

# Think Local. Think #1.

**2007**  
ANNUAL REPORT



Our Community. Your Credit Union.™

# 63rd ANNUAL GENERAL MEETING

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## AGENDA

1. Reading and Approval of the Minutes of the 62nd AGM.
2. Business Arising out of the Minutes.
3. Director's Report.
4. Credit Committee Report.
5. Auditors' Report.
6. Special Resolution.
7. Election of Directors.
8. Appointment and Remuneration of Auditors.
9. New or Unfinished Business.  
Guest Speaker: Mayor Rob Hutchins
10. Draw for Door Prizes.
11. Adjourn.



Our Community. Your Credit Union.™

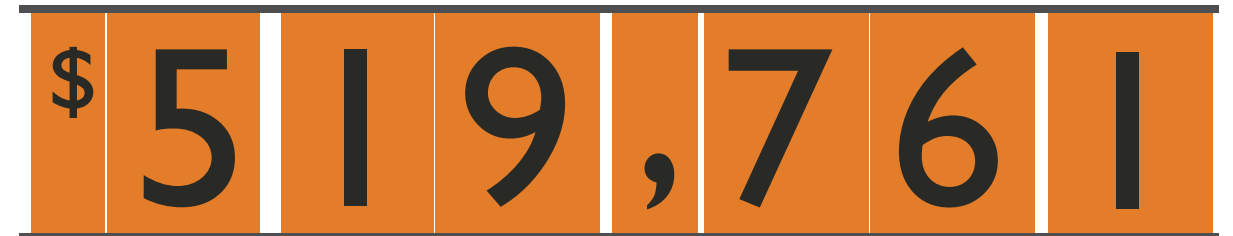


Smart People. Smart Choice.



# Think Local. Think #1.

Our profits go back to our members & our community.



Our Community. Your Credit Union.

It's not just a great tag line; it is part of the Ladysmith & District Credit Union philosophy. That's why this year, we will contribute over \$519,000 back to our members and our community.

Through membership Share Dividends, Loan & Mortgage Interest Rebates, Deposit Interest Bonuses and local Charitable Contributions, our members and community share in our financial success.

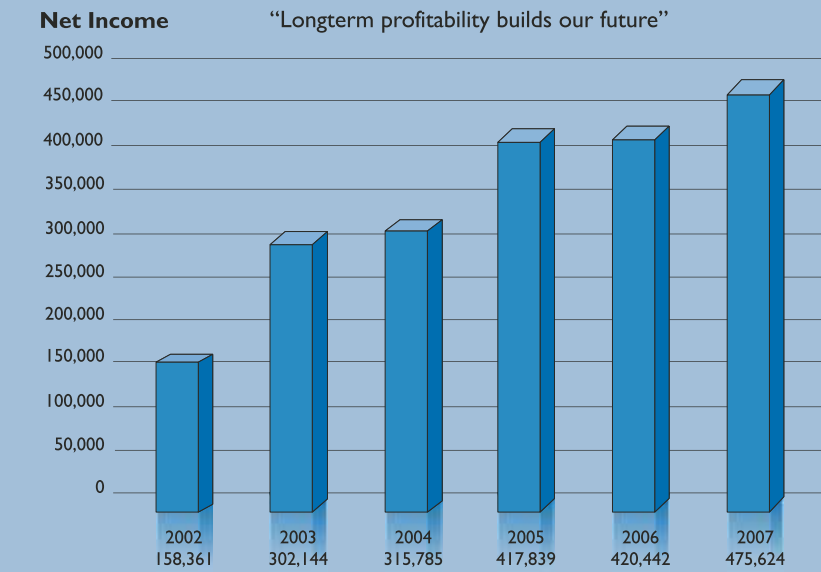
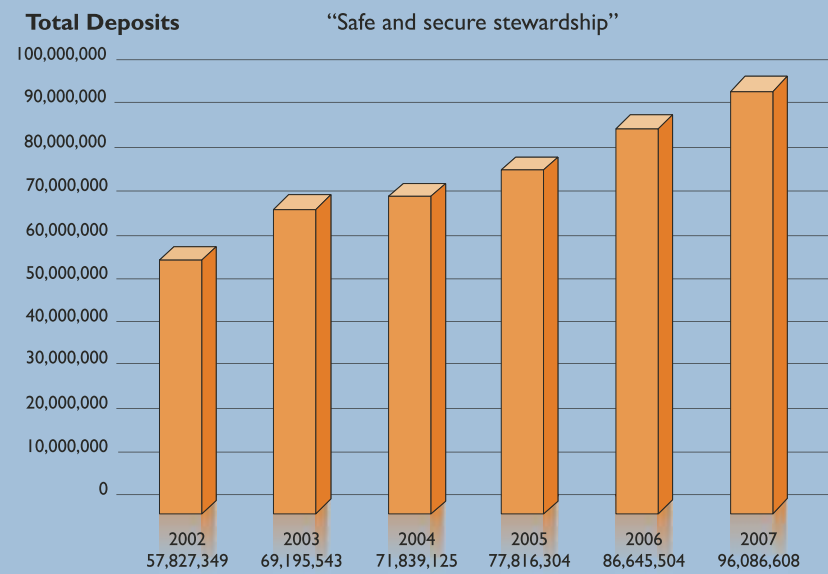
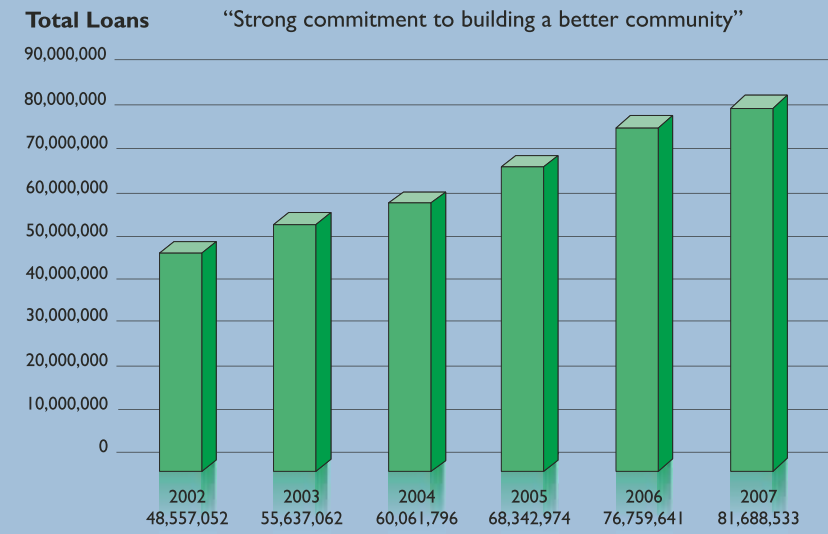
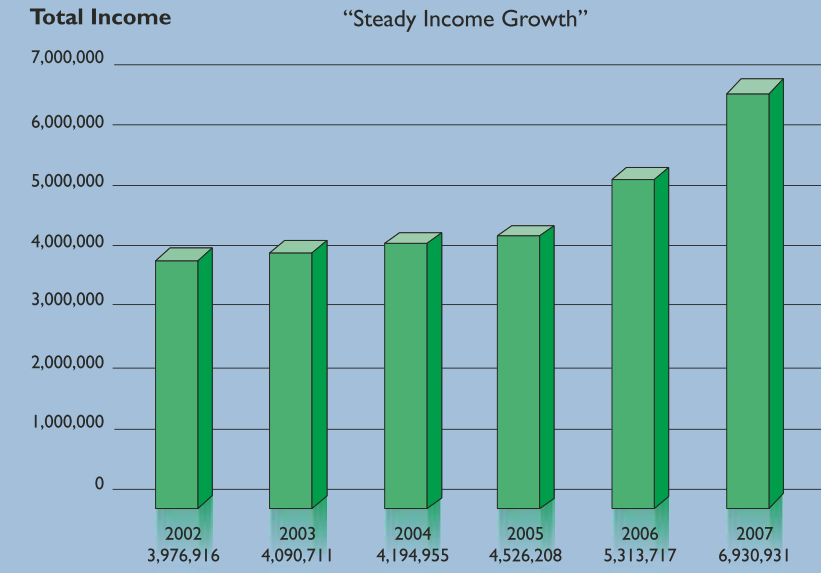
Thank-you to our members for being a part of our vision to help make Ladysmith the best place to live, work and play because we live here too.

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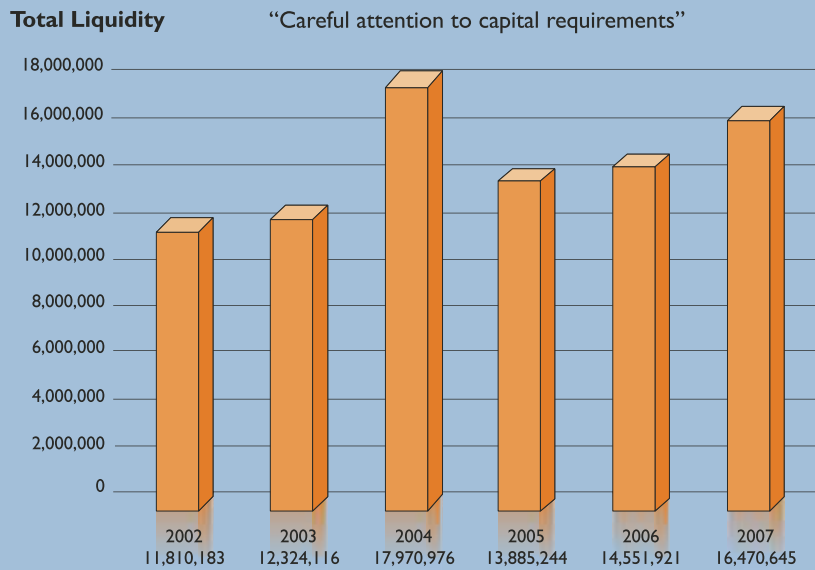


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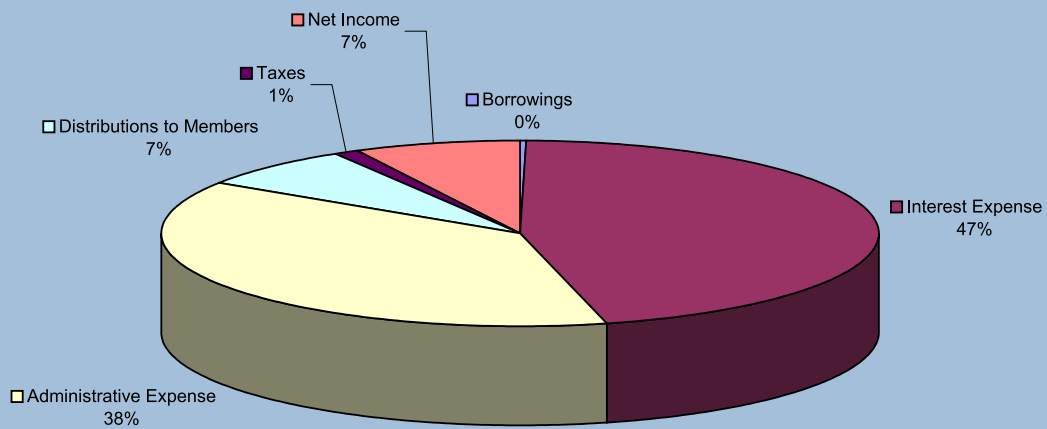
# FINANCIAL HIGHLIGHTS



# FINANCIAL HIGHLIGHTS



## Expenses 2007



## LADYSMITH & DISTRICT CREDIT UNION TEAM

### THE BOARD

Marie Polachek Credit Committee  
Joan Adair\* Credit Committee, Conduct Review  
Ted Girard Credit Committee, Conduct Review  
Rob Viala Conduct Review, Audit Committee  
Tim Richards\* Audit Committee  
Brian Childs Audit Committee  
Ralph Harding  
\* Expiring Terms

### CREDIT UNION STAFF

Carrie Alexander	Gwen Gilson	Angie Neufeld
Meghan Anderson	Debbie Grant	Keith Parry
Kay Bafaro	Kim Hansen	Virginia Rathwell
Jennifer Bakker	Kendre Haugen	Shelly Rickett
Sarah Basi	Shelley Jones	Lynn Stevenson
Kim Clark	Vicki Jones	Tami Tucker
Janine Cornett	Calvin King	Michele Vincent
John de Leeuw	Christine Mathers	Alan Watt
Kelsey Dentoom	Susan McMurtrie	
Megan Fleming	Brenda Moore	

### LCU INSURANCE STAFF

Arlene Carlson  
Cindy Cawthra  
Lori Flemming  
Nancy Hunter  
Kim Judson  
Marion Rodall  
Erin Saysell  
Denine Vadeboncoeur

### THE BOARD

Back row from left to right:  
Tim Richards, Rob Viala,  
Ted Girard, Marie Polachek,  
Ralph Harding,  
Front row from left to right:  
Joan Adair, Brian Childs  
(President)

### NOTICE TO ALL MEMBERS

More than one million British Columbians enjoy the solid security and peace of mind that comes from saving at their Credit Union. The Credit Union Deposit Insurance Corporation, a government corporation, protects all British Columbia Credit Union depositors up to a maximum of \$100,000. Security, dependability and trust that's the unbeatable combination you will find at Ladysmith & District Credit Union.

Members who have loans or mortgages with the Ladysmith & District Credit Union are reminded that, if you have pledged any chattels or any real estate as security for your loan or mortgage, it is your responsibility to maintain insurance or the full value of the security, with the loss made payable to the Ladysmith Credit Union as the lender.



Because we live here too.

Another Community Project financed by:



Our Community. Your Credit Union.

For personal financing packages, please call Mortgage Specialist Alan Watt™ at 245-2247



“LDCU helps build a solid foundation for a stronger and better community.”

Alan Watt (LDCU), Tom and Janice McDougall at the ground breaking of Home Hardware's new site.

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## MINUTES OF THE 62nd ANNUAL GENERAL MEETING, APRIL 24, 2007

President Brian Childs welcomed 115 members and two guests to the sixty-second Annual General Meeting and drew the meeting to order at 7:00 p.m.

The President introduced the head table including members of the board and Mr. Barry Mungham, of Grant Thornton and Mr. David Hodgen an economist from BC Central and our guest speaker.

The president declared a quorum present and noted the rules of order as provided on a handout were in effect regarding speaking at the meeting.

He then asked for a motion to approve the Agenda. This was moved by Cindy Cawthra and seconded by Isabel Williams. Carried by the membership.

The President then reviewed the minutes of the last AGM and asked if there were any amendments. None being heard, he requested a mover and Duck Paterson moved that the minutes be accepted as presented. Seconded by Rob Johnson. Carried by the membership.

Business Arising from the Minutes was called for and none raised.

The meeting then moved onto President Brian Childs Report outlining the Directors activities in the past year. An active year has seen the second Board/Staff Strategic planning session in as many years, resulting in continuing documentation of our overall goals and objectives and progress to date. The major renovation upstairs has been completed, resulting in totally new facilities for both the Insurance operation and the Mortgage & Loans Centre. New staffing and refocusing has prepared the way for a successful future. The main floor has also been updated with such things as new carpeting and paint. The Credit Union has continued to be actively supporting community initiatives and the past year included funding of the fireworks display for the Festival of Lights; increasing significantly the bursary program for the High School and supporting the Ladysmith Leadership BC Program. The Credit Union declared a 7% dividend on Equity Shares and managed to have its best year ever. Brian thanked the board and all volunteers and supporters of the Credit Union. It was moved by Barbara Little that the Presidents Report be accepted and seconded by Richard Thompson. Carried by the membership.

Marie Polachek, chair of the Credit Committee presented the Credit Committee Report. Some highlights included 189 new mortgages worth some 23 million dollars and over 33 million dollars in loans and an extremely low rate of unrecoverable loans. It was moved by Julie Wolters and seconded by Lynne DeLucia that the Credit Committee Report be accepted. Carried by the membership.

The Auditor's Report was next, presented by Mr. Barry Mungham of Grant Thornton, Chartered Accountants. The Auditors report reflected increased business in Commercial loans, for example, and a very low rate of default on loans. It was moved by Rose DeLucia and seconded by Isabel Williams that the Auditors Report be accepted as presented. Carried by the membership.

President Brian Childs asked if there were any questions on the Auditors report and some requests for clarification were heard and responses given.

The CEO's Report was presented next by John de Leeuw. The growth of the Credit Union has resulted in the creation of several internal divisions. Increased business and changes in infrastructure have put increased demands of everyone and the extra effort put forth by staff is gratefully acknowledged. Some questions on the new banking system lead to a brief description of the pressing need to update our system. The new banking system will meet new opportunities and challenges as we go forward into the age of on-line banking, while our personnel and culture continue to be rooted as always in the values and philosophies of member service and member benefits which are at the core of the Credit Union. A member commented on the value of the old bulletin board near the entrance and requested consideration of a washroom. It was moved by Tracy Paterson and seconded by David Little that the Report be accepted. Carried by the membership.

The next item was the election of Directors. Rob Viala presented the nominations of the nominating committee and nominated: Ralph Harding, Marie Polachek, and Ted Girard. Mr. Viala then called for nominations from the floor. A nomination of David Davies for Director was made, moved by Sue-Ann Vertanen, and seconded by John Little. Mr. Davies accepted the nomination. Mr. Viala called a second time for nominations and then a third time. There being no further nominations, nominations were declared closed. Dave



Davies was given three minutes to address the membership on his nomination. Members were then instructed to use the ballots included in their Annual Report package and write in a choice if not listed. Barry Mungham of Grant Thornton, and Keith Parry were appointed scrutineers and collected the ballots in the ballot box and retired to count them.

Next on the Agenda was the appointment of Auditors for 2007. It was moved by Duck Paterson and seconded by Derek Doerken that Grant Thornton be appointed as auditors to the Credit Union in 2007 and that the Board be authorized to fix their remuneration. Carried by the membership.

President Childs then called for any new business that anyone would like to bring before the Annual General Meeting. Rob Johnson posed a question as to whether the growth of the membership reflected the growth of the Town population, i.e. has gone up approximately ten percent over the last five years. It was replied that this is the case and the current membership is approximately 6100. Robert Cumbledge spoke on the benefits of a newsletter to membership and moved that the Board establish a newsletter with the frequency of publication to be established by the Board. This was seconded by Richard Thompson. Carried by the membership.

Rob Johnson posed a question as to why the equity share amounts per member could not be raised. It was responded that as the number of pieces of pie goes up, the size of each piece goes down. Derek Dorken pointed out that these deposits were not insured by CUDIC, the Credit Union Deposit Insurance Corporation.

A member posed a question as to the current level of funding of community groups. It was replied that the Credit Union donated some \$38,000 directly to community groups in the year past.

A member made the sensible request that a floor microphone be provided in future years for the AGM.

A member who works for Canada Post was recognized and wished to note that the Annual General Meeting notice card recently mailed was a witch to handle in the postal system and that the size of such be reconsidered in future.

Rob Johnson wondered why LDCU no longer advertised in the Take 5 magazine. It was pointed out that two other Credit Unions advertise there and it may be ineffective to compete with similar advertising. Various means of advertising are always under consideration.

When no further New Business was brought forward President Childs introduced our guest speaker, Mr. David Hodgen who is an economist with BC Central. Mr. Hodgen's presentation outlined current economic forecasts and indicators for BC and noted several specific items relating to a forecast for a healthy economy in Ladysmith, with continued moderate growth down slightly from recent peaks. Mr. Hodgen was thanked for his informative presentation.

At this point Rob Viala presented the results of the election for Board of Directors. Elected for three year terms were: Marie Polachek, Ralph Harding, and Ted Girard. It was moved by David Wetherell and seconded by David Little that the ballots be destroyed. Carried by the membership.

The meeting wrapped up with a draw for door prizes. Winners included Elaine Krusisto, knife block; Duck Paterson, sweater; Jim Stachow, satchel; Ginny Rathwell, knife block; Arnold Everenden, Jacket; Ed Brickert, knife block; Brenda Moore, LED Light set; Shiela Wetherell, golf shirt; Dave DeClark, knife block; Lidia Urbasek, Jacket; Dominic DeLucia, Sweater; Shelley Ricketts, bag; Ralph Harding, knife block; Sarah Basi, DVD player; Tracy Paterson, sweater; Barbara Little, cutting board; Susie McMurtrie cutting board; Fran Bafaro, Shirt; Joan Adair, Cutting Board; Angela Stachow, knife block; David Davies, coaster set.

At the conclusion of the door prizes the meeting was adjourned for refreshments, moved by David Little.

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## PRESIDENT'S MESSAGE

In the fall of 2007 the Board held a very successful strategic planning session outlining the direction for the Credit Union for the next five years. In addition to the planning done, the Board also came to some very powerful conclusions, for our community and the people living within it. The Board finalized the Credit Union's vision statement as:

***To be the preferred choice for financial services.  
Our Community. Your Credit Union***

This statement is only one facet of the vision of the future that your Board has set in motion. We have set before your Credit Union a mandate that will help the community achieve its potential as the best place on earth to live and work. This mandate was specifically written into our strategic plan, and will act as a foundation upon which future decisions of the Credit Union will be made. How do we make this happen? It was decided that the first and foremost position of the Credit Union will be the success and well-being of our members. This was outlined in the following Position Statement:

***The Credit Union will assist families to realize their financial dreams. Our goal is that all members achieve prosperity and have opportunities to own their own homes.***

This is a bold and visionary statement that sets this Credit Union apart from any other financial institution. In order to help our members to achieve this goal, the Board outlined several further objectives for the organization:

- we will enjoy financial prosperity and independence for our organization, our members and our community.
- we will provide affordable, accessible and comprehensive financial services that inspire members to achieve their goals.
- we will maintain our position in the community as the leader in support of worthwhile community projects, events and people.

The Board is very dedicated to the aspirations set out within our strategic plan, and is determined to make Ladysmith a successful and vibrant community. In addition to the strategic direction mandate, the Board also felt compelled to embark on a green initiative for the Credit Union. We feel it is our obligation to be as environmentally conscious as we can. To that end, you will find that this report is printed on recycled paper. Further to this initiative, our entire Annual General Meeting is predicated around an environmental theme, from the recycled grocery bags all the way through the biodegradable pens.

Even with all of the changes we have embarked on in 2007 the Credit Union still ***had the best year in its history!*** Once again the Board declared a dividend on Equity Shares of 7%. This dividend, coupled with the interest rebates and bonuses, as well as charitable contributions the Credit Union made, totaled in excess of \$519,000 returned to our members and our community.

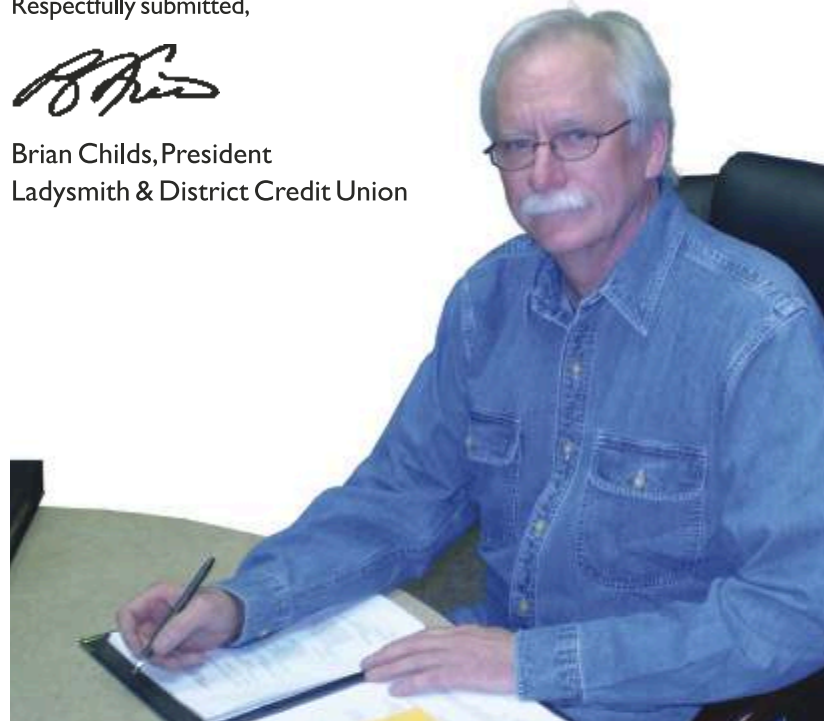
All of the Directors would like to take this opportunity to congratulate our CEO John de Leeuw. In the past two years, not only has he carried out all the operational directives of the Board, he facilitated the entire transformation of our building and assembled a superb management team that will admirably serve the Credit Union for years to come.

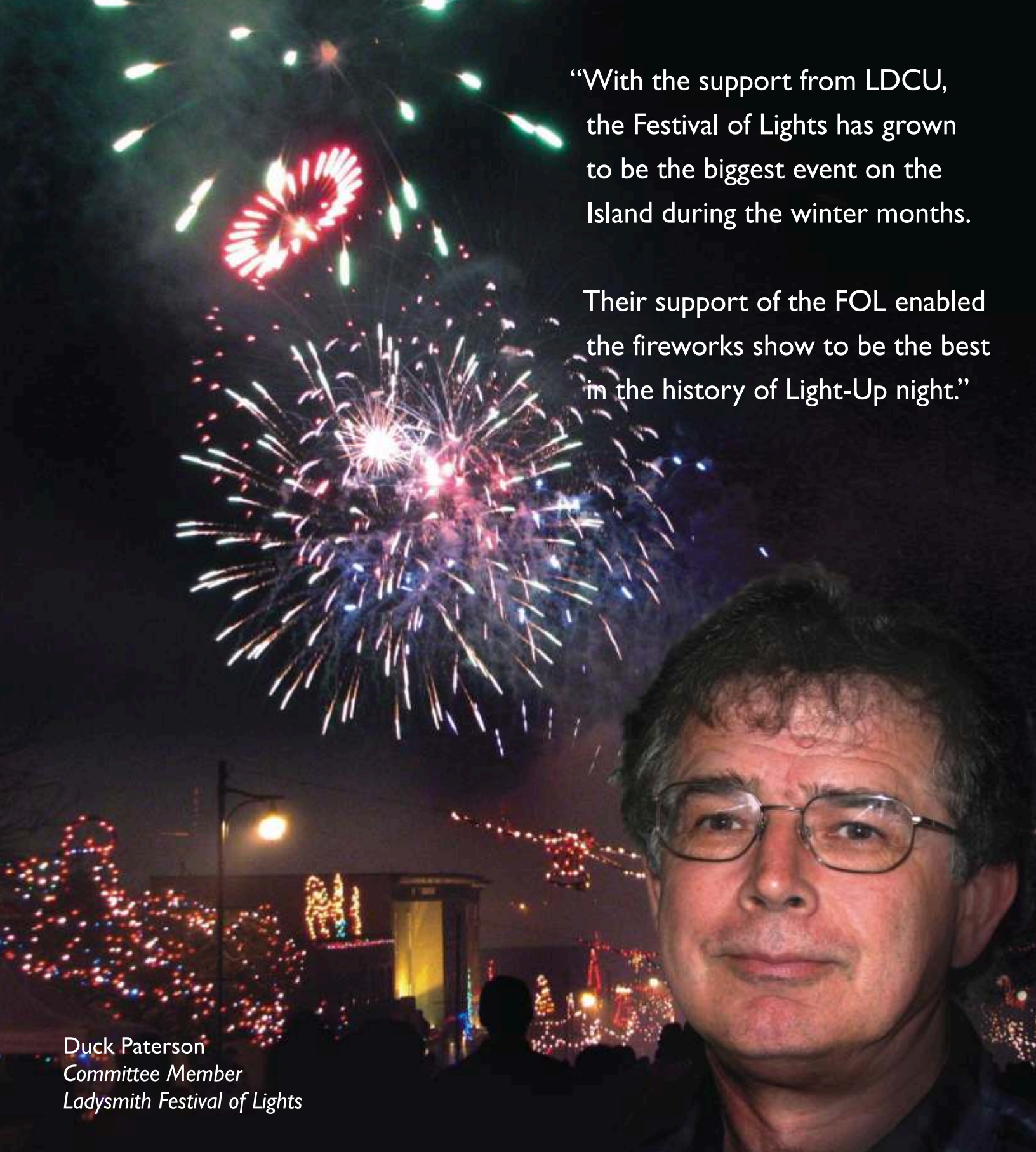
Finally, I would like to thank my fellow directors for their commitment, both in time and in energy. Without their long-serving devotion to this Credit Union, it would not be in the strong position it is today. As always I am humbled by their unwavering support, their knowledge of the community, and above all, their vision. This past year they have surpassed even the incredibly high standards they have previously set for themselves. With the level of dedication shown by your Board, this Credit Union will continue to be a leader in the community for many more years.

Respectfully submitted,



Brian Childs, President  
Ladysmith & District Credit Union





“With the support from LDCU, the Festival of Lights has grown to be the biggest event on the Island during the winter months.

Their support of the FOL enabled the fireworks show to be the best in the history of Light-Up night.”

Duck Paterson  
*Committee Member  
Ladysmith Festival of Lights*

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## CEO'S MESSAGE

The year of 2007 marked another year of significant changes for our Credit Union. In April we went live with our new banking system called iSpectrum. As with most computer conversions there were some minor glitches, and initially staff required extra time to process transactions as they got used to the new methodology. The system has been a tremendous success and has helped position our Credit Union as a major player in our marketplace. As we continue to grow, iSpectrum will have the ability to grow with us, with new upgrades and technologies added into the system as they become available to the industry.

In addition to the new banking system we have also completed the update to our building and now boast one of the nicest office spaces in Ladysmith. Privacy and comfort were our goals and I think we were more than successful on both counts. The Credit Union now boasts seven teller stations to serve our growing membership. Account opening and investment services have better privacy in our expanded reception workstation and in the two member service offices. The downstairs renovations also enabled the Credit Union to create and staff the Support Services division which is in charge of all back office administrative and audit functions. This new division will help ensure the timeliness and accuracy of member service functions.

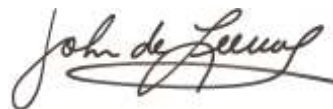
With all the changes the Credit Union still managed to post its best year ever! The assets of the Credit Union have grown to exceed \$100,000,000. This was as a result of growth of over \$8,000,000 for the year. Total income for the Credit Union increased to almost \$7,000,000, and for the first time in the Credit Union's history our income before distributions to members and taxes exceeded \$1,000,000! This great financial performance enabled the Credit Union to return over \$456,000 to members in the form of dividends and interest rebates. Once again a record for the Ladysmith & District Credit Union.

We continue to support the community to unprecedented levels. The Credit Union decided to boost our bursary donations this year to show our support for our graduating students. The Jack McDonald Memorial Bursary was increased to \$5,000, and the rest of our bursary amounts were also increased so that the Credit Union now gives out \$13,000 to the graduating class every year. This past year's fireworks display during Light-Up Night was sponsored by the Credit Union, and was reputed to be the best

ever. We are still the major sponsor of Leadership BC in Ladysmith, who's project is the construction of a Habitat for Humanity home here in our town. We are a major sponsor for Ladysmith Days, the Maritime Festival, Arts on the Avenue, the Show & Shine and the Concerts in the Park, as well as numerous other sports clubs and teams. In all, over \$62,000 was donated to our community in 2007. In trying to make a difference in our community we stand by our motto that "We live here too".

Over the course of the past year or so the Credit Union has been blessed with some amazing new additions to our team. We now have in place a management team that is second to none, and their contributions to the future of this organization will be paramount to our future success. We have added many new faces to the rest of our staff as well, and as always, their support is the foundation upon which all of our success is built. All in all, we still have the best staff of any Credit Union on the Island and beyond, and the success of this past year has been due to the herculean efforts of all of the team. I would like to take this time to thank each and every one of our staff members for their energy, enthusiasm, and support, without all of which we would not be able to post the amazing growth and returns that we have this past year. With a staff like ours, you can be assured we will continue to deliver superior service and results well into the 21st century.

Respectfully submitted,



John de Leeuw  
CEO





“...this (LDCU) bursary has contributed more than any other to realizing my career goals...”

Rachel Post  
Proud recipient of the  
\$5000 Jack McDonald Memorial Bursary

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## LCUI MANAGER'S MESSAGE

The growth of LCU Insurance over the past year is reflective of the dedication and success of our staff. The staff of LCUI form strong relationships with their clients and take to heart the integrity of each transaction done, whether it is a 'simple' auto renewal or a more complex home insurance product. There have been significant increases in the number of portfolios for both home and private auto insurance which bonds our clients not only to our office, but to our individual insurance agents as well.

I would like to take this opportunity to publicly thank my staff for exceeding expectations this past year. The year has provided them with challenges, changes and opportunities for growth in their individual careers. Each staff member has taken their day to day tasks to the next level of professionalism and consistently undertaken technical courses that improve their knowledge and skills. It has been a privilege to work alongside each of them, facilitating them as best I can to ensure their individual and team success.

We continue to strive to provide excellent products, services and programs to better serve our community:

- A family of in-house Smart Insurance Products (Smart Home; SmartAuto; Smart Business; Smart Marine/RV; SmartTravel/Medical)
- Smartplan (Our in-house insurance product financing program)
- Driver Services (driver license renewals; written learner exams; driver fine payments)
- Insurance Express (Smart car) to deliver insurance to both the individual and the business owner
- Emergency Services Program (Smart Home), a specific home insurance product for those who serve our community through police, fire or ambulance departments
- Launch of our new user friendly website @ [www.lcuinsurance.ca](http://www.lcuinsurance.ca)
- Our ongoing commitment to projects such as: Leadership BC (Nancy Hunter is a member of the committee which spear-headed the Habitat for Humanity project); Cinnamon Bun Fun Run (in support of the Ladysmith Food Bank); Ladysmith Show 'N Shine; Ladysmith parades, Ladysmith Days, Festival of Lights; Cancer Society Daffodil Drive, and many other charitable initiatives.

The staff of LCU Insurance is committed to being mindful of the community we serve and the trust placed in us when someone walks through our door. I, too, am committed to ensure my staff have all the tools they require to do this. With this in mind, LCUI has converted its computer system to a more user-friendly version which will enable the office workflow to be more efficient therefore serving our clients better. I was truly humbled and impressed by the commitment level of our team to make the conversion a success and reduce the impact to clients. Again, a sincere and heart-felt 'thank you'!

Finally, I would like to thank the staff, management team and board of directors of Ladysmith & District Credit Union for being incredibly supportive of the vision for our department. We look forward to many years of continued growth and success together.

Respectfully submitted,



Kim Judson, CAIB

Manager

LCU Insurance Agencies Ltd.



# Smart car. Smart company.



- LDCU & LCUI Community Cruiser
- Insurance Express Delivery
- Mobile Lender
- Mobile Mortgage Lender
- Special Events/Parades



Call us & book our Smart car for your special event!

## CREDIT COMMITTEE REPORT 2007

There have been grave concerns across North America in the housing market in 2007. This has not been as pronounced in Ladysmith, but has still caused some concerns and caution. In spite of this, the Credit Union set a record for lending this past year. The total number of loans granted exceeded 500 for the first time in our history. The total dollar value of loans granted increased from 2006 by over \$13,000,000 or almost 46%.

Mortgage lending was up by over 38% or by almost \$5,000,000. Commercial lending remained strong with over \$15,000,000 in commercial loans granted in 2007. The majority of commercial lending is mortgage secured, and follows the Credit Union's conservative lending model.

One of the most successful campaigns of 2007 was for Credit Union Holiday Helper loans. In 2006 there were 14 Holiday

Helper loans granted for only \$19,350. In 2007 the program was re-designed and marketed to all our members and the community at large. With a tremendous effort by the loans department, and a fantastic contribution from the rest of the staff, the Credit Union granted 101 Holiday Helper loans for over \$234,000!

The Credit Union continues to be an industry leader in loan write-offs as 2007 showed another year of significant lending with minimal loan losses. The Credit Union now has a loan portfolio exceeding \$82,000,000, and had loan write-offs in 2007 of less than \$2,000.

	#	2007	#	2006
Personal Mortgages	145	17,718,613	110	12,820,120
Business/Commercial	65	15,010,492	65	10,239,968
Renovations	48	1,392,096	47	1,173,857
Automobile	45	682,048	60	737,702
RV's, Boats, etc.	9	215,537	8	362,389
Vacation	0	0	3	6,654
Taxes, RSP's, etc.	14	79,584	14	59,352
Consolidation	31	573,446	52	899,924
Lines of Credit	98	5,402,183	104	1,984,285
Shop Local	101	234,183	14	19,350
Totals	556	41,308,182	477	28,303,601

Respectfully submitted:  
 Marie Polachek, Chair; Joan Adair; & Ted Girard  
 Credit Committee,  
 Ladysmith & District Credit Union



**Ladysmith & District Credit Union**  
**Consolidated Financial Statements**  
December 31, 2007



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Grant Thornton

## Auditors' Report

Grant Thornton LLP  
3rd Floor  
600 Fair Street  
Victoria, BC  
V8W 1M8  
T: (250) 363-4191  
F: (250) 361-4623  
www.GrantThornton.ca

To the members of

Ladysmith & District Credit Union

We have audited the consolidated balance sheet of Ladysmith & District Credit Union as at December 31, 2007 and the consolidated statements of earnings and retained earnings 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 consolidated financial statements based on our audits.

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 consolidated financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Victoria, Canada

March 3, 2008

Chartered accountants

**Ladysmith & District Credit Union**  
**Consolidated Statements of Earnings and Retained**  
**Earnings**

Year Ended December 31	2007	2006
Financial income		
Loans	\$ 4,792,687	\$ 4,109,728
Cash resources and investments	740,121	512,739
	<u>5,532,808</u>	<u>4,622,467</u>
Financial expense		
Deposits	2,918,772	2,406,751
Borrowed Funds	12,000	14,723
	<u>2,930,772</u>	<u>2,421,474</u>
Financial margin	2,602,036	2,200,993
Provision for credit losses (Note 5)	12,000	11,569
	<u>2,590,036</u>	<u>2,189,424</u>
Other income (Note 14)	1,398,123	1,105,578
Operating margin	3,988,159	3,295,002
Operating expenses (Note 15)	2,948,655	2,449,916
Earnings from operations	1,039,504	845,086
Distributions to members (Note 16)	466,845	335,345
Earnings before income taxes	582,659	509,741
Income taxes (Note 17)	107,035	89,299
Net earnings	<u>\$ 475,624</u>	<u>\$ 420,442</u>
Retained earnings, beginning of year	\$ 3,851,463	\$ 3,431,021
Net earnings	475,624	420,442
Retained earnings, end of year	<u>\$ 4,327,087</u>	<u>\$ 3,851,463</u>

See accompanying notes to the consolidated financial statements

**Ladysmith & District Credit Union  
Consolidated Balance Sheet**

December 31

2007

2006

**Assets**

Cash resources (Note 4)	\$ 16,470,642	\$ 14,625,228
Loans (Note 5)	81,688,533	76,347,032
Investments and other (Note 6)	1,048,281	813,548
Future income taxes (Note 17)	102,500	104,500
Premises and equipment (Note 7)	1,681,536	1,032,986
	<u>\$ 100,991,492</u>	<u>\$ 92,923,294</u>

**Liabilities and equity**

Short-term borrowings	\$ 189,349	\$ 73,307
Deposits (Note 8)	96,086,608	88,861,551
Payables and accruals	388,448	136,973
	<u>96,664,405</u>	<u>89,071,831</u>
Retained earnings	4,327,087	3,851,463
	<u>\$ 100,991,492</u>	<u>\$ 92,923,294</u>

On Behalf of the Board

 Director

 Director

See accompanying notes to the consolidated financial statements

## Ladysmith & District Credit Union Consolidated Statement of Cash Flows

Year Ended December 31	2007	2006
Cash flows provided by (used in)		
<b>Operating activities</b>		
Net earnings	\$ 475,624	\$ 420,442
Adjustments to determine cash flows:		
Amortization	203,904	185,905
Provision for credit losses	12,000	11,569
Gain on sale of land	-	(25,940)
Future income taxes	2,000	(8,000)
Change in interest accruals	64,831	76,101
Change in payables and accruals	251,475	51,181
	<u>1,009,834</u>	<u>710,258</u>
<b>Financing activities</b>		
Deposits		
Demand and term	5,540,754	7,432,108
Membership equity shares	271,405	147,947
Registered savings plans	1,271,020	1,266,913
Short term borrowings	116,042	(6,297)
	<u>7,199,221</u>	<u>8,840,671</u>
<b>Investing activities</b>		
Loans, net	(5,276,459)	(8,380,793)
Investments and other	(234,733)	(3,601)
Premises and equipment purchases	(652,449)	(623,389)
Proceeds on disposition of land	-	196,838
	<u>(6,363,641)</u>	<u>(8,810,945)</u>
Net increase in cash resources	1,845,414	739,984
Cash resources, beginning of year	<u>14,625,228</u>	<u>13,865,244</u>
Cash resources, end of year	<u>\$ 16,470,642</u>	<u>\$ 14,625,228</u>
<b>Supplemental cash flow information</b>		
Interest paid	\$ 2,788,891	\$ 2,291,299
Income taxes paid	87,024	81,600

See accompanying notes to the consolidated financial statements

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# Ladysmith & District Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2007

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### 1. Governing legislation and operations

The Ladysmith & District Credit Union (the "Credit Union") is incorporated under the Credit Union Incorporation Act of British Columbia and the operation of the Credit Union is subject to the Financial Institutions Act of British Columbia. The Credit Union serves members in Ladysmith, British Columbia and the surrounding area.

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### 2. Summary of significant accounting policies

#### Basis of presentation

These financial statements have been prepared in accordance with accounting practices generally accepted in Canada. In preparing these financial statements management has made estimates and assumptions that affect reported amounts of assets and liabilities and revenues and expenses. Actual results could differ from those estimates.

#### Principles of consolidation

These financial statements include the financial position, operating results and cash flows of the Credit Union and its wholly owned subsidiary company, L.C.U. Insurance Agencies Ltd. All intercompany balances and transactions have been eliminated.

#### Loans

Loans are initially recorded at fair value including direct and incremental transaction costs. They are subsequently valued at amortized cost, net of allowances for credit losses, using the effective interest method. Loans considered uncollectible are written off.

#### Allowance for credit losses

The Credit Union maintains allowances for loan losses that reduce the carrying value of loans identified as impaired to their estimated realizable amounts determined by reference to the fair value of the underlying security and expected future cash flows. A loan is classified as impaired generally at the earlier of when, in the opinion of management, there is reasonable doubt as to the collectibility of principal and interest, or when interest is 90 days past due. Specific allowances are supplemented by general allowances determined by judgement of management based on historical loan loss experience, known risks in the portfolio and current economic conditions and trends.

#### Revenue recognition

Interest income from loans is recorded on the accrual method, except where a loan is classified as impaired. Interest received on impaired loans is recognized in earnings only if there is no doubt as to the collectibility of the carrying value of the loan; otherwise, the payment received is credited to the principal.

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## Ladysmith & District Credit Union

### Notes to the Consolidated Financial Statements

December 31, 2007

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#### 2. Summary of significant accounting policies (continued)

##### Revenue recognition (continued)

Loan origination and commitment fees are recognized as income in the period they are collected, unless the fee is an integral part of the return on the loan in which case the fees are amortized to income over the term of the loan. Mortgage loan prepayment fees are recognized as income when received unless they relate to a minor modification of the loan, in which case the fees are amortized to income over the remaining term of the mortgage.

##### Financial assets and liabilities

On January 1, 2007, the Credit Union adopted CICA Handbook Sections 3855, "Financial Instruments – Recognition and Measurement", 3865, Hedges and 3861, "Financial Instruments – Disclosure and Presentation". These standards have been applied without restatement of prior periods.

The standards require that financial assets are classified as held for trading, held-to-maturity, available-for-sale, or loans and receivables. Financial liabilities are classified as held for trading or other financial liabilities. Financial assets and liabilities are initially recognized at fair value with the subsequent measurement based on classification. The classification depends on the purpose for which the financial instruments were acquired, their characteristics and choice where applicable.

All financial instruments, including derivatives, are measured at fair value except for loans and receivables, held-to-maturity and other financial liabilities which are measured at amortized cost using the effective interest method. Changes in the fair value of held for trading instruments are recognized in the statement of revenue and expense. Changes in unrealized gains and losses on available-for-sale investments and changes in fair value of the effective portion of designated and qualifying hedges are recognized in other comprehensive income.

Fair values are based on quoted market values where available from active markets, otherwise fair values are estimated using a variety of valuation techniques and models.

Transaction costs related to held for trading instruments are expensed as incurred. Transaction costs related to other than held for trading instruments are capitalized and amortized using the effective interest method.

As a result of the adoption of the new standards, the Credit Union has made the following classifications:

- held for trading: cash
- held to maturity: term deposits
- loans and receivables: loans, related accrued interest, receivables
- available for sale: other investments
- other financial liabilities: borrowings, deposits, related accrued interest, payables and accruals



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## Ladysmith & District Credit Union

### Notes to the Consolidated Financial Statements

December 31 2007

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#### 2. Summary of significant accounting policies (continued)

##### Financial assets and liabilities (continued)

The adoption of these new standards did not have a material impact on these financial statements and resulted in no transitional adjustments upon adoption.

##### Investments

Investments that are classified as held to maturity are initially recorded at fair value and subsequently measured at amortized cost, using the effective interest method. Investments that are classified as available for sale are recorded and measured at fair value, unless there is no quoted market price, then the investment is recorded and measured at cost.

##### Premises and equipment

Land is carried at cost. Premises and equipment are recorded at cost less accumulated amortization. Amortization is provided on the straight-line basis over the estimated useful lives of the related assets as follows:

Building	20-40 years
Software	10 years
Furniture and equipment	1-5 years

##### Income taxes

The Credit Union follows the asset and liability method of accounting for income taxes, whereby future tax assets and liabilities are recognized for the expected tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

##### Shares

Shares are classified as liabilities or as member equity according to their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities.

##### Distributions to members

Patronage rebates and dividends on shares classified as liabilities are charged against earnings.

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## Ladysmith & District Credit Union

### Notes to the Consolidated Financial Statements

December 31, 2007

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#### 3. Future accounting changes

##### *Financial instruments, presentation and disclosure*

The CICA has issued two new standards: Handbook Sections 3862, *Financial Instruments – Disclosure*, and 3863 *Financial Instruments – Presentation*, both issued in December 2006, that revise the current standards on financial instrument disclosure and presentation, and place increased emphasis on disclosures relating to the risk associated with both recognized and unrecognized financial instruments and how these risks are managed. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives and provides additional guidance with classification of financial instruments, from the perspective of the issuer between liabilities and equity. These sections are effective for year ends starting on or after October 1, 2007.

##### *Capital disclosures*

The CICA has issued Section 1535, *Capital Disclosures*, which establishes guidelines for the disclosure of information regarding the credit union's capital and how it is managed. Enhanced disclosure with respect to the objectives, policies and processes for managing capital and quantitative disclosures about what the credit union regards as capital is required. These sections are effective for year ends starting on or after October 1, 2007.

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4. Cash resources	2007	2006
Cash and current accounts	\$ 858,751	\$ 1,027,806
Term deposits and accrued interest		
Callable or maturing in three months or less	<u>8,811,891</u>	<u>6,698,564</u>
	9,670,642	7,726,370
Term deposits and accrued interest		
Callable or maturing between three months		
and one year	<u>6,800,000</u>	<u>6,898,858</u>
	<u>\$ 16,470,642</u>	<u>\$ 14,625,228</u>

Under governing legislation, for liquidity purposes credit unions must maintain deposits with Credit Union Central of British Columbia of at least 8% of their deposit and debt liabilities. The Credit Union cash resources exceed the minimum liquidity requirement by \$10,000,000 (2006: \$8,000,000).

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**Ladysmith & District Credit Union**  
**Notes to the Consolidated Financial Statements**  
December 31, 2007

5. Loans	2007	2006
Personal loans		
Residential mortgages	\$ 48,900,697	\$ 46,527,211
Other	9,833,322	7,340,131
Commercial loans		
Commercial mortgages	20,734,083	19,045,135
Other	2,285,130	1,565,482
Accrued interest	262,301	185,254
	<u>82,015,533</u>	<u>76,663,213</u>
Allowance for credit losses		
Specific	-	(15,045)
General	(327,000)	(301,136)
	<u>(327,000)</u>	<u>(316,181)</u>
Net loans	<u>\$ 81,688,533</u>	<u>\$ 76,347,032</u>
Allowance for loan losses as percentage of loans	<u>0.40%</u>	<u>0.41%</u>
	2007	2006
Allowance for loan losses		
Balance, beginning of year	\$ 316,181	\$ 308,933
Provision for credit losses, net of recoveries	12,000	11,569
Loans written-off	(1,181)	(4,321)
	<u>\$ 327,000</u>	<u>\$ 316,181</u>

Loans include \$2,306,459 (2006: \$15,045) that have been identified as impaired against which no specific allowances (2006: \$15,045) have been made.

No specific allowance has been made for impaired loans as they are fully secured by real property and management believes that the amounts are fully recoverable.

## Ladysmith & District Credit Union Notes to the Consolidated Financial Statements

December 31, 2007

6. Investments and other	2007	2006
Shares		
Credit Union Central of British Columbia	\$ 273,482	\$ 265,491
CUIB	10,000	10,000
CUPP Services Ltd.	23,433	19,896
Agreement for sale receivable	404,681	412,608
Receivables and prepaids	336,685	105,553
	<u>\$ 1,048,281</u>	<u>\$ 813,548</u>

Investment in shares of Credit Union Central of British Columbia is required by governing legislation and as a condition of a membership in Central.

7. Premises and equipment		2007	2006
	Cost	Accumulated amortization	Net book value
Land	\$ 84,350	\$ -	\$ 84,350
Building	1,672,504	785,568	886,936
Furniture and equipment	854,523	144,273	710,250
	<u>\$ 2,611,377</u>	<u>\$ 929,841</u>	<u>\$ 1,681,536</u>
			<u>\$ 1,032,986</u>

8. Deposits	2007	2006
Demand	\$ 24,926,168	\$ 26,477,689
Membership equity shares (Note 10)	2,487,452	2,216,047
Term	47,688,148	40,595,873
Registered savings plans	19,748,990	18,477,970
Accrued interest	1,235,850	1,093,972
	<u>\$ 96,086,608</u>	<u>\$ 88,861,551</u>

The Credit Union Deposit Insurance Corporation of British Columbia, a government corporation, guarantees all credit union deposits up to \$100,000 per "separate deposit" as defined by legislation.

Under agreements with the trustees of the registered savings plans, member contributions to the plans are deposited with the Credit Union at rates of interest determined by the Credit Union.

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## Ladysmith & District Credit Union

### Notes to the Consolidated Financial Statements

December 31, 2007

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#### 9. Credit facilities

The Credit Union has an operating line of credit with Credit Union Central of British Columbia secured by a debenture charge on certain assets of the Credit Union.

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#### 10. Shares

The Credit Union is authorized to issue two classes of shares: membership equity shares and non-equity shares, both of \$1 par value:

- Membership equity shares are a requirement for membership in the Credit Union and generally are redeemable on withdrawal from membership.
- Non-equity shares are not subject to restrictions on ownership and redemption; no shares are issued.

Membership equity shares issued and outstanding are included in deposit balances (see Note 8).

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#### 11. Capital requirements

The Credit Union is required by legislation to maintain a minimum capital base of 8% of the total risk-weighted value of its assets, each asset being assigned a risk factor based on the probability that a loss may be incurred on ultimate realization of that asset.

At December 31, 2007, the Credit Union has attained a capital base approximating 15% (2006: 14%) of the risk-weighted value.

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#### 12. Interest rate sensitivity

Maturity dates substantially coincide with interest adjustment dates. Amounts with floating interest rates, or due on demand, are classified as maturing within one year. Amounts that are not interest sensitive are grouped together, regardless of maturity. Although a significant amount of loans and deposits can be settled before maturity, no adjustment has been made to anticipate repayments.

The Credit Union is exposed to interest rate risk as a consequence of the mismatch, or gap between the assets and liabilities scheduled to reprice on particular dates

## Ladysmith & District Credit Union

### Notes to the Consolidated Financial Statements

December 31, 2007

#### 12. Interest rate sensitivity (continued)

The table below summarizes the carrying amounts of the Credit Union's financial instruments as at December 31, 2007 by the earlier of their contractual interest repricing or maturity dates and the weighted average interest rates of interest sensitive balances.

	Interest sensitive balances			Not interest sensitive	Total	Average rates
	Within 1 year	1 year to 4 years	Over 4 years			
<b>Assets</b>						
Cash resources	\$ 18,258,751	\$ -	\$ -	\$ 211,891	\$ 18,470,642	4.73%
Loans	28,820,357	31,700,383	20,905,492	262,301	81,688,533	6.10%
Investments and other	404,850	-	-	643,601	1,048,261	5.25%
Other	-	-	-	1,784,036	1,784,036	-
	<u>45,483,788</u>	<u>31,700,383</u>	<u>20,905,492</u>	<u>2,901,828</u>	<u>100,991,492</u>	
<b>Liabilities</b>						
Short-term borrowings	-	-	-	189,349	189,349	4.73%
Deposits	36,419,389	49,251,634	6,403,403	4,012,182	96,086,608	4.23%
Payables and accruals	-	-	-	388,448	388,448	-
Retained earnings	-	-	-	4,327,087	4,327,087	-
	<u>36,419,389</u>	<u>49,251,634</u>	<u>6,403,403</u>	<u>8,917,066</u>	<u>100,991,492</u>	
<b>Net mismatch</b>						
2007	\$ 9,064,389	\$ (17,551,251)	\$ 14,502,089	\$ (6,015,237)	\$ -	
2006	\$ 10,066,505	2,022,191	(8,538,645)	(5,950,861)	\$ -	

#### 13. Fair value of financial instruments

The estimated fair values of the Credit Union's financial instruments are set out below. No fair values have been determined for premises and equipment, or any other asset or liability that is not a financial instrument. The fair values of cash resources, variable rate loans, and other assets and liabilities are assumed to equal their book values as the items are short term in nature. The fair values of fixed rate loans and deposits are determined by discounting the expected future cash flows at the estimated current market rates for loans and deposits with similar characteristics.

**Ladysmith & District Credit Union**  
**Notes to the Consolidated Financial Statements**

December 31, 2007

**13. Fair value of financial instruments (continued)**

	2007			2006
	Book value	Fair value	Unfavourable	Unfavourable
<b>Assets</b>				
Cash resources	\$ 16,471,000	\$ 16,471,000	\$ -	\$ -
Loans	81,689,000	80,104,000	(1,585,000)	(761,000)
Investments/other	1,048,000	1,048,000	-	-
			<u>(1,585,000)</u>	<u>(761,000)</u>
<b>Liabilities</b>				
Deposits	96,087,000	98,215,000	(2,128,000)	(2,060,000)
Payables and borrowings	578,000	578,000	-	-
			<u>(2,128,000)</u>	<u>(2,060,000)</u>
<b>Fair value difference</b>			<b>\$ (3,713,000)</b>	<b>\$ (2,821,000)</b>

The differences between the book values and fair values of the Credit Union's loans and deposits are due primarily to changes in interest rates arising since the time the loans were made and the deposits were received. As the Credit Union normally holds these financial instruments to maturity, book values have not been adjusted to reflect the differences. Not all financial instruments are readily marketable and, as a result, estimates of fair value are subjective and should not be considered precise.

<b>14. Other income</b>	2007	2006
Insurance commissions	\$ 656,973	\$ 518,752
Account service fees	301,121	223,890
Loan fees	234,142	135,794
Other	205,887	227,142
	<u>\$ 1,398,123</u>	<u>\$ 1,105,578</u>

**Ladysmith & District Credit Union**  
**Notes to the Consolidated Financial Statements**

December 31, 2007

15. Operating expenses	2007	2006
Advertising and member relations	\$ 184,893	\$ 154,231
Amortization	203,904	185,905
Data processing	50,447	43,432
Dues and assessments	63,444	82,662
Insurance	34,341	29,382
Meetings and travel	149,522	89,938
Premises and office	277,483	225,910
Professional fees and dues	113,614	77,337
Salaries and benefits	1,663,474	1,355,725
Service charges	207,533	205,194
	<u>\$ 2,948,555</u>	<u>\$ 2,449,916</u>

16. Distributions to members	2007	2006
Dividends on equity shares	\$ 157,881	\$ 139,615
Patronage rebates on loans and deposits	298,964	195,730
	<u>\$ 456,845</u>	<u>\$ 335,345</u>

17. Income taxes	2007	2006
Current income taxes	\$ 105,035	\$ 97,299
Future income taxes	2,000	(8,000)
	<u>\$ 107,035</u>	<u>\$ 89,299</u>

Income tax expense differs from the amounts that would be obtained by applying the combined Canadian Federal and Provincial statutory income tax rates to income before income taxes. This difference results from the following:

	2007	2006
Combined future federal and provincial statutory rate	\$ 198,803	\$ 173,822
Rate reduction applicable through small business deduction or rate applicable to credit unions	(93,225)	(84,107)
Other, net	1,457	(416)
	<u>\$ 107,035</u>	<u>\$ 89,299</u>



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**Ladysmith & District Credit Union**  
**Notes to the Consolidated Financial Statements**

December 31, 2007

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**17. Income taxes (continued)**

The tax effects of temporary differences that give rise to significant portions of the future tax asset are as follows:

	2007	2006
Premises and equipment	\$ 38,000	\$ 44,000
Cumulative eligible capital	6,500	7,000
Allowance for credit losses	<u>58,000</u>	<u>53,500</u>
	<u>\$ 102,500</u>	<u>\$ 104,500</u>

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**18. Other information**

Directors received remuneration of \$12,336 (2006: \$11,348).

At December 31, 2007 loans to directors and employees of the Credit Union amounted to \$4,966,187 (2006: \$3,437,077). All such loans were granted in accordance with normal lending terms.

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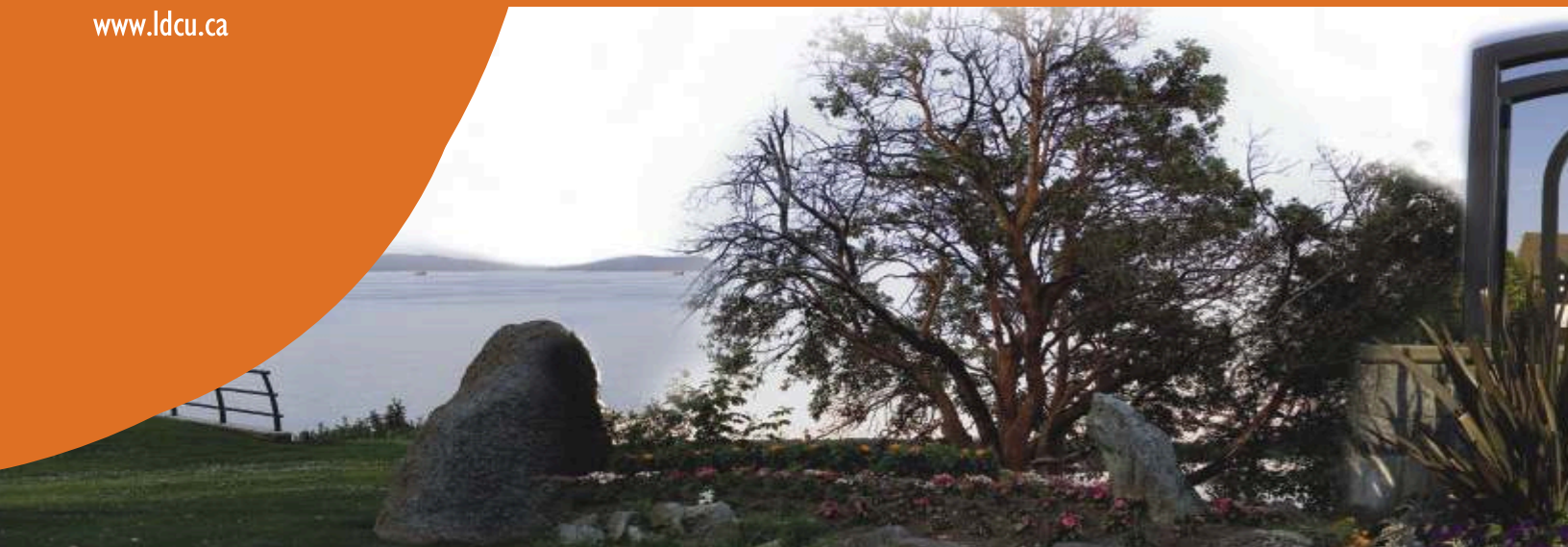




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