

CREDIT UNION DEPOSIT  
GUARANTEE CORPORATION  
FINANCIAL STATEMENTS  
DECEMBER 31, 2002

Auditor's Report

Balance Sheet

Statements of Income and Equity

Statement of Cash Flows

Notes to the Financial Statements

Schedule of Administration Expenses



## 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, 2002 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, 2002 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  
February 12, 2003

**CREDIT UNION DEPOSIT GUARANTEE CORPORATION**  
**BALANCE SHEET**  
**DECEMBER 31, 2002**  
(thousands of dollars)

	2002	2001
<b>ASSETS</b>		
Cash	\$ 11,414	\$ 8,253
Investments (Note 3)	81,850	78,485
Accrued interest receivable	863	635
Due from credit unions	2,299	2,096
Other assets (Note 4)	828	769
Capital assets (Note 5)	196	250
	<u>\$ 97,450</u>	<u>\$ 90,488</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 724	\$ 539
Income taxes payable	28	134
Accrual for financial assistance (Note 6)	1,700	1,715
Deferred revenue	986	921
Special contribution payable (Note 7)	8,354	7,637
Long-term unclaimed credit union balances payable	459	438
	<u>12,251</u>	<u>11,384</u>
Commitments and contingencies (Note 8)		
<b>EQUITY</b>		
Deposit Guarantee Fund	\$ 83,105	\$ 76,820
Master Bond Fund	2,094	2,284
	<u>85,199</u>	<u>79,104</u>
	<u>\$ 97,450</u>	<u>\$ 90,488</u>

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

On behalf of the Board

R. A. Splane, Director

Mary C. Arnold, FCA, Director

**CREDIT UNION DEPOSIT GUARANTEE CORPORATION**  
**STATEMENTS OF INCOME AND EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**  
(thousands of dollars)

	2002		2001
	Budget	Actual	Actual
<b>DEPOSIT GUARANTEE FUND</b>			
Revenues:			
Deposit guarantee assessments	\$ 12,321	\$ 12,544	\$ 11,340
Investment income	4,588	5,844	5,054
	<u>16,909</u>	<u>18,388</u>	<u>16,394</u>
Expenses:			
Interest and bank charges	46	3	34
Recovery of financial assistance (Note 6)	-	(26)	(2,034)
Special contribution (Note 7)	8,159	8,354	7,637
Administration (Schedule 1)	3,592	3,192	3,092
	<u>11,797</u>	<u>11,523</u>	<u>8,729</u>
Income before income taxes	5,112	6,865	7,665
Income taxes (Note 9)	290	580	519
Net income for the year	4,822	6,285	7,146
Equity at beginning of year	75,903	76,820	69,674
Equity at end of year	<u>\$ 80,725</u>	<u>\$ 83,105</u>	<u>\$ 76,820</u>
<b>MASTER BOND FUND</b>			
Revenues:			
Insurance assessments	\$ 827	\$ 855	\$ 748
Interest	109	66	114
	<u>936</u>	<u>921</u>	<u>862</u>
Expenses:			
Insurance premium	706	693	628
Administration (Schedule 1)	120	120	120
Insurance claims	210	298	172
	<u>1,036</u>	<u>1,111</u>	<u>920</u>
Net loss for the year	(100)	(190)	(58)
Equity at beginning of year	2,300	2,284	2,342
Equity at end of year	<u>\$ 2,200</u>	<u>\$ 2,094</u>	<u>\$ 2,284</u>

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, 2002**  
(thousands of dollars)

	2002		2001
	Budget	Actual	Actual
Operating activities:			
Assessments received	\$ 12,921	\$ 13,328	\$ 11,996
Investment income received	4,741	5,661	5,129
Loan principal and interest recovered	-	29	86
Financial assistance recoveries (paid)	(500)	11	49
Interest and bank charges paid	(46)	(3)	(34)
Insurance claims paid	(210)	(156)	(172)
Income taxes paid	(385)	(689)	(439)
Paid to suppliers and employees	(4,311)	(3,967)	(3,579)
Special contribution paid	(7,565)	(7,637)	(6,747)
Cash flows from operating activities	4,645	6,577	6,289
Investing activities:			
Purchase of investments, net	(4,525)	(3,365)	(282)
Purchase of capital assets	(120)	(51)	(153)
Cash flows from investing activities	(4,645)	(3,416)	(435)
Cash inflow	-	3,161	5,854
Cash at beginning of year	1,501	8,253	2,399
Cash at end of year	\$ 1,501	\$ 11,414	\$ 8,253

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

**CREDIT UNION DEPOSIT GUARANTEE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

**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, 2002, credit unions in Alberta held deposits including accrued interest totalling \$7,583,130,000. Supervised credit unions receive assistance, support and direction in planning, policy and operational matters from the Corporation.

In 1986, S C Financial Ltd. was incorporated under the Alberta Business Corporations Act for the purpose of providing \$335,000,000 of deficit financing assistance to credit unions under supervision. The Corporation guarantees the interest on the S C Financial Ltd. Debentures issued in exchange for Stabilization Preferred Shares of the credit unions and the interest was funded by the Province pursuant to its indemnification. As of October 31, 2002, the Debentures have been repaid and the Stabilization Preferred Shares have been cancelled or redeemed. S C Financial Ltd. operations ceased effective October 31, 2002. The Corporation's investment in S C Financial Ltd. will be liquidated upon dissolution (Note 2(c) and 4).

**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 assessments received from credit unions, 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 \$85,000 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 \$85,000 respectively. The Master Bond Fund's statement of income includes insurance assessments received from credit unions, interest 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.

## (c) Non-consolidation of S C Financial Ltd.

S C Financial Ltd. has not been consolidated in these financial statements since the Corporation was not exposed to related obligations and did not have the right and ability to obtain future economic benefits from S C Financial Ltd.

## (d) 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 depositors' capital.

## (e) 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 disposal of investments are included with investment income in the year of disposal. Substantially all securities held are purchased with the intention to hold them to maturity.

## (f) Capital assets

The following rates are designed to amortize the cost of capital assets over their estimated useful lives:

Furniture and equipment	five year straight-line
Computer equipment	30 per cent declining-balance
Leasehold improvements	straight-line over lease term
Computer software	one year straight-line

## (g) 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.

## (h) 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.

## (i) Accrual for financial assistance

The Corporation recognizes financial assistance to specific credit unions as an expense when the need for 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.

## (j) 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, loans receivable, accounts payable and accrued liabilities, accrual for financial assistance, investment in S C Financial Ltd., special contribution payable and long-term unclaimed credit union balances payable. The fair values of investments are disclosed in Note 3.

**NOTE 3 INVESTMENTS**

	2002		2001	
	Cost	Market Value <sup>2</sup>	Cost	Market Value <sup>2</sup>
	(thousands of dollars)		(thousands of dollars)	
Securities issued or guaranteed by:				
Canada	\$ 41,449	\$ 43,349	\$ 38,742	\$ 39,888
Provinces	16,447	17,363	13,546	13,794
Other	23,954 <sup>1</sup>	24,524	26,197 <sup>1</sup>	27,136
Total	\$ 81,850	\$ 85,236	\$ 78,485	\$ 80,818

1 These securities include shares of Credit Union Central Alberta Limited (\$100,000) and Co-operative Trust Company of Canada (\$15,000), which approximate market value and have no specific term to maturity.

2 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, 2002, securities held have an average effective yield of 5.20% per annum based on cost (2001 – 5.67%); 4.30% per annum based on market (2001 – 4.78%). These securities have the following term structure based on par: under one year - 0% (2001 – 3%); over one year and under five years - 56% (2001 – 54%); over five years and under ten years - 44% (2001 – 43%).

The market value of the investments is subject to fluctuation as a result of normal market risk. The principle factor influencing the market value is the prevailing rate of interest. An increase of 1 per cent in interest rates will result in a decrease of approximately \$852,000 (2001 - \$805,000) 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.



**NOTE 4 OTHER ASSETS**

	2002	2001
	(thousands of dollars)	
Prepaid expenses	\$ 785	\$ 691
Future income taxes recoverable (Note 9)	42	69
Loans receivable	-	8
Investment in SC Financial Ltd.	1	1
Total	<u>\$ 828</u>	<u>\$ 769</u>

**NOTE 5 CAPITAL ASSETS**

	2002	2001
	(thousands of dollars)	
Furniture and equipment	\$ 391	\$ 388
Computer equipment	171	288
Leasehold improvements	126	126
Computer software	94	73
	<u>782</u>	<u>875</u>
Less accumulated amortization	(586)	(625)
Net book value	<u>\$ 196</u>	<u>\$ 250</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.

	2002	2001
	(thousands of dollars)	
Accrual for financial assistance:		
Balance at beginning of year	\$ 1,715	\$ 3,700
Recovery of financial assistance	(15)	(1,985)
Balance at end of year	<u>\$ 1,700</u>	<u>\$ 1,715</u>
Recovery of financial assistance:		
Recovery of financial assistance	\$ (15)	\$ (1,985)
Loan loss recoveries	(11)	(49)
Recovery for the year	<u>\$ (26)</u>	<u>\$ (2,034)</u>

**NOTE 7 SPECIAL CONTRIBUTION PAYABLE**

	2002	2001
	(thousands of dollars)	
Balance at beginning of year	\$ 7,637	\$ 6,747
Payment of previous year's special contribution	(7,637)	(6,747)
Special contribution for the year	8,354	7,637
Balance at end of year	<u>\$ 8,354</u>	<u>\$ 7,637</u>

A special contribution is an annual amount payable by the Corporation under the Credit Union Restructuring Agreement. It is equal to 0.11 per cent of Alberta credit union deposits and borrowings and was payable to S C Financial Ltd., up until the year ended December 31, 2001. The Credit Union Restructuring Agreement was amended during 2002 requiring the Corporation to make the annual special contribution payment directly to the Province from 2002 to 2010.

**NOTE 8 COMMITMENTS AND CONTINGENCIES**

## (a) Lease commitments

The Corporation is committed to a non-cancellable operating lease for business premises totalling \$437,000.

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

2003	\$ 138,000
2004	138,000
2005	138,000
2006	23,000

## (b) Litigation

There are legal proceedings pending against the Corporation that arose from normal business activities. Management of the Corporation believes that the financial cost of resolution of these proceedings 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, claims, or special contributions paid on behalf of member credit unions.

The Corporation's statutory income tax rate is 22.5% (2001 – 26.5%). 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:

	2002	2001
	(thousands of dollars)	
Expected income tax expense on pre-tax income at the statutory rate	\$ 1,505	\$ 2,016
Add (deduct) tax effect of:		
Non-taxable assessments received	(3,012)	(3,203)
Non-deductible special contribution paid	1,878	2,024
Non-taxable financial assistance recoveries	(6)	(539)
Non-deductible insurance premiums paid	156	166
Non-deductible insurance claims paid	67	46
Other	(8)	9
Income taxes	<u>\$ 580</u>	<u>\$ 519</u>

At December 31, 2002 the Corporation had undepreciated capital costs for income tax purposes in excess of related book values of approximately \$220,000 (2001 - \$265,000). The resulting future income taxes recoverable are reflected in Note 4. The Corporation's future effective income tax rate is 20%.

	2002	2001
	(thousands of dollars)	
Current income taxes	\$ 553	\$ 519
Future income taxes	27	-
Income taxes	<u>\$ 580</u>	<u>\$ 519</u>

**NOTE 10 DIRECTORS' AND MANAGEMENT REMUNERATION**

			2002	2001
	Director Fees or Salary <sup>1</sup>	Benefits <sup>2</sup> and Allowances	Total	Total
	(thousands of dollars)			
Chair <sup>3</sup>	\$ 37	\$ -	\$ 37	\$ 31
Board Members <sup>3</sup>	65	-	65	67
Current senior management:				
President and Chief Executive Officer <sup>4</sup>	\$ 178	\$ 26	\$ 204	\$ 180
Vice President, Finance and Administration <sup>4</sup>	118	20	138	134
Vice President, Credit <sup>4,5</sup>	87	12	99	103
Vice President, Operations <sup>4</sup>	90	11	101	95

1 Salary includes regular base pay and bonuses.

2 Employer's share of all employee benefits and contributions 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.

- 3 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.
- 4 The titles for senior management changed during the year.
- 5 The position was occupied by two individuals during the year. The previous incumbent retired July 31, 2002. The new incumbent started September 1, 2002.

**NOTE 11 2002 BUDGET**

The 2002 budget was approved by the Board of Directors on September 25, 2001.

**NOTE 12 COMPARATIVE FIGURES**

The 2001 figures have been restated where necessary to conform to 2002 presentation.

## Schedule 1

**CREDIT UNION DEPOSIT GUARANTEE CORPORATION**  
**SCHEDULE OF ADMINISTRATION EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**  
(thousands of dollars)

	2002		2001
	Budget	Actual	Actual
Deposit Guarantee Fund			
Salaries and benefits	\$ 2,494	\$ 2,408	\$ 2,388
Professional fees	300	177	113
Staff travel	243	153	150
Rental charges	171	148	159
Other	101	104	93
Office	100	103	127
Board and committee fees	129	102	98
Amortization	140	96	66
Board and committee expenses	34	21	18
	3,712	3,312	3,212
Allocation to Master Bond Fund	(120)	(120)	(120)
	\$ 3,592	\$ 3,192	\$ 3,092