

CN (LONDON) CREDIT UNION LIMITED

FINANCIAL STATEMENTS

APRIL 30, 2009

SAMUEL CHAN

CHARTERED ACCOUNTANT

119 Exeter Road, Unit H
London, Ontario N6L 1A4
Tel: (519) – 652-2737
Fax: (519) – 652-9383
E-mail: schan-ca@rogers.com

AUDITOR'S REPORT

To the Members of
CN (London) Credit Union Limited
London, Ontario

I have audited the balance sheet of **C N (London) Credit Union Limited** as at **April 30, 2009**, and the statements of operations, capital adequacy reserve, undivided earnings, general reserve and changes in cash flows for the year ended. These financial statements are the responsibility of the credit union's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the credit union as at **April 30, 2009** and the results of its operations and the changes in its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

London, Ontario
May 22, 2009

SAMUEL CHAN
Chartered Accountant
Licensed Public Accountant

CN (LONDON) CREDIT UNION LIMITED

Balance sheet

As at April 30, 2009

Statement 1

	2009	2008
<u>ASSETS</u>		
Cash and receivables		
Cash resources (note 2)	\$ 3,096,022	\$ 3,547,235
Accounts receivable	896	
Accrued interest receivable	22,329	57,259
Prepaid expenses	<u>29,721</u>	<u>31,728</u>
	<u>3,148,968</u>	<u>3,636,222</u>
Investments - at cost (note 4)	<u>85,997</u>	<u>82,062</u>
Loans to members:		
Lines of credit	4,683,639	4,069,706
Personal	1,924,428	2,031,784
Mortgages	<u>355,796</u>	<u>736,572</u>
	6,963,863	6,838,062
Less allowance for doubtful loans	<u>(87,000)</u>	<u>(105,000)</u>
	<u>6,876,863</u>	<u>6,733,062</u>
Long-term Investments (note 14)	<u>50,963</u>	
Fixed assets – at cost (note 1 and 5)	<u>3,098</u>	<u>3,486</u>
	<u>\$10,165,889</u>	<u>\$10,454,832</u>
Liabilities		
Accounts payable and accrued charges	\$ 36,720	\$ 66,046
Taxes payable	<u>(4,134)</u>	<u>678</u>
	<u>32,586</u>	<u>66,724</u>
Members' deposits:		
Deposits (note 6)	6,427,306	6,639,547
Registered Retirement Savings Plan	1,207,004	1,220,959
Registered Retirement Income Funds	487,775	533,343
Share Dividend Savings Accounts	<u>1,253,127</u>	<u>1,233,824</u>
	<u>9,375,212</u>	<u>9,627,673</u>
Members' equity:		
Membership share capital (note 7)	74,300	76,900
Capital adequacy reserve (statement 2)	510,000	510,000
Retained earnings (statement 2)	<u>173,791</u>	<u>173,535</u>
	<u>758,091</u>	<u>760,435</u>
	<u>\$10,165,889</u>	<u>\$10,454,832</u>

Approved on behalf of the Board:

Director

Director

(see accompanying notes)

CN (LONDON) CREDIT UNION LIMITED

Statement of capital adequacy reserve and retained earnings

For the year ended April 30, 2009

Statement 2

2009 **2008**

CAPITAL ADEQUACY RESERVE

Balance, beginning of year	\$ 510,000	\$ 510,000
Transfer from retained earnings	<u>NIL</u>	<u>NIL</u>
Balance, end of year	<u>\$ 510,000</u>	<u>\$ 510,000</u>

RETAINED EARNINGS

Balance, beginning of year	\$ 173,535	\$ 146,618
Transfer to capital adequacy reserve		
Rebate in (excess) under that of provision	<u>173,535</u>	<u>26</u> 146,644
Add: net income for the year (statement 3)	<u>256</u>	<u>26,891</u>
Balance, end of year	<u>\$ 173,791</u>	<u>\$ 173,535</u>

(see accompanying notes)

CN (LONDON) CREDIT UNION LIMITED

Statement of operations

For the year ended April 30, 2009

Statement 3

	2009		2008	
Revenue				
Interest on personal loans to members	\$ 133,599	26.4%	\$ 173,431	26.9%
Interest lines of credit	187,910	37.1	235,496	36.7
Interest on mortgage loans to members	30,081	5.9	45,317	7.0
Investment income	92,535	18.2	130,040	20.2
Miscellaneous	<u>62,959</u>	<u>12.4</u>	<u>58,915</u>	<u>9.2</u>
	<u>507,084</u>	<u>100.0</u>	<u>643,199</u>	<u>100.0</u>
Financial Expenses				
Interest on members' deposits	104,157	20.5	173,247	26.9
Interest on members' R.R.S.P.'s and R.R.I.F.'s	<u>21,557</u>	<u>4.3</u>	<u>47,359</u>	<u>7.4</u>
	<u>125,714</u>	<u>24.8</u>	<u>220,606</u>	<u>34.3</u>
Operating Spread	<u>381,370</u>	<u>75.2</u>	<u>422,593</u>	<u>65.7</u>
Insurance Expenses				
Share life insurance	12,144		12,777	
Loan life insurance	<u>360</u>		<u>548</u>	
	<u>12,504</u>	<u>2.5</u>	<u>13,325</u>	<u>2.1</u>
Remuneration to Officers and Staff				
Honoraria to officers	4,440		4,440	
Salaries to employees	176,497		173,086	
Employee benefits	<u>16,469</u>		<u>16,333</u>	
	<u>197,406</u>	<u>38.9</u>	<u>193,859</u>	<u>30.1</u>
Administrative expenses Schedule 1	<u>153,089</u>	<u>30.2</u>	<u>147,699</u>	<u>23.0</u>
Total operating expenses	<u>362,999</u>	<u>71.6</u>	<u>354,883</u>	<u>55.2</u>
Net income before dividend and rebate distribution	<u>18,371</u>	<u>3.6</u>	<u>67,710</u>	<u>10.5</u>
Dividends and loan rebates (note 8)	(2,761)	.5	(34,965)	5.4
Loss on write-own of ABCP (note 14)	<u>(15,354)</u>	<u>3.0</u>	<u>(34,965)</u>	<u>5.4</u>
	<u>(18,115)</u>	<u>3.5</u>	<u>(34,965)</u>	<u>5.4</u>
Net income before income taxes	256	.1	32,745	5.1
Provision for taxes	<u> </u>	<u> </u>	<u>(5,854)</u>	<u>.9</u>
Net income (loss) for the year	<u>\$ 256</u>	<u>.1%</u>	<u>\$ 26,891</u>	<u>4.2%</u>

(see accompanying notes)

CN (LONDON) CREDIT UNION LIMITED

Statement of changes in cash flows

For the year ended April 30, 2009

Statement 4

	2009	2008
Cash provided by (used in) operating activities:		
Net income for the year	\$ 256	\$ 26,891
Charge to operations not requiring a current cash payment -		
Allowance for doubtful accounts	(18,000)	
Depreciation and amortization	896	1,135
	<u>(16,848)</u>	<u>28,026</u>
Change in non-cash working capital balances related to operations -		
Accounts receivable	(896)	
Accrued interest receivable	34,930	18,431
Prepaid expenses	2,006	(9,644)
Accounts payable & accrued charges	(29,326)	(969)
Taxes payable	(4,813)	(844)
	<u>1,901</u>	<u>6,974</u>
Cash provided by (used in) operating activities:	<u>(14,947)</u>	<u>35,000</u>
Cash provided by (used in) operating activities:		
Increase (decrease) of investments	(54,898)	(21,136)
Purchase of fixed assets	(508)	
	<u>(55,406)</u>	<u>(21,136)</u>
Cash provided by (used in) financing activities:		
(Increase) decrease in lines of credit	(613,930)	(89,147)
(Increase) decrease in Personal Loans	107,355	72,473
(Increase) decrease in Mortgages	380,776	83,144
Increase (decrease) in Deposits	(212,240)	300,034
Increase (decrease) in R.R.S.P.'s	(13,954)	(93,168)
Increase (decrease) in R.R.I.F.'s	(45,568)	(16,337)
Increase (decrease) in Share Dividend Savings	19,301	47,176
Increase (decrease) in Share Capital	(2,600)	(1,000)
	<u>(380,860)</u>	<u>303,175</u>
Net increase (decrease) in cash during year	(451,213)	317,039
Cash resources, beginning of year	<u>3,547,235</u>	<u>3,230,196</u>
Cash resources, end of year	<u>\$3,096,022</u>	<u>\$ 3,547,235</u>
Supplemental cash flow information		
Interest paid during year	\$128,465	\$220,606
Income taxes paid during the year	NIL	5.854

(see accompanying notes)

CN (LONDON) CREDIT UNION LIMITED

Notes to the Financial Statements

April 30, 2009

1. Accounting Policies

The Credit Union and Caisses Populaires Act, 1994 (the "ACT")

Regulations to the act specify that certain items are required to be disclosed in the financial statements that are presented at annual meetings to members. It is the management's opinion that the disclosures in these financial statements and the notes comply in all material respects, with the requirements of the Act. Where necessary, reasonable estimates and interpretations have been made in presenting the information.

Financial Instruments:

The credit union has adopted the recommendations of the Canadian Institute of Chartered Accountants relating to the financial statement presentation of membership share accounts. In accordance with these recommendations, the credit union's shares are presented in the balance sheet as financial liabilities. These liabilities qualify as capital for regulatory purposes, notwithstanding their financial statement classification.

Reclassifications

Certain of the 2008 amounts have been reclassified to conform to the presentation adopted in 2009.

Capital Assets and Amortization:

All capital assets are carried at cost less accumulated amortization. Assets are generally amortized on the following basis:

Office Equipment	20% declining balance
Computer System	30% declining balance

Accounting for Operational Revenues and Expenses:

All revenues and expenses are recorded on the accrual basis of accounting except that interest income is not recorded for delinquent loans.

CN (LONDON) CREDIT UNION LIMITED

Notes to the Financial Statements

April 30, 2009

Income Taxes:

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

Foreign Exchange:

Assets and liabilities denominated in foreign currencies, primarily US dollars, are translated into Canadian dollars at rates prevailing at the year-end date. Income and expenses are translated at the exchange rates in effect on the date of the transactions. Exchange gains and losses arising on the translation of monetary items are included in income for the year.

2. Cash Resources:

The term "cash resources" as used in these financial statements consists of cash on hand, deposits maturing or callable within ninety days and payroll deductions receivable that have been made and which are in the course of being remitted. The credit union has available a line of credit with Central 1 in the amount of \$260,000 CDN and \$1,000 US to cover shortfalls in cash resources. This line of credit is secured by an assignment of book debts and a general security agreement covering all assets of the credit union.

At April 30, 2009 the credit union has not utilized any of its credit facilities.

3. Allowance for Loan Impairment:

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

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 105,000	\$ 105,000
Reduction of allowance	<u>(18,000)</u>	<u> </u>
Balance, end of year	<u>\$ 87,000</u>	<u>\$ 105,000</u>

The Credit Union writes off to the allowance for loan impairment all amounts known not to be collectable.

CN (LONDON) CREDIT UNION LIMITED

Notes to the Financial Statements

April 30, 2009

As at the fiscal year end the Credit Union calculates an allowance for loan impairment on an individual account basis in accordance with the guidelines set out in By-law #6 of the Deposit Insurance Corporation of Ontario (DICO). Initially, an amount is calculated for each loan more than 90 days in arrears from the original date of advancement, by applying specific percentages, varying with the extent of overdue payments, to the portion of the principal balance not covered by the realizable value of collateral and for all uncollected interest not received. In addition, allowance is made for those loans, not in arrears, but the collection of which is doubtful.

The allowance recorded in the financial statements is adjusted to the required amount determined above by a charge or credit to net income for the year.

The Board of Directors has passed a resolution to establish a secondary allowance to approximate the DICO peer ratio category covering the Ontario system. At April 30, 2009, the allowance for doubtful loans conforms to this resolution.

As at April 30, 2009 there were 4 loans 90 days or more in arrears to the contract. Irregular or reduced payments were being received on each of these loans.

4. Investments

Details are as follows:

	<u>2009</u>	<u>2008</u>
Credit Union Central of Ontario Shares	\$ 18,887	\$ 60,927
Central 1 Class A shares	27,510	
Central 1 Class E shares	<u>39,600</u>	<u> </u>
	<u>\$ 85,997</u>	<u>\$ 60,927</u>

The shares in the Credit Union Central of Ontario (CUCO) and Central 1 are carried at cost and are held as a condition of membership. The Credit Union must maintain an amount equal to 80 basis points of the Credit Union's total assets as at December 31, 2008.

It has also been determined that that the shares that the Credit Union holds in Credit Union Central of Ontario shares will be impaired by an estimated amount of \$4,000 as at April 30, 2009. This amount cannot be determined until the valuation is completed later in 2009 and accordingly has not been recorded as a charge to operations.

CN (LONDON) CREDIT UNION LIMITED

Notes to the Financial Statements

April 30, 2009

These shares can be redeemed only through withdrawals from membership or reductions in the balance of the Credit Union's own shares and deposits and are subject to the right of the Board of Directors of CUCO to impose limitations on the proportion and timing of amounts to be refunded.

The shares in CUCO and are realizable only through the redemption procedures described above and accordingly there are no separately quoted market values.

All Credit Unions who are members of the Central 1 are required to place on deposit with Central 1 7% of their total capital and member deposits as at December 31, 2008 in order to fund the liquidity reserve deposit. The Credit Union has complied with the requirements.

5. Fixed Assets

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Furniture & fixtures	\$ 48,732	\$ 46,673	\$ 2,059
Computer	<u>16,950</u>	<u>15,911</u>	<u>1,039</u>
	<u>\$ 65,682</u>	<u>\$ 62,583</u>	<u>\$ 3,098</u>

6. Members' Deposits

Deposits may be withdrawn on demand, subject to the discretion of the Board of Directors who may require thirty day's notice.

7. Membership Shares

Membership shares are subscribed for at a par value of \$5 per share. A member is required by By-law of the Credit Union to maintain a minimum of ten shares as a condition of membership in the Credit Union. Amounts paid for or on account of permanent membership shares may be withdrawn on demand subject to the discretion of the Board of Directors who may require sixty days notice. These shares are redeemable only when the member withdraws from membership in the Credit Union. Under sub-section 51(12) of the new act membership shares held as a condition of membership are not insured by the Deposit Insurance Corporation of Ontario (DICO).

At April 30, 2009 there were 1486 members at \$50.00 per member.

CN (LONDON) CREDIT UNION LIMITED

Notes to the Financial Statements

April 30, 2009

8. Share Dividends and Loan Rebates

The Board of Directors has declared and the Credit Union has accrued a 0.25 % dividend on the share savings accounts of \$2,751 (2008 – 1.25% \$13,976) and a loan interest rebate of NIL - NIL (2008-2.25% \$10,660). The actual dividend will be calculated as at April 30, 2009 and paid in the 2010 fiscal year and may differ from the accrual.

The total tax effect of these dividends is \$495 (2008 - \$7,514)

9. Regulatory Capital

The Credit Union Caisses Populaires Act, 1994 requires the Credit Union to maintain regulatory capital at 5% of total assets. As of February 1, 2007, Credit Unions were reclassified as either Class 1 or Class 2. A Class 2 credit union is generally regarded to have assets greater than \$50 million and issues commercial loans. CN (London) Credit Union Limited is designated a Class 1 Credit Union for classification purposes. As a Class 1 Credit Union, it is required to maintain adequate regulatory capital of at least 5% of its assets and no longer has to calculate risk-weighted assets as part of its regulatory capital.

The Credit Union is in compliance with the Act regarding regulatory capital as indicated by the table below:

	<u>2009</u>
Membership share capital	\$ 74,300
Statutory reserve	510,000
Retained earnings	<u>173,791</u>
	<u>\$ 758,091</u>
% Of Total Assets	7.45%

CN (LONDON) CREDIT UNION LIMITED

Notes to the Financial Statements

April 30, 2009

10. Restricted Party Transactions

The Act requires the financial statements to disclose a general description of the nature, number and aggregate values of restricted party transactions, as defined, and the allowance for loan losses related to such transactions. Restricted Party has been defined to include a person, and the person's relative, spouse, or relative spouse, who has been a director, officer or committee member in the preceding twelve months, and corporations in which the person owns more than 10% of the voting shares.

At April 30, 2009, the aggregate values of loans outstanding to directors, committee members and officers consisted of 9 loans and mortgages totaling **\$281,185**. These loans are made on the same terms and conditions as are transacted with other members. At April 30, 2009, there was no allowance for loan impairment required in respect of these loans.

11. Fair Value of Financial Instruments

The fair value of cash resources, certain other assets and liabilities is equal to the book value given the short-term nature of the balances. The fair value of investments is disclosed in Note 4 to the financial statements. These are based on quoted market prices, where available. The fair value of loans to members and member's deposits has not been determined at this time.

12. Commitments

The Credit Union negotiated a lease in 2006 at an annual rental of \$6,390 plus additional rent of \$12,626 for maintenance, parking, utilities and taxes. The lease terminates February 28, 2011 and the Credit Union has the right to renew the lease for a further 5 years at a rate to be determined at that time.

13. Comprehensive Income

The CN (London) Credit Union Limited has reviewed its asset classifications and has determined that none of its assets would generate any income that would be classified as Comprehensive Income.

CN (LONDON) CREDIT UNION LIMITED

Notes to the Financial Statements

April 30, 2009

14. Long-Term Investments

Asset Backed Commercial Paper Limited Partnership and Central 1 Credit Union Merger

At a special meeting held May 31, 2008, members of Credit Union Central of Ontario Limited (CUCO) approved a resolution to facilitate the merger of CUCO and Credit Union Central of British Columbia (CUCBC) to form a new national financial services entity named Central 1 Credit Union (Central 1).

As a pre-condition of this merger, 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. As there is still no liquid market in these ABCP investments, Edenbrook Hill Capital Ltd provided the fair values used to determine the acquisition price, a firm engaged by CUCO to provide an independent valuation of the assets underlying the ABCP investments. The valuation for each credit union's share of the ABCP was provided to them before closing. The market situation has not changed so that valuation should be sufficient to rely on at year-end.

The ABCP LP is governed by a Board of Directors that was elected by Ontario member credit unions and each limited partner will record its proportionate share of net income or loss in the ABCP LP as determined by generally accepted accounting principals and subject to an annual external audit. As at April 30, 2009, CN (London) Credit union Limited has \$50,963 invested in the ABCP LP units.

The Credit Union's investment in the ABCP LP has been impaired by the current economic conditions that have taken place in the North American market. As at April 30, 2009, it was determined that the Credit union's share of the reduction in valuation of the ABCP LP value was \$15,354 and accordingly this amount has been charged against operations. The balance of \$50,963 reflects the write-down of this amount.

CN (LONDON) CREDIT UNION LIMITED

Schedule of administrative expenses

For the year ended April 30, 2009

	<u>2009</u>	<u>2008</u>
Administrative Expenses		
Annual meeting	\$ 2,680	\$ 4,500
Bad debt (recoveries) expense	(2,212)	1,295
Bank charges & interest	4,592	3,890
Bonding insurance	11,454	9,446
Computer costs	20,196	15,723
Depreciation	896	1,135
Education & conferences	2,867	1,314
FSCO fees	485	748
Insurance	20,589	19,334
Internet expense	1,803	1,587
League dues (CUCO)	7,637	10,275
Member card expense	12,960	12,845
Member deposit insurance (DICO)	8,303	8,352
Member relation or promotion	4,701	5,128
Miscellaneous	5,655	7,537
Office expenses	6,435	3,895
Postage	6,169	3,948
Professional services	14,511	12,492
Rent	17,447	18,641
RRSP administrative fees	5,214	4,948
Telephone	<u>707</u>	<u>668</u>
	<u>\$153,089</u>	<u>\$147,701</u>