

**INGLEWOOD SAVINGS AND  
CREDIT UNION LIMITED**

**CALGARY, ALBERTA**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED OCTOBER 31, 2016**

**INDEPENDENT AUDITORS' REPORT**

To the Members of Inglewood Savings and Credit Union Limited

We have audited the accompanying financial statements of Inglewood Savings and Credit Union Limited, which comprise the statement of financial position as at October 31, 2016 and the statements of net income and comprehensive income, changes in members' equity, and cash flows for the year then ended, and the related notes, which comprise 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.

*Auditors' 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 controls 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 controls. 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 Inglewood Savings and Credit Union Limited as at October 31, 2016 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.



Hawkings Epp Dumont LLP  
Chartered Accountants

Edmonton, Alberta  
January 19, 2017

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**MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL REPORTING**

To the Members of Inglewood Savings and Credit Union Limited

Management has the responsibility for preparing the accompanying financial statements and ensuring that all information in the Annual Report is consistent with these statements. This responsibility includes selecting appropriate accounting principles and making objective judgments and estimates in accordance with International Financial Reporting Standards and the requirements of the *Credit Union Act*.

In discharging its responsibility for the integrity and fairness of the financial statements, as well as for the accounting systems from which they are derived, management maintains the necessary systems of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The ultimate responsibility to members for the financial statements lies with the Board of Directors. The Board appoints an Audit Committee to review the financial statements with management in detail and to report to the Board prior to its approval to publish the financial statements.

The Board appoints external auditors to audit the financial statements and to meet with both the Audit Committee and management to review their findings. The external auditors' report directly to the members. The external auditors' have full and free access to the Audit Committee to discuss their audit, as well as their findings concerning the integrity of the Credit Union's financial reporting and the adequacy of its systems of internal controls.

Calgary, Alberta  
January 19, 2017



Melanie Anderson  
General Manager


**INGLEWOOD SAVINGS AND CREDIT UNION LIMITED**

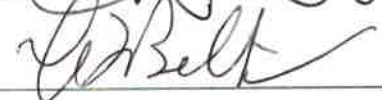
**STATEMENT OF FINANCIAL POSITION**

AS AT OCTOBER 31, 2016

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 952,377	\$ 1,868,466
Investments (Note 5)	4,734,677	1,933,697
Income taxes receivable	1,202	1,129
Member loans receivable (Note 7)	16,484,197	17,242,592
Other assets	27,231	15,411
Deferred income taxes (Note 10)	49,550	57,322
Property and equipment (Note 8)	1,549,863	1,578,831
Intangible assets (Note 9)	<u>36,732</u>	<u>37,025</u>
	<u>\$ 23,835,829</u>	<u>\$ 22,734,473</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 39,886	\$ 60,407
Term loan (Note 6)	-	300,293
Member deposits (Note 11)	<u>22,174,942</u>	<u>20,786,015</u>
	<u>22,214,828</u>	<u>21,146,715</u>
<b>MEMBERS' EQUITY</b>		
Allocation distributable	10,059	10,000
Member shares (Note 12)	194,109	195,559
Retained earnings	<u>1,416,833</u>	<u>1,382,199</u>
	<u>1,621,001</u>	<u>1,587,758</u>
	<u>\$ 23,835,829</u>	<u>\$ 22,734,473</u>

ON BEHALF OF THE BOARD:

  
 \_\_\_\_\_ Director

  
 \_\_\_\_\_ Director

**INGLEWOOD SAVINGS AND CREDIT UNION LIMITED**  
**STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED OCTOBER 31, 2016**

	<u>2016</u>	<u>2015</u>
<b>INTEREST INCOME</b>		
Interest from member loans	\$ 624,941	\$ 672,442
Investment income	<u>40,860</u>	<u>31,274</u>
	<u>665,801</u>	<u>703,716</u>
<b>INTEREST EXPENSE</b>		
Interest on member deposits	116,952	132,421
Interest on financing	<u>1,047</u>	<u>1,232</u>
	<u>117,999</u>	<u>133,653</u>
<b>NET INTEREST INCOME</b>	<b>547,802</b>	<b>570,063</b>
<b>OTHER INCOME</b>		
Service charges	66,107	63,084
Loan related charges	20,398	18,409
Insurance commission	4,025	4,793
Foreign exchange	8,150	4,134
Other fees and charges	<u>4,101</u>	<u>4,997</u>
<b>OPERATING INCOME</b>	<b>650,583</b>	<b>665,480</b>
Operating expenses (Schedule 1)	<u>598,177</u>	<u>599,825</u>
<b>INCOME BEFORE PATRONAGE REBATE AND INCOME TAXES</b>	<b>52,406</b>	<b>65,655</b>
Patronage rebate	<u>9,000</u>	<u>13,000</u>
<b>INCOME BEFORE INCOME TAXES</b>	<b>43,406</b>	<b>52,655</b>
<b>INCOME TAXES (NOTE 10)</b>		
Deferred	<u>7,772</u>	<u>9,918</u>
<b>NET INCOME AND COMPREHENSIVE INCOME</b>	<b><u>\$ 35,634</u></b>	<b><u>\$ 42,737</u></b>

**INGLEWOOD SAVINGS AND CREDIT UNION LIMITED**

**STATEMENT OF CHANGES IN MEMBERS' EQUITY**

**FOR THE YEAR ENDED OCTOBER 31, 2016**

	<u>Allocation</u>	<u>Member</u>	<u>Retained</u>	<u>Total</u>
	<u>Distributable</u>	<u>Shares</u>	<u>Earnings</u>	
<b>BALANCE, OCTOBER 31, 2015</b>	<b>\$ 10,000</b>	<b>\$ 195,559</b>	<b>\$ 1,382,199</b>	<b>\$ 1,587,758</b>
Net income and comprehensive income	-	-	35,634	35,634
Patronage payable to member shares	9,000	-	-	9,000
Member share dividends	1,000	-	(1,000)	-
Previous year's patronage paid through issuance of member shares	(9,941)	9,941	-	-
Issuance of member shares	-	775	-	775
Redemption of member shares	-	(12,166)	-	(12,166)
<b>BALANCE, OCTOBER 31, 2016</b>	<b><u>\$ 10,059</u></b>	<b><u>\$ 194,109</u></b>	<b><u>\$ 1,416,833</u></b>	<b><u>\$ 1,621,001</u></b>

**INGLEWOOD SAVINGS AND CREDIT UNION LIMITED**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED OCTOBER 31, 2016**

	<u>2016</u>	<u>2015</u>
<b>CASH PROVIDED BY (USED FOR) THE FOLLOWING ACTIVITIES:</b>		
<b>Operating Activities</b>		
Interest received from member loans	\$ 630,194	\$ 659,157
Interest received from investments	25,546	20,724
Dividends received	14,334	13,265
Other income received	102,781	95,417
Interest paid to members	(126,096)	(133,329)
Income taxes received (paid)	(73)	424
Net operating expenses paid	(587,704)	(527,861)
Net change in member loans receivable	753,142	(772,428)
Net change in investments	(2,800,000)	982,700
Net change in member deposits	<u>1,398,071</u>	<u>(859,059)</u>
	<u>(589,805)</u>	<u>(520,990)</u>
<b>Investing Activities</b>		
Purchase of property and equipment	(2,048)	(4,810)
Purchase of intangible assets	<u>(10,505)</u>	<u>(43,760)</u>
	<u>(12,553)</u>	<u>(48,570)</u>
<b>Financing Activities</b>		
Issue of member shares	775	875
Interest paid on financing	(1,340)	(939)
Common share dividends paid	(1,000)	(2,000)
Redemption of member shares	(12,166)	(7,334)
Term loan proceeds (repayment)	<u>(300,000)</u>	<u>300,000</u>
	<u>(313,731)</u>	<u>290,602</u>
<b>NET CASH AND CASH EQUIVALENTS INCREASE (DECREASE)</b>	<b>(916,089)</b>	<b>(278,958)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b><u>1,868,466</u></b>	<b><u>2,147,424</u></b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b><u>\$ 952,377</u></b>	<b><u>\$ 1,868,466</u></b>

# INGLEWOOD SAVINGS AND CREDIT UNION LIMITED

## NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2016

### 1. REPORTING ENTITY

Inglewood Savings and Credit Union Limited (the "Credit Union") is incorporated under the *Credit Union Act* of the Province of Alberta and operations include one branch in Calgary.

The Credit Union Deposit Guarantee Corporation (the "Corporation"), a Provincial Corporation, guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The *Credit Union Act* provides that the Province will ensure that the Corporation carries out this obligation.

The Credit Union's registered office is located at 1328 - 9th Avenue SE, Calgary, Alberta, T2G 0T3.

### 2. BASIS OF PRESENTATION

#### ***Statement of Compliance***

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

The financial statements were approved and authorized for issue by the Board of Directors on January 19, 2017.

#### ***Basis of Measurement***

The financial statements have been prepared using the historical cost basis unless otherwise noted in the significant accounting policies.

#### ***Functional Currency***

The financial statements are presented in Canadian dollars, which is the Credit Union's functional currency.

#### ***Use of Estimates and Judgments***

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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 and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in Notes 3 and 4.



# INGLEWOOD SAVINGS AND CREDIT UNION LIMITED

## NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are summarized below. These accounting policies have been applied consistently to all periods presented in these financial statements.

#### ***Cash and cash equivalents***

Cash and cash equivalents consist of cash on hand and operating accounts with Credit Union Central Alberta ("Central").

#### ***Investments***

Investments are initially measured at fair value and subsequently accounted for depending on their classification as either held-to-maturity or available-for-sale financial assets.

#### ***Member loans receivable***

Loans are measured initially at fair value plus transaction costs, and subsequently at amortized cost using the effective interest method, less any impairment losses. All loans are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables.

#### ***Allowance for loan impairment***

The Credit Union establishes an allowance for impairment which is reviewed at least annually. Allowance for loan impairment represents individual and collective provisions established as a result of reviews of individual loans and groups of loans.

The Credit Union records an individual allowance based on management's regular review and evaluation of individual loans and is based upon management's best estimate of the present value of the cash flows expected to be received, discounted at the loan's original effective interest rate. Impairment may be measured on the basis of the instrument's fair value using an observable market price. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The Credit Union records a collective allowance for loans with similar credit risk characteristics, that have not been individually assessed as impaired, when objective evidence of impairment within the groups of loans exists but the individually impaired loans cannot be identified. In assessing the need for collective allowances, management considers factors such as credit quality and portfolio size. The Credit Union estimates the collective allowance for impairment using a formula based on its historical loss experience for similar groups of loans in similar economic circumstances. As management identifies individually impaired loans, it assigns an individual allowance for impairment to that loan and adjusts the collective allowance accordingly. 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 loss was recognized, the previously recognized impairment loss is reversed either directly or by adjusting an allowance account. Write offs are generally recorded after all reasonable restructuring or collection efforts have taken place and there is no realistic prospect of recovery.

INGLEWOOD SAVINGS AND CREDIT UNION LIMITED

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Impairment of financial assets*

The Credit Union assesses, at each balance sheet date, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are recorded only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and the loss event(s) has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by the borrower, restructuring of a loan or advance by the Credit Union on non-market terms that the Credit Union would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as conditions that correlate with defaults in the group.

*Property and equipment*

Property and equipment are measured at cost less accumulated depreciation and impairment losses with the exception of land which is measured at cost and is not depreciated. Depreciation of other items of property and equipment are calculated at the following annual rates on a straight-line basis:

Computer equipment	3 - 7 years
Furniture and equipment	3 - 15 years
Security equipment	10 years
Parking lot	12 years
Building	50 years

Gains and losses on disposal are recorded in the statement of net income in the year of disposal.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

*Intangible assets*

Intangible assets consist of computer software which are not integral to the computer hardware owned by the Credit Union. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment (losses). Software is amortized on a straight-line basis over its estimated useful life of 3 - 5 years.

*Impairment of non-financial assets*

Impairment reviews are performed when there are indicators that the recoverable amount of an asset may be less than the carrying value. The recoverable amount is determined as the higher of an asset's fair value less cost to sell and value in use. Impairment is recognized in the statement of comprehensive income, when there is an indication that an asset may be impaired. In the event that the value of previously impaired assets recovers, the previously recognized impairment loss is recovered in the statement of net income at that time.

INGLEWOOD SAVINGS AND CREDIT UNION LIMITED

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***Accounts payable***

Accounts payable 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, which approximates fair value due to the short-term nature of these liabilities.

***Financial liabilities***

Member deposits are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument, and subsequently measured at amortized cost using the effective interest rate method.

***Member shares***

Member shares are classified as liabilities or members' equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union Board of Directors are classified as equity.

***Revenue recognition***

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

Investment income is recorded using the effective interest rate method, except as it relates to adjustments in the rates received from Central, which are recorded when the payment is received.

Dividend income is recognized when the right to receive the dividend is established. Dividends are included in investment income.

Commissions, service charges and other income are recognized as income when the related service is provided or entitlement to receive income is earned.

***Foreign currency translation***

Transaction amounts denominated in foreign currencies are translated into the Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect exchange rates at the statement of financial position date. Translation gains and losses are included in other income.

***Patronage refund***

Patronage refunds are recognized in income when circumstances indicate the Credit Union has a constructive obligation and has little or no discretion to avoid, and it can make a reasonable estimate of the amount required to settle the obligation.

# INGLEWOOD SAVINGS AND CREDIT UNION LIMITED

## NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *Financial Instruments*

All financial instruments are initially recognized on the statement of financial position at fair value through acquisition. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit and loss, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. During the year there has been no reclassification of financial instruments.

The financial instruments classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized in income. The Credit Union's financial instruments classified as fair value through profit and loss include cash and cash equivalents.

Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time. The Credit Union's shares in Credit Union Central of Alberta and Concentra Financial Services Association have been classified as available-for-sale.

The financial assets classified as loans and receivables are initially measured at fair value, then subsequently carried at amortized cost using the effective interest rate. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Credit Union's financial instruments classified as loans and receivables include member loans receivable.

The financial assets classified as held-to-maturity are initially measured at fair value, then subsequently carried at amortized cost. Held-to-maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity dates that the Credit Union has the positive intention and ability to hold until its maturity date. The Credit Union's financial instruments classified as held-to-maturity include term deposit investments.

Financial instruments classified as other financial liabilities include accounts payable and member deposits. Other financial liabilities are measured at fair value, then subsequently carried at amortized cost.

De-recognition of a financial asset occurs when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. If the Credit Union has neither transferred nor retained substantially all the risks and rewards of the transferred financial asset, it assesses whether it has retained control over the transfer asset. If control has been retained, the Credit Union recognizes the transferred asset to the extent of its continuing involvement. If control has not been retained, the Credit Union derecognizes the transferred asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognized in comprehensive income.

INGLEWOOD SAVINGS AND CREDIT UNION LIMITED

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2016

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Income taxes*

Tax expense for the period comprises current and deferred income tax.

Current income tax is the expected tax payable or receivable on the taxable income or loss 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 taxes are provided for using the liability method. Under this method, temporary differences are recorded using tax rates that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the corresponding taxes will be paid or refunded. Temporary differences are comprised primarily of differences between the carrying amounts and the income tax bases of the Credit Union's property and equipment.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

*Future IFRS standards*

*IFRS 9 Financial Instruments*, addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss ("FVTPL") or at fair value through other comprehensive income. When such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

This standard is required to be applied for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Credit Union is currently assessing the impact of this standard.

# INGLEWOOD SAVINGS AND CREDIT UNION LIMITED

## NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2016

### 4. USE OF ESTIMATES AND KEY JUDGMENTS

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses during the reporting year. Accordingly, actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if it affects only that period or in the period of revision and future periods if the revision affects both current and future years.

The most significant uses of judgments, estimates and assumptions are as follows:

#### ***Allowance for Impaired Loans***

The individual allowance component of the total allowance for impairment applies to financial assets evaluated individually for impairment. In particular, management judgment is required in the estimate of the amount and timing of the future cash flows the Credit Union expects to receive from these specific loans. These estimates are based on a number of factors, including the net realizable value of any underlying collateral.

The collective allowance component covers credit losses in portfolios of loans with similar credit risk characteristics when there is objective evidence to suggest that a loss has been incurred but the individual impaired items cannot yet be identified. In assessing the collective allowance, management considers factors such as credit quality, historical loss experience and current economic conditions.

#### ***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, are disclosed in Note 18.

#### ***Property and Equipment***

Depreciation methods, useful lives and residual values require estimation and are reviewed annually and adjusted if appropriate.

#### ***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 an adjustment will be made, the Credit Union records its best estimate of the tax liability including the related interest and penalties. 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.

**INGLEWOOD SAVINGS AND CREDIT UNION LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

**OCTOBER 31, 2016**

**5. INVESTMENTS**

	<u>2016</u>	<u>2015</u>
<b>Credit Union Central Alberta</b>		
Term deposits	\$ 4,500,000	\$ 1,700,000
Shares	232,300	232,300
<b>Other</b>		
Concentra Financial Services Association shares	<u>1,237</u>	<u>1,237</u>
	<b>4,733,537</b>	1,933,537
<b>Accrued interest</b>	<u>1,140</u>	<u>160</u>
	<b><u>\$ 4,734,677</u></b>	<b><u>\$ 1,933,697</u></b>

All term deposits mature within one year with interest rates ranging from 0.64% to 0.74%. As required by the *Credit Union Act*, the Credit Union holds investments in Central to maintain its statutory liquidity requirements.

There is no separately quoted market value of the Central shares or the Concentra Financial Services Association 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. Therefore, they are recorded at cost.

**6. OPERATING DEMAND LOAN AND TERM LOAN**

The Credit Union has an approved revolving operating demand loan with Central which is secured by a general assignment of book debts and assignment of investments and deposits held at Central. The authorized limit on the revolving operating demand loan is \$200,000. The demand loan bears interest at Central's prime rate less .5%. At October 31, 2016, the Credit Union had nil outstanding on its operating demand loan (2015 - nil).

The Credit Union has an approved term loan with Central which is secured by a general assignment of book debts and assignment of investments and deposits held at Central. The authorized limit on the term loan is \$300,000. The term loan bears interest at (i) Central's prime rate plus or minus Central's applicable discount or margin rates in effect from time to time, or (ii) at the option of the Credit Union for terms of more than 30 days at a fixed rate equal to Central's money market deposit rate or the equivalent paid fixed swap rate for the term plus or minus the applicable discount or margin rate. At October 31, 2016, the Credit Union had nil outstanding on its term loan (2015 - 300,000).

**INGLEWOOD SAVINGS AND CREDIT UNION LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

**OCTOBER 31, 2016**

**7. MEMBER LOANS RECEIVABLE**

	<u>Principal Performing</u>	<u>Individual Allowance</u>	<u>Collective Allowance</u>	<u>2016 Net</u>
Consumer loans	\$ 1,053,244	\$ -	\$ -	\$ 1,053,244
Residential mortgages	11,478,868	-	-	11,478,868
Commercial loans	<u>3,926,344</u>	<u>-</u>	<u>-</u>	<u>3,926,344</u>
	16,458,456	-	-	16,458,456
Accrued interest	<u>25,741</u>	<u>-</u>	<u>-</u>	<u>25,741</u>
	<u>\$ 16,484,197</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,484,197</u>
	<u>Principal Performing</u>	<u>Individual Allowance</u>	<u>Collective Allowance</u>	<u>2015 Net</u>
Consumer loans	\$ 1,959,274	\$ -	\$ -	\$ 1,959,274
Residential mortgages	11,678,066	-	-	11,678,066
Commercial loans	<u>3,574,258</u>	<u>-</u>	<u>-</u>	<u>3,574,258</u>
	17,211,598	-	-	17,211,598
Accrued interest	<u>30,994</u>	<u>-</u>	<u>-</u>	<u>30,994</u>
	<u>\$ 17,242,592</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,242,592</u>



**INGLEWOOD SAVINGS AND CREDIT UNION LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

**OCTOBER 31, 2016**

**7. MEMBER LOANS RECEIVABLE (CONTINUED)**

***Loans Past Due But Not Impaired***

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The table that follows presents the carrying value of loans at year-end that are past due but not classified as impaired because they are either i) less than 90 days past due, or ii) fully secured and collection efforts are reasonably expected to result in repayment.

	<u>1-30</u> <u>Days</u>	<u>31-60</u> <u>Days</u>	<u>61-90</u> <u>Days</u>	<u>91 Days and</u> <u>Greater</u>	<u>2016</u> <u>Total</u>
Consumer loans	\$ -	\$ -	\$ -	\$ -	\$ -
Residential mortgages	-	-	-	230,692	230,692
Commercial loans	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 230,692</u>	<u>\$ 230,692</u>

	<u>1-30</u> <u>Days</u>	<u>31-60</u> <u>Days</u>	<u>61-90</u> <u>Days</u>	<u>91 Days and</u> <u>Greater</u>	<u>2015</u> <u>Total</u>
Consumer loans	\$ -	\$ -	\$ -	\$ -	\$ -
Residential mortgages	-	-	-	-	-
Commercial loans	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

***Credit Quality of Loans***

The Credit Union holds collateral against loans to members in the form of interests over property, other securities over assets, and guarantees. It is not practical to value all collateral as at the balance sheet date due to the variety of assets and conditions.

***Concentration of Risk***

The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments. The majority of loans to members are with members located in and around Calgary, Alberta. A significant portion of the Credit Union's loan portfolio is secured by residential property in and around Calgary, Alberta. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio coverage should the property market be subject to a decline. The risk of loss from loans undertaken is primarily reduced by the nature and quality of the security taken.

There are four members with loans that exceed 3% of total assets as at October 31, 2016. These loans account for 21% of total loans receivable at year end.

INGLEWOOD SAVINGS AND CREDIT UNION LIMITED

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2016

8. PROPERTY AND EQUIPMENT

	<u>Land</u>	<u>Buildings</u>	<u>Parking Lot</u>	<u>Furniture and Equipment</u>	<u>Security Equipment</u>	<u>Computer Equipment</u>	<u>Total</u>
<b>COST:</b>							
Balance at October 31, 2015	\$ 815,000	\$ 785,000	\$ 19,610	\$ 106,873	\$ 28,699	\$ 46,463	\$ 1,801,645
Additions	-	-	-	-	2,048	-	2,048
<b>Balance at October 31, 2016</b>	<b>\$ 815,000</b>	<b>\$ 785,000</b>	<b>\$ 19,610</b>	<b>\$ 106,873</b>	<b>\$ 30,747</b>	<b>\$ 46,463</b>	<b>\$ 1,803,693</b>
<b>ACCUMULATED DEPRECIATION:</b>							
Balance at October 31, 2015	\$ -	\$ 91,760	\$ 13,762	\$ 62,609	\$ 16,749	\$ 37,934	\$ 222,814
Depreciation expense	-	15,696	1,632	7,568	3,080	3,040	31,016
<b>Balance at October 31, 2016</b>	<b>\$ -</b>	<b>\$ 107,456</b>	<b>\$ 15,394</b>	<b>\$ 70,177</b>	<b>\$ 19,829</b>	<b>\$ 40,974</b>	<b>\$ 253,830</b>
<b>NET BOOK VALUE:</b>							
October 31, 2015	\$ 815,000	\$ 693,240	\$ 5,848	\$ 44,264	\$ 11,950	\$ 8,529	\$ 1,578,831
<b>October 31, 2016</b>	<b>\$ 815,000</b>	<b>\$ 677,544</b>	<b>\$ 4,216</b>	<b>\$ 36,696</b>	<b>\$ 10,918</b>	<b>\$ 5,489</b>	<b>\$ 1,549,863</b>

**INGLEWOOD SAVINGS AND CREDIT UNION LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

**OCTOBER 31, 2016**

**9. INTANGIBLE ASSETS**

	<u>2016</u>	<u>2015</u>
<b>COST:</b>		
Balance, Beginning of Year	\$ 94,573	\$ 50,813
Additions	<u>10,505</u>	<u>43,760</u>
Balance, End of Year	<u>105,078</u>	<u>94,573</u>
<b>ACCUMULATED DEPRECIATION:</b>		
Balance, Beginning of Year	57,548	50,813
Amortization expense	<u>10,798</u>	<u>6,735</u>
Balance, End of Year	<u>68,346</u>	<u>57,548</u>
<b>NET BOOK VALUE</b>	<u>\$ 36,732</u>	<u>\$ 37,025</u>

**10. INCOME TAXES**

	<u>2016</u>	<u>2015</u>
Expected income tax expense at statutory rates (13.6%)	\$ 5,894	\$ 7,372
Use of non-capital loss carryforwards	(2,573)	-
Adjustments for tax treatment of property and equipment, and intangible assets.	<u>4,451</u>	<u>2,546</u>
Total income tax expense	<u>\$ 7,772</u>	<u>\$ 9,918</u>

The deferred income tax asset recognized is attributable to the following:

	<u>2016</u>	<u>2015</u>
Property and equipment, and intangible assets	\$ 44,207	\$ 49,406
Non-capital losses	<u>5,343</u>	<u>7,916</u>
	<u>\$ 49,550</u>	<u>\$ 57,322</u>

**INGLEWOOD SAVINGS AND CREDIT UNION LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

OCTOBER 31, 2016

**11. MEMBER DEPOSITS**

	<u>2016</u>	<u>2015</u>
Demand deposits	\$ 14,178,647	\$ 12,330,791
Term deposits	4,222,436	4,689,387
Registered Retirement Savings Plans	2,555,293	2,543,057
Registered Retirement Income Funds	<u>1,168,096</u>	<u>1,163,166</u>
	22,124,472	20,726,401
Accrued interest payable	<u>50,470</u>	<u>59,614</u>
	<u>\$ 22,174,942</u>	<u>\$ 20,786,015</u>

The repayment of all member deposits, including accrued interest, is guaranteed by Credit Union Deposit Guarantee Corporation for which the Credit Union pays a deposit guarantee assessment fee.

Concentra Financial Services Association acts as the trustee of the Registered Retirement Savings Plan and the Registered Retirement Income Fund offered to members. Under an agreement, Concentra Financial Services Association deposits the contributions to the plans, and the interest earned on them, in the Credit Union.

***Concentration of Risk***

The Credit Union has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments. The majority of member deposits are with members located in and around Calgary, Alberta.

There are four members with deposits that exceeded 3% of total assets as at October 31, 2016. These deposits account for 16% of total member deposits at year end.

# INGLEWOOD SAVINGS AND CREDIT UNION LIMITED

## NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2016

### 12. MEMBER SHARES

The *Credit Union Act* identifies a class of equity shares, known as common shares, having the following characteristics:

- i) An unlimited number may be issued;
- ii) A par value of \$1, but fractional shares may be issued;
- iii) Transferable only in restricted circumstances;
- iv) Non-assessable; and
- v) Redemption of common shares is at par value and is at the discretion of the Credit Union, subject to the restrictions contained in the *Credit Union Act* and Regulations.

A member must purchase at least 25 shares to retain membership in the Credit Union.

Common shares are "at risk" capital and are not guaranteed by the Credit Union Deposit Guarantee Corporation.

### 13. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

#### *Credit Commitments*

In the normal course of business, the Credit Union enters into various commitments to meet the credit requirements of its members. These include credit commitments and letters of guarantee which are not included in the balance sheet. The credit commitments are identified in the credit risk area of Note 15.

#### *Credit Union Deposit Guarantee Corporation*

The Credit Union Deposit Guarantee Corporation (the "Corporation") is a deposit insurance corporation. By legal obligation under the *Credit Union Act* of Alberta, the Corporation protects the savings and deposits of all Credit Union members in every credit union within Alberta. By legislation, the Credit Union pays a quarterly levy to the Corporation based on a percentage of member deposits.

**INGLEWOOD SAVINGS AND CREDIT UNION LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

OCTOBER 31, 2016

**14. RELATED PARTY TRANSACTIONS**

***Key Management Personnel***

Key management personnel ("KMP") of the Credit Union are those persons having authority and responsibility for planning, directing, and controlling the activities of the Credit Union, directly or indirectly. KMP have been taken to comprise directors and members of management responsible for the day-to-day financial and operational management of the Credit Union.

***Loans***

Loans advanced to KMP are maintained under the same terms and conditions as loans to other members. There are no loans to KMP that are impaired at year end.

The total value of member loans receivable to KMP are as follows:

	<u>2016</u>	<u>2015</u>
Total loans advanced	\$ 2,959,038	\$ 2,496,081
Total lines of credit advanced	344,904	299,768
Unused value of lines of credit	<u>429,596</u>	<u>476,732</u>
	<u>\$ 3,733,538</u>	<u>\$ 3,272,581</u>

***Deposits***

Deposit accounts held by KMP are maintained under the same terms and conditions as deposits of other members.

The total value of member deposits from KMP are as follows:

	<u>2016</u>	<u>2015</u>
Demand deposits	\$ 1,915,167	\$ 1,496,990
Term deposits	612,760	526,507
Registered plans	<u>1,161,139</u>	<u>1,054,073</u>
	<u>\$ 3,689,066</u>	<u>\$ 3,077,570</u>

***Member Shares***

The total member shares held by KMP are as follows:

	<u>2016</u>	<u>2015</u>
Member shares	<u>\$ 8,138</u>	<u>\$ 7,349</u>

INGLEWOOD SAVINGS AND CREDIT UNION LIMITED

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2016

14. RELATED PARTY TRANSACTIONS (CONTINUED)

*Income and Expense*

Total income and expense from KMP loans and deposits are as follows:

	<u>2016</u>	<u>2015</u>
Interest and other revenue earned on loans	<u>\$ 132,781</u>	<u>\$ 124,332</u>
Interest on deposits	<u>\$ 27,657</u>	<u>\$ 25,345</u>

*Remuneration*

Total compensation of KMP is as follows:

	<u>2016</u>	<u>2015</u>
Salaries and short-term benefits	<u>\$ 210,015</u>	<u>\$ 205,664</u>

There was no compensation for post employment benefits, long-term benefits, termination benefits, or share-based compensation during 2016 or 2015.

Remuneration paid to Directors totaled \$1,360 (2015 - \$1,170) with a range from \$30 - \$170 (2015 - \$10 to \$100) and an average of \$105 (2015 - \$130).

# INGLEWOOD SAVINGS AND CREDIT UNION LIMITED

## NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2016

### 15. RISK MANAGEMENT

The Credit Union's risk management policies are designed to identify and analyze risk, to set appropriate risk limits and controls, and to monitor the risk and adherence to limits by means of reliable and up-to-date information systems. The Credit Union follows an enterprise risk management framework, which involves identifying particular events or circumstances relevant to its objectives, assessing them in terms of profitability and magnitude, determining a response strategy and monitoring progress. The Credit Union regularly reviews its risk management policies and systems to take account of changes in markets and products.

Risk management is carried out by management who reports to the Board. The Board provides written principles for risk tolerance and overall risk management. Management reports to the Board on compliance with the risk management policies of the Credit Union.

Financial instruments comprise the majority of the Credit Union's assets and liabilities. The Credit Union accepts deposits from members at both fixed and floating rates for various periods. The Credit Union seeks to earn an interest rate margin by investing these funds in high quality financial instruments – principally loans and mortgages. The primary types of financial risk that arise from this activity are credit risk, liquidity risk and market risk which is comprised of interest rate risk.

The following table describes the significant financial instrument activity undertaken by the Credit Union, the risks associated with such activities, and the types of methods used in managing those risks.

<b>Activity</b>	<b>Risks</b>	<b>Method of managing risks</b>
Investments	Sensitivity to changes in interest rates, liquidity and credit risk	Asset-liability matching, monitoring of investment restrictions and monitoring of counterparty risk
Member loans	Sensitivity to changes in interest rates, liquidity and credit risk	Asset-liability matching and monitoring of counterparty risk
Member deposits	Sensitivity to changes in interest rates, liquidity and credit risk	Asset-liability matching

#### ***Interest rate risk***

Cash flow interest rate risk is the risk that the future cash flows of the Credit Union's financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in prevailing market interest rates. Financial margin reported in the statement of comprehensive income may increase or decrease in response to changes in market interest rates. Accordingly, the Credit Union sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored by management and reported to the Board.



**INGLEWOOD SAVINGS AND CREDIT UNION LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

OCTOBER 31, 2016

**15. RISK MANAGEMENT (CONTINUED)**

To manage the repricing of asset and liability mismatch opportunities the Credit Union will undertake campaigns to procure deposits or loans that re-price/mature within a specific time period, buy/sell assets that reprice/mature within a specific time period and may purchase derivative instruments. These decisions are based on economic conditions, member behaviour, capital and liquidity levels and compliance with Credit Union policy.

Other types of interest rate risk may involve basis risk, the risk of loss from changes in the relationship of interest rates which may not have identical characteristics (for example the difference between prime rate and variable rate loans and variable rate deposits) and prepayment risk (the risk of loss of interest income arising from early repayment of fixed rate mortgages and loans). These risks are also monitored on a regular basis and reported to the Board.

Interest rate risk is measured by:

- (a) Static gap analysis which aggregates cash flows into repricing periods based on the maturity dates of the assets and liabilities.
- (b) Income simulation models that use current interest revenue, current interest expense and market values. These models incorporate assumptions about pricing strategies, growth, volume, new business and interest rates.
- (c) Market value of portfolio equity determines the present value of all assets and liabilities. This provides an estimate of the equity value of the Credit Union.

The following schedule shows the Credit Union's sensitivity to interest rate changes as at October 31, 2016. Fixed rate assets and fixed rate liabilities are reported based on scheduled repayments. Variable rate assets and liabilities that are linked to prime rate are reported in the floating rate category. Non-interest bearing assets and non-interest bearing liabilities are reported in the non-rate sensitive category.

As At October 31, 2016

	<u>Floating Rate</u>	<u>Within 1 Year</u>	<u>1 to 5 Years</u>	<u>Non-Rate Sensitive</u>	<u>Total</u>
<b>Assets</b>					
Cash	\$ 783,069	\$ -	\$ -	\$ 169,308	\$ 952,377
<i>Effective Interest Rate</i>	0.23%	0.00%	0.00%	0.00%	0.19%
Investments	-	4,500,000	-	234,677	4,734,677
<i>Effective Interest Rate</i>	-%	0.69%	0.00%	0.00%	0.65%
Member loans	2,822,143	4,950,510	8,685,803	25,741	16,484,197
<i>Effective Interest Rate</i>	4.26%	4.03%	3.43%	0.00%	3.75%
Other	-	-	-	1,664,578	1,664,578
	<u>3,605,212</u>	<u>9,450,510</u>	<u>8,685,803</u>	<u>2,094,304</u>	<u>23,835,829</u>
<b>Liabilities</b>					
Member deposits	8,377,179	4,914,689	2,580,586	6,302,488	22,174,942
<i>Effective Interest Rate</i>	0.27%	0.93%	1.81%	0.00%	0.52%
Other	-	-	-	39,886	39,886
Equity	-	-	-	1,621,001	1,621,001
	<u>8,377,179</u>	<u>4,914,689</u>	<u>2,580,586</u>	<u>7,963,375</u>	<u>23,835,829</u>
<b>Net mismatch</b>	<u>\$ (4,771,967)</u>	<u>\$ 4,535,821</u>	<u>\$ 6,105,217</u>	<u>\$ (5,869,071)</u>	<u>\$ -</u>

As At October 31, 2015

<b>Net mismatch</b>	<u>\$ (3,162,987)</u>	<u>\$ 625,716</u>	<u>\$ 7,646,224</u>	<u>\$ (5,108,953)</u>	<u>\$ -</u>
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# INGLEWOOD SAVINGS AND CREDIT UNION LIMITED

## NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2016

### 15. RISK MANAGEMENT (CONTINUED)

#### *Credit risk*

Credit risk is the risk that financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Credit Union arising from member loans and investments. The primary credit risk arising from loans is the possibility that members will be unable or unwilling to repay some or all of the principal and interest on their loans. Allowances for credit losses are made for losses that have been incurred at the statement of financial position date.

Management of credit risk is an integral part of the Credit Union's activities. Management carefully monitors and manages the Credit Union's exposure to credit risk by a combination of methods. Credit risk arises principally from lending activities that result in member loans and advances and treasury activities that result in investments of cash resources. The overall management of credit risk is centralized in the Credit Committee which reports to the Board.

Concentration of loans is managed by the implementation of sectoral and member specific limits.

The Credit committee is responsible for approving and monitoring the Credit Union's tolerance for credit exposures, which it does through review and approval of the Credit Union's lending policies and through setting limits on credit exposures to individual members and across sectors. The Credit Union maintains levels of borrowing approval limits, and prior to advancing funds to a member, an assessment of the credit quality of the member is made. The Credit Union emphasizes responsible lending in its relationships with members and establishes that loans are within the member's ability to repay, rather than relying exclusively on collateral.

The Credit Union often takes security as collateral in common with other lending institutions. The Credit Union maintains guidelines on the acceptability of specific types of collateral. Collateral may include mortgages over residential properties and charges over business assets such as premises, inventory and accounts receivable. Where significant impairment indicators are identified, the Credit Union will take additional measures to manage the risk of default, which may include seeking additional collateral.

The credit quality of the commercial loan portfolio for those loans that are neither past due nor impaired can be assessed by reference to the Credit Union's internal rating system. The Credit Union assesses the quality of loans using an internal rating tool taking into consideration a number of factors, such as the security, the borrower's management performance, current and projected financial results and industry statistics related to the borrower's industry and utilizes the experience and judgment of the Credit department.

**INGLEWOOD SAVINGS AND CREDIT UNION LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

**OCTOBER 31, 2016**

**15. RISK MANAGEMENT (CONTINUED)**

The following information represents the maximum exposure to credit risk before taking into consideration any collateral. For financial assets recognized on the balance sheet, the exposure to credit risk is their stated carrying amount. For off balance sheet items, the maximum exposure is the full amount of the undrawn facilities or loan commitment.

	<u>2016</u>	<u>2015</u>
On balance sheet exposure		
Investments	\$ 4,734,677	\$ 1,933,697
Loans	16,484,197	17,242,592
Off balance sheet exposure		
Commitments to extend credit		
Original terms to maturity of 1 year or less	<u>1,786,045</u>	<u>1,711,806</u>
	<u>\$ 23,004,919</u>	<u>\$ 20,888,095</u>

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographic region, and indicates the sensitivity of the Credit Union to developments affecting a particular segment of borrowers or geographic region.

Geographic credit risk exists for the Credit Union due to its primary service area being in Calgary and surrounding areas.

***Liquidity risk***

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members and other liabilities. To mitigate this risk, the Credit Union is required to maintain, in the form of cash and term deposits, a minimum liquidity at all times. The Credit Union has established policies which include minimum liquidity requirements, eligibility requirements for liquid assets, investments with counterparties, deposit concentration and diversification limits. The Credit Union monitors expected cash inflows and outflows on a daily, cyclical, and long-term basis. The Credit Union's preferred source of funding is member deposits; however, borrowing from Central is permitted during periods where loan demand exceeds deposit growth. Other sources of funding such as sale of assets, deposits from other credit unions and wholesale deposits are acceptable.

The *Credit Union Act* of Alberta requires the Credit Union to maintain a minimum liquidity ratio of 6.0% of total assets. The Credit Union's liquidity ratio was 8.3% at October 31, 2016 (2015 – 7.6%).

Management reviews its compliance with these policies and reports its statutory liquidity position to the Board of Directors on an exception basis. It reports the operating liquidity to the Board of Directors on a monthly basis. The Audit and Finance Committee ensures that a periodic review/audit is performed to verify compliance with policy and procedures.

INGLEWOOD SAVINGS AND CREDIT UNION LIMITED

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2016

16. CAPITAL MANAGEMENT

The Credit Union's objectives when managing capital are:

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

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

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

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

- (a) Setting policies for capital management, monitoring and reporting;
- (b) Setting policies for related areas such as asset liability management;
- (c) Reporting to the Board of Directors or its committees regarding financial results and capital adequacy;
- (d) Reporting to the Corporation on its capital adequacy; and
- (e) Setting budgets and reporting variances to those budgets.

The Credit Union is required under the *Credit Union Act* to have a capital balance that is equal to or exceeds the greater of:

- (a) 4% of total assets; and
- (b) 8% of risk weighted assets.

An additional regulatory capital buffer of 2.5% of total risk weighted assets is also required.

The Corporation also expects the Credit Union to hold an internal capital buffer equal to a minimum of 2% of total risk weighted assets.

Credit Union management measures the adequacy of the Credit Union's capital to these requirements on an ongoing basis and report the results to the Board of Directors and the Corporation.

**INGLEWOOD SAVINGS AND CREDIT UNION LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

OCTOBER 31, 2016

**16. CAPITAL MANAGEMENT (CONTINUED)**

The Credit Union's capital includes:

	<u>2016</u>	<u>2015</u>
Retained earnings	\$ 1,416,833	\$ 1,382,199
Member shares	194,109	195,559
Allocation distributable	10,059	10,000
Deferred income taxes asset	(49,550)	(57,322)
Intangible assets	<u>(36,732)</u>	<u>(37,025)</u>
	<u>\$ 1,534,719</u>	<u>\$ 1,493,411</u>

As at October 31, 2016 the Credit Union's available capital as a percent of total assets was 6.5% (2015 – 6.6%) and the available capital as a percent of total risk weighted assets was 13.7% (2015 – 12.8%). Therefore, the Credit Union has exceeded its minimum capital requirement at October 31, 2016

**17. CLASSIFICATION OF FINANCIAL INSTRUMENTS**

The carrying amount of the Credit Union's financial instruments by classification is as follows:

October 31, 2016

	Fair Value Through Profit or Loss	Available-for- Sale	Held-to Maturity	Loans and Receivables	Other Financial Liabilities	Total
Cash and cash equivalents	\$ 952,377	\$ -	\$ -	\$ -	\$ -	\$ 952,377
Investments (Note 5)	-	233,537	4,501,140	-	-	4,734,677
Member loans	-	-	-	16,484,197	-	16,484,197
Other receivables	-	-	-	1,202	-	1,202
Other liabilities	-	-	-	-	(39,886)	(39,886)
Member deposits	-	-	-	-	(22,174,942)	(22,174,942)
	<u>\$ 952,377</u>	<u>\$ 233,537</u>	<u>\$ 4,501,140</u>	<u>\$ 16,485,399</u>	<u>\$ (22,214,828)</u>	<u>\$ (42,375)</u>

October 31, 2015

	Fair Value Through Profit or Loss	Available-for- Sale	Held-to Maturity	Loans and Receivables	Other Financial Liabilities	Total
Cash and cash equivalents	\$ 1,868,466	\$ -	\$ -	\$ -	\$ -	\$ 1,868,466
Investments (Note 5)	-	233,537	1,700,160	-	-	1,933,697
Member loans	-	-	-	17,242,592	-	17,242,592
Other receivables	-	-	-	1,129	-	1,129
Other liabilities	-	-	-	-	(360,700)	(360,700)
Member deposits	-	-	-	-	(20,786,015)	(20,786,015)
	<u>\$ 1,868,466</u>	<u>\$ 233,537</u>	<u>\$ 1,700,160</u>	<u>\$ 17,243,721</u>	<u>\$ (21,146,715)</u>	<u>\$ (100,831)</u>

**INGLEWOOD SAVINGS AND CREDIT UNION LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

OCTOBER 31, 2016

**18. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value amounts disclosed represent point in time estimates that may change in subsequent reporting periods due to market conditions or other factors. The Credit Union has estimated fair values taking into account changes in interest rates and credit risk that have occurred since the assets and liabilities were acquired. These calculations represent the Credit Union's best estimates based on a range of methods and assumptions. Since they involve uncertainties, the fair values may not be realized in an actual sale or immediate settlement of the instrument. Interest rate changes are the main cause of changes in the fair value of the Credit Union's financial instruments.

The following methods and assumptions are used to estimate the fair market value:

- i) The fair values of cash, demand deposits, investments, certain other assets and certain other liabilities approximate their carrying values, due to their short-term nature.
- ii) The estimated fair values of floating-rate investments, member loans and member deposits are assumed to equal carrying value as the interest rates automatically reprice to market.
- iii) The estimated fair values of fixed-rate member loans and member deposits are determined by discounting the expected future cash flows of these items at current market rates for products with similar terms and credit risks.

The total value of loans determined using the above assumptions is reduced by the allowance for impaired loans.

	<u>2016</u>			<u>2015</u>		
	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Difference</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Difference</u>
<b>Assets</b>						
Cash	\$ 952,377	\$ 952,377	\$ -	\$ 1,868,466	\$ 1,868,466	\$ -
Investments	4,734,677	4,734,677	-	1,933,697	1,933,697	-
Member loans	16,374,303	16,484,197	(109,894)	17,139,098	17,242,592	(103,494)
Other receivables	<u>1,202</u>	<u>1,202</u>	<u>-</u>	<u>1,129</u>	<u>1,129</u>	<u>-</u>
	<u>\$ 22,062,559</u>	<u>\$ 22,172,453</u>	<u>\$ (109,894)</u>	<u>\$ 20,942,390</u>	<u>\$ 21,045,884</u>	<u>\$ (103,494)</u>
<b>Liabilities</b>						
Member deposits	\$ 22,208,288	\$ 22,174,942	\$ 33,346	\$ 20,815,690	\$ 20,786,015	\$ 29,675
Other liabilities	<u>39,886</u>	<u>39,886</u>	<u>-</u>	<u>360,700</u>	<u>360,700</u>	<u>-</u>
	<u>\$ 22,248,174</u>	<u>\$ 22,214,828</u>	<u>\$ 33,346</u>	<u>\$ 21,176,390</u>	<u>\$ 21,146,715</u>	<u>\$ 29,675</u>
	<u>\$ (185,615)</u>	<u>\$ (42,375)</u>	<u>\$ (143,240)</u>	<u>\$ (234,000)</u>	<u>\$ (100,831)</u>	<u>\$ (133,169)</u>

INGLEWOOD SAVINGS AND CREDIT UNION LIMITED

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2016

**18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

Assets and liabilities recorded at fair value in the statement of the financial position are measured and classified in a hierarchy consisting of three levels for disclosure purposes; the three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

Level 1: Unadjusted quoted prices in an active market for identical assets and liabilities. Assets measured at fair value and classified as Level 1 include cash and cash equivalents.

Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e. derived from prices). Level 2 inputs include quoted prices for assets in markets that are considered less active. There are no assets measured at fair value classified as Level 2.

Level 3: Unobservable inputs that are supported by little or no market activity. Level 3 assets and liabilities would include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation. There are no assets measured at fair value classified as Level 3.

There were no transfers between fair value hierarchy levels for the years ended October 31, 2016 and 2015.

INGLEWOOD SAVINGS AND CREDIT UNION LIMITED

SCHEDULE 1

SCHEDULE OF OPERATING EXPENSES

FOR THE YEAR ENDED OCTOBER 31, 2016

	<u>2016</u>	<u>2015</u>
Personnel	\$ <u>295,303</u>	\$ <u>295,606</u>
Occupancy		
Property taxes	17,765	16,123
Depreciation	17,328	17,328
Repairs and maintenance	13,886	18,639
Janitorial	7,200	7,200
Utilities	<u>6,741</u>	<u>7,615</u>
	<u>62,920</u>	<u>66,905</u>
Security		
Deposit guarantee assessment	35,500	33,700
Bonding	8,539	7,530
Depreciation	3,080	2,868
Security	<u>2,638</u>	<u>1,406</u>
	<u>49,757</u>	<u>45,504</u>
Organization		
Credit Union Central dues	5,996	6,531
Directors' fees (Note 14)	1,360	1,170
Annual general meeting	866	658
Central annual general and other meetings	<u>-</u>	<u>190</u>
	<u>8,222</u>	<u>8,549</u>
General		
Computer, cash and service charges	104,114	107,233
Professional fees	19,560	19,560
Amortization of intangible assets	10,798	6,735
Depreciation	10,608	11,990
Insurance	8,710	7,425
Stationery and supplies	8,027	11,853
Courier and postage	6,136	4,201
Telephone	5,685	5,161
Business taxes and licenses	4,449	5,685
Marketing, advertising and education	3,628	3,158
Travel	<u>260</u>	<u>260</u>
	<u>181,975</u>	<u>183,261</u>
	<u>\$ 598,177</u>	<u>\$ 599,825</u>