bakertilly

Kingston Community Credit Union Limited

Financial Statements

For the year ended December 31, 2018

bakertilly

Kingston Community Credit Union Limited
Financial Statements
For the year ended December 31, 2018

Contents

bakertilly

Management Report

Management's Responsibility for the Financial Statements

The accompanying financial statements of Kingston Community Credit Union Limited for the year ended December 31, 2018 are the responsibility of the Credit Union's management and have been prepared in compliance with legislation and in accordance with International Financial Reporting Standards. The accounting policies followed by the Credit Union are included in the summary of significant accounting policies accompanying the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The Credit Union's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

The Audit Committee of the Board of Directors meets with management and the external auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to the Audit Committee's approval of the financial statements.

The financial statements have been audited by Baker Tilly SEO LLP, independent external auditors appointed by the Credit Union. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the Credit Union's financial statements.

CEO

January 30, 2019

Baker Tilly SEO LLP
1473 John Counter Blvd.
Suite 201
Kingston, ON
Canada K7M 8Z6

D: +1 613.544.2903
F: +1 613.544.6151

kingston@bakertilly.ca
www.bakertilly.ca

Independent Auditor's Report

Opinion

We have audited the financial statements of the Kingston Community Credit Union Limited (the "Credit Union") which comprise the statement of financial position as at December 31, 2018, and the statements of accumulated other comprehensive income, reserves and members' equity, comprehensive income and cash flows for the years ended December 31, 2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2018, and the results of its operations and its cash flows for the years ended December 31, 2018 in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibility for the Audit of the Financial Statements section of our report. We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Credit Union's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Credit Union or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Credit Union's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Baker Tilly SGD LLP

Chartered Professional Accountants
Licensed Public Accountants

Kingston, Ontario
January 30, 2019

Kingston Community Credit Union Limited
Statement of Financial Position

December 31	2018	2017
Assets		
Cash and cash equivalents (Note 2)	**$ 10,299,051**	$ 6,353,435
Investments (Note 3)	**24,086,500**	29,227,875
Member loans (Note 4)	**108,744,246**	100,593,354
Property, plant and equipment (Note 5)	**481,201**	530,665
Other assets (Note 6)	**51,982**	76,343
Deferred income tax (Note 7)	**60,763**	44,782
	$143,723,743	$136,826,454

Liabilities and Members' Equity

	2018	2017
Liabilities		
Member deposits (Note 8)	**$128,826,706**	$122,830,984
Other liabilities (Note 9)	**699,466**	464,511
Dividends and interest rebate payable	**287,659**	258,684
Membership shares (Note 10)	**1,141,209**	1,150,416
	130,955,040	124,704,595
Members' Equity		
Reserves and members' equity	**12,762,310**	12,115,466
Accumulated other comprehensive income	**6,393**	6,393
	12,768,703	12,121,859
	$143,723,743	$136,826,454

On behalf of the Board:

Director

Director

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

bakertilly

Kingston Community Credit Union Limited
Statement of Accumulated Other Comprehensive Income, Reserves and Members' Equity

	Accumulated Other Comprehensive Income	Reserves	Members' Equity	Total Reserves and Members' Equity
Balance at January 1, 2017	$ 209,205	$ 1,206,480	$ 10,296,316	$ 11,502,796
Net income	-	-	612,670	612,670
Change in unrealized gains on available-for-sale investments	(202,812)	-	-	-
Balance on December 31, 2017	$ 6,393	$ 1,206,480	$ 10,908,986	$ 12,115,466
Net income	**$ -**	**$ -**	**$ 646,844**	**$ 646,844**
Change in unrealized gains on available-for-sale investments	**-**	**-**	**-**	**-**
Balance on December 31, 2018	**$ 6,393**	**$ 1,206,480**	**$ 11,555,830**	**$ 12,762,310**

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

bakertilly

Kingston Community Credit Union Limited
Statement of Comprehensive Income

For the year ended December 31		2018			2017	
Interest revenue						
Interest on loans to members (Note 4)	$	4,541,830	90.0 %	$	4,024,474	86.5 %
Investment income		502,120	10.0		628,839	13.5
		5,043,950	100.0		4,653,313	100.0
Interest expense						
Interest on members' deposits (Note 8)		668,278	13.2		656,185	14.2
Interest margin		4,375,672	86.8		3,997,128	85.8
Rental		12,075	0.2		12,600	0.3
Other income (Schedule 1)		482,059	9.7		436,274	9.4
Service charges		929,524	18.4		916,754	19.7
Net recovery (provision) for losses on loans		192,924	3.8		(21,132)	(0.5)
		5,992,254	118.9		5,341,624	114.7
Operating expenses						
Amortization of property, plant and equipment		104,479	2.1		104,430	2.2
Financial (Schedule 2)		162,657	3.2		123,926	2.6
Members' security insurance (Schedule 2)		110,516	2.2		91,930	2.0
Occupancy costs (Schedule 2)		411,262	8.2		399,675	8.6
Other administrative (Schedule 2)		1,418,792	28.1		1,242,909	26.6
Remuneration to management and staff (Schedule 2)		2,669,431	52.9		2,447,746	52.7
		4,877,137	96.7		4,410,616	94.7
Income before other items and income taxes		1,115,117	22.2		931,008	20.0
Other expenses						
Dividends on members' shares		48,677	1.0		55,442	1.2
Dividends on dividend savings		227,572	4.5		203,341	4.4
Service charge rebate		11,411	0.2		-	-
Income before income taxes		827,457	16.5		672,225	14.4
Income taxes (Note 7)						
Current income tax		196,594	3.9		121,272	2.6
Deferred income tax (benefit)		(15,981)	(0.3)		(61,717)	(1.3)
		180,613	3.6		59,555	1.3
Net Income for the year	$	646,844	12.9 %	$	612,670	13.1 %
Other comprehensive income (net of tax)						
Change in unrealized gains on available-for-sale investments	$	-	- %	$	(202,812)	(4.4)%
Total other comprehensive income for the year		-	-		(202,812)	(4.4)
Total comprehensive income for the year	$	646,844	12.9 %	$	409,858	8.7 %

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Kingston Community Credit Union Limited
Statement of Cash Flows

For the year ended December 31		2018		2017
Cash flows from operating activities				
Net income for the year	$	**646,844**	$	612,670
Adjustments				
Amortization of property, plant and equipment		**104,479**		104,430
Interest revenue		**(5,043,950)**		(4,653,313)
Interest expense		**668,278**		656,185
Provision for income taxes		**180,613**		59,555
Net provision for losses on loans		**(192,924)**		21,132
		(3,636,660)		(3,199,341)
Changes in member activities (net)				
Change in member loans		**(7,932,318)**		(7,834,643)
Change in member deposits		**6,012,908**		10,946,002
		(5,556,070)		(87,982)
Cash flows related to interest, dividends and income taxes				
Interest received on member loans		**4,516,180**		4,004,232
Interest received on investments		**546,502**		602,170
Interest paid on member deposits		**(685,464)**		(652,170)
Income taxes paid		**(94,824)**		(77,137)
		(1,273,676)		3,789,113
Changes in non-cash working capital balances				
Prepaid expenses		**2,937**		(644)
CUMIS enhanced compensation reserve		**241**		(330)
Accounts payable and accrued liabilities		**154,368**		12,802
Dividend and interest payable		**28,975**		30,192
		(1,087,155)		3,831,133
Cash flows from investing activities				
Purchase of property, plant and equipment		**(55,015)**		(234,683)
Redemption (Purchase) of investments		**5,096,993**		(1,759,078)
		5,041,978		(1,993,761)
Cash flows from member activities (net)				
Net redemption of membership shares		**(9,207)**		(1,170,943)
Increase in cash and cash equivalents during the year		**3,945,616**		666,429
Cash and cash equivalents, beginning of year		**6,353,435**		5,687,006
Cash and cash equivalents, end of year	$	**10,299,051**	$	6,353,435

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

December 31, 2018

Reporting Entity	Kingston Community Credit Union Limited (the "Credit Union") is incorporated under the Credit Unions and Caisse Populaires Act, 1994 (The "Act") of Ontario and is a member of Central 1 Credit Union Limited ("Central 1"). The Credit Union operates as one operating segment in the loans and deposit taking industry in Ontario. Products and services offered to its members include mortgages, personal and commercial loans, chequing and savings accounts, term deposits, RRSPs, TFSAs, RRIFs, mutual funds, automated banking machines (ABMs), debit and credit cards and internet banking. The Credit Union's head office is located at 18 Market Street, Kingston, Ontario.
	These financial statements have been authorized for issue by the Board of Directors on January 30, 2019.
Basis of Presentation	These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (ASB).
	The Credit Union's functional and presentation currency is the Canadian dollar.
	The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 1.
Cash and Cash Equivalents	Cash and cash equivalents includes cash on hand, deposits with Central 1 and other short-term 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 equivalent to fair value.
Investments	*Central 1 Deposits and Guaranteed Investment Certificates* are classified as loans and receivables and are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently, they are carried at amortized cost which approximates fair value.

Investments (continued)

Equity Instruments are classified as available-for-sale and are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently, they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable in which case they are carried at cost.

Changes in fair value, except for those arising from interest calculated using the effective interest rate, are recognized as a separate component of other comprehensive income.

Where there is a significant or prolonged decline in the fair value of an equity instrument (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive income, is recognized in net income.

Purchases and sales of equity instruments are recognized on settlement date with any change in fair value between trade date and settlement date being recognized in accumulated other comprehensive income. On sale, the amount held in accumulated other comprehensive income associated with that instrument is removed from equity and recognized in net income.

Member Loans

All member loans 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.

Member loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred.

Member loans are subsequently measured at amortized cost, using the effective interest rate method, less any impairment loss.

Loans to members are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for estimated credit losses on loans plus accrued interest. Interest is accounted for on the accrual basis for all loans.

Member Loans (continued)

The Credit Union relies on an expected credit loss model to estimate impairment losses on its member loan portfolio. The model was designed by Central 1 Credit Union, and is known as the IFRS 9 Impairment Expected Credit Loss Model (the "Model"). Under the Model, the Credit Union is required to classify all loans under three general categories: Performing (Stage 1), Underperforming (Stage 2), and Non-performing (Stage 3). The categories and details of the loan portfolio, which are described in Note 4, are uploaded to Central 1's Model on a monthly basis from which the model estimates the expected credit losses on the credit portfolio by category. The amount of the loss is measured as the difference between the loans carrying amount and the present value of expected cash flows discounted at the loans original effective interest rate as estimated by the Model. The amount of the impairment loss is recognized in net income.

The Credit Union continually assesses individual loans for objective indications of impairment or underperformance, such as delinquency or a credit event, and categorizes loans in its database accordingly.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is considered to be Performing (Stage 1). The carrying amounts of these assets are assessed individually for impairment based on loan specific data such as the related beacon scores, and inherent economic risks as determined by geography, economic data, regional employment trends, among other criteria. Assets that are considered to be Underperforming (Stage 2) or Non-performing (Stage 3) are assessed for impairment independently based on similar criteria, adjusted for the increased level of risk associated with the respective categories. The Credit Union relies on an expected credit loss model to estimate impairment losses on its member loans carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans carrying amount and the present value of expected cash flows discounted at the loans original effective interest rate; short-term balances are not discounted.

Kingston Community Credit Union Limited
Summary of Significant Accounting Policies

December 31, 2018

Member Loans (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in net income.

Bad Debts Written Off

Bad debts are written off from time to time as determined by management and approved by the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment, if a provision for impairment had previously been recognized. If no provision had been recognized, the write-offs are recognized as expenses in net income.

Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income.

Property, Plant and Equipment

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation, with the exception of land which is not depreciated. Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary. Depreciation is recognized in net income at the following annual rates:

Buildings	-	2,3,25 or 50	years straight-line basis
Furniture and equipment	-	10	years straight-line basis or 10% declining basis
Signs	-	20%	declining basis
Computer equipment	-	1-5 or 7	years straight-line basis
Security equipment	-	1,2,3 or 5	years straight-line basis
Banking system	-	4 or 10	years straight-line basis
Automobile	-	5	years straight-line basis
Leasehold improvements	-	5 to 15	years straight-line basis

Impairment of Non-Financial Assets	Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly. Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows. The Credit Union has only one cash generating unit, for which impairment testing is performed. Impairment charges are included in net income, except to the extent they reverse gains previously recognized in other comprehensive income.
Dividends	Dividends on member shares are recorded as a distribution of net income in the period to which they pertain, not in the period they are paid.

December 31, 2018

Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of deferred tax assets for unused tax (losses), tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities/assets are settled/(recovered).

Reserves

The general reserve is created by appropriations from members' equity and is intended to provide for unforeseen losses.

Member Deposits

All member deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument.

Member deposits are subsequently measured at amortized cost, using the effective interest rate method.

Kingston Community Credit Union Limited
Summary of Significant Accounting Policies

December 31, 2018

Membership Shares

Membership shares are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument.

Membership shares are subsequently measured at amortized cost, using the effective interest rate method.

Revenue Recognition

Revenue from the provision of services to members is recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

Commission, fees and related revenues are recognized upon completion of the transaction.

Accounts Payable

Liabilities for trade creditors and other payables are classified as other financial liabilities and initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

Provisions

Provisions are recognized for liabilities of uncertain timing or amounts that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

Leased Assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Credit Union (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to the statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the leaser.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Credit Union (an "operating lease"), the total rentals payable under the lease are charged to the statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

Standards, Amendments and Interpretations Not Yet Effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Credit Union's accounting periods beginning on or after January 1, 2019 or later periods that the Credit Union has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the Credit Union are:

i. *IFRS 16 - Leases* was issued by the IASB January 2016. The new standard replaces IAS 17 Leases and requires lessees to recognize all leases on the balance sheet. IFRS 16 removes the classification of leases as either operating leases or finance leases (for the lessee—the lease customer), treating all leases as finance leases. Short-term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the requirements. Earlier application is permitted for companies that also apply IFRS 15 Revenue from Contracts with Customers. These changes are effective on or after January 1, 2019.

None of the other new standards, interpretations and amendments, which are effective for the Credit Union's accounting periods beginning on or after January 1, 2019 and which have not been adopted early, are expected to have a material effect on the Credit Union's future financial statements.

1. Critical Accounting Estimates and Judgments

The Credit Union makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair Value of Financial Instruments

The Credit Union determines the fair value of financial instruments that are not quoted in an active market, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

The methods and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in Note 3.

Member Loan Loss Provision

In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Credit Union makes judgment on whether objective evidence of impairment exists individually for financial assets that are individually significant. Where this does not exist, the Credit Union uses its judgment to group member loans with similar credit risk characteristics to allow a collective assessment of the group to determine any impairment loss.

In determining the collective loan loss provision, management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Further details on the estimates used to determine the allowance for impaired loans collective provision are provided in Note 4.

1. Critical Accounting Estimates and Judgments (continued)

Income Taxes

The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters, however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

2. Cash and Cash Equivalents

The Credit Union's cash and current accounts are held with Central 1. The current account has an average interest yield of 1.63% at December 31, 2018 (2017 average interest yield of 1.40%), and the U.S. dollar account average interest yield of 1.61% (2017 average interest yield of 1.20%). The current account holds a clearing facility of $3,180,000 and the U.S. dollar account holds a clearing facility of $100,000.

3. Investments

The following table provides information on the investments by type of security and issuer. The maximum exposure to credit risk would be the fair value as detailed below:

	2018	2017
Central 1 Deposits and Guaranteed Investment Certificates		
Central 1 - Liquidity reserve deposit	**$ 8,713,784**	$ 8,279,315
Central 1 - Term deposit	**6,536,632**	6,290,056
Central 1 - US term deposit	**490,887**	186,205
TD Canada Trust Guaranteed Investment Certificates	**4,022,670**	5,031,479
Concentra - Term deposit	**1,008,860**	2,015,957
Carried forward to next page	**$ 20,772,833**	$ 21,803,012

3. Investments (continued)

	2018	2017
Brought forward from previous page	**$ 20,772,833**	$ 21,803,012
CIBC Guaranteed Investment Certificates	**257,089**	3,022,786
RBC Guaranteed Investment Certificates	**2,009,877**	3,284,214
	23,039,799	28,110,012
Equity Instruments		
Central 1 Shares - Class A	**53,396**	463,070
Central 1 Shares - Class E	**294,400**	392,400
Central 1 Shares - Class F	**441,510**	-
Concentra Shares - Class D Preferred	**250,000**	250,000
CUCO Co-op Class B Investment Shares	**6,393**	6,393
Credential	**-**	5,000
CU CUMIS Wealth Holdings LP	**2**	-
Concentra Financial	**1,000**	1,000
	1,046,701	1,117,863
Total Investments	**$ 24,086,500**	$ 29,227,875

Central 1 - Liquidity Reserve Deposit

The Credit Union must maintain liquidity reserves with Central 1 at a minimum 6% of total assets at December 31 each year. The deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total assets or upon withdrawal of membership from Central 1. The liquidity reserves are made up of various liquidity deposits with varying maturity dates extending as late as January 2021. At maturity, these deposits are reinvested at market rates for various terms. The carrying amounts approximate fair value due to having similar characteristics as cash and cash equivalents.

Central 1 and Concentra - Term deposits and TD Canada Trust, CIBC, and Royal Bank of Canada Guaranteed Investment Certificates

Central 1, Concentra term deposits and TD Canada Trust, CIBC, and Royal Bank of Canada guaranteed investment certificates have varying maturity dates with the latest being April 2020. The carrying amounts approximate fair value due to having similar characteristics as cash and cash equivalents.

Class D Concentra preferred shares are issued at a par value with a minimum investment requirement of $250,000. They are redeemable after five years by Concentra from the date of issuance, requiring the consent of the Office of Superintendent of Financial Institutions (OSFI). There is no separately quoted market value for these shares, however, fair value is determined to be equivalent to the par value due to the fact that transactions occur at par value on a regular and recurring basis.

3. Investments (continued)

Central 1 Shares

The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors.

Class A Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. There is no separately quoted market value for these shares, however, fair value is determined to be equivalent to the par value due to the fact that transactions occur at par value on a regular and recurring basis.

Class E Central 1 shares are issued with a par value, however, are redeemable at the option of Central 1. There is no separately quoted market value for these shares and the fair value could not be measured reliably. Fair value cannot be measured reliably as the timing of redemption of these shares cannot be determined, therefore, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed; thus, they are recorded at cost.

Class F Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. There is no separately quoted market value for these shares, however, fair value is determined to be equivalent to the par value due to the fact that transactions occur at par value on a regular and recurring basis.

The Credit Union is not intending to dispose of any Central 1 shares as the services supplied by Central 1 are relevant to the day-to-day activities of the Credit Union.

Dividends on these shares are at the discretion of the Board of Directors of Central 1.

CUCO Co-operative Association (CUCO Co-op) Class B Investment Shares

On August 17, 2011 Credit Union Central of Ontario Limited (CUCO) discontinued as a regulated financial institution and continued as a co-operative known as CUCO Co-operative Association (CUCO Co-op). On August 31, 2011, CUCO Co-op purchased the investment portfolio of long-term notes from ABCP 2008 LP in exchange for Class B investment shares which were distributed to the ABCP 2008 LP unit holders. The Credit Union received 149,863,476 Class B investment shares. This combination of steps restructured the Credit Union's holding in the assets, created a new investment and unlocked a potential tax shelter on any future gains in the value. On October 24, 2011, the Board of ABCP 2008 LP approved a resolution to dissolve the limited partnership as it had ceased operations and disposed of all assets.

3. Investments (continued)

Since its initial investment in CUCO Co-op Class B shares, the Credit Union elected to classify it as available-for-sale requiring the investment to be carried at fair value. Changes in fair value are recognized as a separate component of other comprehensive income. At December 31, 2018, CUCO Co-op provided an estimate of fair value of the investment of $6,393 (2017 - $6,393), a decrease (increase) in value of $Nil (2017 - $(202,812)) after accounting for return of capital distributions.

4. Member Loans

	2018	2017
Principal		
Commercial	$ 2,881,531	$ 1,893,406
Mortgages	92,840,352	85,138,669
Personal and other	13,187,498	14,036,985
	108,909,381	101,069,060
Accrued interest receivable	188,987	163,337
Allowance for impaired loans	(354,122)	(639,043)
Net loans to members	$108,744,246	$ 100,593,354

Terms and Conditions

Member loans can either have a variable or fixed rate of interest and they mature within five years.

Variable rate loans are based on a "prime rate plus/minus" formula, ranging from prime minus 2.00% to prime plus 22.55%. The rate above prime is determined by the type of security offered and the member's credit worthiness. The Credit Union's prime rate at December 31, 2018 was 4.95%.

The interest rate offered on fixed rate loans being advanced at December 31, 2018, ranged from 2.00% to 14.00%. The rate offered to a particular member varies with the type of security offered and the member's credit worthiness.

Commercial loans consist of term loans and mortgages to individuals, partnerships and corporations and, as such, have various repayment terms. They are secured by various types of collateral, including mortgages on real property, charges on specific equipment, investments and guarantees.

Residential mortgages are secured by residential property and generally are repayable in monthly blended payments of principal and interest.

Personal loans consist of term loans and lines of credit and, as such, have various repayment terms. Some of the personal loans are secured by wage assignment and personal property or investments and others are secured by wage assignment only.

4. Member Loans (continued)

		2018		2017
Interest Income				
Commercial	$	109,878	$	44,700
Mortgages		3,173,002		2,703,413
Personal and other		1,258,950		1,276,361
	$	4,541,830	$	4,024,474

Average Yields to Maturity

Loans bear interest at both variable and fixed rates with the following average yields at:

	2018 Principal	2018 Yield	2017 Principal	2017 Yield
Variable rate with maturities within five years	$ 23,090,971	7.81 %	$ 22,612,842	7.37 %
Fixed rate with maturities within one year	14,697,855	3.47 %	19,569,499	3.35 %
Fixed rate with maturities between one and five years	70,766,433	3.50 %	58,247,676	3.24 %
	108,555,259		100,430,017	
Accrued interest receivable	188,987		163,337	
	$ 108,744,246		$ 100,593,354	

Credit Quality of Loans

It is not practical to value all collateral as at the balance sheet date due to the variety of assets and conditions.

Fair Value

The fair value of member loans at December 31, 2018 was $108,744,246 (2017 - $100,593,354).

The estimated fair value of the variable rate loans is assumed to be equal to book value as the interest rates on these loans re-price to market on a periodic basis. The estimated fair value of fixed rate loans is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

4. Member Loans (continued)

Concentration of Risk

The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments.

There were no individual or related groups of members' loans which exceed 10% of members' equity at December 31, 2018 or December 31, 2017.

The majority of members' loans are with members located in and around Kingston, Ontario.

Allowance for Impaired Loans

On January 1, 2018, the Credit Union adopted IFRS 9 "Financial Instruments" which replaces IAS 39 "Financial Instruments: Recognition and Measurement" and gives rise to new requirements for the classification and measurement of the impairment of financial instruments. At each reporting date, the Credit Union recognizes an impaired loan provision for expected credit losses for debt instruments. This allowance is estimated based on an impairment model that comprises three stages:

Stage 1: For loans that have not had a significant increase in credit risk since initial recognition and are not considered as credit-impaired loans, a loss allowance equal to 12-month expected credit losses is recognized.

Stage 2: For loans that have had a significant increase in credit risk since initial recognition but are not considered as credit-impaired loans, a loss allowance equal to the lifetime expected credit losses is recognized.

Stage 3: For loans considered as credit impaired, a loss allowance amounting to the lifetime expected credit losses continues to be recognized.

The Credit Union relies on an expected credit loss model to estimate impairment losses on its member loan portfolio. The model was designed by Central 1 Credit Union, and is known as the IFRS 9 Impairment Expected Credit Loss Model. The model relies on current loan and credit information maintained by the Credit Union, such as the assessed loan Stage, loan type, loan security, the length of time the loans are past due, and individual beacon scores, combined with macro- and micro- economic data to estimate expected credit losses. Economic data such as GDP trends, unemployment rates, bankers' acceptance rates, and the housing price index, is integrated into the model to ensure a comprehensive estimate is achieved. The circumstances may vary for each loan over time, resulting in higher or lower impairment loss. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience.

4. Member Loans (continued)

Total allowance for impaired loan provision comprises:

	2018	2017
Stage 1 provision	$ 248,316	$ -
Stage 2 provision	23,025	-
Stage 3 provision	82,781	-
Collective provision	-	493,211
Individual specific provision	-	145,832
Total provision	$ 354,122	$ 639,043

Movement in Stage 1 provision for impairment:

	2018			
	Personal and Other	Mortgages	Commercial	Total
Opening	$ 463,958	$ -	$ -	$ 463,958
Transitional adjustments to IFRS 9	(266,370)	115,019	346	(151,005)
Revised opening	197,588	115,019	346	312,953
Provision (recovery) of expected credit losses	(61,674)	(3,239)	276	(64,637)
Ending	$ 135,914	$ 111,780	$ 622	$ 248,316
Gross carrying amount of loan receivables	$ 22,663,066	$ 81,957,656	$ 2,889,584	$107,510,306

4. Member Loans (continued)

Movement in Stage 2 provision for impairment:

	2018			
	Personal and Other	Mortgages	Commercial	Total
Opening	$ 29,253	$ -	$ -	$ 29,253
Transitional adjustments to IFRS 9	(9,634)	114	-	(9,520)
Revised opening	19,619	114	-	19,733
Provision for individual member loans transferred to Stage 2	(1,694)	4,986	-	3,292
Ending	$ 17,925	$ 5,100	$ -	$ 23,025
Gross carrying amount of loan receivables	$ 547,002	$ 597,424	$ -	$ 1,144,426

Movement in Stage 3 provision for impairment:

	2018			
	Personal and Other	Mortgages	Commercial	Total
Opening	$ 99,282	$ 46,550	$ -	$ 145,832
Transitional adjustments to IFRS 9	(79,522)	(19,396)	-	(98,918)
Revised opening	19,760	27,154	-	46,914
Provision	135,177	(7,313)	-	127,864
Recoveries	52,916	3,820	-	56,736
Write-offs	(148,733)	-	-	(148,733)
Ending	$ 59,120	$ 23,661	$ -	$ 82,781
Gross carrying amount of loan receivables	$ 128,190	$ 315,445	$ -	$ 443,635

4. Member Loans (continued)

Movement in specific provision for impairment:

	2017			
	Personal and Other	Mortgages	Commercial	Total
Opening	$ 214,370	$ 79,690	$ -	$ 294,060
Recoveries	36,939	2,187	-	39,126
Provision	33,234	(35,327)	-	(2,093)
	284,543	46,550	-	331,093
Write-offs	(185,261)	-	-	(185,261)
Ending	$ 99,282	$ 46,550	$ -	$ 145,832
Principal balance of individually impaired loans	$ 124,324	$ 722,100	$ -	$ 846,424

Movement in collective provision for impairment:

	2017			
	Personal and Other	Mortgages	Commercial	Total
Opening	$ 469,986	$ -	$ -	$ 469,986
Recoveries	23,225	-	-	23,225
Ending	$ 493,211	$ -	$ -	$ 493,211

5. Property, Plant and Equipment

	Land	Buildings	Furniture and Equipment	Signs	Computer Equipment	Security Equipment	Banking System	Automobile	Leasehold Improvements	Total
Cost										
Balance at January 1, 2017	$ 24,000	$ 303,953	$ 675,626	$ 110,940	$ 558,087	$ 151,500	$ 72,696	$ 21,808	$ 520,728	$ 2,439,338
Additions	-	5,820	69,223	1,652	31,797	6,701	-	-	119,490	234,683
Disposals	-	-	-	-	-	-	-	-	-	-
Balance on December 31, 2017	$ 24,000	$ 309,773	$ 744,849	$ 112,592	$ 589,884	$ 158,201	$ 72,696	$ 21,808	$ 640,218	$ 2,674,021
Additions	-	5,455	12,866	1,026	33,063	2,605	-	-	-	55,015
Disposals	-	-	-	-	-	-	-	-	-	-
Balance on December 31, 2018	**$ 24,000**	**$ 315,228**	**$ 757,715**	**$ 113,618**	**$ 622,947**	**$ 160,806**	**$ 72,696**	**$ 21,808**	**$ 640,218**	**$ 2,729,036**
Accumulated depreciation										
Balance at January 1, 2017	$ -	$ (173,236)	$ (557,415)	$ (96,065)	$ (483,674)	$ (147,754)	$ (72,696)	$ (21,808)	$ (486,279)	$ (2,038,927)
Depreciation expense	-	(7,535)	(20,787)	(3,117)	(31,466)	(4,282)	-	-	(37,242)	(104,429)
Disposals	-	-	-	-	-	-	-	-	-	-
Balance on December 31, 2017	$ -	$ (180,771)	$ (578,202)	$ (99,182)	$ (515,140)	$ (152,036)	$ (72,696)	$ (21,808)	$ (523,521)	$ (2,143,356)
Depreciation expense	-	(7,765)	(24,096)	(2,802)	(31,850)	(3,126)	-	-	(34,840)	(104,479)
Disposals	-	-	-	-	-	-	-	-	-	-
Balance on December 31, 2018	**$ -**	**$ (188,536)**	**$ (602,298)**	**$ (101,984)**	**$ (546,990)**	**$ (155,162)**	**$ (72,696)**	**$ (21,808)**	**$ (558,361)**	**$ (2,247,835)**
Net book value										
December 31, 2017	$ 24,000	$ 129,002	$ 166,647	$ 13,410	$ 74,744	$ 6,165	$ -	$ -	$ 116,697	$ 530,665
December 31, 2018	**$ 24,000**	**$ 126,692**	**$ 155,417**	**$ 11,634**	**$ 75,957**	**$ 5,644**	**$ -**	**$ -**	**$ 81,857**	**$ 481,201**

6. Other Assets

		2018		2017
Prepaid expenses	$	8,617	$	11,554
Income taxes recoverable		-		21,183
CUMIS (Credit Union Members Insurance Society) enhanced compensation reserve		43,365		43,606
	$	51,982	$	76,343

7. Income Taxes

The significant components of income tax expense included in net income are composed of:

		2018		2017
Current income tax expense				
Based on current year taxable income	$	196,594	$	121,272
Deferred income tax expense				
Change in unrecognized deferred tax assets	$	(15,981)	$	(61,717)

7. Income Taxes (continued)

Reasons for the difference between income tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (2017 – 26.5%) are as follows:

	2018	2017
Income before income taxes	**$ 827,457**	$ 672,225
Expected taxes based on the statutory rate	**$ 219,276**	$ 178,140
Reduction due to small business and credit union deduction and Ontario surtax	**(69,079)**	(23,945)
Unavailable general rate deduction	**34,540**	12,705
Deferred income tax (benefit)	**(15,981)**	(61,717)
Tax savings on non-taxable income	**(4,123)**	(53,745)
Other non-deductible portion of expenses and other items	**15,980**	8,117
Total income tax expense	**$ 180,613**	$ 59,555

Movement in 2018 deferred income tax assets and liabilities:

	Opening Balance at Jan 1, 2018	Recognize in Net Income	Recognize Directly in Equity	Closing Balance at Dec 31, 2018
2018				
Deferred income tax assets and liabilities				
Property, plant and equipment	**$ (15,815)**	**$ (3,728)**	**$ -**	**$ (19,543)**
Reserves	**16,935**	**(7,550)**	**-**	**9,385**
Market-to-market and other adjustments related to investments	**(1,695)**	**-**	**-**	**(1,695)**
Other accrued liabilities	**45,357**	**27,259**	**-**	**72,616**
	$ 44,782	**$ 15,981**	**$ -**	**$ 60,763**

7. Income Taxes (continued)

Movement in 2017 deferred income tax assets and liabilities:

	Opening Balance at Jan 1, 2017	Recognize in Net Income	Recognize Directly in Equity	Closing Balance at Dec 31, 2017
2017				
Deferred income tax assets and liabilities				
Property, plant and equipment	$ (14,154)	$ (1,661)	$ -	$ (15,815)
Reserves	20,246	(3,311)	-	16,935
Market-to-market and other adjustments related to investments	(55,439)	53,744	-	(1,695)
Other accrued liabilities	32,412	12,945	-	45,357
	$ (16,935)	$ 61,717	$ -	$ 44,782

	2018	2017
Deferred income tax liabilities		
Deferred income tax liabilities to be settled within 12 months	**$ -**	$ -
Deferred income tax liabilities to be settled after 12 months	**19,543**	15,815
Deferred income tax assets		
Deferred income tax assets to be recovered within 12 months	**$ 80,306**	$ 60,597
Deferred income tax assets to be recovered after 12 months	**-**	-
Net deferred income tax assets (liabilities)	**$ 60,763**	$ 44,782

8. Member Deposits

	2018	2017
Deposits		
Chequing savings	**$ 36,071,200**	$ 34,140,248
Dividend savings	**17,243,892**	16,389,444
Personal chequing	**1,799,021**	1,292,218
Regular savings	**28,889,729**	24,407,250
Registered Retirement Income Funds	**6,621,516**	6,691,524
Registered Retirement Savings Plans	**11,637,067**	13,070,874
Tax Free Savings Accounts	**6,262,427**	5,595,906
Term deposits	**18,906,471**	19,830,901
U.S. accounts	**663,052**	748,564
Property tax accounts	**436,758**	351,296
	128,531,133	122,518,225
Accrued interest payable	**295,573**	312,759
	$128,826,706	$122,830,984

Terms and Conditions

Chequing savings are due on demand and bear interest at rates between 0% and 0.20% at December 31, 2018.

Dividend savings are due on demand. A dividend is set annually based on the performance of the Credit Union.

Personal chequing deposits are due on demand and do not bear interest.

Regular savings are due on demand and bear interest at rates between 0.05% and 0.10% at December 31, 2018.

Registered Retirement Income Funds (RRIF) have both fixed and variable rates with terms and conditions similar to those of the Registered Retirement Savings Plans (RRSP) described below. Members may make withdrawals from a RRIF account on a monthly, semi-annual or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

RRSPs have both fixed and variable rates. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described below. The variable rate RRSPs bear interest at 0.10% to 0.50% at December 31, 2018.

8. Member Deposits (continued)

Terms and Conditions (continued)

Tax Free Savings Accounts (TFSA) have both fixed and variable rates. The fixed rate TFSAs have terms similar to the term deposit accounts described below. The variable rate TFSAs bear interest at 0.10% to 0.50% at December 31, 2018.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semi-annually, monthly or upon maturity. The interest rates offered on term deposits issued on December 31, 2018, range from 0.10% to 2.20%.

U.S. accounts are due on demand and bear interest at 0.00% to 0.05% at December 31, 2018.

Property tax deposit accounts are due on demand and bear interest at 0.05%.

Fair Value

The fair value of member deposits at December 31, 2018 was $128,826,706 (2017 - $122,830,984).

The estimated fair value of the demand deposits and variable rate deposits are assumed to be equal to book value as the interest rates on these deposits re-price to market on a periodic basis. The estimated fair value of fixed rate deposits is determined by discounting the expected future cash flows of these deposits at current market rates for products with similar terms.

	2018	2017
Interest Expense		
Chequing savings	**$ 29,549**	$ 24,799
Property tax	**155**	120
Regular savings	**11,299**	9,657
Registered Retirement Income Funds	**112,955**	109,434
Registered Retirement Savings Plans	**160,456**	175,565
Tax Free Savings Accounts	**76,570**	63,167
Term deposits	**277,134**	273,264
U.S. accounts	**160**	179
	$ 668,278	$ 656,185

8. Member Deposits (continued)

Average Yields to Maturity

Member deposits bear interest at both variable and fixed rates with the following average yields at December 31, 2018 and December 31, 2017:

	2018		2017	
	Principal	**Yield**	Principal	Yield
Variable rate with maturities within five years	**$ 89,599,852**	**0.67 %**	$ 81,365,270	0.34 %
Fixed rate with maturities within one year	**17,869,754**	**1.41 %**	24,627,364	1.35 %
Fixed rate with maturities between one and five years	**21,061,527**	**1.87 %**	16,525,591	1.69 %
	128,531,133		122,518,225	
Accrued interest payable	**295,573**		312,759	
	$ 128,826,706		$ 122,830,984	

Concentration of Risk

The Credit Union has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments.

There were no individual or related groups of members' deposits which exceed 10% of members' deposits at December 31, 2018 or December 31, 2017.

The majority of members' deposits are with members located in and around Kingston, Ontario.

9. Other Liabilities

	2018	2017
Accounts payable	**$ 618,879**	$ 464,511
Income taxes payable	**80,587**	-
	$ 699,466	$ 464,511

10. Membership Shares

Terms and Conditions

Membership shares are classified as liabilities and are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

The Credit Union is authorized to issue an unlimited number of membership shares.

Funds invested by members in shares are not insured by Deposit Insurance Corporation of Ontario (DICO). The withdrawal of member shares is subject to certain restrictions as provided by the Credit Union's by-laws, as is the payment of any dividends on these shares.

As a condition of membership, each member 21 years and over is required to hold $25 in membership shares. Members age 21 and over may hold additional membership shares up to a maximum of $1,025 per member. These membership shares are redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors of the Credit Union.

11. Regulatory Capital (Ontario)

The Credit Union has a capital management policy in place that addresses the quantity, quality and composition of capital needed that reflects the inherent risks of the Credit Union, to support the current and planned operations and to meet regulatory requirements.

The Act requires the Credit Union to maintain adequate regulatory capital, consisting of membership shares, any other class of qualifying share capital that may be issued and reserves and members' equity plus the collective allowance. Adequate capital is defined as 4.00% of total assets and 8.00% of risk-weighted assets. At December 31, 2018, the Credit Union was in compliance with these regulatory requirements.

	2018	2017
Membership shares	**$ 1,141,209**	$ 1,150,416
Reserves and members' equity	**12,762,310**	12,115,466
Collective allowance / Stage 1 & 2 allowance	**271,341**	493,211
Accumulated other comprehensive income	**6,393**	6,393
	$ 14,181,253	$ 13,765,486
Percent of total assets	**9.87%**	10.06%
Percent of total risk-weighted assets	**27.58%**	27.76%

12. Commitments

Loan Commitments

At December 31, 2018, the Credit Union was committed to advance approximately $1,168,400 on loans and mortgages. In addition, lines of credit which had been approved but not used at year-end totaled approximately $14,239,947.

When the above loans and mortgages are advanced, they are subject to the same terms and conditions as loans described in Note 4.

Lease Agreements

The Credit Union leases three units for the Gardiners Road branch office space from College Variety of Kingston Limited. Unit #1 is a five-year lease that renewed July 1, 2018 and expires June 30, 2023. There are two further five-year renewal options. Unit #2 is a five-year lease that renewed July 1, 2018 and expires June 30, 2023. There are two further five-year renewal options. Unit #5 is a five-year lease commencing January 1, 2017 and expires December 31, 2021. There are two further five-year renewal options. In addition to monthly lease payments, the Credit Union pays common costs as calculated by the leaser on a proportionate basis.

The Credit Union also leases one unit for the Division Street branch office space from KCAP Kingslake Inc. The unit is under a five-year lease that commenced June 1, 2016 and expires May 31, 2021. There are two further five-year renewal options. In addition to monthly lease payments, the Credit Union pays common costs as calculated by the leaser on a proportionate basis.

The Credit Union also entered into a lease agreement with Kingston Health Sciences Centre to rent a unit for office space. The unit is a five-year lease that commenced June 1, 2017 and expires May 31, 2022.

The Credit Union also entered into a lease agreement with Directcash Management Inc. to lease three ATM machines at Kingston General Hospital. There is no fixed term associated with the lease of the ATM machines.

The amount of the lease payments including common costs expensed during the year was $241,627 (2017 - $231,355).

12. Commitments (continued)

Service Agreements

The credit union entered into a service agreement for the monitoring and operation of their IT network effective September 1, 2018 until August 31, 2021.

The minimum annual lease and service agreement payments for the next five years and thereafter are as follows:

2019	$ 214,400
2020	216,297
2021	195,729
2022	118,471
2023	109,684
Thereafter	550,222
Total	$ 1,404,803

13. Pension Plan

The Credit Union makes contributions to a pension plan, which is a defined contribution plan, on behalf of its staff. There is also a retiring allowance available to staff who have reached a combination of years of service coupled with a minimum age requirement.

The amount contributed to the pension plan for 2018 was $114,725 (2017 - $110,117). The amount accrued for the retiring allowance was $102,902 (2017 - $48,855). All contributions were made for current service and these have been recognized in net income.

For employees who qualify for Early Retirement Benefits, the employee who meets the criteria is eligible to continue some of their existing benefits with the Co-operators Insurance at the employees cost, and as such there are no post-retirement benefit obligations to the Credit Union.

Employees are eligible to convert their life insurance benefits to a private plan at the employees cost.

14. Related Party Transactions

The Credit Union entered into the following transactions with the Board of Directors and management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management, their spouses and relatives if the relative lives in the home of those described.

Compensation	2018	2017
Salaries and other short-term employee benefits	**$ 546,784**	$ 538,237
Total pension and other post employment benefits	**43,825**	42,310
Director remuneration and expenses	**55,133**	58,944
	$ 645,742	$ 639,491

Loans to related parties	2018	2017
Aggregate value of loans advanced	**$ 1,326,888**	$ 1,433,441
Interest received on loans advanced	**$ 38,127**	$ 40,692
Aggregate value of unadvanced loans	**$ 732,184**	$ 593,194
Total value of lines of credit advanced	**$ 118,816**	$ 207,806
Interest received on lines of credit advanced	**$ 3,917**	$ 5,164
Unused value of lines of credit	**$ 732,184**	$ 593,194

The Credit Union's policy for lending to the Board of Directors and management personnel is that all classes of loans are approved based on the same lending criteria which apply to members, but at preferred rates. None of the loans to restricted parties were impaired at December 31, 2018.

14. Related Party Transactions (continued)

Deposits from related parties		2018		2017
Aggregate value of term and savings deposits	$	290,332	$	229,895
Total interest paid on term and savings deposits	$	2,610	$	830

The Credit Union's policy for receiving deposits from management personnel is that all transactions are approved and deposits accepted on the same terms and conditions which apply to members for each type of deposit. There are no benefits or concessional terms and conditions applicable to management personnel or close family members.

The Credit Unions and Caisses Populaires Act, 1994, requires credit unions to disclose remuneration paid during the year to the officers and employees of a credit union whose total remuneration for the year exceeded $150,000. During the year, there was one employee with remuneration over $150,000. Jon Dessau, CEO, received a salary of $145,600, a bonus of $3,600, and benefits with a monetary value of $8,836.

15. Financial Instrument Classification and Fair Value

The following table represents the carrying amount by classification.

	Available -for-Sale	Loans and Receivables	Other Financial Liabilities
December 31, 2018			
Cash and cash equivalents	**$ -**	**$ 10,299,051**	**$ -**
Investments	**1,046,701**	**23,039,799**	**-**
Loans to members	**-**	**108,744,246**	**-**
Other assets	**-**	**51,982**	**-**
Member deposits	**-**	**-**	**128,826,706**
Other liabilities	**-**	**-**	**699,466**
Dividends and interest rebate payable	**-**	**-**	**287,659**
Membership shares	**-**	**-**	**1,141,209**
	$ 1,046,701	**$ 142,135,078**	**$ 130,955,040**
December 31, 2017			
Cash and cash equivalents	$ -	$ 6,353,435	$ -
Investments	1,117,863	28,110,012	-
Loans to members	-	100,593,354	-
Other assets	-	76,343	-
Member deposits	-	-	122,830,984
Other liabilities	-	-	464,511
Dividends and interest rebate payable	-	-	258,684
Membership shares	-	-	1,150,416
	$ 1,117,863	$ 135,133,144	$ 124,704,595

15. Financial Instrument Classification and Fair Value (continued)

The following table provides an analysis of investments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

• Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;

• Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,

• Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of three levels:

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Central 1 Shares – Class A	**$ -**	**$ 53,396**	**$ -**	**$ 53,396**
Central 1 Shares – Class E	**-**	**294,400**	**-**	**294,400**
Concentra Shares - Class D Preferred	**-**	**250,000**	**-**	**250,000**
CUCO Co-op Class B Investment Shares	**-**	**-**	**6,393**	**6,393**
CU CUMIS Wealth Holdings LP	**-**	**-**	**2**	**2**
Concentra Financial	**-**	**-**	**1,000**	**1,000**
	$ -	**$ 597,796**	**$ 7,395**	**$ 605,191**
December 31, 2017				
Central 1 Shares – Class A	$ -	$ 463,070	$ -	$ 463,070
Central 1 Shares – Class E	-	392,400	-	392,400
Concentra Shares - Class D Preferred	-	250,000	-	250,000
CUCO Co-op Class B Investment Shares	-	-	6,393	6,393
Credential	-	-	5,000	5,000
Concentra Financial	-	-	1,000	1,000
	$ -	$ 1,105,470	$ 12,393	$ 1,117,863

There were no transfers between Level 1, Level 2 or Level 3 for the years ended December 31, 2018 and 2017.

16. Financial Instrument Risk Management

General Objectives, Policies and Processes

The Board of Directors has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Credit Union's finance function. The Board of Directors receives quarterly reports from the Credit Union's Chief Executive Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Credit Risk

Credit risk is the risk of financial loss to the Credit Union if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Credit Union's member loans.

Risk Measurement

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay and value of collateral available to secure the loan.

The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board of Directors ensures that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. The Credit Union's credit risk policies comprise the following:

i) general loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity and loan administration;
ii) loan lending limits including Board of Director limits, schedule of assigned limits and exemptions from aggregate indebtedness;
iii) loan collateral security classifications which set loan classifications, advance ratios and amortization periods;
iv) procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loans renegotiation;
v) loan delinquency controls regarding procedures followed for loans in arrears; and
vi) audit procedures and processes are in existence for the Credit Union's lending activities.

16. Financial Instrument Risk Management (continued)

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and allowance for doubtful loans quarterly.

For the current year, there are no financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

A sizeable portfolio of the loan book is secured by residential property in and around Kingston, Ontario. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio (LVR) cover should the property market be subject to a decline. The risk of losses from loans undertaken is primarily reduced by the nature and quality of the security taken.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Liquidity Risk

Liquidity risk is the risk that the Credit Union may be unable to generate or obtain sufficient cash or its equivalent in a timely and cost effective manner to meet the Credit Union's commitments as they come due.

Risk Measurement

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm-specific and market conditions and the related behaviour of its members and counterparties.

Objectives, Policies and Processes

The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost-effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

Provisions of the Credit Unions and Caisse Populaires Act require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The Credit Union has set a minimum liquidity ratio of 8%.

16. Financial Instrument Risk Management (continued)

The Credit Union manages liquidity risk by:

i) Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
ii) Monitoring the maturity profiles of financial assets and liabilities;
iii) Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
iv) Monitoring the liquidity ratios daily.

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

As at December 31, 2018, the position of the Credit Union is as follows:

	Maximum Exposure
Qualifying liquid assets on hand	
Cash	$ 10,299,051
Liquidity reserve deposit	8,713,784
Central 1 terms and Guaranteed Investment Certificates	-
	19,012,835
Total liquidity requirement	11,497,899
Excess liquidity requirement	$ 7,514,936

The maturities of liabilities are shown below under market risk. The Credit Union has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: interest rate risk, currency risk and equity risk.

Interest Rate Risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Credit Union is exposed to this risk through traditional banking activities, such as deposit taking and lending.

The Credit Union's goal is to manage the interest rate risk of the statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

16. Financial Instrument Risk Management (continued)

Risk Measurement

The Credit Union's risk position is measured monthly. Measurement of risk is based on rates charged and paid.

Objectives, Policies and Procedures

The Credit Union's major source of income is interest margin, the difference between interest earned on investments and member loans and interest paid on member deposits. The objective of asset/liability management is to match interest sensitive assets with interest sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

Schedules of matching and interest rate vulnerability are prepared monthly and monitored by Credit Union management and reported to DICO in accordance with the Credit Union's policy. This policy has been approved by the Board of Directors and filed with the DICO as required by Credit Union regulations. For the year ended December 31, 2018, the Credit Union was in compliance with this policy.

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

Maturity dates	Assets	Yield (%)	Liabilities	Cost (%)	Asset/ Liability Gap
Interest sensitive					
0 - 12 months	$ 23,090,971	7.81	$ 89,599,852	0.67	$ (66,508,881)
2 - 5 years	-		-		-
Interest sensitive	$ 23,090,971		$ 89,599,852		$ (66,508,881)
Non-interest sensitive					
0 - 12 months	$ 14,697,855	3.47	$ 17,869,754	1.41	$ (3,171,899)
2 - 5 years	70,766,433	3.50	21,061,527	1.87	49,704,906
Non-interest sensitive	$ 85,464,288		$ 38,931,281		$ 46,533,007
Total	$108,555,259		$128,531,133		$ (19,975,874)

16. Financial Instrument Risk Management (continued)

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. One of the roles of a credit union is to intermediate between the expectations of borrowers and depositors.

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase or decrease in interest rates of 0.25% could result in a decrease to net income of $105,000. The Credit Union reports positive exposure as zero exposure to interest rate risk and thereby only expresses negative risk to earnings.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Currency Risk

Currency risk relates to the Credit Union operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels.

The Credit Union's foreign exchange risk is related to U.S. dollar member deposits and cash denominated in foreign currencies. Foreign currency changes are continually monitored by the Credit Union.

Risk Measurement

The Credit Union's position is measured weekly. Measurement of risk is based on rates charged to clients as well as currency purchase costs.

Objectives, Policies and Processes

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Credit Union is exposed to this risk through its equity holdings.

Prudent investment limits for each type of financial asset have been established in accordance with regulatory requirements.

Equities are monitored by the Board of Directors and holdings are adjusted following each quarter if the investments are offside of the investment policy.

Kingston Community Credit Union Limited
Schedule 1 - Other Income

For the year ended December 31		2018			2017	
Other Income						
Commissions	$	**351,718**	**7.0 %**	$	309,405	6.6 %
ATM, ICU, direct payment and network fees		**130,341**	**2.7**		126,869	2.8
	$	**482,059**	**9.7 %**	$	436,274	9.4 %

bakertilly

Kingston Community Credit Union Limited
Schedule 2 - Operating Expenses

For the year ended December 31	2018		2017	
Financial				
ATM charges	$ 76,166	1.5 %	$ 61,508	1.3 %
Debit and MasterCard	75,798	1.5	28,699	0.6
RRSP administration costs	6,283	0.1	6,200	0.1
Service charges and exchange	4,410	0.1	27,519	0.6
	$ 162,657	3.2 %	$ 123,926	2.6 %
Members' Security Insurance				
DICO insurance	$ 110,516	2.2 %	$ 91,930	2.0 %
Occupancy Costs				
Building and fire insurance	$ 22,683	0.4 %	$ 22,586	0.5 %
Maintenance and repairs	59,409	1.2	53,515	1.2
Municipal taxes	29,257	0.6	29,149	0.6
Rent	241,627	4.8	231,355	5.0
Security systems	23,907	0.5	28,565	0.6
Utilities	34,379	0.7	34,505	0.7
	$ 411,262	8.2 %	$ 399,675	8.6 %
Other Administrative				
Bond insurance	$ 31,656	0.6 %	$ 39,336	0.8 %
Data processing	353,926	7.0	324,419	7.0
Education and publicity	347,615	6.9	290,386	6.2
FSCO assessment	1,302	-	1,340	-
Meeting and travel expenses	29,659	0.6	31,453	0.7
Member dues	31,250	0.6	25,265	0.5
Miscellaneous	230,761	4.6	185,818	4.0
Office supplies and expense	190,506	3.8	161,958	3.5
Professional fees	202,117	4.0	182,934	3.9
	$ 1,418,792	28.1 %	$ 1,242,909	26.6 %
Remuneration to Management and Staff				
Employee benefits	$ 519,885	10.3 %	$ 459,079	9.9 %
Board honoraria and travel	55,133	1.1	58,944	1.3
Salaries	2,094,413	41.5	1,929,723	41.5
	$ 2,669,431	52.9 %	$ 2,447,746	52.7 %