



**OSOYOOS**  
CREDIT UNION  
together we're better

*Annual Report 2010*

Annual General Meeting

April 13, 2011  
Sonora Centre  
Osoyoos, BC



# Board of Directors

Board Member	Originally Electected	Term Expires
Bob Appleby	2010	*2011
Jack Becker	1993	*2011
Rick Clelland	2010	2013
Vanessa Dixon	2009	2012
William Michael	1992	2013
Alex Nunes	1996	*2011
Eda Peril	1991	2012
Jack Whittaker	1996	2012
Pat Wycherly	2009	2013

Mary Wardlaw - Recording Secretary

\* denotes Directors who's term has expired.

# Staff

Wendy Balogh	Elizabeth Cardoso	Maria Dias
Donna Hoover	Emma Klaassen	Addabelle Bulhoes
Anna Relvas	Bill Collins	Bailey Woods
Denise Froese	Glenda Weiler	Marla Moon
Wayne Goldsmith	Cindy Grigg	Liz White
Amber Werner	Joelle Majeau	Michelle Martins
Sheila Dumont	Mike Crane	Colleen Koffler
Richard Alexander	Doug Matthews	

# Annual General Meeting

Osoyoos Credit Union  
 Wednesday, April 13, 2011  
 Sonora Centre  
 6:30 PM

## Agenda

1. Call to Order and Notice of Meeting.
2. Ascertainment of Quorum.
3. Approval of Minutes.
4. Annual Report to the Membership.
5. Auditor's Report.
6. Adoption of Financial Statements.
7. Ordinary Resolutions;
  - a) Appointment of Auditors.
  - b) Remuneration of Directors.
8. New Business - Election of Officers  
 - OCUWMS Presentation
9. Other Business and Adjournment..

## Vision:

**Committed to Community**

## Mission:

Osoyoos Credit Union is *the financial institution of choice* with competitive products, professional personal service and a community focus.

## Annual Report to the Membership

2010 was a very eventful year for Osoyoos Credit Union. In October 2009 we started our renovation/addition. During 2010 there was substantial disruption within our offices with members, staff and work crews often working together in very confined areas. Now that these renovations are almost complete we hope the disruption to both our members and staff was all worthwhile. Our new facility looks great and provides the privacy and member flow we were looking for.

We would like to take this opportunity to thank all the Members and Staff for your patience during this very disruptive time. It is time we got back to doing what we do best - Serving our Members. Thank you.

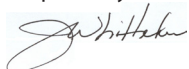
Financially Osoyoos Credit Union still performed well considering the continuing down turn in the economy and the very low interest rates and the many internal disruptions. We noticed during 2010 that members and consumers alike are getting more confident in the markets which resulted in our member's deposits stabilizing in comparison to the previous two years. With the slow down in the economy and the uncertainty of what the future holds we saw a decrease in our Loans business over the past year. We don't expect this to change over the next year or so. Overall our assets grew marginally from \$117,958,437 to \$118,209,978.

Our income over the year was still strong considering all the disruption and change we have been through. Our operational income dropped during 2010 from \$884,022 in 2009 to \$809,867 in 2010, yet we still paid out \$419,255 in Patronage and Dividends. Over the past five years we have rebated back to our Members and Community in excess of \$2,500,000.

2011 will bring even further change to your Credit Union. After 15 years of using our existing banking system its time for change. During the first half of 2011 our staff will be working toward a migration of banking systems from our current Vision West System to a new and improved System known as DNA. This process will take the entire first half of 2011 with conversion taking place tentatively the weekend of July 23, 2011. There are two reasons for this change; first, our banking system provider will no longer support our current system after the end of 2011 and secondly, the new system will bring us the ability to serve our members quicker, easier and more efficiently once we get comfortable with the change. To you our members, you'll see some changes internally with how you complete your deposits and withdrawals. You'll no longer be required to complete your deposit and withdraw slips prior to going to the teller wicket as these will now be completed by the teller. Your statements will change slightly and our ability to provide you with information on your accounts will also increase. We are looking forward to this change and hope you'll embrace it as we do.

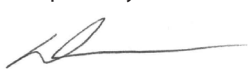
We would like to extend our thanks and appreciation to our Board of Directors who continue to provide excellent direction and mentorship to all Staff and Management. We thank our staff for their continued dedication to providing excellent service. Most of all we thank you our Valued Members for your continued loyalty and support of Osoyoos Credit Union.

Respectfully submitted



Jack Whittaker  
Board Chair

Respectfully submitted



D.W. (Bill) Collins  
General Manager

## Resolutions

### Ordinary Resolutions

#### 8(a) Appointment of Auditor:

"The Board of Directors recommends the appointment of the firm of BDO Dunwoody & Company as Auditors of the Osoyoos Credit Union."

#### 8(b) Director's Remuneration:

"Be it resolved that the aggregate remuneration of directors and members of committees in connection with businesses of the credit union and attendance at regular meetings be \$25,000.00 per year. In addition each director may draw \$150.00 per day for attending Regional or Provincial meetings necessitating travel."

## Notice to Members

1. Members who have mortgaged property or chattels to secure their loans are hereby notified that, under the terms and conditions of your mortgage, you are required to maintain fire insurance for the full insurance value of your property, with loss payable to the credit union.
2. It is a requirement of your credit union that members who have commercial/business loans, must submit their current financial statements to the credit union at least yearly.
3. It is a legislative requirement that a sample of the memberships' accounts be audited annually. These forms list the balances of your accounts as of a certain date and require your signature for confirmation. Upon receipt of the audit confirmation, please verify the balance, sign and return at your earliest convenience.

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**Osoyoos Credit Union**  
**Notes to Financial Statements**

**December 31, 2010**

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**15. Accounting Pronouncements**

Future Accounting Standard Changes

*International financial reporting standards*

The Canadian Institute of Chartered Accountants (CICA) is adopting International Financial Reporting Standards (IFRS) as Canadian GAAP for publicly accountable enterprises. Credit Unions are specifically scoped into the definition of a publicly accountable enterprise. The Credit Union will prepare its consolidated financial statements in accordance with IFRS for the year commencing January 1, 2011, including the restatement of comparative period financial statements on the same basis. The Credit Union has a project plan and team in place to manage the transition to IFRS. The Audit Committee of the Board has responsibility for oversight of the transition plan.

The adoption of IFRS will require the application of IFRS 1 First-time Adoption of International Financial Reporting Standards (IFRS 1), which provides guidance for an entity's initial adoption of IFRS 1. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively. The credit union will be required to prepare an opening IFRS statement of financial position as of January 1, 2010 which will be disclosed in our first annual financial statements under IFRS. IFRS 1 does allow a number of exemptions, which the Credit Union can elect to apply, to the general principle of retrospective application to assist in the transition to reporting under IFRS.

Based on the analysis completed to date, the key impact areas and IFRS 1 elections on the initial transition to adopting IFRS are as follows:

Provisioning for Impaired Loans

International Accounting Standard (IAS) 39 provides more explicit guidance with respect to the methodology to be followed in assessing and measuring loan impairment. Loan losses can be assessed on an individual loan or collective (general) basis, however, unallocated general provision are not permitted under IFRS. There may be some impact to the Credit Union's general provision which is currently \$101,040 at December 31, 2010.

The impact of the transition to IFRS on the Credit Union's financial statements has yet to be determined.

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**16. Comparative Information**

The comparative amounts presented in the financial statements have been restated to conform to the current year's presentation.


**Management's Responsibility  
for Reporting**

This financial statement and other financial information in this report was prepared by the management of Osoyoos Credit Union, reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the preparation of this financial statement and believes that it fairly presents the Credit Union's financial condition and results of operations in accordance with the requirements of the Financial Institutions Act and conforms in all material respects with generally accepted accounting principles.

Systems of internal control and reporting procedures are designed to provide reasonable assurance that financial records are complete and accurate so as to safeguard the assets of the organization. These systems include establishment and communication of standards of business conduct throughout all levels of the organization to prevent conflicts of interests and unauthorized disclosure and to provide assurance that all transactions are authorized and proper records maintained. Internal audit provides management with the ability to assess adequacy of these controls. Further, they are reviewed by the credit union's external auditor and the Financial Institutions Commission.

BDO Dunwoody, the external auditors appointed by the membership, examined the financial statements in accordance with generally accepted auditing standards. They have had full and free access to internal audit staff and the Audit Committee of the Board.



D.W. (Bill) Collins  
General Manager



Jack Whittaker  
President

# AGM Minutes

OSOYOOS CREDIT UNION  
ANNUAL GENERAL MEETING  
APRIL 21, 2010

The 2010 Annual General Meeting of the Osoyoos Credit Union was held on Wednesday, the 21st day of April 2010, at the Sonora Centre, Osoyoos, British Columbia. Bill Collins, the General Manager of Osoyoos Credit Union, welcomed everyone to the 2010 Osoyoos Credit Union AGM Dinner and asked Eda Peril to give the invocation. Smitty's prepared and served a delicious roast beef and Yorkshire pudding dinner.

The General Manager introduced Chelsea Cameron-Horner, Miss Osoyoos Credit Union and Miss Osoyoos Princess and Harban Johal, this year's Osoyoos Credit Union representative for Miss Osoyoos. Both young ladies were asked to come up and say a few words to the members.

The General Manager thanked Smitty's for the delicious dinner and then introduced the Board of Directors to the membership:

Jack Becker  
Venesa Dixon  
Bob Donnelly  
Bill Michael  
Alex Nunes  
Eda Peril  
Jack Whittaker  
Pat Wycherley

He also introduced Ken Ficocelli, our auditor from BDO Dunwoody & Company, and Mary Wardlaw, Recording Secretary.

The Parliamentarian for the evening was Gerry Gordon.

The General Manager turned the meeting over to the President of the Board of Directors, Jack Whittaker, who called the meeting to order at 7:45 p.m.

President Whittaker welcomed everyone to the meeting. He advised that there were 191 in attendance, of which 185 were voting members and 6 non-voting members and declared a quorum.

## APPROVAL OF MINUTES:

The President advised that the Minutes of the last Annual General Meeting

# Osoyoos Credit Union Notes to Financial Statements

December 31, 2010

## 14. Fair Value of Financial Instruments (continued)

Financial Instruments which are recorded at fair value on the balance sheet are classified into one of three hierarchy levels. Each level is based upon the significance of the inputs used to measure the fair value. The hierarchy levels are as follows:

Level 1 - valuation based on unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - valuation techniques using inputs other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly.

Level 3 - valuation techniques for the asset or liability where one or more significant inputs used are not based on observable market data.

The fair value hierarchy requires the use of observable data whenever available. A financial instrument is classified to the lower level of input that is significant in measuring fair value

The following table presents the financial instruments measured at fair value classified by the fair value hierarchy:

2010	Fair Value measurement using:		
	Level 1	Level 2	Level 3
<b>Financial Assets</b>			
Cash	\$ 8,907,937	\$ -	\$ -
Investments	1,001,335	-	-
Interest rate swaps	-	33,474	-
	<u>\$ 9,909,272</u>	<u>\$ 33,474</u>	<u>\$ -</u>

2009	Fair Value measurement using:		
	Level 1	Level 2	Level 3
<b>Financial Assets</b>			
Cash	\$ 12,073,069	\$ -	\$ -
Investments	1,031,490	-	-
Interest rate swaps	-	176,962	-
	<u>\$ 13,104,559</u>	<u>\$ 176,962</u>	<u>\$ -</u>

There are no financial instruments that were measured as Level 3 hierarchy and no changes in fair value measurement methods during the year.

**Osoyoos Credit Union**  
**Notes to Financial Statements**

**December 31, 2010**

**14. Fair Value of Financial Instruments**

The fair value of financial instruments which are liquid or short term in nature approximates their carrying value; such items are cash resources, investments, loans and member deposits with variable rates of interest, and other liabilities. The fair value of loans and member deposits with fixed rates is estimated using discounted cash flow models with discount rates based on market interest rates for similar types of instruments. The difference between the book and fair values of loans, deposits and other financial instruments is due primarily to changes in interest rates. The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

	2010		2009	
	Book Value	Fair Value	Book Value	Fair Value
<b>Assets</b>				
Cash resources	\$ 35,095,704	\$ 35,095,704	\$ 36,146,215	\$ 36,146,215
Loans	78,165,316	78,519,998	78,857,638	79,923,522
Investments	1,316,839	1,316,839	1,346,650	1,346,650
Interest Rate Swaps	33,474	33,474	176,962	176,962
Accounts Receivable	168,435	168,435	370,067	370,067
	<b>\$ 114,779,768</b>	<b>\$ 115,134,450</b>	<b>\$ 116,897,532</b>	<b>\$ 117,963,416</b>
<b>Liabilities</b>				
Member Deposits and Equity shares	\$ 110,785,809	\$ 111,669,207	\$ 110,700,394	\$ 112,078,714
Accounts payable and accrued liabilities	694,858	694,858	750,722	750,722
	<b>\$ 111,480,667</b>	<b>\$ 112,364,065</b>	<b>\$ 111,451,116</b>	<b>\$ 112,829,436</b>

held on April 15, 2009 had been circulated and asked for a motion from the floor to accept the Minutes as presented.

Gerald Pendergraft moved that the Minutes of the last Annual General Meeting held on April 15, 2009 be accepted as presented. Seconded by Ingrid Nicholson. Motion Carried.

**ANNUAL REPORT TO THE MEMBERSHIP:**

The President asked for a motion from the floor to accept the Annual Report to the Membership.

Bea Becker moved that the Annual Report to the Membership be accepted as presented. Seconded by Linda McWhinnie. Motion Carried.

**AUDITOR'S REPORT:**

The President turned the meeting over to Ken Ficocelli, our auditor from BDO Dunwoody to give the Auditor's Report. Mr. Ficocelli read the last paragraph of the Auditor's Report "In our opinion, these financial statements present fairly, in all material respects, the financial position of the Osoyoos Credit Union 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 principals. As required by the Financial Institutions Act of British Columbia, we report that, in our opinion, these principals have been applied on a basis consistent with that of the preceding year." He then reviewed the Auditor's Report pointing out major changes in the Report and explaining the changes that have come into effect because of stricter accounting practices. He then asked for questions from the floor, hearing none the Auditor returned the meeting to the President.

The President asked for a motion to accept the Auditor's Report for the year ended December 31, 2009.

Alex Nunes moved that the Auditor's Report for the year ended December 31, 2009 be accepted as presented. Seconded by Carol Pattullo. Motion Carried.

The President then asked for a motion to adopt the Financial Statement for the year ended December 31, 2009.

Alex Nunes moved the adoption of Financial Statement for the year ended December 31, 2009. Seconded by Larry Boan. Motion Carried.

**ORDINARY RESOLUTIONS:**

The President read the following Ordinary Resolutions to the members: and

asked for a motion from the floor for their approval:

1. Appointment of Auditor:

"The Board of Directors recommends the appointment of the firm of BDO Dunwoody & Company as Auditors of the Osoyoos Credit Union."

Alex Nunes moved that the firm of BDO Dunwoody & Company be appointed as Auditors of the Osoyoos Credit Union. Seconded by Carley Lahaise. Motion Carried.

2. Director's Remuneration:

The Chair informed the members in attendance that this motion refers to the maximum combined or aggregate payment directors are able to draw per year. He then asked for a motion to approve the Director's Remuneration resolution.

"Be it resolved that the aggregate remuneration of directors and members of committees in connection with businesses of the credit union and attendance at regular meetings be \$25,000.00 per year. In addition each director may draw \$150.00 per day for attending Regional or Provincial meetings necessitating travel."

Marilyn Turner moved that the Director's Remuneration be approved. Seconded by Steve Kovacs. Motion Carried.

NEW BUSINESS: Election of Directors:

The President turned the meeting over to Alex Nunes, the Chair of the Nominating Committee. Director Nunes took the floor and advised that the Nominating Committee followed the Credit Union Rules adopted by the membership at the 2006 Annual General Meeting and followed Section 4 which relates to Board of Directors and Nominations. He advised the membership that the following Directors terms of office were expiring as of this meeting and were up for election: Bob Donnelly, Bill Michael and Jack Whittaker and that a replacement was required for Lee Chic who resigned before her term expired. He confirmed that Bill Michael and Jack Whittaker had agreed to let their names stand and have met the requirements. Bob Donnelly had advised the Nominating Committee that he would not be seeking re-election.

Director Nunes then advised that the Nominating Committee had received the following nominations for consideration as directors of the Osoyoos Credit Union:

Robert (Bob) Appleby  
Rick Clelland  
William (Bill) Michael  
Terry Towns

Osoyoos Credit Union  
Notes to Financial Statements

December 31, 2010

13. Interest Rate Risk

Financial margin is the Credit Union's primary source of revenue, which is defined as the difference between interest earned on assets and interest paid on liabilities. The term "mismatch" is commonly used when the terms of the asset and liability instruments are different. The assessment of the interest rate exposure requires an analysis of the Credit Union's mismatched position. The following table sets out the scheduled maturities or repricing dates, whichever occurs earlier, of the financial assets and liabilities as at December 31, 2010, together with the weighted average interest rate earned on the respective financial assets and liabilities and the net mismatched position.

	Within 1 Year	%	1-5 Years	%	Non-Interest Sensitive	2010 Total	2009 Total
	(000's)		(000's)		(000's)	(000's)	(000's)
<b>Assets</b>							
Cash resources	\$ 18,998	1.57 %	\$ 7,000	2.77 %	\$ 9,098	\$ 35,096	\$ 36,146
Members' loans	13,559	4.77 %	24,135	5.42 %	40,471	78,165	78,858
Investments	1	2.00 %	1,000	4.37 %	316	1,317	999
Non-interest sensitive asset	-	-	-	-	3,632	3,632	1,141
	<u>\$ 32,558</u>		<u>\$ 32,135</u>		<u>\$ 53,517</u>	<u>\$ 118,210</u>	<u>\$ 117,958</u>
<b>Liabilities and Members' Equity</b>							
Members' deposits	\$ 37,258	2.24 %	\$ 28,576	2.93 %	\$ 44,952	\$ 110,786	\$ 108,149
Other	-	-	-	-	7,424	7,424	9,809
	<u>37,258</u>		<u>28,576</u>		<u>52,376</u>	<u>\$ 118,210</u>	<u>\$ 117,958</u>
	(4,700)		3,559		1,141		
Interest Rate Swaps	-		3,000		-		
Net Mismatch	<u>\$ (4,700)</u>		<u>\$ 6,559</u>		<u>\$ 1,141</u>		

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. One of the roles of a Credit Union is to intermediate between the expectations of borrowers and depositors.

The Credit Union's risk due to changes in interest rates is illustrated in the sensitivity analysis below:

	Expected increase (decrease) in net income before taxes	
	2010	2009
Increase in interest rates of 1%	\$ 346,000	\$ 278,000
Decrease in interest rates of 1%	\$ 343,000	\$ 25,000

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**Osoyoos Credit Union**  
**Notes to Financial Statements**

**December 31, 2010**

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**12. Financial Instrument Risk Exposure and Management (continued)**

Foreign Exchange Risk

Another risk component of traditional banking activities is foreign exchange risk. The Credit Union's goal is to manage the foreign exchange risk of the balance sheet to a target level. The Credit Union continually monitors the effectiveness of its foreign exchange mitigation activities.

*Risk Measurement*

The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to clients as well as currency purchase costs.

*Objectives, Policies and Procedures*

The Credit Union's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure to \$500,000 in U.S. funds.

For the year ended December 31, 2010, the Credit Union's exposure to foreign exchange risk was not material.

Jack Whittaker

Director Nunes advised the members that the criteria for nominating a member from the floor is that the member nominated must be in good standing with the Credit Union for 1 year and junior members were not eligible. He then asked for nominations from the floor. He asked twice more and hearing none and seeing none he declared the nominations closed.

Each candidate was given three (3) minutes to speak to the members as to why they should be elected to the Board. Once all of the candidates had spoken to the members Director Nunes asked the members to complete the ballots contained in the meeting package. The ballots were collected and turned over to the Parliamentarian, Gerry Gordon to count. Assisting the Parliamentarian to count the ballots were our accountants from BDO, Ken Ficocelli and Mike Gilmour.

While the ballots were being counted Director Nunes turned the meeting back to the General Manager who advised that a tradition was started a few years ago to recognize our long term staff at the Annual General Meeting. This year recognition was given to Beth Cardoso for her 30 years of service to Osoyoos Credit Union.

The General Manager then spoke to the members about our retiring Board member, Bob Donnelly. He thanked him for his dedicated service to the Board for 12 years. Jack Whittaker thanked Bob Donnelly for being on the Board and that it was a pleasure having him there. He said that Bob was one of those Directors who always pointed out or asked questions as to why things were this way and not that way and always made the Board think. Jack Whittaker presented Bob with tokens of our appreciation for his 12 years of service.

Bob thanked Steve Kovacs for asking him to apply for a position on the Board and he thanked the Board and members for their kind words.

As the ballots were still being counted the meeting recessed at 8:30 pm. The General Manager started the prize draw. The following were winners: Cindy Grigg, Barb Snyder, Rusteena Rawlyk, Randy Dixon, Maria Dias, Bea Becker, George Hasbon, Lorraine Nielson, Marv Kropinak, Bob Appleby, Lena Hasbon, Joe Liebel, Margaret Traquair, Julius Horvath, Vicki Collins, Denise Froese and Bob Anderson.

The General Manager advised the meeting that the ballots had now been counted and the meeting re-convened at 8:53 pm. The General Manager turned the meeting back to Director Nunes who confirmed that the ballots had now been counted. 175 ballots were received, there were 5 spoiled ballots and the following candidates had been elected to sit on the Osoyoos Credit Union Board of Directors for a three (3) year term:

Jack Whittaker

Bill Michael  
Rick Clelland,  
and Robert (Bob) Appleby, who will sit for one year to complete the position vacated by Lee Chic.

Director Nunes asked for a motion to destroy the ballots.

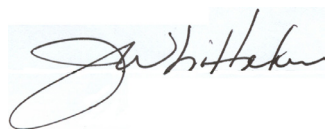
Gerald Pendergraft moved that the ballots be destroyed. Seconded by Rusteena Rawlyk. Motion Carried.

Director Nunes returned the meeting to the President who thanked Director Nunes for conducting the elections and congratulated the newly elected Directors.

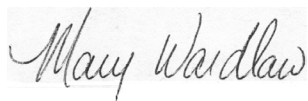
The President asked if there was any further new business to be discussed. Hearing none he thanked everyone for coming and asked for a motion from the floor to adjourn the meeting.

Ingrid Nicholson moved that the 2010 Annual General Meeting be adjourned. Seconded by Carley Lahaise. Motion Carried.

The meeting adjourned at 9:00 p.m.



JACK WHITTAKER  
President



MARY WARDLAW  
Recording Secretary

The grand prize of the evening was an original painting by Karel Doruyter that was won by Eileen Schultz.

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**Osoyoos Credit Union**  
**Notes to Financial Statements**

December 31, 2010

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**12. Financial Instrument Risk Exposure and Management (continued)**

As at December 31, 2010, the position of the Credit Union is as follows:

Qualifying liquid assets on hand	\$ 35,074,704
Total liquidity requirement	<u>7,980,860</u>
Excess of liquidity requirement	<u>\$ 27,093,844</u>

As at December 31, 2009, the position of the Credit Union is as follows:

Qualifying liquid assets on hand	\$ 36,116,891
Total liquidity requirement	<u>8,232,434</u>
Excess of liquidity requirement	<u>\$ 27,884,457</u>

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, equity or commodity prices, and credit spreads. The Credit Union is exposed to market risk in its asset/liability management activities. The level of market risk to which the Credit Union is exposed varies depending on market conditions and expectations of future price and yield movements.

Interest Rate Risk

Traditional banking activities, such as deposit taking and lending, expose the Credit Union to market risk, of which interest rate risk is the largest component. The Credit Union's goal is to manage the interest rate risk of the balance sheet to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

Risk Measurement

The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to clients as well as funds transfer pricing rates.

Objectives, Policies and Procedures

The Credit Union's major source of income is financial margin, the difference between interest earned on investments and members loans and interest paid on member deposits. The objective of asset/liability management is to match interest-sensitive assets with interest-sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to the Board and submitted to FICOM on a quarterly basis.

**Osoyoos Credit Union**  
Notes to Financial Statements

December 31, 2010

12. Financial Instrument Risk Exposure and Management (continued)

*Maximum Exposure to Credit Risk*

The Credit Union's maximum exposure to credit risk without taking account of any collateral or other credit enhancements in 2010 is as follows:

	Carrying Value	Maximum exposure
Member loans	78,105,133	78,105,133
Undisbursed loans & lines of credit	-	14,687,645
Unexpired letters of credit	-	131,200
	<u>\$ 78,105,133</u>	<u>\$ 92,923,978</u>

The Credit Union's maximum exposure to credit risk without taking account of any collateral or other credit enhancements in 2009 is as follows:

	Carrying Value	Maximum exposure
Member loans	78,783,711	78,783,711
Undisbursed loans & lines of credit	-	14,235,253
Unexpired letters of credit	-	129,200
	<u>\$ 78,783,711</u>	<u>\$ 93,148,164</u>

Liquidity Risk

Liquidity is the risk that the Credit Union may be unable to generate or obtain sufficient cash or its equivalent in a timely and cost effective manner to meet its commitments as they come due.

*Risk Measurement*

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm-specific and market conditions and the related behaviour of its members and counterparties.

*Objectives, Policies and Processes*

The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost-effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

Provisions of the Financial Institutions Act of British Columbia require the Credit Union to maintain a certain amount of liquid assets in order to meet member withdrawals.

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

**OSOYOOS CREDIT UNION**  
Financial Statements  
For the year ended December 31, 2010

**Contents**

Auditors' Report	10
Financial Statements	
Balance Sheet	11
Statement of Operations	12-13
Statement of Retained Earnings and Accumulated Other Comprehensive Income	14
Statement of Cash Flows	15
Summary of Significant Accounting Policies	16-19
Notes to Financial Statements	20-34



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## Auditors' Report

### To the Members of Osoyoos Credit Union

We have audited the accompanying financial statements of Osoyoos Credit Union, which comprise the balance sheet as at December 31, 2010, and the statement of operations, retained earnings and accumulated other comprehensive income and cash flow statement 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 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

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 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 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 presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Osoyoos Credit Union as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with Canadian Generally Accepted Accounting Principles. As required by the Financial Institutions Act of British Columbia, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

*BDO Canada LLP*

Chartered Accountants

Kelowna, British Columbia  
February 16, 2011

December 31, 2010

## 12. Financial Instrument Risk Exposure and Management (continued)

### *General objectives, policies and processes*

The Board has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Credit Union's finance function. The Board receives monthly reports from the Credit Union's General Manager through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

### Credit Risk

Credit risk is the risk of loss to the Credit Union if a counterparty to a financial instrument fails to meet its contractual obligations. The Credit Union is mainly exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor of credit obligations.

### *Risk Measurement*

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

### *Objectives, Policies and Processes*

The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board ensures that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise the following:

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, and loan administration.
- Loan lending limits including Board of Director limits, schedule of assigned limits and exemptions from aggregate indebtedness.
- Loan collateral security classifications which set loan classifications, advance ratios and amortization periods.
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations.
- Loan delinquency controls regarding procedures followed for loans in arrears.
- Audit procedures and processes are in existence for the Credit Union's lending activities.

With respect to credit risk, the Board receives monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board also receives an analysis of bad debts and allowance for doubtful loans quarterly.

**Osoyoos Credit Union**  
**Notes to Financial Statements**

December 31, 2010

**12. Financial Instrument Risk Exposure and Management**

This note describes the Credit Union's objectives, policies and processes for managing risks arising from financial instruments and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The following table presents the principal financial instruments used by the Credit Union in 2010 from which financial instrument risk arises:

2010 Categories of Financial Assets and Financial Liabilities

Class of Financial Instrument	Held for Trading	Loans & Receivables	Available for Sale	Held to Maturity	Other Financial Liabilities
Cash & current accounts	\$ 8,907,937	\$ -	\$ -	\$ -	\$ -
Term deposits	-	-	-	26,187,766	-
Members' loans	-	78,165,316	-	-	-
Accounts receivable	-	168,435	-	-	-
Investments	-	-	-	-	-
liquidity deposits	-	-	1,001,335	-	-
shares	-	-	315,504	-	-
Interest rate swaps	33,474	-	-	-	-
Member deposits	-	-	-	-	111,290,674
Accounts payable	-	-	-	-	189,993

The following table presents the principal financial instruments used by the Credit Union in 2009 from which financial instrument risk arises:

2009 Categories of Financial Assets and Financial Liabilities

Class of Financial Instrument	Held for Trading	Loans & Receivables	Available for Sale	Held to Maturity	Other Financial Liabilities
Cash & current accounts	\$ 12,073,069	\$ -	\$ -	\$ -	\$ -
Term deposits	-	-	-	24,073,146	-
Members' loans	-	78,857,638	-	-	-
Accounts receivable	-	370,067	-	-	-
Investments	-	-	-	-	-
liquidity deposits	-	-	1,032,883	-	-
shares	-	-	313,767	-	-
Interest rate swaps	176,962	-	-	-	-
Member deposits	-	-	-	-	111,244,312
Accounts payable	-	-	-	-	206,804

There have been no substantive changes in the Credit Union's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or methods used to measure them from previous periods unless otherwise stated in this note.

**Osoyoos Credit Union**  
**Balance Sheet**

December 31

2010

2009

**Assets**

Cash (Note 1)	\$ 8,907,937	\$ 12,073,069
Term deposits (Note 2)	26,187,766	24,073,146
Members' loans and accrued interest (Note 3)	78,165,316	78,857,638
Accounts receivable	168,435	394,578
Future income taxes recoverable (Note 7)	7,089	-
Investments (Note 4)	1,316,839	1,346,650
Interest rate swaps	33,474	176,962
Property, plant and equipment (Note 5)	3,423,122	1,036,394
	<b>\$ 118,209,978</b>	<b>\$ 117,958,437</b>

**Liabilities and Members' Equity**

**Members' accounts**

Demand deposits and accrued interest	\$ 40,071,037	\$ 42,586,162
Term deposits and accrued interest	53,733,686	52,537,027
Registered accounts and accrued interest	14,545,104	13,026,730
Equity shares (Note 6)	2,435,982	2,550,475
Non-equity shares	80,653	85,299
Inactive accounts	4,957	4,691
Provision for dividends on shares and rebates of loan interest	419,255	453,928
	<b>111,290,674</b>	<b>111,244,312</b>

**Accounts payable and accrued liabilities**


Future income tax (Note 7)	189,993	206,804
	-	9,850


**Members' equity**

Retained earnings	6,728,170	6,524,158
Accumulated other comprehensive income (loss)	1,141	(26,687)
	<b>6,729,311</b>	<b>6,497,471</b>

	<b>\$ 118,209,978</b>	<b>\$ 117,958,437</b>
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Approved on behalf of the Board:

  
Chair of the Board

  
Chair of the Audit Committee

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

**Osoyoos Credit Union  
Statement of Operations**

For the year ended December 31	2010	2009
<b>Revenue</b>		
Interest on members' loans	\$ 3,664,015	\$ 3,756,316
Income from investments and deposits	712,204	911,070
Fees and commissions	424,736	480,408
Other	99,929	152,192
	<b>4,900,884</b>	<b>5,299,986</b>
<b>Interest expenses</b>		
Interest paid on borrowings	1,772	1,999
Interest paid on members' deposits	1,790,522	2,209,190
	<b>1,792,294</b>	<b>2,211,189</b>
<b>Financial margin</b>	<b>3,108,590</b>	<b>3,088,797</b>
<b>Operating expenses</b>		
Advertising and promotion	48,104	49,879
Amortization	157,626	57,166
Annual meeting	5,777	4,411
Bank charges	62,484	68,786
Building and equipment operations	107,367	102,559
Data processing	180,393	157,019
Directors' remuneration	11,425	11,075
Education and travel	62,063	72,573
Insurance	24,036	24,941
Other administrative	167,808	243,298
Professional fees	117,356	102,782
Salaries and employee benefits	1,192,537	1,159,737
Savings and loans insurance	7,416	7,607
Scholarships	5,500	4,000
Credit Union Deposit Insurance Corporation assessment	54,118	50,839
Stationery, supplies and postage	48,181	50,998
Telephone and utilities	46,532	37,105
	<b>2,298,723</b>	<b>2,204,775</b>
<b>Income from operations</b>	<b>\$ 809,867</b>	<b>\$ 884,022</b>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

**Osoyoos Credit Union  
Notes to Financial Statements**

**December 31, 2010**

**9. Capital Adequacy Requirement**

The Financial Institutions Act (British Columbia) requires the Credit Union to maintain, at all times, a capital base which is adequate in relation to the business carried on. The level of capital required is based on a prescribed percentage of the total value of risk weighted assets, each asset of the Credit Union being assigned a risk factor based on the probability that a loss may be incurred on the ultimate realization of that asset.

The Financial Institutions Act (British Columbia) regulations prescribe that the minimum required capital ratio exceeds 8.0% for the Osoyoos Credit Union's fiscal year.

At December 31, 2010, the Credit Union's capital ratio exceeds the minimum requirement.

**10. Loans to Related Parties**

At year end, outstanding loans and lines of credit issued directly or indirectly to management, directors and officers of the Osoyoos Credit Union at normal operating terms and conditions amounted to \$3,755,753 (2009 - \$3,491,248).

**11. Interest Rate Swaps**

The Credit Union enters into interest rate swap agreements to manage its exposure to interest rate risk. Interest rate swaps involve the exchange of a floating interest rate interest payment on a notional principal amount. The following table outlines the interest rate swaps as at December 31.

	2010	2009
	<b>\$ 3,000,000</b>	<b>\$ 5,000,000</b>

**Osoyoos Credit Union**  
Notes to Financial Statements

December 31, 2010

**7. Income Taxes**

	2010	2009
The major components of future income tax recoverable (payable):		
Temporary differences relating to property, plant and equipment	\$ (2,408)	\$ 240
Temporary differences relating to allowance for impaired loans	1,364	1,373
Temporary differences relating to interest rate swaps	(4,518)	(23,889)
Temporary differences relating to payables and investments	12,651	12,426
Future income taxes recoverable (payable)	\$ 7,089	\$ (9,850)

The effective rate of income tax varies from the statutory rate as follows:

	2010	2009
Combined tax rates	28.50%	30.00%
Income tax expense at the applicable rate	\$ 70,430	\$ 75,939
Increase (decrease) resulting from:		
Reduction for credit unions	(37,068)	(41,767)
Other	9,749	(26,369)
Income tax expense	\$ 43,111	\$ 7,803

**8. Commitments**

The Osoyoos Credit Union has a commitment to acquire on-line data processing services through Open Solutions for a period commencing May 2008 and ending in December 2021. The fixed annual charge is \$62,160 plus a variable charge based on use. The total charge for the year was \$180,393 (2009 - \$157,019).

**Osoyoos Credit Union**  
Statement of Operations (continued)

	2010	2009
<b>For the year ended December 31</b>		
Income from operations from previous page	\$ 809,867	\$ 884,022
Unrealized gain/(loss) on interest rate swaps	(143,489)	(176,963)
<b>Distribution to members</b>		
Provision for dividends on shares and rebates of loan interest	419,255	453,928
Income before income taxes	247,123	253,131
<b>Income taxes (Note 7)</b>		
Future	(16,939)	(16,409)
Current	60,050	24,212
	43,111	7,803
Net income for the year	204,012	245,328
<b>Other comprehensive income, net of taxes</b>		
Net unrealized gains on available-for-sale securities	27,828	27,935
<b>Total income</b>	\$ 231,840	\$ 273,263

**Osoyoos Credit Union**  
**Statement of Retained Earnings and Accumulated Other Comprehensive Income**

For the year ended December 31	2010	2009
<b>Retained earnings</b>		
Balance, beginning of year	\$ 6,524,158	\$ 6,278,830
Net income	<u>204,012</u>	<u>245,328</u>
<b>Balance, end of year</b>	<b>\$ 6,728,170</b>	<b>\$ 6,524,158</b>
<b>Accumulated Other Comprehensive Income (Loss)</b>		
Balance, beginning of year	\$ (26,687)	\$ (54,622)
Net changes in unrealized gains (losses) on available-for-sale securities, net of taxes	<u>27,828</u>	<u>27,935</u>
<b>Balance, end of year</b>	<b>\$ 1,141</b>	<b>\$ (26,687)</b>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

**Osoyoos Credit Union**  
**Notes to Financial Statements**

**December 31, 2010**

**5. Property, Plant and Equipment**

	2010		2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 84,770	\$ -	\$ 84,770	\$ -
Buildings	3,329,288	581,992	1,241,912	502,473
Furniture, fixtures and equipment	<u>1,743,486</u>	<u>1,152,430</u>	<u>1,286,508</u>	<u>1,074,323</u>
	<b>\$ 5,157,544</b>	<b>\$ 1,734,422</b>	<b>\$ 2,613,190</b>	<b>\$ 1,576,796</b>
Net book value	<u><b>\$ 3,423,122</b></u>		<u><b>\$ 1,036,394</b></u>	

**6. Equity Shares**

There are two classes of equity shares which consist of:

Class A mandatory ownership requirement of at least \$25 of shares for regular members and \$5 for junior members. Shares qualify for dividends and voting privileges. Funds invested in equity shares are not guaranteed by the Credit Union Deposit Insurance Corporation of B.C. A maximum limit of \$1,000 of Class A shares may be subscribed for by a member. Redemption of shares each year is limited to 10% of the Class A shares issued and outstanding as of the previous financial year end.

Class B shares are non-voting, voluntary subscriptions, are not guaranteed by the Credit Union Deposit Insurance Corporation of B.C and qualify for dividends. A maximum of \$3,000 of Class B shares may be subscribed for by a member. Any Class B shares can be redeemed at any time.

**Osoyoos Credit Union**  
Notes to Financial Statements

**December 31, 2010**

**3. Members' Loans and Accrued Interest (continued)**

The following table presents the carrying value of loans that are past due in 2010 but not classified as impaired:

	1-29 days	30-89 days	2010 Total
Personal	\$ 806,906	\$ 221,315	\$ 1,028,221
Commercial	861,339	-	861,339
	<b>\$ 1,668,245</b>	<b>\$ 221,315</b>	<b>\$ 1,889,560</b>

The following table presents the carrying value of loans that are past due in 2009 but not classified as impaired.

	1-29 days	30-89 days	2009 Total
Personal	\$ 94,441	\$ 74,254	\$ 168,695
Commercial	151,117	-	151,117
	<b>\$ 245,558</b>	<b>\$ 74,254</b>	<b>\$ 319,812</b>

**4. Investments**

	2010	2009
Shares		
Central 1	\$ 278,011	\$ 276,274
Stabilization Central Credit Union	141	141
Co-op EFT Development Assoc.	59	59
CUPP Services Ltd.	37,293	37,293
Portfolio investment		
Corporate Bonds and Treasury Bills	1,001,335	1,031,490
Accrued dividends on Central 1 Shares	-	1,393
	<b>\$ 1,316,839</b>	<b>\$ 1,346,650</b>

Included in the portfolio investment is a corporate bond with an interest rate of 4.32% and a maturity date of January 18, 2016.

Central 1 Credit Union is the central financial association for the British Columbia and Ontario Credit Union systems. Investment in shares of Central 1 Credit Union is required by governing legislation and as a condition of membership in Central 1 Credit Union. These shares are recorded at cost as no active market for these shares exists.

**Osoyoos Credit Union**  
Statement of Cash Flows

**For the year ended December 31**

**2010**      **2009**

**Cash provided by (used in) operating activities**

Interest received on members' loans	\$ 3,678,460	\$ 3,764,366
Interest from investments and deposits	774,511	416,623
Fees and commissions received	424,736	480,408
Other	99,929	152,192
Cash paid to employees and suppliers	(2,132,718)	(2,261,635)
Interest paid on member deposits and borrowed funds	(1,792,294)	(2,211,189)
Dividends paid in the determination of net income	(453,928)	(432,610)
Income taxes paid	(38,470)	73,110
	<b>560,226</b>	<b>(18,735)</b>

**Cash provided by (used in) investing activities**

Purchase of property, plant and equipment	(2,544,353)	(436,101)
Net change in members' loans	679,281	(8,177,200)
Net change in investments	173,300	3,195,690
Net change in Central 1 term deposits	(2,114,620)	7,640,490
	<b>(3,806,392)</b>	<b>2,222,879</b>

**Cash provided by (used in) financing activities**

Net change in deposits from members	195,528	6,550,678
Purchase cost (recovery) of equity shares	(114,493)	9,975
	<b>81,035</b>	<b>6,560,653</b>

**Net decrease in cash**

**Cash, beginning of year**

**Cash, end of year**

	(3,165,131)	8,764,797
	<b>12,073,069</b>	<b>3,308,272</b>
	<b>\$ 8,907,938</b>	<b>\$ 12,073,069</b>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

**Osoyoos Credit Union**  
**Summary of Significant Accounting Policies**

**December 31, 2010**

**Nature of Business** Osoyoos Credit Union is incorporated under the British Columbia Credit Union Incorporation Act. The operation of the Credit Union is subject to the British Columbia Financial Institutions Act. The Credit Union predominantly serves members in the Southern Okanagan area.

**Members Loans** Members loans are recorded net of allowance for impaired loans and include accrued interest. The allowance for doubtful loans is maintained at a level considered adequate to absorb credit losses existing in the Credit Union's portfolio. The allowance is increased by an annual provision for doubtful loans which is charged against income.

The Credit Union maintains specific allowances for doubtful loans that reduce the carrying value of loans identified as impaired to their estimated realizable amounts.

A loan is classified as impaired at the earlier of:

- in the opinion of management there is reasonable doubt as to the collectibility of principal or interest.
- interest is 90 days in arrears unless there is adequate security.
- financial reporting is significantly in arrears.

In addition to specific allowances against identified impaired loans, the Credit Union maintains a non-specific allowance to cover impairment which is inherent in the loan portfolio and is estimated based upon historical loss experience and prevailing economic conditions.

**Investments** Investments classified as available-for-sale which have a quoted marked value in an active market are carried at market value. All other investments are carried at the lower of cost or market.

**Property, Plant and Equipment** Property, plant and equipment is recorded at cost. Amortization is based on the estimated useful life of the asset is calculated as follows:

- Building - 5% diminishing balance basis
- Furniture, fixtures and equipment - 20% diminishing balance basis

**Osoyoos Credit Union**  
**Notes to Financial Statements**

**December 31, 2010**

**3. Members' Loans and Accrued Interest**

	Personal Loans	Commercial Loans	Total 2010	Total 2009
Loans	\$ 57,603,968	\$ 20,501,165	<b>\$ 78,105,133</b>	\$ 78,783,711
Accrued interest	92,946	68,277	<b>161,223</b>	175,668
<b>hi</b>				
Allowance for impaired loans	57,696,914	20,569,442	<b>78,266,356</b>	78,959,380
	1,040	100,000	<b>101,040</b>	101,742
	<b>\$ 57,695,874</b>	<b>\$ 20,469,442</b>	<b>\$ 78,165,316</b>	<b>\$ 78,857,638</b>
Impaired loans	\$ -	\$ 559,074	<b>\$ 559,074</b>	\$ 490,890
Less: unsatisfactory loans where loss is not expected	-	559,074	<b>559,074</b>	490,890
Specific provision	-	-	-	-
General provision	1,040	100,000	<b>101,040</b>	101,742
	<b>\$ 1,040</b>	<b>\$ 100,000</b>	<b>\$ 101,040</b>	<b>\$ 101,742</b>

The activity in the allowance for impaired loans has been as follows:

	2010	2009
Balance, opening	\$ 101,742	\$ 118,594
Provision charged to operations	-	-
	<b>101,742</b>	<b>118,594</b>
Loans written off	702	16,852
Balance, ending	<b>\$ 101,040</b>	<b>\$ 101,742</b>

The Credit Union has included in its Member's loans, mortgage loan portfolios acquired in the normal course of operations. The portfolio acquired includes personal mortgage loans totaling \$1,655,667 (2009 - \$3,955,340). The loans are administered by the vendor Credit Union who collects payments and remits on the Credit Union's behalf.

Included in the Credit Union's loan portfolio are commercial syndicated loans that are recorded on the Credit Union's financial records, but are administered by the lead lender on the Credit Union's behalf. The balance of the syndicated loans as a participating lender is \$7,499,307 (2009 - \$7,485,095).

A loan is considered past due when a counterparty has not made a payment by the contractual date due. The following table presents the carrying value of loans that are past due in 2009 but not classified as impaired because they are either (i) less than 90 days past due, or (ii) fully secured and collection efforts are reasonably expected to result in repayment.

**Osoyoos Credit Union**  
Notes to Financial Statements

December 31, 2010

**1. Cash**

The Credit Union has available to it, through Central 1, a \$1,500,000 Cdn and \$500,000 US demand operating lines of credit secured by a demand debenture and the general assignment of book debts. The balance outstanding as at December 31, 2010 was \$Nil (2009 - \$Nil).

**2. Term Deposits**

	2010	2009
Term deposits due by March 31 or earlier, interest at various rates from 0.27% to 1.25%	\$ 7,998,125	\$ 2,574,250
Term deposits due between April 1 and June 30, interest at various rates from 1.23% to 3.7%	7,500,000	1,000,000
Term deposits due between July 1 and December 31, interest at various rates from 1.53% to 3.95%	3,500,000	11,750,000
Term deposits due more than 1 year, interest at various rates from 1.72% to 4.37%	7,000,000	8,500,000
	25,998,125	23,824,250
Accrued interest	189,641	248,896
	<b>\$26,187,766</b>	<b>\$ 24,073,146</b>

The term deposits are held at Central 1 to meet regulations regarding liquidity as well as for investment purposes.

**Osoyoos Credit Union**  
Summary of Significant Accounting Policies

December 31, 2010

**Use of Estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality.

**Financial Instruments**

The Credit Union utilizes various forms of financial instruments. Unless otherwise noted, the credit union is not exposed to significant interest, currency or credit risks arising from these financial instruments and the carrying amounts approximate their fair values. All transactions related to financial instruments are recorded on a settlement date basis.

The Credit Union has followed the guidance of Credit Union Deposit Insurance Corporation which directed that Loans and Mortgages be classified as "Loans and receivables" and that Member Deposits be classified as "Other financial liabilities" and therefore that all be accounted for using the amortized cost method. See note 11 for details on classification of all the Credit Union's financial instruments.

The Credit Union classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired. The Credit Union's accounting policy for each category is as follows:

**Held For Trading**

This category is comprised of cash and cash equivalents, stand alone derivatives and embedded derivatives requiring separation. They are carried on the balance sheet at fair value with changes in fair value recognized in the statement of operations. Transaction costs related to instruments classified as held-for-trading are expensed as incurred.

**Loans And Receivables**

This category is comprised of accounts receivable and members' loans. These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment. Transaction costs related to loans and receivables are expensed as incurred.

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**Osoyoos Credit Union**  
**Summary of Significant Accounting Policies**

December 31, 2010

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**Financial Instruments (continued)**

**Held To Maturity**

This category is comprised of term deposits. These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity and comprises certain investments in debt securities. These assets are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment. Transaction costs related to held-to-maturity investments are expensed as incurred.

**Available-For-Sale**

Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprises certain investments, including the credit unions investments in private companies. When they have a quoted market price in an active market, they are carried at fair value with changes in fair value recognized as a separate component of other comprehensive income. When they do not have a quoted market price in an active market, they are carried at cost. Where a decline in the fair value is determined to be other than temporary, the amount of the loss is removed from other comprehensive income and recognized in the income statement. Transaction costs related to available-for-sale investments are expensed as incurred.

**Other Financial Liabilities**

Other financial liabilities includes all financial liabilities other than those classified as held-for-trading and comprises accounts payable and accrued liabilities, members' deposits, equity shares and dividends payable. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method. Transaction costs related to other financial liabilities are expensed as incurred.

**Other Comprehensive Income**

Other comprehensive income includes, in particular, unrealized gains and losses on available-for-sale financial assets.

**Supplemental Pension Plan**

The Credit Union has a supplemental pension plan for employees who have been employed by the credit union for a total of twenty years or more at the date of termination or the employee's full time equivalent years of service combined with the employee's age add up to seventy or greater. The amount of the supplement shall be calculated by multiplying the employee's total complete years of service by one percent per year times the annual salary of the employee on the date of termination or disability.

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**Osoyoos Credit Union**  
**Summary of Significant Accounting Policies**

December 31, 2010

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**Income Taxes**

Osoyoos Credit Union follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year.

Future income tax assets and liabilities are computed based on differences between the carrying amount of assets or liabilities on the balance sheet and their corresponding tax values using the enacted income tax rates at each balance sheet date. Future income tax assets also result from the carry forward of unused tax losses and other deductions. A future income tax asset is only recognized if it is more likely than not that the future income tax asset will be realized. The valuation of future income tax assets is reviewed annually and adjusted, if necessary, to reflect the estimated realizable amount.

**Translation of Foreign Currencies**

Cash resources and deposits denominated in foreign currencies are translated into Canadian dollars at the rates prevailing on the balance sheet date. Realized gains and losses are recorded at the rates prevailing at the time of the transaction. Unrealized gains and losses are recorded at the rates prevailing on the balance sheet date.

**Interest Rate Swaps**

The Credit Union has entered into interest rate swap contracts to facilitate management of the risks associated with interest rate exposure. The net of realized and unrealized income and expenses associated with the swaps is recognized over the term of the swap agreements and is reported on the statement of operations and retained earnings.

**Revenue Recognition**

Interest on loans is recorded using the effective interest method except for loans which are considered impaired. When a loan becomes impaired, recognition of interest income ceases when the carrying amount of the loan (including accrued interest) exceeds the estimated realizable amount of the underlying security. The amount of initial impairment and any subsequent changes are recorded through the provision for doubtful loans as an adjustment of the specific allowance.

Investment income is recorded using the effective interest method.

Commissions and service charges are recognized as income when the related service is provided or entitlement to receive income is earned.

Loan negotiation fees are recognized using the effective interest rate method. Income recorded on prepayment or renegotiation of fixed term loans is recognized when received.