



1938 - 2013



**CREDIT
UNION**

BEAUBEAR

75th

ANNIVERSARY

2013 Annual Report

CEO AND PRESIDENT'S JOINT MESSAGE

During 2013 Miramichi has hosted the Tall Ships and the International Airshow. We've seen Corner and Sun FM come to town and another wave of hiring at the Payroll Center. And Beaubear Credit Union celebrated its milestone 75th Anniversary.

2014 will continue to bring its set of challenges and we will embrace the change that creates growth and a thriving future. Miramichi will continue to persevere in a global economy that is still striving to push a path toward continued prosperity.

Special thanks to all those individuals and businesses that support our community and volunteers who dedicate their time and resources to support this community and its not-for-profit organizations. Without such support, there would be tremendous gaps in services to Miramichiers.

Thanks to all Miramichiers for their continued support of Miramichi's community minded, socially responsible and only locally owned full service financial institution that makes decisions here in Miramichi. We are proud of our history and to have proudly served the River since 1938 and will continue for another 75 years.

I'd like to thank our amazing Team of Staff, Management and Board of Directors for their loyalty commitment and expertise that make Beaubear Credit Union a relevant and successful local financial institution.



A handwritten signature in black ink, appearing to read "Andy Richardson".

Andy Richardson
Chief Executive Officer
Baubear Credit Union

A handwritten signature in black ink, appearing to read "Terry Williston".

Terry Williston
President
Baubear Credit Union Board of Directors

MINUTES OF THE 74TH ANNUAL MEETING OF BEAUBEAR CREDIT UNION

The seventy-fourth annual meeting of Beaubear Credit Union Ltd. was held on March 26, 2013 at the Newcastle Kin Centre, Miramichi West.

President Terry Williston as Chair, called the meeting to order at 7:24pm. With 62 members present, a quorum was declared.

Patrick Clancy was appointed Parliamentarian for the meeting.

Motion to accept the agenda was made by Colleen Daley and SECONDED by Moira McCluskey. MOTION CARRIED.

A moment of silence was observed for deceased members of the Credit Union.

BOARD OF DIRECTORS PRESENT AND INTRODUCED:

Glenford Copp, Nick Lynch, Baz McGean, Gerard Regan, Stella English, Brent Tozer, Wanda Urquhart and Pat Clancy.

Mr. Williston introduced Gary Morrison of Thornton VanTassel.

READING AND APPROVAL OF MINUTES OF LAST MEETING

Wanda Urquhart read the minutes of the 2011 Annual General Meeting. A motion to accept the minutes was made by Tony Daley and SECONDED by Mary Daley. MOTION CARRIED

BUSINESS ARISING FROM THE MINUTES

There was no business arising from the minutes.

PRESIDENT'S MESSAGE

Beaubear Credit Union has successfully completed its 74th year of operations. Mr. Williston spoke of challenges and changes over the past year and invited all members to view the new branch in Newcastle located in the Sears building.

The Board of Directors and Committees have been busy with ongoing work on Governance to review and update polices for the Credit Union. They have developed a Strategic Plan to move forward.

Mr. Williston thanked Management and Staff for their hard work and due diligence.

Terry Williston MOVED the adoption of his report. The motion was SECONDED by Dawn Hannah. MOTION CARRIED.

REPORTS

CREDIT COMMITTEE REPORT

Baz McGean presented the report from the Credit Committee. The authority and responsibilities of this Committee are outlined in its charters and by laws. The committee met monthly to review and monitor the progress of the credit department, approve loans outside branch limits, review policy and procedures, monitor delinquency, and to review loans to staff and directors. A breakdown of loans approved and declined were presented.

There was an external audit performed by Risk Management Agency and the Credit Union once again received a very favorable inspection.

Delinquency was managed closely during the year with a rate well below the industry average being maintained. Mr. McGean commended the staff and noted that the loan growth and favorable delinquency are a reflection of the quality of the Credit Union Staff.

MINUTES CONTINUED

Baz McGean MOVED the acceptance of his report. The motion was SECONDED by Colleen Daley. MOTION CARRIED.

AUDIT COMMITTEE REPORT

Pat Clancy presented the report from the Audit Committee. The Audit Committee is established as a requirement of the Credit Unions Act. Mr. Clancy stated that the Audit Committee has the authority to authorize investigations, retain outside independent council as it determines necessary, to seek information, and to meet with the Executive, Auditors, Risk Management Agency and regulators. He stated that their principle role is to ensure the appropriate level of due diligence has been directed towards ensuring an effective risk management and control framework has been implemented by management. The committee met monthly with the General Manager to review the financial progress of the Credit Union.

Pat Clancy MOVED for the adoption of his report. The motion was SECONDED by Andrea Walsh. MOTION CARRIED.

AUDITORS REPORT

Gary Morrison presented the Auditors Report on behalf of Thornton Van Tassel. He reported that Thornton Van Tassel is hired on the member's behalf to express an opinion on the financial statements and this years' audit did result in a clean opinion.

Mr. Morrison commented that 2012 was different as we had two year ends. One four month year end and a twelve month year end so the figures would be skewed. He noted that one of the most important numbers on the Income Statement is the Financial Margin, which is comprised of the net interest income at \$1,936,910, less the provision for credit losses which stand at 33,617.00 for a financial margin of \$1,970,527. Mr. Morrison stated that Beaubear Credit Union is experiencing growth in the balance sheet, good growth in loans receivable and is in one of the best equity positions in the province. Mr. Morrison stated that the audit went without any problems and commented on what a pleasure it is working with the staff at Beaubear Credit Union. Stella Fliieger MOVED for the acceptance of the Auditors report. The motion was SECONDED by Carla Thibodeau. MOTION CARRIED.

RECOMMENDATIONS

APPOINTMENT OF AUDITORS

Terry Williston, on behalf of the Board, requested that the Board of Directors be given the authority to appoint Thornton VanTassel Chartered Accountants for the financial period ending December 31, 2013. The motion was MOVED by Maureen LeBlanc and SECONDED by Ralph Shanahan. MOTION CARRIED.

ELECTION OF BOARD OF DIRECTORS

There are three director positions open. Glenford Copp and Brent Tozer have reoffered for another three year term. Joe Kenny has reoffered for a two year term. There being no further nominations from the floor Leonce Gallant MOVED that these three nominees be accepted to the Board; SECONDED by Nick Lynch. MOTION CARRIED.

ADJOURNMENT

The meeting adjourned at 8:15. Motion for adjournment was MOVED BY Baz McGean.

CREDIT COMMITTEE REPORT JAN 1,2013-DEC 31,2013

The Credit Committee has certain authority and responsibilities, which are outlined in its charter and by-laws.

The committee met monthly (12 times; as per Beaubear Credit Union's By-Laws) to review and monitor the progress of the credit department, approve loans outside branch limits, review policy and procedures, monitor delinquency, and review loans to staff and directors. A monthly report on the proceedings was supplied to the Board of Directors.

Monthly meetings included the Branch Managers, Commercial Account Manager and occasionally the CEO. During the past year, your Credit Union approved 292 loans, mortgages and commercial requests totalling \$11,468,560. There were also 40 lines of credit limits (personal & commercial) for \$2,930,979. The table below is a detailed breakdown of the loans processed and declined/cancelled for the past year.

There was an external audit/inspection performed by RMA (Risk Management Agency), and we are pleased to report that the Credit Union one again received a very favorable inspection.

Although granting of loans and mortgages was a main focus of the credit department, delinquency continued to be managed closely during the past year and is well within acceptable industry limits.

We commend our Management and Staff and thank them for their hard work and due diligence throughout the year. We look forward to the opportunities and success during fiscal 2014, while continuing to protect the investments of our Members.

LOANS PROCESSED AND DECLINED/CANCELLED

APPROVED	Number	Dollar Amount	DECLINED CANCELLED	Number	Dollar Amount
PERSONAL	226	\$3,253,695	PERSONAL	77	\$1,022,003
MORTGAGE	16	\$1,975,838	MORTGAGE	11	\$742,355
COMMERCIAL	10	\$3,310,048	COMMERCIAL	7	\$1,521,750
LINE of CREDIT <i>Personal & Commercial</i>	40	\$2,930,979	LINE of CREDIT <i>Personal & Commercial</i>	10	\$74,650
TOTAL	292	\$11,468,560	TOTAL	105	\$3,360,758

Respectfully submitted,
 Baz McGean-Chairperson
 Joe Kenny
 Pat Clancy
 Judy Breau
 Wanda Urquhart

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The management of Beaubear Credit Union is responsible for the integrity, objectivity and consistency of the financial information presented in this annual report. This responsibility includes selecting appropriate accounting policies which are in accordance with Canadian generally accepted accounting principles and ensuring that the financial information is based on informed judgments and estimates with appropriate consideration as to materiality. The Board of Directors has approved the consolidated financial statements for issuance to the members.

Management maintains the necessary system of internal controls designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The Board of Directors oversees the management's responsibility for financial statements through the Audit Committee. The Audit Committee conducts a detailed review of the consolidated statements with management and the independent auditors before recommending their approval to the Board of Directors.

The auditors have full and complete access to, and meets periodically with the Audit Committee to discuss the audit and matters arising there from.

Thornton VanTassel CA , the independent auditors appointed by the members, have examined our consolidated financial statements and issued their report, which follows.

The auditors have full and complete access to, and meets periodically with the Audit Committee to discuss the audit and matters arising there from.



Andy Richardson
Chief Executive Officer
Beaubear Credit Union

AUDIT COMMITTEE REPORT FOR 2013

It is a requirement of the Credit Union Act (the Act) Section 94 and the Regulations Section 13.1 that each Credit Union shall establish an audit committee, which shall have the following authority:

- To conduct or authorize investigations within its scope of responsibility;
- To retain outside independent counsel, accountants, auditors, or others as it determines necessary to carry out its duties;
- To seek any information it requires from employees and external parties and meet as necessary;
- To meet with any executive; the Risk Management Agency (RMA), the external auditors and/or the regulators without management being included if the committee so desires or at the request of any of these parties; and
- To set and pay the compensation for any advisors employed by the Audit Committee.

The Audit Committee's principal role is to ensure that the appropriate level of due diligence has been directed towards ensuring an effective risk management and control framework has been implemented by management. This framework provides reasonable assurance that:

- The financial, operational and regulatory objectives of the Credit Union are achieved;
- That the governance and accountability of board and management are met and
- That there is oversight of risk management, internal control, financial reporting and compliance with regulatory matters.

The Committee met monthly with the CEO and Management Team to review the financial progress of the Credit Union.

Respectfully submitted,
Gerard Regan, Chair
Stella English
Brent Tozer
Nick Lynch
Glenford Copp

RECOMMENDATIONS OF THE BOARD OF DIRECTORS FOR CONSIDERATION AT THE 2013 ANNUAL GENERAL MEETING

A) APPOINTMENT OF AUDITORS

The Board of Directors of Beabear Credit Union recommends the appointment of GP Morrison, CA as Beabear Credit Union's auditor for the financial period ending December 31, 2014.

B) BOARD OF DIRECTOR REIMBURSEMENT OF EXPENSES

The Board of Directors of Beabear Credit Union recommends the reimbursement of expenses incurred by a board member(s) as a result of conducting credit union business on behalf of Beabear Credit Union.

C) BOARD OF DIRECTOR REMUNERATION

The Board of Directors of Beabear Credit Union recommends that should a board member(s) incur a loss in wages for conducting any credit union business on behalf of Beabear Credit Union, Beabear Credit Union will reimburse such member for loss of wages to a maximum of \$200.00 per day.

CREDIT UNIONS IN NEW BRUNSWICK PROTECTION OF MEMBER'S DEPOSITS

\$250,000 Deposit Insurance Coverage

What is covered?

NBCUDIC insures eligible deposits under the following circumstances:

- accounts held in one name;
- accounts held in trust for someone else;
- deposits held jointly in two or more names;
- eligible deposits that are held in a Tax Free Savings Account (TFSA).

What is an eligible deposit?

NBCUDIC insures eligible deposits held in each member credit union up to a maximum of \$250,000 (principle and interest combined) per depositor, for each of the following deposits:

- a combination of savings, chequing accounts, term deposits and guaranteed investment certificates (GICs) with an original term to maturity of five years or less, money orders, and certified cheques;
- registered in RRSPs (Registered Retirement Savings Plans);
- registered in RRIFs (Registered Retirement Income Funds); and
- TFSA deposits.

Deposits must be payable in Canada, in Canadian currency.

What is not covered?

NBCUDIC does not insure all accounts and financial products. The following are not covered:

- deposits made or payable by a member which are not repayable in Canadian dollars (e.g. accounts in U.S. dollars);
- term deposits and guaranteed investment certificates (GICs) with an original term to maturity of more than five years;
- bonds and debentures issued by governments and corporations;
- membership shares and other types of shares issued by credit unions;
- treasury bills; and
- investments in mutual funds and stocks.

*See in Branch for further details

2013 RECIPIENTS OF THE BEAUBEAR CREDIT UNION FOUNDERS SCHOLARSHIP

The staff, management and Board of Directors would like to extend congratulations to the 2013 recipients of the Beaubear Credit Union Founders Scholarship: Abigail Power and Gaylene Russell McEvoy. We wish you success in all your future endeavours!



Abigail Power
2013 James M Hill Graduate



Gaylene Russell McEvoy
2013 Miramichi Valley High Graduate

Baubear Credit Union Founders Scholarships were established in memory of the founding members of Beaubear Credit Union. The purpose of these scholarships is to provide financial assistance to any high school graduate who is a member of Beaubear Credit Union or is a child of a member who is pursuing post secondary education.

Two scholarships are awarded annually in the amount of one thousand dollars (\$1000.00) each. Each scholarship is non-renewable, is payable upon the receipt of a record of successful academic progress, in the first term of the program. Active members are eligible to apply who have received confirmation of enrollment in post secondary institution (college or university) for the upcoming year. The member will need to demonstrate volunteerism and community involvement. The member will have to demonstrate financial need.

Application forms are available at high schools in the community, at both the Water Street branch and the Pleasant Street Branch of Beaubear Credit Union and on our website. Applicants are to provide a letter to the selection committee outlining their contribution to the community and/or school and evidence of financial need.

BEAUBEAR CREDIT UNION LTD.
FINANCIAL STATEMENTS
DECEMBER 31, 2013

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INDEPENDENT AUDITORS' REPORT

To the Members of:

BEAUBEAR CREDIT UNION LTD.

We have audited the accompanying financial statements of **Beaubear Credit Union Ltd.**, which comprise the balance sheet as at **December 31, 2013** and the statement of earnings, members' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with *International Financial Reporting Standards*, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the credit union's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the credit union's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Beaubear Credit Union Ltd.** as at **December 31, 2013** and its financial performance and its cash flows for the year then ended in accordance with *International Financial Reporting Standards*.

CHARTERED ACCOUNTANTS

Fredericton, NB
January 22, 2014

BEAUBEAR CREDIT UNION LTD.

BALANCE SHEET

DECEMBER 31, 2013

	2013	2012
ASSETS		
Cash	\$ 4,768,348	\$ 1,231,487
Investments (Note 4)	4,318,545	4,442,491
Loans receivable (Note 7)	38,432,020	42,667,137
Accrued interest receivable	79,469	91,447
Recoverable income taxes	21,660	-
Other receivable	19,660	3,778
Prepaid expenses	59,934	38,484
Deferred income taxes	4,446	-
Foreclosed assets	46,364	87,445
Property and equipment (Note 8)	1,078,189	1,136,968
	\$ 48,828,635	\$ 49,699,237
LIABILITIES AND MEMBERS' EQUITY		
Liabilities to Members		
Member deposits (Note 9)	\$ 44,574,207	\$ 45,183,887
Accrued interest on deposits	167,805	160,094
	44,742,012	45,343,981
Other Liabilities		
Accounts payable	199,202	491,048
Deferred income taxes	-	3,664
Income taxes payable	-	33,065
	199,202	527,777
Members' Equity	3,887,421	3,827,479
	\$ 48,828,635	\$ 49,699,237

Commitment (Note 14)

APPROVED BY THE BOARD:



Director



Director

See accompanying notes to financial statements.

BEAUBEAR CREDIT UNION LTD.

STATEMENT OF MEMBERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2013

	2013	2012
Membership Shares (Note 11)		
Balance at beginning of year	\$ 362,210	\$ 372,465
Net change during the year	(7,103)	(10,255)
Balance at end of year	\$ 355,107	\$ 362,210
Retained Earnings		
Balance at beginning of year	\$ 3,287,269	\$ 3,063,946
Net earnings for the year	67,045	223,323
Balance at end of year	\$ 3,354,314	\$ 3,287,269
Special Reserve (Note 15)		
Balance at end of year	\$ 178,000	\$ 178,000
	\$ 3,887,421	\$ 3,827,479

See accompanying notes to financial statements.

BEAUBEAR CREDIT UNION LTD.

STATEMENT OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 2013

	2013	2012
Interest income		
Interest on loans	\$ 2,330,395	\$ 2,400,535
Interest on investments	55,916	71,366
	2,386,311	2,471,901
Interest expense		
Interest on member deposits	459,260	533,914
Other interest	7,302	1,077
	466,562	534,991
Net interest income	1,919,749	1,936,910
Provision for credit losses (Note 7)	58,955	(33,617)
Financial Margin	1,860,794	1,970,527
Other income (Note 12)	623,983	658,183
	2,484,777	2,628,710
Non-interest expenses		
Personnel	1,188,126	1,143,519
Occupancy	154,190	117,890
Organization	71,863	71,702
Member security	122,672	159,514
General business	749,394	737,486
Depreciation	126,944	115,865
	2,413,189	2,345,976
Earnings before loss on disposal and provision for income tax	71,588	282,734
Loss on disposal of assets	-	(21,415)
Earnings before provision for income tax	71,588	261,319
Provision for income tax (Note 10)	4,543	37,996
NET EARNINGS	\$ 67,045	\$ 223,323

See accompanying notes to financial statements.

BEAUBEAR CREDIT UNION LTD.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2013

	2013	2012
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net earnings	\$ 67,045	\$ 223,323
Add items not affecting cash		
Depreciation	126,944	115,865
Deferred income taxes	(8,110)	2,664
Provision for doubtful loans	58,955	(33,617)
Gain (loss) on sale of assets	-	(21,415)
	244,834	329,650
Net change in non-cash working capital items (Note 13)	(323,133)	(273,436)
	(78,299)	56,214
FINANCING		
Increase in deposits	(609,680)	768,797
Decrease in membership shares	(7,103)	(10,254)
	(616,783)	758,543
INVESTING		
Additions to property and equipment	(68,165)	(240,601)
(Increase) decrease in loans receivable	4,176,162	(3,360,352)
(Increase) decrease in investments	123,946	(100,022)
	4,231,943	(3,700,975)
NET INFLOW (OUTFLOW) OF CASH	3,536,861	(2,886,218)
CASH RESOURCES, beginning of year	1,231,487	4,117,705
CASH RESOURCES, end of year	\$ 4,768,348	\$ 1,231,487

See accompanying notes to financial statements.

BEAUBEAR CREDIT UNION LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

GENERAL

The Credit Union is incorporated under the Credit Unions Act of New Brunswick and its principal activity is providing financial services to its members. For financial reporting and regulatory matters, the Credit Union is under the authority of the Superintendent of Credit Unions and Caisse Populaires, Province of New Brunswick.

1. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Credit Union's functional and presentation currency is the Canadian dollar.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Credit Unions Act

Regulations to the Act specify that certain items are required to be presented to members at the annual meeting of members. This information has been integrated with the basic financial statements and notes and it is management's opinion that the disclosures in these financial statements comply in all material respects, with the requirements of the legislation. Where necessary, reasonable estimates and interpretations have been made in presenting this information.

2.2 Investments

Investments are recorded at cost which approximates market value.

2.3 Property and equipment

Property and equipment are recorded at cost. Depreciation is provided annually at rates calculated to write the assets off over their estimated useful lives as follows:

Building	25 years straight line
Safekeeping equipment	20 years straight line
ATM	5 years straight line
Office equipment	10 years straight line
Computer hardware	5 years straight line
Computer software	2 years straight line
Leasehold improvements	Remaining life of the lease term

BEAUBEAR CREDIT UNION LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Loans

Loans are carried at the unpaid principal less allowances for credit losses. Loans considered uncollectable are written off.

2.5 Allowance for credit losses

The Credit Union maintains an allowance for credit losses which it considers the best possible estimate of probable credit-related losses existing in the Credit Union loan portfolio in light of current conditions. These allowances reduce the carrying value of loans identified as impaired to their estimated realizable amounts. Estimated realizable amounts are determined by estimating the fair value of security underlying the loans and deducting the costs of realization.

2.6 Foreclosed assets

Foreclosed assets held for sale, if any, are carried at the lower of the carrying value of the loan foreclosed, adjusted for revenues received and costs incurred subsequent to foreclosure, and the estimated net proceeds from sale of the assets.

2.7 Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant estimates are required in recording the provision for loan loss. Actual results could differ from those estimates.

2.8 Revenue recognition

Interest accrued on loans is recognized in income except where a loan is classified as impaired. Loans are classified as impaired generally at the earlier of when, in the opinion of management, there is reasonable doubt as to the collectibility of principal or interest, or when interest is 90 days past due. Interest received on an impaired loan is recognized in income only if there is no longer any doubt as to the collectibility of the carrying value of the loan, otherwise, the interest received is credited to the principal.

2.9 Foreign currency

Monetary items denominated in foreign currency are translated to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in income.

BEAUBEAR CREDIT UNION LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 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 basis. Future tax assets and liabilities are measured using enacted or substantively 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 the period that includes the date of enactment or substantive enactment.

2.11 Financial instruments

On acquisition, all financial assets must be classified as held-to-maturity, loans and receivables, held-for-trading or available-for-sale and at inception. All financial liabilities must be classified as held-for-trading or other. The Credit Union has classified cash and cash equivalents as held-for-trading; loans and account receivable is classified as loans and receivables; accounts payable and member deposits have been classified as other liabilities. Investments have been classified as indicated in note 4 of the financial statements.

Investments in securities that are classified as held-to-maturity or as loans and receivables are valued at cost or amortized cost, adjusted to recognize other than a temporary impairment in the underlying value.

Investments in securities that are classified as available-for-sale are initially recognized at acquisition cost and subsequently re-measured at fair value at each reporting date. Beaubear Credit Union Ltd. utilizes the settlement date accounting for all purchases and sales of financial assets in its investment portfolio. The fair value of publicly traded securities is based on their quoted market prices. All other securities' fair value is determined by discounting the expected future cash flows at current market rates.

Investments in securities that are classified as held-for-trading are recorded at fair value.

Baubear Credit Union Ltd. recognizes interest income as earned and investment gains and losses when realized. Unrealized gains and losses on available-for-sale securities are recorded in other comprehensive income and recognized in income when realized. For investments held-for-trading, realized and unrealized gains and losses are recorded in income.

BEAUBEAR CREDIT UNION LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

3. RISK MANAGEMENT

- a) The types of risk inherent in the Credit Union environment include credit, liquidity and interest rate risk.
- i) **Credit risk** is the risk that the Credit Union will incur a loss because a member fails to meet an obligation. Risk management policies are implemented by management and the Board. These include the evaluation of the member's ability to repay the loan when it is originally granted and subsequently renewed and the regular monitoring of member information such as delinquent and over-limit amounts.

In addition, the Credit Unions Act requires the Credit Union to maintain at all times a prescribed capital base. The required level of capital, consisting of share capital and retained earnings, is 5% of the total assets. The actual capital base at December 31, 2013 is detailed in note 11 of the notes to the financial statements.

- ii) **Liquidity risk** is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members. To mitigate this risk, the Credit Union is required under the Credit Unions Act of New Brunswick to maintain, at all times, liquid assets that are adequate in relation to the business carried on. The level of liquidity is based on a prescribed percentage of total liabilities. At December 31, 2013, the prescribed liquidity requirement was 10% of total liabilities of which 8% is to be in liquid deposits with Atlantic Central. The actual liquidity was 16.5% of total liabilities, and 8.3% was in liquidity deposits with Atlantic Central.
- iii) **Interest rate risk** refers to the potential impact on the Credit Union's earnings and net asset values due to changes in interest rates. Interest rate risk results primarily from differences in the maturity or repricing dates of assets and liabilities. The Credit Union manages the impact of interest rate changes with self-imposed limits, thus minimizing fluctuations of income during periods of changing interest rates. The Credit Union's major source of income is the financial margin between the income earned on investments and loans to members, and the interest paid to members on their deposits and interest on temporary borrowings.

Interest-sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity, nor would a perfect match be desirable. One of the roles of a Credit Union is to intermediate between the expectations of borrowers and depositors.

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts with floating rates or due or payable on demand are classified as maturing within six months, regardless of maturity. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity. Amounts that are not interest sensitive have been grouped together, regardless of maturity.

BEAUBEAR CREDIT UNION LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

3. RISK MANAGEMENT (CONTINUED)

Expected repricing or maturity dates	Financial statement amounts		
	Assets	Liabilities and members' equity	Net asset/ liability mismatch
0-6 months	\$ 20,935,120	\$ 17,595,190	\$ 3,339,930
6-12 months	5,866,020	11,629,200	(5,763,180)
1-2 years	3,416,890	2,132,490	1,284,400
2-3 years	5,009,330	804,900	4,204,430
3-5 years	7,852,430	2,300,970	5,551,460
Not interest sensitive	5,834,460	14,451,500	(8,617,040)
	\$ 48,914,250	\$ 48,914,250	\$ -

(b) Fair value of financial instruments

The amounts are designed to approximate the fair values of the Credit Union's financial instruments using the valuation methods and assumptions described below. The estimated fair values disclosed do not reflect the value of items that are not considered financial instruments, such as capital assets. Since many of the Credit Union's financial instruments lack an available trading market, the fair values represent estimates of the current market value of instruments, taking into account changes in market rates that have occurred since their origination. Due to 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.

The carrying value of the Credit Union's financial instruments is not adjusted to reflect changes in interest rates, as it is the Credit Union's intention to hold the instruments to maturity.

BEAUBEAR CREDIT UNION LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

3. RISK MANAGEMENT (CONTINUED)

Estimated fair values of financial instruments are summarized as follows:

	2013			2012		
	Fair Value	Book Value	Fair Value Over Book Value	Fair Value	Book Value	Fair Value Over Book Value
Assets:						
Cash	4,768,348	4,768,348	-	1,231,487	1,231,487	-
Investments	4,318,545	4,318,545	-	4,442,491	4,442,491	-
Member loans	38,432,020	38,432,020	-	42,667,137	42,667,137	-
Other assets	167,153	167,153	-	182,670	182,670	-
Liabilities:						
Member deposits	44,574,206	44,574,206	-	45,183,887	45,183,887	-
Other liabilities	367,007	367,007	-	687,871	687,871	-
Shares	355,107	355,107	-	362,210	362,210	-

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

- The fair values of cash, investments, other assets and other liabilities are assumed to approximate book values, due to their short term nature.
- The estimated fair value of floating rate member loans and member deposits are assumed to equal book value as the interest rates automatically reprice to market. The fair value of fixed rate member deposits approximates their fair market value. In management's opinion, any difference between fair values and book values of these financial instruments would not be significant or material to these financial statements.
- The estimated fair value of fixed rate member loans has not been calculated as it is not practicable within constraints of timeliness or cost to determine the amounts with sufficient reliability. In determining fair market value of the loan portfolio, one must factor in price, credit, liquidity, and cashflow risk. In order to properly determine credit risk, one would have to review each loan individually and determine the risks associated with that particular loan file at the year end date. The credit risk is then calculated by the difference between the current interest rate on that loan and the going market rate of a loan with similar characteristics. In management's opinion, the difference between fair values and book values of the loan portfolio would not be significant or material to these financial statements.

BEAUBEAR CREDIT UNION LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

4. INVESTMENTS

	2013	2012
Available-for-sale		
Atlantic Central - liquidity	\$ 3,612,595	\$ 3,734,681
Atlantic Central - shares	639,750	641,610
Atlantic Co-op - shares	100	100
League Data - shares	34,850	34,850
LSM - shares	31,250	31,250
	\$ 4,318,545	\$ 4,442,491

As required by the Credit Union's Act of New Brunswick, the Credit Union maintains investments in Atlantic Central to satisfy the legislated liquidity level. These investments are classified as available-for-sale and measured at fair value, which approximates cost, and does not result in adjustments to other comprehensive income.

Shares in Atlantic Central are required by the Credit Union Act to be held and are a condition of membership in Central. As required by the Credit Union Act, the Credit Union also maintains investments in Central to satisfy the legislated liquidity level. However all equities with no specified maturity date are classified as available-for-sale. As there is no market for the shares in Central, the fair value of the shares is at cost.

5. RELATED PARTY TRANSACTIONS

Included in loans to members are loans to senior officers, directors and staff.

At December 31, 2013 loans to these parties amounted to \$ 2,120,997 (December 2012 - \$ 2,179,375). These loans have been advanced on approximately the same terms and conditions as have been accorded to all members of the Credit Union. There was no remuneration paid to directors or elected committee members during the year other than reimbursement for out-of-pocket expenses.

6. LINE OF CREDIT

The Credit Union maintains an authorized line of credit, which was not utilized at year end, with Atlantic Central in the amount of \$1,250,000 with an interest rate of 3%. The line is secured by investments with Atlantic Central and a general assignment of book debts.

BEAUBEAR CREDIT UNION LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

7. LOANS RECEIVABLE

	2013	2012
Personal	\$ 11,003,298	\$ 12,784,716
Line of credit	1,717,736	2,936,747
Mortgages	16,104,947	17,543,173
Commercial	9,802,616	9,657,438
	<u>38,628,597</u>	<u>42,922,074</u>
Less : Allowance for credit losses		
Balance at beginning of year	254,937	334,201
Recovery of loans previously written off	9,699	12,284
Provision for the year	58,955	(33,617)
Loans written off	(127,014)	(57,931)
	<u>196,577</u>	<u>254,937</u>
Balance at end of year	<u>\$ 38,432,020</u>	<u>\$ 42,667,137</u>

Allowance for impaired loans

December 2013	<u>Impaired loans</u>	<u>Allowance</u>	<u>Amounts recoverable</u>
Personal	\$ 41,873	\$ 33,924	\$ 7,949
Mortgage	-	-	-
Line of Credit	51,148	50,748	400
Commercial	66,506	36,106	30,400
Collective allowance	-	75,799	-
	<u>\$ 159,527</u>	<u>\$ 196,577</u>	<u>\$ 38,749</u>
December 2012			
Personal	\$ 65,642	\$ 59,593	\$ 6,049
Mortgage	-	-	-
Line of Credit	49,198	38,337	10,861
Commercial	1,063,049	78,741	984,308
Collective allowance	-	78,266	-
	<u>\$ 1,177,889</u>	<u>\$ 254,937</u>	<u>\$ 1,001,218</u>

BEAUBEAR CREDIT UNION LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

8. PROPERTY AND EQUIPMENT

			2013	2012
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 146,115	\$ -	\$ 146,115	\$ 146,115
Building	849,804	286,287	563,517	597,508
ATM	176,361	148,836	27,525	57,478
Office equipment	313,026	141,959	171,067	100,439
Computer equipment	130,814	78,182	52,632	31,201
Computer software	9,712	9,712	-	2,995
TCR cash machines		-		94,188
Safekeeping equipment	156,736	39,403	117,333	107,044
	\$ 1,782,568	\$ 704,379	\$ 1,078,189	\$ 1,136,968

9. DEPOSITS

	2013	2012
Term	\$ 16,802,844	\$ 17,346,591
Demand	2,166,024	2,262,552
Member Savings	4,360,334	3,956,728
Chequing	10,735,272	11,021,757
Plan 24	5,191,884	5,289,419
RRSP	5,317,849	5,306,840
	\$ 44,574,207	\$ 45,183,887

10. PROVISION FOR INCOME TAX

	2013	2012
Current	\$ 12,653	\$ 44,988
Correction of 2011 instalment balance	-	(9,656)
	12,653	35,332
Deferred	(8,110)	2,664
	\$ 4,543	\$ 37,996

BEAUBEAR CREDIT UNION LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

11. REGULATORY EQUITY

	2013	2012
A. Membership Shares	\$ 355,107	\$ 362,210
<p>Section 30-1 of the Credit Union Act describes shares as the capital of the Credit Union. Pursuant to Beaubear's by-laws, the value of each membership share is \$5 and as a condition of membership each adult member must hold 10 shares. These shares have specific restrictions on withdrawal and are not covered by Credit Union Deposit Insurance.</p>		
B. Retained Earnings	\$ 3,354,314	\$ 3,287,269
C. Special Reserve	\$ 178,000	\$ 178,000
TOTAL REGULATORY EQUITY	\$ 3,887,421	\$ 3,827,479

D. Credit Union Legislation

Credit Union legislation also requires that each Credit Union maintain a minimum level of equity in the Credit Union to provide protection against potential financial losses. The requirement calls for equity to meet or exceed 5% of total assets. The following table indicates the equity level for Beaubear.

	2013	2012
Membership shares	.7	.7
Retained earnings and special reserve	7.2	7.0
	7.9	7.7

12. OTHER INCOME

	2013	2012
Service charges	\$ 344,047	\$ 375,136
Commissions	153,733	221,531
Miscellaneous	126,203	61,516
	\$ 623,983	\$ 658,183

BEAUBEAR CREDIT UNION LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

13. NET CHANGE IN NON-CASH BALANCES

	<u>2013</u>	<u>2012</u>
Increase (decrease) in:		
Accrued interest on deposits	\$ 7,711	\$ (92,871)
Other receivables	(15,882)	1,105
Accounts payable and accrued liabilities	(291,846)	(165,428)
Income taxes (net)	(54,725)	31,624
Decrease (increase) in:		
Accrued interest receivable	11,978	(16,695)
Prepaid expenses	(21,450)	15,109
Foreclosed assets	41,081	(46,280)
	<u>\$ (323,133)</u>	<u>\$ (273,436)</u>

14. COMMITMENT

One of Beaubear's two branches operates from leased premises. The Newcastle branch lease expires on December 21, 2023 with a minimum annual rent of \$ 60,000 plus HST.

15. ATLANTIC CENTRAL TRANSACTION AND CREDIT UNION CENTRAL NEW BRUNSWICK WIND UP

The Credit Union received \$ 178,000 as a gain on sale of shares on September 30, 2011, as a result of rebalancing of cash and shares from Credit Union Central New Brunswick into the new Atlantic Central. This income, which is included in a special reserve, is not to be distributed in any form and is frozen for a two year period subject to Risk Management Agency's review at that time.

16. COMPARATIVE FIGURES

Certain 2012 figures have been reclassified to conform with the current year's financial statement presentation.

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