

LONDON FIREFIGHTERS' CREDIT UNION LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2009

LONDON FIREFIGHTERS' CREDIT UNION LIMITED

Balance sheet

As at December 31, 2009

Statement 1

	2009	2008
<u>ASSETS</u>		
Cash and receivables		
Cash resources (note 1)	\$ 1,070,275	\$ 561,777
Accrued interest receivable	7,276	4,060
Prepaid expenses	<u>1,825</u>	<u>1,693</u>
	<u>1,079,376</u>	<u>567,530</u>
Investments - at cost (note 2)	<u>24,132</u>	<u>26,187</u>
Loans to members:		
Lines of credit	320,638	414,662
Personal loans	<u>2,081,681</u>	<u>2,036,398</u>
	2,402,319	2,451,060
Less allowance for doubtful loans	<u>(37,135)</u>	<u>(12,484)</u>
	<u>2,365,184</u>	<u>2,438,576</u>
Long- term investments (note 14)	<u>14,006</u>	<u>15,193</u>
Fixed assets – at cost (note 1 and 3)	<u>2,093</u>	<u>2,893</u>
	<u>\$ 3,484,791</u>	<u>\$ 3,050,379</u>
Liabilities		
Accounts payable and accrued charges	\$ 9,904	\$ 9,462
Accrued distribution payable	4,825	54,750
Accrue interest on term deposit	6,649	
Taxes payable	<u>106</u>	<u>1,641</u>
	<u>21,483</u>	<u>65,853</u>
Deposits (note 4 & 6)	3,017,581	2,811,094
Term deposit	260,000	
TFSA Savings	450	
Membership share capital (note 5)	<u>75,600</u>	<u>76,600</u>
	<u>3,353,631</u>	<u>2,887,694</u>
Members' equity:		
Capital adequacy reserve (statement 2)	38,279	38,279
Retained earnings (statement 2)	<u>71,398</u>	<u>58,553</u>
	<u>109,677</u>	<u>96,832</u>
	<u>\$ 3,484,791</u>	<u>\$ 3,050,379</u>

Approved on behalf of the Board:

Director

(see accompanying notes)

Director

LONDON FIREFIGHTERS' CREDIT UNION LIMITED

Statement of capital adequacy reserve and retained earnings

For the year ended December 31, 2009

Statement 2

	2009	2008
--	-------------	-------------

CAPITAL ADEQUACY RESERVE

Balance, beginning of year	\$ 38,279	\$ 38,279
----------------------------	-----------	-----------

Balance, end of year	<u>\$ 38,279</u>	<u>\$ 38,279</u>
----------------------	-------------------------	-------------------------

RETAINED EARNINGS

Balance, beginning of year	\$ 58,553	\$ 52,760
----------------------------	-----------	-----------

Add: net income for the year (statement 3)	<u>12,845</u>	<u>5,793</u>
--	---------------	--------------

Balance, end of year	<u>\$ 71,398</u>	<u>\$ 58,553</u>
----------------------	-------------------------	-------------------------

(see accompanying notes)

LONDON FIREFIGHTERS' CREDIT UNION LIMITED

Statement of operations

For the year ended December 31, 2009

Statement 3

	2009		2008	
Revenue				
Interest on personal loans to members	\$ 124,617	88.1	\$ 147,106	91.1
Investment, interest, commissions and other income	<u>16,841</u>	<u>11.9</u>	<u>14,346</u>	<u>8.9</u>
	<u>141,458</u>	<u>100.0</u>	<u>161,452</u>	<u>100.0</u>
Financial Expenses				
Interest on members' deposits	<u>9,645</u>	<u>6.8</u>	<u>53,860</u>	<u>37.8</u>
Operating Spread	<u>131,813</u>	<u>93.2</u>	<u>107,592</u>	<u>62.2</u>
Remuneration to Officers and Staff				
Honoraria to officers	6,281		7,108	
Salaries to employees	51,395		57,595	
Employee benefits	<u>7,348</u>		<u>6,821</u>	
	<u>65,024</u>	<u>46.0</u>	<u>71,524</u>	<u>43.8</u>
Administrative expenses				
Advertising	-		745	
Annual meeting	1,016		1,185	
Bad debt expense (recovery)	24,130		(16,295)	
Bank charges & interest	1,219		1,228	
Bonding insurance	8,060		7,704	
Depreciation	800		938	
Education & conferences	80		4,185	
FSCO fees	200		200	
Internet expense	1,367		4,139	
Member deposit insurance (DICO)	2,810		2,607	
Office expenses	2,824		5,079	
Professional services	6,300		6,750	
Rent	1,035		1,122	
Telephone	<u>1,040</u>		<u>1,045</u>	
	<u>50,881</u>	<u>36.0</u>	<u>20,632</u>	<u>12.8</u>
Total operating expenses	<u>115,905</u>	<u>82.0</u>	<u>92,156</u>	<u>56.6</u>
Net income from operations	15,908	11.2	15,436	5.6
Gain (Loss) on write-up (down) of ABCP shares	<u>2,120</u>		<u>(4,413)</u>	
Net income before taxes	18,028		11,023	
Provision for taxes	<u>(5,183)</u>	<u>3.7</u>	<u>(5,230)</u>	<u>(3.2)</u>
Net income (loss) for the year	<u>\$ 12,845</u>	<u>7.5</u>	<u>\$ 5,793</u>	<u>2.4</u>

(see accompanying notes)

LONDON FIREFIGHTERS' CREDIT UNION LIMITED

Statement of changes in cash flows

For the year ended December 31, 2009

Statement 4

	2009	2008
Cash provided by (used in) operating activities:		
Net income for the year	\$ 12,845	\$ 5,793
Charge to operations not requiring a current cash payment -		
Depreciation and amortization	<u>800</u>	<u>938</u>
	<u>13,645</u>	<u>6,731</u>
Change in non-cash working capital balances related to operations -		
Accrued interest receivable	(3,216)	3,217
Prepaid expenses	24	(388)
Accounts payable & accrued charges	442	(732)
Accrued distribution payable	(49,926)	(45,662)
Accrued interest payable	6,649	
Taxes payable	<u>(1,690)</u>	<u>382</u>
	<u>(47,717)</u>	<u>(43,183)</u>
Cash provided by (used in) operating activities:	<u>(34,072)</u>	<u>(36,452)</u>
Cash provided by (used in) investment activities:		
Increase (decrease) of investments	3,242	(18,840)
Purchase of fixed assets		<u>(847)</u>
	<u>3,242</u>	<u>(19,687)</u>
Cash provided by (used in) financing activities:		
Increase (decrease) in lines of credit	94,024	(125,535)
Increase (decrease) in Personal Loans	(20,633)	217,239
Increase (decrease) in Deposits	466,937	151,394
Increase (decrease) in Share Capital	<u>(1,000)</u>	
	<u>539,328</u>	<u>243,098</u>
Net increase (decrease) in cash during year	508,498	186,959
Cash resources, beginning of year	<u>561,777</u>	<u>374,818</u>
Cash resources, end of year	<u>\$ 1,070,275</u>	<u>\$ 561,777</u>
Supplemental cash flow information		
Interest paid during year	\$9,645	\$53,860
Income taxes paid during the year	5,183	5,770

(see accompanying notes)

LONDON FIREFIGHTERS' CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2009

1. Accounting Policies

The Credit Union and Caisses Populaires Act, 1994 (the "ACT")

Regulations to the act specify that certain items are required to be disclosed in the financial statements that are presented at annual meetings to members. It is the management's opinion that the disclosures in these financial statements and the notes comply in all material respects, with the requirements of the Act. Where necessary, reasonable estimates and interpretations have been made in presenting the information.

Investments:

Investments designated as loans and receivables are accounted for at amortized cost and income thereon accrues using the effective interest method.

Investments designated as held for trading are carried at fair market value based primarily on published market prices. Gains and losses are included in investment income for the period they arise.

Investments classified as available for sale are carried at fair value, where such a value can be reliably measured; otherwise they are carried at cost. Unrealized gains and losses are recognized directly in other comprehensive income. In the period in which the asset is sold, or otherwise derecognized, the cumulative gain or loss, previously recorded in accumulated other comprehensive income is recognized in net income.

Loans to members:

Loans to members are stated at amortized cost. Interest income is recorded using the effective interest rate method over the terms of the loans.

A loan is classified as impaired when a specific provision has been established or a write-off taken or when, in the opinion of management, there is reasonable doubt as to the ultimate collectibility of principal and interest. A loan is also classified as impaired when interest and principal is contractually 90 days past due, unless the loan is fully secured in the process of collection. Fully secured loans are classified as impaired after a delinquency period of 180 days.

On a loan classified as impaired, all previous accrued interest is reversed and charged against current income unless the amount is fully secured. Loans are generally returned to accrual status when all delinquent principal and interest payments are brought to current and the timely collection of both principal and interest is reasonable assured.

LONDON FIREFIGHTERS' CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2009

Allowance for impaired loans:

The allowance for impaired loans is maintained in an amount considered adequate to absorb estimated credit related losses in the loan portfolio. The allowance for impaired loans reflects management's best estimate of losses existing in the loan portfolio and their judgments about current economic conditions. If circumstances under which these estimates and judgments were made change, there could be significant change to the allowance for impaired loans which consists of specific provisions and a general provision, each of which is reviewed on a regular basis. The allowance is increased by provisions for impaired loans, which are charged to earnings and reduced by write-offs net of recoveries.

Members' deposits:

Members' deposits are recorded at amortized cost. Interest expense is recorded using the effective interest rate method over the terms of the deposit.

Members' shares:

The credit union has adopted the recommendations of the Canadian Institute of Chartered Accountants relating to financial statement presentation of members' shares accounts and the related distribution paid on such financial instruments. In accordance with these recommendations, the credit union's shares are presented on the balance sheet as financial liabilities. These liabilities qualify as capital for regulatory purposes, notwithstanding their financial classification. Dividends or other payments related to member shareholdings are reported on the statement of operations as a financial expense.

Financial Instruments:

The credit union has adopted the recommendations of the Canadian Institute of Chartered Accountants relating to the financial statement presentation of membership share accounts. In accordance with these recommendations, the credit union's shares are presented in the balance sheet as financial liabilities. These liabilities qualify as capital for regulatory purposes, notwithstanding their financial statement classification.

Reclassifications

Certain of the 2008 amounts have been reclassified to conform to the presentation adopted in 2009.

LONDON FIREFIGHTERS' CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2009

Capital Assets and Amortization:

All capital assets are carried at acquisition cost less accumulated amortization. Assets are generally amortized on the following basis:

Office Equipment	20% declining balance
Computer System	30% declining balance

Where declining balance is used, one-half the annual rate is applied in the year of acquisition

Accounting for Operational Revenues and Expenses:

All revenues and expenses are recorded on the accrual basis of accounting except that interest income is not recorded for delinquent loans.

Income Taxes:

The liability method of tax allocation is used in accounting for income taxes. Under this method, future income tax benefits and obligations are determined based on differences between the financial reporting and the tax basis of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when differences are expected to reverse.

Foreign Exchange:

Assets are translated into Canadian dollars at rates prevailing at the year-end date. Income and expenses are translated at the exchange rates in effect on the date of the transactions. Exchange gains and losses arising on the translation of monetary items are included in income for the year.

Future changes in accounting policy:

In February 2008, the Canadian Accounting Standards Board announced that International Financial Reporting Standards (IFRS) will replace Canadian Generally Accepted Accounting Principles (GAAP) for publicly accountable enterprises for fiscal years beginning after January 1, 2011, including the restatement of comparative period financial statements on the same basis. The transition from Canadian GAAP to IFRS will be applicable to the Credit Union for the year ended December 31, 2011. The Credit union is currently evaluating the impact of adopting IFRS.

LONDON FIREFIGHTERS' CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2009

2. Cash Resources:

The term "cash resources" as used in these financial statements consists of cash on hand, deposits maturing or callable within ninety days and payroll deductions receivable that have been made and which are in the course of being remitted. The Credit Union has available a credit facility of \$30,900 line of credit with an additional \$30,000 available on a term loan basis to cover a shortfall in cash resources due to unanticipated volume in clearings. This facility is secured by a general security agreement and an assignment of book debts and bears interest at Central 1 prime for the line of credit and variable interest rate for the term facility. As at December 31, 2009, the facility was not utilized.

3. Allowance for Impaired loans:

The activity in the allowance for impaired account has been as follows:

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 12,485	\$ 18,736
Loans recovered (written-off)	<u>(520)</u>	<u>(6,251)</u>
	11,965	12,485
Increase in allowance	<u>25,170</u>	<u> </u>
Balance, end of year	<u>\$ 37,135</u>	<u>\$ 12,485</u>

The Credit Union writes off to the allowance for impaired loans all amounts known not to be collectable.

The allowance for impaired loans provided for in the accounts of the Credit union is in accordance, in all material respects, with the by-law of the Deposit Insurance Corporation of Ontario governing such allowance

LONDON FIREFIGHTERS' CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2009

As at the fiscal year end the Credit Union calculates an allowance for loan impairment on an individual account basis in accordance with the guidelines set out in By-law #6 of the Deposit Insurance Corporation of Ontario (DICO). Initially, an amount is calculated for each loan more than 90 days in arrears from the original date of advancement, by applying specific percentages, varying with the extent of overdue payments, to the portion of the principal balance not covered by the realizable value of collateral and for all uncollected interest not received. In addition, allowance is made for those loans, not in arrears, but the collection of which is doubtful.

The allowance recorded in the financial statements is adjusted to the required amount determined above by a charge or credit to net income for the year.

The Board of Directors has passed a resolution to establish a secondary allowance to approximate the DICO peer ratio category covering the Ontario system. At December 31, 2009, the allowance for doubtful loans conforms to this resolution.

As at December 31, 2009 there were 3 loans 90 days or more in arrears to the contract. Irregular or reduced payments were being received on each of these loans.

4. Investments

Details are as follows:

	<u>2009</u>	<u>2008</u>
Credit Union Central of Ontario Shares	\$ 5,355	\$ 26,187
Central 1 Class A	7,577	
Central 1 Class E	<u>11,200</u>	<u> </u>
	<u>\$ 24,132</u>	<u>\$ 26,187</u>

The shares in the Credit Union Central of Ontario (CUCO) are carried at cost and will be converted to Central 1 shares sometime in the future.

As a condition of membership in Central 1, the Credit Union is required to keep an investment in shares of Central 1 equal to 0.60% of the Credit Union's total assets as at the preceding calendar year end, updated in February of each year.

These shares can be redeemed only through withdrawals from membership or reductions in the balance of the Credit Union's own shares and deposits and are subject to the right of the Board of Directors of Central 1 to impose limitations on the proportion and timing of amount to be refunded.

LONDON FIREFIGHTERS' CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2009

The shares in CUCO and Central 1 are realizable only through the redemption procedures described above and accordingly there are no separately quoted market values.

All Credit Unions who are members of the CUCO are required to place on deposit with CUCO 7% of their total capital and member deposits as at December 31, 2009 in order to fund the liquidity reserve deposit. The Credit Union has complied with the requirements.

5. Fixed Assets

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Furniture & fixtures	\$ 4,447	\$ 3,906	\$ 541
Computer	<u>33,093</u>	<u>31,541</u>	<u>1,552</u>
	<u>\$ 37,540</u>	<u>\$ 35,447</u>	<u>\$ 2,093</u>

6. Members' Deposits

Deposits may be withdrawn on demand, subject to the discretion of the Board of Directors who may require thirty day's notice.

7. Membership Shares

Membership shares are subscribed for at a par value of \$5 per share. A member is required by By-law of the Credit Union to maintain a minimum of 20 shares as a condition of membership in the Credit Union. Amounts paid for or on account of permanent membership shares may be withdrawn on demand subject to the discretion of the Board of Directors who may require sixty days notice. These shares are redeemable only when the member withdraws from membership in the Credit Union. Under sub-section 51(12) of the new act membership shares held as a condition of membership are not insured by the Deposit Insurance Corporation of Ontario (DICO).

At December 31, 2009 there were 756 members at \$100.00 per member.

8. Share Dividends and Loan Rebates

The Board of Directors anticipates declaring and the Credit union has accrued a .1% dividend on the share savings accounts on amounts under \$2,000 and a .2% dividend on amounts over \$2,000. This accrual amounts to \$4,825 (2008-\$54,750) the actual dividend will be calculated as at December 31, 2009 and paid in the 2010 fiscal year and may differ from the accrual.

LONDON FIREFIGHTERS' CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2009

9. Regulatory Capital

The Credit Union Caisses Populaires Act, 1994 requires the Credit Union to maintain regulatory capital at 5% of total assets. As of February 1, 2009, Credit Unions were reclassified as either Class 1 or Class 2. A Class 2 credit union is generally regarded to have assets greater than \$50 million and issues commercial loans. LONDON FIREFIGHTERS' CREDIT UNION LIMITED is designated a Class 1 Credit Union for classification purposes. As a Class 1 credit Union, it is required to maintain adequate regulatory capital of at least 5% of its total assets.

The Credit Union is in compliance with the Act regarding regulatory capital as indicated by the table below:

	<u>2009</u>
Membership share capital	\$ 75,600
Statutory reserve	38,279
Retained earnings	<u>71,398</u>
	<u>\$ 185,277</u>
% of Total Assets	5.3%

10. Restricted Party Transactions

The Act requires the financial statements to disclose a general description of the nature, number and aggregate values of restricted party transactions, as defined, and the allowance for loan losses related to such transactions. Restricted Party has been defined to include a person, and the person's relative, spouse, or relative spouse, who has been a director, officer or committee member in the preceding twelve months, and corporations in which the person owns more than 10% of the voting shares.

At December 31, 2009, the aggregate values of loans outstanding to directors, committee members and officers consisted of 17 loans totaling \$183,724. These loans are made at an interest rate that is 2% less than the loans that are transacted with other members. At December 31, 2009, there was no allowance for loan impairment required in respect of these loans.

LONDON FIREFIGHTERS' CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2009

11. Fair Value of Financial Instruments

The fair value of cash resources, certain other assets and liabilities is equal to the book value given the short-term nature of the balances. The fair value of investments is disclosed in Note 4 to the financial statements. These are based on quoted market prices, where available. The fair value of loans to members and member's deposits has not been determined at this time.

12. Commitments

The Credit Union occupies leased premises at an annual rental of \$1,035.

13. Comprehensive Income

The **LONDON FIREFIGHTERS' CREDIT UNION LIMITED** has reviewed its asset classifications and has determined that none of its assets would generate any income that would be classified as Comprehensive Income.

14. Long-Term Investments

Asset Backed Commercial Paper Limited Partnership and Central 1 Credit Union Merger

At a special meeting held May 31, 2008, members of Credit Union Central of Ontario Limited (CUCO) approved a resolution to facilitate the merger of CUCO and Credit Union Central of British Columbia (CUCBC) to form a new national financial services entity named Central 1 Credit Union (Central 1).

As a pre-condition of this merger, CUCO was required to divest itself of investments in certain third party asset-backed commercial paper (ABCP). The resolution approved the creation of a limited partnership (ABCP LP) to acquire these investments funded by member credit unions in proportion to their share investment in CUCO. As a result, on July 1, 2008, immediately prior to the merger of CUCO and CUCBC, the excluded ABCP with a total par value of \$186,916,000 was acquired by the ABCP LP at its estimated fair value of \$133,564,000 including accrued interest, net of expenses, and other assets. As there is still no liquid market in these ABCP investments, Edenbrook Hill Capital Ltd provided the fair values used to determine the acquisition price, a firm engaged by CUCO to provide an independent valuation of the assets underlying the ABCP investments.

LONDON FIREFIGHTERS' CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2009

The valuation for each credit union's share of the ABCP was provided to them before closing. The market situation has not changed so that valuation should be sufficient to rely on at year-end.

The ABCP LP is governed by a Board of Directors that was elected by Ontario member credit unions and each limited partner will record its proportionate share of net income or loss in the ABCP LP as determined by generally accepted accounting principals and subject to an annual external audit. As at December 31, 2009, London Firefighters' Credit Union Limited has \$14,006 invested in the ABCP LP units.

As a result of the above merger, the credit union received 1 class A share of Central 1 Credit Union with a nominal value of \$1. This amount has been increased to the amounts noted in Note 4.

The Credit Union's investment in the ABCP LP has been impaired by the current economic conditions that have taken place in the North American market. As at December 31, 2009, it was determined that the Credit union's shares have been valued at \$.66258 net asset value per unit. The Credit Union holds 21,193 units of the ABCP 2008 Limited Partnership (2009 - \$14,006, 2008-\$15,193)