

**Credit Union Deposit Insurance Corporation of
British Columbia
Financial Statements**

March 31, 2004

Grant Thornton 

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Auditors' Report

To the Board of Directors of
Credit Union Deposit Insurance Corporation of British Columbia

We have audited the balance sheet of Credit Union Deposit Insurance Corporation of British Columbia as at March 31, 2004, and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of 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 corporation as at March 31, 2004, and the results of its operations and cash flows 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, these principles have been applied on a consistent basis with that of the preceding year.

Grant Thornton LLP

Vancouver, Canada
May 14, 2004

Chartered Accountants

Credit Union Deposit Insurance Corporation of British Columbia

Balance Sheet

March 31

2004

2003

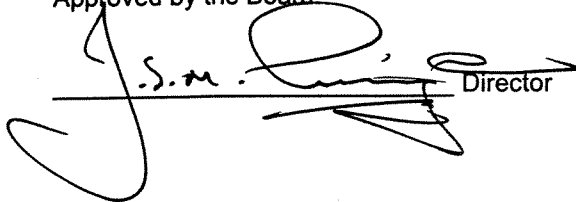
Assets


Cash resources	\$	51,105	\$	100,550
Income taxes recoverable		-		218,984
Investments (Note 3)		<u>117,201,490</u>		<u>111,380,319</u>
	\$	<u>117,252,595</u>	\$	<u>111,699,853</u>

Liabilities and Retained Earnings

Payables and accruals	\$	475,856	\$	363,589
Retained earnings (Note 5)		<u>116,776,739</u>		<u>111,336,264</u>
	\$	<u>117,252,595</u>	\$	<u>111,699,853</u>

Approved by the Board


Director


Director

See accompanying notes to the financial statements

Credit Union Deposit Insurance Corporation of British Columbia

Statements of Operations and Retained Earnings

Year Ended March 31

2004

2003

Revenue		
Investments	\$ 7,988,114	\$ 6,397,174
Recoveries of assistance to credit unions	30,402	-
Assessments	-	4,628,392
	<u>8,018,516</u>	<u>11,025,566</u>
Expenses		
Administration (Schedule)	1,595,296	1,549,757
Consulting services	118,164	78,407
Assistance to credit unions	4,654	2,580
Investment management fees	157,286	146,175
	<u>1,875,400</u>	<u>1,776,919</u>
Earnings before income taxes	6,143,116	9,248,647
Income taxes (Note 4)	<u>702,641</u>	<u>557,667</u>
Net earnings	<u>\$ 5,440,475</u>	<u>\$ 8,690,980</u>
Retained earnings, beginning of year	\$ 111,336,264	\$ 102,645,284
Net earnings	<u>5,440,475</u>	<u>8,690,980</u>
Retained earnings, end of year	<u>\$ 116,776,739</u>	<u>\$ 111,336,264</u>

See accompanying notes to the financial statements

Credit Union Deposit Insurance Corporation of British Columbia

Statement of Cash Flows

Year Ended March 31

2004

2003

Cash flows provided by (used in)

Operating activities

Net earnings	\$ 5,440,475	\$ 8,690,980
Adjustments to determine cash flows:		
(Gain) loss on sale of securities	(1,460,314)	179,148
Change in non-cash working capital	331,251	(244,609)
	<u>4,311,412</u>	<u>8,625,519</u>

Investing activities

Purchase of securities	(88,208,450)	(83,660,469)
Proceeds from sale of securities	83,847,593	73,237,280
	<u>(4,360,857)</u>	<u>(10,423,189)</u>

Net decrease in cash resources (49,445) (1,797,670)

Cash resources, beginning of year 100,550 1,898,220

Cash resources, end of year \$ 51,105 \$ 100,550

Change in non-cash working capital

Income taxes recoverable	\$ 218,984	\$ (218,984)
Payables and accruals	112,267	(25,625)
	<u>\$ 331,251</u>	<u>\$ (244,609)</u>

Supplemental cash flow information

Income taxes paid \$ 673,371 \$ 844,000

See accompanying notes to the financial statements

Credit Union Deposit Insurance Corporation of British Columbia

Notes to the Financial Statements

March 31, 2004

1. Governing legislation and operations

The Credit Union Deposit Insurance Corporation of British Columbia (CUDIC) is a statutory corporation established under the Financial Institutions Act (FIA) and is operated as a separate entity by the Financial Institutions Commission (FICOM). The mandate of CUDIC is to guarantee deposits and non-equity shares of depositors of British Columbia credit unions up to the limits prescribed by the FIA. To meet this mandate, CUDIC undertakes administrative and regulatory functions as set out in the FIA, makes deposit insurance payments and may provide financial assistance to credit unions. To maintain the deposit insurance fund, CUDIC is empowered to assess credit unions and to issue debentures to them.

The amount, timing and form of deposit insurance payments or financial assistance which may be required for credit unions is dependent on future events and outcomes. Three outcomes that may require assistance are rehabilitation, amalgamation or liquidation of credit unions. In the event of a liquidation, CUDIC's liability for deposit insurance is restricted to limits prescribed under the FIA.

Under the FIA, Stabilization Central Credit Union of British Columbia (Stabilization Central) has been designated a stabilization authority. Stabilization Central is a central credit union owned and controlled by the British Columbia credit union system. CUDIC may delegate specific responsibilities related to supervision of credit unions to Stabilization Central.

2. Significant accounting policies

Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. In preparing these financial statements, management is required to make estimates and assumptions that could affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Investments

Securities are carried at amortized cost. Realized gains and losses on disposal are credited or charged to earnings for the year. Premiums and discounts arising at the time of purchase of investments are amortized over the period to maturity. Revenue from investments includes interest income as well as net realized capital gains or losses.

Credit Union Deposit Insurance Corporation of British Columbia

Notes to the Financial Statements

March 31, 2004

2. Significant accounting policies (Continued)

Provision for credit union assistance

CUDIC may provide assistance to credit unions in respect of deposit insurance and financial assistance. Specific provisions are established for financial assistance provided to a credit union and deposit insurance claims for a credit union in financial difficulty. Specific provisions are recorded when it is determined that assistance is likely required and the amount can be reasonably estimated. Amounts incurred in the current year and the specific provision accrual are charged to expenses as assistance to credit unions.

Related party transactions

CUDIC, a separate legal entity, is operated by FICOM, a commission of the British Columbia government. Administrative expenses relating to CUDIC's mandate are charged to CUDIC. The allocation of direct salaries to CUDIC is calculated based on the activities performed by FICOM staff on tasks pertinent to the mandate of CUDIC. Other expenses, including occupancy costs, are allocated to CUDIC according to CUDIC's proportionate share of activities. These transactions were conducted in the normal course of business at amounts established and agreed to by both parties.

Financial instruments

The market values of the investments approximate their fair values. The fair values of all other financial instruments, which include cash, income taxes recoverable, payables and accruals, approximate their carrying values.

Comparative figures

Certain of the prior years' figures have been reclassified to conform with the current year's presentation.

Credit Union Deposit Insurance Corporation of British Columbia

Notes to the Financial Statements

March 31, 2004

3. Investments

Specific Investments	Effective Yields	Less than one year	1 to 5 years	Over 5 years	Total	
					2004	2003
Canadian	3.7	\$ 6,844,741	\$ 9,348,484	\$ 24,083,474	\$ 40,276,699	\$ 48,179,266
Provincial	4.5	-	4,225,743	13,932,952	18,158,695	12,988,935
Municipal	4.3	-	759,526	2,269,979	3,029,505	3,044,416
Corporate	3.8	2,001,337	15,377,387	10,716,808	28,095,532	18,644,688
		\$ 8,846,078	\$ 29,711,140	\$ 51,003,213	\$ 89,560,431	\$ 82,857,305
Pooled Funds						
Money Market Funds					514,704	515,749
Government Bond Fund					16,376,854	17,970,484
Corporate Bond Fund					9,177,963	8,568,603
					26,069,521	27,054,836
Accrued interest					1,571,538	1,468,178
Total investments (cost)					\$ 117,201,490	\$ 111,380,319
Total investments (market value)					\$ 122,055,092	\$ 112,875,556

The nature of pooled funds does not permit the determination of an effective yield.

4. Income taxes

CUDIC is a deposit insurance corporation for income tax purposes and pays income taxes on its taxable income at the statutory rate prescribed for deposit insurance corporations. Income for tax purposes excludes assessments made against credit unions. Also, no deduction may be made against income for tax purposes for financial assistance given to or paid on behalf of credit unions.

	2004	2003
Income taxes otherwise payable based on reported net earnings	\$ 705,230	\$ 1,247,065
Adjustments for effect of:		
Assessments against credit unions excluded from income for tax purposes	-	(623,907)
Other differences	(2,589)	(65,491)
Income taxes per financial statements	\$ 702,641	\$ 557,667

Credit Union Deposit Insurance Corporation of British Columbia

Notes to the Financial Statements

March 31, 2004

5. Depositor Protection Agreement

Stabilization Central, CUDIC and the Financial Institutions Commission have a Depositor Protection Agreement. Under this agreement, Stabilization Central and CUDIC shall maintain a minimum level of equity equal to 0.275% and 0.30%, respectively, of total member deposits held by British Columbia credit unions, or 0.575% in total.

If CUDIC's equity falls below 0.30%, CUDIC may rely on the financial resources of Stabilization Central to replenish its fund to the 0.30% level. Stabilization Central has provided CUDIC with security over its investment portfolio in support of this obligation.

The CUDIC fund equity represented 0.44% of member deposits held by British Columbia credit unions at December 31, 2003. The Stabilization Central fund equity continued well in excess of its 0.275% minimum level.

The agreement is currently being renegotiated. The outcome of this process is unknown, although it is known that the current agreement will not be continued.

Credit Union Deposit Insurance Corporation of British Columbia

Schedule of Administration Expenses

Year Ended March 31	2004	2003
Salaries and benefits	\$ 1,257,909	\$ 1,226,753
Directors expenses	2,661	3,664
Travel	34,277	43,486
Professional services	13,450	7,000
Information services	39,646	34,992
Building occupancy	124,938	123,946
Furniture and equipment	47,233	39,238
Other	75,182	70,678
	<u>\$ 1,595,296</u>	<u>\$ 1,549,757</u>
