



Hamilton Community  
Credit Union Limited



2009 ANNUAL REPORT



# Agenda for *71st* Membership Meeting

Tuesday March 9<sup>th</sup>, 2010

Meeting 7:00 pm

Michelangelo's

1555 Upper Ottawa Street, Hamilton, ON

Chair's Welcome .....	
Minutes of the 70 <sup>th</sup> Annual Meeting .....	
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Marketing & Education Report .....	Page 19
Charitable Donations Report .....	Page 20
New Business .....	
Election of Officers .....	
Adjournment .....	



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# Report of the Board of Directors

Your Board of Directors is pleased to report another profitable year for The Hamilton Community Credit Union Ltd. For the 26<sup>th</sup> consecutive year we were able to pay a Participation Rebate on all interest paid or earned. This year the Rebate paid was 4%.

HCCU's assets declined slightly and ended the year at just over \$80 m. Our loan portfolio increased slightly and sits at approximately \$60 m. Loan and mortgage competition in the current economic climate was extremely competitive.

I would like to extend my thanks to the Directors and Staff for the support they have given to me during the last year. Once again we have spent considerable time and effort in determining the future path for this Credit Union. The Board and Committees continue to be very active and a wealth of new ideas and projects have been planned in an effort to keep this Credit Union strong and vibrant. As you are all aware we continue to expand the services that we offer our members. This year we introduced our Community

One Volunteer Account and Consolidation Loans to better serve our members and communities.

We take this opportunity, once again, to extend a special thanks to our Staff for their efforts and dedication, which along with the Board and Committees are responsible for another successful year.

We also wish to thank all of our members who have joined us this evening for demonstrating your continued support for our efforts.

Submitted on behalf of The Board of Directors



Scott Zimmerman  
Chair of the Board

Director	Term
Jean Lederer	2007-2010
Charlene Pretty	2007-2010
Scott Zimmerman	2007-2010
David Edwards	2008-2011
Patrick Fournier	2008-2011
Larry Patchett	2008-2011
Pearl Davie	2009-2012
Patricia MacDougall	2009-2012
Sharon Miller	2009-2012

# Management Report



2009 was an exciting and challenging year for your Credit Union and the communities that we serve as we grappled with the effects of the recession, high levels of unemployment, falling house prices, an increase in personal bankruptcies and historically low interest rates. In addition to the challenges associated with the economy, HCCU was affected by regulatory changes, we prepared for the implementation of new accounting standards, managed through a significant flood at our head office, moved forward with the implementation of our business plan and continued down our path to modernization by making the necessary investments in our organization to ensure its long-term viability. With that in mind, it is my pleasure to present this management report to the membership of Hamilton Community Credit Union.

HCCU undertook a number of initiatives to improve member service including the installation of two new CHIP Card compliant ATMs. These ATMs provide greater uptime today and will allow us to offer our members CHIP cards as required in 2010 and beyond. CHIP cards will, in time, allow members greater flexibility and should help to reduce fraud associated with today's debit cards. HCCU also undertook testing of its new Disaster Recovery Plan (DRP) in order to ensure that risks associated with unforeseen events would be mitigated. The results of the tests allowed us to further improve our DRP and allowed us to better manage through a series of floods that affected the King Street location through the spring and early summer.

Like many Hamiltonians, the heavy rains of May and June caused significant flooding that affected the Credit Union's head office. While the circumstances created havoc for HCCU's employees, we are proud to say that with the exception of two hours, when the City of Hamilton asked us to close the branch for safety reasons, that there was no negative impact on member service or to the organization's accounting or member records. Also, we are pleased that by working with the City and our insurers quickly and to mitigate future risk that there was minimal financial impact to the Credit Union. I would like to take this opportunity to thank the King Street staff and the management team for working in very difficult conditions, virtually around the clock for several months.

In addition to the day-to-day priorities of the Credit Union, HCCU began preparing for its required conversion from Canadian Generally Accepted Accounting Principles (GAAP) to the newly adopted International Financial Reporting Standards (IFRS). While the impact of this change will be minimal, it will require that HCCU plan and prepare

for this conversion to take effect on January 1, 2011. Also, the provincial government updated the Credit Union and Caisses Populaires Act, HCCU's enabling legislation with a number of the most significant changes taking place in October 1, 2009 (others will be implemented by October 1, 2010). In addition to changes required at the policy level around capital and liquidity management, HCCU has undertaken a comprehensive update to our by-laws to ensure our compliance with the new regulations. Those by-laws have been endorsed by your Board of Directors and will be brought to the membership for their consideration and approval at the Annual General meeting.

From a financial perspective, HCCU had a successful but not a stellar year. Our assets ended the year at approximately \$80,000,000 a slight decrease from the previous year. Our net income, before dividends, distributions and taxes was \$409,252 of which approximately \$168,000 was returned to members in the form of participation rebates and dividends, approximately \$42,000 was paid in income taxes and the remaining \$203,882 was allocated to reserves to cushion against future uncertainty and to fund future growth.

I will take this opportunity to remind you that HCCU is a local financial cooperative that matches the needs of local borrowers with local savers. HCCU is in a strong financial position, we do not borrow to meet our liquidity needs and all of our members' mortgages, loans and lines of credit are funded through the deposits of our members. We are well capitalized and highly liquid, with both of these measures well in excess of regulatory and prudent policy minimums. Our strong financial footing and prudent lending policies have sheltered us from many of the challenges that our peers faced in 2009 and allow us some flexibility as we continue to find new ways to grow our business and attract new members.

Management continues to take a prudent and conservative approach to managing your Credit Union and we are always aware of the trust that you put in us every day. Thank you for your continued support and patronage of Hamilton Community Credit Union.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Malcolm Stoffman". The signature is fluid and cursive, written over a white background.

Malcolm Stoffman  
Chief Executive Officer

# Audit Committee Report

During the past year, your Audit Committee held regular monthly meetings at each office in order to check the records and operations of your Credit Union. We have found all procedures to be in accordance with the By-Laws and the Credit Union Caisses Populaires Act.

Complete checks were made of all loan and mortgage applications and reports were sent to the Board of Directors. Your Audit Committee also completed the following audits and reviews.

- Primary Cheque Audits
- Deposit and Withdrawal Audits
- CUCO Deposit Audits
- HCCU Investment Reviews
- Overdrawn Account Audits
- Teller Cash and Treasury Counts
- Money Order Audits
- Traveler Cheques Audits
- Disaster Recovery Audit and Review
- DICO by-law Required Reviews and Audits

We are pleased to report that to the best of our knowledge, the operations of Hamilton Community Credit Union Limited have been carried out in an orderly and accountable way during the past year.

In conclusion, we wish to thank the staff at each office for their continued cooperation and courtesy shown during our visits. They make our time spent at each location a true pleasure. With the changes to the Credit Union Act, this is the last report that a separately elected Audit Committee will submit.

Respectfully submitted by,

*Alex MacLeod (Chair)*

*Clare Maitland*

# Auditors' Report

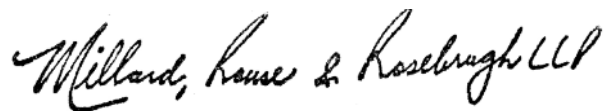
**To the Members of  
Hamilton Community Credit Union Limited**

We have audited the balance sheet of Hamilton Community Credit Union Limited as at December 31, 2009 and the statements of income, undivided earnings and reserves 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 Hamilton Community Credit Union Limited 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. In accordance with the Credit Unions and Caisses Populaires Act, we report that our audit engagement considered the fair value of the assets and liabilities of the credit union, and that the credit union is in compliance with Section 84 of the Act.

January 14, 2010




CHARTERED ACCOUNTANTS  
Licensed Public Accountants

# Balance Sheet

As at December 31	2009	2008 (restated) (Note 2)
<b>ASSETS</b>		
Cash and bank	\$ 4,967,767	\$ 1,809,920
Accounts receivable	32,461	9,421
Prepaid expenses	109,257	43,835
Income taxes recoverable	35,096	-
Loans Receivable (Note 3)	59,914,245	59,063,245
Investments (Note 5)	14,912,188	19,936,520
Property, Plant and Equipment (Note 6)	265,569	189,071
Future Income Taxes	2,366	1,200
	\$ 80,238,949	\$ 81,053,212
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	390,360	374,756
Income taxes payable	-	13,597
	390,360	388,353
<b>Members' Deposits (Note 7)</b>	72,264,625	73,197,876
<b>Members' Shares (Note 8)</b>	1,626,441	1,713,342
	74,281,426	75,299,571
<b>MEMBERS' EQUITY</b>		
Undivided Earnings	204,536	310,397
Reserve for Contingencies	5,752,987	5,443,244
	\$ 80,238,949	\$ 81,053,212

Approved on behalf of the Board of Directors:

 \_\_\_\_\_ Director

 \_\_\_\_\_ Director

See accompanying notes.

# Statement of Income

For the year ended December 31	2009	2008 (restated) (Note 2)
<b>Interest Revenue</b>		
Interest from personal loans	\$ 695,577	\$ 681,906
Interest from mortgage loans	2,248,646	2,546,075
Investment income	416,861	737,884
	<u>\$ 3,361,084</u>	<u>\$ 3,965,865</u>
<b>Interest Expense</b>		
Savings accounts	74,027	66,736
Term deposits	285,947	444,801
Registered retirement savings plans	409,928	498,756
Registered retirement income funds	208,611	281,253
	<u>\$ 978,513</u>	<u>\$ 1,291,546</u>
<b>Net Interest Income</b>	2,382,571	2,674,319
Other Income	286,084	229,204
<b>Net Interest and Other Income</b>	<u>\$ 2,668,655</u>	<u>\$ 2,903,523</u>
<b>Expenses</b>		
Salaries and benefits	1,163,794	1,165,962
Personal chequing expenses	22,561	37,147
Operating Expenses - <i>Page 9</i>	654,195	656,368
Insurance - <i>Page 9</i>	230,082	220,389
Collection and Bad Debts - <i>Page 9</i>	131,005	50,450
Staff and directors expenses - <i>Page 9</i>	57,766	44,138
	<u>\$ 2,259,403</u>	<u>\$ 2,174,454</u>
<b>Income Before Dividends, Rebates and Income Taxes</b>	409,252	729,069
Dividends	(34,294)	(54,036)
Participation rebate	(133,304)	(301,398)
Gain on disposal of property, plant and equipment	3,000	-
<b>Income Before Income Taxes</b>	<u>\$ 244,654</u>	<u>\$ 373,635</u>
Provision for Income Taxes - Current	41,938	62,312
- Future	(1,166)	926
	<u>40,772</u>	<u>63,238</u>
<b>Net Income</b>	<u>\$ 203,882</u>	<u>\$ 310,397</u>

See accompanying notes.

# Statement of Undivided Earnings & Reserves

For the year ended December 31	2009	2008 (restated) (Note 2)
<b>Undivided Earnings</b>		
Balance - Beginning of Year	\$ 310,397	\$ 292,780
Net Income	203,882	310,397
Less: Appropriation to Reserve for Contingencies	(309,743)	(292,780)
Balance - End of Year	<u>\$ 204,536</u>	<u>\$ 310,397</u>
<b>Reserve for Contingencies</b>		
Balance - Beginning of Year	\$ 5,443,244	\$ 5,150,464
Allocation from Undivided Earnings	309,743	292,780
Balance - End of Year	<u>\$ 5,752,987</u>	<u>\$ 5,443,244</u>

*See accompanying notes.*

# Schedule of Expenses

For the year ended December 31	2009	2008 (restated) (Note 2)
<b>Operating Expenses</b>		
Administration charges - Concentra	\$ 10,194	\$ 16,298
Advertising, promotions and donations	76,431	42,699
Central clearing and service charges	47,407	47,789
Data processing and computer maintenance	92,704	83,668
Equipment repairs and maintenance	23,318	17,458
F.S.C.O. assessment	3,818	6,036
Internet expenses	38,938	54,598
Loan granting costs	22,088	19,574
League dues	19,759	29,179
Office supplies and postage	104,979	137,565
Professional fees	36,921	36,534
Building repairs and maintenance	34,825	32,516
Property taxes	26,440	27,187
Rent	40,029	37,276
Utilities	17,049	15,197
Telephone	15,809	17,615
Amortization	36,865	29,403
Meals and entertainment	6,621	5,776
	\$ 654,195	\$ 656,368
<b>Insurance Expenses</b>		
Share and loan insurance	\$ 111,682	\$ 112,284
DICO members' deposit insurance	58,673	58,761
Bonding	36,647	27,738
Fire and liability	23,080	21,606
	\$ 230,082	\$ 220,389
<b>Collection and Bad Debts</b>		
Collection costs	9,334	6,640
Bad debt expense (recovery)	121,671	43,810
	\$ 131,005	\$ 50,450
<b>Staff and Directors' Expenses</b>		
Directors' expenses	21,992	22,499
Educational	15,337	9,021
Meetings, annual and other	16,223	9,949
Travel	4,214	2,669
	\$ 57,766	\$ 44,138

See accompanying notes.

# Statement of Cash Flows

For the year ended December 31	2009	2008 (restated) (Note 2)
<b>Cash Flows From Operating Activities</b>		
Net Income	\$ 203,882	\$ 310,397
Charges (credits) to income not involving cash		
Amortization	36,865	29,403
Gain on disposal of assets	(3,000)	-
Future income taxes	(1,166)	926
Provision for doubtful loans	121,671	43,810
	358,252	384,536
Net change in non-cash working capital balances related to operations	(121,551)	(192,917)
	236,701	191,619
<b>Cash Flows From Financing Activities</b>		
Members' deposits and shares	(1,020,152)	1,867,664
<b>Cash Flows From Investing Activities</b>		
Investments	5,024,332	848,583
Purchase of property, plant and equipment	(113,363)	(57,927)
Proceeds on disposal of property, plant and equipment	3,000	-
Loans to members	(972,671)	(2,620,389)
	3,941,298	(1,829,733)
<b>Net Increase in Cash and Cash Equivalents</b>	3,157,847	229,550
<b>Opening Cash and Cash Equivalents</b>	1,809,920	1,580,370
<b>Closing Cash and Cash Equivalents</b>	\$ 4,967,767	\$ 1,809,920

*See accompanying notes.*

# Notes to Financial Statements

For the year ended December 31, 2009

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (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) Property, Plant and Equipment and Amortization

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

Building	5% declining balance
Leasehold improvements	15 years straight line
Furniture and fixtures	20% declining balance
Computer equipment	3 years straight line
ATM Machine	7 years straight line

In the year of acquisition, amortization is pro-rated based on the number of months in use. No amortization is provided for in the year of disposal.

### (c) Allowance for Doubtful Loans

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

### (d) Financial Instruments

Financial instruments are initially recognized at fair value. Subsequent measurement is based on the classification of the financial instrument. The credit union has adopted a policy to classify all financial instruments as follows:

- (i) Cash and bank are classified as Held for Trading and measured at fair value.
- (ii) All debt investments with Central 1 Credit Union and Concentra Financial 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) Other marketable debt investments with fixed terms are classified as Held to Maturity and measured at amortized cost using the effective interest rate method.
- (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) Purchases and sales of financial instruments are accounted for at trade date.
- (viii) Transaction costs on financial assets and liabilities are expensed as incurred.

### (e) Revenue Recognition

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

### (f) 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 issuance of the deposit and is reflected as a prepaid expense, amortized on a straight-line basis over the term of the contract. 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.

## 2. CORRECTION OF A PRIOR PERIOD ERROR

The prior year's figures, presented for comparison, have been restated to correct an error in the calculation of accrued interest receivable. This error resulted in accrued interest receivable and investment income being overstated by \$47,931 in 2008. Consequently accrued interest receivable and investment income have been reduced by \$47,931. Income taxes payable and income tax expense have been reduced by \$7,909. Net income has been reduced by \$40,022.

# Notes to Financial Statements

For the year ended December 31, 2009

3. LOANS RECEIVABLE	2009	2008
Personal loans	\$ 6,438,754	\$ 6,958,697
Personal line of credit	1,326,861	1,116,172
First mortgages	42,890,788	43,133,795
Home equity lines of credit	1,007,071	1,026,063
Merit lines of credit	8,328,404	6,865,641
Accrued interest	88,837	93,209
	<hr/>	<hr/>
	60,080,715	59,193,577
Allowance for Doubtful Loans (Note 4)	(166,470)	(130,332)
	<hr/>	<hr/>
	\$ 59,914,245	\$ 59,063,245

4. CONTINUITY OF ALLOWANCE FOR DOUBTFUL LOANS	2009	2008
Balance - Beginning of Year	\$ 130,332	\$ 116,673
Loans written off against the allowance	(88,345)	(64,380)
Increase in allowance charged to income	121,671	43,810
Recovery of previously written off loans	2,812	34,229
	<hr/>	<hr/>
Balance - End of Year	\$ 166,470	\$ 130,332

The allowance for doubtful loans as at December 31, 2009 is broken down as follows:

	Allowance for doubtful loans		Aggregate impaired loans	
	2009	2008	2009	2008
Personal loans	69,833	48,294	69,833	48,294
Lines of credit	56,774	12,046	56,774	12,046
Non-specified loans	39,863	69,992	-	-
Mortgages	-	-	73,912	196,626
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 166,470	\$ 130,332	\$ 200,519	\$ 256,966

5. INVESTMENTS		2009	2008
Concentra Financial Services term deposits	i	\$ 4,821,239	\$ 3,750,000
Central 1 Credit Union			
Shares	iii	507,561	566,982
Liquidity reserve	i	5,729,890	5,676,547
Term deposits	i	1,170,400	6,401,630
Credit Union Central of Ontario shares	iii	109,500	109,500
Other investments			
Shares	iii	2,466	2,466
Bonds	ii	-	2,874,291
Term deposits	iv	2,100,000	-
ABCP 2008 Limited Partnership units	iii	382,736	414,107
Accrued investment income		88,396	140,997
		<hr/>	<hr/>
		\$ 14,912,188	\$ 19,936,520

Financial Instrument classifications in accordance with Note 1(d):

- i Loans and receivables, recorded at amortized cost
- ii Held for trading, recorded at fair value
- iii Available for sale, recorded at cost as there is no active market
- iv Held to maturity, recorded at amortized cost

# Notes to Financial Statements

For the year ended December 31, 2009

## 5. INVESTMENTS cont'd

On July 1, 2008, assets of Credit Union Central of Ontario (CUCO) were sold to Credit Union Central of British Columbia (CUCBC) to form Central 1 Credit Union (Central 1).

Prior to the sale to Central 1, members of CUCO were required to hold an investment equal to 0.8% of its total assets in CUCO shares to remain a member in good standing. On the date of acquisition, CUCO sold substantially all of its assets to Central 1 in exchange for Class A and Class E shares. Through the course of this transaction the credit union received \$212,317 in Central 1 Class A shares and \$306,100 in Central 1 Class E shares. The credit union retained \$145,753 in CUCO shares which at the time of the acquisition by CUCBC were impaired. As a result of this impairment the CUCO shares have been written down by \$36,253.

No market exists for the shares of CUCO or Central 1 Credit Union 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, these investments are carried at cost less the provision for impairment that is considered other than temporary.

As a condition of membership in Central 1, the credit union is required to maintain an interest bearing "liquidity reserve deposit" equal to 7% of its total assets at the end of each calendar quarter. Except for possible refunds occasioned by future reductions in total assets, this deposit is refundable to the credit union only in the event of the credit union's dissolution or withdrawal from membership in Central 1.

### ABCP 2008 Limited Partnership

As a pre-condition of the sale of assets of CUCO to CUCBC, 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 of \$133,564,000, including accrued interest, net of expenses, and other assets.

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 partnership using the equity method of accounting. For the period ended December 31, 2009 the unaudited financial statements of the partnership recorded a net gain of \$13,592,430. The credit union's proportionate share of that gain was \$58,787, which has been recorded as investment income. During the year the credit union received distributions from the LP in the amount of \$90,156 which are recorded as a return of the initial capital invested.

## 6. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	2009	2008
Land	\$ 19,557	\$ -	\$ 19,557	\$ 19,557
Building	223,960	143,193	80,767	85,018
Leasehold improvements	78,145	78,145	-	-
Furniture and fixtures	367,448	323,232	44,216	50,542
Computer equipment	578,320	552,949	25,371	33,954
ATM Machine	100,535	4,877	95,658	-
	<u>\$ 1,367,965</u>	<u>\$ 1,102,396</u>	<u>\$ 265,569</u>	<u>\$ 189,071</u>

## 7. MEMBERS' DEPOSITS

	2009	2008
Chequing accounts	\$ 10,175,932	\$ 11,623,060
Savings accounts	9,906,347	8,299,986
Term deposits	13,819,774	15,211,096
Tax free savings accounts	480,147	-
Registered Retirement Savings Plans	16,498,740	16,653,378
Registered Retirement Income Funds	8,099,304	8,607,382
Life insured savings	12,866,133	12,235,768
Accrued interest on member deposits	418,248	567,206
	<u>\$ 72,264,625</u>	<u>\$ 73,197,876</u>

# Notes to Financial Statements

For the year ended December 31, 2009

8. MEMBER'S SHARE	2009	2008
Membership shares, voting	\$ 32,849	\$ 36,587
Participation shares, non-voting, non-cumulative dividends, with no fixed rate, redeemable under limited circumstances	1,593,592	1,676,755
	<u>\$ 1,626,441</u>	<u>\$ 1,713,342</u>

At December 31, 2009 the credit union has an approximate membership of 6,725. Members are required to own one share with a par value of \$5 per share. Amounts paid for shares may be withdrawn on demand subject to the discretion of the Board of Directors who may require sixty days notice.

## 9. 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	\$ 1,626,441	\$ 1,713,342
Undivided earnings	204,536	310,397
Reserves	5,752,987	5,443,244
	<u>\$ 7,583,964</u>	<u>\$ 7,466,983</u>
Percentage of total assets	9.45 %	9.21 %
Risk weighted equivalent value	<u>\$ 28,657,870</u>	<u>\$ 27,380,144</u>
Percentage of risk weighted equivalent value	26.46 %	27.27 %

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

10. INCOME TAX - CURRENT	2009	2008
The income tax provision was calculated using a tax rate of 16.50% on the following estimated taxable income:		
Income per statement before income taxes	\$ 244,654	\$ 373,635
Adjust for amortization allowed for accounting purposes and that allowed for tax purposes	(15,053)	(9,974)
Transition adjustment to fair value measurement of investments for tax purposes	17,813	13,685
Adjust allowance for doubtful loans to allowance for tax purposes	3,614	1,366
Other adjustments	3,138	(9,220)
Taxable income	<u>254,166</u>	<u>369,492</u>
Tax at 16.50% (2008 - 16.86%)	<u>\$ 41,938</u>	<u>\$ 62,312</u>

# Notes to Financial Statements

For the year ended December 31, 2009

## 11. RESTRICTED PARTY TRANSACTIONS

The loans to directors, officers and employees amounted to \$1,026,000 as at December 31, 2009. (\$1,544,766 as at December 31, 2008)

No allowance was required on these loans as at December 31, 2009.

Honorariums paid to directors and committee members was \$22,088 (2008 - \$19,574)

## 12. 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(d) 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.

	<u>2009</u>		
	Fair value	Book value	Fair value over (under) book value
<b>Assets</b>			
Concentra Financial Services term deposits	\$ 4,851,890	\$ 4,821,239	\$ 30,651
Central 1 liquidity reserve	5,732,037	5,729,890	2,147
Central 1 term deposits	1,180,311	1,170,400	9,911
Other term deposits	2,114,608	2,100,000	14,608
Loans receivable	60,581,594	59,991,877	589,717
<b>Liabilities</b>			
Member deposits	\$ 74,547,982	\$ 73,937,697	\$ 610,285

	<u>2008</u>		
	Fair value	Book value	Fair value over (under) book value
<b>Assets</b>			
Concentra Financial Services term deposits	\$ 3,826,632	\$ 3,750,000	\$ 76,632
Central 1 liquidity reserve	5,700,607	5,676,547	24,060
Central 1 term deposits	6,415,103	6,401,630	13,473
Loans receivable	59,702,577	59,100,368	602,209
<b>Liabilities</b>			
Member deposits	\$ 74,539,316	\$ 74,344,012	\$ 195,304

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. Contractual cash flows are assumed to represent expected cash flows.

### Fair Value Hierarchy

CICA Handbook Section 3862 requires disclosure of a three-level hierarchy for fair value measurements based upon transparency of inputs to the valuation of an asset or liability as of the measurement date.

#### Level 1

Fair value is based on quoted market prices in active markets for identical assets or liabilities.

# Notes to Financial Statements

For the year ended December 31, 2009

## 12. FINANCIAL INSTRUMENTS cont'd

### Level 2

Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar (but not identical) assets or liabilities in active markets, quoted market prices for assets or liabilities in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

### Level 3

Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability. Financial instruments classified within Level 3 of the hierarchy are initially valued at their transaction price, which is considered to be the best estimate of fair value. After initial measurement, the fair value of Level 3 assets and liabilities is determined using valuation models, discounted cash flow methodologies, or similar techniques.

Financial Instruments Measured at Fair Value	Level 1	Level 2	Level 3	2009 Total
Cash and Bank	4,967,767	-	-	4,967,767
ABCP 2008 LP units	-	-	382,736	382,736
Total fair value investments	\$ 4,967,767	\$ -	\$ 382,736	\$ 5,350,503

The reconciliation of Level 3 financial instruments is as follows:

	ABCP 2008 LP Investment
Balance January 1, 2009	414,107
Total gains included in the statement of income as investment income	58,785
Distributions received from the ABCP LP partnership as return of capital	(90,156)
Balance December 31, 2009	382,736

The fair value of the ABCP 2008 LP units is calculated and provided by the partnership. Due to the nature of the partnership and its taxable distribution of income to the partners annually, the credit union's cost base of the units is equal to the fair value as calculated by the partnership.

## 13. RISK MANAGEMENT

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 in proportion to foreign denominated member deposits.

### Credit Risk

The credit union is exposed to the risk of loss related to loans and mortgages receivable as described in Note 3. 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 \$5,000. Mortgages are secured by real property. Term loans and lines of credit may be secured by other assets equivalent to the approved balance of the loan.

### 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 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 and loans, is included in the table below, under Interest Rate Risk. The credit union's liquidity at December 31, 2009 is 24.00%.

# Notes to Financial Statements

For the year ended December 31, 2009

## 13. FINANCIAL INSTRUMENTS cont'd

### 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 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 tables below identify the maturity dates of interest rate sensitive financial instruments.

	<u>2009</u>					
	Variable	Within 3 months	4 to 12 months	Greater than 1 year	Non-rate sensitive	Total
<b>Assets</b>						
Cash and bank	4,412,506	-	-	-	555,261	4,967,767
effective rate %	0.39	-	-	-	-	
Loans & mortgages	23,486,724	959,998	6,147,568	29,397,588	-	59,991,878
effective rate %	4.74	5.41	4.84	4.80	-	
Investments	-	3,343,651	7,705,632	2,772,247	1,002,263	14,823,793
effective rate %	-	0.60	1.81	1.61	-	
<b>Liabilities</b>						
Member deposits	34,951,561	9,650,601	14,554,888	13,032,409	1,748,238	73,937,697
effective rate %	-	1.56	1.55	2.88	-	

	<u>2008</u>					
	Variable	Within 3 months	4 to 12 months	Greater than 1 year	Non-rate sensitive	Total
<b>Assets</b>						
Cash and bank	1,521,718	-	-	-	544,867	2,066,585
effective rate %	0.34	-	-	-	-	
Loans & mortgages	26,562,072	1,950,196	8,611,462	21,976,638	-	59,100,368
effective rate %	4.90	5.98	5.75	5.53	-	
Investments	-	9,079,792	4,998,385	4,624,291	1,078,142	19,780,610
effective rate %	-	2.44	3.43	4.27	-	
<b>Liabilities</b>						
Member deposits	33,134,513	11,336,762	14,252,431	13,798,844	1,821,462	74,344,012
effective rate %	0.78	1.63	2.47	2.83	-	

A 0.25 percentage point increase or decrease in market rates will cause the credit union's net interest income to increase or decrease by \$34,000 or 0.0424% of total assets. This result is in compliance with the credit union's risk management policy.

# Notes to Financial Statements

For the year ended December 31, 2009

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## 14. INTEREST AND INCOME TAXES PAID

During the year the credit union made the following payments:

	2009	2008
Interest paid on members' deposits and bank accounts	1,093,177	1,362,497
Income taxes paid	90,924	50,223

## 15. 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.

## 16. COMMITMENTS

- i) The credit union has entered into a lease for its Mohawk Road branch office. The lease term expires June 30, 2014 with an annual lease commitment of \$39,872.
- ii) The credit union has contractually committed to upgrade its computer systems in 2010. Total cost of the contract is \$158,615, of which \$63,446 has been paid and is included in prepaid expenses. The balance of \$95,169 will be paid during 2010.
- iii) Outstanding commitments for unused lines of credit are \$7,199,187 (2008 - \$6,688,202).
- iv) Outstanding commitments for future advances on mortgages are \$924,050 (2008 - \$711,920)
- v) The credit union has issued letters of credit in the amount of \$30,000 that are outstanding at 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.

## 17. 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 December 31, 2011 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 assessments 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.

# Loan Officers' Report

Due to the economic turmoil and unstable housing market our mortgages and loan growth was minimal over the course of the year.

The total number of credit applications processed for the year was 888 with 264 refusals. Overall we had a 77% approval rate.

During the past year, we wrote off 33 loans to expense, totaling \$88,344. Collections for written off loans were \$2,812. There were 13 delinquent accounts over 90 days at year end, for a total of \$101,964.

Due to our continued success of 2009, the Board of Directors announced a member Participation Rebate of 4%.

Respectfully submitted to the Membership:  
*Anita Williamson, Manager of Lending Services*  
*Kathie Gordon, Loans & Mortgage Officer*  
*Jordan Moat, Business Development Manager*  
*Suzanne Hughes, Loans & Collection Officer*  
*Debbie Foley, Loans Clerk*  
*Katie O'Brien, Loans & Mortgage Officer*

Mortgages	\$ 8,026,430
Lines-of-Credit & Meritline Advances	\$ 17,136,444
Personal Loans	\$ 3,945,691
<b>TOTAL</b>	<b>\$ 29,108,565</b>

# Marketing & Education Report

The Marketing Committee met throughout the year to promote the Credit Union. We are extremely proud of our community involvement, and in particular our support of youth activities in the Hamilton area. To this end, we were once again the major sponsor of the 70<sup>th</sup> annual Scout-Guide Parade – the largest youth parade in North America. We also sponsored youth hockey, soccer, baseball and basketball teams.

The committee also helped organize the Easter Fundraiser for the Cancer Assistance Program, the Credit Union's Canada Day Celebrations and a Member Appreciation Day in early December. Additionally, the committee helped to prepare the Credit Union's quarterly newsletter, INFO-NEWS and designed and placed ads in various community publications as well as radio ads.

As is tradition, we held a fund raiser in October to celebrate Credit Union Day with a barbeque, bake sale and raffle. Thanks to the participation of the membership and staff.

As you can see it was a very full and productive year for HCCU's Marketing Committee and I would like to thank our staff, committee members, the Board of Directors and the membership for their support during the year.

Respectfully submitted by,  
*Patrick Fournier (Chair)*      *Charlene Pretty*  
*Patricia MacDougall*      *Deborah Foley*  
*Jordan Moat*

# Member Services Committee Report

The Member Services Committee met several times during the past year to review the range of services offered to members of the Hamilton Community Credit Union, to consider new possibilities, and to discuss how our members might be better served. They reviewed the member survey of 2008 and considered recommendations from management. Reports were made on their deliberations to the Board of Directors after each meeting.

This committee is elected by the Board following each annual meeting.

*Pearl Davie*  
*David Edwards*  
*Charlene Pretty*  
*Larry Patchett*

# Charitable Donations Committee Report

In 2009, Hamilton Community Credit Union made donations to the following local charities.

- Good Shepherd Centre
- Greater Hamilton Food Share
- Hamilton Scout/Guide Parade
- Hamilton Urban Core Community Centre
- Interval House
- Mission Services
- Ronald McDonald House
- Salvation Army
- VON South Central Foundation
- City Kidz
- Neighbour to Neighbour
- Run for the Cure
- Alzheimer Society

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<b>Total Donations Given</b>	<b>\$</b>	<b>11,000.00</b>
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These donations have gone to support local and branch local charities as part of HCCU's continuing commitment to our community.

Respectfully submitted, (Charitable Donations Committee – '09)

*Jean Lederer (Chair)*

*David Edwards*

*Charlene Pretty*



# In Memorium

*Hamilton Community Credit Union was saddened by the death of the following members during 2009.*

Earl Adams	Steven Hawkins	Stephen Park
Cosima Albano	Patricia Holland	Doreen Patterson
Andrew Asselin	Linda Horodecki	Herbert Pickett
Mavis Buss	Ronald Irvine	Laura Raftery
Frank Caffery	Robert Johnson	Julius Sabo
Darrell Charters	Rosemary Kellestine	Margaret Smith
Helen Chatten	Albert Keighley	Charles Sommers
Alexander Cheyne	Karol Kochaniec	Stewart Steed
Douglas Crawford	Felix Kontenis	Gene Sutton
Alex Czemerynski	Arie Krygsmann	Sheilah Scott
Alex Czeto	Harry Law	Norman Selman
Carole Dawson	Stephen Leach	Surmukh Singh
Arthur Duerksen	John Maberly	Thelma Snow
Norma Elwood	Florence McInnes	Hermia Sopkowe
Joan Fawcett	Donald McKee	Thomas Tarpos
Eric Finch	Mabel A. McKenzie	Michael Warren
Brian Frewin	Ralph Mayers	Steven Wojcik
Helen Galan	Sheila Murphy	Kenneth Zess
Hoseph Gerencser	Howard Nelson	Nelson Ziebarth
Alexander Gilmour	Stephen Nickling	Margaret Zuber
Salvatore Gradina	Howard Nunnerey	



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