



**CRESTON & DISTRICT  
CREDIT UNION**

*Annual Report*

**2005**





**Lorne  
Eckersley**  
*President*



**Carole  
Materi**  
*Vice President*



**Gerrie  
Campbell**  
*Secretary*



**Betty  
Martin**  
*Director*

**MISSION  
STATEMENT**

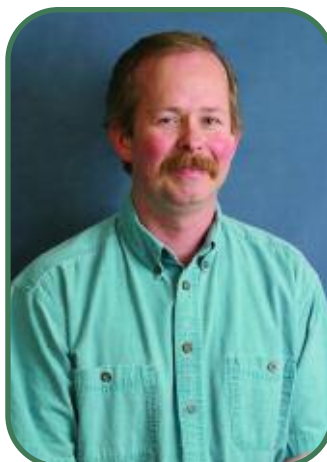
Creston & District Credit Union is and will continue to be a sound, profitable, independent, progressive, service-oriented financial institution. We are democratic and member-owned, dedicated to serving our members' needs and committed to contributing to the well being of our community.



**Rand  
Archibald**  
*Director*



**Mike  
Ramaradhya**  
*Director*



**Jim  
Ryckman**  
*Director*



**Jim  
Miller**  
*CEO*

## C.E.O.'s Report

It is a pleasure for me to report to you on another gratifying year for your credit union.

Member deposit activity was very strong this past year, with sustained growth in all deposit portfolios. Total member deposits increased by over \$3.8 million, a 5.6% increase over last year. Loan demand was light early in the year however increased as the year progressed. Real estate activity remained brisk, as did small business loan activity. The result is an increase in total loans of over \$1.1 million for the year. Total assets reached the \$80 million level in October and ended the year at \$80.8 million, a growth rate of 5.7% for the year.

Our financial position remains very strong. We continue to maintain a stable financial margin, despite fluctuating interest rates and an ever changing market environment. Our pre-tax income is very similar to last year, at just under \$1 million. This level of income allows our Board of Directors to continue with their commitment to return over one third of our income to you, our members, by way of dividends and interest patronage payments. In addition, our financial strength allows us to move forward with confidence in implementing new products, services or technology, knowing we do not have to increase our service fees to cover these changes.

One such change took place in May of last year. After enduring a couple of delays, we migrated to a new banking technology platform. This meant some minor changes to the look of member statements, but for the most part would have been non-disruptive to the membership as a whole. Our staff however, spent an enormous amount of time and effort learning a new system and a totally different look to our "behind the scenes" reports and processing. They did a remarkable job, and I commend them and thank them for their patience and resolve.

We continue to support our Community from a variety of directions. Each year we contribute donations and sponsorships to a number of groups and organizations covering minor sports, youth groups, the arts and education. Specifically, this past year we have been the major event sponsor for the Cancer Relay for Life, as well as pledging \$15,000 to the Rotary Club splash park project and \$50,000 to the indoor pool initiative.

Thank you to the Board of Directors for their continued confidence in our Management Team, and to the staff for their dedication to the fulfillment of our mission statement and service to our members. And to our members, thank you for your ongoing support, confidence and trust.

Respectfully submitted,



Jim Miller  
C.E.O.



# PRESIDENT'S REPORT

The past year was, once again, a successful one for Creston and District Credit Union. With assets of more than \$80 million and before-tax earnings of nearly \$1 million, we continue to be a model of consistency.

In fact, Creston and District Credit Union has been remarkably consistent in the past dozen years, returning profits to members and building up a capital base with retained earnings, which will ensure our stability for years to come. For more than a decade, our board has chosen to return about one-third of our yearly profits to members and to put the other two-thirds aside into retained earnings. From our 2005 profits, we returned nearly 40 per cent to you, our members.

The Board of Directors thanks the staff of Creston and District Credit Union, Herchmer Insurance and Growth Financial, for their dedication, professionalism and commitment to building our businesses and our community.



We commend Herchmer Insurance Agencies manager Jim Elford and his staff for their continued strong financial performance. Providing quality products and service during turbulent times is a challenge, one that Jim and his team continues to meet with exceptional enthusiasm and success.

On behalf of the Board of Directors, I congratulate chief executive officer Jim Miller and his management team for another outstanding performance in 2005. Strong, committed and creative leadership is what sets Creston and District Credit Union above our competition, and we thank Jim Miller for his continued ability to manage for the present while keeping a clear eye toward the future.

The role the Board of Directors plays in the credit union is an important one, although the work is done mainly behind the scenes. We provide direction to management through our annual strategic planning retreats and each month we meet to examine both the financial and overall performance of the Credit Union and its subsidiaries. We monitor our performance in relationship to other credit unions in our region, our asset size and the entire province. It is this monitoring which ensures that we continue to perform with the very best credit unions in the province. We also continue to participate in regional, provincial and national credit union activities wherever possible.

I wish to thank my fellow directors for their support, commitment and enthusiasm. You take your responsibilities seriously and represent our more than 5,000 members well.

This year we are asking members to approve a change in our bylaws. That change would mean that nominations to the board must be made thirty days in advance of the Annual General Meeting. The change would eliminate nominations from the floor but allow members to submit nominations to the board's nominating committee. With ever-increasing fiduciary and legal responsibilities being placed on directors, it is important that prospective members be interviewed and have their qualifications checked well in advance of the annual general meeting, so that the nominating committee can put forward a strong slate to fill positions. Most credit unions have already made this change.

As always, thank you, our members, for placing your confidence in our board and management team. All decisions are made with the best interests of our membership in mind, a responsibility we take very seriously. Your Board of Directors is committed to working to ensure that we grow and thrive, leading our community into a bright future.

Respectfully submitted,

Lorne Eckersley.  
President, Board of Directors

# ***Auditor's Report***

## **To the Members**

We have audited the consolidated balance sheet of Creston & District Credit Union as at December 31, 2005 and the statements of income, retained earnings and cash flow 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 December 31, 2005 and the results of its operations and cash flow for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Financial Institutions Act of British Columbia we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

*Gadicke + Minichiello*

**Creston, B. C.**

**March 14, 2006**

**CHARTERED ACCOUNTANTS**

**GADICKE & MINICHELLO  
CHARTERED ACCOUNTANTS**

112 - 11th Ave. N.

P.O. Box 1175

Creston, B.C.

V01 1G0

T (250) 428-2248

F (250) 428-4338

## CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2005 2005 2004

### ASSETS

CASH	\$ 34,237,810	\$ 30,754,444
OTHER note 2	484,833	694,042
CORPORATION INCOME TAXES REFUNDABLE	26,248	8,452
INVESTMENTS, note 3	135,197	151,069
LOANS TO MEMBERS, note 4	43,839,669	42,697,609
PROPERTY, PLANT AND EQUIPMENT, note 5	1,967,298	2,055,429
GOODWILL, note 6	127,617	127,617
	<b>\$ 80,818,672</b>	<b>\$ 76,488,662</b>

### LIABILITIES AND MEMBERS' EQUITY

MEMBERS' DEPOSITS, note 8	\$ 71,920,867	\$ 68,109,133
ACCOUNTS PAYABLE	986,188	914,935
DISTRIBUTION TO MEMBERS PAYABLE	378,285	371,601
FUTURE INCOME TAXES	56,929	53,700
NON-CONTROLLING INTEREST IN SUBSIDIARY	142,175	149,513
EQUITY SHARES, note 9	3,410,315	3,395,485
RETAINED EARNINGS	3,923,913	3,494,295
	<b>\$ 80,818,672</b>	<b>\$ 76,488,662</b>

SIGNIFICANT ACCOUNTING POLICIES, note 1  
 STATUTORY INFORMATION, note 10  
 CAPITAL REQUIREMENTS, note 11  
 COMMITMENTS, note 12  
 FAIR VALUE, note 13  
 INTEREST RATE SENSITIVITY, note 14

Approved on behalf of the Board of Directors:



Director



Director



Director

See accompanying notes to the consolidated financial statements.

## CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 2005	2005	2004
<b>INTEREST INCOME</b>		
Interest on loans to members	\$ 2,558,429	\$ 2,552,526
Investment income	<u>881,853</u>	<u>754,354</u>
	<u>3,440,282</u>	<u>3,306,880</u>
<b>INTEREST EXPENSE</b>		
Interest on members' deposits	1,291,762	1,263,271
Interest on borrowed money	<u>7,172</u>	<u>5,326</u>
	<u>1,298,934</u>	<u>1,268,597</u>
<b>FINANCIAL MARGIN</b>	<b>2,141,348</b>	2,038,283
<b>OTHER INCOME</b>	<u>1,839,350</u>	<u>1,550,131</u>
	<u>3,980,698</u>	<u>3,588,414</u>
<b>OPERATING EXPENSES, Schedule</b>		
Administrative and General	2,873,176	2,425,194
Occupancy	<u>158,680</u>	<u>157,682</u>
	<u>3,031,856</u>	<u>2,582,876</u>
<b>INCOME FROM OPERATIONS</b>	<b>948,842</b>	1,005,538
<b>NON-CONTROLLING INTEREST</b>	<u>(7,339)</u>	<u>4,968</u>
<b>INCOME BEFORE DISTRIBUTION TO MEMBERS</b>	<b>956,181</b>	1,000,570
<b>DISTRIBUTION TO MEMBERS</b>	<u>378,619</u>	<u>372,730</u>
<b>INCOME BEFORE LOSS ON EQUITY INVESTMENT</b>	<b>577,562</b>	627,840
<b>LOSS ON EQUITY INVESTMENT</b>	<u>(19,509)</u>	<u>(3,907)</u>
<b>INCOME BEFORE INCOME TAXES</b>	<b>558,053</b>	623,933
<b>INCOME TAXES, note 7</b>	<u>83,435</u>	<u>110,766</u>
<b>NET INCOME FOR THE YEAR</b>	<b>474,618</b>	513,167
<b>RETAINED EARNINGS, BEGINNING OF YEAR</b>	<b>3,494,295</b>	3,026,128
<b>DIVIDENDS PAID</b>	<u>(45,000)</u>	<u>(45,000)</u>
<b>RETAINED EARNINGS, END OF YEAR</b>	<b>\$ 3,923,913</b>	<b>\$ 3,494,295</b>

See accompanying notes to the consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE YEAR ENDED DECEMBER 31, 2005

	2005	2004
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net income for the year	\$ 474,618	\$ 513,167
Amortization of property, plant and equipment and goodwill	124,955	119,175
Loss on equity investment	19,509	3,907
Future income tax	3,229	5,372
Decrease (increase) in other assets	209,210	(292,631)
Decrease in corporation income taxes refundable	(17,796)	(40,458)
Increase in accounts payable	71,249	215,406
Increase in distributions to members payable	6,684	53,240
Increase (decrease) in non-controlling interest	(7,338)	4,968
	<b>884,320</b>	<b>582,146</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Increase in loans to members	(1,142,061)	(1,170,040)
Decrease in investments	(3,636)	(15,887)
Purchase of property, plant and equipment	(36,825)	(63,561)
	<b>(1,182,522)</b>	<b>(1,249,488)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Net increase in members' deposits	3,811,739	5,756,136
Increase in equity shares	14,829	48,243
Dividends paid	(45,000)	(45,000)
	<b>3,781,568</b>	<b>5,759,379</b>
<b>NET INCREASE IN CASH</b>	<b>3,483,366</b>	<b>5,092,037</b>
Cash, beginning of year	<b>30,754,444</b>	<b>25,662,407</b>
<b>CASH, END OF YEAR</b>	<b>\$ 34,237,810</b>	<b>\$ 30,754,444</b>
During the year the company paid:		
Interest	\$ 7,172	\$ 5,326
Income taxes	\$ 71,754	\$ 137,400

See accompanying notes to the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Principles of Consolidation

The consolidated financial statements include the accounts of Acumen Financial Planning Inc., which is 100% owned by the Credit Union, Herchmer Insurance Agencies Ltd., which is 70% owned by the Credit Union, B4D Investments Ltd., which is 100% owned by Herchmer Insurance Agencies Ltd. All significant intercompany transactions and accounts have been eliminated. Growth Financial Corp., which is 50% owned by the Credit Union, is recorded on the equity basis.

#### (b) Property, Plant and Equipment

Property, plant and equipment is stated at cost and amortization is provided for by the straight line method as follows:

Building	-	50 years
Furniture and fixtures	-	5, 10 and 20 years
Paving	-	10 years

#### (c) Members' Shares and Distributions

Members' shares include amounts deposited plus accumulated distributions. Equity share balances are withdrawable and may be redeemed by the Credit Union on such terms and conditions and at such times as the directors, in their discretion, resolve. Non-equity share balances are withdrawable on demand and may be redeemed by the Credit Union.

#### (d) Loans to Members

Loans to members are stated net of specific provision established to recognize anticipated losses. Interest revenue is accrued to December 31, 2005, except where in management's opinion such interest is unlikely to be collected, in which case such interest is not accrued and is not included in revenue for the year.

The amount provided for anticipated loan losses is determined by reference to specific loans in arrears and by judgement of management with respect to previous experience on collection of loans.

#### (e) Future Income Taxes

The Credit Union follows the deferral method of allocating income taxes whereby it recognizes income taxes on reported earnings regardless of when such taxes become payable. Future income taxes arise because of timing differences between deductibility of certain expenses for tax purposes and recognition for accounting purposes.

#### (f) Goodwill

Goodwill, arising from the purchase of Herchmer Insurance Agencies Ltd. is not being amortized as the value of goodwill is in excess of the book value.

#### (g) Measurement Uncertainty

These financial statements have been prepared in accordance with Canadian generally accepted accounting practices. In preparing these financial statements management has made estimates and assumptions that affect the amount reported. Actual results could differ from those estimates.

#### (h) Derivatives

Creston & District Credit Union enters into interest rate swap agreements and other derivative financial instruments to manage its exposure to interest rate risks. Interest rate swaps involve the exchange of a floating rate interest payment on a notional principal amount. Interest rate swaps are normally designated as hedges (reducing interest rate risk) and any gains or losses are recognized on the same basis as, and netted against, the interest income related to the hedge.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (i) Revenue Recognition

Interest income on loans is recorded on the accrual method. Loan negotiation fees and income recorded on prepayment or renegotiation of fixed term loans are amortized over the average terms to maturity of such loans.

### 2. OTHER

	2005	2004
Subsidiary's accounts receivable	\$ 252,640	\$ 228,708
Accrued dividends receivable	14,241	11,247
Property held for resale	138,270	117,603
Prepaid expenses	7,152	38,985
CGI conversion costs	25,356	244,303
Staff GIC receivable	18,174	18,174
Syndicated loan interest	(6,013)	-
Recoverable loan collection costs	<u>35,013</u>	<u>35,022</u>
	<u>\$ 484,833</u>	<u>\$ 694,042</u>

### 3. INVESTMENTS

	2005	2004
B.C. Central Credit Union, at cost	\$ 265,982	\$ 262,384
Stabilization Central Credit Union, at cost	104	66
Managing General Agency Ltd., at cost	10,000	10,000
Growth Financial Corp. (share in equity loss)	(207,488)	(187,980)
Growth Financial Corp. (shareholder loan)	<u>66,599</u>	<u>66,599</u>
	<u>\$ 135,197</u>	<u>\$ 151,069</u>

### 4. LOANS TO MEMBERS

	2005	2004
Secured by real estate	\$38,993,521	\$39,050,958
Accrued interest	<u>76,462</u>	<u>83,884</u>
	<u>39,069,983</u>	<u>39,134,842</u>
Otherwise secured	4,869,450	3,656,271
Accrued interest	<u>24,183</u>	<u>24,146</u>
	<u>4,893,633</u>	<u>3,680,417</u>
	43,963,616	42,815,259
Allowance for doubtful loans	<u>123,947</u>	<u>117,650</u>
	<u>\$43,839,669</u>	<u>\$42,697,609</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 5. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	Net 2005	Net 2004
Land	\$ 199,757	\$ -	\$ 199,757	\$ 199,757
Automobile	15,639	15,639	-	-
Building	2,073,092	534,368	1,538,724	1,567,274
Furniture and equipment	1,242,370	1,013,553	228,817	288,398
Paving	11,824	11,824	-	-
	<u>\$ 3,542,682</u>	<u>\$ 1,575,384</u>	<u>\$ 1,967,298</u>	<u>\$ 2,055,429</u>

### 6. GOODWILL

	2005	2004
Cost	\$ 606,617	\$ 606,617
Less accumulated amortization	<u>479,000</u>	<u>479,000</u>
	<u>\$ 127,617</u>	<u>\$ 127,617</u>

### 7. INCOME TAXES

Income tax expense varies from the amount that would be computed by applying the Canadian federal and provincial income tax rates of 34.87% (2004 - 35.62%) to income before income taxes for the following reasons:

	2005	2004
Combined federal and provincial statutory rate	\$ 158,724	\$ 213,061
Rate reduction applicable to credit unions	(72,830)	(95,704)
Other, net	(5,688)	(11,963)
Current	\$ 80,206	\$ 105,394
Future	<u>3,229</u>	<u>5,372</u>
	<u>\$ 83,435</u>	<u>\$ 110,766</u>

### 8. MEMBERS' DEPOSITS

	2005	2004
Demand	\$ 29,448,176	\$ 27,378,634
Term	32,867,603	31,310,968
Registered savings plans	8,925,362	8,756,971
Accrued interest	606,815	576,843
Non-equity shares	<u>72,911</u>	<u>85,717</u>
	<u>\$ 71,920,867</u>	<u>\$ 68,109,133</u>

Members' deposits and non-equity shares are insured by the Credit Union Deposit Insurance Corporation of British Columbia up to the \$100,000 limit as set out in the Financial Institutions Act.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**9. EQUITY SHARES** 2005 2004

Class A Membership Equity Shares

Under the Credit Union rules, members are required to hold at least 25 membership equity shares.

	\$ 149,162	\$ 141,682
--	------------	------------

Class C Voluntary Equity Shares

Voluntary equity shares pay dividends in the form of additional shares of the same class. These shares are redeemable, subject to the discretion of the board of directors.

	<u>3,261,153</u>	<u>3,253,803</u>
	<u>\$ 3,410,315</u>	<u>\$ 3,395,485</u>

Funds invested in equity shares are not guaranteed by the Credit Union Deposit Insurance Corporation of British Columbia.

**10. STATUTORY INFORMATION**

Outstanding loans to directors, officers and employees of the Credit Union as at December 31, 2005 totalled \$1,674,871. (2004 - \$1,160,672)

**11. CAPITAL REQUIREMENTS**

The Financial Institutions Act requires the Credit Union to maintain at all times, a capital base which is adequate in relation to the business carried on. The level of capital required is based on a prescribed percentage of the total value of risk-weighted assets. Each asset of the Credit Union is assigned a risk factor based on the probability that a loss may be incurred on the ultimate realization of that asset.

The Financial Institutions Act Regulations prescribe that the minimum required capital ratio for the Credit Union's fiscal year is 8.0%. The Credit Union has exceeded the minimum required capital ratio.

**12. COMMITMENTS**

The Credit Union has unadvanced loan commitments of \$4,468,213 as at December 31, 2005. (2004 - \$4,284,258)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 13. FAIR VALUE

The estimated fair values of the Credit Union's certain financial instruments are set out below. No fair values have been determined for land, buildings, equipment or any other asset and liability that is not a financial instrument.

			2005	2004
	<u>Book value</u>	<u>Fair value</u>	<b>Fair value In excess of book value</b>	Fair value In excess of <u>book value</u>
<b>Assets</b>				
Loans to members	\$ 43,839,669	\$ 43,191,866	<b>\$ (647,803)</b>	\$ 18,433
<b>Liabilities</b>				
Members' Deposits	\$ 71,920,867	\$ 72,036,020	<b>\$ 115,153</b>	\$ 806,446

The difference between the book and fair values of the Credit Union's loans and deposits are due primarily to changes in interest rates. As the Credit Union normally holds these instruments to maturity, the book values have not been adjusted to reflect the differences.

Not all financial instruments are readily marketable. As a result, the estimates of fair value are subjective and should not be considered precise. The estimated fair values of cash, other assets and liabilities are assumed to equal their book values. 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.

### 14. INTEREST RATE SENSITIVITY

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.

Maturity dates substantially coincide with interest adjustment dates. Amounts with floating interest rates, or due on demand, are classified as maturing within three months, regardless of maturity.

A significant amount of loans and deposits can be settled before a maturity on payment of a penalty. No adjustment has been made for payments that may occur prior to maturity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 14. INTEREST RATE SENSITIVITY (continued)

	Average ____rates	Period To Maturity			Not Interest Sensitive	Total
		Within 3 months	4 Months to 1 year	Over 1 year to 5 years		
(All figures in '000's)						
<b>Assets</b>						
Cash resources						
and loans	4.89%	\$ 7,293	\$ 18,956	\$ 40,147	\$ 11,679	\$ 78,075
Investments and other		-	-	-	777	777
Premises and equipment		-	-	-	1,967	1,967
		<u>7,293</u>	<u>18,956</u>	<u>40,147</u>	<u>14,423</u>	<u>80,819</u>
<b>Liabilities and equity</b>						
Deposits	3.14%	3,609	5,488	30,454	32,282	71,933
Other liabilities		-	-	-	1,563	1,563
Members' equity		-	-	-	7,323	7,323
		<u>3,609</u>	<u>5,488</u>	<u>30,454</u>	<u>41,268</u>	<u>80,819</u>
<b>Net Difference</b>		<b><u>\$ 3,684</u></b>	<b><u>\$ 13,468</u></b>	<b><u>\$ 9,693</u></b>	<b><u>\$ (26,845)</u></b>	<b><u>\$ -</u></b>

### CONSOLIDATED SCHEDULE OF EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2005

	2005	2004
<b>Administrative and General</b>		
Amortization of equipment	\$ 76,586	\$ 70,332
Audit and legal	25,621	25,863
Chequing and service charges	92,255	117,084
Courier service	24,388	27,063
Data processing	180,327	173,338
Deposit and share insurance	1,777	1,957
Directors and committees	61,452	46,090
Dues, fees and licenses	258,511	39,295
Exgratia payment	9,537	-
Insurance	34,197	24,765
Office and telephone	140,854	143,279
Promotion and advertising	100,827	73,020
Provision for bad debts	53,043	85,638
Rental equipment and maintenance	21,189	13,552
Salaries and benefits	1,628,830	1,480,751
Sundry	110,072	59,421
Travel	53,710	43,746
	<u>\$ 2,873,176</u>	<u>\$ 2,425,194</u>
<b>Occupancy</b>		
Amortization of property	48,369	48,843
Insurance	16,359	13,858
Maintenance	33,870	37,478
Property taxes	34,408	32,140
Utilities	25,674	25,363
	<u>158,680</u>	<u>157,682</u>
	<b><u>\$ 3,031,856</u></b>	<b><u>\$ 2,582,876</u></b>





**140-11th Avenue North,  
Creston, B.C. V0B 1G0**

**Tel: (250) 428-5351**

**Fax: (250) 428-5302**

***[www.cdcu.com](http://www.cdcu.com)***