

# **CUNA Brokerage Services, Inc.**

**(SEC I.D. No. 8-30027)**

**Financial Statements and Supplemental Schedules as of and for the  
Year Ended December 31, 2021 and Report of Independent Registered Public  
Accounting Firm**

Filed pursuant to Rule 17a-5(e)(3) under Securities Exchange Act of 1934 as a PUBLIC DOCUMENT

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

OMB APPROVAL  
OMB Number: 3235-0123  
Expires: Oct. 31, 2023  
Estimated average burden  
hours per response: 12

ANNUAL REPORTS  
FORM X-17A-5  
PART III

SEC FILE NUMBER  
8-30027

FACING PAGE

Information Required Pursuant to Rules 17a-5, 17a-12, and 18a-7 under the Securities Exchange Act of 1934

FILING FOR THE PERIOD BEGINNING 01/01/2021 AND ENDING 12/31/2021  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF FIRM: CUNA Brokerage Services, Inc.

TYPE OF REGISTRANT (check all applicable boxes):

- ☒ Broker-dealer    ☐ Security-based swap dealer    ☐ Major security-based swap participant  
☐ Check here if respondent is also an OTC derivatives dealer

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use a P.O. box no.)

2000 Heritage Way  
(No. and Street)  
Waverly IA 50677  
(City) (State) (Zip Code)

PERSON TO CONTACT WITH REGARD TO THIS FILING

Kayla L. McGehee 608-665-4506 kayla.mcgehee@cunamutual.com  
(Name) (Area Code – Telephone Number) (Email Address)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose reports are contained in this filing\*

Deloitte & Touche LLP  
(Name – if individual, state last, first, and middle name)  
111 S Wacker Dr Chicago IL 60606  
(Address) (City) (State) (Zip Code)

10/20/2003 34  
(Date of Registration with PCAOB)(if applicable) (PCAOB Registration Number, if applicable)

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\* Claims for exemption from the requirement that the annual reports be covered by the reports of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis of the exemption. See 17CFR 240.17a-5(e)(1)(ii), if applicable.

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## OATH OR AFFIRMATION

I, Jenny Brock, swear (or affirm) that, to the best of my knowledge and belief, the financial report pertaining to the firm of CUNA Brokerage Services, Inc. (the "Company"), as of December 31, 2021, is true and correct. I further swear (or affirm) that neither the company nor any partner, officer, director, or equivalent person, as the case may be, has any proprietary interest in any account classified solely as that of a customer.

*Subscribed and sworn before me on  
this 28<sup>th</sup> day of February 2022*

*Kim Bautz*

Notary Public



Signature:

*Jenny Brock*

Title:

Principal Financial Officer

### This filing\*\* contains (check all applicable)

- ☒ (a) Statement of financial condition.
- ☐ (b) Notes to consolidated statement of financial condition.
- ☒ (c) Statement of income (loss) or, if there is other comprehensive income in the period(s) presented, a statement of comprehensive income (as defined in § 210.1-02 of Regulation S-X).
- ☒ (d) Statement of cash flows.
- ☒ (e) Statement of changes in stockholders' or partners' or sole proprietor's equity.
- ☐ (f) Statement of changes in liabilities subordinated to claims of creditors.
- ☒ (g) Notes to consolidated financial statements.
- ☒ (h) Computation of net capital under 17 CFR 240.15c3-1 or 17 CFR 240.18a-1, as applicable.
- ☐ (i) Computation of tangible net worth under 17 CFR 240.18a-2.
- ☒ (j) Computation for determination of customer reserve requirements pursuant to Exhibit A to 17 CFR 240.15c3-3.
- ☐ (k) Computation for determination of security-based swap reserve requirements pursuant to Exhibit B to 17 CFR 240.15c3-3 or Exhibit A to 17 CFR 240.18a-4, as applicable.
- ☐ (l) Computation for Determination of PAB Requirements under Exhibit A to § 240.15c3-3.
- ☒ (m) Information relating to possession or control requirements for customers under 17 CFR 240.15c3-3.
- ☐ (n) Information relating to possession or control requirements for security-based swap customers under 17 CFR 240.15c3-3(p)(2) or 17 CFR 240.18a-4, as applicable.
- ☒ (o) Reconciliations, including appropriate explanations, of the FOCUS Report with computation of net capital or tangible net worth under 17 CFR 240.15c3-1, 17 CFR 240.18a-1, or 17 CFR 240.18a-2, as applicable, and the reserve requirements under 17 CFR 240.15c3-3 or 17 CFR 240.18a-4, as applicable, if material differences exist, or a statement that no material differences exist.
- ☐ (p) Summary of financial data for subsidiaries not consolidated in the statement of financial condition.
- ☒ (q) Oath or affirmation in accordance with 17 CFR 240.17a-5, 17 CFR 240.17a-12, or 17 CFR 240.18a-7, as applicable.
- ☐ (r) Compliance report in accordance with 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- ☐ (s) Exemption report in accordance with 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- ☐ (t) Independent public accountant's report based on an examination of the statement of financial condition.
- ☒ (u) Independent public accountant's report based on an examination of the financial report or financial statements under 17 CFR 240.17a-5, 17 CFR 240.18a-7, or 17 CFR 240.17a-12, as applicable.
- ☐ (v) Independent public accountant's report based on an examination of certain statements in the compliance report under 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- ☐ (w) Independent public accountant's report based on a review of the exemption report under 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- ☐ (x) Supplemental reports on applying agreed-upon procedures, in accordance with 17 CFR 240.15c3-1e or 17 CFR 240.17a-12, as applicable.
- ☐ (y) Report describing any material inadequacies found to exist or found to have existed since the date of the previous audit, or a statement that no material inadequacies exist, under 17 CFR 240.17a-12(k).
- ☐ (z) Other: \_\_\_\_\_

\*\*To request confidential treatment of certain portions of this filing, see 17 CFR 240.17a-5(e)(3) or 17 CFR 240.18a-7(d)(2), as applicable

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholder of  
CUNA Brokerage Services, Inc.  
Waverly, Iowa

### **Opinion on the Financial Statements**

We have audited the accompanying statement of financial condition of CUNA Brokerage Services, Inc. (the "Company"), a wholly owned subsidiary of CUNA Mutual Investment Corporation, which is ultimately wholly owned by CUNA Mutual Holding Company, as of December 31, 2021, and the related statements of income (loss), changes in stockholder's equity, and cash flows, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **Emphasis of Matter**

As discussed in Note 1 to the financial statements, results of the Company may not be indicative of those of a stand-alone entity, as the Company is a member of a controlled group of affiliated companies. Our opinion is not modified with respect to this matter.

### **Report on Supplemental Schedules**

The supplemental schedules h, j and m listed in the accompanying table of contents have been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. The supplemental schedules are the responsibility of the Company's management. Our

audit procedures included determining whether the supplemental schedules reconcile to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental schedules. In forming our opinion on the supplemental schedules, we evaluated whether the supplemental schedules, including their form and content, are presented in compliance with Rule 17a-5 under the Securities Exchange Act of 1934. In our opinion, such schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

*Deloitte & Touche LLP*

February 28, 2022

We have served as the Company's auditor since 2004.

**CUNA Brokerage Services, Inc.**

## Statement of Financial Condition

December 31, 2021

(\$ in 000s, except for per share amounts)

**Assets**

Cash and cash equivalents	\$	23,299
Debt securities, at fair value		40,154
Accrued investment income		265
Receivable for commissions		7,372
Receivable for commissions - affiliates		4,361
Receivables - other		1,001
Federal income taxes recoverable from affiliate		984
Deposits with clearing organizations		105
Other assets		2,696
<b>Total assets</b>	\$	<b>80,236</b>

**Liabilities and Stockholder's Equity****Liabilities**

Commissions and accounts payable to affiliates	\$	22,458
Commissions and accounts payable - other		7,310
State income taxes payable to affiliate		62
Deferred tax liability		286
Other liabilities		846

<b>Total liabilities</b>		<b>30,962</b>
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**Stockholder's equity**

Common stock--no par value; 2,000 shares authorized with a \$300 stated value; 765 issued and outstanding	\$	230
Additional paid in capital		104,064
Accumulated (deficit)		(55,020)

<b>Total stockholder's equity</b>		<b>49,274</b>
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<b>Total liabilities and stockholder's equity</b>	\$	<b>80,236</b>
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See accompanying notes to financial statements.

**CUNA Brokerage Services, Inc.**

## Statement of Income (Loss)

Year Ended December 31, 2021

(\$ in 000s)

**Revenues**

Brokered commissions - affiliated	\$	51,657
Brokered commissions - unaffiliated		114,005
Fees		38,162
Wholesaling commissions		93
Total commissions and fees		203,917
Net investment income		1,423
Net realized and unrealized investment losses		(1,881)
Other		610
<b>Total revenues</b>		<b>204,069</b>

**Expenses**

Commissions, compensation and benefits		197,688
Administrative expenses		25,863
Clearing transaction fees		2,189
<b>Total expenses</b>		<b>225,740</b>
<b>(Loss) before income taxes</b>		<b>(21,671)</b>
Income tax (benefit)		(4,403)
<b>Net (loss)</b>		<b>\$ (17,268)</b>

See accompanying notes to financial statements.

**CUNA Brokerage Services, Inc.**

## Statement of Changes in Stockholder's Equity

Year Ended December 31, 2021

(\$ in 000s)

	Common Stock Shares	Stock Amount	Additional Paid in Capital	Accumulated (Deficit)	Total Stockholder's Equity
<b>Balance at January 1, 2021</b>	765	\$ 230	\$ 88,064	\$ (37,752)	\$ 50,542
Net (loss)	-	-	-	(17,268)	(17,268)
Capital contribution from parent	-	-	16,000	-	16,000
<b>Balance at December 31, 2021</b>	765	\$ 230	\$ 104,064	\$ (55,020)	\$ 49,274

See accompanying notes to financial statements.



**CUNA Brokerage Services, Inc.**

## Statement of Cash Flows

Year Ended December 31, 2021

(\$ in 000s)

**Cash flows from operating activities:**

Net (loss)	\$	(17,268)
Adjustments to reconcile net (loss) to net cash used in operating activities:		
Net realized and unrealized investment losses		1,881
Amortization of bond premium and discount		(11)
Deferred income taxes		(338)
Sales, calls, and maturities of debt securities		6,024
Changes in assets and liabilities:		
Accrued investment income		43
Receivable for commissions		(633)
Receivable for commissions - affiliates		(663)
Receivables - other		(261)
Other assets		639
Commissions and accounts payable to affiliates		(269)
Commissions and accounts payable - other		1,362
Federal income taxes recoverable from affiliate		110
State income taxes payable to affiliate		58
Other liabilities		470

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**Net cash used in operating activities** (8,856)

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**Cash flows from financing activities:**

Capital contribution from parent	16,000
Affiliate note receivable - loaned to affiliate	(134,594)
Affiliate note receivable - repayments from affiliate	134,594

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**Net cash provided by financing activities** 16,000

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**Net increase in cash and cash equivalents** 7,144**Cash and cash equivalents, beginning of year** 16,155

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**Cash and cash equivalents, end of year** \$ 23,299

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**Supplemental disclosure of cash and non-cash information:**

Net cash (received) from affiliate for income taxes	\$	(4,316)
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See accompanying notes to financial statements.

## **CUNA Brokerage Services, Inc.**

Notes to Financial Statements

Year Ended December 31, 2021

(\$ in 000s)

### **Note 1: Organization and Description of Business**

CUNA Brokerage Services, Inc. ("CBSI" or the "Company") is a wholly-owned subsidiary of CUNA Mutual Investment Corporation ("CMIC"), which is a holding company wholly-owned by CMFG Life Insurance Company ("CMFG Life"). CMFG Life is a life insurance company organized under the laws of Iowa for the primary purpose of serving the insurance needs of credit unions and consumers. The Company's ultimate parent is CUNA Mutual Holding Company ("CMHC"), a mutual insurance holding company organized under the laws of Iowa.

The Company is a broker-dealer registered with the Securities and Exchange Commission ("SEC") pursuant to the Securities Exchange Act of 1934 and an investment adviser registered with the SEC pursuant to the Investment Advisors Act of 1940. The Company is also a member of the Financial Industry Regulatory Authority, Inc. ("FINRA") and Securities Investor Protection Corporation ("SIPC"). The Company markets mutual funds, unit investment trusts, variable annuities, single premium deferred annuities, flexible premium deferred variable annuities, single premium deferred modified guaranteed indexed annuities, flexible premium variable life insurance, single premium deferred variable annuities with index-linked interest options, individual bonds and stocks, alternative investments (including public limited partnerships), exchange traded products and financial planning services (including managed account programs) primarily to credit union members. Some of the aforementioned product offerings are products managed by affiliates of the Company. The Company also sponsors its own managed account program; CBSI is the principal for this program and is primarily responsible for providing the services to the customer. As such, the Company contracts with affiliated and unaffiliated parties to offer the program and provide several options for investment management to its customers. The Company is an introducing broker. As such, the Company accepts customer orders but does not hold customers' funds or investments. Rather, the Company arranges for other brokers to clear the transactions on behalf of the customer.

See Note 9 for information about a change in the Company's operating model that will become effective in 2022.

As discussed in Note 7, CMFG Life and its affiliates provide substantially all of the services required in the conduct of the Company's operations. While the Company believes that these transactions were at reasonable terms, the results of the Company's operations may have materially differed from the results reflected in the accompanying financial statements if the Company did not have these relationships.

In March 2020, the World Health Organization declared a worldwide pandemic regarding the outbreak of a novel coronavirus disease ("COVID-19"). The pandemic has affected the states where the Company operates, causing economic effects including temporary closures of businesses and reduced consumer activity. Because of the size, breadth and length of the pandemic, all of the direct and indirect consequences of COVID-19 are not yet known and may not emerge for some time. The COVID-19 pandemic has created a higher risk of mortality, negatively impacted the U.S. and global economy, and created increased volatility in capital markets. As a result, the Company's ability to sell products through its regular channels and the demand for its products and services could be impacted. The extent to which the COVID-19 pandemic could continue to impact the Company's business, results of operations, or financial condition will depend on continued future developments which are highly uncertain and cannot be predicted. To date, the Company has not experienced any material impacts to its financial position or results of operations and related cash flows.

### **Note 2: Summary of Significant Accounting Policies**

**Basis of Presentation** - The accompanying financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

## CUNA Brokerage Services, Inc.

Notes to Financial Statements

Year Ended December 31, 2021

(\$ in 000s)

**Use of Estimates** - The preparation of financial statements in conformity with U.S. GAAP 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 amounts of revenues and expenses during the reporting period. Such estimates include the valuation of debt securities, receivables for renewal and trailing commissions, payables for commissions, other revenue and other liabilities. Actual results could differ from those estimates.

**Cash and Cash Equivalents** - Cash and cash equivalents include unrestricted deposits in financial institutions and money market mutual funds. Money market mutual funds are stated at their net asset value as of the measurement date, which approximates fair value.

**Receivables for Commissions** - Receivables primarily represent an estimate of trailing commissions due to the Company from its clearing broker-dealer, mutual fund families and insurance carriers based on a percentage of the customers' assets under management and commissions (including from affiliates) due for the sale of financial products.

**Receivables - Other** - Primarily includes receivables for marketing support fees, fee revenue and amounts owed from a clearing firm.

**Debt Securities** - Investments in debt securities are classified as proprietary trading securities and are carried at fair value. Changes in fair value (both realized and unrealized) are recorded within the statement of income (loss).

**Other Assets** - Other assets mainly consist of advance payments related to agreements with various credit unions to exchange up-front payments for marketing and administrative support of CBSI's brokerage program and exclusive rights to the brokerage relationship. The advance payments are amortized over the life of the agreements, which typically range from two to five years; the amortization is recognized within administrative expenses in the statement of income (loss). Other assets also includes general prepaid fees and expenses.

**Commissions and Accounts Payable** - Commissions and accounts payable mainly consist of amounts due to representatives and credit union reimbursements. Commissions payable represent amounts due to the Company's sales representatives in connection with estimated trailing commissions and sales. Credit union reimbursements are amounts due to credit unions for certain expenses that arise due to the production of new and renewal business. These expenses are paid both by the Company directly and through its affiliates, including CMFG Life, whereby the Company records an amount within commissions and accounts payable to affiliates. These costs are recorded as an obligation at the time the corresponding revenue is recognized. The credit union reimbursements are based on a percentage of deposits. As of December 31, 2021, the amount payable for credit union reimbursements was \$4,857.

**Brokered Commissions – Affiliated and Unaffiliated** - The Company's revenue from contracts with customers is earned primarily based on contracts with mutual fund companies, insurance companies, and other product providers. Revenue consists primarily of up-front sales commissions and renewal or trailing commissions from the sale of annuities, mutual funds and other investments. Some of the annuity commission revenue is from the sale of products offered by CMFG Life and MEMBERS Life Insurance Company ("MLIC"), a wholly-owned subsidiary of CMIC.

The Company has a single performance obligation to market and sell products offered by product sponsors. Consequently, up-front commissions based on a percentage of the amount purchased are recognized as revenue on the trade date and collected when the trades are settled. When applicable, an estimate of chargebacks is accrued. Renewal and trailing commissions are generally earned based on a percentage of the customers' assets under management. The Company has concluded the estimate of these future commissions

## **CUNA Brokerage Services, Inc.**

Notes to Financial Statements

Year Ended December 31, 2021

(\$ in 000s)

is constrained because the amount may vary significantly based on customer behavior and the value of the underlying investments, among other factors. Therefore, renewal and trailing commission revenue is recorded when the account values become fixed and determinable and is generally collected on a monthly or quarterly basis in arrears. For the year ended December 31, 2021, up-front and renewal affiliated brokered commission income was \$47,282 and \$4,375, respectively, and is included within brokered commissions - affiliated on the statement of income (loss). For the year ended December 31, 2021, up-front and renewal unaffiliated brokered commission income was \$57,223 and \$56,782, respectively, and is included within brokered commissions - unaffiliated on the statement of income (loss).

**Fees** - The Company has a single performance obligation to market and sell products offered by product sponsors, primarily mutual funds and other investment advisors. Fee revenue mainly consists of managed account program fees, 12b-1 fees (distribution fees) and advisory fees. Fees are typically collected on a monthly or quarterly basis in arrears.

Managed account and 12b-1 fees are based on a percentage of assets under management. The Company has concluded that the estimate of these fees is constrained because the amount may vary significantly based on customer behavior and the value of the underlying investments, among other factors. Therefore, the fees are recorded when the account values become fixed and determinable.

The Company also earns advisory fee income which is a performance obligation provided over time. The fee revenue is based on a percentage of assets under management and is recognized when the service is provided and the account values become fixed and determinable. Each of the fees discussed in this section are included in fee income on the statement of income (loss).

Both the managed account program fees and advisory fee income revenue sources are earned on unaffiliated managed account programs marketed by the Company, as well as the Company-sponsored managed account platform. The Company recorded fee income related to the Company-sponsored managed account platform of \$11,498 for the year ended December 31, 2021.

**Wholesaling Commissions** - The Company has a single performance obligation to market and sell products offered by product sponsors. Wholesaling commission revenue consists of trailing and renewal wholesaling commissions and marketing support fees. Trailing and renewal wholesaling commissions are received from an unaffiliated insurer for ongoing support that is provided by the Company's advisors with respect to the insurer's products. Marketing support fees are based on sales or assets under management and an estimate of the earned amount is recognized as revenue on a monthly basis. Wholesaling commissions are generally collected on a monthly basis in arrears.

**Net Investment Income** - Primarily includes interest earned on debt securities, money market mutual funds and interest income from money loaned to affiliates. Interest income is recognized on an accrual basis.

**Net Realized and Unrealized Investment Gains** - Primarily includes unrealized holding gains and losses of debt securities. Realized gains and losses on the sale of investments are determined on a specific identification basis and are recorded on the trade date.

**Other Revenue** - Primarily includes the Company's share of fees earned pursuant to a revenue-share agreement with a clearing agent.

**Commissions, Compensation and Benefits** - Commissions, compensation and benefits includes the cost of the Company's affiliated and unaffiliated sales representatives (including credit union and league partners) who distribute and market mutual fund and insurance products (some of which are products of CMFG Life and MLIC). Compensation expense also includes costs incurred by the Company for engaging affiliated and

## CUNA Brokerage Services, Inc.

Notes to Financial Statements  
Year Ended December 31, 2021  
(\$ in 000s)

unaffiliated strategists to manage customer funds that are invested in the Company-sponsored managed account platform. Commissions, compensation and benefits are recognized as expense when incurred.

**Clearing Transaction Fees** - Certain securities transactions for the Company's customers are executed and cleared by an independent clearing agent on a fully disclosed basis. Clearing agent fees are recognized as an expense when incurred.

**Income Taxes** - The Company recognizes deferred taxes for the tax consequences of differences between the financial reporting and tax basis of assets and liabilities. Deferred tax assets and liabilities are measured by applying the enacted tax rates to the difference between the financial statement and tax basis of assets and liabilities. The Company records a valuation allowance for deferred tax assets if it determines it is more likely than not that the asset will not be realized.

For federal income taxes, the Company records current tax benefits and deferred tax assets utilizing a benefits-for-loss approach. Under this approach, current benefits are realized and deferred tax assets are considered realizable by the Company when realized or realizable by the consolidated group of which the Company is a member even if the benefits would not be realized on a stand-alone basis. The Company records a valuation allowance for federal deferred tax assets if it determines it is more likely than not that the asset will not be realized by the consolidated group. For state income taxes, current benefits are realized and deferred tax assets are considered realizable by the Company when realized or realizable as determined on a stand-alone basis.

**Segment Reporting** - The Company operates as one reportable business segment. This one reportable business segment sells proprietary and brokered insurance and investment products. This determination was based on the manner in which management uses financial information to evaluate business performance and because the Company's customer base is substantially the same for all products.

### Note 3: Investments

#### Debt Securities

The amortized cost and estimated fair values of debt securities at December 31, 2021 are as follows:

	Amortized Cost	Estimated Fair Value
Domestic corporate securities	\$ 34,887	\$ 35,948
Foreign corporate securities	3,993	4,206
Total debt securities	\$ 38,880	\$ 40,154

**CUNA Brokerage Services, Inc.**

Notes to Financial Statements  
Year Ended December 31, 2021  
(\$ in 000s)

The amortized cost and estimated fair values of investments in debt securities at December 31, 2021, by contractual maturity, are as follows:

	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>
Due in one year or less	\$ 3,984	\$ 4,071
Due after one year through five years	23,001	24,179
Due after five years through ten years	11,895	11,904
Total debt securities	\$ 38,880	\$ 40,154

**Net Investment Income**

Sources of net investment income for the year ended December 31, 2021 are as follows:

	<b>2021</b>
Gross investment income	
Debt securities	\$ 1,247
Cash and cash equivalents	11
Interest income - affiliated	253
Total gross investment income	1,511
Investment expenses	88
Net investment income	\$ 1,423

## **CUNA Brokerage Services, Inc.**

Notes to Financial Statements

Year Ended December 31, 2021

(\$ in 000s)

### **Note 4: Fair Value**

The Company uses fair value measurements to record the fair value of certain assets.

#### ***Valuation Hierarchy***

Fair value is defined as 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.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value of assets into three broad levels. The Company has categorized its financial instruments, based on the degree of subjectivity inherent in the valuation technique, as follows:

- Level 1: Inputs are directly observable and represent quoted prices for identical assets in active markets the Company has the ability to access at the measurement date.
- Level 2: All significant inputs are observable, either directly or indirectly, other than quoted prices included in Level 1, for the asset. This includes: (i) quoted prices for similar instruments in active markets, (ii) quoted prices for identical or similar instruments in markets that are not active, (iii) inputs other than quoted prices that are observable for the instruments and (iv) inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3: One or more significant inputs are unobservable and reflect the Company's estimates of the assumptions that market participants would use in pricing the asset, including assumptions about risk.

For purposes of determining the fair value of the Company's assets, observable inputs are those inputs used by market participants in valuing financial instruments, which are developed based on market data obtained from independent sources. The Company uses prices and inputs that are current as of the measurement date. In some instances, valuation inputs used to measure fair value fall into different levels of the fair value hierarchy. The category level in the fair value hierarchy is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The hierarchy requires the use of market observable information when available for measuring fair value. The availability of observable inputs varies by investment.

#### ***Valuation Process***

The Company is responsible for the determination of fair value and the supporting assumptions and methodologies. The Company gains assurance on the overall reasonableness and consistent application of valuation methodologies and inputs and compliance with accounting standards through the execution of various processes and controls designed to provide assurance that the Company's assets are appropriately valued.

The Company has policies and guidelines that require the establishment of valuation methodologies and consistent application of such methodologies. These policies and guidelines govern the use of inputs and price source hierarchies and provide controls around the valuation processes. These controls include appropriate review and analysis of prices against market activity or indicators of reasonableness, approval of price source changes, price overrides, methodology changes and classification of fair value hierarchy levels. The valuation policies and guidelines are reviewed and updated as appropriate.



**CUNA Brokerage Services, Inc.**

Notes to Financial Statements  
Year Ended December 31, 2021  
(\$ in 000s)

**Transfers Between Levels**

There were no transfers between levels during the year ended December 31, 2021.

**Fair Value Measurement – Recurring Basis**

The following table summarizes the Company's assets that are measured at fair value on a recurring basis as of December 31, 2021.

Assets, at Fair Value	Level 1	Level 2	Level 3	Total
Cash equivalents <sup>1</sup>	\$ 23,250	\$ -	\$ -	\$ 23,250
Debt securities				
Domestic corporate securities	-	35,948	-	35,948
Foreign corporate securities	-	4,206	-	4,206
Total debt securities	-	40,154	-	40,154
Total assets, at fair value	\$ 23,250	\$ 40,154	\$ -	\$ 63,404

<sup>1</sup>Excludes cash of \$49 that is not subject to fair value accounting.

**Determination of Fair Values**

The Company determines the estimated fair value of its assets using primarily the market approach and the income approach. The use of quoted prices and matrix pricing and similar techniques are examples of market approaches, while the use of discounted cash flow methodologies is an example of the income approach.

A summary of valuation techniques for classes of financial assets by fair value hierarchy level is as follows:

**Level 1 Measurements**

*Cash equivalents:* Consists of money market mutual funds; valuation is based on the closing price as of the measurement date.

**Level 2 Measurements**

*Domestic corporate securities:* Valued based on observable inputs such as the U.S. Treasury yield curve, market indicated spreads by security rating and quoted prices for identical assets in markets that are not active and/or similar assets in markets that are active.

*Foreign corporate securities:* Valued based on observable inputs such as the applicable, country-specific market yield curve, market indicated spreads by security rating and quoted prices for identical assets in markets that are not active and/or similar assets in markets that are active.



**CUNA Brokerage Services, Inc.**

Notes to Financial Statements  
Year Ended December 31, 2021  
(\$ in 000s)

***Fair Value Measurements for Financial Instruments Not Reported at Fair Value***

The fair value of accrued investment income approximates its carrying value due to its short-term nature.

**Note 5: Income Tax**

The Company is included in the consolidated federal income tax return filed by CMHC, the Company's ultimate parent. The Company has entered into a tax sharing agreement with CMHC and its subsidiaries. The agreement provides for the allocation of tax expense based on each subsidiary's contribution to the consolidated federal income tax liability. Pursuant to the agreement, subsidiaries that have incurred losses are reimbursed regardless of the utilization of the loss in the current year.

Income tax (benefit) for the year ended December 31, 2021 is as follows:

	2021
Current tax expense (benefit):	
Federal	\$ (4,206)
State	142
Total current income tax (benefit)	(4,064)
Deferred income tax expense (benefit):	
Federal	(338)
Total deferred income tax expense (benefit)	(338)
Income tax (benefit)	\$ (4,403)

Income tax (benefit) differs from the amount computed by applying the U.S. federal corporate income tax rate to (loss) before income taxes for the year ended December 31, 2021 due to the items listed in the following reconciliation:

	2021
Tax (benefit) computed at federal corporate tax rate	\$ (4,551)
Meals and entertainment	13
State income taxes (net of federal benefit)	112
Federal income tax related to prior years	23
Income tax (benefit)	\$ (4,403)

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purposes.

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(\$ in 000s)

Significant components of the Company's deferred tax assets and liabilities as of December 31, 2021 are as follows:

	2021
Deferred tax assets	
State loss carryforwards	\$ 4,112
Deferred income	80
General expense accrual	44
Gross deferred tax assets	4,236
Less: Valuation allowance for state deferred tax assets	(4,053)
Net deferred tax assets	183
Deferred tax liabilities	
Investments	356
Prepaid expenses	113
Gross deferred tax liabilities	469
Deferred tax liability	\$ 286

As of December 31, 2021, the Company recorded a valuation allowance of \$4,053 against its net state deferred tax assets including deferred tax assets related to state net operating loss carryforwards. Under the benefits-for-loss approach, a valuation allowance has not been recorded against the Company's federal deferred tax assets as they are expected to be realized by the consolidated group. The valuation allowance increased \$1,037 in 2021 primarily due to additional state operating losses incurred.

As of December 31, 2021, the Company had state operating loss carryforwards of \$65,516 with a related tax benefit of \$4,112. These carryforwards expire in various years through 2041. The Company did not have any federal capital loss, operating loss or credit carryforwards.

The Company has determined that no material uncertain tax positions exist as of December 31, 2021. As a result, the Company has not recorded any liabilities for unrecognized tax benefits as of December 31, 2021. Management does not anticipate a material change to the Company's uncertain tax positions during 2022.

It is the Company's policy to recognize accrued interest and penalties related to uncertain tax benefits in income taxes.

For the major jurisdictions where it operates, the Company is generally no longer subject to income tax examination by tax authorities for the years ended before 2018. In 2021, the Company received Joint Committee on Taxation approval for its refund claims filed for tax years 2010 and 2012.

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Year Ended December 31, 2021  
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### **Note 6: Net Capital Requirements**

The Company, as a registered broker-dealer in securities, is subject to the SEC Uniform Net Capital Rule ("Rule 15c3-1"), which requires maintenance of minimum net capital and requires that the ratio of "aggregate indebtedness" to "net capital" shall not exceed 15 to 1, as those terms are defined in Rule 15c3-1. At December 31, 2021, the Company had net capital under Rule 15c3-1 of \$41,031 which was \$38,967 in excess of its required net capital of \$2,064 and the Company's ratio of aggregate indebtedness to net capital, as defined, was .75 to 1.

The Company has entered into a written agreement with its clearing firm, which requires the clearing firm to perform a Proprietary Accounts of Brokers reserve computation with regard to all the assets of the Company held by the clearing firm. Consequently, \$100 held on deposit at the clearing firm is treated as an allowable asset for purposes of the Company's net capital computation.

### **Note 7: Related Party Transactions**

CMFG Life provides services to the Company as defined in an expense sharing agreement and charges the Company for the cost of such services. The agreement covers expenses related to sales and marketing, administrative, operations and other support and infrastructure costs. CMFG Life pays commissions and compensation expenses on behalf of the Company, for which the Company reimburses CMFG Life. Total expenses related to the Company for services provided by CMFG Life for the year ended December 31, 2021 were reported as follows on the accompanying statement of income (loss).

		2021
Commissions, compensation and benefits	\$	194,307
Administrative expenses		23,744
Total related-party expenses	\$	218,051

Related party balances are generally settled monthly.

Commissions, compensation and benefits, which are paid by CMFG Life on behalf of CBSI in accordance with the expense sharing agreement, includes compensation expense and benefits and other related expenses.

Accounts receivable from affiliate are netted against commissions and accounts payable to affiliates, when a right of offset exists.

Commission income received by the Company from CMFG Life and MLIC for brokering proprietary products of CMFG Life and MLIC is included within brokered commissions – affiliated on the statement of income (loss) and was \$2,173 and \$49,484, respectively, for the year ended December 31, 2021.

The Company collected amounts on behalf of its affiliate CUNA Mutual Insurance Agency, Inc. ("CMIA"). As of December 31, 2021, \$1,426 was due to CMIA and reflected in commissions and accounts payable to affiliates.

The Company hires MEMBERS Capital Advisors, Inc. ("MCA") a subsidiary of CMIC, as its investment advisor. MCA is utilized to invest the Company's invested assets and serves as an investment advisor for the Company-

## **CUNA Brokerage Services, Inc.**

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Year Ended December 31, 2021

(\$ in 000s)

sponsored managed account program. The Company recorded MCA investment management fees totaling \$88 in 2021 related to MCA's management of the Company's investments; these fees are netted within net investment income on the statement of income (loss).

The Company recorded strategist revenue and expense of \$778 related to MCA's investment management services provided on the Company-sponsored managed account program. These revenues and expenses are included in fees and commissions, compensation and benefits, respectively, on the statement of income (loss).

The Company has an agreement with CMFG Life whereby the Company loans funds to CMFG Life to enable CMFG Life to efficiently manage cash and liquidity and for the Company to earn investment income. There was no balance outstanding at December 31, 2021. The Company earned \$253 from CMFG Life for the year ended December 31, 2021, which was included in net investment income.

### **Note 8: Commitments and Contingencies**

**Financial Instruments with Off-Balance Sheet Credit Risk** - As an introducing broker, the Company accepts customer orders and arranges for other independent licensed brokers to clear the orders on a fully disclosed basis. As a result, the Company does not hold customer funds or securities.

Under the terms of the Company's agreement with its clearing agent, the Company has agreed to indemnify the independent licensed brokers for customers introduced by the Company that are unable to satisfy the terms of their contracts. The Company monitors its customer activity by reviewing information it receives from its clearing agent on a daily basis. Additionally, the Company seeks to control the aforementioned risks by requiring the registered representatives to compensate the Company for nonperformance by the customer.

At December 31, 2021, the Company has recorded a liability of \$846 to cover deficit balances of customers who were introduced to the Company's clearing agent, in the event such customers are unable to satisfy their obligations. This balance is included in other liabilities. The Company believes that the likelihood that it will be required to make additional payments under this agreement is remote; therefore, no additional contingent liability is recorded in the statement of financial condition.

**Regulatory Matters** - In the normal course of business, the Company may discuss matters raised during routine examinations or other inquiries with its regulators. These matters could result in censures, fines, or other sanctions. Management believes the outcome of any resulting actions will not be material to the Company's financial statements. However, the Company is unable to predict the outcome of these matters.

**Pending Litigation** - The Company is a defendant in various legal actions arising out of the conduct of its business. In the opinion of management, the ultimate liability, if any, resulting from all such pending actions will not materially affect the financial condition, results of operations or cash flows of the Company.

### **Note 9: Operating Model Change**

In June 2021, CBSI entered into an agreement with LPL Financial LLC ("LPL"), an independent broker-dealer; this agreement relates to activity that will commence in 2022. The Company has notified credit unions and their customers of its intention to transfer customer accounts to LPL in the second quarter of 2022 and of the LPL and CBSI services provided thereafter. Under the agreement, representatives will be registered with and supervised by LPL and LPL will act as the introducing and clearing broker and asset custodian for assets under management related to most mutual funds, annuities, managed account programs, and other products sold by these former CBSI representatives to credit unions, credit union members and other customers. Accordingly,

## **CUNA Brokerage Services, Inc.**

Notes to Financial Statements

Year Ended December 31, 2021

(\$ in 000s)

CBSI will no longer act as an introducing broker - dealer after the transfer date, and will instead focus its broker - dealer activities on the distribution of Company products to credit unions, credit union members and other customers and the continued credit union relationship, marketing, and data analytic support of credit unions outlined in the agreement with LPL.

LPL will retain a share of gross commission and fee revenues from the products sold by LPL representatives, as mentioned above and defined in the LPL agreement. LPL will also make a transition assistance payment to CBSI in 2022, in part to reimburse the Company for expenses of the related account transfers. The payment is dependent on the amount of assets transferred to LPL. The expenses are primarily for the cost of notifying customers and reimbursing them for an account termination fee levied by the existing asset custodian. A portion of the transition assistance payment may be recognized ratably over the ten-year term of the agreement with LPL.

### **Note 10: Subsequent Events**

The Company evaluated subsequent events through February 28, 2022, the date the financial statements were issued.

See Note 9 for information about a change in the Company's operating model that will become effective in 2022.

## **SUPPLEMENTAL SCHEDULES**

**CUNA Brokerage Services, Inc.**

Supplemental Schedule of Computation of Net Capital

For Brokers and Dealers Pursuant to Rule 15c3-1

Under the Securities Exchange Act of 1934

December 31, 2021

(\$ in 000s)

Stockholder's equity	\$	49,274
Deductions:		
Nonallowable assets		5,696
Haircut on securities		2,547
Net capital		41,031
Amounts included in total liabilities which represent aggregate indebtedness:		
Commissions and accounts payable to affiliates		22,458
Commissions and accounts payable - other		7,310
Deferred tax liability		286
State income taxes payable to affiliate		62
Other liabilities		846
Total aggregate indebtedness		30,962
Capital requirement:		
Minimum requirement (greater of \$50 or 6-2/3% of aggregate indebtedness)		2,064
Net capital in excess of requirement	\$	38,967
Ratio of aggregate indebtedness to net capital		75.45%

There is not a material difference between the net capital reported above and that reported in the Company's Part IIA (Unaudited) FOCUS Report filed on January 26, 2022.

**CUNA Brokerage Services, Inc.****Supplemental Schedule of Computation of Reserve Requirements****For Brokers and Dealers Pursuant to Rule 15c3-3****Under the Securities Exchange Act of 1934****Year Ended December 31, 2021**

The Company claimed an exemption from 17 C.F.R. § 240.15c3-3 under the following provisions of 17 C. F.R. § 240.15c3-3 (k)(2)(ii): Who, as an introducing broker or dealer, clears all transactions with and for customers on a fully disclosed basis with a clearing broker or dealer, and who promptly transmits all customer funds and securities to the clearing broker or dealer which carries all of the accounts of such customers and maintains and preserves such books and records pertaining thereto pursuant to the requirements of §§ 240.17a-3 and 240.17a-4 of this chapter, as are customarily made and kept by a clearing broker or dealer. The Company does not claim exemption (k)(2)(i), but also does not trigger a requirement under SEA Rule 15c3-3 because the Company is never in possession or control of customer cash or securities (given the Company transacts through a separate clearing broker-dealer or conducts business directly with mutual fund companies (via the Company's subscription way basis transactions, which are further described below).

The Company is also filing the Exemption Report because the Company's other business activities contemplated by Footnote 74 of the SEC Release No. 34-70073 adopting amendments to 17 C.F.R. § 240.17a-5 are limited to: effecting securities transactions via subscriptions on a subscription way basis where the funds are payable to the issuer or its agent and not to the Company, and the Company (1) did not directly or indirectly receive, hold, or otherwise owe funds or securities for or to customers, (other than funds received and promptly transmitted for effecting transactions via subscriptions on a subscription way basis where the funds are payable to the issuer or its agent and not to the Company); (2) did not carry accounts of or for customers; and (3) did not carry PAB accounts (as defined in Rule 15c3-3) throughout the most recent fiscal year, except as described in the Company's Exemption Report.



**CUNA Brokerage Services, Inc.**

Supplemental Schedule of Information Relating to the Possession or  
Control Requirements Under Rule 15c3-3  
Under the Securities Exchange Act of 1934  
Year Ended December 31, 2021

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The Company does not carry customer accounts or otherwise hold customer funds. The Company is exempt from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934, as the Company's activities are limited to those set forth in the conditions for exemption appearing in paragraph (k)(2)(ii) of Rule 15c3-3, and the Company otherwise limits its business activities to effecting securities transactions via subscriptions on a subscription way basis where the funds are payable to the issuer or its agent and not to the Company.