

# 2009 ANNUAL REPORT



Rosenort Credit Union

## **BOARD OF DIRECTORS**

President: Gary Epler\* (Term expired)

Vice-President: Ernie Loewen (2010)

Directors: Heather Bunkowsky\* (Term expired)  
Marcus Enns (2011)  
Ronald Kroeker (2010)  
Reynold Loewen (2011)  
Teresa Thiessen\* (Term expired)

\*Reinstated by acclamation

## **MANAGEMENT & STAFF**

Managers: Brad Penner - Chief Executive Officer  
Allen Friesen - Loans Manager  
Richard Friesen - Office Manager  
Sheldon Neufeld - Information Technology Manager

Staff: Arlene Cornelsen - Member Service Rep. (Job Share)  
Jillayne Dueck - Receptionist  
Sharon Dueck - Teller (Job Share)  
Mona Dumont - Member Service Supervisor  
Sandra Eidse - Lead Teller  
Lionel Ewbank - Loans Officer  
Luella Friesen - Teller  
Ed Froese - Agricultural Loans Officer  
Maryse Lafond - Loans Officer  
Grace Loewen - Member Service Rep. (Job Share)  
Suzanne Richard - Commercial Loans Officer  
Matthew Sawatzky - Loans Officer  
Kaitlyn Siemens - Lending Administrative Assistant  
Matthew Smith - Information Technology Assistant  
Alyssa Thiessen - Teller  
Barbara Vermette - Loans Clerk

Dwane Wiebe - Custodian  
Sharon/Kelsey Dueck - Groundskeeper

## **AGENDA**

Call to Order

Minutes of Previous Annual Meeting

Financial Report

Board of Directors Report

Appointment of Auditors

C.E.O. Report-Brad Penner

New Business and Question Period

Adjournment

Light Lunch will be served



**ROSEMORT CREDIT UNION  
LIMITED**

**Financial Statements  
For the year ended September 30, 2009**

# **ROSENORT CREDIT UNION LIMITED**

## **Financial Statements**

For the year ended September 30, 2009

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Balance Sheet

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**BDO Dunwoody LLP/s.r.l.**  
Chartered Accountants and Advisors  
Comptables agréés et conseillers

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## Auditors' Report

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**To the Members of  
ROSENORT CREDIT UNION LIMITED**

We have audited the balance sheet of **ROSENORT CREDIT UNION LIMITED** as at September 30, 2009 and the statements of income, retained surplus and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Credit Union as at September 30, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*BDO Dunwoody LLP*

Chartered Accountants

Winnipeg, Manitoba  
October 30, 2009

***BDO Dunwoody LLP is a Limited Liability Partnership registered in Ontario  
BDO Dunwoody s.r.l. est une société à responsabilité limitée constituée en Ontario***

**ROSENORT CREDIT UNION LIMITED**  
**Balance Sheet**

**September 30** **2009** **2008**

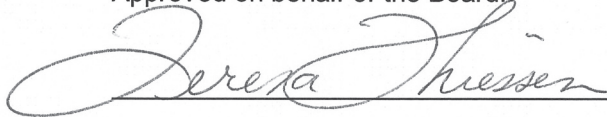
**Assets**

<b>Funds on deposit</b>	<b>\$ 6,081,696</b>	<b>\$ 1,087,449</b>
<b>Investments (Note 2)</b>	<b>23,724,171</b>	<b>24,298,389</b>
<b>Loans to members (Note 3)</b>	<b>132,619,538</b>	<b>122,514,474</b>
<b>Property, plant and equipment (Note 4)</b>	<b>1,107,257</b>	<b>880,160</b>
<b>Other assets (Note 5)</b>	<b>93,080</b>	<b>102,749</b>
	<b>\$ 163,625,742</b>	<b>\$ 148,883,221</b>

**Liabilities and Members' Capital**

<b>Members' deposits (Note 6)</b>	<b>\$ 153,379,617</b>	<b>\$ 139,081,895</b>
<b>Accounts payable (Note 8)</b>	<b>827,580</b>	<b>942,320</b>
	<b>154,207,197</b>	<b>140,024,215</b>
<b>Commitments (Note 15)</b>		
<b>Members' Capital</b>		
Members' shares (Note 9)	<b>3,693,191</b>	<b>3,424,894</b>
Provision for issue of surplus shares (Note 10)	<b>69,614</b>	<b>350,000</b>
Retained surplus (Note 11)	<b>5,655,740</b>	<b>5,084,112</b>
	<b>9,418,545</b>	<b>8,859,006</b>
	<b>\$ 163,625,742</b>	<b>\$ 148,883,221</b>

Approved on behalf of the Board:



Director



Director

**ROSENORT CREDIT UNION LIMITED**  
**Statement of Income**

For the year ended September 30	2009	2008
<b>Income</b>		
Interest from members' loans	\$ 5,144,895	\$ 6,056,742
Investment income		
Liquidity deposits	634,130	749,809
Bonds, debentures and shares	269,255	249,686
	<b>6,048,280</b>	<b>7,056,237</b>
<b>Cost of Funds</b>		
Interest paid to members	3,258,916	4,343,878
Interest paid - others	5,304	1,520
	<b>3,264,220</b>	<b>4,345,398</b>
<b>Gross financial margin</b>	<b>2,784,060</b>	<b>2,710,839</b>
<b>Operating Expenses</b>		
Administrative	506,740	562,574
Members' security	118,973	162,188
Occupancy	245,361	225,971
Organizational	129,343	125,526
Personnel	1,103,071	986,584
<b>Gross operating expenses</b>	<b>2,103,488</b>	<b>2,062,843</b>
<b>Less other income</b>	<b>342,814</b>	<b>300,843</b>
	<b>1,760,674</b>	<b>1,762,000</b>
<b>Gross operating income</b>	<b>1,023,386</b>	<b>948,839</b>
<b>Provision for doubtful loans</b>	<b>314,299</b>	<b>70,100</b>
<b>Income before other item</b>	<b>709,087</b>	<b>878,739</b>
<b>Other Item</b>		
Patronage refund	-	239,467
<b>Income before income taxes</b>	<b>709,087</b>	<b>639,272</b>
<b>Provision for income taxes (Note 12)</b>	<b>76,374</b>	<b>93,367</b>
<b>Net income for the year</b>	<b>\$ 632,713</b>	<b>\$ 545,905</b>

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

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**ROSENORT CREDIT UNION LIMITED**  
**Statement of Retained Surplus**

<b>For the year ended September 30</b>	<b>2009</b>	<b>2008</b>
<b>Retained surplus, beginning of year</b>	<b>\$ 5,084,112</b>	<b>\$ 4,633,487</b>
<b>Net income for the year</b>	<b>632,713</b>	<b>545,905</b>
	<b>5,716,825</b>	<b>5,179,392</b>
<b>Dividend on surplus shares (net of tax recoveries) (Note 9)</b>	<b>61,085</b>	<b>95,280</b>
<b>Retained surplus, end of year</b>	<b>\$ 5,655,740</b>	<b>\$ 5,084,112</b>

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

## ROSENORT CREDIT UNION LIMITED

### Statement of Cash Flows

For the year ended September 30	2009	2008
<b>Cash Flows from Operating Activities</b>		
Net income for the year	\$ 632,713	\$ 545,905
Adjustments for		
Amortization	145,158	133,287
Provision for doubtful loans	314,299	70,100
Patronage refund	-	239,467
Accrued interest receivable	169,944	133,673
Accrued interest payable	(926,311)	225,366
Income taxes (receivable) payable	8,529	93,143
Other items, net	(105,071)	179,147
	239,261	1,620,088
<b>Cash Flows from Financing Activities</b>		
Members' deposits, net of withdrawals	15,224,033	13,738,515
Issue of surplus shares in excess of 2008 provision	72,449	45,179
Issue of common shares, net of redemptions	(1,135)	335
Redemption of surplus shares	(153,017)	(117,349)
	15,142,330	13,666,680
<b>Cash Flows from Investing Activities</b>		
Loans to members, net of repayments	(10,630,427)	(18,950,266)
Net (increase) decrease in investments	615,338	2,738,661
Net purchases of capital assets	(372,255)	(51,941)
	(10,387,344)	(16,263,546)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>4,994,247</b>	<b>(976,778)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>1,087,449</b>	<b>2,064,227</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 6,081,696</b>	<b>\$ 1,087,449</b>
<b>Supplementary Information</b>		
Interest received	\$ 6,218,224	\$ 7,189,910
Interest paid	4,190,531	4,120,032
Income taxes paid	78,113	11,172

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

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## **ROSENORT CREDIT UNION LIMITED**

### **Summary of Significant Accounting Policies**

**For the year ended September 30, 2009**

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These financial statements have been prepared in accordance with Canadian generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results may differ from those estimates. The significant accounting policies used in these financial statements are as follows:

#### **Financial Instruments**

The Credit Union recognizes and measures financial assets and financial liabilities on the Balance Sheet when they become a party to the contractual provisions of a financial instrument. All transactions related to financial instruments are recorded on a settlement date basis. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, loans and receivables, held to maturity, available for sale or other financial liabilities. Held-for-trading items are carried at fair value, with changes in their fair value being recognized in the statement of income. Available-for-sale items are carried at fair value, with changes in their fair value being recognized as other comprehensive income. Loans and receivables and other financial liabilities are carried at amortized cost, using the effective interest method.

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or asking prices as appropriate, in the most advantageous active market for that instrument to which the credit union has immediate access.

Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discounted rates. In determining those assumptions, external readily observable market inputs including interest rate yield curves, currency rates and price and rate volatilities are considered, as applicable.

The Credit Union has followed the guidance of the Credit Union Deposit Guarantee Corporation of Manitoba which directed that liquidity deposits with Credit Union Central of Manitoba and 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 14 for details on classification of all the Credit Union's financial instruments.

Transaction costs for financial instruments are capitalized and then amortized over the term of the instrument using the effective interest rate method.

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## ROSENORT CREDIT UNION LIMITED

### Summary of Significant Accounting Policies

For the year ended September 30, 2009

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#### Financial Instruments (continued)

Derivative financial instruments, including embedded derivatives which are required to be accounted for separately, are recorded on the balance sheet at fair value. Changes in the value of derivative instruments (solely embedded derivatives) are recognized directly in income for the period under "Interest from members' loans".

Other comprehensive income includes, in particular, unrealized gains and losses on available-for-sale financial assets. The Credit Union had no comprehensive income for the year

#### Impairment of Financial Assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar risk characteristics. All impairment losses are recognised in the income statement.

#### Loans to Members

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. Loans are considered uncollectible when the Credit Union has exhausted all means of collection. These loans are written-off against the associated provision.

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

- Loans classified as impaired include loans for which interest or principal payments are 90 days past due. Loans are also considered impaired if, in management's view, there is no longer reasonable assurance of timely collection of the full amount of principal and interest in accordance with the terms of the loan agreement. The Credit Union has an additional provision related specifically to agricultural loans that may be impacted by industry fluctuations that are cyclical in nature.

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## ROSENORT CREDIT UNION LIMITED

### Summary of Significant Accounting Policies

For the year ended September 30, 2009

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#### Impairment of Financial Assets (continued)

- Estimated realizable amounts are determined by discounting the expected cash flows at the effective interest rate inherent in the loan. If cash flows cannot be reasonably estimated, the fair value of any underlying security, net of expected realization costs, or an estimate of market price for the loan, is used.

When the terms of loans that would otherwise be past due or impaired have been renegotiated, a review of the borrower's credit history and the collateral securing the loan is conducted to minimize the risk of loss to the Credit Union.

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.

#### Revenue Recognition

Interest on loans is recorded as income on an accrual basis 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 as income on an accrual basis, except as it relates to adjustments in the rates received from Credit Union Central, these are recorded when payment is received.

Other Income is recorded as income as it becomes receivable, or as the Credit Union becomes aware of the income to be recorded.

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## ROSENORT CREDIT UNION LIMITED

### Summary of Significant Accounting Policies

**For the year ended September 30, 2009**

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**Property, Plant and Equipment** Property, plant and equipment acquired during the fiscal year ended September 30, 2009 have been reflected in the accounts at cost. Amortization of \$145,158 (2008 - \$133,287) charged to occupancy expense on the statement of income has been calculated on the straight-line basis using the following rates:

Building	4%
Computer hardware	30% - 50%
Computer software	100%
Furniture and equipment	20%
Operating software	10%
Vehicles	30%

In the year of acquisition, one-half the applicable rate is used.

#### **Income Taxes**

Rosenort Credit Union Limited 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.

Net future income tax assets or liabilities have been determined not to be significant and as such, have not been recorded in the financial statements.

#### **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.

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## **ROSENORT CREDIT UNION LIMITED**

### **Summary of Significant Accounting Policies**

**For the year ended September 30, 2009**

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#### **New Accounting Pronouncements**

Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the Credit Union, are as follows:

#### International financial reporting standards

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The impact of the transition to IFRS on the Credit Union's financial statements has yet to be determined.

# ROSENORT CREDIT UNION LIMITED

## Notes to Financial Statements

**For the year ended September 30, 2009**

### 1. Nature of Operations

The Credit Union was formed pursuant to the Credit Unions and Caisses Populaires Act of the Province of Manitoba ("The Act") and is affiliated with The Credit Union Central of Manitoba. The Credit Union is a cooperative financial institution belonging to its members and operates a financial service in the Town of Rosenort. The Credit Union offers a wide range of products and services including deposits, loans, lines of credit, demand accounts, savings accounts, registered products and automated services.

### 2. Investments

	2009	2008
Credit Union Central of Manitoba		
Daily interest and contract deposits	<b>\$ 18,000,000</b>	\$ 19,415,000
Shares	<b>1,690,485</b>	1,293,303
	<b>19,690,485</b>	20,708,303
Province of Manitoba Builder Bonds	-	238,048
RM of Morris Debenture Series A	<b>3,726,107</b>	3,085,579
	<b>23,416,592</b>	24,031,930
Accrued interest receivable	<b>307,579</b>	266,459
	<b>\$ 23,724,171</b>	\$ 24,298,389

As the shares held in the Credit Union Central of Manitoba and RM of Morris Debentures have been classified as available for sale, they are valued at cost as quoted market prices do not exist. The contract and daily interest deposits in the Credit Union Central of Manitoba are deposits for liquidity purposes and are classified as loans and receivables and recorded at amortized cost.

The contract and daily interest deposits earn interest at rates ranging from 2.68% to 2.98%.

## ROSENORT CREDIT UNION LIMITED

### Notes to Financial Statements

**For the year ended September 30, 2009**

#### 3. Loans to Members

Loans to members are presented net of allowances for doubtful loans totalling \$500,900, consisting of \$243,500 for specific loans considered impaired and \$257,400 as non-specific.

	2009	2008
Consumer		
Term loans	\$ 5,257,845	\$ 5,437,460
Real estate	67,148,728	55,336,975
Lines of credit	1,016,105	586,740
Commercial		
Term loans	2,920,446	1,972,890
Real estate	13,603,373	15,533,499
Lines of credit	2,976,242	2,801,229
Agriculture		
Term loans	3,904,892	3,722,097
Real estate	32,411,399	33,087,278
Lines of credit	3,395,365	3,527,299
	132,634,395	122,005,467
Accrued interest receivable	486,043	697,107
	133,120,438	122,702,574
Allowance for doubtful loans	500,900	188,100
	\$ 132,619,538	\$ 122,514,474

During the current year, the Credit Union held \$23,576,663 in outstanding loans relating to oilseed and grain farming, \$7,459,130 in outstanding loans to the hog and pig farming industry and \$2,546,151 in outstanding commercial loans for support activities for crop and animal production.

## ROSENORT CREDIT UNION LIMITED

### Notes to Financial Statements

For the year ended September 30, 2009

#### 3. Loans to Members (continued)

The following schedule provides the gross amount of loans, including accrued interest, in each major loan category together with the loan allowances related to that loan category.

	2009		2008	
	Gross Loan Balances	Total Allowance	Gross Loan Balances	Total Allowance
<b>Impaired</b>				
Consumer	\$ 168,400	\$ -	\$ 105,500	\$ 4,700
Commercial	151,800	243,500	20,000	-
Agriculture	2,038,273	-	-	-
	<b>2,358,473</b>	<b>243,500</b>	125,500	4,700
<b>Performing</b>	<b>130,761,965</b>	<b>257,400</b>	122,577,074	183,400
	<b>\$133,120,438</b>	<b>\$ 500,900</b>	\$122,702,574	\$ 188,100
		<b>\$132,619,538</b>		<b>\$122,514,474</b>

Included within performing member loans is \$3,598,198 in outstanding loans related to the hog farm industry, the terms of which were renegotiated in the year. If the terms had not been renegotiated to interest only payments, these balances would have been considered impaired as at September 30, 2009.

The principal collateral and other credit enhancements the Credit Union holds as security for loans include (i) mortgages over residential lots and properties (ii) recourse to business assets such as real estate, equipment, inventory (including chattel) and accounts receivable, (iii) recourse to the commercial and agricultural real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities.

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 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 as at September 30, 2009.

	2009			
	1-30 days	31-90 days	Greater than 90 days	Total
Consumer	\$ 41,251	\$ 24,853	\$ 27,351	\$ 93,455
Commercial	69,180	-	-	69,180
Agricultural	555,972	215,216	151,835	923,023
	<b>\$ 666,403</b>	<b>\$ 240,069</b>	<b>\$ 179,186</b>	<b>\$ 1,085,658</b>

## ROSENORT CREDIT UNION LIMITED

### Notes to Financial Statements

**For the year ended September 30, 2009**

#### 3. Loans to Members (continued)

	2008			
	1-30 days	31-90 days	Greater than 90 days	Total
Consumer	\$ 389,263	\$ 11,274	\$ -	\$ 400,537
Commercial	3,581,850	-	-	3,581,850
	\$ 3,972,523	\$ 11,274	\$ -	\$ 3,982,387

The following schedule provides the activity through the allowance for doubtful loans during the year:

	2009	2008
Balance, beginning of year	\$ 188,100	\$ 118,000
Provision for doubtful loans	314,299	70,100
	502,399	188,100
Members' loans written-off	1,499	-
Balance, end of year	\$ 500,900	\$ 188,100

#### 4. Property, Plant and Equipment

	2009		2008	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 71,500	\$ -	\$ 71,500	\$ -
Building	1,479,077	838,243	1,479,077	779,080
Computer hardware	424,650	401,934	417,299	368,219
Computer software	57,708	57,708	57,708	51,993
Furniture and equipment	484,417	442,320	463,837	418,106
Operating software	344,324	14,347	-	-
Vehicles	31,906	31,773	31,906	23,769
	\$ 2,893,582	\$ 1,786,325	\$ 2,521,327	\$ 1,641,167
Cost less accumulated amortization		\$ 1,107,257		\$ 880,160

## ROSENORT CREDIT UNION LIMITED

### Notes to Financial Statements

**For the year ended September 30, 2009**

#### 5. Other Assets

	2009	2008
Accounts receivable	\$ 43,194	\$ 2,602
Prepaid expenses	39,618	100,147
Income taxes recoverable	10,268	-
	\$ 93,080	\$ 102,749

#### 6. Members' Deposits

	2009	2008
Chequing	\$ 19,675,303	\$ 15,654,359
Savings	70,475,948	92,811,105
High Yield Savings	30,621,981	-
Registered retirement savings plans	25,430,764	21,973,705
Registered retirement income funds	4,994,415	5,347,335
Net income stabilization account deposits	-	187,874
	151,198,411	135,974,378
Accrued interest payable	2,181,206	3,107,517
	\$ 153,379,617	\$ 139,081,895

#### 7. Credit Union Central of Manitoba

The Credit Union has approved lines of credit for Canadian and U.S. dollars with Credit Union Central of Manitoba equal to 10% of its members' deposits. For the current year, this amounts to approximately \$15.3 million dollars. The line of credit bears interest at a floating rate and is secured by an assignment of shares and deposits in Credit Union Central of Manitoba and a general assignment of loans receivable from members. As at September 30, 2009, the Canadian and U.S. lines of credit were unutilized.

#### 8. Accounts Payable

	2009	2008
Outstanding credit union cheques	\$ 332,788	\$ 362,045
Accrued expenses and payables	494,792	513,334
Income tax payable	-	66,941
	\$ 827,580	\$ 942,320

## ROSENORT CREDIT UNION LIMITED

### Notes to Financial Statements

**For the year ended September 30, 2009**

#### 9. Members' Shares

Each member must purchase one common share. No member may hold more than 10% of the issued shares in any class. Each member of the Credit Union has one vote, regardless of the number of shares that a member holds.

Authorized:

##### Common shares

Authorized common share capital consists of an unlimited number of common shares, with an issue price per share to be not less than \$5 and redeemable in the amount of consideration received for the share. The total amount of common shares purchased or redeemed by the Credit Union shall not reduce the Credit Union's equity below 5% of assets.

##### Surplus shares

Authorized surplus share capital consists of an unlimited number of surplus shares, with an issue price per share of \$1 and redeemable at the option of the Credit Union at \$1 per share. The total amount of surplus shares purchased or redeemed by the Credit Union in a fiscal year shall not reduce the Credit Union's equity below 5% of assets.

Issued:

	2009	2008
Common shares	\$ 18,895	\$ 20,030
Surplus shares, beginning of year	3,404,864	3,042,283
Surplus shares issued from previous year's patronage refund and dividend	422,449	479,930
	3,827,313	3,522,213
Less: Redemptions during year	153,017	117,349
Surplus shares, end of year	3,674,296	3,404,864
Total members' shares	\$ 3,693,191	\$ 3,424,894

#### 10. Provision for Issue of Surplus Shares

For the year ended September 30, 2009, the Credit Union declared a dividend of \$69,614 payable on surplus shares. The dividend payable is intended to be used for the purchase of additional surplus shares and has been included in Members' Capital in the balance sheet as "Provision for Issue of Surplus Shares". The dividends are presented net of income tax recoveries of \$8,529 (2008 - \$15,253).

## ROSENORT CREDIT UNION LIMITED

### Notes to Financial Statements

**For the year ended September 30, 2009**

#### 11. Capital Requirement

Regulations to the Act require that the Credit Union establish and maintain a level of capital that meets or exceeds the following:

- total members' capital as shown on the balance sheet shall not be less than 5% of the book value of assets,
- retained surplus shall not be less than 3% of the book value of assets, and
- total capital as calculated in accordance with the Act shall not be less than 8% of the risk-weighted value of its assets.

The Credit Union considers its capital to comprise common and surplus shares, provision for issue of surplus shares and retained surplus. There have been no changes in what the Credit Union considers to be its capital since the previous period.

The Credit Union establishes the risk-weighted value of its assets in accordance with the Regulations of the Act which establishes the applicable percentage for each class of assets. The Credit Union's risk-weighted value of its assets as at September 30, 2009 was \$92,969,689.

As at September 30, 2009, the Credit Union met the capital requirements of The Act with a calculated members' capital ratio of 5.76%, a retained surplus ratio of 3.46% and a risk-weighted asset ratio of 10.67% (September 30, 2009 - members' capital ratio of 5.95% retained surplus ratio of 3.41% and a risk-weighted asset ratio of 10.40%).

#### 12. Income Taxes

	2009	2008
Components of provision for income taxes:		
Current income tax expense	\$ 76,374	\$ 93,367

The total provision for income taxes in the statement of income is at a rate less than the combined federal and provincial statutory income tax rates for the following reasons:

	2009	2008
	%	%
Combined federal and provincial statutory income tax rates	32.0	33.9
Credit Union rate reduction	(19.7)	(20.1)
Other	(1.5)	0.8
	10.8	14.6

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## ROSENORT CREDIT UNION LIMITED

### Notes to Financial Statements

**For the year ended September 30, 2009**

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#### 13. Transactions with Related Parties

##### Related Parties

Related parties include all members of the Credit Union (including directors, committee members, management and staff), the Credit Union Central of Manitoba and The Credit Union Deposit Guarantee Corporation. Transactions with these parties account for the majority of operations of the Credit Union. Outstanding loans to directors, committee members, management and staff as at September 30, 2009 were 2.0 % in aggregate, of the assets of the Credit Union.

Other transactions with these parties are summarized as follows:

##### The Credit Union Deposit Guarantee Corporation

The Credit Union Deposit Guarantee Corporation was created under the Act for the purposes of guaranteeing deposits in Manitoba credit unions, and promoting sound business practices in credit unions.

The payments made to the Corporation during the year ended September 30, 2009 represent the net statutory annual assessment in the amount of \$97,773 (2008 - \$141,641).

##### Credit Union Central of Manitoba

The Credit Union is a member of the Credit Union Central of Manitoba, which provides banking and other services to Credit Unions in Manitoba.

Details of investments in the Credit Union Central of Manitoba are shown in Note 2. Interest earned on investments during the year amounted to \$702,433 (2008 - \$818,815).

Details of approved lines of credit with the Credit Union Central of Manitoba are shown in Note 7. Interest paid on borrowings during the year amounts to \$5,304 (2008 - \$1,520).

Payments made to Credit Union Central of Manitoba during the year ended September 30, 2009 for affiliation dues, research and development, and cheque clearing fees totalled \$89,674 (2008 - \$56,578).

##### Celero Solutions

The Credit Union has entered into an agreement with Celero Solutions to provide the delivery of some banking system services and the maintenance of the infrastructure needed to ensure uninterrupted delivery of such services. Celero Solutions is a company formed as a joint venture by the Credit Union Centrals of Alberta, Saskatchewan, and Manitoba along with Concentra Trust Ltd. and Credit Union Electronic Transaction Services. This agreement expires on November 30, 2009. Payments made to Celero Solutions during the year ended September 30, 2009 for these services totalled \$141,585 (2008 - \$106,606).

## ROSENORT CREDIT UNION LIMITED

### Notes to Financial Statements

**For the year ended September 30, 2009**

#### 13. Transactions with Related Parties (continued)

##### Directors and Officers

During the year, the Credit Union paid \$40,679 (2008 - \$37,753) on behalf of the directors and officers of the Credit Union for expenses associated with the performance of their duties. The directors were paid in total \$20,625 (2008 - \$26,775) as honouraria for attending meetings during the year.

During the year, all loans, deposits and fees that were made to, received from, or charged to directors or officers or persons in whom any of them has a material interest, conform to the Credit Union's ordinary practices for members who are not directors or officers.

#### 14. Financial Instrument Risk Exposure and Management

The Credit Union is exposed through its operations to the following financial risks:

- credit risk
- liquidity risk
- market risk

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 from which financial instrument risk arises:

Class of Financial Instrument	<u>Categories of Financial Assets and Financial Liabilities</u>			
	Held for Trading	Loans & Receivables	Available for Sale	Other Financial Liabilities
Funds on deposit	\$ 6,081,696	\$ -	\$ -	-
Investments				
liquidity deposits		18,141,753		
shares			1,706,259	
bonds and debentures			3,876,159	
Loans to members		132,619,538		
Accounts receivable		43,194		
Member deposits				153,379,617
Accounts payable				827,581

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.

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## ROSENORT CREDIT UNION LIMITED

### Notes to Financial Statements

**For the year ended September 30, 2009**

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#### **14. 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, whilst 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 Chief Executive Officer and 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.

## ROSENORT CREDIT UNION LIMITED

### Notes to Financial Statements

**For the year ended September 30, 2009**

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

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

##### *Loan Portfolio by Risk Rating*

The Credit Union uses five categories for its credit risk rating. At September 30, 2009, the Credit Union has assessed \$43,788,467 (34.35%) of its loan portfolio as having a good to excellent credit risk rating and \$51,869,983 (40.62%) of its loan portfolio as having a acceptable credit risk rating. Less than 3.50% of the Credit Unions loan portfolio has been assessed as Watch or Unsatisfactory. The majority of loans assessed as Watch or Unsatisfactory are included in the Agricultural industry, which has been specifically allowed for in the provision for doubtful accounts. The consumer loans were not risk rated. Total amount of loans not risk rated was \$27,440,890 (21.53%) of loan portfolio.

##### *Maximum Exposure to Credit Risk*

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

	2009		2008	
	Carrying Value	Maximum Exposure	Carrying Value	Maximum Exposure
Credit Union Central of Manitoba deposits	\$ 18,000,000	\$ 18,000,000	\$ 19,415,000	\$ 19,415,000
Bonds and debentures	3,726,107	3,726,107	3,323,627	3,323,627
Member loans	133,120,438	133,120,438	122,702,574	122,702,574
Undisbursed loans	-	7,120,808	-	5,873,498
Unutilized lines of credit	-	22,915,495	-	21,070,072
Unexpired letters of credit	-	207,000	-	-
	<b>\$ 154,846,545</b>	<b>\$ 185,089,848</b>	<b>\$ 145,441,201</b>	<b>\$ 172,384,771</b>

Details regarding concentration of credit risk, collateral and other credit enhancements held and loans past due but not impaired are disclosed in Note 3.

For the current year, the amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is \$3,598,198. These financial assets relate primarily to outstanding loan balances in the agricultural industry where payment terms have been changed to interest only payments.

##### Liquidity Risk

Liquidity risk 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.

## ROSENORT CREDIT UNION LIMITED

### Notes to Financial Statements

**For the year ended September 30, 2009**

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

##### *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 Act 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.

As at September 30, 2009, the position of the Credit Union is as follows:

Qualifying liquid assets on hand	\$ 23,848,630
Total liquidity requirement	<u>12,270,369</u>
 Excess of liquidity requirement	 <u>\$ 11,578,261</u>

The following are the contractual maturities of financial liabilities, including estimated interest payments:

#### September 30, 2009

	<b>Carrying Amount</b>	<b>Cash Outflow Less than 1 year</b>
<i>(in thousands of dollars)</i>		
Deposits	\$ 153,380	\$ (153,380)
Payables	828	(828)
	<u>\$ 154,208</u>	<u>\$ (154,208)</u>

#### September 30, 2008

	<b>Carrying Amount</b>	<b>Cash Outflow Less than 1 year</b>
<i>(in thousands of dollars)</i>		
Deposits	\$ 139,082	\$ (139,082)
Payables	942	(942)
	<u>\$ 140,024</u>	<u>\$ (140,024)</u>

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## ROSENORT CREDIT UNION LIMITED

### Notes to Financial Statements

**For the year ended September 30, 2009**

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

##### 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.

##### *Risk Measurement*

The Credit Union's position is measured quarterly. All member loans or investments are variable in nature; therefore, the Credit Union is able to achieve continual matching of interest 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 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 Credit Union Deposit Guarantee Corporation in accordance with the Credit Union's matching policy. This policy has been approved by the board of directors as required by Regulations of the Act. For the year ended September 30, 2009, the Credit Union was in compliance with this policy.

A letter is presented to the Credit Union Central of Manitoba quarterly indicating that the Credit Union does not have any fixed rate loans or deposits and identifying any investments and member loans with maturities greater than one year. Any cumulative mismatch in excess of 5% after consideration of non-interest sensitive items is reported to the Board of Directors monthly.

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts that are not interest sensitive have been grouped together, regardless of maturity.

## ROSENORT CREDIT UNION LIMITED

### Notes to Financial Statements

**For the year ended September 30, 2009**

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

	<u>Expected Repricing or Maturity Date</u>			
	Variable rate	Maturity less than one year	Maturity more than one year	Non-interest rate sensitive
Assets	\$ 132,186,188	\$ 1,706,260	\$ 22,451,261	\$ 7,282,033
Liabilities	(153,379,617)	-		(10,246,125)
	<u>\$ (21,193,429)</u>	<u>\$ 1,706,260</u>	<u>\$ 22,451,261</u>	<u>\$ (2,964,092)</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:

	<u>Net Interest Income Risk</u>
Increase in interest rates of 1%	\$ 194,872
Decrease in interest rates of 1%	\$ (194,872)

#### 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 is controlled by limiting the unhedged foreign currency exposure.

For the year ended September 30, 2009, the Credit Union's exposure to foreign exchange risk was not material.

## ROSENORT CREDIT UNION LIMITED

### Notes to Financial Statements

**For the year ended September 30, 2009**

#### 15. Future Commitments

##### Members' Loans

The Credit Union had made commitments to members for loans that had not been disbursed by the September 30, 2009 year end in the approximate amount of \$7,120,808 (2008 - \$5,873,498). In addition, the unutilized portions of lines of credit extended to members as at September 30, 2009 were \$22,915,495 (2008 - \$21,070,072). The Credit Union also had made commitments to members for unexpired letters of credit in the amount of \$207,000 (2008 - September 30, 2009) as at September 30, 2009.

##### Banking System

The Credit Union has made a commitment to Celero Solutions Inc. to pay an annual operating fee, which will be determined each year based on a prescribed formula.

#### 16. Fair Value of Financial Assets and Liabilities

The following represents the fair values of all financial assets and liabilities of the Credit Union as the September 30, 2009:

<i>(thousands of dollars)</i>	Book Value	Fair Value	2009 Fair Value Over (Under) Book Value	Book Value	Fair Value	2008 Fair Value Over (Under) Book Value
<b>Assets</b>						
Funds on deposit \$	6,082	6,082	-	1,087	1,087	-
Investments	23,724	23,724	-	24,298	24,298	-
Loans to members	132,620	132,620	-	122,514	122,514	-
Other	43	43	-	3	3	-
	<b>\$ 162,469</b>	<b>\$ 162,469</b>	<b>-</b>	<b>\$ 147,902</b>	<b>\$ 147,902</b>	<b>-</b>
<b>Liabilities</b>						
Members deposits	\$ 153,380	\$ 153,380	-	\$ 139,082	\$ 139,082	-
Accounts payable	828	828	-	875	875	-
	<b>\$ 154,208</b>	<b>\$ 154,208</b>	<b>-</b>	<b>\$ 139,957</b>	<b>\$ 139,957</b>	<b>-</b>

Differences between book value and fair value of are caused by differences between the interest rate obtained at the time of the original investment, loan or deposit and the current rate for the same product. While fair value amounts are designed to represent estimates of the amounts at which assets and liabilities could be exchanged in a current transaction between willing parties, the Credit Union normally holds all of its fixed term investments, loans and deposits to their maturity date. Consequently, the fair values presented are estimates derived by taking into account changes in the market interest rates, and may not be indicative of the net realizable value.

The fair values disclosed exclude the values of assets and liabilities that are not considered financial instruments such as capital assets.

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## **ROSENORT CREDIT UNION LIMITED**

### **Notes to Financial Statements**

**For the year ended September 30, 2009**

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#### **17. Pension Plan**

The Credit Union has a defined contribution pension plan for full-time employees. The contributions are held in trust by Co-operative Trust and are not recorded in these financial statements. The Credit Union matched employee contributions at a rate of 5-8% of the employee salary. The expense and payments for the year ended September 30, 2009 was \$66,135 (2008 - \$55,673). As a defined contribution pension plan, the Credit Union has no further liability or obligation for future contributions to fund future benefits to plan members.



*Helping People Help Themselves*