

21

Municipal Hail Insurance

2021 Annual Report



SMHI

SASKATCHEWAN
MUNICIPAL HAIL
INSURANCE

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"The 1917 Municipal Hail Insurance Act made provision for the hail insurance business heretofore conducted by the Hail Insurance Commission to be operated by an Association to be known as 'The Saskatchewan Municipal Hail Insurance Association' with an elected board of nine directors. The original name has officially continued through the years without any change, but has been 'unofficially' shortened to the more popular name 'Municipal Hail'."

Excerpt from "A History of The Saskatchewan
Municipal Hail Insurance Association"

OFFICERS & MANAGEMENT STAFF

President	Wayne Black
Vice-President	Ken McBride
Member of Executive Committee	Foster Warriner
Chief Executive Officer	Rodney Schoettler
Chief Operating Officer	Mark Holfeld
Field Operations Manager	Darryl Tiefenbach
Office Manager	Lise Nargang

DIRECTORS

ELECTED UNTIL 2021

Maurice Berry, Carievale

Wayne Black, Tisdale

Blair Cummins, Blucher

ELECTED UNTIL 2022

John Wagner, Maple Creek

Foster Warriner, Alameda

Pauline Ziehl Grimsrud, Torquay

ELECTED UNTIL 2023

Jason Friesen, Watson

Ken McBride, Kindersley

Murray Purcell, Saskatoon

In accordance with the provisions of Section 16 of *The Municipal Hail Insurance Act*, the following reports are presented to the Minister and to the Reeve and Administrator of each Rural Municipality in the Province of Saskatchewan.

2022 Annual General Meeting

AGENDA

7:45 - 8:30 AM

Delegates' Registration & Breakfast

8:30 AM

Call to Order

Chairman's remarks & introduction of Directors

Adoption of Agenda

Adoption of minutes of last Annual Meeting (2020)

President's Report

Nomination for Election of Directors

- Nominations for terms expired in 2021 (2 years remaining)
- Nominations for terms expiring in 2022 (3 year term)

Speeches by Nominators & Candidates & election(s) where required
CEO's Report & introduction of Staff

Discussion and approval of the 2020 Consolidated Auditors' Report

Discussion and approval of the 2021 Consolidated Auditors' Report

Resolutions & other business

Adjournment



Wayne Black
President



Ken McBride
Vice-President



Foster Warriner
Exec. Comm. Member



Murray Purcell



Pauline Ziehl Grimsrud



Maurice Berry



Blair Cummins



John Wagner



Jason Friesen



Rodney Schoettler
Chief Executive Officer

directors' report

Ladies and Gentlemen:

The Directors take pleasure in presenting the one hundred and fifth Annual Report with the Consolidated Auditors' Report for the year ended December 31, 2021. Also included are the details of the ninety-eighth Annual Report covering the operations of Additional Municipal Hail Insurance (AMHI) for the year ended December 31, 2021.

The spring of 2021 began abnormally cool with below average moisture conditions. Limited precipitation in early May allowed most producers to get much of the crop in the ground ahead of normal timelines. By mid-May, the lack of moisture caused some producers to delay seeding operations in hopes the days ahead would bring much needed spring rain.

Rainfall would come the third week of May, however, the rain was followed by more dry weather, strong winds and the arrival of flea beetles. These conditions resulted in patchy emergence and delayed germination. By the end of May, 97 percent of the crop was in the ground and producers were once again in need of rain. Approximately 37.1 million acres were seeded to major grains, oil seeds and specialty crops in Saskatchewan, of which Municipal Hail insured 14.3 million or 38.5 percent of the total seeded acres.

The first week of June brought good rainfall to the northern half of the province. Unfortunately for some, this moisture came in the form of hail. Hail fell in the province nearly every day between June 5th and 14th producing approximately \$800,000 in losses across 76,050 acres in advance of the SMHI Crop Report filing deadline.

When producers filed their crop reports, they were offered the basic indemnity of \$25 per acre and a maximum of \$300 per acre. Again in 2021, the amount of coverage purchased per acre increased and as a result SMHI's business written grew from \$1.70 billion in 2020 to \$1.84 billion in 2021. On a combined basis the Association provided \$2.97 billion of coverage in 2021, which was up eight percent from the prior year's total of \$2.75 billion. Eighty-seven percent of the acres reported for coverage were insured under the full coverage option with the remaining acres being insured on a deductible coverage basis.

Localized rainfall benefited producers in some areas later in June, but the above average temperatures and persistent strong winds caused significant damage to many crops and a province wide drought began to take shape. This resulted in an increase to the total number of cancellations received in 2021, which totalled 71 - up significantly from the previous years' total of 19. These cancellations were received from 41 rural municipalities (RMs) for a total of 23,145 acres cancelled, reducing the 2021 hail taxes by \$44,406.

July would offer no reprieve from the heat and wind, so crops matured quickly throughout the month. The first major hail storm of the season occurred on July 11th with the heaviest of damage being received in the Holdfast and Earl Grey areas. In total, the July 11th storm produced losses of \$20.1 million on 399,415 acres. The next notable storm came on July 22nd, which saw claims on 523,412 acres for combined losses of \$31.0 million. A total of 50 RMs were hit by hail on this date with the most devastating storm starting in Alberta and carrying on across the northern part of our province. The largest losses that day came out of the Cut Knife, Canwood and Foam Lake areas. It would hail 27 of 31 days in the month of July and by the end a total of \$66.2 million in losses were incurred on 1,338,225 acres.

Much of the province received small amounts of rain in early August, but this did little to offset the ongoing drought and came too late to benefit the 2021 crop. It hailed on 28 of 31 days in August with three major storms coming later in the month. The first of these major storms came on August 23rd damaging 393,147 acres resulting in \$21.1 million in losses. Then on August 27th, 120,322 acres were damaged with \$5.5 million in losses and finally on August 31st producing \$21.3 million in losses on 305,487 acres. In the end, August produced losses of \$56.1 million on 1,057,086 acres, far greater than the \$19.8 million in losses on 750,033 acres the year prior.

By September already 36 percent of the crop was harvested, which was well ahead of the five-year average of 22 percent. It would hail on only nine out of 30 days in the month with the last major hail storm of the season hitting on the first day of September causing \$8.2 million in losses across 217,405 acres.

The weather would remain dry which allowed harvest operations to continue uninterrupted and by the end of the month over 95 percent of the crop was in the bin.

The dry weather would persist throughout the month of October with hail being reported on only a single day, October 14th. Soil moisture conditions would remain poor in many areas heading into winter.

The 2021 season was a challenge for producers due to lack of rainfall, strong winds and damaging hail. The above average temperatures wreaked havoc on crops throughout the growing season resulting in a severe prairie-wide crop production shortfall. Though strong commodity prices in the wake of this disaster have provided some reprieve for producers, the results of this past year reaffirm the importance that both multi-peril and crop hail insurance programs have in supporting agriculture in our province.

The season produced 77 storms over 254 RMs, below the five-year average (2016-2020) of 95 storms. However, the damage of these storms was more wide-spread, amounting to 5,971 claims received (above the five-year average of 5,558). Total acres claimed amounted to 2,731,998 (also above the five-year average of 2,485,518).

The heaviest volume of hail fell in the Rural Municipality of Cut Knife No. 439 which received 66 claims on 48,827 acres totalling losses of \$6.6 million. Next on the list was the RM of Longlaketon No. 219 who produced losses of \$6.1 million and then the RMs of Pense No. 160 and Kindersley No. 290, both with recorded losses of \$4.9 million on the season.

Fire claims for the season totalled 24, which was down from the 25 fire claims recorded in the previous season. Indemnity paid as a result of the fire claims amounted to just over \$188,000.

SMHI hail tax collections totalled 96 percent of the 2021 taxes levied compared to 101 percent for 2020.

During the period 1917 through 2021, Municipal Hail has paid indemnities amounting to 79.6¢ of each hail tax dollar levied.

This was the seventh year the Association provided crop hail coverage through AMHI and PMHI for producers in Alberta and Manitoba. In Manitoba, 696,296 acres were insured, which produced \$4.6 million of premium income. In Alberta, 508,250 acres were insured, producing \$4.6 million of premium. The losses paid in these two provinces totalled \$6.9 million, with the loss to premium coming in at just under 75 percent combined.

The Association posted a net underwriting loss of \$55.3 million in 2021, but the income generated by the surplus funds of \$22.8 million reduced the net loss to \$32.5 million.

In Municipal Hail's 105 years of providing crop hail protection for farmers and landowners, the Association has provided \$51.7 billion of coverage and paid losses totalling \$1.9 billion. This year, the Association provided \$2.97 billion of coverage and paid losses of \$132.3 million.

Director Foster Warriner of Alameda was recognized for completing 25 years on the Association's Board of Directors. Mr. Warriner was first elected to the Board in 1995.

Two members of our adjusting staff were also recognized for their service in 2021. Glenn Leontowich of Ituna (Provincial Supervisor) and Ron Sapergia of Moose Jaw (Area Supervisor) were both recognized for 25 years of service in the field.

It is with great sadness we must acknowledge the passing of two former directors, Clarence Hookenson of Kisbey and Ken Grad of Balgonie. Mr. Hookenson was a member of Municipal Hail's Board from 1968 to 1995, serving as Vice-President from 1987 to 1992. Mr. Grad was a member of the Board from 1988 to 2003, serving as President from 1992 to 1996. Both men will be sadly missed by all those who had the privilege of knowing them.

We would like to take this opportunity to once again extend our sincere appreciation to the Rural Municipalities and their Administrators for their continued support and willing assistance in delivering the Municipal Hail Insurance programs to producers and to our field and office staff for their efficient and dedicated service in 2021.

statistics

The following is a comparison of the years 2021 and 2020:

	SMHI	AMHI	PMHI	2021	2020
Total Risk	\$1,844,543,372	\$935,375,259	\$186,717,394	\$2,966,636,025	\$2,753,913,449
Hail Taxes/Premiums	\$64,095,683	\$30,229,391	\$6,852,227	\$101,177,301	\$94,574,953
Indemnity Paid	\$82,811,258	\$39,919,090	\$9,606,528	\$132,336,876	\$62,250,078
Average Charged Rate	3.47%	3.23%	3.67%	3.41%	3.43%
Number of Claims	4,328	1,408	235	5,971	5,297
Loss to Risk	4.49%	4.27%	5.14%	4.46%	2.26%
Loss to Taxes/Premiums	129.20%	132.05%	140.20%	130.80%	65.82%
Average Cost per Claim	\$19,134	\$28,352	\$40,879	\$22,163	\$11,752

Municipal Hail insured 11,100,128 acres in 2021, compared to 11,129,569 acres in 2020. The basic indemnity available in 2021 was \$25 per acre and the maximum was \$300 per acre.

The following information details the transactions regarding the continuing feature of Municipal Hail:

	2021	2020
Assessment Applications (new)	637	683
Withdrawal Applications	716	665

The terms of the following Board members expire at this Annual Meeting:

JOHN WAGNER

FOSTER WARRINER

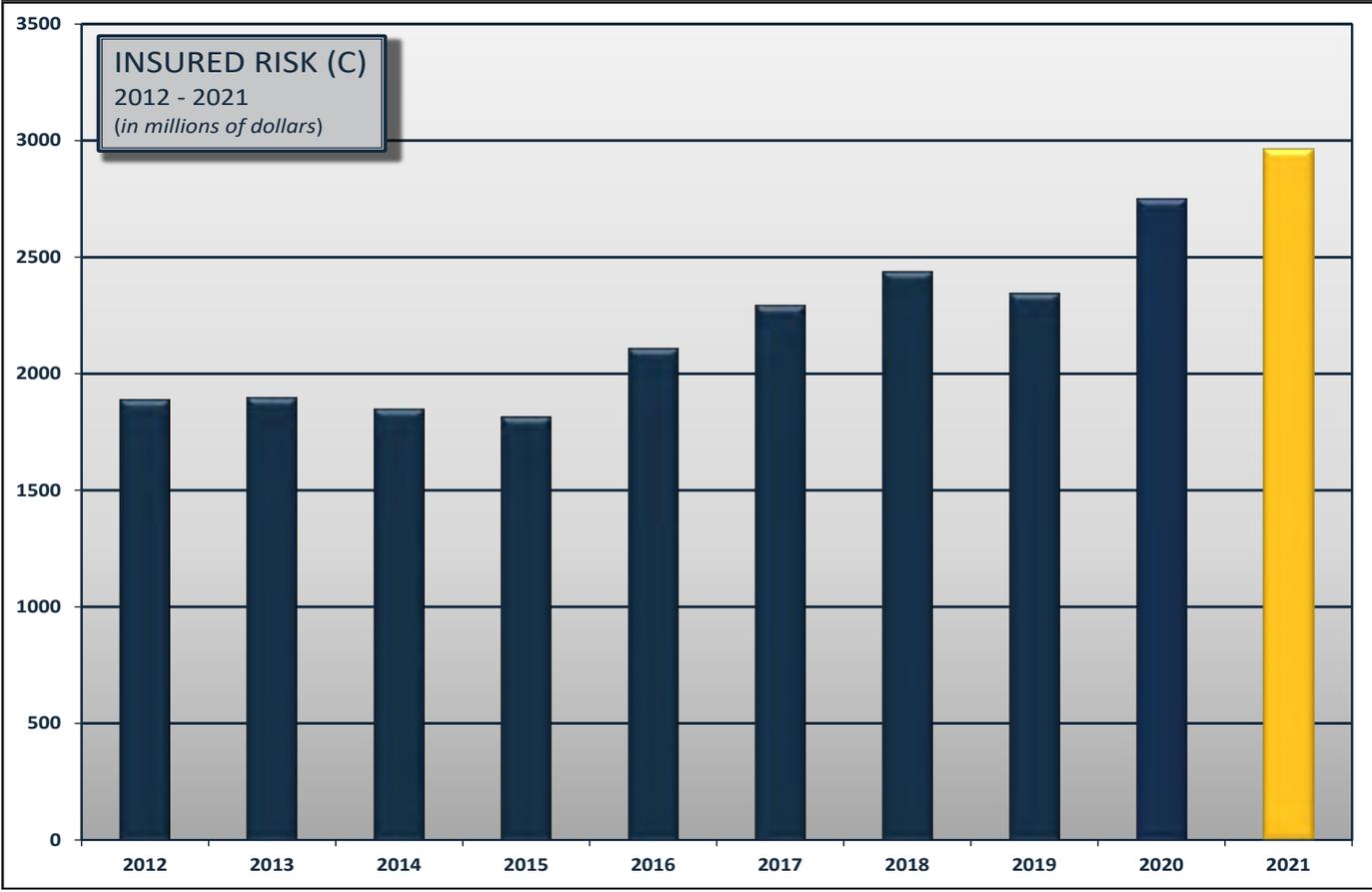
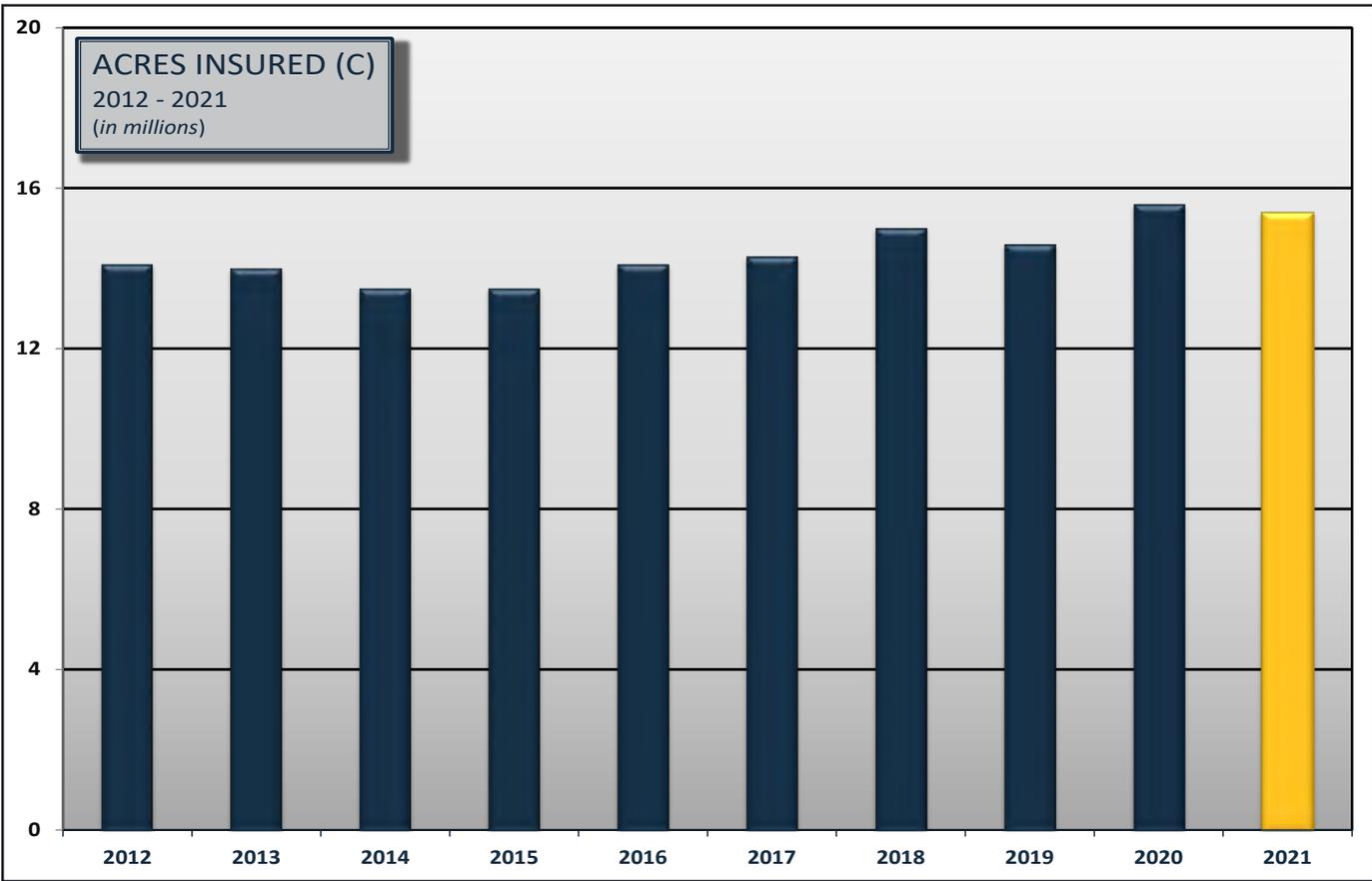
PAULINE ZIEHL GRIMSRUD

Respectfully submitted.

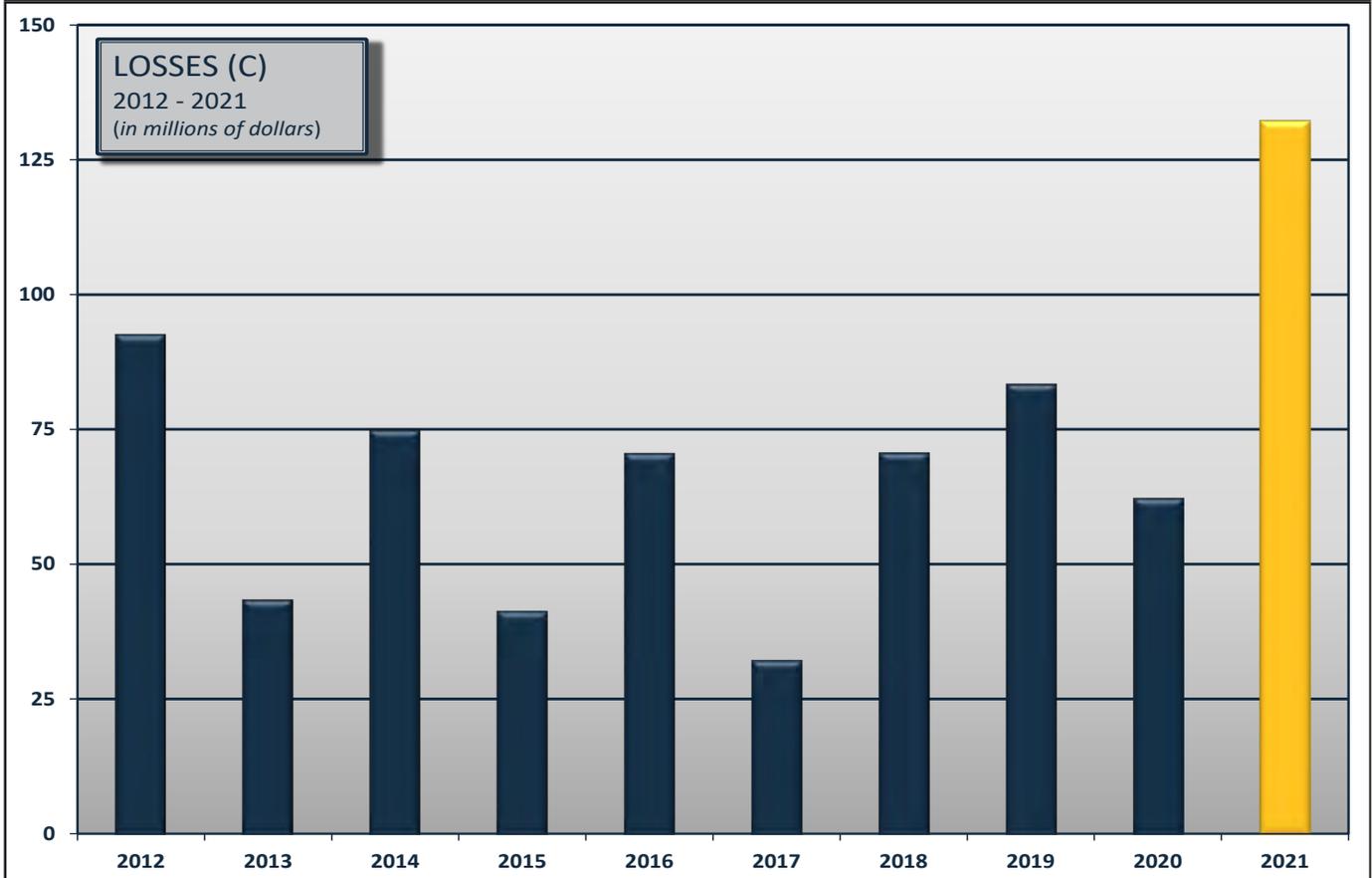
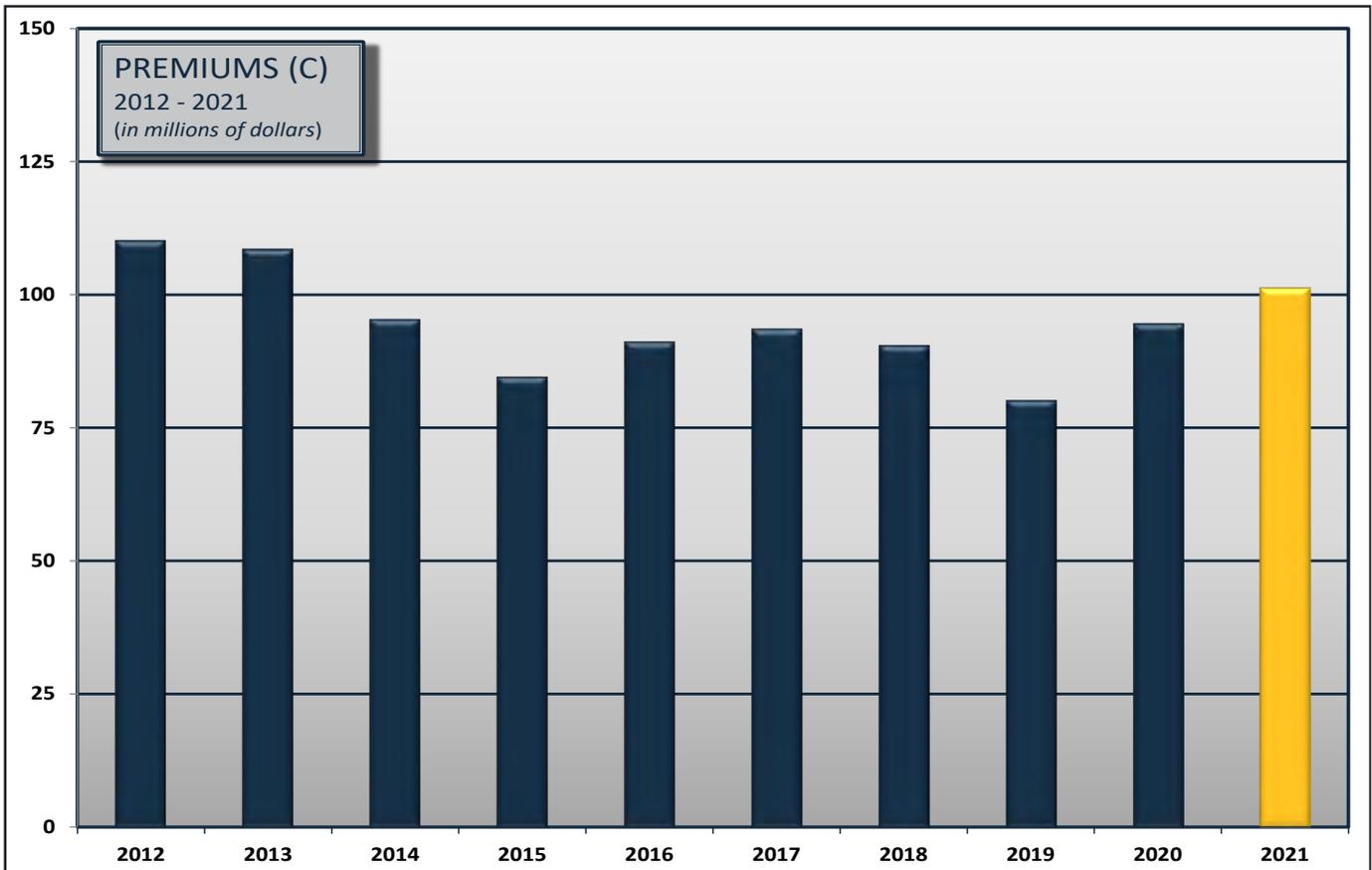
Signed on behalf of the Board.

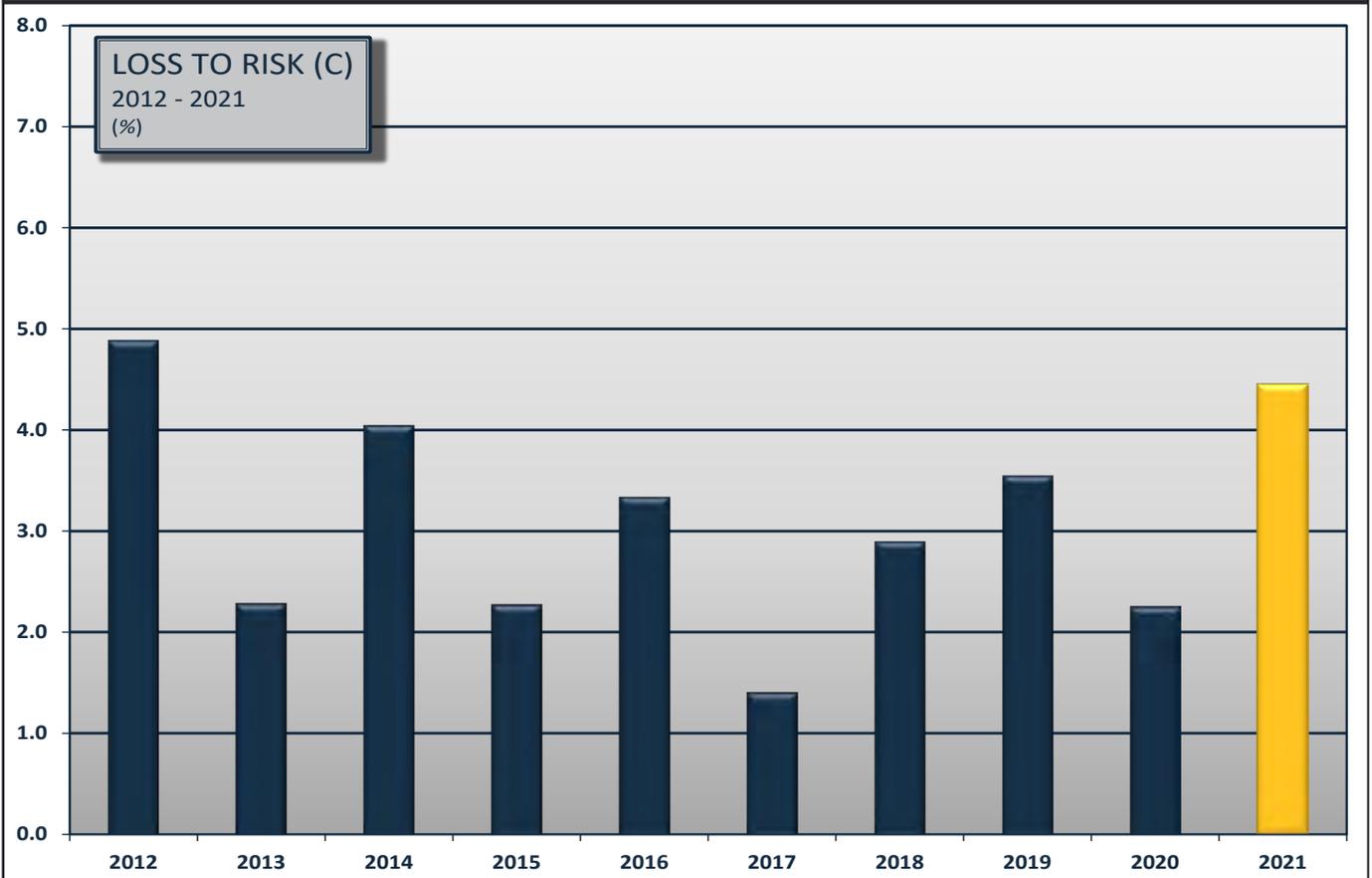
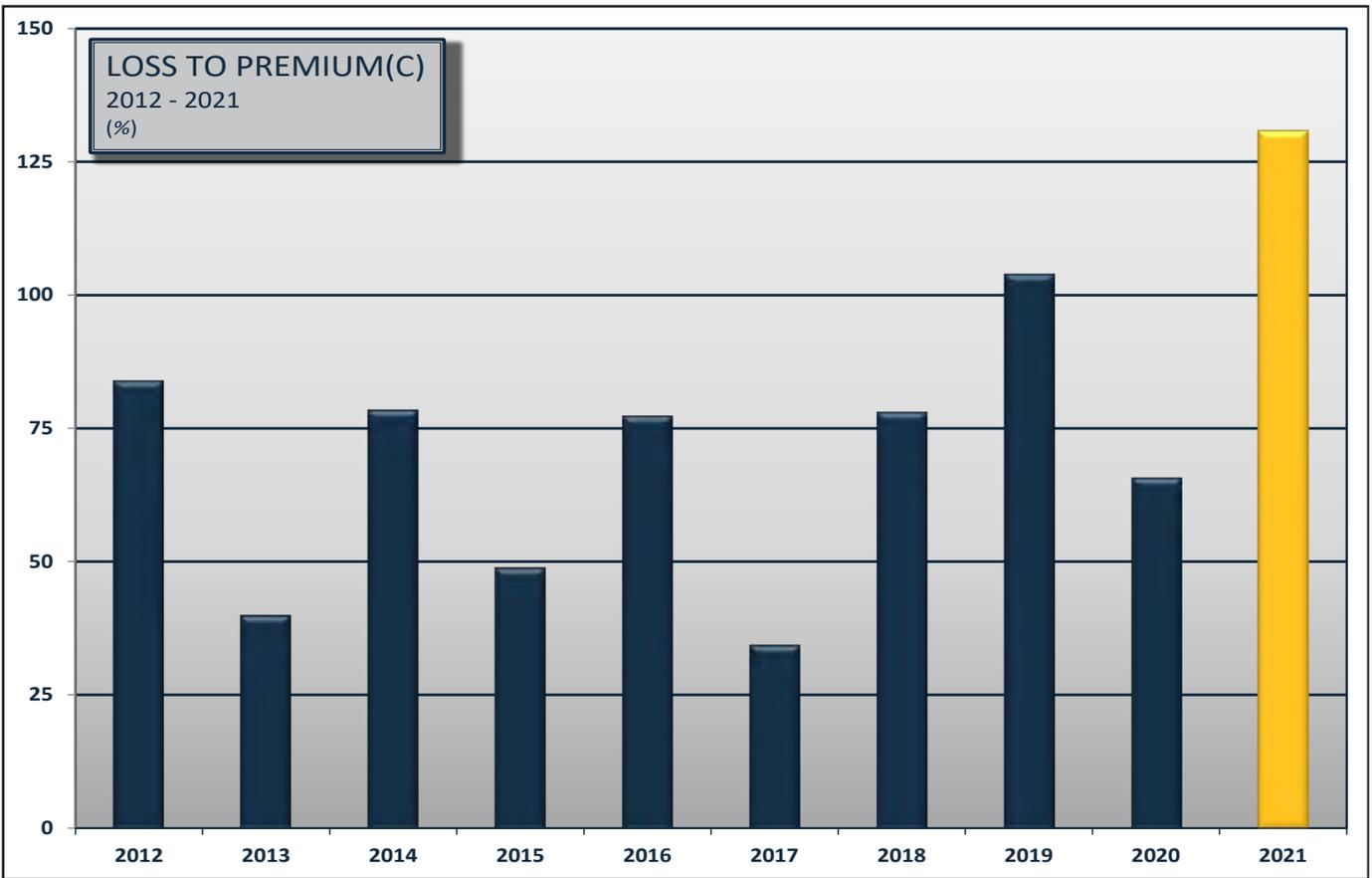
WAYNE BLACK, President
KEN McBRIDE, Vice-President

Regina, Saskatchewan
February 24th, 2022

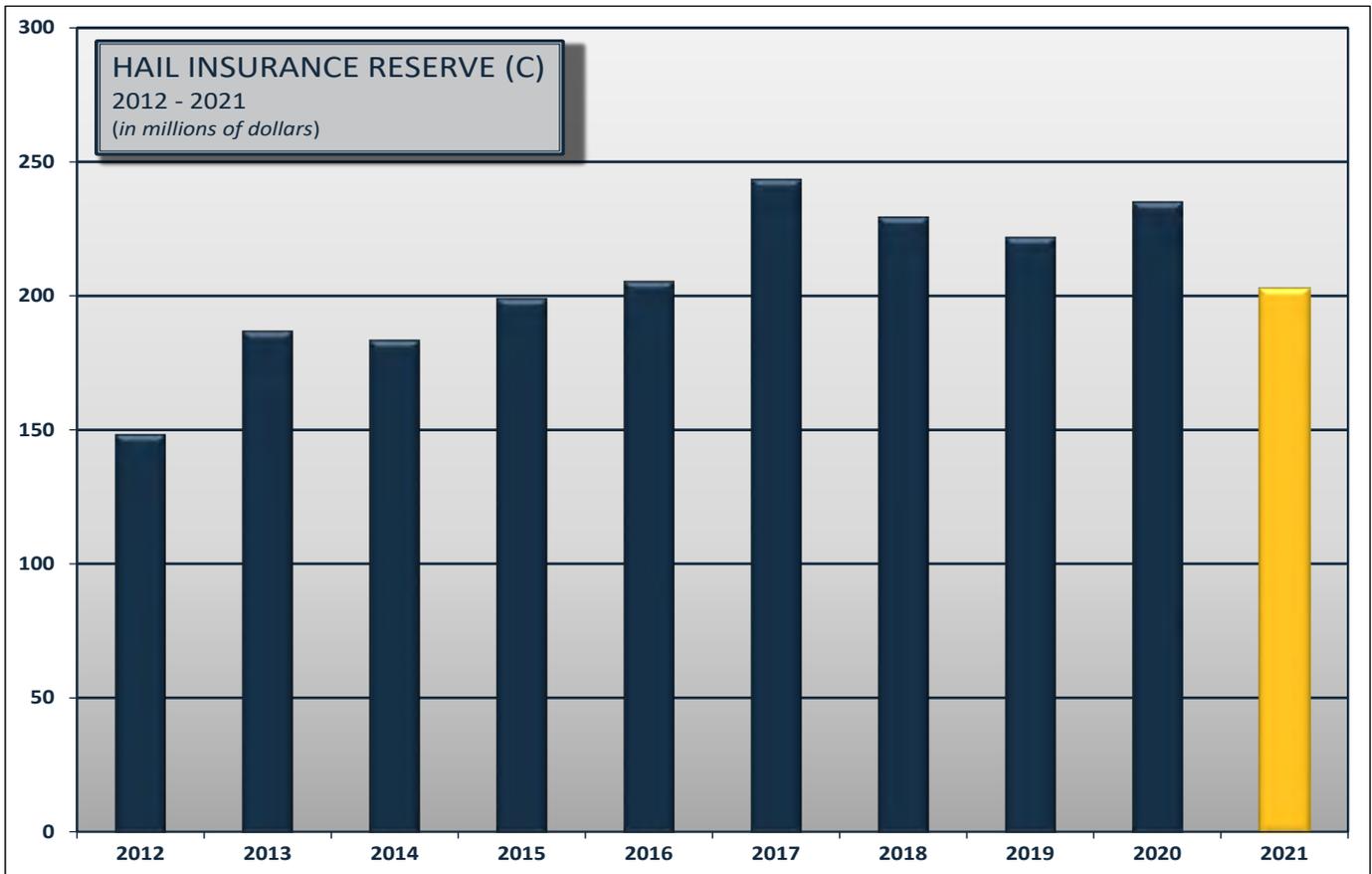


Municipal Hail
2021 Annual Report





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2021 Annual Report





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INDEPENDENT AUDITORS' REPORT

To the Directors

Opinion

We have audited the accompanying consolidated financial statements of Saskatchewan Municipal Hail Insurance Association (the "Association"), which comprise:

- the consolidated statement of financial position as at December 31, 2021
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in net assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies (hereafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Association as at December 31, 2021 and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

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 "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other 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.

Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in annual report.

Our opinion on the financial statements does not cover the other information and we do not and will 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 and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the annual report as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Municipal Hail 2021 Annual Report

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 Canadian accounting standards for not-for-profit organizations, 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 Association'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 Association or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 the financial statements.

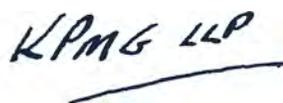
As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

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 Association'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 Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Association 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.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group, to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



Chartered Professional Accountants

Regina, Canada
February 24, 2022

consolidated statement of financial position

as at December 31:

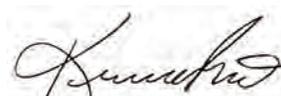
	<u>2021</u>	<u>2020</u>
Assets		
Cash	\$ 21,912,274	\$ 51,461,668
Investments (note 4)	187,930,432	178,153,171
Accrued interest on investments	969,338	1,324,687
Accounts receivable	9,975,058	9,978,521
Capital assets (note 5)	2,990,157	2,856,931
	<u>\$ 223,777,259</u>	<u>\$ 243,774,978</u>
Liabilities and Net Assets		
Liabilities:		
Deferred indemnities	\$ 19,755,432	\$ 6,599,975
Accounts payable	1,225,358	1,916,194
	<u>20,980,790</u>	<u>8,516,169</u>
Net Assets:		
Hail insurance reserve	13,113,052	13,113,052
Unrestricted	189,683,417	222,145,757
	<u>202,796,469</u>	<u>235,258,809</u>
Contingencies (note 9)	<u>\$ 223,777,259</u>	<u>\$ 243,774,978</u>

See accompanying notes.

On behalf of the Board.



Wayne Black, Director



Ken McBride, Director

consolidated statement of operations

Year ended December 31, 2021 with comparative figures for 2020

	<u>2021</u>	<u>2020</u>
Revenue:		
Assessments and premiums	\$ 101,177,301	\$ 94,574,953
Discounts	(3,086,211)	(2,721,222)
Penalties added	135,684	203,899
	<u>98,226,774</u>	<u>92,057,630</u>
Expenses:		
Indemnities	132,336,876	62,250,078
Reinsurance	8,985,638	9,010,658
Reinsurance recovery	(1,272,135)	-
Payments to RMs and agents	6,041,105	6,017,831
Administration	5,080,066	4,718,663
Adjustment costs	2,338,664	2,103,198
	<u>153,510,214</u>	<u>84,100,428</u>
Net underwriting income (loss)	<u>(55,283,440)</u>	<u>7,957,202</u>
Investment income (note 6)	22,821,100	5,196,881
Excess (deficiency) of revenue over expenses	<u>\$ (32,462,340)</u>	<u>\$ 13,154,083</u>

See accompanying notes.

consolidated statement of changes in net assets

Year ended December 31, 2021 with comparative figures for 2020

	<u>2021</u>	<u>2020</u>
Hail insurance reserve:		
Balance, beginning of year	\$ 13,113,052	\$ 12,524,482
Allocation from unrestricted net assets	-	588,570
	<u>13,113,052</u>	<u>13,113,052</u>
Unrestricted net assets:		
Balance, beginning of year	222,145,757	209,580,244
Excess (deficiency) of revenue over expenses	(32,462,340)	13,154,083
Allocation to hail insurance reserve	-	(588,570)
	<u>189,683,417</u>	<u>222,145,757</u>
Total net assets	<u>\$ 202,796,469</u>	<u>\$ 235,258,809</u>

See accompanying notes.

consolidated statement of cash flows

Year ended December 31, 2021 with comparative figures for 2020

	<u>2021</u>	<u>2020</u>
Cash flows from (used in):		
Operations:		
Excess (deficiency) of revenue over expenses	\$ (32,462,340)	\$ 13,154,083
Items not involving cash:		
Amortization of capital assets (note 5)	223,921	176,074
Loss (gain) on sale of investments (note 6)	(2,587,013)	598,240
Change in fair value of investments (note 6)	(11,972,419)	1,376,387
Changes in non-cash operating items:		
Accrued interest on investments	355,349	66,899
Accounts receivable	3,463	2,638,491
Deferred indemnities	13,155,457	(970,112)
Accounts payable	(690,836)	1,025,505
	(33,974,418)	18,065,567
Investing:		
Proceeds on sale or maturity of investments	71,341,389	46,141,389
Purchase of investments	(66,559,218)	(34,865,550)
Purchase of capital assets	(357,147)	(1,000,522)
	4,425,024	10,275,317
Increase (decrease) in cash	(29,549,394)	28,340,884
Cash, beginning of year	51,461,668	23,120,784
Cash, end of year	<u>\$ 21,912,274</u>	<u>\$ 51,461,668</u>

See accompanying notes.

notes to consolidated financial statements

December 31, 2021

1. Nature of operations:

Saskatchewan Municipal Hail Insurance Association (the Association) is incorporated under the authority of *The Municipal Hail Insurance Act* and its principal business is the provision of hail insurance in the Province of Saskatchewan. The Association has established two wholly-owned subsidiaries, Additional Municipal Hail Insurance (AMHI) to provide spot loss hail insurance coverage and Prairie Municipal Hail Insurance (PMHI) to act as an agency for AMHI.

2. Basis of preparation:

These consolidated financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations contained in Part III of the CPA Handbook.

3. Significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Association and its wholly-owned subsidiaries, AMHI & PMHI. All significant intercompany transactions have been eliminated.

(b) Financial assets and liabilities:

Financial instruments are recorded at fair value on initial recognition. Equity instruments, bonds, debentures, mutual funds and pooled funds that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry instruments at fair value. The Association has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment and the Association determines that there is a significant adverse change in the expected timing or amount of future cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset and the amount the Association expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

notes to consolidated financial statements

December 31, 2021

3. Significant accounting policies (continued):

(c) Income taxes:

The Association is exempt from income taxes under paragraph 149 (1) (d) of *The Income Tax Act*.

(d) Capital assets:

Capital assets are stated at cost less accumulated amortization. Amortization is provided on a straight-line basis using the following annual rates:

Asset	Rate
Building	3%
Intellectual property	10%
Furniture and equipment	3% - 25%
Software	10% - 25%

(e) Assessments and premiums:

Assessments, which consist of amounts levied by rural municipalities, and premiums, which consist of policies written on a cash basis for additional insurance, are reported at the amount written less cancellations.

(f) Hail insurance reserve:

The Association's subsidiary, AMHI, has established a hail insurance reserve pursuant to Section 8-94 of *The Insurance Act* which provides that it annually set aside at least 50% of the profit realized from its hail insurance business in the year until the amount of the reserve is equal to at least 50% of the net hail insurance premiums written during the preceding calendar year, at which proportion the reserve shall be maintained.

(g) Use of estimates:

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the period. Actual results could differ from those estimates.

notes to consolidated financial statements

December 31, 2021

4. Investments:

The Association's investments are as follows:

	2021	2020
Guaranteed investment certificates (GICs)	\$ 27,184,000	\$ 32,555,073
Bonds, debentures and notes:		
Federal government	3,533,299	2,084,076
Provincial government	4,995,996	9,081,576
Corporate	26,199,603	33,770,691
Fixed income funds ¹	22,511,441	12,723,687
	84,424,339	90,215,103
Equities	58,276,596	48,408,830
Mutual funds	13,751,965	15,572,091
Pooled funds	17,898,542	11,118,443
Other investments	13,578,990	12,838,704
	\$ 187,930,432	\$ 178,153,171

¹Includes bonds, debentures and notes

5. Capital assets:

	2021		2020	
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 891,465	\$ -	\$ 891,465	\$ 891,465
Building	1,857,413	975,848	881,565	905,416
Intellectual property	7,885	1,396	6,489	5,469
Furniture and equipment	976,377	843,412	132,965	162,076
Software	2,953,808	1,876,135	1,077,673	892,505
	\$ 6,686,948	\$ 3,696,791	\$ 2,990,157	\$ 2,856,931

Amortization expense of \$223,921 (2020 - \$176,074) was recorded in the current year and has been included in administration expense on the statement of operations.

notes to consolidated financial statements

December 31, 2021

6. Investment income:

	2021	2020
Investment income	\$ 8,261,668	\$ 7,171,508
Gain (loss) on sale of investments	2,587,013	(598,240)
Change in fair value of investments	11,972,419	(1,376,387)
	\$ 22,821,100	\$ 5,196,881

7. Reinsurance:

The Association follows the policy of reinsuring their undertakings of indemnity which limits the liability of the Association from claims in any year. Undertakings of indemnity and contracts of insurance are in force from the date of the undertakings or contracts to October 31 in the same calendar year.

8. Financial risk management:

The nature of the Association's operations result in a statement of financial position that consists primarily of financial assets and liabilities. The risks that arise are credit risk, market risk, liquidity risk and interest rate risk.

Significant financial risks are related to the Association's investments. These financial risks are managed by having an Investment Policy Statement which is approved annually by the Board of Directors. This policy provides guidelines to the investment manager for the asset mix of the portfolio using a prudent person approach. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes.

notes to consolidated financial statements

December 31, 2021

8. Financial risk management (continued):

(a) Credit risk:

Credit risk represents the potential for loss resulting from a counterparty failing to meet its obligations.

The Association's credit risk arises primarily from certain investments. The maximum credit risk to which it is exposed at December 31, 2021 is limited to the fair value of the financial assets summarized as follows:

	2021	2020
	Fair value	Fair value
Cash	\$ 21,912,274	\$ 51,461,668
Investments ¹	84,424,339	90,215,103
Accrued interest on investments	969,338	1,324,687
Accounts receivable	9,975,058	9,978,521
	\$ 117,281,009	\$ 152,979,979

¹Includes GICs, bonds, notes and debentures

Receivables are mostly due from hail insurance premiums and under current legislation, the Association has the right to collect these premiums through taxes and tax enforcement; therefore, the Association does not have an allowance for doubtful accounts.

Credit risk within investments is primarily related to GICs, bonds, notes and debentures. It is managed through the investment policy that limits debt instruments to those of high credit quality along with limits to the maximum notional amount of exposure with respect to any one issuer.

notes to consolidated financial statements

December 31, 2021

8. Financial risk management (continued):

Credit ratings for investments are as follows:

Credit Rating	2021	2021	2020	2020
	Fair value	Makeup of portfolio (%)	Fair value	Makeup of portfolio (%)
R1	\$ 27,184,000	32.2%	\$ 32,555,073	36.1%
AAA	3,634,039	4.3%	2,591,858	2.9%
AA	3,198,502	3.8%	4,701,642	5.2%
AA-	-	0.0%	990,930	1.1%
A+	1,696,754	2.0%	3,310,632	3.7%
A	11,553,512	13.7%	8,854,847	9.8%
A-	7,301,437	8.6%	16,150,621	17.9%
BBB+	5,408,851	6.4%	2,392,100	2.7%
BBB	1,675,457	2.0%	5,943,713	6.5%
BBB-	260,346	0.3%	-	0.0%
Not rated	22,511,441	26.7%	12,723,687	14.1%
Total	\$ 84,424,339	100.0%	\$ 90,215,103	100.0%

Not rated investments consist of fixed income funds that contain rated investments where no rating is established for the fund as a whole.

One issuer accounts for 10.4% (2020 – 10.9%) of the fair value of the portfolio.

Credit risk associated with reinsurers is managed through regular monitoring of credit ratings of the reinsurers utilized by the Association. Reinsurers' credit ratings range from AAA to BBB-based on the recent ratings by Standard & Poor's and A.M. Best.

(b) Market risk:

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates and equity prices. Market risk primarily impacts the value of investments.

Equities, mutual funds and pooled funds comprise 49.3% (2020 – 38.3%) of the fair value of the Association's total cash and investments. Individual holdings are diversified by geography, industry type and corporate entity. There has been no change to the risk exposures from the previous year.

(c) Liquidity risk:

Liquidity risk represents the potential for loss where an entity is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. The majority of financial liabilities, including deferred indemnities and accounts payable, are short-term in nature, due within one year. The Association generally maintains positive overall cash flows through cash generated from operations, as well as cash generated from investing activities. There has been no change to the risk exposures from the previous year.

notes to consolidated financial statements

December 31, 2021

8. Financial risk management (continued):

(d) Interest rate risk:

Details of significant terms and conditions and exposure to interest rate risk of investments are as follows:

	2021	2021	2020	2020
	Fair value	Average effective rates	Fair value	Average effective rates
GICs:				
One or less	\$ 9,000,000	2.7%	\$ 15,871,073	3.3%
After one through five	18,184,000	2.5%	16,684,000	3.3%
Bonds, debentures and notes:				
Federal government:				
One or less	501,427	0.0%	-	0.0%
After one through five	3,031,872	0.8%	2,084,076	2.2%
Provincial government:				
One or less	783,149	9.3%	1,313,194	3.8%
After one through five	1,014,345	7.7%	4,379,934	5.5%
After five	3,198,502	3.0%	3,388,448	3.0%
Corporate:				
One or less	15,754,783	2.7%	15,231,445	4.0%
After one through five	3,299,039	3.2%	4,960,354	2.1%
After five	7,145,781	3.5%	13,578,892	3.2%
Fixed income funds:				
One or less	22,511,441	2.5%	12,723,687	3.7%
	\$ 84,424,339		\$ 90,215,103	

The fair value and effective interest rates are shown by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or repay obligations with or without call or repayment penalties. Interest is generally receivable on a semi-annual basis.

notes to consolidated financial statements

December 31, 2021

9. Contingencies:

In common with the insurance industry in general, the Association is subject to litigation arising in the normal course of conducting its insurance business. The Association is of the opinion that this litigation will not have a significant effect on the financial position or results of operations of the Association.

10. Pension plan:

The Association's employees participate in the Municipal Employees Pension Plan, a multi-employer defined benefit pension plan. Pension costs of \$141,993 (2020 - \$140,484) are included in administration expense and comprise the employer contributions for current and past service of employees during this period. The Association's liability is limited to the required contributions.

11. Comparative figures:

Certain of the comparative figures have been reclassified to conform to current year presentation.

THE Farmers Dollar

Since 1917



Paid Out for Claims	79.7 cents
Paid Out for Expenses	12.8 cents
Reserve	(1.9) cents
Reinsurance	9.4 cents



SMHI



AMHI



PMHI