# ROCKGLEN-KILLDEER CREDIT UNION LIMITED

## ROCKGLEN, SASKATCHEWAN

## INDEPENDENT AUDITORS' REPORT AND
## FINANCIAL STATEMENTS
## DECEMBER 31, 2021

# MANAGEMENT'S RESPONSIBILITY COMMUNICATION

**To the Members,**

**Rockglen-Killdeer Credit Union Limited**

Management has responsibility for preparing the accompanying financial statements and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and making objective judgements and estimates in accordance with International Financial Reporting Standards.

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

Ultimate responsibility for financial statements to members lies with the Board of Directors. The Board of Directors review the financial statements in detail prior to their approval of the financial statements for publication.

Independent auditors appointed by the members audit the financial statements and meet separately with both the Board of Directors and management to review their findings. The independent auditors report directly to the members and their report follows. The independent auditors have full and free access to the Board of Directors to discuss their audit and their findings as to the integrity of the Credit Union's financial reporting and the adequacy of the system of internal controls.

**President**

**General Manager**

VIRTUS GROUP
Chartered Professional Accountants & Business Advisors LLP

# INDEPENDENT AUDITORS' REPORT

**To the Members,**
**Rockglen-Killdeer Credit Union Limited**

*Opinion*
We have audited the financial statements of **Rockglen-Killdeer Credit Union Limited**, which comprise the statement of financial position as at December 31, 2021, and the statements of changes in members equity, comprehensive income, and cash flows for the year then ended, 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, 2021, and its financial performance and cash flows for the year then ended 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 Responsibilities 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 Saskatchewan, 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.

*Information Other than the Financial Statements and Auditors' Report Thereon*
Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

*Responsibilities of Management and Those Charged with Governance for the Financial Statements*
Management is responsible for the preparation and fair presentation of the 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.

## INDEPENDENT AUDITORS' REPORT continued

*Auditor's Responsibilities 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 significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**February 28, 2022**
**Regina, Saskatchewan**

VIRTUS GROUP LLP
**Chartered Professional Accountants**

VIRTUS GROUP

# ROCKGLEN-KILLDEER CREDIT UNION LIMITED
## STATEMENT OF FINANCIAL POSITION
## AS AT DECEMBER 31, 2021
(with comparative figures for 2020)

| ASSETS | 2021 | 2020 |
|---|---|---|
| **Cash and cash equivalents** (Note 4) | $ 7,566,492 | $ 7,385,085 |
| **Investments** (Note 5) | 11,267,058 | 8,569,468 |
| **Loans receivable** (Note 6) | 30,399,242 | 31,633,268 |
| **Other assets** (Note 7) | 18,124 | 18,428 |
| **Property and equipment** (Note 8) | 225,619 | 180,265 |
| | $ 49,476,535 | $ 47,786,514 |
| **LIABILITIES** | | |
| **Deposits** (Note 9) | $ 44,347,619 | $ 42,962,425 |
| **Other liabilities** (Note 11) | 217,270 | 123,387 |
| **Shares** (Note 12) | 5,935 | 5,915 |
| | 44,570,824 | 43,091,727 |
| **MEMBERS' EQUITY** | | |
| **Equity accounts** | 182,803 | 190,363 |
| **Retained earnings** | 4,722,908 | 4,504,424 |
| **Accumulated other comprehensive income** | - | - |
| | 4,905,711 | 4,694,787 |
| | $ 49,476,535 | $ 47,786,514 |

**APPROVED BY THE BOARD:**

_____ Director _____ Director

*"See Accompanying Notes"*

# ROCKGLEN-KILLDEER CREDIT UNION LIMITED
## STATEMENT OF CHANGES IN MEMBERS' EQUITY
## FOR THE YEAR ENDED DECEMBER 31, 2021
(with comparative figures for the year ended December 31, 2020)

| | 2021 | 2020 |
|---|---|---|
| EQUITY ACCOUNTS | | |
| Equity accounts - beginning of year | $ 190,363 | $ 207,486 |
| Decrease in member equity accounts | (7,560) | (17,123) |
| Equity accounts - end of year | $ 182,803 | $ 190,363 |
| RETAINED EARNINGS | | |
| Retained earnings - beginning of year | $ 4,504,424 | $ 4,358,820 |
| Net income | 218,484 | 145,604 |
| Retained earnings - end of year | $ 4,722,908 | $ 4,504,424 |
| ACCUMULATED OTHER COMPREHENSIVE INCOME | | |
| Accumulated other comprehensive income - beginning of year | $ - | $ - |
| Other comprehensive income | - | - |
| Accumulated other comprehensive income - end of year | $ - | $ - |
| TOTAL EQUITY | $ 4,905,711 | $ 4,694,787 |

*"See Accompanying Notes"*

# ROCKGLEN-KILLDEER CREDIT UNION LIMITED
## STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED DECEMBER 31, 2021
**(with comparative figures for the year ended December 31, 2020)**

| | 2021 | 2020 |
|---|---|---|
| **Interest revenue** | | |
| Loan | $ 1,533,015 | $ 1,550,278 |
| Investment | 97,090 | 195,891 |
| | 1,630,105 | 1,746,169 |
| **Interest expense** | | |
| Borrowed money | 419 | 418 |
| Member deposits | 386,231 | 462,532 |
| | 386,650 | 462,950 |
| **Net interest** | 1,243,455 | 1,283,219 |
| **Provision for credit losses (recoveries)** | (1,893) | 74,937 |
| **Net interest after provision for credit losses (recoveries)** | 1,245,348 | 1,208,282 |
| **Other income** | 147,721 | 106,123 |
| **Operating expenses** | | |
| General business | 385,873 | 365,478 |
| Occupancy | 50,337 | 40,890 |
| Organizational | 26,897 | 24,284 |
| Personnel | 633,989 | 671,647 |
| Security | 55,611 | 51,042 |
| | 1,152,707 | 1,153,341 |
| **Income before income taxes** | 240,362 | 161,064 |
| **Income taxes** (Note 17) | | |
| Current | 19,678 | 15,260 |
| Deferred | 2,200 | 200 |
| **Net income before other comprehensive income** | 218,484 | 145,604 |
| **Other comprehensive income** | - | - |
| **Comprehensive income** | $ 218,484 | $ 145,604 |

*"See Accompanying Notes"*

# ROCKGLEN-KILLDEER CREDIT UNION LIMITED
## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED DECEMBER 31, 2021
**(with comparative figures for the year ended December 31, 2020)**

| | 2021 | 2020 |
|---|---|---|
| **Cash provided by (used in) operating activities:** | | |
| Comprehensive income | $ 218,484 | $ 145,604 |
| Items not involving cash: | | |
| - Amortization | 50,391 | 35,174 |
| - Provision for credit losses (recoveries) | (1,893) | 74,937 |
| Equity patronage allocation | (7,560) | (17,123) |
| Net change in other assets and other liabilities | 94,187 | (8,563) |
| | 353,609 | 230,029 |
| **Cash provided by (used in) investing activities:** | | |
| Investments | (2,697,590) | (3,884,241) |
| Loans receivable | 1,235,919 | (2,034,323) |
| Property and equipment | (95,745) | (29,999) |
| | (1,557,416) | (5,948,563) |
| **Cash provided by (used in) financing activities:** | | |
| Deposits | 1,385,194 | 6,221,384 |
| Shares | 20 | (145) |
| | 1,385,214 | 6,221,239 |
| **Increase in cash** | 181,407 | 502,705 |
| **Cash position - beginning of year** | 7,385,085 | 6,882,380 |
| **Cash position - end of year** | $ 7,566,492 | $ 7,385,085 |

*"See Accompanying Notes"*

## 1. Incorporation and governing legislation

Rockglen-Killdeer Credit Union Limited is a for profit corporation governed by *The Credit Union Act, 1998* in the Province of Saskatchewan, Canada. The Credit Union's registered office is located in Rockglen, Saskatchewan. The Credit Union provides financial services to customers in Rockglen and the surrounding area.

In accordance with The Credit Union Act, 1998, Credit Union Deposit Guarantee Corporation (CUDGC) regulates all credit unions in Saskatchewan. CUDGC establishes Standards of Sound Business Practices, provides regulatory guidance and guarantees the repayment of all deposits, including accrued interest. If a credit union is not in compliance with the standards or regulatory guidance, CUDGC has the authority to take necessary action, which may include reducing or restricting the credit union's authorities and limits, taking preventative actions, issuing a compliance order, placing the credit union under supervision or administration, or issuing an amalgamation order.

## 2. Basis of preparation and statement of compliance

The financial statements have been prepared in accordance with Part I of the CPA Canada Handbook - International Financial Reporting Standards (IFRS). The financial statements comply with IFRS adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on February 28, 2022.

The financial statements have been prepared on the historical cost basis, except for certain investments which have been measured at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability the Credit Union takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value, but are not fair value, such as value in use on impairment.

The Credit Union follows a fair value hierarchy to categorize the inputs used to measure fair value into Level 1, 2 or 3 based on the degree to which inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirely, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly: and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

## 3. Summary of 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.

### Use of estimates and judgements

The preparation of the financial statements required management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements, as well as, the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Estimates and 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.

The most significant uses of judgements and estimates are as follows:

(i) Valuation of Financial Instruments

The Credit Union determines the fair value of financial instruments for which there is no observable market price using a variety of valuation techniques as described further in Note 2. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values. The judgements include consideration of liquidity and other risks affecting the specific instrument.

(ii) Allowances for Credit Losses

Specific allowances are applied to financial assets evaluated individually for impairment. In particular, management judgement is required to estimate the amount and timing of cash flows the Credit Union expects to receive. These estimates are based on a number of factors, including the net realizable value of any underlying collateral.

The expected credit loss model requires the recognition of twelve months of expected credit losses for performing loans, and of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination. The determination of a significant increase in credit risk requires experienced judgement and considers a number of different factors that vary by product and risk segment. Some of these factors are based on forecasts of future economic conditions. The recognized expected credit losses are determined using these estimates, which may be materially different from actual credit losses realized.

## 3. Summary of significant accounting policies continued

### Financial instruments

All financial instruments are initially recognized at fair value plus transaction costs, except in the case of financial assets and liabilities classified as fair value through profit or loss (where transaction costs are expensed). The classification of financial assets at initial recognition depends on the entity's business model for managing financial assets and the contractual cash flow characteristics of the instrument. The Credit Union uses settlement date accounting for regular way contracts when recording financial asset transactions. All financial instruments are classified as fair value through profit or loss, amortized cost or fair value through other comprehensive income.

The business model used by the Credit Union is a key consideration for the classification of financial assets. The two primary models are to hold financial assets to collect contractual cashflows, or to hold financial assets to collect contractual cashflows and sell financial assets. The Credit Union's business model is to hold financial assets to collect contractual cash flows.

Embedded derivatives are not separated from the host contract, with the contract treated as one instrument at initial recognition. The classification is determined based on an assessment of the contractual cashflow characteristics and the business model under which it is managed.

*Fair value through profit or loss*

Financial assets and liabilities are classified as fair value through profit or loss (FVTPL) when the instruments are:

- Held for trading purposes,
- Part of a managed portfolio with a pattern of short term profit taking,
- Non trading financial assets that do not consist solely of payments of principal and interest (SPPI), or
- Voluntarily designated as such.

Equity instruments are measured at FVTPL unless the asset is not held for trading purposes and an irrevocable election to classify as fair value through other comprehensive income is made.

Financial assets and financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized immediately in profit or loss.

The Credit Union has classified the following financial assets and liabilities as FVTPL:

Cash
Concentra shares
MDL Real Estate Income Fund Limited Partnership
SaskCentral shares

The Credit Union has not voluntarily designated any financial instruments as FVTPL.

## 3. Summary of significant accounting policies continued

*Amortized cost*

Financial assets classified as amortized cost are debt financial instruments with contractual cash flows that consist solely of payments of principal and interest (SPPI) and are managed on a hold to collect basis. SPPI payments are those which would typically be expected from basic lending arrangements. Principal amounts include par repayments and interest primarily relates to basic lending returns, including compensation for credit risk and the time value of money associated with the principal amount outstanding over a period of time. Interest can also include other basic lending risks and costs (for example, liquidity risk, servicing or administrative costs) associated with holding the financial asset, and a profit margin. Where the contractual terms introduce exposure to risk or variability of cash flows that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

All financial liabilities are classified as amortized cost unless it has been classified as fair value through profit or loss.

The Credit Union has classified the following financial assets and financial liabilities at amortized cost:

SaskCentral investments
Loans receivable
Accrued interest
Deposits
Other liabilities
Shares

*Fair value through other comprehensive income*

Financial assets are classified as fair value through other comprehensive income (FVOCI) when the financial assets:

- Are held within a business model that is to hold to collect contractual cashflows and sell financial assets,
- Have contractual terms that give rise, on specified dates, to cash flows that are SPPI, and
- Are not designated as held for trading.

The Credit Union has not classified any financial assets as FVOCI.

**Effective interest method**

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument, or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

## 3. Summary of significant accounting policies continued

### Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Transaction costs include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. The Credit Union recognizes transaction costs as part of the carrying amount of all financial instruments except those classified as at FVTPL.

### Financial asset impairment

The Credit Union assesses financial assets, other than those recorded at FVTPL, for indicators of impairment at each reporting period.

*Loans receivable*

The Credit Union uses the expected credit loss (ECL) impairment model to measure the loss allowance on loans receivable, in the following categories:

- Stage 1 – the expected losses for the next 12 months on performing financial assets,
- Stage 2 – the expected lifetime losses on performing financial assets that have experienced a significant increase in credit risk since origination, and
- Stage 3 – the expected lifetime losses on credit impaired financial assets.

Stage 1 assets consist of performing loans with credit risk that has not increased significantly since origination. Stage 2 assets consist of performing loans with credit risk that has increased significantly since origination. Stage 3 assets consist of high risk, non performing or doubtful loans, where it is not expected that the principal and interest will be collected in full. Stage 1 and Stage 2 performing loans are included in the analysis without consideration of collateral value. Stage 3 doubtful loans are included in the analysis at the balance outstanding less any collateral value and consideration of collection costs. Individual loan assets move between stages as credit risk increases or decreases.

In determining the expected credit losses, Management assesses each loan asset and assigns a risk rating of Stage 1 Remote/Low Risk, Stage 2 Moderate Risk or Stage 3 Higher Risk. Management also estimates the probability of default and expected loss ratio for each risk rating category, considering a number of factors, such as product type and terms, local, provincial and national economic factors, historical loss experience and delinquency trends. Certain factors are based on forecasts of future economic conditions, such as housing starts, unemployment and interest rates. Loan assets which were modified, but not derecognized, during the period are specifically assessed to determine if there has been a significant increase in credit risk by comparing the risk of default at the origination of the loan to the risk of default at the reporting date.

The probability of default and the expected loss ratio are applied to the loan assets classified in each stage to estimate the expected credit loss.

## 3. Summary of significant accounting policies continued

At each reporting period, the Credit Union performs the analysis to estimate the loan allowance. Changes in the loan allowance are recognized in the provision for credit losses on the statement of comprehensive income as they occur.

When a loan is impaired, any collateral has been realized, and there is no expectation of recovery, the loan is written off. Records about written off loans are maintained in case future recoveries are received. Loan allowances on loans written off in the period are reversed in the period the loan is written off. Recoveries on loans written off are recognized in revenue in the period the amount is received.

*Investments and other financial assets*

The Credit Union uses the expected credit loss impairment model to measure the loss impairment on investments and other financial assets. Management assesses each individual asset and determines whether there has been a significant increase in credit risk since origination and the probability of default. The factors considered include significant financial difficulty of the issuer or counterparty, disappearance of an active market for the security, prolonged decline in the fair value of a security, as well as local, provincial and national economic factors.

At each reporting period, the Credit Union analyzes individual investments and other financial assets to estimate the expected credit loss. Changes in the estimated credit loss are recognized in investment revenue for investments and other revenue for other financial assets on the statement of comprehensive income as they occur.

### Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid securities with a maturity date within 90 days of the year end date. They are subject to insignificant risk of changes in fair value and are used to manage short term cash commitments.

### Investments

Investments are initially measured at fair value. For investments not classified as FVTPL, incremental transaction costs are added to the initial measurement. Subsequent measurement is determined based on the classification of the instrument.

### Loans receivable

Loans are initially measured at fair value plus transaction costs and subsequently at amortized cost using the effective interest method, less any loan allowances. A loan is classified as impaired (doubtful) when there is no longer reasonable assurance that the principal and interest will be collected in full.

## 3. Summary of significant accounting policies continued

### Property and equipment

Property and equipment are recorded at cost less accumulated amortization and accumulated impairment losses. Property and equipment are amortized over their estimated useful lives using the following rates and methods, with the exception of land which is not amortized:

| | | |
|---|---|---|
| Building | 3% - 10% | straight-line |
| Furnishings, equipment | 20% - 33 1/3% | straight-line |
| Naming rights | 10% | straight-line |

The estimated useful lives, residual values and depreciation methods are reviewed at each year end and adjusted if appropriate.

Gains and losses on the disposal or retirement of property and equipment are determined as the difference between the sales proceeds and the carrying amount of the asset and are recorded in the statement of comprehensive income in the year of disposal.

### Membership shares

Shares are classified as financial liabilities in accordance with their terms. Shares are redeemable at the option of the member, either on demand or on withdrawal from membership.

### Impairment of tangible and intangible assets other than goodwill

At least annually, the Credit Union reviews its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of a group of assets (or cash generating unit) to which the asset belongs. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

## 3. Summary of significant accounting policies continued

Recoverable amount is defined as the higher of fair value less costs to sell and value in use. In assessing value in use, the Credit Union estimates future cash flows it expects to derive from the asset or group of assets along with the expectations about possible variations in the amount and timing of those cash flows. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or group of assets (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. The related impairment loss is recognized in the statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset or group of assets is increased to the revised estimate of the recoverable amount. The increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or group of assets in prior years. A reversal of an impairment loss is recognized in the statement of comprehensive income as they occur.

### Loan interest revenue

Loan and lease interest revenue is recognized on the accrual basis using the effective interest rate method for all loans not classified as impaired. When a loan becomes impaired, recognition of interest income ceases when the carrying amount of the loan (including accrued interest) exceeds the estimated realizable amount of the underlying security. The amount of initial impairment and any subsequent changes are recorded through the provision for credit losses as an adjustment of the specific allowance.

Fees that are an integral part of the effective interest rate of the financial instrument, including loan origination, commitment, restructuring and renegotiation fees, are capitalized as part of the related asset and amortized to interest income over the term of the loan using the effective interest method.

### Investment interest revenue

Investment interest income is recognized on the accrual basis using the effective interest method. Purchase premiums and discounts are amortized using the effective interest method over the term to maturity of the applicable investment.

### Other income

Other revenue is recognized in the fiscal period in which the related service is provided.

## 3. Summary of significant accounting policies continued

### Foreign currency translation

Transaction amounts denominated in foreign currencies are translated into Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the reporting date. Carrying values of non-monetary assets and liabilities measured at historical cost reflect the exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value are translated to Canadian dollars at the exchange rate at the date the fair value was determined. Translation gains and losses are included in profit or loss, except for instruments classified as fair value through other comprehensive income, which are recognized in other comprehensive income.

### Income taxes

Income tax expense is comprised of current and deferred taxes which are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

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

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between financial statement carrying amounts and amounts used for tax purposes. These amounts are measured using enacted or substantially enacted tax rates at the reporting date and re-measured annually for rate changes. Deferred income tax assets are recognized for the benefit of deductions available to be carried forward to future periods for tax purposes to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that is no longer probable that the related tax benefit will be realized. Any effect of the re-measurement or re-assessment is recognized in the period of change, except when they relate to items recognized directly in other comprehensive income. The Credit Union is taxed at an effective rate of 9% on taxable earnings eligible for that rate and at 27% on the excess balance.

Deferred taxes are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on the same taxable entity, or for different tax entities where the Credit Union intends to settle its current tax assets and liabilities on a net basis or simultaneously.

## 3. Summary of significant accounting policies continued

### Future accounting and reporting changes

The Canadian Accounting Standards Board (AcSB) has issued new and amended IFRS standards under Part I of the CPA Canada Handbook which are not yet effective. None of the new or amended standards impact the Credit Union.

## 4. Cash and cash equivalents

| | 2021 | 2020 |
|---|---|---|
| Cash balances | $ 1,429,221 | $ 1,393,985 |
| SaskCentral deposits with maturities < 90 days | 6,137,271 | 5,991,100 |
| | $ 7,566,492 | $ 7,385,085 |

## 5. Investments

| | 2021 | 2020 |
|---|---|---|
| **Fair value through profit or loss:** | | |
| Concentra shares | $ 250,010 | $ 250,010 |
| MDL Real Estate Income Fund Limited Partnership | 60,988 | - |
| SaskCentral shares | 381,871 | 381,871 |
| | 692,869 | 631,881 |
| **Amortized cost** | | |
| SaskCentral investments | 10,556,556 | 7,922,728 |
| Accrued interest | 17,633 | 14,859 |
| | 10,574,189 | 7,937,587 |
| | $ 11,267,058 | $ 8,569,468 |

At December 31, 2021, the market value of investments classified as amortized cost $10,574,485 (2020 - $7,943,954).

At December 31, 2021, $1,200,000 (2020 - $937,300) of investments are expected to be recovered more than 12 months after the reporting date.

In 2021, the Credit Union subscribed for 225 units in the MDL Real Estate Income Fund Limited Partnership, for a total of $225,000. The Credit Union contributed $60,988 in 2021, and thus, the Credit Union has a remaining commitment to provide $164,012 when a cash call is received.

Pursuant to Regulation 18(1)(a), credit unions must maintain 10% of total liabilities, using a prescribed formula, in specified liquidity deposits in SaskCentral, in addition to liquidity required to meet their normal cash flow requirements. As of December 31, 2021, the Credit Union met the requirement.

## 6. Loans receivable

| | | | | | 2021 |
|---|---|---|---|---|---|
| | | | Allowances | | |
| | Performing | Impaired | Individual | Collective | Net |
| Government guaranteed | $ 8,600,424 | $ - | $ - | $ - | $ 8,600,424 |
| Conventional mortgages | | | | | |
| - Residential & farm | 13,632,378 | - | - | (59,192) | 13,573,186 |
| Personal loans | 2,662,298 | 40,374 | (40,374) | (11,631) | 2,650,667 |
| Finance lease | 3,774,749 | - | - | (16,319) | 3,758,430 |
| Lines of credit and overdrafts | 345,095 | - | - | - | 345,095 |
| Non-personal loans | 1,103,624 | - | - | (4,792) | 1,098,832 |
| Accrued interest | 372,608 | - | - | - | 372,608 |
| | $ 30,491,176 | $ 40,374 | $ (40,374) | $ (91,934) | $ 30,399,242 |

| | | | | | 2020 |
|---|---|---|---|---|---|
| | | | Allowances | | |
| | Performing | Impaired | Individual | Collective | Net |
| Government guaranteed | $ 8,949,689 | $ - | $ - | $ - | $ 8,949,689 |
| Conventional mortgages | | | | | |
| - Residential & farm | 12,544,722 | 26,554 | (26,554) | (52,171) | 12,492,551 |
| Personal loans | 3,114,969 | 44,454 | (44,454) | (13,119) | 3,101,850 |
| Finance lease | 5,193,500 | - | - | (21,509) | 5,171,991 |
| Lines of credit and overdrafts | 334,721 | - | - | - | 334,721 |
| Non-personal loans | 1,234,641 | 154,695 | (104,695) | (5,134) | 1,279,507 |
| Accrued interest | 302,959 | 18,024 | (18,024) | - | 302,959 |
| | $ 31,675,201 | $ 243,727 | $ (193,727) | $ (91,933) | $ 31,633,268 |

At December 31, 2021, $18,829,394 (2020 - $17,974,111) of loans are expected to be recovered more than 12 months after the reporting date.

During the year, the Credit Union administered the advancement and repayment of funds under the Canada Emergency Business Account Program (CEBA) on behalf of the Government of Canada. As the program administrator, the CEBA loans outstanding are not assets of the Credit Union and thus are not recognized in the financial statements. At December 31, 2021, the CEBA loans outstanding totaled $2,625,000 (2020 - $820,000).

## 6. Loans receivable continued

The following table discloses the reconciliation of the allowance for expected credit losses on loans:

| | 2021 | 2020 |
|---|---|---|
| Allowance for expected credit losses - January 1 | $ 285,660 | $ 248,453 |
| Change in expected 12 month credit losses | - | - |
| Change in lifetime credit losses related to: | | |
| Assets where credit risk has increased significantly | - | - |
| Assets that are credit impaired | (153,353) | 37,207 |
| Allowance for expected credit losses - December 31 | $ 132,307 | $ 285,660 |

The aging of loans, including those past due but not impaired and those that were individually impaired, as at December 31, 2021 was:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Performing | Impaired | Performing | Impaired |
| Current | $ 1,695,336 | $ 200,952 | $ 1,166,412 | $ 157,969 |
| 31 - 90 days | 118,134 | 30,697 | 269,897 | 21,808 |
| >90 days | - | - | 154,695 | 32,746 |
| Total | $ 1,813,470 | $ 231,649 | $ 1,591,004 | $ 212,523 |

The Credit Union holds collateral on loans provided to customers in the form of interests in real property, chattel property, securities and guarantees. At December 31, 2021, total credit impaired loans were $40,374 (2020 - $243,727), which are secured by an estimated collateral value of $0 (2020 - $50,000). The allowance for expected credit losses on credit impaired loans is $40,374 (2020 - $193,727).

## 7. Other assets

| | 2021 | 2020 |
|---|---|---|
| Deferred income tax assets | $ 16,600 | $ 18,800 |
| Prepaid expenses | 1,524 | (372) |
| | $ 18,124 | $ 18,428 |

## 8. Property and equipment

| | Land | Building | Furnishings, Equipment | Naming Rights | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at January 1, 2020 | $ 4,000 | $ 316,426 | $ 267,567 | $ - | $ 587,993 |
| Additions | - | - | 30,000 | - | 30,000 |
| Disposals | - | - | (4,967) | - | (4,967) |
| Balance at December 31, 2020 | $ 4,000 | $ 316,426 | $ 292,600 | $ - | $ 613,026 |
| Balance at January 1, 2021 | $ 4,000 | $ 316,426 | $ 292,600 | $ - | $ 613,026 |
| Additions | - | - | 45,746 | 50,000 | 95,746 |
| Balance at December 31, 2021 | $ 4,000 | $ 316,426 | $ 338,346 | $ 50,000 | $ 708,772 |
| **Depreciation and impairment losses** | | | | | |
| Balance at January 1, 2020 | $ - | $ 205,883 | $ 196,670 | $ - | $ 402,553 |
| Depreciation expense | - | 6,700 | 28,475 | - | 35,175 |
| Disposals | - | - | (4,967) | - | (4,967) |
| Balance at December 31, 2020 | $ - | $ 212,583 | $ 220,178 | $ - | $ 432,761 |
| Balance at January 1, 2021 | $ - | $ 212,583 | $ 220,178 | $ - | $ 432,761 |
| Depreciation expense | - | 6,700 | 42,432 | 1,260 | 50,392 |
| Balance at December 31, 2021 | $ - | $ 219,283 | $ 262,610 | $ 1,260 | $ 483,153 |
| **Net book value** | | | | | |
| Balance at December 31, 2020 | $ 4,000 | $ 103,843 | $ 72,422 | $ - | $ 180,265 |
| Balance at December 31, 2021 | 4,000 | 97,143 | 75,736 | 48,740 | 225,619 |

## 9. Deposits

| | 2021 | 2020 |
|---|---|---|
| Chequing | $ 12,120,106 | $ 10,240,406 |
| Savings | 13,408,818 | 12,041,972 |
| Term deposits | 14,298,301 | 15,250,139 |
| Registered accounts | 3,851,831 | 4,627,208 |
| Other | 480,947 | 569,724 |
| Accrued interest | 187,616 | 232,976 |
| | $ 44,347,619 | $ 42,962,425 |

At December 31, 2021, $7,280,351 (2020 - $8,434,183) of deposits are expected to be settled more than 12 months after the reporting date.

## 10. Loans payable

The Credit Union has an authorized line of credit with SaskCentral in the amount of $760,000. This line of credit is secured by an assignment of book debts and funds on deposit with an interest rate of 1.95%. At the end of the year, the amount outstanding was $NIL (2020 - $NIL).

## 11. Other liabilities

| | 2021 | 2020 |
|---|---|---|
| Accounts payable | $ 210,675 | $ 151,912 |
| Income taxes payable (recoverable) | 6,595 | (28,525) |
| | $ 217,270 | $ 123,387 |

## 12. Membership shares

Membership shares are as provided for by *The Credit Union Act, 1998* and administered according to the terms of the Credit Union bylaws which sets out the rights, privileges, restrictions and conditions.

The authorized share capital is unlimited in amount and consists of fully paid shares with a par value of $5 per share. These accounts are not guaranteed by CUDGC. Characteristics include permanence, freedom from mandatory charge and subordination to the rights of creditors and depositors.

The value of outstanding membership shares consists of:

| | 2021 | 2020 |
|---|---|---|
| Issued at January 1 | $ 5,915 | $ 6,060 |
| Issued | 295 | 160 |
| Redeemed | (275) | (305) |
| Issued at December 31 | $ 5,935 | $ 5,915 |

## 13. Capital management

Credit Union Deposit Guarantee Corporation (CUDGC) prescribes capital adequacy measures and minimum capital requirements. The capital adequacy rules issued by CUDGC have been based on the Basel III framework, consistent with the financial industry in general. CUDGC's Standards of Sound Business Practice (SSBP) that incorporate the Basel III framework took effect on July 1, 2013.

The Credit Union follows a risk-weighted asset calculation for credit and operational risk. Under this approach, Credit Unions are required to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets, including off-balance sheet commitments. Based on the prescribed risk of each type of asset, a weighting of 0% to 150% is assigned. The ratio of regulatory capital to risk-weighted assets is calculated and compared to the standard outlined by CUDGC. Regulatory standards require Credit Unions to maintain a minimum total eligible capital to risk-weighted assets of 8%, a minimum total tier 1 capital to risk-weighted assets of 6% and a minimum common equity tier 1 capital to risk-weighted assets of 4.5%. Eligible capital consists of total tier 1 and tier 2 capital. In addition to the minimum capital ratios, the Credit Union is required to hold a capital conservation buffer of 2.5% effective January 1, 2016. The capital conservation buffer is designed to avoid breaches of the minimum capital requirement.

## 13. Capital management continued

Tier 1 capital is defined as a Credit Union's primary capital and comprises the highest quality of capital elements while tier 2 is secondary capital and falls short of meeting the tier 1 requirements for permanence or freedom from mandatory charges. Tier 1 capital consists of two components: common equity tier 1 capital and additional tier 1 capital. Common equity tier 1 capital includes retained earnings, contributed surplus and accumulated other comprehensive income. Deductions from common equity tier 1 capital include goodwill, intangible assets, deferred tax assets (except those arising from temporary differences), increases in equity capital resulting from securitization transactions, unconsolidated substantial investments and fair value gains/losses on own-use property. Additional tier 1 capital consists of qualifying membership shares and other investment shares issued by the Credit Union that meet the criteria for inclusion in additional tier 1 capital.

Tier 2 capital includes a collective allowance for credit losses to a maximum of 1.25% of risk weighted assets, subordinated indebtedness, and qualifying membership shares or other investment shares issued by the Credit Union that meet the criteria for inclusion in tier 2 capital and are not included in tier 1 capital.

Regulatory standards also require the Credit Union to maintain a minimum leverage ratio of 5%. This ratio is calculated by dividing eligible capital by total assets less deductions from capital plus specified off-balance sheet exposures. Based on the type of off-balance sheet exposure, a conversion factor is applied to the leverage ratio. All items deducted from capital are excluded from total assets. The Credit Union may also exclude from total assets mortgages securitized through Canada Mortgage and Housing Corporate (CMHC) programs up to and including March 31, 2010 and all existing and future reinvestments related to Canada Mortgage Bonds (CMB) Insured Mortgage Purchase Program transactions completed up to and including March 31, 2010.

The Credit Union has adopted a capital plan that conforms to the capital framework and is regularly reviewed and approved by the Board of Directors. The following table compares CUDGC regulatory standards to the Credit Union's Board policy for 2021:

| | Regulatory Standards | Board Minimum |
|---|---|---|
| **Total eligible capital to risk-weighted assets** | 8% | 8% |
| **Total tier 1 capital to risk-weighted assets** | 5% | 5% |
| **Tier 2 capital to tier 1 capital** | Less than 100% | Less than 100% |

## 13. Capital management continued

During the year, the Credit Union complied with all internal and external capital requirements. The following table summarizes key capital information:

| | 2021 | 2020 |
|---|---|---|
| **Eligible capital:** | | |
| Common equity tier 1 capital | $ 4,630,000 | $ 4,441,000 |
| Additional tier 1 capital | - | - |
| Total tier 1 capital | 4,630,000 | 4,441,000 |
| Total tier 2 capital | 281,000 | 288,000 |
| **Total eligible capital** | $ 4,911,000 | $ 4,729,000 |
| **Risk-weighted assets** | $ 26,059,000 | $ 26,721,000 |
| Total eligible capital to risk-weighted assets | 18.85% | 17.70% |
| Total tier 1 capital to risk-weighted assets | 17.77% | 16.62% |
| Common equity tier 1 capital to risk-weighted assets | 17.77% | 16.62% |
| Minimum leverage ratio | 9.69% | 9.70% |

## 14. Related party transactions

Related parties exist when one party has the ability to directly or indirectly exercise control, joint control or significant influence over the other or is a member, or close family member of a member, of the key management personnel of the Credit Union. Related party transactions are in the normal course of operations and are measured at the consideration established and agreed to by the parties.

**Loans receivable:**

At December 31, 2021, certain members of the board of directors and key management personnel were indebted to the Credit Union for amounts totaling $850,768 (2020 - $2,091,160). These loans were granted under the same lending policies applicable to other members, and are included in loans receivable on the statement of financial position.

**Deposit accounts:**

Directors and key management personnel may hold deposit accounts. These accounts are maintained under the same terms and conditions applicable to other members, and are included in member deposits on the statement of financial position.

**Remuneration:**

Compensation provided to directors and key management personnel, consisting of salaries, honoraria and benefits, totaled $147,988 (2020 - $154,853).

## 15. Classification and fair value of financial instruments

The following table summarizes the carrying amount and fair values of the Credit Union's financial instruments.

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| FINANCIAL ASSETS | | | | |
| Cash and cash equivalents | $ 7,566,492 | $ 7,566,492 | $ 7,385,085 | $ 7,385,085 |
| Investments | 11,267,058 | 11,267,354 | 8,569,468 | 8,575,835 |
| Loans | 30,399,242 | *Note | 31,633,268 | *Note |
| FINANCIAL LIABILITIES | | | | |
| Deposits | 44,347,619 | *Note | 42,962,425 | *Note |
| Other liabilities | 210,675 | 210,675 | 151,912 | 151,912 |

*Note: The fair value of loans and deposits has not been reported as the carrying amounts are a reasonable approximation of fair value.

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

The fair values of short term financial instruments including cash, other assets and other liabilities are approximately equal to their book values due to their short term nature.

Fair values of investments are based on quoted market prices, when available, or quoted market prices of similar investments.

For variable interest rate loans that re-price frequently, fair values approximate book values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans.

The fair values of deposits with unspecified maturity terms are approximately equal to their carrying values. Fair values for other deposits and loans payable with specified maturity terms is estimated using discounted cash flow calculations at market interest rates for similar groups of deposits.

The fair values of derivative financial instruments are estimated by reference to the appropriate current market yields with matching terms of maturity. The fair values reflect the estimated amount that the Credit Union would receive or pay to terminate the contracts at the reporting date.

## 15. Classification and fair value of financial instruments continued

The following table provides an analysis of financial instruments measured at fair value at the end of the reporting period, by the fair value hierarchy into which the fair value measurement is categorized:

| | 2021 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| FINANCIAL ASSETS | | | | |
| Cash and cash equivalents | $7,566,492 | $ - | $ - | $7,566,492 |
| Investments | - | - | 692,869 | 692,869 |

| | 2020 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| FINANCIAL ASSETS | | | | |
| Cash and cash equivalents | $7,385,085 | $ - | $ - | $7,385,085 |
| Investments | - | - | 631,881 | 631,881 |

## 16. Financial instrument risk management

### Credit risk

Credit risk is the risk of financial loss to the Credit Union if a customer or counterparty defaults on its contractual payment obligations. Credit risk may arise from loans, receivables and investments.

Credit risk is managed in accordance with policies and procedures established by the Board of Directors. In addition, CUDGC establishes standards with which the Credit Union must comply. The Credit Union's Board has established lending policies and procedures which outline the minimum standards and criteria for granting credit to borrowers. Certain types of lending are subject to an annual review process to ensure that standards continue to be met. Accounts which are deemed to be of higher than average risk are monitored more frequently. Policy and procedures also specify the type of assets which may be taken as collateral and the techniques for valuation. There have been no changes to the collateral policy or procedures during the period.

The Credit Union has established credit limits for individual borrowers to manage overall credit risk of the portfolio and establish parameters for credit diversification. The maximum aggregate credit per member is limited to 25% of capital and the maximum unsecured lending limit is $10,000. The established portfolio mix for 2021 is:

| | Board policy | Actual |
|---|---|---|
| Consumer | 10-35% | 17% |
| Agriculture | 40-80% | 75% |
| Commercial | 5-25% | 7% |

## 16 Financial instrument risk management continued

Except as otherwise noted below, the carrying amount of the financial assets recognized in the financial statements, which is net of impairment losses, represents the Credit Union's maximum exposure to credit risk, without taking into account collateral or other credit enhancements held. During the period, $NIL (2020 - $NIL) of loans were written off but still subject to enforcement activity. At December 31, 2021, the Credit Union held $NIL (2020 - $NIL) in assets pledged as security on loans.

The following table discloses the Credit Union's exposure to credit risk by risk rating grades:

| | Loans | Investments |
|---|---|---|
| Stage 1 Remote / Low Risk | $ 30,281,109 | $ 11,267,058 |
| Stage 2 Moderate Risk | 118,134 | - |
| Stage 3 Higher Risk | - | - |
| Total | $ 30,399,243 | $ 11,267,058 |

In addition, in the normal course of business, the Credit Union has entered into various commitments to extend credit that are not reported on the statement of financial position, including guarantees and letters of credit. The primary purpose of these contracts is to make funds available for the financing needs of customers. These are subject to normal credit standards, financial controls, risk management and monitoring procedures.

Guarantees and standby letters of credit represent irrevocable commitments that the Credit Union will make payments in the event that a customer can not meet its obligations to third parties, and they carry the same risk, recourse and collateral security requirements as loans extended to customers. Commercial letters of credit are instruments issued on behalf of a customer authorizing a third party to draw drafts on the Credit Union up to a stipulated amount subject to specific terms and conditions. The Credit Union is at risk for any drafts drawn that are not ultimately settled by the customer, but the amounts are collateralized by the goods to which they relate. Commitments to extend credit represent unutilized portions of authorizations to extend credit in the form of loans, bankers' acceptances or letters of credit.

The amounts reported below represent the maximum credit exposure for commitments to extend credit. Many of these contracts expire without being drawn upon, thereby reducing the Credit Union's credit risk from the maximum commitment. As many commitments will expire or terminate without being funded, the amounts shown on the table below do not necessarily represent future cash requirements.

| | 2021 | 2020 |
|---|---|---|
| Undrawn lines of credit | $ 1,972,298 | $ 1,376,493 |
| Undrawn loans | 1,637,481 | 1,483,293 |
| Commercial letters of credit | 5,000 | 5,000 |

## 16 Financial instrument risk management continued

### Liquidity risk

Liquidity risk is the risk of financial loss to the Credit Union in the event that the Credit Union is unable to generate or obtain the necessary cash or cash equivalents in a timely manner, at a reasonable price, to meet its financial commitments as they come due.

Liquidity risk is managed in accordance with policies and procedures established by the Board of Directors. In addition, CUDGC establishes standards to which the Credit union must comply. The Credit Union's primary liquidity risk policies and procedures include policies for minimum liquidity holdings, monthly monitoring and access to additional short term financing.

The Credit Union enters into transactions to purchase goods and services on credit and/or borrow funds for which repayment is required at various maturity dates, including processing the financial transactions of borrowers and depositors. Liquidity risk is measured by reviewing the Credit Union's future cash flows for the possibility of a negative net cash flow. The contractual maturities of financial liabilities can be found within the table under interest rate risk below.

### Market risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rates, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions.

Market risk is managed in accordance with policies and procedures established by the Board of Directors. In addition, CUDGC establishes standards to which the Credit Union must comply. The Credit Union's primary market risk policies and procedures include maximum mismatch policies, monitoring mismatch monthly and adjusting product mixes to address risk.

The primary market risk that the Credit Union is exposed to is interest rate risk. Interest rate risk is the potential adverse impact on the earnings due to changes in interest rates. The Credit Union's exposure to interest rate risk arises primarily from timing differences in the re-pricing of assets and liabilities, including financial assets and liabilities with fixed and floating rates. The Credit Union's exposure to interest rate risk can be measured by the mismatch or gap, between the assets, liabilities and off balance sheet instruments scheduled to mature or re-price on particular dates. Gap analysis measures the difference between the amount of assets and liabilities that re-price in specific time periods.

To manage exposure to interest rate fluctuations and to manage asset and liability mismatch, the Credit Union may enter into interest rate swaps. These minimize the interest rate risk and cash required to liquidate the contracts by entering into counter balancing positions. The Credit Union did not use interest rate swaps in the current year.

## 16 Financial instrument risk management continued

The table below summarizes the carrying amounts of financial instruments exposed to interest rate risk by the earlier of the contractual re-pricing/maturity dates. Re-pricing dates are based on the earlier of maturity or the contractual re-pricing date and effective interest rates, where applicable, represent the weighted average effective yield.

| | 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | On Demand | Within 3 months | Over 3 months to 1 year | Over 1 year to 5 years | Over 5 years | Non-interest sensitive | Total |
| **ASSETS** | | | | | | | |
| Total assets | $ 19,773,948 | $ 6,583,109 | $ 6,172,633 | $ 15,476,204 | $ 131,230 | $ 1,298,061 | $ 49,435,185 |
| **LIABILITIES** | | | | | | | |
| Total liabilities | 13,265,447 | 4,553,833 | 6,661,891 | 7,280,351 | - | 17,673,663 | 49,435,185 |
| On-balance sheet gap | $ 6,508,501 | $ 2,029,276 | $ (489,258) | $ 8,195,853 | $ 131,230 | $ (16,375,602) | $ - |

| | 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | On Demand | Within 3 months | Over 3 months to 1 year | Over 1 year to 5 years | Over 5 years | Non-interest sensitive | Total |
| On-balance sheet gap | $ 11,853,071 | $ 2,261,752 | $ (1,669,775) | $ 2,296,407 | $ 73,132 | $ (14,814,587) | $ - |

The above tables do not identify management's expectations of future events where re-pricing and maturity dates differ from contractual dates.

A 1% change in interest rates with all other variable held constant would result in a change in the Credit Union's profit for the year ended December 31, 2021 of $244,812 (2020 - $232,507). The Credit Union uses static gap reports to simulate the effect of a change in the market rate of interest.

## 17. Income taxes

Income tax expense is comprised of:

| | 2021 | 2020 |
|---|---|---|
| **Current tax expense** | | |
| Current period | $ 19,678 | $ 15,260 |
| | 19,678 | 15,260 |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | 410 | (668) |
| Changes in tax rates and tax laws | 1,790 | 868 |
| | 2,200 | 200 |
| **Total income tax expense** | $ 21,878 | $ 15,460 |

## 17. Income taxes continued

The income tax expense for the year can be reconciled to the accounting profit as follows:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Income before provision for income taxes | $ | 240,362 | $ | 161,064 |
| Combined federal and provincial tax rate | | 9.00 % | | 10.50 % |
| Income tax expense at statutory rate | | 21,633 | | 16,912 |
| Adjusted for the effect of: | | | | |
| Non-deductible expenses | | 110 | | 68 |
| Non-taxable income | | (1,629) | | (2,357) |
| Deferred tax expense due to change in income tax rate | | 1,790 | | 868 |
| Other differences | | (26) | | (31) |
| | $ | 21,878 | $ | 15,460 |

Deferred income tax assets and liabilities recognized are attributable to the following:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| **Deferred income tax assets** | | | | |
| Property and equipment | $ | 7,500 | $ | 7,100 |
| Loans | | 9,100 | | 11,700 |
| | $ | 16,600 | $ | 18,800 |

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Deferred tax assets | | | | |
| - To be recovered after more than 12 months | $ | 7,500 | $ | 7,100 |
| - To be recovered within 12 months | | 9,100 | | 11,700 |

## 18. Employee future benefits

The Credit Union's employee future benefit program consists of a defined contribution pension plan. Credit Union contributions to the defined contribution plan are are expensed as incurred. The Credit Union has no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Pension benefits of $29,770 (2020 - $30,850) were paid to defined contribution retirement plans during the year.

## 19 Significant event

On March 11, 2020, the World Heath Organization declared a global pandemic for the COVID-19 virus. The Credit Union is following health advisories and mandatory requirements from local, provincial and national health and government organizations. The Credit Union has continued to provide lending and deposit services since the pandemic was declared. The future impact of the pandemic on the Credit Union's operations and finances, if any, is unknown at this time.

# ROCKGLEN-KILLDEER CREDIT UNION LIMITED
## SCHEDULE OF NON-INTEREST EXPENSES
## FOR THE YEAR ENDED DECEMBER 31, 2021
**(with comparative figures for the year ended December 31, 2020)**

**SCHEDULE 1**

| | 2021 | 2020 |
|---|---|---|
| **General business** | | |
| Amortization - naming rights | $ 1,260 | $ - |
| Amortization - equipment | 42,432 | 28,475 |
| Business development | 16,883 | 16,554 |
| Cash shortage | 35 | (90) |
| Computer costs | 122,547 | 129,182 |
| Legal, registration | 12,935 | 9,086 |
| Maintenance, insurance - equipment | 4,462 | 4,131 |
| Office | 9,102 | 11,022 |
| Other general business | 66,233 | 52,224 |
| Professional and regulatory compliance fees | 42,140 | 41,723 |
| Service charges, clearing fees | 38,111 | 43,192 |
| Telephone, postage, courier | 29,733 | 29,979 |
| | $ 385,873 | $ 365,478 |
| **Occupancy** | | |
| Amortization - building | $ 6,700 | $ 6,700 |
| Maintenance, taxes, insurance - building | 34,365 | 24,597 |
| Rent | 1,625 | 700 |
| Utilities | 7,647 | 8,893 |
| | $ 50,337 | $ 40,890 |
| **Organizational** | | |
| Annual meeting | $ 126 | $ 156 |
| Development - officials | 9,310 | 5,861 |
| Other organizational | 1,251 | 1,401 |
| Remuneration - officials | 13,800 | 13,150 |
| SaskCentral dues | 2,410 | 3,716 |
| | $ 26,897 | $ 24,284 |

# ROCKGLEN-KILLDEER CREDIT UNION LIMITED
## SCHEDULE OF NON-INTEREST EXPENSES
## FOR THE YEAR ENDED DECEMBER 31, 2021
(with comparative figures for the year ended December 31, 2020)

**SCHEDULE 1 - Continued**

| | 2021 | 2020 |
|---|---|---|
| **Personnel** | | |
| Benefits | $ 96,169 | $ 93,452 |
| Development | 2,707 | 4,891 |
| Other personnel expenses | 5,518 | 4,517 |
| Salaries | 529,595 | 568,787 |
| | $ 633,989 | $ 671,647 |
| **Security** | | |
| Bonding insurance | $ 8,813 | $ 8,427 |
| Deposit guarantee assessment | 34,184 | 29,193 |
| Other security | 12,614 | 13,422 |
| | $ 55,611 | $ 51,042 |