# Annual Report 1997

CUDIC™

"New products and services are appearing at a phenomenal pace and when these new costs are coupled with shrinking margins, long-term survival will be dependent in part on having a sufficient base over which to amortize the costs."

# Nova Scotia
# Credit Union Deposit Insurance Corporation

## Annual Report
## 1997

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# Report of the Board of Directors

**Mike MacNeil**
*Chair*

**Janine Saulnier**
*Vice–Chair*

**Mary Boyd**
*Secretary*

**"The use of modern technology should help discover problem areas before they become a drain on a credit union."**

The Board of the Nova Scotia Credit Union Deposit Insurance Corporation (CUDIC) has been in place for three years. Much has been accomplished; however new measures are being studied in order to better serve the credit unions and its members.

At our annual Planning Session, a great deal of time was spent discussing the size of a good deposit insurance fund. As we approach the 1% of system assets level, some may think that the fund is sufficient while others make arguments that more may be required. After a great deal of debate, our Board agreed that stabilization and prevention measures aimed at averting the potential payment of claims was our primary task.

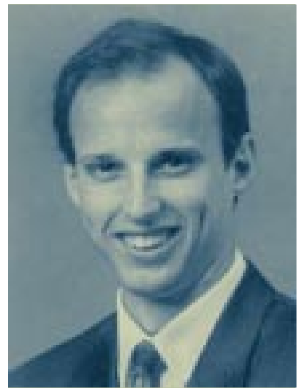
The use of modern technology should help discover problem areas before they become a drain on a credit union. Recently, CUDIC unveiled a computerized monitoring program that will track credit union financial performance closely and will show trends as they develop. This data will enable staff to intervene at an early stage and help minimize potential losses to the credit union. Performance of this nature coupled with sound business and financial practices will ensure that the 1% goal should be sufficient.

CUDIC and Credit Union Central of Nova Scotia have been working together to better serve our credit unions. Meetings of the joint Boards and Executives have been ongoing and many topics have been discussed. Recently, we discussed the Orderly Development of Credit Unions and Minimum Equity Levels for Intervention. Discussion papers will be developed to allow the system to have input in determining what the final product will be. This process will enable appropriate policies to be developed that will be workable and will help strengthen the Movement in Nova Scotia.

The Board of CUDIC would like at this time to recognize Mr. Paul LeBlanc, Superintendent of Credit Unions, for his contributions at our Board table. Mr. LeBlanc, who announced that he will retire on June 30, 1998, has

**Lloyd Coombs**
*Past–Chair*

**Kay Chisholm**
*Director*



**David Nunn**
*Director*

**Martin MacKinnon**
*Director*

attended all our meetings and was always there to share his experience, wisdom, and knowledge of credit unions and their workings. New Board members were given background and general information that enabled them to make sound decisions on a wide range of issues. Paul's interpretation of the Credit Union Act will be greatly missed. We wish him good health and many years of retirement.

One of our Board members completed his term in February of this year. Lloyd Coombs has decided to enjoy full retirement. Lloyd chaired the Board of CUDIC from1995 to 1997. He has had a distinguished career in credit union management and has served on numerous local, provincial, and national boards in the cooperative movement. We wish Lloyd the best in his future plans and thank him for his contribution and support to CUDIC.

In closing, the Board wishes to congratulate the staff for their hard work and positive results. Many new challenges were addressed and a great deal was accomplished. May this team approach continue to show positive results for years to come.

Respectfully submitted on behalf of the Board of Directors,

Michael MacNeil, Chair

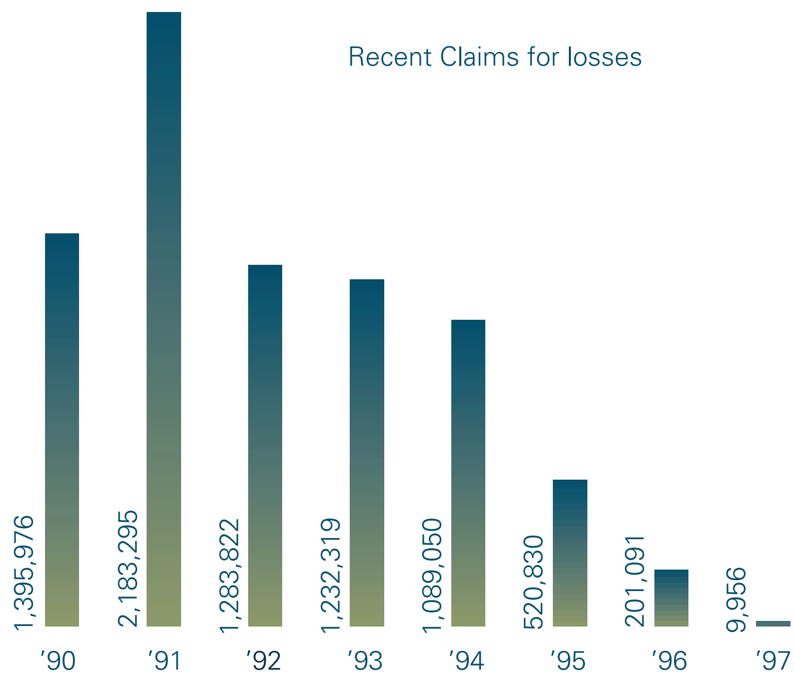



Figure 1

# Report of the Chief Executive Officer

**Barry Bennett**
*Chief Executive Officer*

Once again I am able to report to you that the Corporation has had a very successful year. A number of major events occurred, the least of which is that the Corporation is very near its target equity of 1% of system assets. As a result, the Corporation has reduced the assessment rate from 0.20% of average assets to 0.15% or 15 basis points.

This success is primarily due to the improvements within the credit union system, which resulted in claims for the year of less than $10,000 after making provision for all known problems. It is indeed a credit to the efforts of the Boards, management and staff of all credit unions that for the third consecutive year, we have experienced claims of less than $500,000. Our objective is to utilize our monitoring system and loan reviews to identify potential problems and react to them at a much earlier stage than had been the case a number of years ago. By doing this, we hopefully can ensure corrective action is taken while a credit union has the reserves to fund the costs of rehabilitation.

Another contributing factor in our rate reduction again this year is that our fund has the lowest average operating costs of all our counterparts in Canada. Because our interaction is with a credit union regardless of size, we have compared costs on a per credit union basis rather than a system asset basis. With total operating costs of $10,761 per credit union, we are substantially below the other funds (See figure 2). Also, using the same base, only Prince Edward Island had a lower average personnel cost (see figure 4).

We have made significant

**"As credit unions assessed their potential, a number of them realized that they needed to band together to develop the economic base they needed to survive in the current and future work place."**

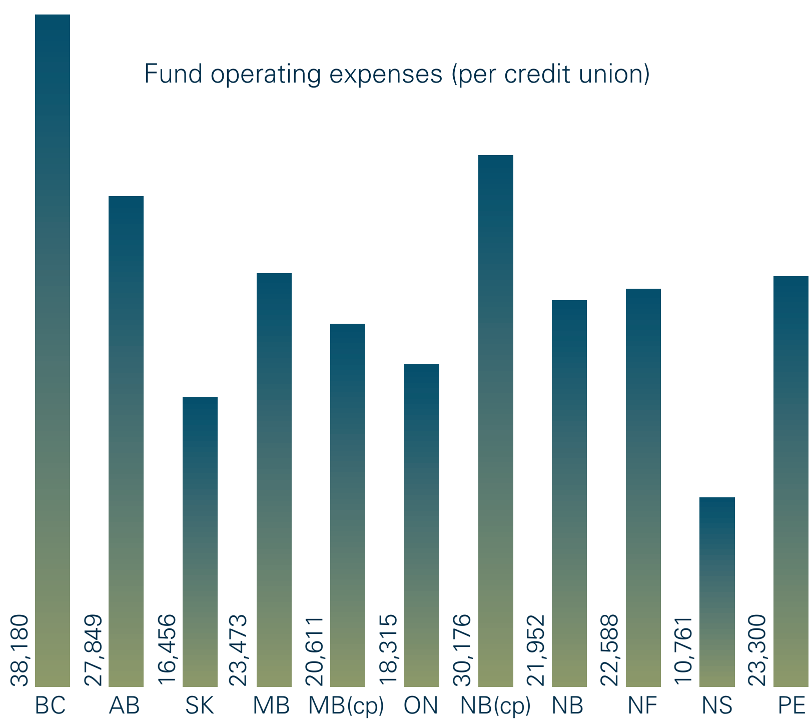



Figure 2

strides in the development of our computerized loan review database. It has resulted in improved efficiency and consistency and allows us to give the managers the results of the review at the exit interview. Also, we provide detailed copies of the individual loan work sheets, which allows management and staff to take corrective action, if needed, at an earlier stage. We have work-shopped this program with our counterparts in Atlantic Canada and the Nova Scotia Government Examiners and have offered to share it with them. This is part of a concerted effort on behalf of the Atlantic Canada funds to find ways to share resources. Our Chairs and Fund Managers meet on a semi-annual basis in conjunction with our national meetings and currently are exploring the feasibility of developing harmonized Standards of Sound Business Practices. Using the Standards which have already been developed in Atlantic Canada and Ontario, we hope to adopt a common set of Standards which will allow us to explore other areas of resource sharing. Because of the added dimension of developing these in both French and English, we will be moving forward slowly, but would like to see the initial Standards agreed to in 1998.

Mergers and amalgamations were again front and center in 1997. As credit unions assessed their potential, a number of them realized that they needed to band together to develop the economic base they needed to survive in the current and future work place. New products and services are appearing at a phenomenal pace and when these new costs are

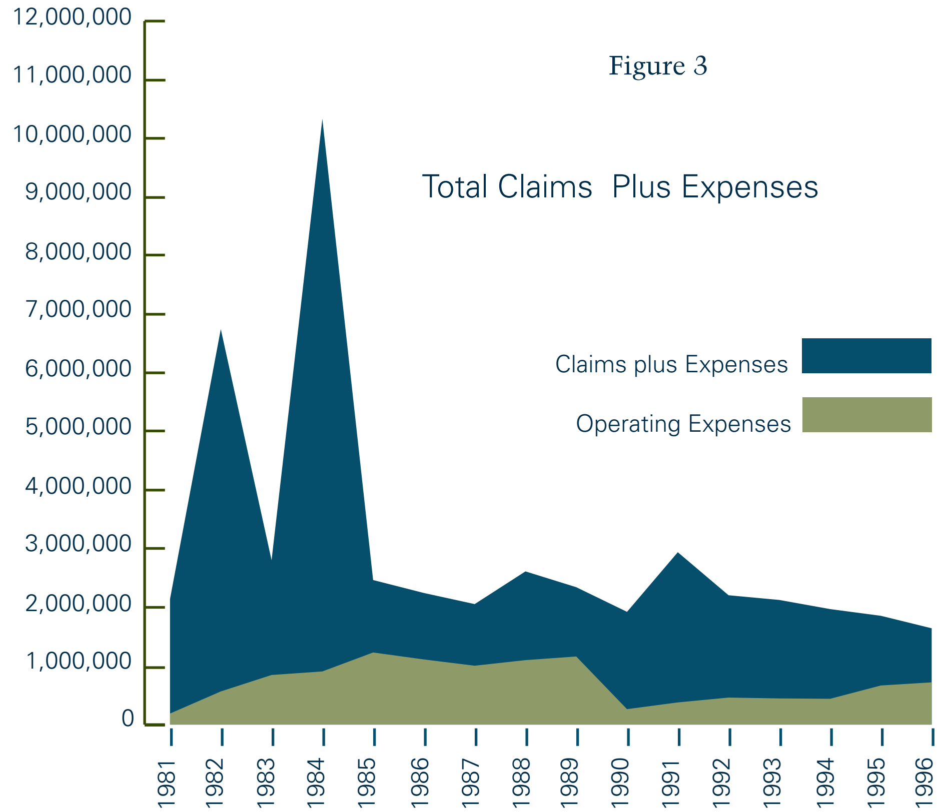



Figure 3

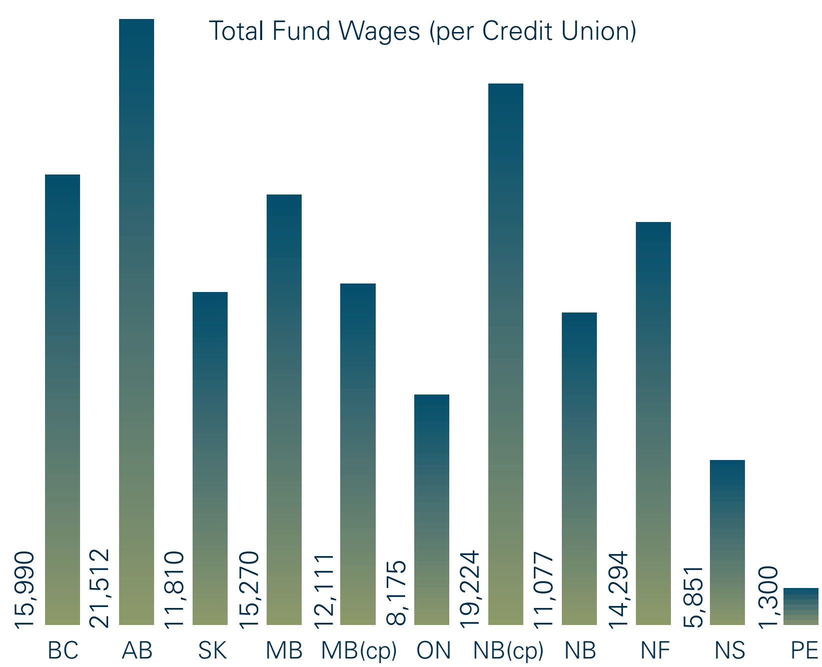



Figure 4

coupled with shrinking margins, long-term survival will be dependent in part on having a sufficient base over which to amortize the costs. For the most part, these amalgamations were initiated by the credit unions and were not as a result of a workout plan to correct problems in the system. In all cases, the mergers happened without any financial support from our office. We did however provide our moral support for their efforts and will continue to assist in whatever way we can. Although the number of credit unions has dropped significantly in Nova Scotia, the number of service delivery points has not. (See figure 5). This means that most mergers have resulted in the existing outlets remaining open. We offer our congratulations to Caisse Populaire de Clare and Highland Credit Union and wish them every success in the future. We also wish the credit unions currently exploring the feasibility of amalgamation in other areas of the province our best and offer whatever support we can provide to assist them.

1998 will bring significant changes for us. First, a long-time Board member, Mr. Lloyd W. Coombs has fulfilled his term and has not re-offered for another term on our Board. Lloyd has expressed his desire to spend more time with his wife, Betty and their family, particularly in their Florida winter home. I would like to thank Lloyd for his assistance during his term on the Board and especially for the years when he chaired the Board. I wish Lloyd and Betty the best of luck and health in their retirement.

In closing, I want to acknowledge the tremendous support I have received from my staff. They are a dedicated team of professionals and I am proud to work with them on a day to day basis. Although our resources are limited, we have made tremendous strides in working with the credit union movement to improve the overall financial health of the system. I thank each and every one of you for your contributions.

Respectfully submitted

Barry C. Bennett, C.A.
Chief Executive Officer

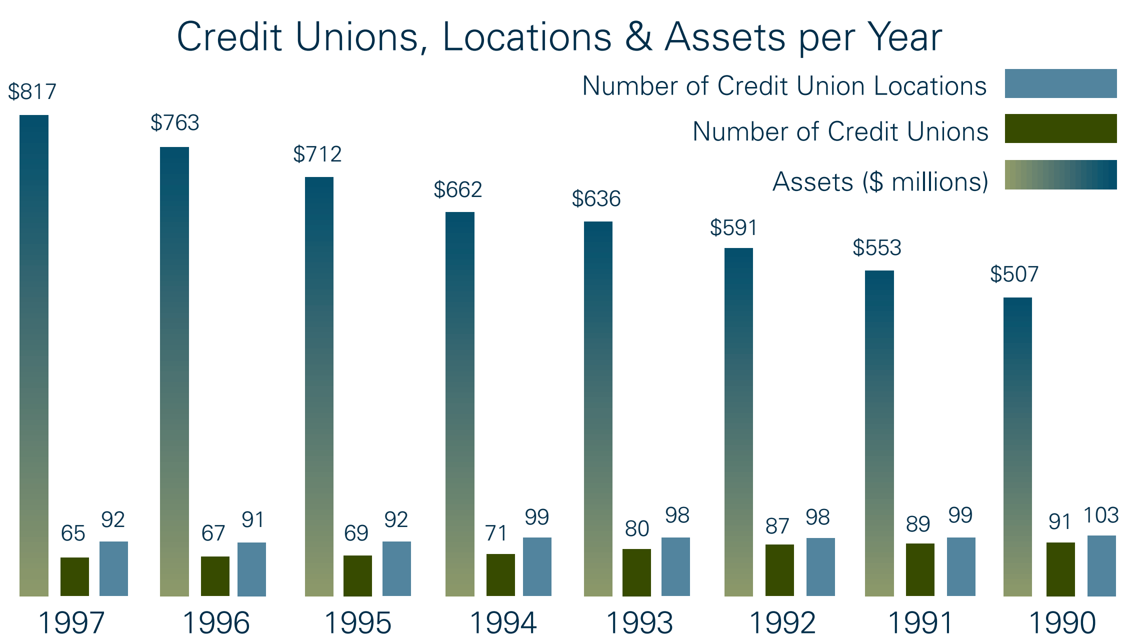



Figure 5

# Auditors' Report

**To the Members of**
**Nova Scotia Credit Union Deposit Insurance Corporation**

We have audited the balance sheet of Nova Scotia Credit Union Deposit Insurance Corporation as at December 31, 1997 and the statements of earnings and retained earnings, and changes in cash resources for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Doane Raymond
Chartered Accountants

Halifax, Nova Scotia
January 23, 1998

# Statements of Earnings and Retained Earnings

| Year Ended December 31 | 1997 | 1996 |
|---|---|---|
| **Earnings** | | |
| Investment income | $ 1,055,660 | $ 740,374 |
| Assessments and recoveries (Note 10) | 2,070,756 | 2,449,241 |
| | 3,126,416 | 3,189,615 |
| **Expenses** | | |
| Operating | | |
| Board and committees | 56,919 | 67,238 |
| Depreciation | 33,401 | 26,952 |
| Insurance | 11,089 | 21,998 |
| Legal | 1,691 | 1,331 |
| Office | 36,436 | 23,752 |
| Occupancy costs | 48,301 | 50,770 |
| Professional fees | 33,396 | 34,337 |
| Salaries and employee benefits | 440,864 | 392,147 |
| Telephone | 12,025 | 13,428 |
| Travel | 104,364 | 89,142 |
| | 778,486 | 721,095 |
| Conditional grants and loan purchases (Note 11) | 9,956 | 201,091 |
| | 788,442 | 922,186 |
| **Net earnings** | $ 2,337,974 | $ 2,267,429 |

| | 1997 | 1996 |
|---|---|---|
| **Retained earnings, beginning of year** | $ 5,563,680 | $ 3,319,787 |
| Net earnings | 2,337,974 | 2,267,429 |
| Transfer to shared deductible pool reserve (Note 8) | (16,212) | (23,536) |
| **Retained earnings, end of year** | $ 7,885,442 | $ 5,563,680 |

*See accompanying notes to the financial statements.*

# Balance Sheet

| December 31 | 1997 | 1996 |
|---|---|---|
| **Assets** | | |
| Cash | $ 80,735 | $ 5,726 |
| Receivables (Note 3) | 78,989 | 172,842 |
| Prepaids | 3,807 | 5,732 |
| Investments (Note 4) | 10,446,418 | 9,698,218 |
| Furniture and equipment (Note 5) | 69,609 | 75,042 |
| | $ 10,679,558 | $ 9,957,560 |
| **Liabilities** | | |
| Payables and accruals (Note 6) | $ 716,694 | $ 834,834 |
| Unearned revenue (Note 7) | 1,595,674 | 3,093,510 |
| | 2,312,368 | 3,928,344 |
| **Equity** | | |
| Shared deductible pool reserve (Note 8) | 481,748 | 465,536 |
| Retained earnings | 7,885,442 | 5,563,680 |
| | 8,367,190 | 6,029,216 |
| | $ 10,679,558 | $ 9,957,560 |

Commitments and contingent liabilities (Note 12)
Lease commitments (Note 14)

On behalf of the Corporation

Michael J. MacNeil
*Director*

Mary Boyd
*Director*

*See accompanying notes to the financial statements.*

# Statement of Changes in Cash Resources

| Year Ended December 31 | 1997 | 1996 |
|---|---|---|
| Cash derived from (applied to) | | |
| **Operating** | | |
| Net earnings | $ 2,337,974 | $ 2,267,429 |
| Depreciation | 33,401 | 26,952 |
| | 2,371,375 | 2,294,381 |
| Change in non-cash operating working capital (Note 9) | (1,945,993) | (2,520,610) |
| | 425,382 | (226,229) |
| **Investing** | | |
| Purchase of investments (net) | (322,405) | (384,602) |
| Purchase of property and equipment | (27,968) | (41,626) |
| | (350,373) | (426,228) |
| Net increase (decrease) in cash | 75,009 | (652,457) |
| Cash | | |
| Beginning of year | 5,726 | 658,183 |
| End of year | $ 80,735 | $ 5,726 |

*See accompanying notes to the financial statements.*

# Notes to the Financial Statements

December 31, 1997

## 1. Nature of operations

The Nova Scotia Credit Union Deposit Insurance Corporation is a body corporate established under the Credit Union Act to provide deposit insurance to members of credit unions and to ensure the financial stability of credit unions.

## 2. Summary of significant accounting policies

*Investments*
Investments are recorded at face value. Premiums or discounts on the acquisition of investments are recorded as investment income in the year of disposal.

Gains or losses realized on investments within the managed investment portfolio are reported as investment income during the year.

*Depreciation*
Furniture, equipment and leasehold improvements are depreciated over their useful lives as follows:

| | |
|---|---|
| Furniture | 20% declining balance |
| Computer equipment | 40% declining balance |
| Leasehold improvements | 5 years straight line |

## 3. Receivables

| | 1997 | 1996 |
|---|---|---|
| Credit Union assessments | $ 79 | $ 10,177 |
| Accrued interest | 66,013 | 157,669 |
| Other | 12,897 | 4,996 |
| | $ 78,989 | $ 172,842 |

## 4. Investments

| | Weighted Average Interest Rate | Weighted Average Duration (Years) | 1997 Cost | 1997 Market Value | 1996 Cost | 1996 Market Value |
|---|---|---|---|---|---|---|
| Credit Union Movement | 4.10% | .48 | $ 3,450,104 | $ 3,450,104 | $ 4,077,699 | $ 4,077,699 |
| Managed portfolio | | | | | | |
| Income | 7.44% | 4.26 | 4,000,000 | 4,154,567 | 5,000,000 | 5,380,853 |
| Other | | | 2,000,000 | 1,735,766 | | |
| Accrued income | | | 696,304 | 696,304 | 270,509 | 270,509 |
| Provincial bonds and others | 8.12% | 1.56 | 300,010 | 305,407 | 350,010 | 359,320 |
| | | | $10,446,418 | $10,342,148 | $ 9,698,218 | $10,088,381 |

## 5. Furniture and equipment

| | Cost | Accumulated Depreciation | 1997 Net Book Value | 1996 Net Book Value |
|---|---|---|---|---|
| Furniture and equipment | $ 137,908 | $ 79,482 | $ 58,426 | $ 58,268 |
| Leasehold improvements | 27,954 | 16,771 | 11,183 | 16,774 |
| | $ 165,862 | $ 96,253 | $ 69,609 | $ 75,042 |

# Notes to the Financial Statements

December 31, 1997

## 6. Payables and accruals

| | 1997 | 1996 |
|---|---|---|
| Assessment rebates | $ 194,932 | $ |
| Trade | 16,762 | 12,195 |
| Unclaimed shares and deposits | | 47,639 |
| Accrual for claims under commitments | 290,000 | 625,000 |
| Accrual for deficit funding | 215,000 | 150,000 |
| | $ 716,694 | $ 834,834 |

## 7. Unearned revenue

| | 1997 | 1996 |
|---|---|---|
| Unearned portion of Credit Union Central of Nova Scotia's settlement for its obligations under Financial Plan 1984 | $ | $ 700,000 |
| Prepaid assessment fees | 1,595,674 | 2,393,510 |
| | $ 1,595,674 | $ 3,093,510 |

In accordance with agreements with the Central and the Credit Unions, the amount will be amortized to income on the following basis:

| | |
|---|---|
| 1998 | $ 797,837 |
| 1999 | 797,837 |
| | $1,595,674 |

## 8. Shared deductible pool reserve

The reserve was established to fund a shared deductible pool for director's liability insurance. The first $5,000 of the claim will be paid by the credit union and any residual, up to a maximum of $95,000, will be paid from the reserve. Income earned on the funds will be credited to the reserve. The Corporation's liability is limited to funds available in the reserve.

During the year, interest income in the amount of $16,212 was transferred to the reserve.

## 9. Change in non-cash operating working capital

| | 1997 | 1996 |
|---|---|---|
| Receivables | $ (331,942) | $ 6,615 |
| Prepaids | 1,925 | (1,758) |
| Payables and accruals | (118,140) | (918,977) |
| Unearned revenue | (1,497,836) | (1,606,490) |
| | $ (1,945,993) | $ (2,520,610) |

## 10. Assessments and recoveries

| | 1997 | 1996 |
|---|---|---|
| Special assessments | | |
| Credit Union Central of Nova Scotia | $ 700,000 | $ 800,000 |
| Credit unions' assessments - regular | 1,149,737 | 1,456,679 |
| Recovery of conditional grants | 221,019 | 192,562 |
| | $ 2,070,756 | $ 2,449,241 |

## 11. Conditional grants and loan purchases

| | 1997 | 1996 |
|---|---|---|
| Conditional grants paid and accrued in the year | | |
| North Isle Madame | $ | $ 137,091 |
| Strait Area Credit Union | | 17,106 |
| Valley Credit Union | | 225,817 |
| Victory Credit Union | 7,500 | |
| | 7,500 | 380,014 |
| Loan purchases made during the year | | |
| Credit Union Atlantic re: Eastern Passage | | 56,866 |
| Credit Union Atlantic re: Russell | | 123,467 |
| Heritage re: Tidal | 3,213 | |
| Heritage re: St. Albans | | 1,269 |
| Margaree Credit Union | 19,051 | 202 |
| Strait Area Credit Union | 3,855 | 41,288 |
| Valley Credit Union | 246,337 | 272,985 |
| | 272,456 | 496,077 |
| Total conditional grants and loans purchases | 279,956 | 876,091 |
| Decrease in accruals for claims considered likely under commitments | (270,000) | (675,000) |
| | $ 9,956 | $ 201,091 |

## 12. Commitments and contingent liabilities

(i) Commitments in effect at December 31, 1997

The Corporation has provided protection to credit unions so they will not suffer losses on loans acquired in certain amalgamations, or as part of a deficit funding agreement. As at December 31, 1997, the Corporation has outstanding commitments in the amount of $654,000. Of this amount, $290,000 has been accrued in these financial statements and represents management's best estimate of the likely liability under these commitments. The liability, if any, associated with the remaining identified problem accounts of $364,000 are not determinable at this time.

(ii) Deficit funding

To provide estimated funding for identified problems in certain credit unions, the Corporation has accrued an amount of $215,000 in these financial statements.

# Notes to the Financial Statements

December 31, 1997

### 13. Income taxes

The loss carry-forward for income tax purposes amounts to $1,550,080 and expires as follows:

| | |
|---|---|
| December 31, 1998 | $ 502,308 |
| December 31, 1999 | 532,890 |
| December 31, 2000 | 310,406 |
| December 31, 2001 | 204,476 |

Any tax benefits of this loss carry-forward have not been recognized in the financial statements.

### 14. Lease commitments

The Corporation is committed to pay annual lease payments for its premises and vehicles for the next two years as follows:

| | |
|---|---|
| 1998 | $ 68,779 |
| 1999 | 57,304 |
| | $ 126,083 |