

**BULKLEY VALLEY CREDIT UNION  
INDEX TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**AUDITORS' REPORT**

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**NOTES TO FINANCIAL STATEMENTS**

MAH, BARNES & COMPANY  
CERTIFIED GENERAL ACCOUNTANTS  
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## **AUDITORS' REPORT**

**To the Members  
Bulkley Valley Credit Union  
Smithers, B.C.**

**We have audited the balance sheet of the Bulkley Valley Credit Union as at December 31, 2001, and the statements of 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 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, 2001, and the results of its operations and changes in it's financial position for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Financial Institutions Act, we report that, in our opinion, those principles have been applied consistently.**

**Mah, Barnes & Company  
CERTIFIED GENERAL ACCOUNTANTS**

**Smithers, B.C.  
February 26, 2002**

**BULKLEY VALLEY CREDIT UNION**  
**BALANCE SHEET [Notes 1, 11, 13, 14 & 15]**  
**DECEMBER 31, 2001**

		<u>2001</u>	<u>2000</u>
<u>Assets</u>			
<b>CASH AND TERM DEPOSITS</b>	[Note 11]	\$ 25,194,056	\$ 16,439,026
<b>LOANS TO MEMBERS</b>	[Note 2]	127,444,325	127,165,197
<b>OTHER ASSETS</b>	[Note 3]	2,197,643	1,647,624
<b>INVESTMENTS</b>	[Note 4]	820,884	770,343
<b>CAPITAL ASSETS</b>	[Note 5]	<u>2,803,316</u>	<u>2,434,305</u>
		<u>\$158,460,224</u>	<u>\$148,456,495</u>

Liabilities and Members' Equity [Note 12]

<b>MEMBERS' DEPOSITS AND SHARES</b>	[Note 6]	\$148,521,951	\$139,174,224
<b>ACCOUNTS PAYABLE AND ACCRUALS</b>	[Note 8]	824,724	616,587
<b>DIVIDENDS AND ALLOCATIONS TO MEMBERS</b>	[Note 9]	269,189	373,277
<b>EQUITY SHARES</b>	[Note 10]	2,400,230	2,246,582
<b>RETAINED EARNINGS</b>	[Note 11]	<u>6,444,130</u>	<u>6,045,825</u>
		<u>\$158,460,224</u>	<u>\$148,456,495</u>

**Approved by the Directors:**

**Diane Macauley, Director**

**Randy Brandvold, Director**

Submitted with our Report  
dated February 26, 2002

The accompanying notes form an integral part of these financial statements

**MAH, BARNES & COMPANY**  
*Certified General Accountants*

**BULKLEY VALLEY CREDIT UNION**  
**STATEMENT OF EARNINGS AND RETAINED EARNINGS [Notes 1, 11, 13, 14, &15]**  
**FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>2001</u>	<u>2000</u>
<b>INTEREST EARNINGS</b>		
Members' loans	\$ 9,834,603	\$ 9,200,588
Investments	<u>970,203</u>	<u>921,570</u>
	<u>10,804,806</u>	<u>10,122,158</u>
<b>INTEREST EXPENSE</b>		
Members' deposits	5,472,385	4,951,531
Borrowed funds [Note 7]	<u>24,702</u>	<u>87,285</u>
	<u>5,497,087</u>	<u>5,038,816</u>
<b>FINANCIAL MARGIN</b>	5,307,719	5,083,342
<b>OTHER INCOME</b>	<u>1,602,938</u>	<u>1,461,861</u>
<b>OPERATING MARGIN</b>	<u>6,910,657</u>	<u>6,545,203</u>
<b>OPERATING EXPENSES</b>		
Salaries and staff benefits	2,744,399	2,363,556
Office services and supplies	1,150,409	1,065,249
Other administrative expenses	750,273	639,489
Occupancy and building	304,666	282,363
Insurance on savings and loans	55,249	47,135
Capital asset amortization	348,943	370,187
Allowance for losses on loans [Note 2]	701,988	616,602
Corporation capital tax	<u>86,930</u>	<u>84,816</u>
	<u>6,142,857</u>	<u>5,469,397</u>
<b>NET EARNINGS FROM OPERATIONS</b>	<u>767,800</u>	<u>1,075,806</u>
Patronage allocation	143,349	242,776
Dividends to members [Note 9]	<u>76,000</u>	<u>121,309</u>
	<u>219,349</u>	<u>364,085</u>
<b>NET EARNINGS BEFORE INCOME TAXES</b>	<u>548,451</u>	<u>711,721</u>
<b>INCOME TAXES</b>		
Current	97,488	125,196
Deferred	<u>21,158</u>	<u>14,500</u>
	<u>118,646</u>	<u>139,696</u>
<b>NET EARNINGS FOR THE YEAR</b>	429,805	572,025
<b>RETAINED EARNINGS, BEGINNING OF THE YEAR</b>	6,045,825	5,473,800
<b>Prior period adjustment [Note 16 ]</b>	<u>(31,500)</u>	<u>-</u>
<b>RETAINED EARNINGS, END OF THE YEAR</b>	<u>\$ 6,444,130</u>	<u>\$ 6,045,825</u>

Submitted with our Report  
dated February 26, 2002

The accompanying notes form an integral part of these financial statements

**MAH, BARNES & COMPANY**  
*Certified General Accountants*

**BULKLEY VALLEY CREDIT UNION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>2001</u>	<u>2000</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest received	\$ 9,834,603	\$ 9,200,588
Term deposit interest received	923,241	837,368
Dividends received	46,962	84,202
Other income	1,602,938	1,461,861
Interest paid to members	(5,472,385)	(4,951,531)
Dividends paid to members	(76,000)	(121,309)
Interest paid on borrowed funds	(24,702)	(87,285)
Patronage allocations paid to members	(143,349)	(242,776)
Cash paid to or on behalf of employees	(2,744,399)	(2,363,556)
Cash paid for services and supplies	(1,150,409)	(1,065,249)
Cash paid for administrative expenses	(750,273)	(639,489)
Cash paid for building occupancy	(304,666)	(282,363)
Cash paid for savings and loan insurance	(55,249)	(47,135)
Income and capital taxes paid	<u>(279,266)</u>	<u>(176,156)</u>
	<u>1,407,046</u>	<u>1,607,170</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net change in loans to members	(981,116)	(23,036,859)
Net change in investments	(50,541)	(39,810)
Net change in cash items in other assets	(388,448)	(1,305,699)
Net change in capital assets	<u>(717,954)</u>	<u>(78,486)</u>
	<u>(2,138,059)</u>	<u>(24,460,854)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net change in term deposits	(2,671,939)	12,627,143
Net change in demand deposits	8,759,343	4,819,050
Net change in registered savings plans	3,297,671	2,814,893
Net change in ordinary share accounts	(37,348)	(212,578)
Net change in accounts and loans payable	88,756	4,823
Net change in dividends and allocations to members	(104,088)	70,960
Net change in equity shares	<u>153,648</u>	<u>199,107</u>
	<u>9,486,043</u>	<u>20,323,398</u>
<b>NET INCREASE IN CASH AND EQUIVALENTS</b>	8,755,030	(2,530,286)
<b>CASH AND EQUIVALENTS, BEGINNING OF YEAR</b>	<u>16,439,026</u>	<u>18,969,312</u>
<b>CASH AND EQUIVALENTS, END OF YEAR</b>	<u>\$ 25,194,056</u>	<u>\$ 16,439,026</u>

Submitted with our Report  
dated February 26, 2002

The accompanying notes form an integral part of these financial statements

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**BULKLEY VALLEY CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

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**1. SIGNIFICANT ACCOUNTING POLICIES**

**a) Loans**

Loans are recorded at the principal amount less a provision for losses. An allowance for doubtful accounts is determined by reference to specific loans in arrears, prior loan collection experience, economic conditions, and other factors which in management's opinion deserve recognition. Loans considered uncollectible are written off.

Interest income is recorded on the accrual basis, except for interest on loans where, in the opinion of management, it is considered uncollectible.

Property held in settlement of loans is valued at the lower of cost or net realizable value.

**b) Capital Assets**

Capital assets are stated at cost. Amortization is recorded on a straight line basis over thirty years for buildings, two to five years on equipment, and ten on the parking lots.

**c) Purchase Premium**

A premium paid on the purchase of a loan portfolio from another financial institution in 2000 (\$328,927 included in current prepaid expenses, 2000 - \$794,444) is being amortized over five years using the sum-of-the-digits method.

**d) Comparative Figures**

Certain prior year's figures have been reclassified where applicable to conform to the current year's presentation.

**2. LOANS TO MEMBERS**

	<u>2001</u>	<u>2000</u>
Promissory notes	\$ 30,180,349	\$ 32,305,774
Mortgage loans	97,703,692	95,151,065
Accrued interest	<u>520,183</u>	<u>659,502</u>
	128,404,224	128,116,341
Less, Allowance for doubtful loans	<u>959,899</u>	<u>951,144</u>
	<u>\$127,444,325</u>	<u>\$127,165,197</u>

During the year, loans in the amount of \$698,845 (2000 - \$394,906) were written off, and recoveries of \$5,612 (2000 - \$11,028) were realized in respect of loans written off in prior years.

**Bulkley Valley Credit Union**  
**Notes to Financial Statements**  
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**3. OTHER ASSETS**

	<u>2001</u>	<u>2000</u>
Prepaid expenses	\$ 422,826	\$ 885,946
Accounts receivable	134,413	450,344
Deferred income taxes	12,851	34,009
Due from Northline Financial Services Agency Ltd.	115,645	102,325
Property held for resale	<u>1,511,908</u>	<u>175,000</u>
	<u>\$2,197,643</u>	<u>\$1,647,624</u>

Amounts due from Northline Financial Services Agency Ltd. arise from the consolidation of a wholly-owned subsidiary of Bulkley Valley Credit Union, 594365 B.C. Ltd

**4. INVESTMENTS**

Shares, at cost		
* - Credit Union Central of B.C. [Note 7]	\$ 639,701	\$ 581,180
- Datawest Solutions Inc. [Note 12]	100,491	100,491
* - Stabilization Central Credit Union	223	223
* - CUPP Services Ltd.	23,478	21,408
- Other	<u>56,991</u>	<u>67,041</u>
	<u>\$ 820,884</u>	<u>\$ 770,343</u>

\* These investments are required for the Credit Union's present operations and operating agreements.

**5. CAPITAL ASSETS**

	<u>2001</u>		<u>2000</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Net</u>
Land	\$ 284,231	\$ -	\$ 284,231	\$ 216,134
Buildings	2,231,609	462,901	1,768,708	1,483,159
Leasehold improvements	182,868	76,620	106,248	135,023
Equipment	1,873,623	1,288,106	585,517	549,658
Parking lots	<u>83,150</u>	<u>24,538</u>	<u>58,612</u>	<u>50,331</u>
	<u>\$4,655,481</u>	<u>\$1,852,165</u>	<u>\$2,803,316</u>	<u>\$2,434,305</u>

**6. MEMBERS' DEPOSITS AND SHARES**

	<u>2001</u>	<u>2000</u>
Demand deposits	\$ 51,056,489	\$ 42,297,146
Term deposits, including accrued interest	64,114,346	66,786,285
Registered Saving Plans, including accrued interest	33,332,448	30,034,777
Ordinary shares	<u>18,668</u>	<u>56,016</u>
	<u>\$148,521,951</u>	<u>\$139,174,224</u>

**Registered Savings Plans**

The credit union has entered into a deposit back agreement with Credit Union Central of B.C., trustee for the plans, whereby registered savings plan contributions of members are deposited with the Bulkley Valley Credit Union at rates determined by the Bulkley Valley Credit Union

**7. LOAN PAYABLE - CREDIT UNION CENTRAL OF B.C.**

The credit union has an authorized line of credit secured by a demand debenture in favour of Credit Union Central of B.C. The debenture creates a floating charge on certain assets and undertakings of the credit union .

**8. ACCOUNTS PAYABLE AND ACCRUALS**

	<u>2001</u>	<u>2000</u>
Trade payables and accrued liabilities	\$ 720,678	\$ 524,945
Deferred loan prepayment fees	92,690	55,204
Current income taxes payable	<u>11,356</u>	<u>36,438</u>
	<u>\$ 824,724</u>	<u>\$ 616,587</u>

**9. DIVIDENDS AND ALLOCATIONS TO MEMBERS**

The credit union has declared dividends estimated to be paid as follows:

	<u>2001</u>	<u>2000</u>
Patronage Dividend, to be paid in equity shares	\$ 143,349	\$ 242,776
Equity Shares, to be paid in equity shares	<u>76,000</u>	<u>121,309</u>
	<u>\$ 219,349</u>	<u>\$ 364,085</u>

**10. EQUITY SHARES**

Equity shares are restricted as to withdrawal and are not guaranteed by the Credit Union Deposit Insurance Corporation of B.C.

**11. STATUTORY REQUIREMENTS**

The Financial Institutions Act requires the credit union to maintain a capital base adequate in relation to its level of business activities. The level of capital required is based on a prescribed percentage of the total value of its risk-weighted assets, each asset of the credit union being 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 is 8% of the risk-weighted value of assets for 2001. At December 31, 2001, the credit union had attained a capital base in excess of the minimum requirement.

The Credit Union is also required to maintain a minimum cash liquidity reserve equal to 10% of member deposits plus other current obligations.

**12. COMMITMENTS**

**Data Processing Service**

The Credit Union has entered into an agreement with Datawest Solutions Inc. for on-line data processing services. The agreement provides for liquidating damage if for any reason the Credit Union fails to complete the contract term which expires March, 2003.

**Letters of Credit**

The credit union was contingently liable for letters of credit issued on behalf of members totalling \$327,711 at December 31, 2001, and \$293,100 for the previous year.

**13. STATUTORY INFORMATION**

**Directors and Staff Loans**

At December 31, 2001, the total of loans to directors, officers, members of the credit committee, employees and other related parties of the credit union was \$ 5,180,011 none of which was more than one month in arrears. Loans to employees at reduced interest rates, which are granted to employees as part of their compensation package, totalled \$ 3,617,478 .

**Directors' Remuneration**

Directors, in their capacity as directors and committee members, received no remuneration in 2001.

**14. MATURITIES OF FINANCIAL INSTRUMENTS**

Balance at December 31, 2001	<b>Not Interest Sensitive</b>	<b>Period to Maturity</b>			<b>Total</b>
		<b>Within 3 Months</b>	<b>4 Months to 1 Year</b>	<b>Over 1 to 5 Years</b>	
<b>Assets</b>					
Cash resources	\$ 2,671,316	\$ 6,722,740	\$ 4,100,000	\$ 11,700,000	\$ 25,194,056
Loans *	(439,716)	33,116,413	32,194,311	62,573,317	127,444,325
Investments	936,529	-	-	-	936,529
Other assets	2,081,998	-	-	-	2,081,998
Premises and equipment	<u>2,803,316</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,803,316</u>
	<u>8,053,443</u>	<u>39,839,153</u>	<u>36,294,311</u>	<u>74,273,317</u>	<u>158,460,224</u>
<b>Liabilities</b>					
Deposits	7,528,018	65,094,924	18,242,676	57,656,333	148,521,951
Borrowings	-	-	-	-	-
Payables and accruals	824,724	-	-	-	824,724
Equity	<u>9,113,549</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,113,549</u>
	<u>17,466,291</u>	<u>65,094,924</u>	<u>18,242,676</u>	<u>57,656,333</u>	<u>158,460,224</u>
Net mismatch	\$ <u>(9,412,848)</u>	\$ <u>(25,255,771)</u>	\$ <u>18,051,635</u>	\$ <u>16,616,984</u>	\$ <u>-</u>

\* Includes allowance for impaired loans

Maturity dates substantially coincide with interest adjustment dates. Amounts with floating rates, or due on demand, are classified as maturing within three months, regardless of maturity. Amounts that are not interest rate sensitive are grouped together, regardless of maturity.

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

**15. FAIR VALUES OF FINANCIAL INSTRUMENTS**

The estimated fair values of financial instruments are designed to approximate values at which these instruments could be exchanged in a current market. However, many of the financial instruments lack an available trading market and therefore fair values are based on estimates.

No fair values have been determined for premises and equipment, goodwill or any other asset or liability that is not a financial instrument. The fair values of cash resources, variable rate loans and deposits, 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.

Changes in interest rates are the main cause of changes in the fair value of the credit union's financial instruments. The majority of the credit unions' financial instruments are carried at historical cost and are not adjusted to reflect increases or decreases in fair value due to interest rate changes.

	<u>2001</u>		
	<u>Book Value</u>	<u>Fair Value</u>	<u>Difference</u>
<b>Assets</b>			
Cash resources	\$ 25,194,056	\$ 25,194,056	\$ -
Loans	127,444,325	129,924,786	2,480,461
Other	3,005,676	3,005,676	<u>-</u>
			<u>2,480,461</u>
<b>Liabilities</b>			
Deposits	148,521,951	152,524,179	4,002,228
Other	1,082,557	1,082,557	<u>-</u>
			<u>4,002,228</u>
<b>Net Difference</b>			<u>\$ (1,521,767)</u>

**16. PRIOR PERIOD ADJUSTMENT**

Represents an income tax reassessment of a prior year on the winding-up of Houston and District Credit Union.

Submitted with our Report  
dated February 26, 2002

**MAH, BARNES & COMPANY**  
*Certified General Accountants*