

Financial statements of

**Reddy Kilowatt  
Credit Union Limited**

December 31, 2017

# Reddy Kilowatt Credit Union Limited

December 31, 2017

## Table of contents

Independent Auditor’s Report ..... 1

Statement of comprehensive income and retained earnings ..... 2

Statement of financial position ..... 3

Statement of cash flows ..... 4

Notes to the financial statements ..... 5 - 24

## Independent Auditor's Report

To the Members of  
Reddy Kilowatt Credit Union Limited

We have audited the accompanying financial statements of Reddy Kilowatt Credit Union Limited, which comprise the statement of financial position as at December 31, 2017 and the statements of comprehensive income and retained earnings 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 entity'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 entity'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 Reddy Kilowatt Credit Union Limited as at December 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants  
March 7, 2018

# Reddy Kilowatt Credit Union Limited

## Statement of comprehensive income and retained earnings

year ended December 31, 2017

(CDN dollars)

	2017	2016
	\$	\$
<b>Financial revenue</b>		
Members' loans and mortgages (Note 4)	3,204,217	2,935,204
Investment income	130,025	121,047
	<b>3,334,242</b>	<b>3,056,251</b>
<b>Cost of funds</b>		
Interest on members' deposits (Note 5)	1,554,064	1,481,680
Net financial margin	1,780,178	1,574,571
<b>Other income</b>		
Commissions	470,333	534,719
Other	419,348	389,166
Financial margin and other income	2,669,859	2,498,456
<b>Operating expenses</b>		
General business (Note 12)	1,006,880	995,167
Personnel	889,176	853,974
Members' security	675,228	394,821
Total operating expenses	2,571,284	2,243,962
Earnings before income taxes	98,575	254,494
Income taxes (Note 14)	334	2,580
Net comprehensive income for the year	98,241	251,914
Retained earnings, beginning of year	2,842,888	2,715,974
Dividends and patronage rebates (Note 11)	50,000	125,000
<b>Retained earnings, end of year</b>	<b>2,891,129</b>	<b>2,842,888</b>

# Reddy Kilowatt Credit Union Limited

## Statement of financial position as at December 31, 2017

(CDN dollars)

	2017	2016
	\$	\$
<b>Assets</b>		
Cash and cash equivalents (Note 6)	1,554,084	1,635,018
Investments (Note 7)	5,496,872	5,243,635
Loans and mortgages receivable (Notes 8 and 9)	62,769,671	58,736,682
Property, plant and equipment (Note 10)	5,220,829	5,359,360
Other assets	178,758	128,768
	<b>75,220,214</b>	<b>71,103,463</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	143,925	149,203
Income taxes payable	334	2,580
Dividends and patronage refunds payable (Note 11)	50,000	125,000
Members' deposits (Note 11)	72,134,826	67,983,792
	<b>72,329,085</b>	<b>68,260,575</b>
<b>Members' equity</b>		
Retained earnings	2,891,129	2,842,888
	<b>75,220,214</b>	<b>71,103,463</b>

Approved on behalf of the Board:

 Director

 Director

# Reddy Kilowatt Credit Union Limited

## Statement of cash flows

year ended December 31, 2017

(CDN dollars)

	2017	2016
	\$	\$
<b>Operating activities</b>		
Net comprehensive income	98,241	251,914
Adjustments for:		
Provision for impaired loans and mortgages (Note 9)	455,144	175,515
Financial revenue	(3,334,242)	(3,056,251)
Cost of funds - interest on members' deposits (Note 5)	1,554,064	1,481,680
Depreciation (Note 10)	141,931	141,551
Income taxes (Note 14)	334	2,580
	(1,084,528)	(1,003,011)
Changes in operating assets/liabilities:		
Change in loans and mortgages receivable	(4,439,504)	(5,507,504)
Change in members' deposits	4,130,825	3,968,526
Change in other operating assets	(49,990)	44,432
Change in other operating liabilities	(80,278)	22,034
Cash used in operating activities before interest and taxes	(1,523,475)	(2,475,523)
Interest received	3,281,486	3,057,646
Interest paid	(1,546,879)	(1,453,999)
Income taxes (paid) received	(2,580)	20,235
	208,552	(851,641)
<b>Investing activities</b>		
Decrease (increase) in investments	(249,110)	664,869
Purchase of property, plant and equipment (Note 10)	(3,400)	(1,493)
	(252,510)	663,376
<b>Financing activities</b>		
Proceeds from issuance of membership share capital (Note 11)	88,024	105,725
Dividends and patronage refunds paid	(125,000)	(30,000)
	(36,976)	75,725
Decrease in cash and cash equivalents	(80,934)	(112,540)
Cash and cash equivalents, beginning of year	1,635,018	1,747,558
<b>Cash and cash equivalents, end of year</b>	<b>1,554,084</b>	<b>1,635,018</b>

# Reddy Kilowatt Credit Union Limited

## Notes to the financial statements

December 31, 2017

(CDN dollars)

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### 1. Reporting entity

Reddy Kilowatt Credit Union Limited (the "Credit Union") is incorporated under the Credit Union Act of Newfoundland and Labrador (the "Act"). The Credit Union has 2,390 members and provides financial services to residents of the Province. The registered office of the Credit Union is at 885 Topsail Road, Mount Pearl, Newfoundland and Labrador.

### 2. Basis of preparation

#### *Statement of compliance*

These financial statements are general purpose financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements for the year ended December 31, 2017 were authorized for issue by the Board of Directors on February 15, 2018.

#### *Basis of preparation*

These financial statements are presented in Canadian dollars which is the Credit Union's functional currency. They are prepared on the historical cost basis, except for available-for-sale investments and other financial assets and liabilities held for trading, which are stated at their fair value.

#### *Use of significant accounting judgments, estimates and assumptions*

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosures of contingent assets and contingent liabilities at the date of these financial statements, and the reported amounts of revenues and expenses during the year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from estimates made in these financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRS have a significant effect on these financial statements. Areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the Credit Union's financial statements are as follows:

#### a) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from observable markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives, discount rates and prepayment rates. The valuation of financial instruments is described in more detail in Note 16.

#### b) Impairment losses on loans and advances

The Credit Union reviews its individually significant loans and advances at each Statement of Financial Position date to assess whether an impairment loss should be recorded in the Statement of Comprehensive Income. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors such as the length of time payments are past due and the amount of security held on the loan. Actual results may differ materially, resulting in future changes to the allowance.

# Reddy Kilowatt Credit Union Limited

## Notes to the financial statements

December 31, 2017

(CDN dollars)

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### 2. Basis of preparation (Continued)

*Use of significant accounting judgments, estimates and assumptions (Continued)*

b) Impairment losses on loans and advances (Continued)

Loans and advances have been assessed individually and collectively for impairment. The impairment loss on loans and advances is disclosed in more detail in Note 9.

c) Impairment of available-for-sale investments

The Credit Union reviews its equity instruments classified as available-for-sale at each Statement of Financial Position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The Credit Union also records impairment charges on available-for-sale equity instruments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment.

d) Economic lives of property, plant and equipment

Management determines the estimated useful lives of its property, plant and equipment based on historical experience of the actual lives of property, plant and equipment of similar nature and functions, and reviews these estimates at the end of each reporting period.

e) Provisions

The amount recognized as provisions and accrued liabilities is the best estimate of the consideration required to settle the related liability, taking into account the risks and uncertainties surrounding the obligation.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparing these financial statements are reasonable. Actual results in the future may differ materially from those reported.

*Amendments to IFRSs that are mandatorily effective for the current year*

Amendments to IAS 7 – Disclosure Initiatives and Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealized Losses became effective for annual periods beginning on or after January 1, 2017 and did not have a material impact on the Credit Union's annual audited financial statements.

*New standards and interpretations not yet adopted*

Certain new standards, interpretations, amendments and improvements to the existing standards have been issued by the IASB, but are not yet effective for the year ended December 31, 2017, and have not been applied in preparing these financial statements:

a) Financial Instruments

In November 2009 and October 2010, the IASB issued IFRS 9 - Financial Instruments ("IFRS 9"), Classification and Measurement of Financial Assets and Financial Liabilities. IFRS 9 will replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39") in its entirety. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39.



# Reddy Kilowatt Credit Union Limited

## Notes to the financial statements

December 31, 2017

(CDN dollars)

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### 2. Basis of preparation (Continued)

#### a) Financial Instruments (Continued)

In November 2014, the IASB announced the completion of a package of three amendments to the accounting requirements for financial instruments set out in IFRS 9. The amendments are as follows:

- (i) bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements;
- (ii) allow the changes to address the so-called 'own credit' issue that were already included in IFRS 9 to be applied in isolation without the need to change any other accounting for financial instruments; and
- (iii) remove the January 1, 2015 mandatory effective date of IFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Management of the Credit Union is currently assessing the potential impact of this new standard.

#### b) Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

IFRS 15 is applicable for annual periods beginning on or after January 1, 2018, with earlier application permitted. Management of the Credit Union is currently assessing the potential impact of this new standard.

#### c) Leases

On January 13, 2016, the IASB issued IFRS 16 Leases which provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases and its associated interpretive guidance. Significant changes were made to lessee accounting with the distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). In contrast, IFRS 16 does not include significant changes to the requirements for lessors. IFRS 16 is effective January 1, 2019, with earlier application permitted for companies that have also adopted IFRS 15 Revenue from Contracts with Customers. Management of the Credit Union is currently assessing the potential impact of this new standard.

# Reddy Kilowatt Credit Union Limited

## Notes to the financial statements

December 31, 2017

(CDN dollars)

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### 3. Significant accounting policies

The following significant accounting policies have been applied consistently by the Credit Union.

#### *Financial instruments*

Financial assets and financial liabilities are recognized when the Credit Union becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Credit Union's designation of such instruments.

The Credit Union is required to classify all financial assets either as fair value through profit or loss ("FVTPL"), available-for-sale, held-to-maturity, or loans and receivables. Financial liabilities are classified as either fair value through profit or loss, or other liabilities. The standards require that all financial assets and financial liabilities, including derivatives, be subsequently measured at fair value with the exception of loans and receivables, debt securities classified as held-to-maturity, available-for-sale financial assets that do not have quoted market prices in an active market and whose fair value cannot be reliably estimated, and other liabilities.

#### a) Classification

Cash and cash equivalents	Loans and receivables
Investments:	
Equity investments	Available-for-sale
Liquidity reserve deposits	Loans and receivables
Loans and mortgages	Loans and receivables
Other assets:	
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Members' deposits	Other liabilities
Other liabilities	Other liabilities

#### b) Fair value through profit or loss ("FVTPL")

Financial assets and financial liabilities are classified as FVTPL when the financial asset or financial liability is held for trading or it is designated as FVTPL as certain criteria are met. The Credit Union does not have any financial assets or liabilities classified as FVTPL.

#### c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and are initially recognized at fair value. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, and the gains and losses on such assets are recorded in other comprehensive income until the investment is derecognized or until the investment is identified as being subject to impairment.

Dividend income is recognized when the Credit Union's right to receive the dividends is established. Interest income is recognized using the effective interest method.

Shares in Atlantic Central, League Data, Concentra and League Savings and Mortgage held by the Credit Union are not traded in an active market and are classified as available-for-sale. Available-for-sale equity investments that do not have a quoted price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

# Reddy Kilowatt Credit Union Limited

## Notes to the financial statements

December 31, 2017

(CDN dollars)

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### 3. Significant accounting policies (Continued)

#### *Financial instruments (Continued)*

##### d) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which the Credit Union does not intend to sell immediately or in the near term. Loans and receivables including cash and cash equivalents, liquidity reserve investments, loans and mortgages to members, accrued interest on loans and mortgages, accrued interest on investments and accounts receivable, are measured at amortized cost using the effective interest method, net of impairment losses.

Interest income is recognized by applying the effective interest rate.

##### e) Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees, transaction costs and other premiums or discounts) through the expected life of the asset/liability or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

##### f) Impairment of financial assets and allowance for impaired loans

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each Statement of Financial Position date. Financial assets are impaired when there is objective evidence that, because of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

The amount of impairment on financial assets carried at amortized cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The impairment loss on financial assets is based on a review of all outstanding amounts at period end. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans to members, where the carrying amount is reduced using an allowance account. The allowance for impaired loans is maintained in an amount considered adequate to absorb losses in the loan portfolio. The allowance for impaired loans reflects management's best estimate of the losses existing in the loan portfolio and their judgments about economic conditions. If the circumstances under which these estimates and judgments were made change, there could be a change to the allowance for impaired loans currently recognized. The allowance for impaired loans consists of a specific provision component attributable to individually significant exposures. Changes in the carrying amount of the allowance account are recognized in profit and loss. Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and there is no realistic prospect of recovery. The methodology and assumptions used are reviewed regularly. Each component of the allowance for impaired loans is reviewed at least on the reporting date.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

Subsequent to an impairment loss, events can occur that provide objective evidence that the financial asset is no longer impaired. When this occurs the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment, at the date the impairment is reversed, does not exceed the amortized cost that would have resulted had the impairment not been recognized.

# Reddy Kilowatt Credit Union Limited

## Notes to the financial statements

December 31, 2017

(CDN dollars)

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### 3. Significant accounting policies (Continued)

#### *Financial instruments (Continued)*

##### g) Derecognition of financial assets

The Credit Union derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

The Credit Union continues to recognize the transferred asset to the extent that the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset or when the Credit Union retains substantially all the risks and rewards of ownership. In the latter case, the Credit Union also recognizes collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received/receivable and any cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

##### h) Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortized cost using the effective interest method.

##### i) Derecognition of financial liabilities

The Credit Union derecognizes financial liabilities when, and only when, the Credit Union's obligations are discharged, cancelled or they expire.

##### j) Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

#### *Cash and cash equivalents*

Cash and cash equivalents include cash on hand, deposits with banks and Atlantic Central and other highly liquid investments with original maturities of three months or less. Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is considered equivalent to fair value due to the short-term nature of these assets.

#### *Loans to members*

Loans to members include personal loans, lines of credit, mortgages and commercial loans, and are recognized when the cash is advanced to the borrower. All loans to members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables, which are subsequently measured at amortized cost using the effective interest method.

#### *Property, plant and equipment*

Property, plant and equipment is measured at cost less accumulated depreciation and any accumulated impairment losses. When components of property, plant and equipment have different useful lives, they are accounted for as separate assets. Assets under construction are not amortized until they are available for use.

Depreciation is recognized in profit or loss on a straight-line basis over the respective assets' estimated useful lives.

# Reddy Kilowatt Credit Union Limited

## Notes to the financial statements

December 31, 2017

(CDN dollars)

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### 3. Significant accounting policies (Continued)

#### *Property, plant and equipment (Continued)*

Depreciation methods, useful lives and residual values are reassessed at the end of each reporting period.

#### *Leases*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

#### *Deposits from members*

Deposits from members are disclosed in Note 11 and represent the Credit Union's main source of funding. They are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method.

#### *Provisions*

Provisions are recognized when the Credit Union has a present obligation (legal or constructive), as a result of a past event, it is probable that the Credit Union will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### *Short-term employee benefits*

Short-term employee benefits include salaries and wages, employee benefits, allowances, bonuses and burdens. Short-term employee benefits are expensed as the related service is provided.

#### *Membership shares*

The Credit Union's membership shares are presented in the Statement of Financial Position as financial liabilities in accordance with the substance of the contractual terms of the instruments. These shares qualify as capital for regulatory purposes. All membership shares of the Credit Union are classified as liabilities. Payments of dividends and patronage rebates on membership shares presented as a financial liability are recognized as a distribution of profit or loss. Dividends and patronage rebates are recorded when declared by the Board of Directors.

#### *Revenue recognition*

Interest income is accrued monthly by reference to the principal outstanding at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income is recognized when the right to receive payment is established. Dividends are included in investment income in the Statement of Comprehensive Income and Retained Earnings.

Other investment income and commission income include account service fees, investment management fee, and insurance fees which are recognized over the period the services are performed.

# Reddy Kilowatt Credit Union Limited

## Notes to the financial statements

December 31, 2017

(CDN dollars)

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### 3. Significant accounting policies (Continued)

#### *Income taxes*

Income tax expense comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax assets and liabilities are recognized in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the Statement of Comprehensive Income.

#### *Foreign currency translation*

The financial statements are presented in Canadian dollars (\$).

Transactions in foreign currencies are initially translated into Canadian dollars at the rate of exchange in effect at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange at the Statement of Financial Position date.

Translation gains and losses are recognized immediately in profit or loss and are included in the "other income" line item in the Statement of Comprehensive Income.

### 4. Financial revenue – members' loans and mortgages

	2017	2016
	\$	\$
Personal loans	1,902,886	1,714,248
Residential mortgages	1,301,331	1,220,956
	<b>3,204,217</b>	<b>2,935,204</b>

### 5. Interest on members' deposits

	2017	2016
	\$	\$
Term deposits	672,052	668,168
Registered retirement savings plans	534,475	534,555
Tax free savings accounts	160,038	128,267
Registered retirement income funds	144,136	113,471
Savings accounts	43,363	37,219
	<b>1,554,064</b>	<b>1,481,680</b>

# Reddy Kilowatt Credit Union Limited

## Notes to the financial statements

December 31, 2017

(CDN dollars)

### 6. Cash and cash equivalents

	2017	2016
	\$	\$
Cash on hand	231,296	293,053
Cash on deposit with Atlantic Central	1,322,788	1,341,965
	<b>1,554,084</b>	<b>1,635,018</b>

As at December 31, 2017 the Credit Union has available lines of credit with Atlantic Central in the amount of \$1,775,000 (2016 - \$1,650,000) at a rate of prime less 0.50% (2016 - prime less 0.50%) and the balance drawn was \$Nil (2016 - \$Nil). This line of credit is secured by the general security agreement held with Atlantic Central.

### 7. Investments

The following tables provides information on the investments held by the Credit Union.

	2017	2016
	\$	\$
<i>Loans and receivables</i>		
Mandatory liquidity reserve deposits	4,147,847	3,912,541
<i>Available-for-sale</i>		
Atlantic Central shares	761,320	743,830
Concentra shares	500,000	500,000
Other investments	83,420	83,420
	<b>5,492,587</b>	<b>5,239,791</b>
Accrued interest	4,285	3,844
	<b>5,496,872</b>	<b>5,243,635</b>

#### *Atlantic Central - liquidity reserve deposit*

As a condition of maintaining membership in good standing with Atlantic Central, the Credit Union is required to maintain on deposit with Atlantic Central an amount equal to 6% of the total liabilities as at each month end. At maturity, these deposits are reinvested at market rates for various terms as determined by management. The deposit can be withdrawn only if there is a sufficient reduction in the Credit Union's assets or upon withdrawal of membership from Atlantic Central. As at December 31, 2017, the Credit Union held liquidity deposits of \$4,861,349 (2016 – \$3,959,530).

### 8. Loans and mortgages receivable

Mortgages are repayable in monthly blended principal and interest instalments over a maximum term of five years. Mortgages are secured by residential properties.

Personal loans are repayable to the Credit Union in monthly blended principal and interest instalments over a period acceptable by Provincial law, except for line of credit loans, which are repayable on a revolving credit basis and require minimum monthly payments. All loans, except for mortgage loans, are open and, at the option of the borrower, may be repaid at any time without notice. Types of collateral generally obtained by the Credit Union include, but are not limited to, the following: member's personal property such as vehicles; cash and marketable securities; mortgage charges; fixed, floating or specific general security agreements; and personal guarantees.

# Reddy Kilowatt Credit Union Limited

## Notes to the financial statements

December 31, 2017

(CDN dollars)

### 8. Loans and mortgages receivable (Continued)

#### *Credit quality of loans*

Security held on a portfolio basis is as follows:

	2017	2016
	\$	\$
Mortgages secured by property	33,309,251	30,171,573
Secured loans and lines of credit	13,831,943	13,603,483
Unsecured loans and lines of credit	15,628,477	14,961,626
	<b>62,769,671</b>	<b>58,736,682</b>

#### *Mortgages under administration*

Mortgages under administration are not the property of the Credit Union and are not reflected in the Statement of Financial Position. At December 31, 2017, the Credit Union had mortgages under administration with League Savings and Mortgage Company of \$25,101,366 (2016 - \$24,386,168).

### 9. Allowance for impaired loans

The activity in the allowance for impaired loans is summarized as follows:

	Loans and Lines of Credit	Mortgages	Total 2017	Total 2016
	\$	\$	\$	\$
Balance, beginning of the year	108,543	-	108,543	125,491
Loans written-off as uncollectible	(233,967)	-	(233,967)	(194,930)
Impairment losses reversed	8,253	-	8,253	2,467
Provision for impaired loans	455,144	-	455,144	175,515
Balance, end of year	<b>337,973</b>	-	<b>337,973</b>	108,543



# Reddy Kilowatt Credit Union Limited

## Notes to the financial statements

December 31, 2017

(CDN dollars)

### 9. Allowance for impaired loans (Continued)

Credit quality of member loans is summarized as follows:

	Loans and Lines of Credit	Mortgages	Total 2017
	\$	\$	\$
Neither past due <sup>(1)</sup> nor impaired	29,347,536	32,720,368	62,067,904
Past due but not impaired			
31 to 91 days	109,784	588,882	698,666
91 and greater	3,101	-	3,101
Impaired	337,973	-	337,973
	29,798,394	33,309,250	63,107,644
Less: specific allowances	(337,973)	-	(337,973)
	29,460,421	33,309,250	62,769,671

	Loans and Lines of Credit	Mortgages	Total 2016
	\$	\$	\$
Neither past due <sup>(1)</sup> nor impaired	28,558,334	30,171,573	58,729,907
Past due but not impaired			
31 to 91 days	1,700	-	1,700
91 and greater	5,075	-	5,075
Impaired	108,543	-	108,543
	28,673,652	30,171,573	58,845,225
Less: specific allowances	(108,543)	-	(108,543)
	28,565,109	30,171,573	58,736,682

<sup>(1)</sup> A loan is considered to be past due when the counterparty has not made a payment by the day of the contractual payment date.

# Reddy Kilowatt Credit Union Limited

Notes to the financial statements

December 31, 2017

(CDN dollars)

## 10. Property, plant and equipment

							2017
	Land	Buildings	Roof	Paved areas and signage	Furniture and computer equipment	Automated banking machines	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Rate</b>		50 Years	25 Years	15 Years	3-5 Years	10 Years	
<b>Cost</b>							
Balance, beginning of year	848,301	4,158,607	112,980	190,016	354,475	55,885	5,720,264
Additions	-	-	-	-	3,400	-	3,400
Balance, end of year	848,301	4,158,607	112,980	190,016	357,875	55,885	5,723,664
<b>Accumulated depreciation</b>							
Balance, beginning of year	-	197,355	10,733	30,097	109,447	13,272	360,904
Depreciation expense	-	83,172	4,519	12,666	35,985	5,589	141,931
Balance, end of year	-	280,527	15,252	42,763	145,432	18,861	502,835
<b>Net book value</b>	848,301	3,878,080	97,728	147,253	212,443	37,024	5,220,829

# Reddy Kilowatt Credit Union Limited

Notes to the financial statements

December 31, 2017

(CDN dollars)

## 10. Property, plant and equipment (Continued)

	2016						
	Land	Buildings	Roof	Paved areas and signage	Furniture and computer equipment	Automated banking machines	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Rate</b>		50 Years	25 Years	15 Years	3-5 Years	10 Years	
<b>Cost</b>							
Balance, beginning of year	848,301	4,158,607	112,980	190,016	352,982	55,885	5,718,771
Additions	-	-	-	-	1,493	-	1,493
<b>Balance, end of year</b>	<b>848,301</b>	<b>4,158,607</b>	<b>112,980</b>	<b>190,016</b>	<b>354,475</b>	<b>55,885</b>	<b>5,720,264</b>
<b>Accumulated depreciation</b>							
Balance, beginning of year	-	114,183	6,214	17,419	73,853	7,684	219,353
Depreciation expense	-	83,172	4,519	12,678	35,594	5,588	141,551
<b>Balance, end of year</b>	<b>-</b>	<b>197,355</b>	<b>10,733</b>	<b>30,097</b>	<b>109,447</b>	<b>13,272</b>	<b>360,904</b>
<b>Net book value</b>	<b>848,301</b>	<b>3,961,252</b>	<b>102,247</b>	<b>159,919</b>	<b>245,028</b>	<b>42,613</b>	<b>5,359,360</b>

# Reddy Kilowatt Credit Union Limited

## Notes to the financial statements

December 31, 2017

(CDN dollars)

### 11. Members' deposits

	2017	2016
	\$	\$
Term deposits, including accrued interest	<b>23,082,895</b>	22,018,396
RRSPs, including accrued interest	<b>20,540,778</b>	20,696,844
Demand deposits	<b>9,284,122</b>	8,817,168
Tax free savings accounts, including accrued interest	<b>7,689,247</b>	6,414,458
RRIFs, including accrued interest	<b>5,571,743</b>	4,712,610
Chequing accounts	<b>4,466,107</b>	3,912,406
Membership shares	<b>1,499,934</b>	1,411,910
	<b>72,134,826</b>	67,983,792

#### Term deposits

Term deposits for periods of one to five years generally may not be withdrawn prior to maturity.

#### Registered retirement plans

The Credit Union has engaged a third party to act as the trustee for the registered retirement plans offered to members. Under an agreement with the third party, members' contributions to these plans, as well as income earned on them, are deposited in the Credit Union. On withdrawal, payment of the plan proceeds less tax withheld is made to the members, or the parties designated by them, by the Credit Union on behalf of the trustee.

Membership shares consist of 20 shares per adult member and 1 share per youth/student member at a par value of five dollars (\$5.00) per share. The holders of member equity shares have all of the rights and privileges and are subject to the restrictions of a member as provided for in the Credit Union Act and Regulations and in the By-laws of the Credit Union. Currently, there are 2,390 (2016 - 2,293) fully paid equity share accounts with an aggregate dollar value of \$234,934 (2016 - \$225,910).

Incentive shares may be issued by the Credit Union to a maximum of 2% of assets as approved by the Regulator in accordance with the Credit Union Act and Regulations and the By-laws of the Credit Union. Currently there are 518 (2016 - 502) incentive shares outstanding with an aggregate dollar value of \$1,265,000 (2016 - \$1,186,000).

Share accounts are not insured by the Credit Union Deposit Guarantee Corporation, however, they qualify as capital for regulatory purposes, notwithstanding their financial statement classification as liabilities.

#### Dividends and patronage rebates

Dividends and patronage refunds payable of \$50,000 will be presented for ratification at the annual general meeting of members to be held on April 9, 2018. Dividends and patronage refunds of \$125,000 applicable to 2016 were paid out to members in 2017. Any difference between the amount approved and the amount ultimately paid is charged to earnings in the year of payment.

# Reddy Kilowatt Credit Union Limited

## Notes to the financial statements

December 31, 2017

(CDN dollars)

### 12. General business

	2017	2016
	\$	\$
Data processing	245,765	244,103
Depreciation	141,931	141,551
Business tax	138,066	138,069
Other	102,072	101,716
Financial planning	49,854	49,673
Marketing	44,477	46,169
Bank charges	42,905	43,537
Professional fees	41,384	37,800
Choice rewards	39,397	18,222
Stationary and office supplies	32,093	33,887
Snow clearing	29,786	27,994
Board remuneration	23,300	24,000
Heat and light	20,530	22,008
Telephone	18,433	16,617
Training and travel	15,715	28,365
Meetings	9,030	10,504
RRSP administration	6,200	6,200
Credit bureau fees	5,942	4,752
	<b>1,006,880</b>	<b>995,167</b>

### 13. Capital adequacy

The capital management policy is approved by the Board of Directors and outlines the Credit Union's overall objectives and guidelines to ensure that the Credit Union has the required quantity, quality and appropriate composition of capital needed to address the inherent risks of the Credit Union and to support the current and future operating plans.

The Act requires credit unions to maintain a minimum capital adequacy reserve (consists of share capital and retained earnings) of 5% of the Credit Union's total assets with a maximum of 2% in shares. Alternatively, a risk weighted approach may be used. The Credit Union follows the percentage of total assets method. The Credit Union is in compliance with its policies and those of the Act regarding regulatory capital as at December 31, 2017 as outlined in the table below.

	2017	2016
	\$	\$
Retained earnings	2,891,129	2,842,888
Members' shares	1,499,934	1,411,910
Capital base	<b>4,391,063</b>	<b>4,254,798</b>
Capital adequacy		
Actual	5.84%	5.98%
Regulatory requirement	5.00%	5.00%

# Reddy Kilowatt Credit Union Limited

## Notes to the financial statements

December 31, 2017

(CDN dollars)

### 14. Income taxes

The provision for income taxes reported for the year ended December 31 differs from the amount computed by applying the Canadian statutory rate to income before income taxes for the following reasons:

	2017	2016
	\$	\$
Earnings before income taxes	<b>98,575</b>	254,494
Income tax expense based on statutory rate of 13.5% (2016 - 13.5%)	<b>13,308</b>	34,357
Effect of permanent differences	<b>4,187</b>	731
Other	<b>(17,161)</b>	(32,508)
Total income tax recovery	<b>334</b>	2,580

### 15. Related party transactions

Transactions during the year between the Credit Union and key management personnel, directors, officers, and their related parties are presented in the following table. Related parties of these individuals are defined as close members of the family who may be expected to influence, or be influenced by, that person in their dealings with the Credit Union and include spouses and dependent children.

	2017		2016	
	Maximum Balance	Closing Balance	Maximum Balance	Closing Balance
	\$	\$	\$	\$
Loans to members	<b>1,870,870</b>	<b>1,399,792</b>	1,323,057	934,981
Member deposits	-	<b>627,436</b>	-	711,938
	<b>1,870,870</b>	<b>2,027,228</b>	1,323,057	1,646,919

There was no allowance for impaired loans required in respect of these loans as at December 31, 2017 and December 31, 2016.

Key management personnel received salaries and other short-term employee benefits during the year of \$323,418 (2016 - \$232,700).

Directors received the following amounts for serving the Credit Union:

	2017	2016
	\$	\$
Directors' remuneration	<b>23,300</b>	24,000
Directors' expenses	<b>10,721</b>	16,756
	<b>34,021</b>	40,756

# Reddy Kilowatt Credit Union Limited

## Notes to the financial statements

December 31, 2017

(CDN dollars)

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### 16. Fair value of financial instruments

#### *Fair value*

The Credit Union's financial instruments are calculated using the valuation methods and assumptions described below. The fair values do not reflect the value of assets that are not considered financial instruments, such as prepaids and property, plant and equipment.

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 judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

#### *Fair value hierarchy*

Financial instruments recorded at fair value on the Statement of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The fair values of cash and cash equivalents, certain other assets and certain other liabilities are assumed to approximate their carrying values, due to their short-term nature.

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, deposits and capital accounts at current market rates for products with similar terms and credit risks.

The fair value of investments is based on quoted market values where available (see Note 3).

Shares in Atlantic Central, League Data, Concentra and League Savings and Mortgage are measured at cost less any identified impairment losses at the end of each reporting period. These investments are classified as Level 2 as they do not have a quoted price in an active market and their fair value cannot be reliably measured.

There has been no significant transfer of amounts between Level 1, Level 2 and Level 3 financial instruments for the years ended December 31, 2017 and 2016.

Additionally, there are no financial instruments classified in Level 3.

### 17. Nature and extent of risks arising from financial instruments

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

# Reddy Kilowatt Credit Union Limited

## Notes to the financial statements

December 31, 2017

(CDN dollars)

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### 17. Nature and extent of risks arising from financial instruments (Continued)

#### *Credit risk*

The business of the Credit Union necessitates the management of credit risk. Credit risk is the potential for loss due to the failure of a borrower to meet its contractual obligations.

The Board of Directors of the Credit Union oversees the risk management process. Management coordinates policy setting on risk management issues, assesses the risk exposure of the Credit Union and reviews the effectiveness of internal control processes.

The Credit Union uses a disciplined lending approach with standard underwriting parameters for each category of loans. These parameters are used to assist the Credit Union in implementing a prudent and effective process to assess the borrower's ability to repay.

The Credit Union mitigates credit risk by obtaining quality collateral. The Credit Union considers collateral to be of good quality if it can determine the legal validity and market value on an on-going basis. The Credit Union's internal policy provides additional information regarding the appropriate collateral based on the category of loan. Types of collateral generally obtained by the Credit Union include, but are not limited to, the following: member's personal property such as vehicles; cash and marketable securities; mortgage charges; fixed, floating or specific general security agreements; and personal guarantees.

In addition, the Credit Union monitors its loan concentration to ensure that it is in compliance with its policies.

#### *Liquidity risk*

The business of the Credit Union necessitates the management of liquidity risk. Liquidity risk is the risk of being unable to meet financial commitments, under all circumstances, without having to raise funds at unreasonable prices or sell assets on a forced basis.

The Credit Union's objective is to implement a policy that addresses limits on the sources, quality and amount of the assets to meet normal operational and regulatory requirements, and provide contingency funding for significant deposit withdrawals.

The Board is ultimately responsible for the liquidity risk management policy. Management reports monthly, to the Board, the Credit Union's compliance with the policy and regulatory requirements; concentration of large deposits of single/connected depositors as a percentage of total deposits; and reports borrowings for liquidity purposes, the level of borrowings and the liquidity less borrowings in relation to the statutory minimum.

The Act requires credit unions to maintain investments equal to a minimum of 6% of liabilities for adequate liquidity. Assets held by the Credit Union for such purposes are investments and demand deposits held with Atlantic Central in the amount of \$4,861,349 as at December 31, 2017 (2016 - \$3,959,530).

Contractual maturities of financial liabilities are shown under interest rate risk.

#### *Market risk*

Market risk is the risk of loss that may arise from change in market factors such as interest rates and foreign exchange rates. The Credit Union is exposed to this market risk in its investing and asset/liability management activities.

Management is responsible for managing market risk in accordance with the Credit Union's Asset and Liability Management and Investment Policy set by the Board. Management reports quarterly to the Board its compliance with the policy and regulatory requirements; dollar volume and yields of all investments by investment category; and the particulars of all investment transactions entered into by the Credit Union. All exceptions noted are reported to the Board.



# Reddy Kilowatt Credit Union Limited

## Notes to the financial statements

December 31, 2017

(CDN dollars)

### 17. Nature and extent of risks arising from financial instruments (Continued)

#### Market risk (Continued)

The Board is responsible for monitoring significant variances and ensuring that corrective measures are implemented.

#### Interest rate risk

Interest rate risk refers to the potential impact of changes in interest rates on the Credit Union's earnings when maturities of its financial liabilities are not matched with the maturities of its financial assets or are priced on a different basis. It is the policy of the Credit Union to keep exposure to interest rate fluctuations within limits set by the Board and regulations.

The table below summarizes the carrying amounts of financial instruments exposed to interest rate risk by maturity dates. The balances disclosed in the table exclude accrued interest.

	2017 (\$000's)						Effective interest rate
	On Demand	Less than 3 months	3 months to one year	One to five years	Non-rate sensitive	Total	
	\$	\$	\$	\$	\$	\$	
Investments	4,148	-	-	1,231	114	5,493	1.64%
Loans and advances							
to members	29,141	3,298	3,907	26,613	-	62,959	5.31%
Deposits from members	12,392	7,474	9,251	36,319	6,116	71,552	2.26%

	2016 (\$000's)						Effective interest rate
	On Demand	Less than 3 months	3 months to one year	One to five years	Non-rate sensitive	Total	
	\$	\$	\$	\$	\$	\$	
Investments	3,913	-	-	1,213	114	5,240	1.32%
Loans and advances							
to members	28,205	1,078	3,046	26,415	-	58,744	5.14%
Deposits from members	11,477	7,535	10,039	32,811	5,544	67,406	2.32%

At December 31, 2017, if interest rates at that date had been 100 (2016 - 100) basis points lower with all other variables held constant, after-tax net income for the year would have been approximately \$146,000 (2016 - \$37,000) lower, arising mainly as a result of lower interest revenue on variable loans and mortgages and lower interest revenue on liquidity investments. If interest rates had been 100 (2016 - 100) basis points higher, with all other variables held constant, after-tax net income would have been approximately \$225,000 (2016 - \$184,000) higher, arising mainly as a result of higher interest revenue on variable loans and mortgages and higher interest on liquidity investments.

# Reddy Kilowatt Credit Union Limited

Notes to the financial statements

December 31, 2017

(CDN dollars)

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## 17. Nature and extent of risks arising from financial instruments (Continued)

### *Foreign currency exchange risk*

Foreign currency exchange risk refers to the potential impact of changes in foreign exchange rates on the Credit Union's earnings when balances or currencies of its foreign currency liabilities are not matched with the balances of its foreign currency assets. It is the policy of the Credit Union to mitigate exposure to foreign exchange rate fluctuations by matching its foreign currency liabilities to its foreign currency assets. The Credit Union does not hold foreign investments beyond cash required to meet daily operational requirements.