

# CREDIT UNION DEPOSIT GUARANTEE CORPORATION

## Financial Statements

DECEMBER 31, 2005

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## AUDITOR'S REPORT

### To the Directors of the Credit Union Deposit Guarantee Corporation

I have audited the balance sheet of the Credit Union Deposit Guarantee Corporation as at December 31, 2005 and the statements of income and equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation'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 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*[Original Signed]*

Fred J. Dunn, FCA  
Auditor General

Edmonton, Alberta  
March 7, 2006

*The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.*

## CREDIT UNION DEPOSIT GUARANTEE CORPORATION

**BALANCE SHEET**

As at December 31, 2005

|   | 2005              | 2004              |
|---|-------------------|-------------------|
|   | (\$ thousands)    |                   |
| <b>ASSETS</b>                                     |                   |                   |
| Cash  | \$ 11,573         | \$ 10,390         |
| Investments (Note 3)                              | 104,355           | 96,774            |
| Accrued interest receivable                       | 846               | 859               |
| Income taxes receivable                           | -                 | 228               |
| Due from Credit Unions                            | 2,912             | 2,735             |
| Other assets (Note 4)                             | 803               | 862               |
| Property and equipment (Note 5)                   | 223               | 124               |
|   | <u>120,712</u>    | <u>111,972</u>    |
| <b>LIABILITIES</b>                                |                   |                   |
| Accounts payable and accrued liabilities          | 932               | 797               |
| Income taxes payable                              | 55                | -                 |
| Accrual for financial assistance (Note 6)         | 1,600             | 1,325             |
| Deferred revenue                                  | 1,156             | 1,102             |
| Special contribution payable (Note 7)             | 11,032            | 9,972             |
| Long-term unclaimed credit union balances payable | 599               | 483               |
|   | <u>15,374</u>     | <u>13,679</u>     |
| Commitments and contingencies (Note 8)            |                   |                   |
| <b>EQUITY</b>                                     |                   |                   |
| Deposit Guarantee Fund                            | 103,725           | 96,601            |
| Master Bond Fund                                  | 1,613             | 1,692             |
|   | <u>105,338</u>    | <u>98,293</u>     |
|   | <u>\$ 120,712</u> | <u>\$ 111,972</u> |

The accompanying notes and schedule are part of these financial statements.

Approved by the Board:

Allister McPherson, Director

Mary C. Ritchie, Director

## CREDIT UNION DEPOSIT GUARANTEE CORPORATION

**STATEMENTS OF INCOME AND EQUITY**

For the Year Ended December 31, 2005

|   | 2005           |            | 2004      |
|---|----------------|------------|-----------|
|   | Budget         | Actual     | Actual    |
| (Note 11)                                   |                |            |           |
|   | (\$ thousands) |            |           |
| <b>DEPOSIT GUARANTEE FUND</b>               |                |            |           |
| Revenues:                                   |                |            |           |
| Deposit guarantee assessments               | \$ 15,956      | \$ 16,367  | \$ 14,818 |
| Investment income                           | 4,763          | 6,267      | 5,530     |
|   | 20,719         | 22,634     | 20,348    |
| Expenses:                                   |                |            |           |
| Provision for financial assistance (Note 6) | 500            | 266        | 58        |
| Special contribution (Note 7)               | 10,642         | 11,032     | 9,972     |
| Administration expenses (Schedule 1)        | 4,443          | 3,800      | 3,657     |
|   | 15,585         | 15,098     | 13,687    |
| Income before income taxes                  | 5,134          | 7,536      | 6,661     |
| Income taxes (Note 9)                       | 40             | 412        | 313       |
| Net income for the year                     | 5,094          | 7,124      | 6,348     |
| Equity at beginning of year                 | 95,769         | 96,601     | 90,253    |
| Equity at end of year                       | \$ 100,863     | \$ 103,725 | \$ 96,601 |
| <b>MASTER BOND FUND</b>                     |                |            |           |
| Revenues:                                   |                |            |           |
| Insurance assessments                       | \$ 1,209       | \$ 1,195   | \$ 1,123  |
| Investment income                           | 38             | 57         | 53        |
|   | 1,247          | 1,252      | 1,176     |
| Expenses:                                   |                |            |           |
| Insurance premiums                          | 904            | 989        | 917       |
| Administration (Schedule 1)                 | 120            | 120        | 120       |
| Insurance claims                            | 241            | 222        | 604       |
|   | 1,265          | 1,331      | 1,641     |
| Net loss for the year                       | (18)           | (79)       | (465)     |
| Equity at beginning of year                 | 1,867          | 1,692      | 2,157     |
| Equity at end of year                       | \$ 1,849       | \$ 1,613   | \$ 1,692  |

The accompanying notes and schedule are part of these financial statements.

## CREDIT UNION DEPOSIT GUARANTEE CORPORATION

**STATEMENT OF CASH FLOWS**

For the Year Ended December 31, 2005

|   | 2005           |           | 2004      |
|---|----------------|-----------|-----------|
|   | Budget         | Actual    | Actual    |
|   | (Note 11)      |           |           |
|   | (\$ thousands) |           |           |
| Operating activities:                   |                |           |           |
| Assessments received                    | \$ 17,185      | \$ 17,485 | \$ 15,916 |
| Investment income received              | 4,800          | 6,337     | 5,521     |
| Financial assistance recovered (paid)   | (500)          | 9         | 2         |
| Interest and bank charges paid          | (6)            | (4)       | (3)       |
| Insurance claims paid                   | (220)          | (345)     | (389)     |
| Income taxes (paid) recovered           | 88             | (114)     | (459)     |
| Paid to suppliers and employees         | (5,140)        | (4,440)   | (4,620)   |
| Special contribution paid               | (9,854)        | (9,972)   | (9,168)   |
| Cash flows from operating activities    | 6,353          | 8,956     | 6,800     |
| Investing activities:                   |                |           |           |
| Purchase of investments, net            | (5,137)        | (7,580)   | (7,373)   |
| Purchase of property and equipment      | (216)          | (193)     | (75)      |
| Cash flows used in investing activities | (5,353)        | (7,773)   | (7,448)   |
| Cash inflow (outflow)                   | 1,000          | 1,183     | (648)     |
| Cash at beginning of year               | 12,000         | 10,390    | 11,038    |
| Cash at end of year                     | \$ 13,000      | \$ 11,573 | \$ 10,390 |

The accompanying notes and schedule are part of these financial statements.

## CREDIT UNION DEPOSIT GUARANTEE CORPORATION

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2005

**NOTE 1 AUTHORITY AND PURPOSE**

The Credit Union Deposit Guarantee Corporation (the "Corporation") operates under the authority of the *Credit Union Act*, Chapter C-32, revised Statutes of Alberta, 2000. The Corporation guarantees the repayment of all deposits with Alberta credit unions including accrued interest. The *Credit Union Act* provides that the Province of Alberta (Province) will ensure that this obligation of the Corporation is carried out. As at December 31, 2005, credit unions in Alberta held deposits including accrued interest totalling \$10,034,758,000 (2004 - \$8,963,176,000). Supervised credit unions receive assistance, support and direction in planning, policy and operational matters from the Corporation.

**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES****(a) Basis of presentation**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

These financial statements reflect separate funds: a Deposit Guarantee Fund and a Master Bond Fund.

The primary objective of the Deposit Guarantee Fund is to enable the Corporation to guarantee the repayment of all deposits, including accrued interest, held by Alberta credit unions. The Deposit Guarantee Fund's statement of income includes deposit guarantee assessments received from credit unions, financial assistance payments recorded on behalf of credit unions, as well as all other revenues and expenses related to the primary objective.

The Master Bond Fund provides insurance coverage to Alberta credit unions under a policy administered by the Corporation. A credit union may claim a maximum of \$100,000 for directors liability claims and \$220,000 for other claims, less its deductible, which is payable out of the Master Bond Fund and a third party reinsurance policy insures the amount of the claim that exceeds \$100,000 or \$220,000 respectively. The Master Bond Fund's statement of income includes insurance assessments received from credit unions, investment income, insurance premiums paid for the reinsurance policy, an administration fee, and insurance claims paid.

**(b) Use of estimates**

The Corporation's financial statements are prepared in accordance with Canadian generally accepted accounting principles and necessarily include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant areas requiring the use of estimates are the accrual for financial assistance, provision for (recovery of) financial assistance, allowance for loan impairment and Master Bond Fund insurance claims (expected and unreported). The Corporation reviews these estimates annually. Actual amounts may differ significantly from those estimates depending upon certain future events and uncertainties.

## CREDIT UNION DEPOSIT GUARANTEE CORPORATION

**Note 2 (continued)****(c) Cash**

Cash consists of a deposit in the Consolidated Cash Investment Trust Fund, which is managed by Alberta Finance to provide competitive interest income while maintaining maximum security and liquidity of depositor's capital.

**(d) Investments**

Investments are carried at cost or amortized cost, with any discount or premium amortized on a straight-line basis over the life of the investments. Investments are written down when there is a decline in value that is other than temporary. Gains and losses on sale of investments are included with investment income in the year of sale. Substantially all securities held are purchased with the intention to hold them to maturity.

**(e) Property and equipment**

The following rates are designed to amortize the cost of property and equipment over their estimated useful lives:

|                         |                               |
|-------------------------|-------------------------------|
| Furniture and equipment | five year straight-line       |
| Computer equipment      | three year straight-line      |
| Leasehold improvements  | straight-line over lease term |
| Computer software       | one year straight-line        |

**(f) Income taxes**

The Corporation records income taxes based on the tax liability method. Therefore, future income taxes are recognized based on the tax effects that will arise if an asset is realized or a liability is settled for its carrying amount.

**(g) Insurance claims**

The Corporation estimates and accrues the Master Bond Fund's share of losses from any reported insurance claims. It makes an additional accrual of the estimated losses from unreported insurance claims based on the last three years' average actual loss experience.

**(h) Accrual for financial assistance**

The Corporation recognizes financial assistance to specific credit unions as an expense when the need for financial assistance becomes likely and the amount can reasonably be estimated.

Additionally, an accrual for financial assistance is established by assessing the aggregate risk in the Alberta credit union system based on existing capital available in individual credit unions, current and anticipated market and economic conditions, the likelihood of losses, and the application of historic loss experience. It reflects management's best estimate of the losses arising from the inherent risk in the Alberta credit union system. Future economic conditions are not predictable with certainty and actual losses may vary significantly from management's estimate.

## CREDIT UNION DEPOSIT GUARANTEE CORPORATION

**Note 2 (continued)****(i) Fair value of financial instruments**

Most financial instruments are valued at their carrying amounts included on the balance sheet, which are reasonable estimates of fair value. This approach applies to cash, accrued interest receivable, due from credit unions, accounts payable and accrued liabilities, accrual for financial assistance, special contribution payable and long-term unclaimed credit union balances payable. The fair values of investments are disclosed in Note 3.

**NOTE 3 INVESTMENTS**

|                                     | 2005              |                           | 2004             |                           |
|-------------------------------------|-------------------|---------------------------|------------------|---------------------------|
|                                     | Cost              | Market Value <sup>2</sup> | Cost             | Market Value <sup>2</sup> |
|                                     | (\$ thousands)    |                           |                  |                           |
| Securities issued or guaranteed by: |                   |                           |                  |                           |
| Canada                              | \$ 39,537         | \$ 39,935                 | \$ 31,620        | \$ 32,856                 |
| Provinces                           | 21,824            | 22,144                    | 19,817           | 20,442                    |
| Other <sup>1</sup>                  | 42,994            | 43,096                    | 45,337           | 46,483                    |
| Total                               | <u>\$ 104,355</u> | <u>\$ 105,175</u>         | <u>\$ 96,774</u> | <u>\$ 99,781</u>          |

<sup>1</sup> These securities include shares of Credit Union Central Alberta Limited (\$100,000) and Concentra Financial Services Association (\$15,000), which approximate market value and have no specific term to maturity.

<sup>2</sup> Market value is calculated using independent pricing sources and Canadian investment dealers.

The investment portfolio is managed by external managers with the objective of providing investment returns higher than the total return of the applicable Scotia Capital Markets All-Government indices over a four year period. The portfolio is comprised of high quality Canadian fixed income and debt related instruments. Competitive investment returns are achieved through management of the portfolio duration and holdings.

As at December 31, 2005, securities held have an average effective yield of 4.40% per annum based on cost (2004 - 4.70%); 4.10% per annum based on market (2004 - 3.80%). These securities have the following term structure based on cost: under one year - 2% (2004 - 2%); over one year and under five years - 49% (2004 - 51%); over five years and under ten years - 49% (2004 - 47%).

The market value of the investments is subject to fluctuation as a result of normal market risk. The principal factor influencing the market value is the prevailing rate of interest. An increase of 1 percent in interest rates will result in a decrease of approximately \$1,039,000 (2004 - \$963,000) in the market value of the total investments; and conversely, a decrease of 1 percent in interest rates will result in an increase in the market value of the same amount.



## CREDIT UNION DEPOSIT GUARANTEE CORPORATION

**NOTE 4 OTHER ASSETS**

|  | <b>2005</b>    | <b>2004</b>   |
|--|----------------|---------------|
|  | (\$ thousands) |               |
| Prepaid expenses                         | \$ 790         | \$ 835        |
| Future income taxes recoverable (Note 9) | 13             | 27            |
| Total                                    | <u>\$ 803</u>  | <u>\$ 862</u> |

**NOTE 5 PROPERTY AND EQUIPMENT**

|                         | <b>2005</b>    |                                     |                           | <b>2004</b>               |
|-------------------------|----------------|-------------------------------------|---------------------------|---------------------------|
|                         | <b>Cost</b>    | <b>Accumulated<br/>Amortization</b> | <b>Net Book<br/>Value</b> | <b>Net Book<br/>Value</b> |
|                         | (\$ thousands) |                                     |                           |                           |
| Furniture and equipment | \$ 427         | \$ 369                              | \$ 58                     | \$ 20                     |
| Computer equipment      | 194            | 140                                 | 54                        | 55                        |
| Leasehold improvements  | 148            | 124                                 | 24                        | 30                        |
| Computer software       | 210            | 123                                 | 87                        | 19                        |
| Net book value          | <u>\$ 979</u>  | <u>\$ 756</u>                       | <u>\$ 223</u>             | <u>\$ 124</u>             |

**NOTE 6 ACCRUAL FOR FINANCIAL ASSISTANCE**

To fulfill the mandate described in Note 1, the Corporation assists Alberta credit unions experiencing financial difficulties when and as required. The Corporation monitors credit unions experiencing financial difficulty and has a contingent responsibility to provide further financial assistance, the amount of which, if any, is undeterminable at this time.

The book value of the accrual for financial assistance approximates its fair value as it represents the Corporation's best estimate of the future amounts to be paid.

|  | <b>2005</b>     | <b>2004</b>     |
|--|-----------------|-----------------|
|  | (\$ thousands)  |                 |
| Accrual for financial assistance:          |                 |                 |
| Balance at beginning of year               | \$ 1,325        | \$ 1,265        |
| Change in accrual for financial assistance | 275             | 60              |
| Balance at end of year                     | <u>\$ 1,600</u> | <u>\$ 1,325</u> |
| Provision for financial assistance:        |                 |                 |
| Change in accrual for financial assistance | \$ 275          | \$ 60           |
| Financial assistance payments              | 3               | 10              |
| Loan loss recoveries                       | (12)            | (12)            |
| Provision for financial assistance         | <u>\$ 266</u>   | <u>\$ 58</u>    |

## CREDIT UNION DEPOSIT GUARANTEE CORPORATION

**NOTE 7 SPECIAL CONTRIBUTION PAYABLE**

|   | <b>2005</b>      | <b>2004</b>     |
|---|------------------|-----------------|
|   | (\$ thousands)   |                 |
| Balance at beginning of year                    | \$ 9,972         | \$ 9,168        |
| Payment of previous year's special contribution | (9,972)          | (9,168)         |
| Special contribution for the year               | 11,032           | 9,972           |
| Balance at end of year                          | <u>\$ 11,032</u> | <u>\$ 9,972</u> |

A special contribution is an annual amount payable by the Corporation to the Province under the Credit Union Restructuring Agreement until 2010. It is equal to 0.11% of Alberta credit union deposits, including accrued interest and borrowings, as at October 31.

**NOTE 8 COMMITMENTS AND CONTINGENCIES****(a) Lease commitments**

The Corporation is committed to a non-cancellable operating lease for business premises totalling \$601,000 (2004 - \$161,000).

The following amounts represent minimum payments over the next five years:

|      |            |
|------|------------|
| 2006 | \$ 116,000 |
| 2007 | 113,000    |
| 2008 | 113,000    |
| 2009 | 119,000    |
| 2010 | 120,000    |

**(b) Litigation**

There is a legal proceeding pending against the Corporation that arose from normal business activities. Management of the Corporation believes that the financial cost of resolution of this proceeding will not be material to the financial position of the Corporation.

**NOTE 9 INCOME TAXES**

The Corporation is a deposit insurance corporation for income tax purposes. Its taxable income excludes assessments and financial assistance recoveries and no deduction may be made for financial assistance, insurance premiums, insurance claims, or special contributions paid.

## CREDIT UNION DEPOSIT GUARANTEE CORPORATION

**Note 9 (continued)**

The Corporation's statutory income tax rate is 17.0% (2004 - 17.2%). Income taxes differ from the expected result that would have been obtained by applying the combined federal and provincial tax rate to income before income taxes, for the following reasons:

|   | <b>2005</b>    | <b>2004</b>   |
|---|----------------|---------------|
|   | (\$ thousands) |               |
| Expected income tax expense on pre-tax income at the statutory rate<br>(net of general tax reduction) | \$ 1,276       | \$ 1,067      |
| Add (deduct) tax effect of:   |                |               |
| Non-taxable assessments   | (2,982)        | (2,746)       |
| Non-deductible special contribution   | 1,873          | 1,718         |
| Non-taxable provision for financial assistance  | 45             | 10            |
| Non-deductible insurance premiums   | 155            | 158           |
| Non-deductible insurance claims   | 38             | 104           |
| Other   | 7              | 2             |
| Income taxes  | <u>\$ 412</u>  | <u>\$ 313</u> |

At December 31, 2005 the Corporation had unamortized property and equipment for income tax purposes in excess of related book values of approximately \$76,000 (2004 - \$157,000). The resulting future income taxes recoverable are reflected in Note 4. The Corporation's future effective income tax rate is 17.0%.

|                      | <b>2005</b>    | <b>2004</b>   |
|----------------------|----------------|---------------|
|                      | (\$ thousands) |               |
| Current income taxes | \$ 398         | \$ 311        |
| Future income taxes  | 14             | 2             |
| Income taxes         | <u>\$ 412</u>  | <u>\$ 313</u> |

## CREDIT UNION DEPOSIT GUARANTEE CORPORATION

**NOTE 10 DIRECTORS' AND MANAGEMENT REMUNERATION**

|   | <b>Directors Fees<br/>or Salary<sup>1</sup></b> | <b>Other cash<br/>Benefits<sup>2</sup></b> | <b>Other Non<br/>Cash Benefits<sup>3</sup></b> | <b>2005<br/>Total</b> | <b>2004<br/>Total</b> |
|---|---|--|--|-----------------------|-----------------------|
|   | (\$ thousands)                                  |  |  |                       |                       |
| Chair <sup>4,9</sup>  | \$ 41   | \$ -                                       | \$ -   | \$ 41                 | \$ 51                 |
| Board Members <sup>4,9</sup>  | 83  | -  | -  | 83                    | 90                    |
| Current senior management:  |   |  |  |                       |                       |
| President and Chief<br>Executive Officer <sup>5</sup>                 | 165   | 31   | 31   | 227                   | 228                   |
| Vice President, Finance<br>and Administration                         | 137   | 13   | 24   | 174                   | 164                   |
| Vice President, Credit and<br>Risk Management <sup>6</sup>            | 123   | 12   | 16   | 151                   | 123                   |
| Director, Special Projects <sup>7</sup>                               | 74  | 4  | 11   | 89                    | 139                   |
| Director, Strategic Planning<br>and Information Services <sup>8</sup> | 94  | 6  | 13   | 113                   | 93                    |

1 Salary includes regular base pay.

2 Other cash benefits include bonus payments and accruals.

3 Employer's share of all employee benefits and contributions or payments made on behalf of employees including Canada Pension Plan, Employment Insurance, group Registered Retirement Savings Plan, dental coverage, vision coverage, medical benefits including out of country medical benefits, group life insurance, accidental disability and dismemberment insurance, professional memberships, staff fund, automobile allowances and tuitions.

4 The Chair and Board Members are paid on a per diem basis for preparation and meeting time. The Deputy Minister of Finance is a Board Member but receives no remuneration from the Corporation.

5 The amount reported for 2004 includes the current and the previous incumbent who retired May 31, 2004.

6 The title was changed from Vice President, Credit on December 1, 2005 when the Operations and Credit departments were combined.

7 The title was changed from Vice President, Operations on December 1, 2005 when the Operations and Credit departments were combined. The individual has been on leave since May 18, 2005.

8 This is a new position and the incumbent was hired January 24, 2005. As this is now the fifth most senior position in the Corporation, this incumbent's salary is reported for 2005, whereas the salary reported in 2004 was for the Manager, Information Services.

9 The minimum and maximum amounts paid to directors was \$9,000 (2004 - \$4,000) and \$41,000 (2004 - \$51,000) respectively. The average amount paid to directors was \$16,000 (2004 - \$18,000).

## CREDIT UNION DEPOSIT GUARANTEE CORPORATION

**NOTE 11 2005 BUDGET**

The 2005 budget was approved by the Board of Directors on September 24, 2004.

**NOTE 12 COMPARATIVE FIGURES**

The 2004 figures have been reclassified where necessary to conform to 2005 presentation.

## CREDIT UNION DEPOSIT GUARANTEE CORPORATION

**SCHEDULE TO THE FINANCIAL STATEMENTS****SCHEDULE OF ADMINISTRATION EXPENSES**

Schedule 1

For the Year Ended December 31, 2005

|                                | 2005            |                 | 2004               |
|--------------------------------|-----------------|-----------------|--------------------|
|                                | Budget          | Actual          | Actual             |
|                                | (\$ thousands)  |                 |                    |
| Deposit Guarantee Fund         |                 |                 |                    |
| Salaries and benefits          | \$ 3,060        | \$ 2,977        | \$ 2,742           |
| Rental charges                 | 169             | 161             | 168                |
| Staff travel                   | 269             | 156             | 171                |
| Professional fees              | 250             | 153             | 177                |
| Office                         | 169             | 130             | 115                |
| Board and committee fees       | 157             | 124             | 141                |
| Other                          | 224             | 96              | 100                |
| Amortization                   | 204             | 91              | 120                |
| Board and committee expenses   | 61              | 32              | 43                 |
|                                | 4,563           | 3,920           | 3,777              |
| Allocation to Master Bond Fund | (120)           | (120)           | (120)              |
|                                | <u>\$ 4,443</u> | <u>\$ 3,800</u> | <u>\$ \$ 3,657</u> |