

Financial Statements of

**SUDBURY CREDIT  
UNION LIMITED**

Year ended December 31, 2007

## **AUDITORS' REPORT TO THE MEMBERS**

We have audited the balance sheet of **Sudbury Credit Union Limited** as at December 31, 2007 and the statements of earnings, members' equity 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, 2007 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Credit Union taken as a whole. The current year's supplementary information included in the Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Chartered Accountants, Licensed Public Accountants

Sudbury, Canada  
January 17, 2008

# SUDBURY CREDIT UNION LIMITED

## Balance Sheet

December 31, 2007, with comparative figures for 2006

	2007	2006
<b>Assets</b>		
Cash	\$ 13,407,300	\$ 13,383,854
Loans to members (note 3)	123,402,955	108,803,481
Income taxes recoverable (note 10)	19,617	-
Other assets	1,464,721	2,030,051
Investments (note 4)	17,042,868	15,307,635
Property and equipment (note 5)	2,130,484	2,165,731
	<b>\$ 157,467,945</b>	<b>\$ 141,690,752</b>

## Liabilities and Members' Equity

Members' accounts (note 6)	\$ 141,501,877	\$ 126,836,947
Liabilities to non-members:		
Accounts payable and accrued liabilities	1,758,615	2,138,412
Income taxes payable	-	125,471
Future income taxes (note 10)	33,900	-
	<b>1,792,515</b>	<b>2,263,883</b>
Liabilities qualifying for regulatory capital (note 8)	4,127,876	3,949,577
Members' equity	10,045,677	8,640,345
Change in accounting policy (note 1)		
Commitments (note 11)		
Contingencies (note 13)		
	<b>\$ 157,467,945</b>	<b>\$ 141,690,752</b>

See accompanying notes to financial statements.

On behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

# SUDBURY CREDIT UNION LIMITED

## Statement of Earnings

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Revenue:		
Interest - non-mortgage loans	\$ 3,623,530	\$ 3,213,566
- mortgage loans	4,530,648	3,588,096
- investment income	1,391,083	1,315,662
	<u>9,545,261</u>	<u>8,117,324</u>
Cost of financing:		
Interest - registered retirement savings plan	1,259,521	1,112,059
- term deposits	1,696,231	1,219,172
- deposits	298,351	213,592
- registered retirement income fund	513,293	454,752
Class B special share dividends	189,925	177,130
Patronage dividends	288,000	265,000
	<u>4,245,321</u>	<u>3,441,705</u>
Net interest income	5,299,940	4,675,619
Provision for impaired loans (note 3(c))	335,000	142,500
Net interest income after provision for impaired loans	4,964,940	4,533,119
Other revenue	1,234,602	1,128,681
	<u>6,199,542</u>	<u>5,661,800</u>
Expenses (Schedule):		
Personnel	2,418,933	2,326,273
General	1,113,169	1,109,567
Occupancy	263,908	263,784
Amortization	214,197	224,155
Organization	214,732	188,509
Insurance	181,813	171,743
	<u>4,406,752</u>	<u>4,284,031</u>
Earnings before the undernoted	1,792,790	1,377,769
Unrealized gains on held for trading investments	(7,850)	-
Earnings before income taxes	1,800,640	1,377,769
Income taxes: (note 10)		
Current income taxes	374,000	436,541
Future income taxes	47,300	-
	<u>421,300</u>	<u>436,541</u>
<b>Net earnings</b>	<b>\$ 1,379,340</b>	<b>\$ 941,228</b>

See accompanying notes to financial statements.

# SUDBURY CREDIT UNION LIMITED

## Statement of Members' Equity

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Balance, beginning of year	\$ 8,640,345	\$ 7,699,117
Adjustment due to change in accounting policy (note 1)	25,992	-
Net earnings	1,379,340	941,228
<b>Balance, end of year</b>	<b>\$ 10,045,677</b>	<b>\$ 8,640,345</b>

See accompanying notes to financial statements.

# SUDBURY CREDIT UNION LIMITED

## Statement of Cash Flows

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Cash provided by (used in):		
Operations:		
Net earnings	\$ 1,379,340	\$ 941,228
Adjustments for:		
Amortization	214,197	224,155
Provision for impaired loans	335,000	142,500
	1,928,537	1,307,883
Change in non-cash working capital	74,345	(78,945)
	2,002,882	1,228,938
Financing activities:		
Net change in members' accounts	14,664,930	13,823,149
Net change in share accounts	(11,626)	(14,296)
Issuance of Class B special shares	189,925	177,130
	14,843,229	13,985,983
Investing activities:		
Net change in loans to members	(14,876,282)	(12,225,275)
Additions to property and equipment	(178,950)	(209,572)
Increase in investments	(1,767,433)	4,596,388
	(16,822,665)	(7,838,459)
<b>Net increase in cash</b>	23,446	7,376,462
Cash, beginning of year	13,383,854	6,007,392
<b>Cash, end of year</b>	\$ 13,407,300	\$ 13,383,854
Supplemental cash flow information:		
Income taxes paid	\$ 542,888	\$ 403,013
Interest paid	3,740,778	2,792,975
Interest received	8,978,809	7,752,644

See accompanying notes to financial statements.

# SUDBURY CREDIT UNION LIMITED

## Notes to Financial Statements

Year ended December 31, 2007

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Sudbury Credit Union Limited (the "Credit Union") was incorporated on October 9, 1951 and operates in compliance with the Credit Union and Caisses Populaires Act of Ontario (the "Act"). The Credit Union is a member of Credit Union Central of Ontario ("CUCO") and the Deposit Insurance Corporation of Ontario ("DICO"). The Credit Union provides financial services and products to its members through five branches in the Greater Sudbury area.

### 1. Change in accounting policy:

On January 1, 2007, the Credit Union adopted four new CICA accounting standards; CICA Handbook Section 3855 (Financial Instruments - Recognition and Measurement), CICA Handbook Section 3865 (Hedges), CICA Handbook Section 1530 (Comprehensive Income) and CICA Handbook Section 3251 (Equity). The requirements of the new standards, related accounting policies adopted by the Credit Union and the resulting financial statement impact are further discussed below.

Financial instruments – recognition and measurement:

The standards require that all financial instruments be classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale financial assets or other financial liabilities. Financial instruments classified as held for trading, and available for sale are to be measured at fair value. Financial instruments classified as held to maturity, loans and receivables or other financial liabilities are recorded at amortized cost. Fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated using various valuation techniques.

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal payments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

Classification of financial instruments:

Held for trading financial assets are securities purchased for resale, generally within a short period of time. They are measured at fair value at the balance sheet date. Gains and losses realized on disposal and unrealized gains and losses from market fluctuations continue to be reported in income as financial income. Other income and expenses related to these instruments are also included in financial income or financial expenses respectively.

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables, that the Credit Union has the positive intention and ability to hold to maturity. These financial assets are accounted for at amortized cost using the effective interest method including direct and incremental transaction costs.

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2007

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## 1. Change in accounting policy (continued):

Classification of financial instruments (continued):

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale, or that are not classified as loans or receivables, held to maturity or held for trading. Assets in this category comprise of debt or equity securities. Except for equities that do not have quoted market values in an active market, the available for sale securities are carried at fair value whereby the unrealized gains or losses are included in accumulated other comprehensive income until sale, or other than temporary impairment when the cumulative gain or loss is transferred to the Statement of Income. Equities that do not have quoted market values in an active market are carried at cost.

Loans and receivables continue to be accounted for at amortized costs.

Other financial liabilities are recorded at amortized cost and include all liabilities, other than derivatives and liabilities designated as held for trading.

Derivatives are considered to be held for trading and as such are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. In both cases derivative instruments require market valuation. Derivatives may be embedded in other financial instruments.

Comprehensive income:

In the event that the Credit Union has any financial instruments that would impact other comprehensive income, a statement of comprehensive income would be included in the financial statements displaying the effects of the current period net income plus the impact on other comprehensive income resulting from these financial instruments.

The table below summarizes adjustments made to members' equity required to adopt the new standards.

	Gross	Income tax	Net
Application of effective interest method	\$ 81,992	\$ 23,800	\$ 58,192
Fair value adjustment on held for trading investments	(45,600)	(13,400)	(32,200)
	\$ 36,392	\$ 10,400	\$ 25,992

The provisions of the new standards permit prospective application without restatement of comparative figures. Accordingly the net impact of the change in accounting policies has been charged to opening members' equity.

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2007

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## 2. Significant accounting policies:

The financial statements of the Credit Union have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies adopted by the Credit Union are as follows:

### (a) Loans to members:

Loans are carried at amortized cost using the effective interest rate method. Interest income is recognized on an accrual basis except for loans classified as impaired.

All transaction fees and expenses are recorded in other income and expense at the transaction date.

### (b) Allowance for impaired loans:

The Credit Union maintains allowances for impaired loans which reduce the carrying value of loans identified as impaired to their estimated realizable amounts. Loans classified as impaired include loans for which interest or principal payments are ninety days past due and those considered to be impaired by management. Estimated realizable amounts are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans, by estimating the fair value of security underlying the loans and deducting costs of realization, or by estimating market prices for the loans.

Specific allowances are established for loans identified as impaired. These allowances are supplemented by general allowances for losses based on payment arrears, known risk in the portfolio, historical loan loss experience and current economic conditions and trends.

The allowance for impaired loans is calculated in accordance with the guidelines established by DICO.

### (c) Investments:

Investments held to maturity:

Investments which the Credit Union both positively intends and has the ability to hold to maturity are classified as investments held to maturity and are carried at amortized cost. Intent and ability to hold are not considered to be satisfied if an investment is available to be sold in response to changes in interest rates, prepayment rates or other reasons as part of the overall asset/liability management strategy.

Loans and receivables:

Investments that are non-derivative financial assets and have fixed or determinable payments are classified as loans and receivables. They are carried at amortized cost, using the effective interest rate method.

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2007

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## 2. Significant accounting policies (continued):

### (c) Investments (continued):

Investments held for trading:

Investments which the Credit Union has acquired principally for the purpose of selling or repurchasing in the near term, or are part of a portfolio of identified investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or are designated at fair value using the fair value option are classified as held for trading. These investments are recorded at fair value with changes taken directly to the statement of earnings.

Investments available for sale:

Investments that the Credit Union may not hold until maturity are classified as available for sale and reported at estimated fair value. Unrealized gains and losses, after applicable taxes, are reported in Other Comprehensive Income. Non-marketable equity investments, which include investments in companies not traded on an active market and are part of the credit union system. These assets are accounted for using the amortized cost method.

The Credit Union reduces the carrying value when any declines in the value of investments are considered other than temporary and records the charge to earnings.

The Credit Union accounts for the purchase and sale of securities using settlement date accounting.

See note 1 for additional disclosures.

### (d) Other assets:

Other assets include prepaid expenses and accounts receivable.

### (e) Property and equipment:

Property and equipment are stated at cost less accumulated amortization. Amortization is provided on the straight-line basis over the expected useful life of the assets as follows:

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Buildings	10 to 40 years
Furniture and equipment	3 to 10 years
Terminals and automated banking machines	3 to 5 years
Computer software	7 years
Leasehold improvements	Term of the lease

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# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2007

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## 2. Significant accounting policies (continued):

(f) Share capital:

The membership shares, Class A patronage shares and Class B special shares are classified on the balance sheet as liabilities as the shares are redeemable at the option of the member. Accordingly, any dividends authorized on these shares are recorded as interest expense.

(g) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods specified. Actual results could differ from those estimates. Significant estimates have been made in the areas of loan losses and the present value of accrued pension benefits and fair values of financial instruments.

(h) Income taxes:

The Credit Union uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that included the date of enactment or substantial enactment.

(i) Employee future benefits:

The Credit Union has a defined benefit pension plan for certain management employees. The accrued benefit assets (liabilities) are included in other assets (accounts payable and accrued liabilities). The Credit Union has adopted the following policies:

- (i) The cost of the accrued benefit obligations for pensions earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, and retirement ages.
- (ii) For the purpose of calculating expected return on plan assets, those assets are valued at fair value.
- (iii) Past service costs from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment.

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2007

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## 2. Significant accounting policies (continued):

(i) Employee future benefits (continued):

(iv) When a restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

(v) Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gains (losses) over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is 12.7 years (2006 - 12.7 years).

(j) Equity swap agreements:

The Credit Union enters into a hedge agreement with CUCO to offset the exposure to the S&P (TSX) 60 Index, whereby the Credit Union pays CUCO a fixed rate of interest for three or five years on the face value of the Index-linked deposits sold. At the end of the term CUCO pays to the Credit Union an amount equal to the amount that will be paid to the depositor based on the performance of the S&P (TSX) 60 Index.

The index-linked products are recorded at fair value with all changes in fair value recorded in income. Interest expense related to these products is expensed as incurred. The fair market value of the related option value and liability to members are included in other assets and accounts payable and accrued liabilities.

(k) Members' deposit accounts:

Member deposit accounts are designated as other financial liabilities and are accounted for at amortized cost, using the effective interest rate method.

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2007

### 3. Loans to members:

(a) Net carrying value of loans:

An analysis of the loan portfolio is as follows:

	2007			2006		
	Principal Value	Allowance	Net	Principal Value	Allowance	Net
Residential mortgages	\$ 67,639,388	-	67,639,388	59,551,311	20,000	59,531,311
Personal loans	16,273,157	165,818	16,107,339	16,066,172	87,703	15,978,469
Commercial						
- mortgage loans	22,023,255	268,986	21,754,269	14,696,436	119,585	14,576,851
- non-mortgage loans	17,959,840	57,881	17,901,959	18,760,175	43,325	18,716,850
	<b>\$ 123,895,640</b>	<b>492,685</b>	<b>123,402,955</b>	<b>109,074,094</b>	<b>270,613</b>	<b>108,803,481</b>

(b) Impaired loans:

An analysis of the impaired loans and related allowances is as follows:

	2007			2006		
	No. of Loans	Principal Value	Allowance	Net	No. of Loans	Net
Residential mortgages	6	\$ 344,615	-	344,615	4	166,444
Personal loans	26	230,094	165,818	64,276	21	128,816
Commercial						
- mortgage loans	1	268,986	268,986	-	2	815,112
- non-mortgage loans	1	86,706	57,881	28,825	1	43,325
	<b>34</b>	<b>\$ 930,401</b>	<b>492,685</b>	<b>437,716</b>	<b>28</b>	<b>1,153,697</b>

(c) Continuity of allowance for impaired loans:

The following table analyzes changes in the allowance for impaired loans:

	Residential Mortgages	Personal Loans	Commercial Loans	2007 Total	2006 Total
Balance, beginning of year	\$ 20,000	87,703	162,910	270,613	239,931
Provision for impaired loans	(20,000)	140,113	214,887	335,000	142,500
Loans written-off	-	(91,290)	(50,930)	(142,220)	(126,906)
Recoveries of loans written-off	-	29,292	-	29,292	15,088
Balance, end of year	\$ -	165,818	326,867	492,685	270,613

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2007

### 3. Loans to members (continued):

(d) Maturity dates of loans:

The following table analyzes the Credit Union's loan portfolio by maturity date:

	Variable rates	Fixed rates			2007 Total	2006 Total
		Less than 1 year	1-5 years	Over 5 years		
Total loans	\$ 36,825,655	25,321,781	60,363,163	1,058,491	123,569,090	108,766,527
Average effective yield	8.20%	6.46%	6.47%	6.60%	6.98%	6.90%

### 4. Investments:

	2007			2006	
	Fair value	Cost	Carrying value	Fair value	Cost
Available for sale:					
Credit Union Central of Ontario shares	\$ 1,133,527	\$ 1,133,527	\$ 1,133,527	\$ 752,479	\$ 752,479
Loans and receivables:					
Liquidity reserve deposit	10,958,407	10,924,256	10,924,256	6,353,727	6,378,181
Co-Op Trust	1,455,919	1,455,919	1,455,919	2,062,451	2,062,451
Held for trading:					
Province of Ontario bonds	998,620	1,000,655	998,620	997,200	998,245
National Bank bonds	990,566	1,026,281	990,566	1,007,990	1,033,298
Farm Credit bonds	-	-	-	1,501,485	1,520,728
Held to maturity:					
CUCO bonds	1,566,159	1,539,980	1,539,980	2,585,765	2,562,253
<b>Total investments</b>	<b>\$ 17,103,198</b>	<b>\$ 17,080,618</b>	<b>\$ 17,042,868</b>	<b>\$ 15,261,097</b>	<b>\$ 15,307,635</b>

As a condition of membership in the CUCO, the Credit Union is required to maintain a liquidity reserve deposit at CUCO equal to 7.0% of total assets.

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2007

## 4. Investments (continued):

Also, as a condition of membership in the CUCO, the Credit Union is required to maintain an investment in shares of the CUCO equal to 0.6% of total assets adjusted annually at December 31st. The shares of the CUCO may only be surrendered for proceeds equal to the paid-in value in accordance with withdrawal from membership provisions or when the Credit Union's own shares and deposits decline.

The bonds consist of federal, provincial and CUCO bonds which have various dates of maturity from 2007 to 2011.

## 5. Property and equipment:

	2007		2006	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Land	\$ 527,795	\$ -	\$ 527,795	\$ -
Buildings	1,845,029	753,845	1,837,874	702,785
Furniture and equipment	533,575	477,243	502,385	452,169
Terminals and automated banking machines	563,170	412,005	591,013	440,218
Computer software	602,330	576,673	572,988	561,814
Leasehold improvements	582,966	304,615	555,197	264,535
	4,654,865	2,524,381	4,587,252	2,421,521
Less accumulated amortization	2,524,381		2,421,521	
	\$ 2,130,484		\$ 2,165,731	

## 6. Members' accounts:

	2007	2006
Demand deposits	\$ 52,233,036	\$ 45,920,958
Term deposits	47,908,095	41,776,266
Registered retirement savings plans	27,404,155	25,015,246
Registered retirement income funds	12,693,528	13,074,795
Accrued interest payable	1,263,063	1,049,683
	\$ 141,501,877	\$ 126,836,947

The composite interest rate in force at December 31, 2007 ranged from 0% to 2.25% on demand deposits.

Term deposits are accepted at guaranteed interest rates payable at maturity or annually on certificates of two to five year terms.

Certain long-term funds may be withdrawn prior to maturity date subject to a reduction of interest.

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2007

## 6. Members' accounts (continued):

The following table analyzes the Credit Union's deposits payable by maturity date:

	Variable rates	Fixed rates		2007	2006
		Less than 1 year	1-5 years	Total	Total
Total term deposits	-	\$ 33,143,311	14,764,784	47,908,095	41,776,266
Average effective interest rate	-	3.82%	4.26%	3.95%	3.56%
RRSP	\$ 2,366,509	12,065,808	12,971,838	27,404,155	25,015,246
Average effective interest rate	2.00%	3.81%	4.09%	3.79%	3.47%
RRIF	-	5,627,487	7,066,041	12,693,528	13,074,795
Average effective interest rate	-	3.92%	4.24%	4.10%	3.83%

# SUDBURY CREDIT UNION LIMITED

## Notes to Financial Statements

Year ended December 31, 2007

### 7. Employee benefits:

The Credit Union maintains a defined benefit pension plan which covers certain management employees. The most recent actuarial valuation was performed as at December 31, 2007, and the next required valuation will be as of December 31, 2008. Actuarial reports prepared during the year, based on projections of employees' compensation levels to the time of retirement, indicate the following:

	2007	2006
<b>Accrued benefit obligation:</b>		
Balance, beginning of year	\$ 2,409,500	\$ 2,075,500
Current service cost	138,600	124,900
Interest cost	127,400	115,100
Benefits paid	-	(17,400)
Actuarial loss	-	111,400
<b>Balance, end of year</b>	<b>\$ 2,675,500</b>	<b>\$ 2,409,500</b>
<b>Plan assets:</b>		
Fair value, beginning of year	\$ 2,269,700	\$ 1,555,000
Annual return on plan assets	163,100	126,100
Employer contributions	87,500	475,200
Employees' contributions	33,500	34,400
Benefits paid	-	(17,400)
Actuarial gain (loss)	(204,300)	96,400
<b>Fair value, end of year</b>	<b>\$ 2,349,500</b>	<b>\$ 2,269,700</b>
Fund surplus (deficit)	\$ (326,000)	\$ (139,800)
Unamortized net actuarial loss	599,300	408,200
Unamortized past service costs	79,000	87,500
<b>Accrued benefit asset</b>	<b>\$ 352,300</b>	<b>\$ 355,900</b>

The significant weighted average actuarial assumptions adopted in measuring the Credit Union's accrued benefit obligations are as follows:

	2007	2006
<b>Accrued benefit obligations as of December 31:</b>		
Discount rate	5.00%	5.00%
Rate of compensation increase	4.00%	4.00%
Expected long-term rate of return on plan assets	7.00%	7.00%

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2007

## 7. Employee benefits (continued):

The Credit Union's net benefit plan expense is as follows:

	2007	2006
Current service cost, net of employees' contributions	\$ 138,600	\$ 124,900
Interest on obligation	127,400	115,100
Interest on assets	(163,100)	(126,100)
Amortization of past service costs	8,500	8,500
Amortization of net actuarial loss	13,200	-
Member contributions	(33,500)	(34,400)
Net benefit plan expense	\$ 91,100	\$ 88,000

## 8. Liabilities qualifying for regulatory capital:

Share capital:

	2007	2006
Membership shares - 9,729 (2006 - 9,636)	\$ 97,290	\$ 96,360
Class A patronage shares - 25,717 (2006 - 26,972)	257,171	269,727
Class B special shares - 3,773,415 (2006 - 3,583,490)	3,773,415	3,583,490
	\$ 4,127,876	\$ 3,949,577

### (a) Membership shares:

An unlimited number of voting, non-cumulative member shares have been authorized with a stated value of \$10 per share. Member shares are the minimum share deposit requirement for membership and form part of regulatory capital (see note 9). These shares are non-interest bearing and are payable to members upon termination of membership.

### (b) Class A patronage shares:

An unlimited number of Class A non-voting, non-cumulative patronage shares have been authorized with a stated value of \$10 per share. Ownership benefit shares, which represent cumulative patronage allocations for existing members, form part of regulatory capital (see note 9). These shares rank ahead of member shares, are non-interest bearing and are payable to members upon termination of membership, or at the discretion of the Board of Directors.

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2007

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## 8. Liabilities qualifying for regulatory capital (continued):

### (c) Class B special shares:

An unlimited number of non-voting, non-cumulative Class B special shares were authorized with a stated value of \$1 per share. The Class B special shares provide for redemption, at the sole discretion of the Board of Directors, five years following issuance. These special shares rank ahead of Class A patronage shares and member shares. Investment shares form part of regulatory capital (see note 9).

## 9. Required disclosures under the Act:

- (a) The Credit Unions and Caisses Populaires Act, 1994, requires the Credit Union to maintain regulatory capital throughout the year at 4.5% of total assets and 8% on risk weighted assets. In accordance with the Act, no payments can be made from regulatory capital that would cause regulatory capital to fall below regulatory requirements.

As of December 31, 2007 capital as a percentage of assets was 8.86% (2006 - 8.90%) and capital as a percentage of risk weighted assets was 18.50% (2006 - 17.96%).

- (b) At December 31, 2007, mortgage and non-mortgage loans amounting to approximately \$3,789,187 (2006 - \$4,403,162) were due from officers, directors and employees of the Credit Union. All loans issued to officers, directors and employees of the Credit union conform to the Credit Union policies for terms, interest rates, limits and credit.

- (c) The aggregate remuneration paid to directors was \$9,660 (2006 - \$11,940).

# SUDBURY CREDIT UNION LIMITED

## Notes to Financial Statements

Year ended December 31, 2007

### 10. Income taxes:

Income tax expense differs from the amount that would be computed by applying the Federal and Provincial statutory tax rates of 36.1% (2006 - 36.1%) to earnings before income taxes. The reasons for the differences and related tax effects are as follows:

	2007	2006
Computed tax expense	\$ 650,400	\$ 497,700
Increase (decrease) resulting from:		
Non-deductible costs	1,700	18,500
Preferred rate amount deduction for credit unions	(178,677)	(122,466)
Change in valuation allowance	(90,716)	-
Impact of change in accounting policy	10,400	-
Other	28,193	42,807
Current tax provision	\$ 421,300	\$ 436,541

The tax effects of temporary differences that give rise to significant portions of future income tax assets and future income tax liabilities at December 31, 2007 are presented below:

	2007	2006
Future income tax assets:		
Provision for credit losses	\$ 29,400	\$ 9,260
Capital assets - difference between net book value and undepreciated capital cost	63,600	76,865
Other	13,300	25,356
	106,300	111,481
Less valuation allowance	-	(90,716)
	106,300	20,765
Future income tax liabilities:		
Pension contributions	95,600	-
Other	44,600	20,765
Net future income tax asset (liability)	\$ (33,900)	\$ -

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2007

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## 11. Commitments:

(a) Lines of credit:

As at December 31, 2007 the total approved lines of credit to members was approximately \$21,722,734 of which \$11,864,401 has been disbursed.

(b) Loans to members:

As at December 31, 2007 loans totaling approximately \$2,406,848 had been approved but not yet disbursed.

(c) Lease:

Minimum commitments for the rental of the Bouchard Street branch premises amount to \$64,932 annually. The lease expires in 2011 with an option to renew for one year.

Minimum commitments for the rental of Lisgar Street branch premises amounted to \$31,473 annually. The lease expires in 2010.

(d) Banking system services:

The Credit Union has contracts for banking system services that require annual payments of approximately \$225,000 for the years 2008 to 2013 inclusive.

## 12. Credit Union Central of Ontario demand loan:

The Credit Union has access to a line of credit facility totaling \$2,833,815 at the CUCO at prime rate. The line of credit is secured by an assignment of loans to members and a general security agreement covering all assets of the Credit Union. At year end, the Credit Union has not drawn on any of its credit facilities (2006 - \$Nil).

## 13. Contingencies:

In the normal course of business, the Credit Union may be subject to a number of lawsuits and other legal proceedings. The outcome of these lawsuits is uncertain.

In the opinion of management, these lawsuits will not have a material effect upon the financial position of the Credit Union. Any settlement in respect of these claims will be reflected as a charge to income in the year of settlement.

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2007

## 14. Fair value of financial instruments:

(a) Estimated fair value of on-balance sheet financial instruments:

The amounts set out below represent the fair value of the Credit Union's financial instruments using the valuation methods and assumptions described below.

The estimated fair value amounts are designed to approximate amounts at which instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. Fair values are based on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. Because of the estimation process and the need to use judgement, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

			2007	2006
	Fair Value	Book Value	Fair Value Over(under) Book Value	Fair Value Over(under) Book value
Financial assets:				
Cash	\$ 13,400,934	13,407,300	(6,366)	-
Loans to members	120,497,876	123,402,955	(2,905,079)	(900,684)
Investments	17,103,198	17,042,868	60,330	213,009
Financial liabilities:				
Members' accounts	\$ 144,448,821	141,501,877	2,946,944	(6,753)
Liabilities to non-members	1,876,398	1,792,515	83,883	(20,113)
Liabilities qualifying for regulatory capital	4,127,876	4,127,876	-	-

The following methods and assumptions were used to estimate the fair value of financial instruments:

- (i) The fair values of cash, other assets and liabilities to non-members are assumed to approximate their carrying values, due to their short-term nature.
- (ii) The fair value of investments is based on quoted market values where available.
- (iii) The estimated fair value of floating rate loans and floating rate deposits is assumed to be equal to book value as the interest rate on these loans and deposits reprice to market on a periodic basis.
- (iv) The estimated fair value of fixed rate loans, fixed rate deposits and liabilities qualifying as regulatory capital is determined by discounting the expected future cash flows of these loans, deposit accounts at current market rates for products with similar terms and credit risks.

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2007

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## 14. Fair value of financial instruments (continued):

(b) Equity swap agreements:

Included in term deposits and RRSP's is a total of \$3,501,702 (2006 - \$3,579,112) of index-linked deposits. The fair value of the index linked swap contracts at year-end is approximately \$1,005,378 (2006 - \$1,420,548).

## 15. Comparative figures:

Certain 2006 comparative figures have been reclassified to conform with the 2007 presentation.

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2007

## 16. Interest rate sensitivity:

Contractual repricing and maturity risk is the sensitivity of the Credit Union's financial condition to movements in interest rates. The carrying amounts of interest sensitive assets and liabilities are presented in the periods in which they next reprice to market rates or mature and are summed to show the interest rate sensitivity cap.

	Variable Rate	Fixed Rate			Non-interest Sensitive	2007 Total
		Less than 1 Year	1 to 5 Years	Over 5 Years		
<b>Assets:</b>						
Cash resources	\$ -	9,000,000	-	-	4,407,300	13,407,300
Investments	-	10,995,240	4,608,777	-	1,438,851	17,042,868
Member loans	36,825,655	25,321,781	60,363,163	1,058,491	(166,135)	123,402,955
Other assets	-	-	-	-	3,695,205	3,695,205
	36,825,655	45,317,021	64,971,940	1,058,491	9,375,221	157,548,328
<b>Liabilities and Members' Equity</b>						
Term deposits		33,143,311	14,764,784	-	778,793	48,686,888
RRSP	2,366,509	12,065,807	12,971,839	-	272,394	27,676,549
RRIF	-	5,627,486	7,066,042	-	211,870	12,905,398
Member deposits	42,949,506	-	-	-	9,283,531	52,233,037
Other	-	-	-	-	16,046,456	16,046,456
	45,316,015	50,836,604	34,802,665	-	26,593,044	157,548,328
On balance sheet mismatch	(8,490,360)	(5,519,583)	30,169,275	1,058,491	(17,217,823)	-
Off balance sheet mismatch	-	-	-	-	-	-
Cumulative mismatch	\$ (8,490,360)	(14,009,943)	16,159,332	17,217,823	-	-

It is estimated that an immediate and sustained parallel increase in interest rates of 1% sources all maturities and currencies would increase net interest income by approximately \$400,140 and a decrease in interest rates of 1% across all maturities and currencies would decrease net interest income by approximately \$157,760 over the next twelve months using the following assumptions:

- i) accrued interest receivable and payable as at December 31, 2007 are excluded from the calculation;
- ii) no hedging of interest rate exposures are made;
- iii) instruments repriced evenly within their respective time bands;
- iv) existing credit commitments will not be drawn upon; and
- v) no prepayments of fixed term loans or early redemption of redeemable fixed term deposits will be made.

# SUDBURY CREDIT UNION LIMITED

## Schedule of Expenses

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
<b>Personnel:</b>		
Salaries and commissions	\$ 1,948,575	\$ 1,866,803
Benefits	259,096	254,775
Pensions	173,392	166,868
Employee training	37,870	37,827
	<u>\$ 2,418,933</u>	<u>\$ 2,326,273</u>
<b>General:</b>		
Electronic data processing services	\$ 401,186	\$ 401,678
Advertising	188,842	241,118
Cash and current account costs	145,096	134,626
Professional fees	72,571	66,765
Other expenses	75,843	58,269
Lending costs	53,767	56,094
Stationery and supplies	46,343	48,284
Postage expenses	48,107	45,249
Equipment maintenance	59,671	37,032
Telephone	21,743	20,452
	<u>\$ 1,113,169</u>	<u>\$ 1,109,567</u>
<b>Occupancy:</b>		
Rent	\$ 104,730	\$ 103,161
Building repairs and maintenance	79,780	83,954
Property taxes	41,693	41,546
Heat, light and water	37,705	35,123
	<u>\$ 263,908</u>	<u>\$ 263,784</u>
<b>Organization:</b>		
Other	\$ 114,562	\$ 91,896
Board and committees	53,356	52,295
Credit Union Central of Ontario dues	41,217	40,166
Annual meeting	5,597	4,152
	<u>\$ 214,732</u>	<u>\$ 188,509</u>
<b>Insurance:</b>		
Deposit	\$ 97,599	\$ 86,440
Casualty	30,800	39,149
Bonding	36,494	28,633
Savings	16,920	17,521
	<u>\$ 181,813</u>	<u>\$ 171,743</u>

See accompanying notes to financial statements.