unions**

During the period covered by the plan, the Corporation's Board held 15 meetings with credit union boards of directors. These meetings not only provided an opportunity to discuss the training needs of directors but were an opportunity to discuss credit union system issues, examinations, and legislation.

- **The development of new Standards of Sound Business Practices**

The Corporation developed and issued Standards of Sound Business Practices in 2008 to be used by all credit union boards and management in directing and managing the affairs of credit unions. In 2009 and 2010 the Corporation completed compliance audits to ensure credit unions were adapting their practices to comply with these Standards.

- **Revisions to the *Credit Union Act and Regulations* approved**

By the end of 2008, the Credit Union Deposit Guarantee Corporation had reviewed the Credit Union Act and Regulations and consulted with credit unions on the proposed changes. As a result of this consultation, a request was received from credit unions to sell insurance products such as life insurance, segregated funds and annuities from credit union branches and with the approval of cabinet, a consultation was undertaken with industry stakeholders with respect to this request. By the end of 2008, a draft of changes to the Credit Union Act and Regulations had been prepared. However, due to the unanticipated consultation relating to the selling of insurance products, the Credit Union Act was not ready for submission by the end of the fiscal year. Early in 2009 the Credit Union Act was finalized and submitted to Cabinet for approval and the regulations were submitted to the Minister for approval. As a result 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.

- **Information sessions on the *Credit Union Act and Regulations* will be delivered to credit union directors and management**

In the fall of 2009 and 2010 the Corporation held information sessions in Corner Brook, Gander and St. John's on the *Credit Union Act* and *Credit Union Regulations* to ensure credit unions understood the requirements of this legislation.

# OUTCOME OF GOALS

## Outcome of Goals

The Business Plan 2008-2010 of the Credit Union Deposit Guarantee Corporation identified two goals to be completed by the year ending 2010.

### Goal 1:

The Credit Union Deposit Guarantee Corporation had identified through its examination and supervision processes, that there was a need for improved corporate governance within the credit union system. Improvement in corporate governance would not only enhance the success of the credit union system, but would also minimize the likelihood of a draw down on the Corporation's deposit insurance fund.

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

#### *Measure:*

Completion of training for corporate governance of credit union directors

INDICATOR	RESULTS
Completion of a training session on Strategic Planning	Completed
Completion of a training session on new Standards of Sound Business Practices	Completed
Development of a training program for new Credit Union Directors	Completed
Annual financial support for developmental courses for credit union directors and an annual directors' conference	Completed

Action taken with respect to these indicators are contained in the first four bullets of 2010 Mission Outcome found on page 4.

### Goal 2:

Achieving and maintaining the appropriate level of government regulation is a challenge in the financial industry given the rapid changes that are occurring. It is necessary to ensure that governments can effectively regulate the credit union industry and at the same time allow credit unions to effectively compete within the financial industry. Therefore there is a need for continually updating legislation and ensuring any unnecessary red tape is eliminated.

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

#### *Measure:*

Approved Act proclaimed, regulations approved and information sessions delivered.

## OUTCOME OF GOALS (CONTINUED...)

INDICATOR	RESULTS
Stakeholders consulted	Completed
Draft legislative changes prepared	Completed
Discussions held with stakeholders on final changes	Completed
Revisions forwarded for input and review	Completed
Cabinet paper prepared and submitted for ministerial and Cabinet approval	Completed
Act introduced into the House of Assembly	Completed
Regulations approved by minister	Completed
Information sessions delivered	Completed

Action taken with respect to these indicators are contained in the last two bullets of 2010 Mission Outcome found on page 4.

## OUTCOME OF OBJECTIVES

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 2010.

### **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 the year 2010:**

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

## OUTCOME OF OBJECTIVES (CONTINUED...)

### *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.

### *Measure:*

Completion of training for corporate governance of credit union directors.

### **Results Achieved**

In 2010 the Credit Union Deposit Guarantee Corporation organized and financially supported a NL Credit Union Directors Conference encompassing the following sessions:

- Role of Audit Committees
- Directors' Liability and Due Diligence
- Board Development and Performance Evaluation
- Post Modern Governance

The conference was well attended with over 60 directors attending.

The Corporation continued its support of director education by paying for 50% of the cost of Credit Union Director Achievement Courses taken by directors amounting to \$9615.

In addition the Corporation sponsored a one day director orientation session again in 2010 for new directors.

During 2010 the Corporation reviewed the reasonability and adequacy of documents obtained during the review on compliance of credit unions with the new Standards of Business Practices in 2009. There were few deficiencies noted, however, Credit Unions that had identified deficiencies were written and provided six months to make improvements to their policies and documents.

### **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.

## OUTCOME OF OBJECTIVES (CONTINUED...)

### 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 year 2010:

A new Credit Union Act will be proclaimed and new 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.

#### Measure:

Approved Act proclaimed, regulations approved and information sessions delivered.

#### Results Achieved:

The Corporation obtained official copies of the Credit Union Act and Regulations from The Queen's Printer and provided all directors with official versions.

In 2010 the Corporation held regional meetings in Corner Brook, Gander and St. John's to provide an opportunity for credit union directors and management to discuss and to ask questions with respect to the Credit Union Act 2009 and Regulations. Other topics that were covered at these meetings were:

- New Cost of Credit Disclosure Regulations
- Credit Union By-laws
- Leverage versus Risk Weighted Capital
- New national liquidity structure
- Common deficiencies-personal and commercial loans
- System financial performance

# OPPORTUNITIES AND CHALLENGES AHEAD

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## Opportunities

1. To help foster continued development of credit union directors, management and staff by supporting training initiatives.
2. To maintain and enhance communication with credit union boards by the Corporation continuing its bi-annual meetings.
3. To support the growth of the credit union movement by the Corporation enhancing member and public awareness of the deposit guarantee. and the services provided by the Credit Union Deposit Guarantee Corporation.

## Challenges

1. To ensure timely remedial action is taken to address issues so that the guarantee fund will not be negatively impacted.
2. To ensure legislation, regulation and policies respond to the ongoing changes in regulations and the financial marketplace.
3. To ensure the Corporation's staff and directors undertake educational opportunities to enable the corporation to satisfactorily respond to new issues that may result from 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, 2010*



# AUDITOR'S REPORT

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

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## INDEPENDENT AUDITOR'S REPORT

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To the Directors of Credit Union Deposit Guarantee Corporation

I have audited the accompanying financial statements of Credit Union Deposit Guarantee Corporation, which comprise the balance sheet as at December 31, 2010, and the statements of income and retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### *Opinion*

In my opinion, the financial statements present fairly, in all material respects, the financial position of Credit Union Deposit Guarantee Corporation as at December 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.

St. John's, NL  
March 7, 2011

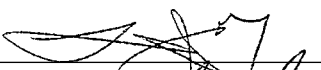
CHARTERED ACCOUNTANT


# BALANCE SHEET

**Credit Union Deposit Guarantee Corporation**  
**Balance Sheet**  
**December 31, 2010**

	2010	2009
<b>ASSETS</b>		
Cash	\$ 29,011	\$ 175,244
Marketable securities (Note 3)	5,459,822	5,238,888
Accounts receivable	797	2,072
Interest receivable	74,466	70,673
Harmonized sales tax recoverable	25,344	23,828
Prepaid expenses	2,983	2,981
Capital assets (Note 4)	14,723	12,610
	<b>\$ 5,607,146</b>	<b>\$ 5,526,296</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Accounts payable	\$ 239,242	\$ 179,384
RETAINED EARNINGS	5,367,904	5,346,912
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 5,607,146</b>	<b>\$ 5,526,296</b>

**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, 2010**

	2010	2009
<b>REVENUE</b>		
Assessments	\$ 1,109,032	\$ 1,024,069
Bonding insurance	275,759	300,427
Interest	117,697	211,826
Other	1,250	650
	<b>1,503,738</b>	<b>1,536,972</b>
<b>EXPENSES</b>		
Salaries and wages	578,083	503,990
Bonding Insurance	224,670	250,124
Travel	48,184	39,906
Training	32,645	65,143
Rental	31,791	31,333
Meetings and conventions	28,162	36,710
Professional fees	19,314	14,899
Office	18,205	13,585
Telephone	15,073	12,315
Data access costs	12,480	11,330
Advertising and promotion	11,011	8,664
Directors fees	7,375	9,375
Amortization	4,113	3,516
Vehicle	-	10,836
	<b>1,031,106</b>	<b>1,011,726</b>
<b>INCOME FROM OPERATIONS</b>	<b>472,632</b>	<b>525,246</b>
OTHER INCOME (EXPENSES)	<b>(368)</b>	<b>(2,915)</b>
<b>NET INCOME</b>	<b>472,264</b>	<b>522,331</b>
RETAINED EARNINGS - BEGINNING OF YEAR	<b>5,346,912</b>	<b>5,279,250</b>
	<b>5,819,176</b>	<b>5,801,581</b>
ASSISTANCE TO CREDIT UNIONS	<b>(451,272)</b>	<b>(454,669)</b>
<b>RETAINED EARNINGS - END OF YEAR</b>	<b>\$ 5,367,904</b>	<b>\$ 5,346,912</b>

# STATEMENT OF CASH FLOWS

**Credit Union Deposit Guarantee Corporation**  
**Statement of Cash Flows**  
**Year Ended December 31, 2010**

	2010	2009
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 472,264	\$ 522,331
Items not affecting cash:		
Amortization of capital assets	4,113	7,266
Loss on disposal of assets	368	2,915
	<b>476,745</b>	<b>532,512</b>
Changes in other items:		
Accounts receivable	1,275	(1,431)
Interest receivable	(3,793)	(563)
Accounts payable	59,857	108,086
Prepaid expenses	(2)	1,069
Harmonized sales tax receivable	(1,516)	843
	<b>55,821</b>	<b>108,004</b>
Cash flow from operating activities	<b>532,566</b>	<b>640,516</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of capital assets	(6,853)	(6,297)
Proceeds on disposal of capital assets	260	7,078
Purchase of marketable securities	(2,614,652)	(1,210,851)
Redemption of marketable securities	2,393,718	874,625
Cash flow used by investing activities	<b>(227,527)</b>	<b>(335,445)</b>
<b>FINANCING ACTIVITY</b>		
Dividends paid	(451,272)	(454,669)
<b>DECREASE IN CASH FLOW</b>	<b>(146,233)</b>	<b>(149,598)</b>
Cash - beginning of year	175,244	324,842
<b>CASH - END OF YEAR</b>	<b>\$ 29,011</b>	<b>\$ 175,244</b>
<b>CASH FLOWS SUPPLEMENTARY INFORMATION</b>		
Interest received	\$ 3,793	\$ 563
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -

# NOTES TO THE FINANCIAL STATEMENTS

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## CREDIT UNION DEPOSIT GUARANTEE CORPORATION

### Notes to Financial Statements

Year Ended December 31, 2010

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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 date. 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, 2010

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### 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:

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

The Corporation 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

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## CREDIT UNION DEPOSIT GUARANTEE CORPORATION

### Notes to Financial Statements

Year Ended December 31, 2010

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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 \$27,089 (2009- \$26,234).

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 \$7,423 (2009- \$6,605.)

##### ***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, 2010

#### 3. MARKETABLE SECURITIES

	2010	2009
Concentra Financial, 1.80%	\$ 5,000,000	\$ 5,235,851
Concentra Financial, .70%	459,712	1,927
Credit Union Central of Nova Scotia shares	-	1,000
Newfoundland and Labrador Credit Union share	100	100
Concentra shares	10	10
	<b>\$ 5,459,822</b>	<b>\$ 5,238,888</b>

#### 4. CAPITAL ASSETS

	Cost	Accumulated amortization	2010 Net book value	2009 Net book value
Computer equipment	\$ 74,249	\$ 67,296	\$ 6,953	\$ 7,811
Furniture and fixtures	32,570	24,800	7,770	4,799
	<b>\$ 106,819</b>	<b>\$ 92,096</b>	<b>\$ 14,723</b>	<b>\$ 12,610</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 2010 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

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## CREDIT UNION DEPOSIT GUARANTEE CORPORATION

### Notes to Financial Statements

Year Ended December 31, 2010

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#### 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

## CREDIT UNION DEPOSIT GUARANTEE CORPORATION

### Notes to Financial Statements

Year Ended December 31, 2010

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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
2014	438,667
2015	362,558
2026	350,333
2027	255,907
2028	387,654
2029	434,292
2030	575,432
	<hr/>
	\$ 2,804,843

The undepreciated capital cost for income tax purposes of the Corporation's depreciable assets exceeds the net book value by \$115,766.

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.



