

**HALD-NOR COMMUNITY  
CREDIT UNION LIMITED**

**FINANCIAL STATEMENTS  
For the year ended June 30, 2009**



Millard, Rouse & Rosebrugh LLP  
Chartered Accountants

**HALD-NOR COMMUNITY  
CREDIT UNION LIMITED**

**For the year ended June 30, 2009**

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## AUDITORS' REPORT

To the Members of  
**Hald-Nor Community Credit Union Limited**

We have audited the balance sheet of Hald-Nor Community Credit Union Limited as at June 30, 2009 and the statements of income, undivided earnings, reserve for financial stability, accumulated other comprehensive income, comprehensive income 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 Hald-Nor Community Credit Union Limited as at June 30, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Millard, Rouse & Rosebrugh LLP*

Hagersville, Ontario  
July 21, 2009

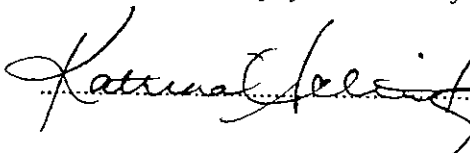
CHARTERED ACCOUNTANTS  
Licensed Public Accountants

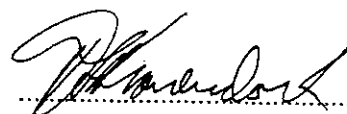
# HALD-NOR COMMUNITY CREDIT UNION LIMITED

## BALANCE SHEET

As at June 30	2009	2008
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and bank	2,920,578	3,151,895
Accounts receivable	379,523	544,106
Interest rate swaps	140,039	-
Prepaid expenses (Note 3)	436,924	251,986
Income taxes recoverable	46,942	-
<b>Loans Receivable (Note 4)</b>	<b>3,924,006</b>	<b>3,947,987</b>
<b>Investments (Note 5)</b>	<b>91,910,555</b>	<b>86,302,708</b>
<b>Property, Plant and Equipment (Note 7)</b>	<b>9,826,224</b>	<b>9,682,966</b>
<b>Future Income Taxes</b>	<b>498,208</b>	<b>571,575</b>
	<b>47,323</b>	<b>89,189</b>
	<b>106,206,316</b>	<b>100,594,425</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Term loans (Note 8)	1,700,000	5,000,000
Accounts payable and accrued liabilities	514,779	551,447
Dividends payable	-	121,792
Interest rate swaps	-	9,382
Income taxes payable	-	10,983
<b>Members' Deposits (Note 10)</b>	<b>2,214,779</b>	<b>5,693,604</b>
<b>Members' Shares (Note 11)</b>	<b>95,951,411</b>	<b>87,236,336</b>
	<b>3,273,934</b>	<b>3,225,636</b>
	<b>101,440,124</b>	<b>96,155,576</b>
<b>MEMBERS' EQUITY</b>		
Reserve for Financial Stability (Page 4)	4,670,524	4,448,297
Accumulated Other Comprehensive Income (Page 4)	95,668	(9,448)
	<b>4,766,192</b>	<b>4,438,849</b>
	<b>106,206,316</b>	<b>100,594,425</b>

Approved on behalf of the Board of Directors:

 *Katrina Seeling* President

 Treasurer

# HALD-NOR COMMUNITY CREDIT UNION LIMITED

## STATEMENTS OF UNDIVIDED EARNINGS, RESERVES AND ACCUMULATED OTHER COMPREHENSIVE INCOME

For the year ended June 30	2009	2008
<b>UNDIVIDED EARNINGS</b>		
Balance - Beginning of Year	-	-
Add: Net Income	222,227	427,943
Less: Appropriation to Reserve for Financial Stability	222,227	427,943
Balance - End of Year	-	-
<b>RESERVE FOR FINANCIAL STABILITY</b>		
Balance - Beginning of Year	4,448,297	4,020,354
Add: Appropriation from Undivided Earnings	222,227	427,943
Balance - End of Year	4,670,524	4,448,297
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>		
Balance - Beginning of year	(9,448)	-
Transition adjustment to financial instruments	-	(118,927)
Other comprehensive income for the year	105,116	109,479
Balance - End of year	95,668	(9,448)

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended June 30	2009	2008
Net Income	222,227	427,943
<b>Other comprehensive income (loss), net of income taxes</b>		
Net income on derivative instruments designated as cash flow hedges	(18,727)	89,324
Reclassification to income of gains on cash flow hedges	123,843	20,155
Other comprehensive income for the year	105,116	109,479
Comprehensive income for the year	327,343	537,422

# HALD-NOR COMMUNITY CREDIT UNION LIMITED

## STATEMENT OF INCOME

For the year ended June 30	2009	2008
<b>Revenue</b>		
Interest from mortgage loans (Note 13)	3,284,145	3,396,646
Interest from other loans (Note 13)	1,598,257	1,661,947
Service charges	613,843	595,686
Investment income	161,172	308,506
Mortgage fees and miscellaneous	344,366	328,122
	6,001,783	6,290,907
<b>Financial Costs</b>		
Interest on members' deposits	2,175,722	2,342,731
Interest on borrowings	90,131	50,802
	2,265,853	2,393,533
<b>Gross Margin</b>	3,735,930	3,897,374
<b>Expenses</b>		
Bank charges	187,134	185,521
Amortization	190,174	270,597
Operational costs - Page 5	713,987	688,000
Insurance - Page 5	124,550	104,297
Office occupancy costs - Page 5	99,636	82,357
Provision for doubtful loans (Note 4)	131,459	73,024
Salaries and employee benefits	1,815,259	1,740,223
Staff and directors' expenses - Page 5	91,243	80,804
	3,353,442	3,224,823
<b>Income Before Dividends, Income Taxes and Other Expenses</b>	382,488	672,551
Estimated dividends on investment shares	110,732	121,737
<b>Income Before Income Taxes</b>	271,756	550,814
Provision for Income Taxes (Note 14)	49,529	122,871
<b>Net Income</b>	222,227	427,943

# HALD-NOR COMMUNITY CREDIT UNION LIMITED

## SCHEDULE OF EXPENSES

For the year ended June 30	2009	2008
<b>Operational Costs</b>		
League dues	30,475	27,779
F.S.C.O. fees	4,796	6,894
Advertising and business promotion	130,358	136,284
Collection, registration and credit checks	11,105	14,780
Data processing	211,456	194,442
Professional fees	49,601	37,400
Office stationery and supplies	55,709	66,472
Postage	44,278	45,271
Registered retirement savings plans - trustee fees (Note 9)	9,923	7,419
Repairs and maintenance	76,604	64,849
Service contracts and repairs	10,190	13,205
Telephone	21,487	22,111
Miscellaneous	46,668	36,056
Appraisal fees	11,337	15,038
	<b>713,987</b>	<b>688,000</b>
<b>Insurance</b>		
Members accounts	24,185	14,318
Bonding	36,579	30,447
Fire and liability	5,706	5,654
D.I.C.O.	58,080	53,878
	<b>124,550</b>	<b>104,297</b>
<b>Office Occupancy Costs</b>		
Branch rents (net of rental income)	40,616	31,541
Utilities	39,845	35,353
Municipal taxes	19,175	15,463
	<b>99,636</b>	<b>82,357</b>
<b>Staff and Directors' Expenses</b>		
Honorariums	16,574	26,430
Educational	21,059	9,423
Meetings, annual and other	16,017	24,751
Travel	37,593	20,200
	<b>91,243</b>	<b>80,804</b>

See accompanying notes

# HALD-NOR COMMUNITY CREDIT UNION LIMITED

## STATEMENT OF CASH FLOWS

For the year ended June 30	2009	2008
<b>Cash Flows From Operating Activities</b>		
Net Income		
Charges (credits) to income not involving cash	222,227	427,943
Amortization	190,174	270,597
Future income taxes	21,095	(20,375)
Provision for doubtful loans	131,459	73,024
	564,955	751,189
Net change in non-cash working capital balances related to operations	(260,274)	(100,634)
	304,681	650,555
<b>Cash Flows From Financing Activities</b>		
Term loans	(3,300,000)	1,700,000
Increase in members' deposits and shares	8,763,373	4,150,597
	5,463,373	5,850,597
<b>Cash Flows From Investing Activities</b>		
Investments	(143,258)	2,396,243
Purchase of property, plant and equipment (net)	(116,807)	(188,625)
Loans to members	(5,739,306)	(8,450,032)
	(5,999,371)	(6,242,414)
<b>Net Decrease in Cash and Cash Equivalents</b>	(231,317)	258,738
<b>Opening Cash and Cash Equivalents</b>	3,151,895	2,893,157
<b>Closing Cash and Cash Equivalents</b>	2,920,578	3,151,895

See accompanying notes

# HALD-NOR COMMUNITY CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2009

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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#### (a) Measurement

Financial statements are based on representations that may require estimates to be made in anticipation of future transactions and events and include measurement that may, by their nature, be approximations.

#### (b) Interest Rate Swaps

The credit union enters into interest rate swaps in order to manage interest rate exposure. Revenues and expenses, including all yield related payments associated with interest rate swap transactions, are included in income in the year in which they are earned or incurred.

#### (c) Allowance for Doubtful Loans

Effective July 1, 1981, the Deposit Insurance Corporation of Ontario introduced Bylaw #6 governing the method of calculation of the allowance for doubtful loans. The 2009 allowance for doubtful loans has been calculated in accordance with Bylaw #6 inclusive of all amendments.

#### (d) Property, plant and equipment

Property, plant and equipment are stated at cost. Amortization is provided for in the accounts as follows:

Building	40 years straight line
Paved parking lots	10 years straight line
Building improvements	10 years straight line
Furniture and equipment	10 years straight line
Computer hardware	3 years straight line
Computer software	3 and 5 years straight line
Security equipment	5 and 10 years straight line
ATM Machines	5 years straight line

#### (e) Market Based Deposits

The credit union has various deposits from members whereby interest will be paid based on certain market indicators. To hedge against fluctuations in these indicators, the credit union has entered into contracts with Central 1 Credit Union (Central 1) whereby Central 1 will pay the interest on these deposits. In return, the credit union will pay a fixed rate of interest to Central 1 on these deposits. This interest is paid upon the issuance of the deposit and is reflected as a prepaid expense. The return on these deposits, based on the corresponding market indicators, is recorded as a receivable from Central 1, and an accrued interest payable to members.

# HALD-NOR COMMUNITY CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2009

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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#### (f) Financial Instruments

The credit union has adopted a policy to classify all financial instruments as follows:

- (i) - Cash and bank are classified as Available for Sale and measured at fair value.
- (ii) - All debt investments with Central 1 Credit Union are classified as Loans and Receivables as there is no active market. These assets are measured at amortized cost using the effective interest rate method.
- (iii) - All other debt investments are classified as Available for Sale and measured at fair value.
- (iv) - Other equity investments are classified as Available for Sale and measured at cost as there is no active market for these investments.
- (v) - Loans and mortgages are classified as Loans and Receivables, measured at amortized cost using the effective interest rate method.
- (vi) - Accounts Payable, Member Deposits, and Member Shares are classified as Other Liabilities and measured at amortized cost.
- (vii) - Interest rate swap contracts that are determined to be effective hedges are classified as Available for Sale and measured at fair value.
- (viii) - Purchases and sales of financial instruments are accounted for at trade date.
- (ix) - Transaction costs on financial assets and liabilities are expensed as incurred.

#### (g) Revenue Recognition

Interest on loans and investments is recognized as earned at the end of each month and when ultimate collection is reasonably assured.

### 2. CHANGE IN ACCOUNTING POLICIES

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On July 1, 2008 the credit union adopted new accounting standards issued by the Canadian Institute of Chartered Accountants. These standards were: Capital Disclosures (handbook section 1535), Financial Instruments - Disclosures (handbook section 3862), and Financial Instruments - Presentation (handbook section 3863). The adoption of these new standards resulted in additional information being disclosed and presented in the financial statements relating to financial instruments and further disclosure relating to the capital under management. There was no effect on the comparative financial statements as a result of adopting these new standards.

### 3. PREPAID EXPENSES

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The major components of this balance are represented by:

- (a) Prepaid insurance of \$23,368 (2008 - \$26,748)
- (b) Prepaid service contracts of \$59,203 (2008 - \$43,760)
- (c) Prepaid interest on member deposits \$337,264 (2008 - \$144,446)

# HALD-NOR COMMUNITY CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2009

4. LOANS RECEIVABLE	2009	2008
Personal	6,314,761	5,738,695
Business	17,916,248	14,191,540
Agricultural	684,098	75,000
Line of credit	3,503,493	3,594,205
Accrued interest on loans	32,495	30,222
	28,451,095	23,629,662
First mortgages	58,159,630	56,231,012
Second mortgages	2,805,563	3,170,077
Business mortgages	2,616,052	2,946,866
Agricultural mortgages	191,725	541,044
Accrued interest on mortgages	72,050	82,245
	63,845,020	62,971,244
Allowance for Doubtful Loans	92,296,115 (385,560)	86,600,906 (298,198)
	91,910,555	86,302,708

ALLOWANCE FOR DOUBTFUL LOANS	2009	2008
Balance - Beginning of Year	298,198	322,753
Provision for doubtful loans	131,459	73,024
Loans written off (net of recoveries)	429,657 44,097	395,777 97,579
Balance - End of Year	385,560	298,198

The allowance for doubtful loans is broken down as follows:

	2009	2008
Personal loans	99,538	74,266
Business loans	225,000	140,000
Line of credit	30,758	63,932
Mortgages	30,264	20,000
	385,560	298,198

# HALD-NOR COMMUNITY CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2009

5. INVESTMENTS		2009	2008
Central 1 Credit Union			
Canadian Term Deposits	i	1,400,000	500,000
U.S. Term Deposits	i	-	500,453
Liquidity Reserve	i	7,156,825	6,993,562
Shares	ii	619,216	-
Credit Union Central of Ontario shares	ii	130,799	851,373
ABCP LP units	ii	438,094	688,437
Accrued investment income		81,290	149,141
		9,826,224	9,682,966

Financial instrument classification:

- i Loans and receivables
- ii Available for sale

### Central 1 Credit Union Shares

The credit union is a member of Central 1 Credit Union. Central 1 Credit Union was formed on July 1, 2008 as a result of the merger between Credit Union Central of Ontario (CUCO) and Credit Union Central of British Columbia (CUCBC). On July 1, 2008, CUCO sold substantially all of its assets to Central 1 in exchange for Central 1 class A and class E shares. As at June 30, 2008, CUCO had a retained deficit of \$25.3 million. After considering the impact of the subsequent gain on sale of assets as a result of the merger, in 2009 the credit union wrote down the value of its CUCO shares by \$43,305, representing its proportionate share of the deficit.

As a condition of membership in the Central, the credit union is required to maintain an investment in shares of the Central equal to 0.9% of the total assets of the credit union as at December 31st of the preceding year.

No market exists for the shares of the Central except that they may be surrendered for proceeds equal to the paid-in value in accordance with withdrawal from membership provisions or when the credit union's own shares and deposits decline. Accordingly, in the absence of other determinations, market value is considered to be equal to cost.

### Liquidity Reserve Deposits - \$7,156,825

As an additional condition of membership in the Central, credit unions are required to maintain a deposit of 7% of their total assets, with this deposit being updated quarterly.

The sum of all member liquidity reserve deposits yields interest at a floating rate tied to the 91 day Canada Treasury Bills discount rate.

# HALD-NOR COMMUNITY CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2009

### 5. INVESTMENTS (Cont'd)

#### ABCP LP - \$438,094

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 LP) to acquire these investments funded by member credit unions in proportion to their share investment in CUCO. As a result, on July 1, 2008, immediately prior to the merger of CUCO and CUCBC, the excluded ABCP with a total par value of \$186,916,000 was acquired by the ABCP LP at its estimated fair value or \$133,564,000 including accrued interest, net of expenses, and other assets. As there is no liquid market in these ABCP investments, the fair values used to determine the acquisition price were provided by Edenbrook Hill Capital Ltd., a firm engaged by CUCO to provide an independent valuation of the assets underlying the ABCP investments.

The ABCP LP is governed by a Board of Directors that was elected by Ontario member credit unions. The credit union records its investment in the ABCP LP using the equity method of accounting. For the period ended December 31, 2008 the audited financial statements of the partnership reported a net loss of \$27,813,561. The credit union's proportionate share of that loss was \$143,351, which has been charged against investment income. The unaudited financial statements of the partnership as at June 30, 2009 reported a net income of \$4,190,757. The credit union has recorded its proportionate share of this income, \$21,599, in investment income.

### 6. INTEREST RATE SWAPS

From time to time in the ordinary course of business, the credit union enters into interest rate swaps in order to hedge against exposure to interest rate fluctuations. At June 30, 2009, the credit union was party to one such agreement with Central 1 Credit Union (Central 1). The agreement represents a notional principal amount of \$3,000,000 (\$6,000,000 in 2008).

Under the terms of this agreement, the credit union has contracted with the counter party to pay interest at a variable rate equivalent to the one month CDOR rate to be repriced monthly, while receiving interest at a fixed rate on the notional principal amount.

Notional Amount	Maturity Date	Paying Rate	Receiving Rate
3,000,000	September 27, 2010	0.39643%	3.680%

Interest rate swaps have a fair value that varies based on the particular contract and changes in interest rates. The purpose of these contracts is to provide a hedge against interest rate fluctuations by improving the credit union's matching of its asset and liability positions.

# HALD-NOR COMMUNITY CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2009

7. PROPERTY, PLANT AND EQUIPMENT	Cost	Accumulated Amortization	2009	2008
Land	119,190	-	119,190	119,190
Building	593,417	505,164	88,253	115,074
Paved parking lots	20,490	12,054	8,436	9,778
Building improvements	545,306	475,622	69,684	90,719
Furniture and equipment	247,117	175,890	71,227	78,623
Computer hardware	299,647	271,534	28,113	25,552
Computer software	299,405	242,189	57,216	77,185
Security equipment	141,293	117,552	23,741	32,408
ATM Machines	253,286	220,938	32,348	23,046
	2,519,151	2,020,943	498,208	571,575
<hr/>				
8. TERM LOANS			2009	2008
Term loan with 1 month closed interest at 0.9%, with the option to repay in full July 17, 2009, with interest at prime after the option date, maturing October 24, 2009			1,200,000	-
Term loan with 1 month closed interest at 0.9%, with the option to repay in full July 24, 2009, with interest at prime after the option date, maturing October 31, 2009			500,000	-
Term loan with 1 month closed interest at 3.49%, with the option to repay in full July 14, 2008, with interest at prime after the option date, maturing October 22, 2008			-	1,000,000
Term loan with 1 month closed interest at 3.45%, with the option to repay in full July 18, 2008, with interest at prime after the option date, maturing October 26, 2008			-	1,000,000
Term loan with 1 month closed interest at 3.45%, with the option to repay in full July 23, 2008, with interest at prime after the option date, maturing October 31, 2008			-	1,000,000
Term loan with 1 month closed interest at 3.45%, with the option to repay in full July 25, 2008, with interest at prime after the option date, maturing November 2, 2008			-	1,000,000
Term loan with 1 month closed interest at 3.50%, with the option to repay in full July 23, 2008, with interest at prime after the option date, maturing October 31, 2008			-	1,000,000
			1,700,000	5,000,000

# HALD-NOR COMMUNITY CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2009

### 9. REGISTERED RETIREMENT SAVINGS PLANS

Co-Operative Trust Company of Canada is the trustee of the Registered Retirement Savings Plan offered to members. Under an agreement with the trust company, members' contributions to this fund as well as income earned on them is deposited in the credit union. On withdrawal, payment of the plan proceeds is made to the members, or parties designated by them, by the credit union on behalf of the trust company.

### 10. MEMBERS' DEPOSITS

	2009	2008
Savings accounts	28,636,124	19,488,081
Chequing accounts	19,304,691	19,640,926
Term certificates	28,877,212	30,131,408
Registered Retirement Savings Plans	15,530,814	14,199,974
Registered Retirement Income Funds	2,481,559	2,448,828
Accrued interest on member deposits	1,121,011	1,327,119
	95,951,411	87,236,336

### 11. MEMBERS' SHARES

	2009	2008
Investment shares - registered	1,581,622	1,554,057
Investment shares - non-registered	1,174,254	1,151,303
Membership shares	518,058	520,276
	3,273,934	3,225,636

#### Investment Shares

These are Class B investment shares with a minimum of 500 shares per member to a maximum of 100,000 shares per member. The subscription price is \$1 per share. Shares are redeemable subject to Board approval, with a maximum redemption of 10% of the prior year's outstanding shares. Dividends are at the discretion of the Board.

#### Membership Share Requirements

	2009	2008
Number of active members	5,221	5,347
Minimum number of shares required per member	4	4
Par value of each share	\$25	\$25

# HALD-NOR COMMUNITY CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2009

### 12. CAPITAL MANAGEMENT

The credit union maintains policies and procedures relative to capital management so as to ensure that capital levels are sufficient to cover the risks inherent in the business. The credit union considers its capital to comprise cash resources, membership shares, undivided earnings and reserves.

The Credit Unions and Caisses Populaires Act, 1994 requires the credit union to maintain regulatory capital of 4% of total assets and 8% of a risk weighted equivalent value. The risk weighted equivalent value is calculated by applying risk weight percentages as prescribed by the Act to various assets, operational and interest rate risk criteria.

Regulatory capital	2009	2008
Membership shares	3,273,934	3,225,636
Undivided earnings	-	-
Accumulated other comprehensive income	95,668	(9,448)
Reserves	4,670,524	4,448,297
	8,040,126	7,664,485
Percentage of total assets	7.57 %	7.62 %
Risk weighted equivalent value	52,958,383	47,292,917
Percentage of risk weighted equivalent value	15.18 %	16.21 %

The credit union is in compliance with the regulations regarding regulatory capital.

### 13. BREAKDOWN OF INCOME

	2009	2008
Mortgages - Residential	3,118,639	3,147,663
- Business	146,824	216,774
- Agricultural	18,682	32,209
	3,284,145	3,396,646
Other loans - Personal	421,359	520,293
- Business	916,673	865,358
- Agricultural	23,212	2,951
- Line of credit	237,013	273,345
	1,598,257	1,661,947

# HALD-NOR COMMUNITY CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2009

14. PROVISION FOR INCOME TAXES	2009	2008
Current income taxes	49,226	143,246
Over-provision of prior year taxes	(20,792)	-
Future income tax expense relating to the origination and reversal of temporary differences	(2,338)	(6,856)
Future income tax expense (benefit) resulting from decrease in tax rate	23,433	(13,519)
	49,529	122,871
Income before income taxes	271,756	550,814
Tax at the applicable tax rate of 16.17% (2008 - 22.38%)	43,943	123,272
Tax effect of expenses not deductible for income tax purposes	(17,847)	13,118
Decrease in future tax asset resulting from decrease in tax rate	23,433	(13,519)
	49,529	122,871

15. RESTRICTED PARTY TRANSACTIONS

The loans and lines of credit to staff, directors and committee members amounted to \$3,378,897 as at June 30, 2009 (\$3,191,466 as at June 30, 2008).

No allowance was required on these loans as at June 30, 2009.

# HALD-NOR COMMUNITY CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2009

### 16. FINANCIAL INSTRUMENTS

The estimated fair market value of the accounts receivable and accounts payable is equal to the book value given the short-term nature of the items.

The amounts set out below represent the fair values of the credit union's financial instruments where fair value differs from carrying cost. These values do not include accrued interest. Financial instruments valued at fair value as per Note 1(f) are excluded as these instruments are carried at fair value. Assets that are not considered financial instruments, such as capital assets, prepaid expenses and future income taxes, are also excluded.

2009			
	Fair value	Book value	Fair value over (under) book value
<b>Assets</b>			
Loans	28,619,495	28,418,600	200,895
Mortgages	68,554,758	63,772,970	4,781,788
Investments	9,885,709	9,744,934	140,775
<b>Liabilities</b>			
Term loans	1,705,535	1,700,000	5,535
Demand deposits	47,469,280	47,940,815	(471,535)
Term deposits	30,102,273	28,877,212	1,225,061
Registered deposits	19,212,175	18,012,373	1,199,802
Members' shares	3,278,751	3,273,934	4,817
2008			
	Fair value	Book value	Fair value over (under) book value
<b>Assets</b>			
Loans	23,696,090	23,599,440	96,650
Mortgages	65,036,294	62,888,999	2,147,295
Investments	9,473,641	9,533,825	(60,184)
<b>Liabilities</b>			
Term loans	4,993,862	5,000,000	(6,138)
Demand deposits	37,718,967	39,485,312	(1,766,345)
Term deposits	30,324,138	30,132,265	191,873
Registered deposits	16,685,164	16,648,805	36,359
Members' shares	3,227,230	3,225,635	1,595

Fair value of variable rate loans and member deposits are assumed to equal the book value as the interest rates on these loans and deposits reprice to market on a periodic basis.

Fair value of fixed rate investments, fixed rate loans, and fixed rate member deposits is determined by discounting the expected future cash flows of these investments, loans, and deposits at current market rates for products with similar terms and credit risks.

# HALD-NOR COMMUNITY CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended June 30, 2009

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### 17. RISK MANAGEMENT

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The credit union is exposed to a variety of financial risks inherent in its operations. The credit union has established prudent risk management policies in accordance with DICO By-law #5. The credit union's objective is to manage these risks to ensure that an appropriate balance of return for the risk assumed is maintained.

#### **Currency Risk**

The credit union is exposed to fluctuations in the value of financial instruments denominated in foreign currencies. The credit union limits its exposure to currency risk by maintaining investments in foreign currencies to offset foreign denominated liabilities.

#### **Credit Risk**

The credit union is exposed to the risk of loss related to loans and mortgages receivable. The credit union invests in loans as its primary source of revenue. Credit is granted through consideration of credit history, character, collateral, and capacity for debt. The risk of credit loss is mitigated by requiring collateral security on loans in excess of \$25,000. Mortgages are secured by real property. Term loans and lines of credit are secured by other assets equivalent to the approved balance of the loan. The credit union's maximum exposure to credit risk equals the value of total loans and mortgages outstanding as described in Note 4.

#### **Liquidity Risk**

Liquidity risk consists of the risk that the credit union is unable to generate sufficient cash to meet commitments as they come due. The credit union maintains a liquidity reserve with Central 1 Credit Union as described in Note 5. The credit union is also required by statute to maintain a prescribed amount of liquid assets to mitigate liquidity risk. Liquidity requirements based on expected maturity of member deposits, and the corresponding maturity of investments in loans, is described in the chart under Interest Rate Risk below. The credit union's liquidity at June 30, 2009 is 12.34%

#### **Interest Rate Risk**

The credit union is required to establish policies and procedures to limit its exposure to interest rate risk. These policies must ensure that the credit union's net earnings before income taxes are not impacted by an amount greater than 0.15% of the credit union's total assets based on interest rate fluctuations that may reasonably be expected to occur. Measurement and management of exposure of interest rate sensitivity is done through a combination of income simulation and maturity gap analysis. The credit union's interest rate risk results from the fact that the maturity or repricing dates for interest rate sensitive assets differs from that for the interest rate sensitive liabilities.

The credit union is exposed to interest rate price risk as a result of fixed rate financial instruments. The credit union is exposed to interest rate cash flow risk as a result of its variable rate financial instruments.

Fixed rate financial instruments maturity dates substantially coincide with interest adjustment dates.

The following tables identify the maturity dates of interest rate sensitive financial instruments.

# HALD-NOR COMMUNITY CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2009

### 17. RISK MANAGEMENT (Cont'd)

	2009					Total
	Variable	Within 3 months	4 to 12 months	Greater than 1 year	Not rate sensitive	
<b>Assets</b>						
Cash and bank	2,271,926	-	-	-	648,652	2,920,578
effective rate %	0.25	-	-	-	-	-
Loans and mortgages	45,496,834	2,514,285	5,383,920	38,796,530	-	92,191,569
effective rate %	5.02	5.58	5.42	5.64	-	-
Investments	-	2,843,092	2,448,968	3,264,765	1,188,108	9,744,933
effective rate %	-	1.84	1.62	2.78	-	-
<b>Liabilities</b>						
Member deposits	-	19,327,986	24,912,390	50,590,024	-	94,830,400
effective rate %	-	2.19	2.16	2.26	-	-
Members' shares	-	2,755,875	-	-	518,058	3,273,933
effective rate %	-	4.50	-	-	-	-
	2008					Total
	Variable	Within 3 months	4 to 12 months	Greater than 1 year	Not rate sensitive	
<b>Assets</b>						
Cash and bank	2,363,177	-	-	-	788,718	3,151,895
effective rate %	0.25	-	-	-	-	-
Loans and mortgages	40,379,954	2,707,417	6,197,583	37,203,486	-	86,488,440
effective rate %	5.83	5.68	5.58	5.71	-	-
Investments	-	3,175,173	1,330,407	3,488,435	1,539,810	9,533,825
effective rate %	-	3.75	4.20	3.30	-	-
<b>Liabilities</b>						
Term loans	-	5,000,000	-	-	-	5,000,000
effective rate %	-	3.47	-	-	-	-
Member deposits	-	30,285,007	15,474,987	40,149,223	-	85,909,217
effective rate %	-	3.12	2.60	2.24	-	-
Members' shares	-	2,705,360	-	-	520,276	3,225,636
effective rate %	-	4.50	-	-	-	-

A one percentage point increase in market rates will cause the credit union's net interest income to decrease by \$27,000. A one percentage point decrease will cause net interest income to increase by \$168,000.

### 18. INTEREST AND INCOME TAXES PAID

2009

2008

During the year the credit union made the following payments:

Interest paid on borrowings	90,131	50,802
Income taxes paid	107,151	132,263

### 19. COMPARATIVE FIGURES

Certain of the prior year's figures, provided for purposes of comparison, have been reclassified to conform with the current year's presentation.

# HALD-NOR COMMUNITY CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2009

### 20. COMMITMENTS

#### Letters of credit

The credit union has issued letters of credit in the amount of \$1,747,038 (\$322,026 in 2008) that are outstanding at the year end. These letters of credit are issued to various third parties on behalf of members of the credit union. These letters are converted to loans to the members when drawn by the third party.

#### Mortgages

Outstanding commitments for future advances on mortgages are \$1,711,136 (2008 - \$1,712,272)

#### Credit Lines

Unused lines of credit available to members are \$16,200,964 (2008 - \$15,742,957)

#### Leases

The credit union's obligations under operating leases for its business premises are as follows:

Locations	Monthly Rent	Lease Expiry Date	Total Remaining Commitment
Simcoe	\$3,228 plus tax	October 31, 2013	167,856
Cayuga	\$2,641 plus tax	January 31, 2010	18,487
			186,343

### 21. FUTURE ACCOUNTING CHANGES

#### International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board announced that GAAP for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 1, 2011. Credit unions are specifically included in the definition of publicly accountable enterprises. Consequently, the credit union will be required to prepare the June 30, 2012 financial statements including comparative information in compliance with IFRS.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. The credit union is currently in the process of assessing the differences between current accounting policies and those provided by IFRS, as well as the alternatives available on adoption. The assessment will include the potential impact of the conversion on accounting policies, information technology and data systems, internal controls over financial reporting, disclosure controls and procedures, financial reporting, and business activities.