

STARBUCK CREDIT UNION



2009 ANNUAL REPORT

Starbuck
CREDIT
UNION

Starbuck Credit Union Limited

Annual Meeting **Tuesday, April 20th, 2010** **7:00 PM**

Agenda

1. **Call to Order and Opening Comments**
2. **Minutes of last Annual Meeting**
3. **Reports:**
 - **Board of Directors Report – Henry Holtmann**
 - **Financial Summary Reports – Wayne Lusk**
4. **Results of the call for Director Nominations**
5. **Appointment of Auditors for 2010**
6. **Long Service recognition**
7. **Prize Draws**
8. **Adjournment**
9. **Refreshments**

Starbuck Credit Union Limited
69th Annual Meeting

2009 Annual Meeting Minutes

Tuesday, April 21st, 2009
7:00 p.m.

In Attendance – 68 members

Henry Holtmann called the meeting to order welcoming everyone. There was an introduction of the Board of Directors, also Wayne Lusk from Meyers, Norris, and Penny, as well as Jeff Johnston from CRI.

Kathy Lavoie was appointed Recording Secretary for the meeting.

Henry Holtmann explained the guidelines for a quorum and declared there was a quorum for the meeting.

Moved by Greg Goldsborough, Seconded by Karl Havixbeck, that the agenda for the 2009 Annual Meeting be accepted. **Carried**

Moved by Dennis Mitchell, Seconded by Len Goldsborough, that the minutes of the 2008 Annual Meeting be accepted. **Carried**

The Board of Directors Report was presented by Henry Holtmann. Moved by Henry Holtmann, Seconded by John Griffiths, that the report be adopted as read. **Carried**

The Financial Summary Report was presented by Wayne Lusk of Meyers Norris Penny. Moved by Brad Rasmussen, Seconded by Johannes Zinn that the financial statement be approved. **Carried**

Whereas the Board of Directors of Starbuck Credit Union Limited has recommended that the Credit Union pay a patronage refund of \$225,000 to its members, based on 5% dividend on Members current Surplus Share balance (amounting to about \$100,000) and the balance of the patronage refund

(about \$125,000) be paid into Members Surplus Share accounts based on the amount of investment and loan business done with the Credit Union during 2008; Therefore be it resolved that the Starbuck Credit Union Limited pay a patronage refund to it's Members as recommended and approved by the Board of Directors". Motion to approve the patronage refund payment moved by John Griffiths, Seconded by Pat Thomashewski. **Carried**

Elections of Directors: There were 2 – 3 year terms available. A call for nominations from the floor was made 2 times, Stuart Janke was nominated by Johannes Zinn. Greg Goldsborough was nominated by Neil Frantz. Moved by Reg Dyck, Seconded by Gordon Hendrickson that nominations cease. **Carried**

Stuart Janke and Greg Goldsborough were declared elected for a 3 year term.

Moved by Greg Goldsborough, Seconded by Stuart Janke that Meyers Norris, Penny be the auditors for 2009. **Carried**

New Business:

A Resolution to amend the Articles and the Bylaws of the Credit Union was presented by Peter Henson of Grand Slam Consulting. "Whereas the Board of Directors of Starbuck Credit Union has recommended that the Articles of the Credit Union be amended, Therefore be it resolved that the Articles be amended as recommended and approved by the Board of Directors." Moved by Karl Havixbeck, Seconded by Stuart Janke to amend the articles. **Carried**

"Whereas the Board of Directors of Starbuck Credit Union has recommended that the By-Laws of the Credit Union be replaced, therefore be it resolved that the original By-Laws be repealed and replaced by the new By-Laws as recommended and approved by the Board of Directors." Moved by John Griffiths, Seconded by David Rasmussen to amend the Bylaws. **Carried**

Henry Holtmann presented Les Booker with a Long Service Recognition Award. Les had started in April 1995 – 13 years. Henry Holtmann presented Neil Frantz with a Long Service Recognition Award. Neil had started in June 1996 – 12 years. Much appreciation was expressed for the dedication and time Les and Neil had spent as Credit Union Directors.

Henry Holtmann presented years of Service Pins to staff as follows: Jennifer Laramie – 5 years; Diane Rasmussen – 10 years; Kelly Grant – 10 years; Dennis Hedley – 15 years.

There was an introduction of the Credit Union staff and a welcome to the two new staff members joining the Credit Union - Don Bahaud – Assistant General Manager – Loans, and Todd Mosset – Account Manager.

Various Prizes were drawn.

The meeting adjourned at 8:18 p.m.

Refreshments were served by Maggie Crompton and Carol Mosset.

Starbuck Credit Union Limited
69th Annual Meeting

Starbuck Credit Union Limited Board of Directors

Name	Position	Term expiry date
Henry Holtmann	President	2010*
Stuart Janke	Vice-President	2012
Greg Goldsborough	Director	2012
Johannes Zinn	Director	2010*
Gayle Andrews	Director	2011
Brad Rasmussen	Director	2011
Dennis Mitchell	Director	2011

* Term expired, eligible for re-election for 3 year term

Staff

Head Office

Dennis J. Hedley	General Manager
Kathy Lavoie	Assistant GM – Administration
Don Bahuaud	Assistant GM – Loans
Kelly Grant	Internal Loan Auditor

Starbuck

Headingley

Todd Mosset, Account Manager	Jim Duncan, Account Manager
Diane Rasmussen, Account Manager	Jennifer Laramee, Account Manager
Noreen Demoskoff, MSR, RRSP Officer	Stacey Glowatski, Account Manager
Janice Pardoski, MSR, Clearing Clerk	Tenley Caruk, Account Manager
Sandy Curtis, Loan Clerk Secretary	Charlene Glowatski, MSR, Office Supervisor
Margaret Schlichting, MSR, Clearing Clerk	Sharla Carriere, MSR
Nancy Langlois, MSR	Andrea Trudeau, MSR
Yvonne Sul, MSR	Kristen Unrau, MSR
	Pauline Ammeter, MSR
	Andrea Allan, MSR
Part-time	Elaine Ammeter, Marjorie Schade, Gerry Strobbe, Doug Mosset, Kathaleen Vermette

Board of Directors Report

The Board of Directors held 14 meetings during 2008; 12 regular meetings and 2 special meetings. During 2009, the Credit Union paid a total of \$13,821 (2008- \$3,073) in Director Remuneration.

The financial report for the past year shows that our assets increased to \$121,204,712; this is growth of \$15,479,637 or 14.64%. Our loan portfolio grew 22.73% this year. Our deposit growth was 8.45%. We had a net income for the year of \$819,662 before income taxes and doubtful loans, down from the previous year.

The Board of Directors decided to pay a 5% dividend this year on existing surplus share balances and not declare a patronage refund. The 5% dividend totaled about \$110,000. The difference from what we would normally pay, of about \$115,000, went into the retained earnings instead, less the taxes payable.

During 2009 the Board held it's annual planning session and made a commitment to begin an in branch counter survey of our Members. We ask you to please complete these surveys as you visit our branches. This Member feedback is very important to the Board. We also committed to replacing our 3 ATM machines to make sure they are chip card compliant by January 1, 2011.

It was a challenging year for us due to a number of personnel changes and high loan growth, but it was also a very rewarding year. We were able to have a reasonably successful year in spite of the state of financial turmoil all around us.

We appreciate the loyalty of Starbuck Credit Union Members. We continue to grow and prosper because of loyal Members like you. The Board of Directors wishes to congratulate the Management and Staff for their work in 2009. In closing, I wish to thank my fellow Board Members for their support and dedication. Your assistance is greatly appreciated.

Respectfully submitted on behalf of the Board of Directors, **Henry Holtmann**, President

Starbuck Credit Union Limited
Consolidated Financial Statements
December 31, 2009



To the Members of Starbuck Credit Union Limited:


Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and Audit Committee are composed entirely of Directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

Meyers Norris Penny LLP, an independent firm of Chartered Accountants, is appointed by the members to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

March 25, 2010


Dennis Hedley, General Manager

Auditors' Report

To the Members of Starbuck Credit Union Limited:

We have audited the consolidated balance sheet of Starbuck Credit Union Limited as at December 31, 2009 and the consolidated statements of income and retained surplus and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Winnipeg, Manitoba

March 25, 2010

Meyers Norris Penny LLP

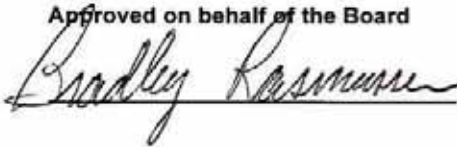
Chartered Accountants

Starbuck Credit Union Limited
Consolidated Balance Sheet

As at December 31, 2009

	2009	2008
Assets		
Funds on hand and on deposit	3,513,973	6,851,983
Investments (Note 2)	7,011,312	8,213,406
Members' loans (Note 3)	108,113,181	88,092,439
Property and equipment (Note 4)	2,073,032	2,141,401
Other assets (Note 5)	493,214	425,846
	121,204,712	105,725,075
Liabilities		
Members' savings and deposits (Note 6)	107,839,764	99,436,222
Loans payable (Note 7)	6,263,288	-
Accounts payable	444,246	301,754
	114,547,298	99,737,976
Members' equity (Note 8)		
Members' shares (Note 9)	2,321,163	2,236,860
Retained surplus	4,336,251	3,750,239
	6,657,414	5,987,099
	121,204,712	105,725,075

Approved on behalf of the Board



Director



Director

The accompanying notes are an integral part of these financial statements

Starbuck Credit Union Limited

Consolidated Statement of Income and Retained Surplus

For the year ended December 31, 2009

	2009	2008
Financial income		
Interest from members' loans	3,800,171	4,278,833
Investment income	503,738	653,524
	4,303,909	4,932,357
Cost of funds	2,011,020	2,755,247
Financial margin	2,292,889	2,177,110
Operating expenses		
Administration	491,081	484,281
Member security	78,114	111,206
Occupancy	335,869	318,963
Organizational	69,098	50,831
Personnel	1,073,267	976,632
	2,047,429	1,941,913
Other revenue	(574,202)	(644,147)
Net operating expenses	1,473,227	1,297,766
Income from operations before provision for doubtful loans	819,662	879,344
Provision for doubtful loans	48,000	48,000
Income from operations before other items	771,662	831,344
Other items		
Patronage refund	-	(225,000)
Income before provision for income taxes	771,662	606,344
Provision for income taxes		
Current	92,300	78,700
Future	(3,000)	7,000
	89,300	85,700
Net income	682,362	520,644
Retained surplus, beginning of year	3,750,239	3,229,595
Less:		
Dividends declared, net of income tax recovery of \$13,139 (Note 10)	(96,350)	-
Retained surplus, end of year	4,336,251	3,750,239

The accompanying notes are an integral part of these financial statements



Starbuck Credit Union Limited

Consolidated Statement of Cash Flows

For the year ended December 31, 2009

	2009	2008
Cash provided by (used for) the following activities		
Operating		
Interest received from members' loans	3,807,214	4,354,707
Interest received from investments	513,720	613,212
Income taxes paid	(61,187)	(61,281)
Interest paid to members	(2,003,501)	(2,729,652)
Net operating expenses paid	(1,300,782)	(1,667,319)
	955,464	509,667
Financing		
Net change in members' savings and deposits	8,422,272	11,195,279
Advances of loans payable	6,263,288	-
Issue of members' shares	3,450	231,023
Redemption in member shares	(26,966)	(27,455)
Interest paid on loan	(26,249)	-
	14,635,795	11,398,847
Investing		
Net change in members' loans	(20,075,785)	(13,605,934)
Net purchase of investments	(307,888)	(2,532,851)
Net proceeds on disposal of investments	1,500,000	36,939
Purchase of property and equipment	(45,596)	(103,577)
	(18,929,269)	(16,205,423)
Decrease in cash resources	(3,338,010)	(4,296,909)
Cash resources, beginning of year	6,851,983	11,148,892
Cash resources, end of year	3,513,973	6,851,983

Starbuck Credit Union Limited

Notes to the Consolidated Financial Statements

For the year ended December 31, 2009

1. Accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

Basis of consolidation

The Credit Union has consolidated the assets, liabilities, revenues and expenses of its subsidiary after the elimination of intercompany transactions and balances.

The consolidated financial statements include the accounts of the Credit Union, and its wholly owned subsidiary, Greenway Financial Services Inc.

Investments

Investments are recorded at lower of cost and market value.

Allowance for doubtful loans

The Credit Union maintains an allowance for doubtful loans that 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 90 days past due, unless the loan is both well secured and in the process of collection, in which case they are only classified as impaired if the payments are 180 days past due. Loans are also considered impaired if, in management's view, there is no longer reasonable assurance of timely collection of the full amount of principal and interest. Estimated realizable amounts are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans. In cases where it is impractical to estimate the future cash flows, the realizable amount is determined by estimating the fair value of security underlying the loans, net of expected costs of realization, or by estimating market prices for the loans.

Specific allowances are established for individual loans identified as impaired. These allowances are supplemented by a non specific allowance to cover impairment which is inherent in the loan portfolio and is estimated based on payment arrears, historical loan loss experience and prevailing economic conditions.

Long-lived assets

Long lived assets consist of property and equipment. Long lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Credit Union performs impairment testing on long lived assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment is measured as the amount by which the assets' carrying value exceeds its fair value. Any impairment is included in earnings for the year.

Property and equipment

Property and equipment are recorded at cost. Amortization is recorded on a straight-line basis over the estimated useful lives. The annual rates are as follows:

	Rate
Buildings	2.5 %
Computer equipment	20-30 %
Furniture and equipment	20 %
Parking lot	8 %

1. **Accounting policies** (*Continued from previous page*)

Revenue recognition

Interest on loans is recorded as income on an accrual basis except for loans which are considered impaired. When a loan becomes impaired, recognition of interest income ceases when the carrying amount of the loan (including accrued interest) exceeds the estimated realizable amount of the underlying security. The amount of initial impairment and any subsequent changes are recorded through the provision for doubtful loans as an adjustment of the specific allowance.

Investment income is recognized as interest is earned on interest bearing investments, and when dividends are declared on preferred shares.

Other revenue is recognized as services are provided to members.

Measurement uncertainty

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Loans are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is provided where considered necessary.

Amortization of property and equipment is provided based on the Credit Union's estimated useful lives of those assets.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Income taxes

The Credit Union follows the asset and liability method to account for income taxes. The asset and liability method requires that income taxes reflect future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax basis. Future income tax assets and liabilities are determined for each temporary difference based on the tax rates that are expected to be in effect when the underlying items of income and expenses are expected to be realized.

Financial instruments

Held for trading:

The Credit Union has classified the following financial assets and liabilities as held for trading: funds on hand and on deposit and other investments. These assets are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the trade date.

Held for trading financial instruments are subsequently measured at their fair value. Gains and losses arising from changes in fair value are recognized immediately in income.

Available-for-sale:

The Credit Union has classified the shares of Credit Union Central of Manitoba as available-for-sale. These shares are not actively traded in a quoted market and are accordingly recorded at cost.

Loans and receivables:

The Credit Union has classified the following financial assets as loans and receivables: members' loans and Credit Union Central term and contract deposits. These assets are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the trade date. Total interest income, calculated using the effective interest rate method, is recognized in net income.

Starbuck Credit Union Limited

Notes to the Consolidated Financial Statements

For the year ended December 31, 2009

1. Accounting policies (Continued from previous page)

Loans and receivables are subsequently measured at their amortized cost, using the effective interest method. Under this method, estimated future cash receipts are exactly discounted over the asset's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and less any reduction for impairment or uncollectability. Gains and losses arising from changes in fair value are recognized in net income upon derecognition or impairment.

Held to maturity:

The Credit Union has classified the following financial assets as held to maturity: municipal bonds and debentures. These assets are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Total interest income, calculated using the effective interest rate method, is recognized in net income.

Held to maturity financial assets are subsequently measured at amortized cost using the effective interest method. Under this method, estimated future cash receipts are exactly discounted over the asset's expected life, or other appropriate period, to its net carry value. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and less any reduction for impairment or uncollectability. Gains and losses arising from changes in fair value are recognized in net income upon derecognition or impairment.

Other financial liabilities:

The Credit Union has classified the following financial liabilities as other financial liabilities: Accounts payable, members' savings and deposits. These liabilities are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the trade date. Total interest expense, calculated using the effective interest rate method, is recognized in net income.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Under this method, estimated future cash payments are exactly discounted over the liability's expected life, or other appropriate period, to its net carry value. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, and plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Gains and losses arising from changes in fair value are recognized in net income upon derecognition or impairment.

Comprehensive income (loss)

Comprehensive income (loss) includes all changes in equity of the Credit Union, except those resulting from investments by owners and distributions to owners. Comprehensive income (loss) is the total of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) comprises revenues, expenses, gains and losses that, in accordance with Canadian generally accepted accounting principles, require recognition, but are excluded from net income (loss). The Credit Union does not have any items giving rise to other comprehensive income, nor is there any accumulated balance of other comprehensive income. All gains and losses, including those arising from measurement of all financial instruments have been recognized in net income for the period.

Starbuck Credit Union Limited

Notes to the Consolidated Financial Statements

For the year ended December 31, 2009

2. Investments

	2009	2008
Credit Union Central of Manitoba		
Term and contract deposits	5,000,000	6,500,000
Shares	1,423,653	1,256,453
Rural Municipality of Macdonald	516,314	375,626
Accrued interest	71,345	81,327
	7,011,312	8,213,406

Term deposits earn interest at rates ranging from 4.32% to 4.86% (2008 - 3.83% to 4.86%) and the Rural Municipality of Macdonald debentures bear interest at rates ranging from 5.70% to 9.13% (2008 - 8.10% to 9.13%). The above investments mature within one year with the exception of the following:

2011	1,500,000
2012	1,500,000
2013	1,500,000
2015	299,784
2016	35,610
2022	180,921

3. Members' loans

Principal and allowance by loan type

					2009	2008
	<i>Principal Performing</i>	<i>Principal Impaired</i>	<i>Allowance Specific</i>	<i>Allowance Non-specific</i>	<i>Net carrying value</i>	<i>Net carrying value</i>
Agricultural	20,087,111	29,368	29,368	19,796	20,067,315	18,323,852
Commercial	24,642,466	32,385	15,043	24,170	24,635,638	16,985,404
Personal	20,361,223	141,973	67,717	64,076	20,371,403	16,152,580
Residential mortgage	43,009,920	208,506	179,601	-	43,038,825	36,630,603
Subtotal	108,100,720	412,232	291,729	108,042	108,113,181	88,092,439

Total allowance 399,771

Loan allowance details

Details of the changes in the allowance for loan impairment are as follows:

	2009	2008
Balance, beginning of year	351,771	390,431
Provision for doubtful loans	48,000	48,000
Subtotal	399,771	438,431
Less accounts written off, net of recoveries	-	(86,660)
Balance, end of year	399,771	351,771

Starbuck Credit Union Limited
Notes to the Consolidated Financial Statements
For the year ended December 31, 2009

4. Property and equipment

	<i>2009</i>		
	<i>Cost</i>	<i>Accumulated Amortization</i>	<i>Net Book Value</i>
Land	216,582	-	216,582
Buildings	2,177,039	564,895	1,612,144
Computer equipment	983,699	879,199	104,500
Furniture and equipment	569,884	434,627	135,257
Parking lot	14,011	9,462	4,549
Total	3,961,215	1,888,183	2,073,032

	<i>2008</i>		
	<i>Cost</i>	<i>Accumulated Amortization</i>	<i>Net Book Value</i>
Land	216,582	-	216,582
Buildings	2,177,039	523,558	1,653,481
Computer equipment	957,173	840,098	117,075
Furniture and equipment	577,345	428,027	149,318
Parking lot	14,011	9,066	4,945
Total	3,942,150	1,800,749	2,141,401

Amortization expense for the year ended December 31, 2009 amounted to \$112,265 (2008 - \$107,087).

5. Other assets

	<i>2009</i>	<i>2008</i>
Accounts receivable	252,062	186,165
Future income taxes	6,000	3,000
Other	12,722	12,722
Prepaid expenses	222,430	223,959
	493,214	425,846

Starbuck Credit Union Limited
Notes to the Consolidated Financial Statements
For the year ended December 31, 2009

6. Members' savings and deposits

	2009	2008
Chequing	45,381,984	42,832,683
Registered savings plans	20,979,562	20,118,505
Tax Free Savings Account	546,040	-
Savings	39,983,361	35,517,486
Accrued interest	948,817	967,548
	107,839,764	99,436,222

7. Credit Union Central of Manitoba

The Credit Union has an authorized line of credit with Credit Union Central of Manitoba Limited to a maximum of 10% of member deposits with an annual interest rate based on the Chartered banks overnight funds rate with no fixed repayment date. Borrowings are secured by an assignment, hypothecation, charge and pledge of all book debts and accounts to the Credit Union Central of Manitoba.

8. Members' equity and capital requirement

The Regulations to the Credit Unions and Caisses Populaires Act require that the Credit Union establish and maintain a level of capital as follows:

	2009	2008
Equity not less than 5% of assets	5.49 %	5.66 %
Retained surplus not less than 3% of assets	3.58 %	3.55 %
Capital not less than 8% of the risk weighted value of assets	8.47 %	9.48 %

The Credit Union has met all of the above capital requirements as at December 31, 2009.

9. Share capital

Authorized:

Unlimited number of Common shares, at an issue price of \$5
 Unlimited number of Surplus shares, at an issue price of \$1

Issued:

	2009	2008
4,377 Common shares (2008 - 4,078)	21,885	20,390
2,189,789 Surplus shares (2008 - 1,991,470)	2,189,789	1,991,470
Provision for issuance of surplus shares	109,489	225,000
	2,321,163	2,236,860

Each member of the Credit Union has one vote regardless of the number of shares held.

During the year, the Credit Union issued 690 (2008 - 332) and redeemed 391 (2008 - 185) common shares, and also issued 252,075 (2008 - 229,363) and redeemed 53,756 (2008 - 26,530) surplus shares.

Starbuck Credit Union Limited
Notes to the Consolidated Financial Statements
For the year ended December 31, 2009

10. Patronage refund/dividend

The Board of Directors has declared a patronage dividend on surplus shares held by members at December 31, 2009 in the amount of 5% of holdings in surplus shares, for a total dividend of \$109,489 (2008 - \$nil).

The Board of Directors has declared a patronage refund of \$nil (2008 - \$225,000). The patronage refund is based on the business done during the year by each member.

11. Liquidity requirements

The Credit Union has met the liquidity requirements at year end as outlined in the Regulations under the Credit Unions and Caisses Populaires Act.

12. Asset liability management

The Credit Union's major source of income is financial margin which is the difference between interest earned on investments and loans to members and interest paid to members on their deposits. The objective of managing the financial margin is to match repricing or maturity dates of loans and investments and members' savings and deposits within policy limits that are intended to limit the Credit Union's exposure to changing interest rates and to wide fluctuations of income during periods of changing interest rates. The differential represents the net mismatch between loans and investments and members' savings and deposits for those particular maturity dates. Certain items on the balance sheet, such as non interest bearing member deposits and equity do not provide interest rate exposure to the Credit Union. These items are reported as non interest rate sensitive on the schedule.

Amounts with variable interest rates, or due on demand, are classified as variable to six months.

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

2009

	<i>Assets</i>	<i>Average yield %</i>	<i>Liabilities and equity</i>	<i>Average costs %</i>	<i>Differential</i>
Interest sensitive:					
Variable to six months	59,070,475	4.51%	69,061,941	0.72%	(9,991,466)
Six months to 1 year	3,337,586	3.13%	8,908,129	2.34%	(5,570,543)
1 to 2 years	4,140,618	5.08%	6,471,460	3.77%	(2,330,842)
2 to 3 years	4,730,171	5.62%	6,123,347	3.26%	(1,393,176)
3 to 4 years	3,089,388	5.69%	7,351,660	3.59%	(4,262,272)
Over 4 years	16,912,056	5.06%	2,409,672	2.69%	14,502,384
Non-interest rate sensitive	29,924,418	- %	20,878,503	- %	9,045,915
	121,204,712		121,204,712		-

The average rate for interest bearing assets is 3.53% (2008 - 3.53%) and for interest bearing liabilities is 1.22% (2008 - 1.80%).

13. Related party transactions

Credit Union Central of Manitoba

The Credit Union is a member of the Credit Union Central of Manitoba, which provides banking and other services to Credit Unions in Manitoba. All transactions with Credit Union Central of Manitoba are recorded at the exchange amount which is the amount agreed upon by the two parties.

Details of investments in Credit Union Central of Manitoba are shown in Note 2. Interest earned on investments during the year amounted to \$456,480 (2008 - \$584,442).

Details of the approved line of credit with Credit Union Central of Manitoba is shown in Note 6. Interest paid on borrowings from Credit Union Central of Manitoba amounted to \$26,248 (2008 - \$nil).

Payments made to Credit Union Central of Manitoba during the year ended December 31, 2009 for affiliation dues, liquidity assessment, research and development assessment and cheque clearing and data processing fees amounted to \$135,156 (2008 - \$79,743).

Credit Union Deposit Guarantee Corporation

The Credit Union Deposit Guarantee Corporation was created under the Credit Unions and Caisses Populaires Act for the purposes of guaranteeing deposits in Manitoba credit unions, and promoting sound business practices in credit unions. All transactions with Credit Union Deposit Guarantee Corporation are recorded at the exchange amount which is the amount agreed upon by the two parties.

Payments made to the Credit Union Deposit Guarantee Corporation during the year ended December 31, 2009 represent the net statutory annual assessment in the amount of \$61,145 (2008 - \$96,707).

Celero Solutions

Celero Solutions is a company formed as a joint venture by the Credit Union Centrals of Alberta, Saskatchewan and Manitoba along with Concentra Financial and Credit Union Electronic Transaction Services to provide data processing services to Manitoba credit unions. All transactions with Celero Solutions are recorded at the exchange amount, which is the amount agreed to by the two parties.

Payments made to Celero Solutions during the year ended December 31, 2009 for electronic transaction services amounted to \$59,332 (2008 - \$60,183).

Directors, Committee Members, Management and Staff

Transactions with directors, committee members, management and staff are at terms and conditions as set out in the loan policies of the Credit Union. Loans to directors and staff as at December 31, 2009 amounted to 7.27% (2008 - 9.67%) of the total outstanding loans of the Credit Union.

Directors fees paid during the year ended December 31, 2009 amounted to \$13,821 (2008 - \$3,073).

14. Commitments and guarantees

Loans

The Credit Union has authorized \$32,248,157 (2008 - \$27,479,022) in line of credit loans, of which \$16,001,177 (2008 - \$13,906,542) has not been advanced as of year end. In addition, \$5,712,084 (2008 - \$2,346,060) in member loans have been authorized but have not been advanced as of the year end.

Director and officer indemnification

The Credit Union indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Credit Union to the extent permitted by law. The Credit Union has acquired and maintains liability insurance for its directors and officers.

Starbuck Credit Union Limited

Notes to the Consolidated Financial Statements

For the year ended December 31, 2009

15. Fair value of financial instruments

The amounts reflect the approximate fair value of the Credit Union's financial instruments using the valuation methods and assumptions described below. 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 use of subjective assumption and uncertainties, the fair value amounts should not be interpreted as being realizable in an immediate settlement of instruments. The estimated fair values disclosed do not reflect the value of items that are not considered financial instruments, such as capital assets or intangible assets. Differences between book value and fair value of the investments, loans, deposits and other financial assets and liabilities are caused by differences between the interest rate obtained at the time of the original investment, loan or deposit and the current rate for the same product.

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

Short term financial instruments

For items that are short term in nature, the estimated fair value is equal to book value. These include funds on hand and on deposit, accounts payable, and other assets and other liabilities.

Floating-rate financial instruments

For floating rate financial instruments, fair value is equal to book value as the interest rate automatically re-prices to market.

Fixed-rate financial instruments

For fixed rate loans, fair value is determined by discounting the expected future cash flows at market rates for loans with similar credit risks.

For fixed rate deposits, fair value is determined by discounting the contractual cash flows, using market interest rates currently offered for deposits with similar terms.

	<i>(In thousands)</i>					
	2009			2008		
	<i>Fair value</i>	<i>Book value</i>	<i>Fair value over book value</i>	<i>Fair value</i>	<i>Book value</i>	<i>Fair value over book value</i>
Financial assets						
Funds on hand and on deposit	3,514	3,514	-	6,852	6,852	-
Investments	7,357	7,011	346	8,515	8,213	302
Member loans receivable and accrued interest	107,280	108,113	(833)	87,350	88,092	(742)
Accounts receivable	252	252	-	186	186	-
Financial liabilities						
Members' deposits and accrued interest	109,743	107,840	1,903	101,209	99,436	1,773
Loans payable	6,263	6,263	-	-	-	-
Accounts payable	444	444	-	302	302	-

16. Nature and extent of risk arising from financial instruments

The Credit Union is exposed to the following risks as a result of holding financial instruments: credit risk, market risk and liquidity risk. The following is a description of those risks and how the Credit Union manages the exposure to them.

Credit Risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Credit Union. Credit risk arises principally as a result of the credit union's lending activities with members.

Risk measurement

The Credit Union employs a risk measurement process for its loan portfolio which is designed to assess and quantify the level of risk inherent in credit granting activities. Risk is measured by reviewing qualitative and quantitative factors that impact the loan portfolio.

Credit quality performance

Refer to Note 3 for additional information on the potential loss exposure related to the Credit Union's loan portfolio.

Objectives, policies and processes

The Credit Union is committed to the following principles in managing credit risk exposure:

- Credit risk assessment includes the establishment of policies and processes related to credit risk management and risk rating;
- Credit risk mitigation includes credit structuring, collateral, and guarantees;
- Credit risk approval limits includes establishing credit risk limits and reporting exceptions thereto;
- Credit risk documentation focuses on documentation and administration; and
- Credit risk monitoring and review.

The Credit Union's credit risk policies, processes and methodologies are reviewed annually to ensure they remain relevant and effective in managing credit risk.

Market Risk

Market risk arises from changes in interest rates that affect the Credit Union's net interest income. Exposure to this risk directly impacts the Credit Union's income from its loan and deposit portfolios. The Credit Union's objective is to earn an acceptable net return on these portfolios, without taking unreasonable risk, while meeting member-owner needs.

Risk Measurement

The Credit Union's risk position is measured and monitored each month to ensure compliance with policy. Management provides monthly reports on these matters to the credit union's Board of Directors.

Objectives, policies and processes

Management is responsible for managing the Credit Union's interest rate risk, monitoring approved limits and compliance with policies. The Credit Union manages market risk by developing and implementing asset and liability management policies, which are approved and periodically reviewed by the Board.

The Credit Union's goal is to achieve adequate levels of profitability, liquidity and safety. The Board of Directors reviews the Credit Union's investment and asset liability management policies periodically to ensure they remain relevant and effective in managing and controlling risk.

The following table provides the potential before-tax impact on an immediate and sustained 1% increase or decrease in interest rates on our net interest income. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and our risk management initiatives.

Before tax impact of:	December 31, 2009
1% increase in rates	90,665
1% decrease in rates	(90,665)

Starbuck Credit Union Limited

Notes to the Consolidated Financial Statements

For the year ended December 31, 2009

Nature and extent of risk arising from financial instruments (Continued from previous page)

Liquidity Risk

Liquidity risk is the risk of having insufficient financial resources to meet the Credit Union's cash and funding requirements, statutory liquidity requirements, or both.

Risk measurement

- The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgment pertaining to current and prospective market conditions and the related investing and borrowing activities of members.

Objectives, policies and processes

The acceptable amount of risk is defined by policies that are approved by the Board of Directors.

The Credit Union manages liquidity by monitoring, forecasting and managing cash flows and the concentration of loans and deposits within approved policies. Management provides monthly reports on these matters to the Board of Directors

Key features of liquidity management include:

- Daily monitoring of expected cash inflows and outflows and tracking and forecasting the liquidity position; and
- Consideration of the term structure of loans and deposits, with emphasis on deposit maturities, as well as expected loan funding and other commitments to ensure the Credit Union can maintain, required levels of liquidity while meeting its obligations.

17. Income taxes

The total provision for income taxes in the statement of income and retained surplus is at a rate less than the combined federal and provincial statutory income tax rates for the following reasons:

	2009 %	2008 %
Combined federal and provincial statutory income tax rates	31.5	33.0
Reduction for credit unions	(17.0)	(17.0)
Non-deductible and other items	(2.9)	(1.8)
Income taxes as reported	11.6	14.2

The tax effects of temporary differences which give rise to the future income tax assets reported in other liabilities is from differences between accounts deducted for accounting and income tax purposes for the allowance for doubtful loans.

18. Pension plan

The Credit Union has a defined contribution pension plan for qualifying employees. The Credit Union matches employee contributions at a range of rates from 5% to 7% of the employee's salary dependent upon the years of service of the individual employee. The expense and payments for the year ended December 31, 2009 were \$45,738 (2008 - \$34,755) and are recorded as salaries and employee benefits. As a defined contribution pension plan, the Credit Union has no further liability or obligation for future contributions to fund benefits to plan members.

19. Capital management

The Credit Union provides financial services to its members and is subject to the capital requirements set out in the Credit Unions and Caisses Populaires Act of Manitoba (the Act). The Credit Union complied with these capital requirements as at December 31, 2009.

Capital management: The Credit Union's objectives when managing capital are:

- To ensure the long term viability of the Credit Union and the security of member deposits by holding a level of capital deemed sufficient to protect against unanticipated losses; and
- To comply at all times with the capital requirements set out in the Act.

The Credit Union measures the adequacy of capital using two methods:

- Total capital as a percent of total assets; and
- Total capital as a percent of risk weighted assets. Under this method the Credit Union reviews its loan portfolio and other assets and assigns a risk weighting using definitions and formulas set out in the Act. The more risk associated with an asset, a higher weighting is assigned. This method allows the Credit Union to measure capital relative to the possibility of loss with more capital required to support assets that are seen as being higher risk.

The Credit Union management ensures compliance with capital adequacy through the following:

- Establishing policies for capital management, monitoring and reporting;
- Establishing policies for related areas such as asset liability management;
- Reporting to the Board of Directors regarding financial results and capital adequacy;
- Reporting to the Credit Union Deposit Guarantee Corporation on its capital adequacy; and
- Establishing budgets and reporting variances to those budgets.

The Credit Union is required under the Act to hold capital equal to or exceeding the greater of:

- 5% of total assets;
- 3% of retained earnings; and
- 8% of risk weighted assets.

20. Future changes of recently issued accounting statements

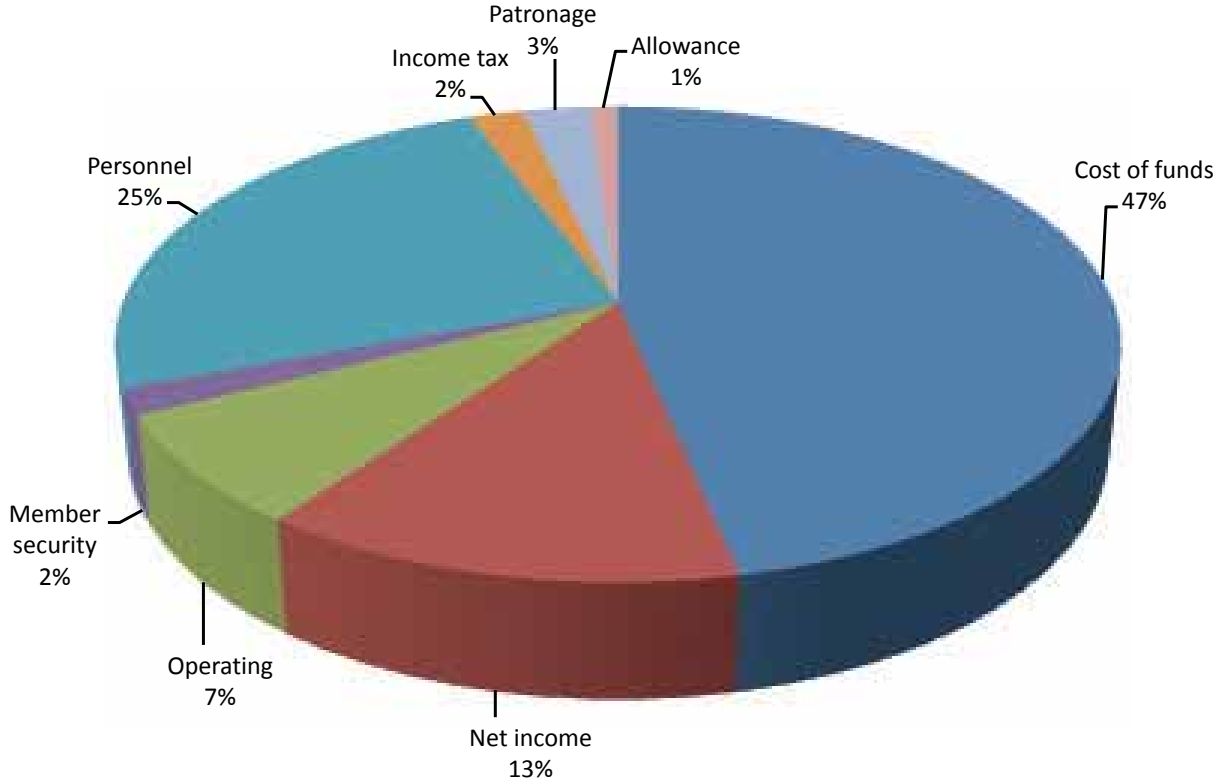
International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board recently confirmed January 1, 2011 as the date International Financial Reporting Standards (IFRS) will replace Canadian standards and interpretations as Canadian generally accepted accounting principles for publicly accountable enterprises. The new Standards are effective for annual financial statements with fiscal years beginning January 1, 2011. The Credit Union is currently assessing the impact to its financial statements.

Business Combinations

CICA Handbook Section 1582 – Business Combinations will apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA Handbook Sections 1601 – Consolidations and 1602 – Non-Controlling Interests will be effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. These sections replace the former CICA Handbook Sections 1581 – Business Combinations and 1600 – Consolidated Financial Statements. CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements. CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

2009 Distribution of Income



2008 Distribution of Income

