



CRESTON & DISTRICT
CREDIT UNION

**ANNUAL
REPORT
2019**

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2019 represents 68th successful year for your Credit Union.

This year has been a year of positive changes. The Board was very pleased and honored to announce Mr. Lawrence Makortoff as the successful candidate for our CEO position at our AGM in April 2019. One of the consistent themes over the past year has been human resource changes. Lawrence was tasked with restructuring our accounting function, replacing his own former position serving business members, and enhancing our Information Technology systems. In addition, we saw 100 years of combined staff experience retire in 2019 and management was tasked with training and cross training existing staff in various roles. The changes we have been through in 2019 were vast yet the service levels to membership remained relatively seamless during all this transition. This is a testament to the effort of our new CEO, his management team, and our dedicated staff.

The Board of Directors experienced transition in 2019. Larry Nowak resigned after serving on the Board for 2 years in May 2019. We are grateful to Larry for his contribution and service. In June 2019, Rick Minichiello was appointed to the Board and has been serving since. We welcome Rick to our Board and look forward to his contribution going forward. Your Board has been very active in 2019. Our decision to remain an independent Credit Union in 2018 was significant and with the hiring of our new CEO, we have been enhancing reporting functions and reviewing policies as changes in the industry are evolving rapidly. We work closely with regulators to ensure we are following best practices and we are confident that our Credit Union can remain independent for as long as we choose to.

Your Credit Union has once again had a successful financial year. The Board of Directors has declared patronage and dividends for the fiscal year 2019 to be distributed to our members as 4.0% interest and patronage rebate on loans and deposits. Along with 10% rebate on service charges paid, and 7.0% dividend on Class 'C' equity shares. Dividends and interest patronage paid to the members amounted to \$455,910. The Board is also pleased to announce that during the past year your Credit Union has contributed via donation and promotions, \$53,354 to various groups and organizations in the Creston Valley. Each year the Credit Union gives two \$2,500 bursaries to students in our local High School (P. C. S. S.) to assist them in continuing onto higher education. The Board strongly believes our youth is our future, and we fully support them. It is great to be able to give back to our Community and the people who have supported us.

Our subsidiaries contributed \$586,068 to our overall income of \$1,222,710 this year, which is substantial. Growth Financial, our insurance services and wealth management subsidiary, of which we own 50%, was the significant contributor. We also engaged a valuation review of one of our subsidiary properties. This review (among other smaller items) which dates back to the 2017 year-end, ultimately required a write down of \$575,925 as noted in Note 25 of our financial statements. This write down impacted retained earnings to the 2017 year-end and is why we restated the prior period.

As part of our Information Technology (IT) strategy, we hired F12, an information technology service provider. They specialize in providing network and cybersecurity solutions. We converted in the fall and the transition has been successful. This has provided significant support to our staff for network solutions and the benefit of regular review and equipment replacement as needed.

Looking ahead, we are excited to embark on the next phase of the IT transition, which is moving ahead with digital banking. In 2020, we will begin a project to change our website, our on-line banking platform and our mobile application. We are looking forward to providing our members with this new digital platform called FORGE. The project is expected to complete in 2021.

As I write this, in the spring of 2020, we are facing the COVID-19 pandemic. This has consumed the activities and thoughts of our Board, management, staff and our membership. As we focus on safety and health of all concerned, we thank everyone for their support and cooperation as we move through this period of uncertainty. Our primary focus is on health and safety and being in the moment to help everyone get through this. As a result of this, we expect some delays to our project plans but they will re-start once we are able.

We look forward to serving our members in 2020. A sincere thank you to the management, staff, the Board of Directors and our faithful membership, whose support allows us to remain the owners of a strong independent financial institution.

Jim Ryckman



President, Board of Directors



Jim Ryckman

On behalf of management and staff, I am pleased to present this report to our membership for the year ended December 31, 2019. As your new CEO, I am grateful for the opportunity the Board of Directors has given me and I look forward to the challenges and opportunities we face today and in the future. I am fortunate to be surrounded by management and staff who have shown great support of our plans to move ahead.

Our Credit Union continues to experience significant change. In 2019, we saw 3 long term staff retire. Patti McInnis retired after 40 years, Winona Morris retired after 33 years, and Heather Reimer retired after 30 years. These three people spent the better part of their working lives helping the Credit Union serve its members and they did so with great loyalty and care. We are so grateful for their part in making this a great place to be. We wish them well in retirement!

We restructured our accounting function in 2019. We hired Cherine Klassen, CPA, CA and Cherine has been doing great work for us this year. We also hired Farrah Boychuk as our new Commercial Account Manager. Farrah has also been doing great as she makes the role her own.

As part of our IT strategy, we hired F12, an IT services company to provide network and cybersecurity solutions, which enhanced our security protocols, thus making the way we process information safer and more secure for our members. They also provide our team 24/7 service to manage network issues and they provide equipment replacement solutions. Their expertise has been an important step in allowing our Credit Union to manage the challenges we face today in a technical, fast-paced environment. Conversion to F12 took place in third quarter of 2019 and we look forward to a long and beneficial relationship.

In addition to this, with the resignation of our former auditors, we hired Grant Thornton and they audited our financial data and present the financial statements in this report.

Our financial results in 2019 continue to be strong. We focused our efforts on managing asset mix. This means we leveraged our strong liquidity and capital position to focus on increasing our loan portfolio, while offsetting lower revenue in our investment portfolio as interest rates began declining during the last half of 2019. This approach was successful as we organically increased our loans by 8.6% and we maintained our financial margin with an increase of 1.5% year over year. In a decreasing rate environment, this is a favorable outcome.

Earnings before taxes increased 20% in 2019. This was assisted by the change in asset mix, strong subsidiary revenue, and foreign exchange income. This resulted in net income of \$1,222,710 an increase of 36% year over year. This supported the Board's decision to issue \$455,910 in dividends and patronage back to members.

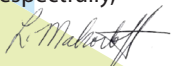
In 2019, we also reported a restatement of prior year financial statements. The prior year adjustment is a reduction of the value of one of our subsidiary properties relating to year-end 2017. The write down was \$575,925 and impacted retained earnings for the 2017 year-end which was then carried forward to 2019. Please refer to Note 25 of our consolidated financial statements for an explanation of the restatement.

The Creston Valley was very active in 2019 with a robust economy and strong real estate market. Economic activity remains steady along with many new entrants to the valley. This supports confidence and we hope to participate in and support economic activity in Creston and surrounding areas. Our membership is our guide and we continue to have faith in them and our community for a prosperous future. Our plan to participate in that future is to enhance our delivery channels in 2020 and beyond. We will embark on our digital journey by upgrading our website, and subsequently our online banking site and our mobile application. This is a big project and will likely extend into 2021.

As I write this report, we are experiencing COVID-19 along with the rest of humanity. Some of our plans for 2020 will be delayed and we will adjust our plans as needed. The priority is on the safety and health of our members, our staff, and the good health of the larger community. We wish everyone well as we work through this and look forward to better days ahead.

I would like to thank our staff for their continued support, effort, and commitment to service. I thank our Board of Directors for their confidence, direction and commitment to the community. But most of all, thank you to our members for your continued support.

Respectfully,



Lawrence Makortoff



Lawrence Makortoff



Report of the Independent Auditor on the Summarized Consolidated Financial Statements

To the members of [Creston & District Credit Union](#)

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Opinion

The accompanying summarized consolidated financial statements, which comprise the summarized consolidated statement of financial position as at December 31, 2019, the summarized consolidated statements of comprehensive income, changes in members' equity, and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Creston & District Credit Union as at December 31, 2019.

In our opinion, the accompanying summarized consolidated financial statements are a fair summary of the financial statement, in accordance with Article 128 of the Financial Institutions Act of B.C.

Summarized Consolidated Financial Statements

The summarized consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summarized consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the Credit Union's audited consolidated financial statements and the auditor's report thereon.

The summarized consolidated financial statements and the audited consolidated financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited consolidated financial statements.

The Audited Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on those consolidated financial statements in our report dated March 24, 2020. We included an *Emphasis of Matter - Restated Comparative Information* paragraph that explains that certain comparative information presented for the year ended December 31, 2018 has been restated and that the consolidated financial statements for the year ended December 31, 2018 (prior to the adjustments that were applied to restate certain comparative information) were audited by another auditor.

Management's Responsibility for the Summarized Consolidated Financial Statements

Management is responsible for the preparation of a summary of the audited consolidated financial statements in accordance with financial statements in accordance with Article 128 of the Financial Institutions Act of B.C.

Auditor's responsibility

Our responsibility is to express an opinion on the summarized consolidated financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, "Engagements to Report on Summary Financial Statements."

Kelowna, Canada
March 24, 2020

Chartered Professional Accountants

Grant Thornton LLP

Audit | Tax | Advisory


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Creston & District Credit Union Summarized Consolidated Statement of Financial Position

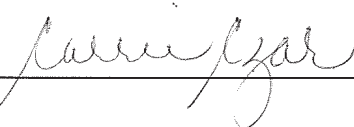
December 31	2019	2018 (as restated – Note 1)	January 1, 2018 (as restated – Note 1)
Assets			
Cash and cash equivalents	\$ 924,915	\$ 5,053,810	\$ 6,932,910
Investments	49,692,748	55,174,498	47,755,933
Income taxes recoverable	44,513	-	-
Receivables and prepaid expenses	84,910	48,572	41,904
Loans	81,490,972	75,006,282	70,686,950
Property, plant and equipment	1,053,860	1,091,832	1,139,098
Investment property	376,569	387,368	348,126
Investment in and advances to associates	10,598,777	10,762,700	10,340,723
Total assets	\$ 144,267,264	\$ 147,525,062	\$ 137,245,644
Liabilities			
Deposits	\$ 121,464,585	\$ 125,715,943	\$ 116,260,383
Payables and other liabilities	878,080	977,970	1,134,272
Income taxes payable	-	72,179	130,562
Deferred income tax	31,000	60,904	56,651
Total liabilities	122,373,665	126,826,996	117,581,868
Members' equity			
Retained earnings	17,658,758	16,436,048	15,541,477
Members' shares	4,234,841	4,262,018	4,122,299
Total members' equity	21,893,599	20,698,066	19,663,776
	\$ 144,267,264	\$ 147,525,062	\$ 137,245,644

Correction of prior period error (Note 1)

On behalf of the Board



Director



Director

Creston & District Credit Union Summarized Consolidated Statement of Earnings and Comprehensive Income

Year ended December 31	2019	2018 (as restated – Note 1)
Financial income	\$ 4,109,897	\$ 3,952,669
Financial expense	802,148	694,575
Financial margin	3,307,749	3,258,094
Other income	1,489,838	1,052,603
Operating income	4,797,587	4,310,697
Operating expenses	3,438,717	3,183,429
Earnings before income taxes	1,358,870	1,127,268
Income taxes	136,160	232,697
Net earnings, being comprehensive income	\$ 1,222,710	894,571

Creston & District Credit Union Summarized Consolidated Statement of Changes in Members' Equity

Year ended December 31, 2019

	Members' Shares	Retained earnings	Total members' equity
Balance on December 31, 2017, as previously stated	\$ 4,258,639	\$ 16,117,402	\$ 20,376,041
Correction of prior period error (Note 1)	(136,340)	(575,925)	(712,265)
Balance on December 31, 2017, as restated	4,122,299	15,541,477	19,663,776
Net earnings	-	894,571	894,571
Change in members' shares, net	139,719	-	139,719
Balance on December 31, 2018, as restated	4,262,018	16,436,048	20,698,066
Net earnings	-	1,222,710	1,222,710
Change in members' shares, net	(27,177)	-	(27,177)
Balance on December 31, 2019	\$ 4,234,841	\$ 17,658,758	\$ 21,893,599

Creston & District Credit Union Summarized Consolidated Statement of Cash Flows

Year ended December 31	2019	2018 (as restated – Note 1)
Increase (decrease) in cash and cash equivalents		
Operating activities	\$ (10,228,613)	\$ 5,396,416
Financing activities	(27,177)	139,719
Investing activities	6,126,895	(7,415,235)
Net decrease in cash and cash equivalents	(4,128,895)	(1,879,100)
Cash and cash equivalents, beginning of year	5,053,810	6,932,910
Cash and cash equivalents, end of year	\$ 924,915	\$ 5,053,810

A full set of consolidated financial statements are available from the Credit Union

Creston & District Credit Union Notes to the Summarized Consolidated Financial Statements

December 31, 2019

1. Correction of prior period

The comparative information has been restated to reflect the following errors in the prior years:

- Creston Place Holdings was incorrectly consolidated into the Credit Union financial statements. The Credit Union was required to reverse this consolidation and record the investment using the equity method.
- The bond funds and term deposits were incorrectly recorded as cash and cash equivalents. Based on the nature of these investments and their maturity dates these items are required to be disclosed as investments in the statement of financial position.
- All members' shares were classified as equity; however, shares that are redeemable at the option of the members should be classified as liabilities.
- The accumulated amortization on the building in Creston Place Holdings had been understated. Additionally, a valuation was performed on the property of Creston Place Holdings and it was determined that the property had been impaired dating back to 2017.

The adjustments that impact the January 1, 2018 Retained Earnings are as follows:

Understatement of amortization	\$ 183,310
Impairment of building	<u>392,615</u>
Total	\$ 575,925

Governance Report

Creston & District Credit Union is governed by a Board of Directors elected by the Credit Union's members. The Board of Directors is responsible under law for the management of the Credit Union's business and its affairs. It has the statutory authority and obligation to protect and enhance the assets of the Credit Union in the interests of all members. The duties and responsibilities of the Board of Directors are set out in mandate for the Board and include providing the mission and goals for the Credit Union, principles and values, developing a governance system and an overall risk appetite to manage and monitor applicable risks.

Board Executive Committee

The Board Executive Committee consists of the Board Chair, the Vice-Chair and the Secretary. The Board Executive Committee provides guidance and oversight in the effective functioning of the Board of Directors.

Governance & HR Committee

The Governance & HR Committee supports the Board's accountability to ensure effective oversight of the HR practices and organizational performance through the Credit Union employees. The Committee supports the Board in matters relating to CEO recruitment and performance.

Audit & Risk Committee

The Audit & Risk Committee's role is to ensure there is an effective risk management and control framework implemented. This framework should provide reasonable assurance that the financial, operational, regulatory, strategic and sustainability objective of the Credit Union are achieved, and that the accountabilities of the Board and Management are met.

The Committee is responsible for the qualification, independence and performance of the external and internal audit functions. This includes ensuring the integrity of financial and non-financial reporting and compliance with regulatory matters.

Conduct Review Committee

The Conduct Review Committee oversees the Credit Union's business standards and ethical conduct and related party loans and transactions entered into by the Credit Union. The Credit Union ensures compliance with relevant legislative internal policies and codes.

Nominating Committee

The Nominating Committee assists the Board in the recruitment of qualified directors and to ensure the Board's competency to fulfill its responsibilities.

Investment & Loan Committee

The Investment & Loan Committee assists the Board in fulfilling its responsibility for overseeing the Investment and Lending Policy of the Credit Union.

Credit Committee

The Credit Committee assists the Board of Directors in the oversight of the Lending Policy by provincial review and/or approval of member loans as set out in the Investment and Lending Policy of the Credit Union.

Board of Directors

The Board of Directors are a dedicated group of volunteers who have well rounded and significant experience to support their roles. They strive to ensure the well-being of the Credit Union so that it can serve its membership in a safe, secure, and relevant manner. With a common vision, the Board works together for the present and the future of the Credit Union.



Jim Ryckman
President



Rob Simpson
Vice-President



Carrie Czar
Secretary



Don Tarrant
Director



Carole Materi
Director



Don Low
Director



Rick Minichiello
Director

Director Compensation Disclosure

Creston & District Credit Union Directors are expected to dedicate considerable time to their positions providing oversight for the Credit Union and reporting to the membership annually. They attend Board Meetings, Annual Planning Sessions, numerous Committee Meetings and several industry and regulatory functions as required. In order to attract and retain qualified Directors, they are compensated for attending meetings and functions and reimbursed for expenses such as meals, travel and accommodation. The compensation is comparable to other credit unions and financial institutions.

For fiscal 2019, compensation received for each Director is outlined in the table below, along with meeting attendance.

Director Compensation Disclosure - 2019						
Director Name	Role as at December 31, 2019	Board Meetings Attended	Committee Meetings Attended	Directors Remuneration	Other Expenses	Total Compensation
Jim Ryckman	President	14 of 14	9 of 9	\$7,000	\$1,766	\$8,766
Rob Simpson	Vice-President	14 of 14	16 of 16	\$6,375	\$835	\$7,210
Carrie Czar	Secretary	12 of 14	7 of 7	\$4,125	\$2,721	\$6,846
Carole Materi	Director	14 of 14	10 of 10	\$5,625	\$2,621	\$8,246
Don Tarrant	Director	14 of 14	12 of 12	\$6,000	\$3,964	\$9,964
Don Low	Director	13 of 14	15 of 17	\$5,750	\$449	\$6,199
Rick Minichiello	Director- Appointed*	5 of 7	4 of 5	\$2,375	\$281	\$2,656
Larry Nowak	Director - Resigned**	7 of 7	7 of 8	\$2,750	\$0	\$2,750
TOTALS				\$40,000	\$12,638	\$52,638
* Rick Minichiello was appointed as Director by the Board of Directors on May 30, 2019						
** Larry Nowak resigned his position as Director on May 5, 2019, effective June 15, 2019						

Creston & District Credit Union Compensation Philosophy

Creston & District Credit Union's Compensation Philosophy applies equally to all employees and is measured against the market of similar sized credit unions. We seek to balance fairness, affordability and comparable compensation measures. Our compensation system is fundamental to attracting, retaining, rewarding and motivating talented individuals needed for the success of the Credit Union.

CEO Compensation

CEO compensation is established by the Board and is based on comparative asset groups across Canada as determined by an annual Central1 Credit Union Survey of Credit Union Compensation. Creston & District Credit Union participates in the survey, the CEO participates in the same comprehensive benefits plan as all other employees. In addition, the CEO participates in the Creston & District Credit Union's RRSP/Pension Plan where employees are paid a percentage of their base salary into an RRSP/Pension Plan. The CEO participates in a profit share plan with the same terms as all other employees and in accordance with Board approved policies.

2019 was a year of transition where 3 people were paid for present and past performance of CEO duties. For year end December 31, 2019, both the interim Co-CEO's (to May 1, 2019), the current CEO (May 1 – December 31) and the former CEO (contractual retirement obligations) received total compensation of \$363,934.58 which represents base salary, RRSP/Pension contributions, bonus, profit share, and benefits. The current CEO began duties officially on May 1, 2019.

2019 in Review

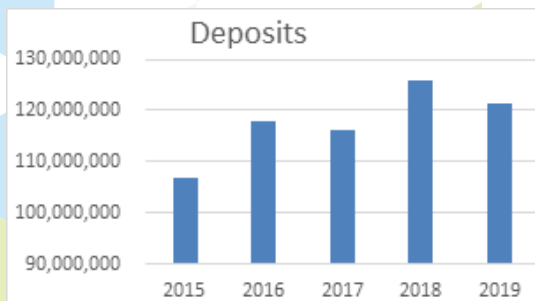
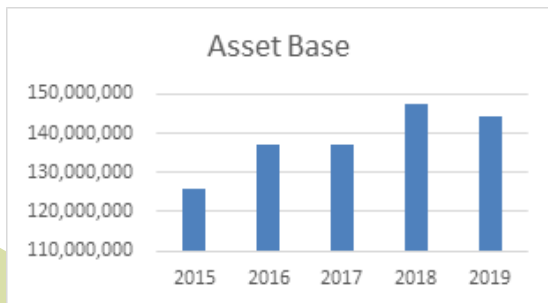
Management Discussion and Analysis

2019 was another successful year for our Credit Union. Our focus was to leverage our strong capital and liquidity position to increase loans while working hard to maintain our financial margin in a decreasing interest rate environment. The last half of 2019 saw the reduction of interest rates which would adversely affect our margins, however as evidenced by the diagram below, we were able to adjust quickly to the market to maintain margin.

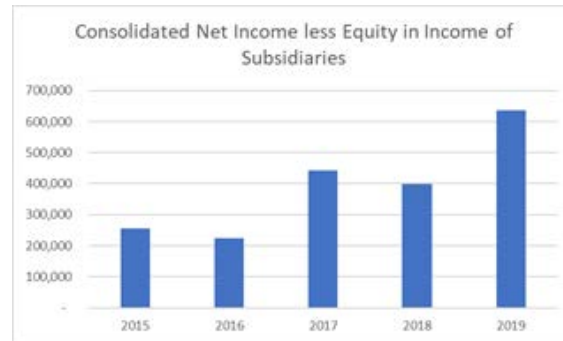
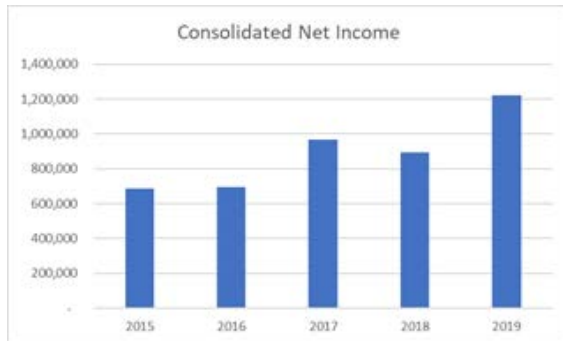


Assets and Liabilities

Asset size and deposits have moved in lockstep with one another for the past 5 years. As our deposit base grows, our asset size adjusts in the similar manner. As the diagrams below show, deposits and assets have been moving in stair-step fashion over the past five years. As our focus in 2019 was asset mix, these factors were minimally affected.



Consolidated Net Income increased to \$1,222,710 in 2019 vs. \$894,571 in 2018. This is an increase of 36.7%. On a non-consolidated basis, specifically branch operations, we produced net income of \$622,296 vs. \$376,652 in 2018, an increase of 65.2%. Equity income from subsidiaries is \$586,068 vs. \$495,166 in 2018 which is an increase of 18.3%.

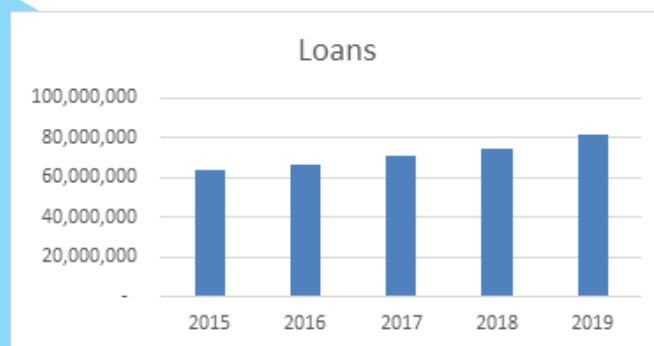


Restatement of Prior Period

Our external auditors have explained the rationale for the re-statement of prior periods in Note 25 of our Consolidated Financial Statements. Our Consolidated Financial Statements with full set of notes are available on our website. In short, we reviewed our valuation and accounting method of subsidiary property, Creston Place Holdings Ltd., and we determined that current valuations did not support the existing valuation we had recorded on our 2017 financial statements, thus resulting in a write-down. We based the valuation back to 2017, where the reviews and valuations began, and this resulted in the re-statement. The adjustment totalled \$575,925 which was charged against retained earnings.

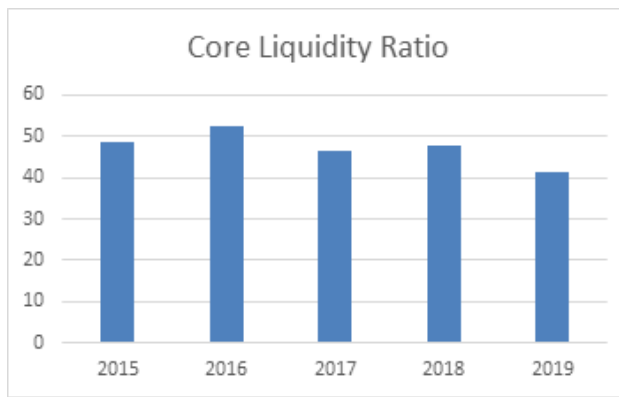
Loans

Our focus in 2019 was to grow our loan portfolio organically while maintaining a conservative approach. We had significant growth in 2019 of 8.6% which indicates confidence in the growth prospects of our valley. The trend as illustrated below confirms this view.



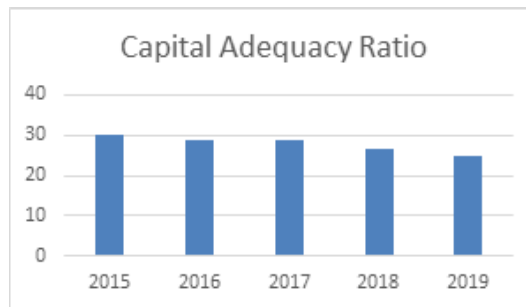
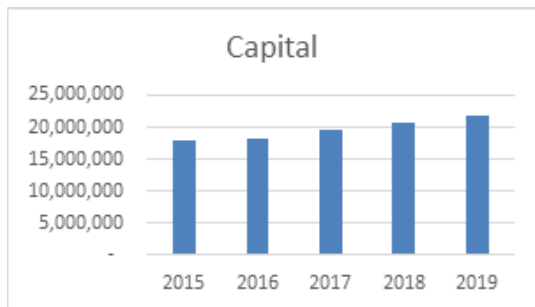
Liquidity

Our Credit Union has historically maintained a higher level of liquidity in relation to the industry. Our ratios are very strong and this allows us to weather unexpected storms we might face and it also allows us to take advantage of opportunities as they arise. The Credit Union minimum liquidity target is 12 – 15%.



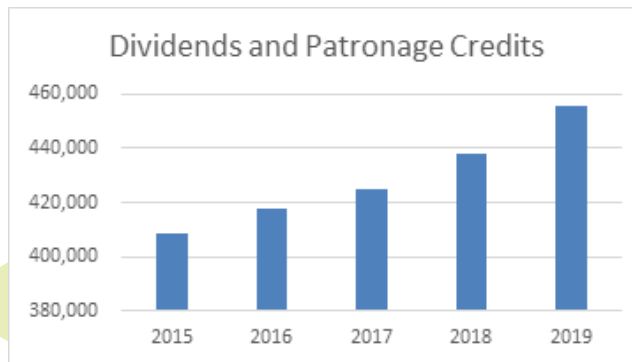
Capital and Capital Adequacy Ratio

Our capital position has grown steadily which provides support to our balanced approach of increasing earnings and returning dividends and patronage to members. Our Capital Adequacy Ratio of 24.25% is well above regulatory requirements of 8% and our Internal Capital Target of 12%.



Dividends and Patronage

Stable earnings and profits have allowed the Board to return consistently strong dividends and patronage back to members. In 2019, the Board returned \$455,910 to members.



Outlook for 2020

As we write this, COVID-19 is adversely affecting significant portions of the economy. Our valley is no exception. An accurate forecast is very challenging to put together as nothing like this has happened in a century. With this in mind, we continue looking to the future in a positive and constructive manner. We continue making changes to our technology by investing in better electronic delivery channels. This investment will allow us to meet the needs of our membership as we progress together into the future.



MISSION

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



CRESTON & DISTRICT

CREDIT UNION

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