

Management's Responsibility for Financial Reporting

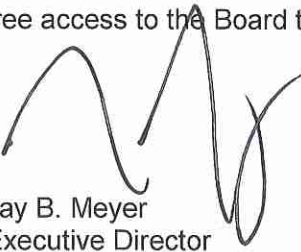
To the Members
Saskatchewan Association of Rural Municipalities

Management has responsibility for preparing the accompanying financial statements and ensuring that all information in the annual financial report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and making objective judgments and estimates in accordance with Canadian accounting standards for not-for-profit organizations.

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 safeguarded and proper records maintained.

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

External auditors are appointed by the Board of Directors to audit the financial statements and meet separately with both the Board and management to review their findings. The external auditors report directly to the members and their report follows. The external auditors have full and free access to the Board to discuss their audit and findings.

A handwritten signature in black ink, appearing to read "Jay B. Meyer". The signature is fluid and cursive, with a large initial "J" and "M".

Jay B. Meyer
Executive Director

A handwritten signature in blue ink, appearing to read "Catherine Patterson". The signature is cursive and elegant.

Catherine Patterson, CPA, CA
Director of Finance



Independent Auditors' Report

To the Members
Saskatchewan Association of Rural Municipalities

We have audited the accompanying financial statements of the Saskatchewan Association of Rural Municipalities which comprise the consolidated statement of financial position as at December 31, 2017 and the consolidated statements of operations, changes in fund balances and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Association as at December 31, 2017 and its results of operations and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

February 15, 2018
Regina, Saskatchewan

Chartered Professional Accountants

**Saskatchewan Association of Rural Municipalities
Consolidated Statement of Financial Position**

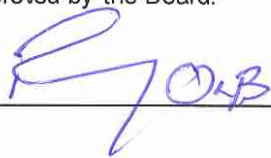
At December 31, 2017

(with comparative figures at December 31, 2016)

	2017	2016
Assets		
Current Assets		
Cash	\$ 3,617,813	\$ 2,232,628
Amounts Receivable	752,931	573,606
Accrued Interest Receivable	47,965	48,688
Investments ^{Note 3}	9,138,460	10,430,742
Inventory ^{Note 1(d)}	16,264	272,678
Prepaid Expenses & Deposits	61,165	113,479
	13,634,598	13,671,821
Long-Term Assets		
Investments ^{Note 3}	15,344,578	14,760,582
Capital Assets ^{Note 5}	7,382,916	3,270,503
	22,727,494	18,031,085
Total Assets	\$ 36,362,092	\$ 31,702,906
Liabilities & Fund Balance		
Current Liabilities		
Amounts Payable ^{Note 6}	\$ 5,731,601	\$ 1,577,750
Deferred Contributions & Revenue ^{Note 7}	373,877	128,997
Accrued Insurance Claims ^{Note 9}	881,422	545,478
	6,986,900	2,252,225
Long-Term Liabilities		
Due to Investment Pool ^{Note 10}	3,523,000	-
	3,523,000	-
Fund Balance:		
General Fund	6,397,279	6,081,688
Restricted Funds:		
Insurance & Benefit Funds	20,224,037	19,584,482
Other Funds	(769,124)	3,784,511
	25,852,192	29,450,681
Total Liabilities & Fund Balance	\$ 36,362,092	\$ 31,702,906

The accompanying notes form an integral part of the financial statements.

Approved by the Board:





Saskatchewan Association of Rural Municipalities
Consolidated Statement of Operations
For The Year Ended December 31, 2017
(with comparative figures for the year ended December 31, 2016)

	2017	2016
General Fund		
General Revenues		
Membership Fees	\$ 820,933	\$ 644,630
Investment Income ^{Note 4}	196,046	382,103
Administration Fees ^{Note 11}	1,643,101	1,585,313
Convention Income	326,564	281,637
Contributions	306,395	227,576
Other Revenues	84,347	90,793
	3,377,386	3,212,052
Member Services (Schedule 1) ^{Note 13}	11,955,305	10,893,111
	15,332,691	14,105,163
General Expenses		
Conventions & Division Meetings	336,412	296,639
Board & Other Meetings	419,752	413,884
Advocacy & Communications Expenses	124,353	141,504
Meetings & Conferences	21,972	24,483
Staff Salaries & Other Staff Expenses	1,561,834	1,426,161
Office Expenses	59,872	57,632
General Service Expenses	109,578	96,270
Property & Amortization	674,651	512,498
Interest on Loan	37,995	-
Other Expenses	52,300	41,026
	3,398,719	3,010,097
Member Services (Schedule 1) ^{Note 13}	11,618,381	10,574,566
	15,017,100	13,584,663
General Fund Surplus	315,591	520,500
Insurance & Benefit Restricted Funds (Schedule 2)		
Premiums & Other Revenues	5,369,622	5,960,213
Claims Expense, SARM Fee & Other Expenses	4,739,957	5,502,361
Insurance & Benefit Funds Surplus	629,665	457,852
Other Restricted Funds (Schedule 3)		
Contributions, Fees & Interest	14,509,542	17,475,187
Program Expenses	19,063,177	17,764,827
Other Restricted Funds Net Change	(4,553,635)	(289,640)
 Consolidated Surplus / Change in Fund Balance	 \$ (3,608,379)	 \$ 688,712

The accompanying notes form an integral part of the financial statements.

Saskatchewan Association of Rural Municipalities
Consolidated Statement of Changes in Fund Balance
For The Year Ended December 31, 2017

	Fund Balance - Beginning of the Year	Member Contributions (Withdrawals)	Transfers To (From) Fund Balance	Surplus (Deficit)/ Net Change for the Year	Fund Balance - End of the Year
General Fund	\$ 6,081,688	\$ -	\$ -	\$ 315,591	\$ 6,397,279
Insurance & Benefit Restricted Funds:					
SARM Benefits	3,199,227	-	-	289,275	3,488,502
Liability Self-Insurance	13,388,260	9,890	-	258,527	13,656,677
Fidelity Bond Self-Insurance	420,232	-	-	5,419	425,651
Property Self-Insurance	2,576,763	-	-	76,444	2,653,207
	<u>19,584,482</u>	<u>9,890</u>	<u>-</u>	<u>629,665</u>	<u>20,224,037</u>
Other Restricted Funds^{Note 14}					
MREP Program	2,029,732	-	-	(4,235,298)	(2,205,566)
PREP Program	404,124	-	-	(49,366)	354,758
Invasive Plant Management	(15,452)	-	-	2,977	(12,475)
Invasive Plant Control	(19,734)	-	-	18,439	(1,295)
Strategic Initiatives Program	1,235,101	-	(379)	(305,102)	929,620
MCDP Program	(379)	-	379	-	-
Beaver Control Program	145,692	-	-	(10,978)	134,714
Beaver Management in Parks	23,198	-	-	(23,198)	-
Irrigation Structures Program	(37,392)	-	-	37,392	-
MLDP Program	19,621	-	-	11,499	31,120
	<u>3,784,511</u>	<u>-</u>	<u>-</u>	<u>(4,553,635)</u>	<u>(769,124)</u>
Totals	<u>\$ 29,450,681</u>	<u>\$ 9,890</u>	<u>\$ -</u>	<u>\$ (3,608,379)</u>	<u>\$ 25,852,192</u>

The accompanying notes form an integral part of the financial statements.

Saskatchewan Association of Rural Municipalities
Consolidated Statement of Cash Flows
For The Year Ended December 31, 2017
(with comparative figures for the year ended December 31, 2016)

	<u>2017</u>	<u>2016</u>
Operating Activities		
General Fund Surplus	\$ 315,591	\$ 520,500
Items Not Affecting Cash:		
Amortization of Capital Assets	42,402	18,102
Amortization of Deferred Contribution to Purchase Capital Assets	(16,362)	(10,733)
Insurance & Benefit Restricted Funds Surplus	629,665	457,852
Other Restricted Funds Change in Fund Balance	<u>(4,553,635)</u>	<u>(289,640)</u>
	(3,582,339)	696,081
Members' Contributions - Liability Self Insurance Plan	9,890	19,165
Members' Building Contributions	-	152,440
External Contribution to Purchase Capital Assets	258,185	95,266
Change in Non-Cash Current Assets	130,126	(341,889)
Change in Current Liabilities Other Than Deferred Contributions	<u>4,492,852</u>	<u>(4,275,917)</u>
Cash Provided (Used)	<u>1,308,714</u>	<u>(3,654,854)</u>
 Financing and Investing Activities		
Investment in Capital Assets	(4,154,815)	(1,077,866)
Net Change in Investments	<u>4,231,286</u>	<u>2,724,743</u>
Cash Provided	<u>76,471</u>	<u>1,646,877</u>
 Increase (Decrease) in Cash	1,385,185	(2,007,977)
Cash, Beginning of Year	<u>2,232,628</u>	<u>4,240,605</u>
 Cash, End of Year	<u><u>\$ 3,617,813</u></u>	<u><u>\$ 2,232,628</u></u>

The accompanying notes form an integral part of the financial statements.

Saskatchewan Association of Rural Municipalities
Schedule 1 - Operations Summary - Member Services

For The Year Ended December 31, 2017

(with comparative figures for the year ended December 31, 2016)

	<u>2017</u>	<u>2016</u>
Prairie Petroleum Buying Group		
Fuel & Lubricant Sales	\$ 3,620,629	\$ 3,168,564
Purchases & Program Fees	<u>3,607,106</u>	<u>3,155,861</u>
Surplus	<u>13,523</u>	<u>12,703</u>
Trading Services		
Sales & Rebates	2,102,031	1,954,604
Purchases & Other Expenses	<u>1,951,266</u>	<u>1,835,715</u>
Surplus	<u>150,765</u>	<u>118,889</u>
Legal Services		
Fees for Service and Disbursements	595,617	745,479
Staff Salaries & Other Staff Expenses	375,991	369,429
Other Direct Expenses	<u>239,707</u>	<u>372,506</u>
(Deficit) Surplus	<u>(20,081)</u>	<u>3,544</u>
Community Planning Services		
Fees for Service and Disbursements	98,018	114,493
Staff Salaries & Other Staff Expenses	223,729	180,662
Other Direct Expenses	<u>13,555</u>	<u>17,637</u>
Deficit	<u>(139,266)</u>	<u>(83,806)</u>
Insurance and Benefit Programs		
Premium Revenues	5,422,468	4,845,204
Premium Expenses	<u>5,147,458</u>	<u>4,594,753</u>
Surplus	<u>275,010</u>	<u>250,451</u>
Rural Councillor		
Advertising Fees	40,160	42,735
Printing & Distribution Expenses	<u>43,211</u>	<u>41,035</u>
(Deficit) Surplus	<u>(3,051)</u>	<u>1,700</u>
Other Member Services		
Fees for Service	76,382	22,032
Expenses	<u>16,358</u>	<u>6,968</u>
Surplus	<u>60,024</u>	<u>15,064</u>
Total Revenues	11,955,305	10,893,111
Total Expenses	<u>11,618,381</u>	<u>10,574,566</u>
Surplus	<u>\$ 336,924</u>	<u>\$ 318,545</u>

The accompanying notes form an integral part of the financial statements.

Saskatchewan Association of Rural Municipalities
Schedule 2 - Operations Summary -
Insurance & Benefit Restricted Funds
For The Year Ended December 31, 2017
(with comparative figures for the year ended December 31, 2016)

	<u>2017</u>	<u>2016</u>
SARM Benefits Plan		
Premiums	\$ 2,135,410	\$ 2,067,786
Investment Income	162,717	311,151
Total Revenues	<u>2,298,127</u>	<u>2,378,937</u>
Claims Expense	1,467,038	1,853,670
SARM Administration Fee ^{Note 11}	533,852	516,946
Other Expenses	7,962	1,359
Total Expenses	<u>2,008,852</u>	<u>2,371,975</u>
Surplus	<u>289,275</u>	<u>6,962</u>
Liability Self-Insurance Plan		
Premiums	553,172	520,596
Investment and Other Income	561,701	1,087,904
Total Revenues	<u>1,114,873</u>	<u>1,608,500</u>
Claims Expense ^{Note 9}	171,839	625,609
SARM Administration Fee ^{Note 11}	165,952	156,179
Other Expenses	518,555	573,738
Total Expenses	<u>856,346</u>	<u>1,355,526</u>
Surplus	<u>258,527</u>	<u>252,974</u>
Fidelity Bond Self-Insurance Plan		
Premiums	56,105	48,705
Investment Income	18,712	31,447
Recovery of Claims	578	-
Total Revenues	<u>75,395</u>	<u>80,152</u>
Claims Expense ^{Note 9}	51,868	2,035
SARM Administration Fee ^{Note 11}	16,832	14,612
Other Expenses	1,276	-
Total Expenses	<u>69,976</u>	<u>16,647</u>
Surplus	<u>5,419</u>	<u>63,505</u>
Property Self-Insurance Program		
Premiums	1,646,243	1,539,094
Investment Income	140,963	279,801
Recovery of Claims	94,021	73,729
Total Revenues	<u>1,881,227</u>	<u>1,892,624</u>
Claims Expense ^{Note 9}	1,117,937	1,136,414
SARM Administration Fee ^{Note 11}	493,873	461,728
Other Expenses	192,973	160,071
Total Expenses	<u>1,804,783</u>	<u>1,758,213</u>
Surplus	<u>76,444</u>	<u>134,411</u>
Total Revenues	5,369,622	5,960,213
Total Expenses	<u>4,739,957</u>	<u>5,502,361</u>
Surplus	<u>\$ 629,665</u>	<u>\$ 457,852</u>

The accompanying notes form an integral part of the financial statements.

Saskatchewan Association of Rural Municipalities
Schedule 3 - Operations Summary -
Other Restricted Funds
For The Year Ended December 31, 2017
(with comparative figures for the year ended December 31, 2016)

	<u>2017</u>	<u>2016</u>
Municipal Roads for the Economy Program		
Contributions & Interest	\$ 11,036,529	\$ 14,174,954
Program Expenses	<u>15,271,827</u>	<u>14,149,000</u>
Change in Fund Balance	<u>(4,235,298)</u>	<u>25,954</u>
Provincial Rat Eradication Program		
Contributions & Interest	1,405,356	1,403,412
Program Expenses	<u>1,454,722</u>	<u>1,374,945</u>
Change in Fund Balance	<u>(49,366)</u>	<u>28,467</u>
Invasive Plant Management Program		
Contributions	112,977	69,958
Program Expenses	<u>110,000</u>	<u>113,397</u>
Change in Fund Balance	<u>2,977</u>	<u>(43,439)</u>
Invasive Plant Control Program		
Contributions	654,007	630,064
Program Expenses	<u>635,568</u>	<u>640,266</u>
Change in Fund Balance	<u>18,439</u>	<u>(10,202)</u>
Strategic Initiatives Funding		
Contributions	668,573	606,031
Program Expenses	<u>973,675</u>	<u>660,665</u>
Change in Fund Balance	<u>(305,102)</u>	<u>(54,634)</u>
Municipal Capacity Development Program		
Contributions	-	28,278
Program Expenses	<u>-</u>	<u>28,657</u>
Change in Fund Balance	<u>-</u>	<u>(379)</u>
Beaver Control Program		
Contributions	500,000	500,000
Program Expenses	<u>510,978</u>	<u>510,600</u>
Change in Fund Balance	<u>(10,978)</u>	<u>(10,600)</u>
Beaver Management in Provincial Parks		
Contributions & Interest	12,632	52,565
Program Expenses	<u>35,830</u>	<u>66,697</u>
Change in Fund Balance	<u>(23,198)</u>	<u>(14,132)</u>

The accompanying notes form an integral part of the financial statements.

Saskatchewan Association of Rural Municipalities
Schedule 3 Continued - Operations Summary -
Other Restricted Funds

For The Year Ended December 31, 2017

(with comparative figures for the year ended December 31, 2016)

	2017	2016
Irrigation Structure Repair & Replacement Program		
Contributions	38,206	(30,155)
Program Expenses	814	182,682
Change in Fund Balance	37,392	(212,837)
Municipal Leadership Development Program		
Program Fees & Interest	81,262	40,080
Program Expenses	69,763	37,918
Change in Fund Balance	11,499	2,162
Total Revenues	14,509,542	17,475,187
Total Expenses	19,063,177	17,764,827
Net Change in Fund Balance for the Year	\$ (4,553,635)	\$ (289,640)

The accompanying notes form an integral part of the financial statements.

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2017

Purpose of the Organization

The Saskatchewan Association of Rural Municipalities (SARM) is a non-profit organization incorporated under a special act of the Province.

By bylaw, SARM provides for the election and appointment of officers, with the officers constituting the Board of Directors. The officers consist of a President, Vice-President, six directors and one ex-officio director. The President and Vice-President are elected at large at the Annual Convention. The six directors are elected by delegates, with one director from each of the six divisions of SARM members.

The mission of SARM is to deliver timely, dependable programs and services to meet the needs of its members while influencing government policy and facilitating municipalities to work together to foster rural development and build strong, sustainable communities. Programs and services delivered by SARM include:

- Member services delivered by SARM include programs for the bulk purchase of products for sale to rural municipalities and the provision of legal and planning services.
- The SARM Benefits Plan provides short-term disability, vision care and other benefits to the employees and officials of SARM members. SARM also provides other group benefit programs for long term disability, extended health and dental care, and group and optional life insurance.
- The Excess Liability Program is an optional program that provides increased limits of liability insurance coverage to participating Liability Self-Insurance Plan members. Participants also have the option to purchase excess limits to enhance their coverage for administrative errors and omissions.
- The Fidelity Bond Self-Insurance Plan provides fidelity bond coverage for municipal employees, along with coverage for cash, securities and registered mail.
- The Liability Self-Insurance Plan and Property Self-Insurance Program provide comprehensive property and liability insurance coverage for participating SARM members.
- Pursuant to various agreements with Provincial Ministries, SARM delivers a number of programs that provide assistance to rural municipalities and rural Saskatchewan. Programs included are the Municipal Roads for the Economy Program, Provincial Rat Eradication Program, Invasive Plant Management Program, Invasive Plant Control Program, Municipal Capacity Development Program, Beaver Control Program, Beaver Management in Provincial Parks Program, and Irrigation Structure Repair and Replacement Program.
- SARM, on behalf of several municipal organizations, is the administrator of the Municipal Leadership Development Program (MLDP).

SARM is exempt from income tax.

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2017

1. Significant Accounting Policies

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and reflect the following significant policies:

(a) Fund Accounting

SARM follows the restricted fund method of accounting for contributions.

The general operations of SARM, along with member services, are accounted for through the General Fund. This fund reports unrestricted resources and contributions.

Revenues and expenses related to the operation of the SARM Benefits Plan, the Liability Self-Insurance Plan, the Fidelity Bond Self-Insurance Plan, and the Property Self-Insurance Program are accounted for through the Insurance and Benefit Restricted Funds. The Agreements for the Liability Self-Insurance Plan and the Property Self-Insurance Program specify that the Fund Balances of these Funds are the beneficial property of the individual participants. The agreements for the SARM Benefits Plan and Fidelity Bond Self-Insurance Plan provide for the retention of a reserve as determined by the SARM Board of Directors – the fund balance is deemed to be the required reserve.

Contributions, allocated interest, and expenses for programs or initiatives funded through externally restricted contributions or revenues are accounted for through the Other Restricted Funds. Program agreements for programs funded by the Province require unexpended funds to be returned to the Province. Pursuant to the agreement for SARM to administer the MLDP Program, the fund balance is attributable to the program partners, with the surplus periodically distributed to the partners. Strategic Initiatives funding is provided by the Province – allocation of funding to specific initiatives must be approved by the Ministry of Government Relations.

An Investment Fund is used to account for an investment pool that includes the investments of the General Fund, the benefit and insurance restricted funds and two trust funds administered by SARM as trustee.

(b) Revenue Recognition

- (i) Revenues are recorded using the accrual basis of accounting whereby revenues are recognized as they are earned and measurable.

Fees (trade show, membership, and registration), insurance and benefit premiums, and other contributions received in the current or previous fiscal years which will be earned or are due in the next or future fiscal year are deferred and recognized in the period earned.

Contributions restricted for the purchase of capital assets are deferred and taken into revenue annually in an amount equal to the amortization for those assets.

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2017

- (ii) Investment income includes bank interest and investment income allocated from the investment pool (see Notes 3 and 4). The investment pool includes fixed income investments, non-viability contingent capital (NVCC) subordinated debt investments, structured notes, and an internal loan to SARM.

Investment income for fixed income investments includes accrued interest, interest received in the year, amortized premium and discount, and realized gains or losses on the sale or redemption of investments, less investment management fees. Purchase premiums and discounts are amortized on a straight-line basis over the earlier of the term to maturity or the call date.

Investment income for non-viability contingent capital subordinated debt investments and structured notes includes accrued interest, interest received in the year, realized gains or losses on the sale or redemption of investments, and unrealized gains or losses resulting from the change in market value of the investments, less investment management fees.

Investment income for equity investments includes realized gains or losses on the sale of investments, unrealized gains or losses resulting from the change in market value of the equity investments, and dividends received, less investment management fees.

Investment income on the internal loan includes interest received in the year.

(c) Expense Recognition

- (i) Expenses are accounted for in the period the goods and services are acquired and a liability is incurred or transfers are due.
- (ii) Insurance claims (property, fidelity bond and liability claims) are expensed when liability is established and the amount of the loss can be reasonably determined (see Notes 9 and 10). This practice is appropriate for the Liability Self-Insurance Plan, Fidelity Bond Self-Insurance Plan and Property Self-Insurance Program as the agreements permit the Board to assess a special levy upon Plan participants should the Plan resources become depleted. The terms of the contracts oblige the participants to pay any such levy regardless of whether they subsequently withdraw from the Plan. Participants who withdraw are also liable for their pro-rata share of claims or expenses which subsequently become payable but which were incurred during the period of their participation, even if not recovered through a special levy. The continued existence of the Plans due to any significant losses is not limited by future premium renewals.
- (iii) Claims from rural municipalities for reimbursement of expenditures eligible for funding under the Municipal Roads for the Economy Program (MREP), the Provincial Rat Eradication Program (PREP), and the Beaver Control Program, the are recognized by SARM when a valid claim, based on program guidelines, has been received by December 31, 2017.

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2017

(iv) SARM participates in a contributory defined benefit plan for its employees. The defined benefit plan is a multi-employer plan, and as such, the contributions are expensed when due and payable. The obligation for accrued vacation pay and banked time has been accounted for at an undiscounted value at the rate of pay for the upcoming year.

(d) Inventory

Inventory is valued at the lower of cost or net realizable value. Cost is determined on a moving average for the Trading Services Inventory.

	<u>2017</u>	<u>2016</u>
Trading Services	\$ 16,264	\$ 18,944
MREP Bridge Materials	-	253,734
	<u>\$ 16,264</u>	<u>\$ 272,678</u>

(e) Financial Instruments

SARM initially measures its financial assets and financial liabilities at fair value adjusted by, in the case of a financial instrument that will be subsequently measured at fair value, the amount of transaction costs directly attributable to the instrument.

Financial assets subsequently measured at fair value are cash, accounts receivable, non-viability contingent capital (NVCC) subordinated debt investments, structured note investments, equity investments, and the internal loan made by the investment pool to SARM. Financial liabilities subsequently measured at fair value are accounts payable (including government remittances payable), accrued liabilities, and the loan payable to the investment pool. The fair value of accounts receivable and accounts payable approximate their carrying value due to their nature or capacity for prompt liquidation. The fair value of the NVCC subordinated debt investments, structured note investments and equity investments is market value, with the market value as reported by CIBC Wood Gundy.

Investments that are fixed income investments are subsequently recorded at amortized cost, with the premium or discount amortized on a straight-line basis over the term to maturity or call date.

At the end of each reporting period, SARM assesses whether there are any indications that a financial asset measured at amortized cost may be impaired. When there is an indication of impairment that has a significant adverse change in the expected timing or amount of future cash flow from a financial asset, the carrying amount of the asset is reduced to the net realizable value. There are no financial assets that have been recorded at net realizable value.

Investments are reported on the Statement of Financial Position as either current assets or long-term assets. Investments classed as current assets are fixed income investments that mature within one year, along with structured note investments and equity investments. Fixed income investments, including NVCC subordinated debt, and the internal loan to SARM, with a maturity greater than one year are classified as long-term assets.

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2017

(f) Capital Assets

Capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution, when fair value can reasonably be determined. Significant capital assets, such as the office building, are separated into components with differing amortization periods. Amortization is provided on the basis of the asset's useful life using the following methods and rates or duration:

	<u>Straight Line</u>	<u>Declining Balance</u>
Building and Land Improvements	20 - 40 years	
Leasehold Improvements	term of lease	
Equipment & Furniture	5 years	
Software	Up to 10 years	
Vehicle		25%

When a capital asset no longer contributes to SARM's ability to provide services, its carrying amount is written down to its residual value.

(g) Liability Self-Insurance Plan (LSIP) Fund Balance

The fund balance of this Plan is the beneficial property of the individual participants and is accounted for through Individual Member Accounts for SARM and for each participating member. The fund balance was initially augmented by each participant contributing three times their annual premium for each of the first three years they participated in the Plan. These contributions also apply to new members. Each year, the individual member's account is adjusted for the following amounts:

- (i) The LSIP agreement includes provisions whereby there could be a refund of a portion of a member's individual account, if the member chooses to withdraw from LSIP.
- (ii) The investment income for the Plan for the year is apportioned based on the member's average fund balance for the year, in relation to the average total fund balance for the year.
- (iii) The claims expense for the year, for claims with a cost of \$10,000 or more, are apportioned to member accounts based on the member's premium as of the date of the claim in relation to total member premiums as of the date of the claim. For the purpose of apportionment, the claims expense includes either claim payments or the amounts for accrued claims.
- (iv) The remaining balance of the annual surplus or deficit, after the apportionment of the investment income and specific claims expense as per the two previous points, is apportioned to member accounts based on the member's premium for the current year in relation to total member premiums for the current year.

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(h) Property Self-Insurance Program (PSIP) Fund Balance

The fund balance of this Program is the beneficial property of the individual participants and is accounted for through Individual Member Accounts for SARM and for each participating member. Each year, the individual member's account is adjusted for the following amounts:

- (i) Member withdrawals for the current year. A withdrawal is only permitted when a member ceases to participate in PSIP.
- (ii) The annual surplus or deficit, excluding investment income, is apportioned to member accounts based on the premium paid by each participant for the year in relation to the total premiums for the year.
- (iii) The investment income for the year is apportioned to member accounts based on each members Individual Member Account balance in relation to the total fund balance – the account balances used are after the apportionment of the annual surplus or deficit in the second point.

(i) Use of Estimates

The preparation of financial statements requires management to make estimates and use assumptions that affect the reported amounts of assets and liabilities and the reported amount of revenues and expenditures during the year. Management reviews all significant estimates affecting the financial statements. The significant estimates that affect the financial statements are the market values used in the valuation of equity investments and structured notes and estimates for accrued claims. These estimates have implications on the valuation of certain investments, the determination of investment income and the determination of the claims expense for the insurance plans.

2. Financial Risk Management

SARM has a comprehensive risk management framework to monitor, evaluate and manage the principal risks assumed with financial instruments. The significant financial risks to which SARM is exposed are:

(a) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

SARM is exposed to credit risk on the accounts receivable from its customers and members, however it does not have a significant exposure to any individual customers. Accounts receivable are monitored to ensure collection of accounts. SARM has incurred insignificant bad debt expense during the past three years.

SARM is exposed to credit risk with respect to cash and investments. The investment pool of approximately \$48.4 million is primarily invested in the debt of financial institutions (59.7% of the total), or structured notes and equity investments (32.9% of the

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total). The credit risk for fixed income investments is minimized by ensuring that these assets are invested in financial obligations of governments or major financial institutions that have been accorded investment grade ratings by a primary rating agency. The credit risk is further minimized by establishing investment policies that set limits on the investments by sector, by issuer, and the term of the investments. The credit risk for equity investments is minimized through engaging external investment managers to actively manage these investments.

(b) Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. SARM meets its liquidity risk by monitoring cash flows from operations along with the cash flow of the investment pool. SARM has an authorized line of credit in the event there are short-term cash flow requirements – the line of credit was not used in 2017.

(c) Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Exposure to price risk exists for the investments measured at fair value (NVCC subordinated debt investments, structured note investments and equity investments). While these investments are significant in terms of the total investment pool (84.4% of the total investments are measured at fair value), the entities that comprise the investment pool typically do not require cash that would necessitate the sale of investments. Equity investments are considered a prudent long term investment and given the limited potential to require disposal of investments to meet cash obligations, the investment pool is well positioned to weather market fluctuations that will inevitably occur. SARM does not use any derivative financial instruments to alter the effects of this risk.

3. Investments

The investment pool includes investments of SARM (General Fund, SARM Benefits Plan, Liability Self-Insurance Plan, Fidelity Bond Self-Insurance Plan, and Property Self-Insurance Program), the Rural Municipal Tax Loss Compensation Trust Fund and the Rural Municipal Specific Claims Tax Loss Compensation Trust Fund.

The assets and investment income attributed to each fund is apportioned based on the investment of each fund in the pool. SARM's share of the assets of the investment fund at December 31, 2017 was 50.5% (2016 – 51.0%). SARM's share of the bank balance and accrued interest receivable as at December 31, 2017 are included in the bank and accrued interest receivable balances in the Statement of Financial Position.

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The following table provides a summary of SARM's share of the investments in the investment pool at December 31, 2017.

Investment Categories	2017	2016
Measured At Amortized Cost		
Fixed Income - Canadian Financial Institutions	\$ 3,828,002	\$ 9,770,176
Measured At Fair Value		
NVCC Subordinated Debt - Canadian Financial Institutions	10,796,785	7,388,811
Structured Notes - Canadian Financial Institutions	348,001	867,084
Other - Internal Loan to SARM	1,780,680	-
Equities - Canadian Corporations	5,652,548	5,188,589
Equities - US Corporations	2,077,022	1,976,664
	<u>20,655,036</u>	<u>15,421,148</u>
Total Investments	<u>\$ 24,483,038</u>	<u>\$ 25,191,324</u>
Current Assets		
Fixed Income - Canadian Financial Institutions	\$ 1,060,889	\$ 2,398,405
Structured Notes - Canadian Financial Institutions	348,001	867,084
Equities - Canadian Corporations	5,652,548	5,188,589
Equities - US Corporations	2,077,022	1,976,664
	<u>9,138,460</u>	<u>10,430,742</u>
Long Term Assets		
Fixed Income - Canadian Financial Institutions	2,767,113	7,371,771
Other - Internal Loan to SARM	1,780,680	-
NVCC Subordinated Debt	10,796,785	7,388,811
	<u>15,344,578</u>	<u>14,760,582</u>
Total Investments	<u>\$ 24,483,038</u>	<u>\$ 25,191,324</u>

For the investments measured at amortized cost, the market value of the investments as at December 31, 2017 was \$3,886,985 (2016 - \$9,970,099). The investments have maturity dates that range from 2018 to 2024 – the investments are staggered over time to provide for annual cash flow to meet the requirements of the funds participating in the investment pool. For the fixed income investments held at December 31, 2017, there is no interest paid – these investments were purchased at a discount with the annual investment income attributed to the amortized discount. Management fees are charged on the market value of the fixed income investments.

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There are seven NVCC subordinated debt investments with details as follows:

	Fixed Rate	Floating Rate	Maturity	Face Value	Market Value Dec. 31, 2017	Market Value Dec. 31, 2016
Royal Bank Fixed Floater	2.48%	2019	04-Jun-25	\$ 5,200,000	\$ 5,190,089	\$ 5,135,936
CIBC Fixed Floater	3.42%	2021	26-Jan-26	3,800,000	3,873,762	3,864,410
TD Residual Callable	2.53%		30-Sep-20	2,123,451	1,973,760	-
TD Residual Callable	3.14%		25-Jul-24	3,651,000	2,951,461	-
TD Bank Fixed Floater	2.69%	2021	24-Jun-25	2,000,000	2,006,212	1,983,642
Bank of Nova Scotia Fixed Floater	2.58%	2023	30-Mar-27	1,900,000	3,741,184	1,865,321
Bank of Montreal Fixed Floater	3.34%	2021	08-Dec-25	1,595,000	1,624,511	1,631,395
				<u>\$ 20,269,451</u>	<u>\$ 21,360,978</u>	<u>\$ 14,480,704</u>

The investment income for the NVCC Subordinated investments includes accrued interest, interest received in the year, realized gains or losses on the sale or redemption of investments, and unrealized gains or losses resulting from the change in market value of the investments, less investment management fees.

There is one structured note investment - a TD Canadian Equity Note (Principal Protected) with a face value of \$700,000 (market value of \$688,506 at December 31, 2017). The note was purchased in 2014, and matures in April 2019, although the note has a call provision. Interest paid on structured notes is specified in the investment documents and is linked to the change in the value of certain shares or market indices. Investment income includes accrued interest, interest received in the year, realized gains or losses on the sale or redemption of investments, and unrealized gains or losses resulting from the change in market value of the investments, less investment management fees.

Equity investments are primarily in investments that pay dividends and include investments in both Canadian and US companies, including both preferred and common shares. Equity investments are valued at fair value (market value). The investment income for equity investments includes realized and unrealized gains and dividends, less investment management fees.

Investment management fees are based on the average daily market value of the assets at the following rates:

- 0.15% of Fixed Income, NVCC Subordinated Notes, Structured Note (principal protected)
- 0.50% of Equities

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4. Investment Income and Expenses

	2017				
	SARM General Fund	SARM Benefits Plan	Liability Self- Insurance Plan	Property Self- Insurance Program	Fidelity Bond Self-Insurance Plan
Interest From Cash					
Investment Bank Interest	\$ 1,089	\$ 1,091	\$ 3,691	\$ 125	\$ 963
General Bank & Other Interest	63,135	-	-	-	-
Interest Allocated to Programs	(41,885)	-	-	-	-
Investments Measured At Amortized Cost					
Interest - Fixed Income Investments	995	1,251	4,037	133	1,090
Amortization - Fixed Income Investments	65,555	71,835	238,244	8,002	63,127
Gains (Losses) - Fixed Income Investments	(26,823)	(27,862)	(93,581)	(3,172)	(24,730)
Interest - Internal Loan to SARM	3,262	2,987	10,308	351	2,624
Investments Measured at Fair Value					
Interest - NVCC Subordinated Debt	34,458	36,764	122,548	4,108	32,137
Interest - Structured Notes	1,795	3,286	9,714	322	2,798
Gains (Losses) - NVCC Subordinated Debt	3,952	1,717	9,746	205	2,398
Gains (Losses) - Structured Notes	395	(1,447)	(3,064)	(108)	(1,186)
Gains (Losses) - Equity Investments	65,769	47,007	173,310	5,840	39,102
Dividends - Equities	39,057	40,445	136,175	4,553	35,476
Expenses					
Management Fees	(14,708)	(14,357)	(49,427)	(1,647)	(12,836)
	<u>\$ 196,046</u>	<u>\$ 162,717</u>	<u>\$ 561,701</u>	<u>\$ 18,712</u>	<u>\$ 140,963</u>

	2016				
	SARM General Fund	SARM Benefits Plan	Liability Self- Insurance Plan	Property Self- Insurance Program	Fidelity Bond Self-Insurance Plan
Interest From Cash					
Investment Bank Interest	\$ 1,422	\$ 1,163	\$ 4,027	\$ 116	\$ 1,023
General Bank & Other Interest	41,110	-	-	-	-
Interest Allocated to Programs	(23,796)	-	-	-	-
Investments Measured At Amortized Cost					
Interest - Fixed Income Investments	30,181	22,148	77,277	2,191	19,987
Amortization - Fixed Income Investments	92,272	72,093	263,576	7,670	65,939
Gains (Losses) - Fixed Income Investments	11,870	10,269	26,951	725	8,538
Interest - Internal Loan to SARM	-	-	-	-	-
Investments Measured at Fair Value					
Interest - NVCC Subordinated Debt	10,044	8,450	30,171	877	7,623
Interest - Structured Notes	5,602	5,463	17,823	511	4,787
Gains (Losses) - NVCC Subordinated Debt	(1,103)	1,267	2,503	52	770
Gains (Losses) - Structured Notes	7,850	6,481	22,723	654	5,884
Gains (Losses) - Equity Investments	173,619	157,661	551,759	16,040	141,866
Dividends - Equities	46,024	35,395	125,363	3,583	31,994
Expenses					
Management Fees	(12,992)	(9,239)	(34,269)	(972)	(8,610)
	<u>\$ 382,103</u>	<u>\$ 311,151</u>	<u>\$ 1,087,904</u>	<u>\$ 31,447</u>	<u>\$ 279,801</u>

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5. Capital Assets

Description	Cost	Accumulated Amortization	2017 Net	2016 Net
Land	\$ 1,450,000	\$ -	\$ 1,450,000	\$ 1,450,000
Land Held for Sale	625,000	-	625,000	625,000
Building	4,950,565	18,773	4,931,792	1,068,012
Leasehold Improvements	-	-	-	12,390
Equipment & Furniture	78,098	8,121	69,977	1,702
Software	440,921	145,418	295,503	99,208
Vehicle	31,053	20,409	10,644	14,191
	<u>\$ 7,575,637</u>	<u>\$ 192,721</u>	<u>\$ 7,382,916</u>	<u>\$ 3,270,503</u>

Land Held for Sale is a property that is subject to a development covenant that expired December 31, 2016. The sale agreement included the option for the vendor to repurchase the property for \$625,000 at any time up to December 31, 2018. An offer to purchase and agreement for sale was approved in October 2017. Payment was received on January 12, 2018 for the sale of land to SaskPower.

The construction of the building was substantially completed and the office was moved to the new building mid-November. Amortization was recorded from November 15 to the end of the year.

Leasehold improvements, on the leased office space, were expensed in 2017 as there is no future benefit to SARM.

SARM received external funding, approved as Strategic Initiatives, to pay for the acquisition of certain capital assets for the newly constructed office building (2017) and for the 2013 office move to leased office space. The funding received is recognized as deferred revenue and is taken into revenue annually in an amount equal to the amortization of the assets acquired with the funding.

- The total cost of capital assets funded through Strategic Initiatives in 2017 was \$59,637 and included exterior signage, board room audio visual equipment, board room furniture and other equipment.
- The total cost of capital assets funded through Strategic Initiatives in 2013 was \$56,739 and included leasehold improvements, computer network and switch equipment and front reception furniture. The remaining balance of unamortized assets and deferred revenue of \$13,648, was taken into income in 2017, when SARM moved from the leased space to the newly constructed office building.

SARM entered into a contract in 2016 to acquire benefits software. The total estimated cost of the software, including testing and implementation is estimated to be \$494,250, with costs of \$308,449 capitalized to the end of 2017. The cost of the benefits software was approved to be funded through Strategic Initiatives. Once the software is operational (anticipated to be in the spring of 2018), the amortization of the software cost will commence, and an equal amount of deferred revenue will be taken into income each year.

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Software includes the costs and accumulated amortization for the Policy Tracking Software and the current Group Benefits System custom software totaling \$135,844. These Software assets are still in use but are fully amortized.

6. Accounts Payable

	<u>2017</u>	<u>2016</u>
Trade Accounts Payable	\$ 380,989	\$ 459,547
Government Remittances Payable	32,253	12,807
Accrued Liabilities	140,746	28,463
Accrued Investment Management Fees	4,549	4,592
Salaries and Benefits Payable	149,098	142,370
Due to Employees	764	-
Construction Contract Holdback	111,467	72,971
Property Self Insurance Plan Claims Payable	97,118	21,327
Municipal Roads for the Economy Program (MREP) Grants Payable	3,557,403	365,788
MREP Bridge Inspection Holdback	206,556	38,951
Provincial Rat Eradication Program Grants and Expenses Payable	466,141	369,948
Invasive Plant Control Rebates Payable	555,757	60
Beaver Control Programs Claims Payable	28,761	28,206
Irrigation Structures Repair and Replacement Program Grants Payable	-	32,719
	<u>\$ 5,731,601</u>	<u>\$ 1,577,750</u>

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7. Deferred Contributions and Revenue

	<u>2017</u>		<u>2016</u>	
	Office Furniture & Equipment	Custom Benefits Software	Office Furniture & Equipment	Custom Benefits Software
Deferred Contributions:				
Beginning Balance	\$ 13,648	\$ 95,266	\$ 24,381	\$ -
Amortization	(16,362)	-	(10,733)	-
Contributions to Purchase Capital Assets	59,637	198,548	-	95,266
Ending Balance	<u>\$ 56,923</u>	<u>\$ 293,814</u>	<u>\$ 13,648</u>	<u>\$ 95,266</u>
		<u>350,737</u>		<u>108,914</u>
Deferred Revenue:				
Benefits Premiums - LTD, EHD		6,057		-
Excess Liability Premiums		-		1,513
Fidelity Bond Premiums		-		260
Group Benefits Premiums		3,897		-
Membership Fees		-		8,015
Municipal Leadership Development Program Fees		1,160		-
Rural Municipal Road Map Advertising		12,026		9,095
Sponsorship		-		1,200
		<u>23,140</u>		<u>20,083</u>
		<u>\$ 373,877</u>		<u>\$ 128,997</u>

The Deferred Contributions to Purchase Capital Assets is funding provided through the Strategic Initiatives funding for assets acquired for the newly constructed office building in 2017 and for assets required when SARM relocated to leased office space in 2013. The funding is taken into revenue annually in an amount equal to the amortization for those assets acquired with the funding. The 2017 contributions to purchase capital assets for the newly constructed office building were used to purchase exterior signage, board room audio visual equipment, board room furniture and other equipment. The total funding related to the acquisition of capital assets in 2013 was \$56,739. In 2017, the remaining balance of unamortized assets and deferred revenue of \$13,648 (2016 - \$10,733), was taken into income, when SARM moved from the leased space to the newly constructed office building.

During the year, SARM received external funding through the Strategic Initiatives Program to pay for custom benefits software. Revenue, in an amount equal to the amortization of the assets acquired with the funding, will be taken into income annually beginning once the system is operational (anticipated to be in the spring of 2018).

Some SARM fees applicable to the 2018 fiscal year were invoiced in 2017. To the extent that the fees are paid in 2017, the amount received (excluding GST) is accounted for as Deferred Revenue.

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8. Board of Directors' Remuneration

General Fund expenditures include remuneration and payments provided to the Board of Directors. The Board received the following remuneration and payments:

- Per Diem payments of \$310 per meeting day, in addition to one day per month for meeting preparation time.
- A meal allowance of \$60 per day.
- A phone/data allowance of \$100 per month. The President is reimbursed for 90% of their cell phone costs.
- Remuneration for travel time of 25 cents per kilometer.
- Honorariums of \$10,000 for the President, and \$6,000 for the Vice-President. The 2016 honorariums for the Vice-President were pro-rated by the number of days in the position.
- Reimbursement for use of a personal vehicle at a rate of 55 cents per kilometer.
- Reimbursement of other expenses (hotels, airfare, taxis and sundry expenditures) based on actual expenditures incurred.

The table below is a summary of the number of days in 2017 and 2016 for which the Board members received per diem payments.

Name	Current Position	2017	2016
Orb, Ray	President	152.0	148.5
Sterling, Carmen	Vice-President ^{Note 1}	107.0	103.5
Huber, Bill	Director, Division 1 ^{Note 2}	72.5	54.5
Nordgulen, Norm	Director, Division 2	105.0	97.0
Grant, Larry	Director, Division 3	67.0	52.0
Malanowich, Harvey	Director, Division 4 ^{Note 3}	71.0	64.0
Harwood, Judy	Director, Division 5	80.5	76.0
Wiens, Rodney	Director, Division 6	78.0	41.0
Gowda, Wendy	Director, Ex Officio	58.5	45.0
		791.5	681.5

Notes:

1. Vice-President as of March 10, 2016, Division 1 Director prior to March 10, 2016.
2. Director, Division 1 as of March 10, 2016
3. Acting Vice-President to March 10, 2016, Division 4 Director after March 10, 2016.

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9. Claims Expense

Details of the claims expense for the Liability Self-Insurance Plan and Property Self-Insurance Program are shown in the following tables.

2017				
Liability Self-Insurance Plan	Claim Payments	Accrued Claims	Adjustments to Deductibles	Claims Expense
Prior Year Claims Paid	\$ 105,038	\$ (62,307)	\$ (1,001)	\$ 41,731
Current Year Claims Paid	56,343	-	(3,395)	52,948
Adjustment for Prior Year Accrued Claims	-	43,910	(1,000)	42,910
Current Year Accrued Claims	-	36,750	(2,500)	34,250
	\$ 161,381	18,353	\$ (7,895)	\$ 171,839
Accrued Claims - Beginning of Year		\$ 98,182		
Accrued Claims - End of Year		\$ 116,535		

2016				
Liability Self-Insurance Plan	Claim Payments	Accrued Claims	Adjustments to Deductibles	Claims Expense
Prior Year Claims Paid	\$ 912,539	\$ (387,661)	\$ (2,350)	\$ 522,528
Current Year Claims Paid	20,738	-	(3,000)	17,738
Adjustment for Prior Year Accrued Claims	-	29,343	(1,500)	27,843
Current Year Accrued Claims	-	59,000	(1,500)	57,500
	\$ 933,277	(299,318)	\$ (8,350)	\$ 625,609
Accrued Claims - Beginning of Year		\$ 397,500		
Accrued Claims - End of Year		\$ 98,182		

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	2017		
	Claim Payments	Accrued Claims	Claims Expense
Property Self-Insurance Program			
Prior Year Claims Paid	\$ 432,256	\$ (422,296)	\$ 9,960
Current Year Claims Paid	418,090	-	418,090
Adjustment for Prior Year Accrued Claims	-	-	-
Current Year Accrued Claims	-	689,887	689,887
	<u>\$ 850,346</u>	<u>267,591</u>	<u>\$ 1,117,937</u>
Accrued Claims - Beginning of Year		<u>\$ 447,296</u>	
Accrued Claims - End of Year		<u><u>\$ 714,887</u></u>	
	2016		
	Claim Payments	Accrued Claims	Claims Expense
Property Self-Insurance Program			
Prior Year Claims Paid	\$ 622,212	\$ (604,914)	\$ 17,298
Current Year Claims Paid	727,108	-	727,108
Adjustment for Prior Year Accrued Claims	-	(55,288)	(55,288)
Current Year Accrued Claims	-	447,296	447,296
	<u>\$ 1,349,320</u>	<u>(212,906)</u>	<u>\$ 1,136,414</u>
Accrued Claims - Beginning of Year		<u>\$ 660,202</u>	
Accrued Claims - End of Year		<u><u>\$ 447,296</u></u>	
	2017		
	Claim Payments	Accrued Claims	Claims Expense
Fidelity Bond Self-Insurance Program			
Current Year Claims Paid	\$ 1,868	\$ -	\$ 1,868
Current Year Accrued Claims	-	50,000	50,000
	<u>\$ 1,868</u>	<u>50,000</u>	<u>\$ 51,868</u>
Accrued Claims - Beginning of Year		<u>\$ -</u>	
Accrued Claims - End of Year		<u><u>\$ 50,000</u></u>	
	2016		
	Claim Payments	Accrued Claims	Claims Expense
Fidelity Bond Self-Insurance Program			
Current Year Claims Paid	\$ 2,035	\$ -	\$ 2,035
Current Year Accrued Claims	-	-	-
	<u>\$ 2,035</u>	<u>-</u>	<u>\$ 2,035</u>
Accrued Claims - Beginning of Year		<u>\$ -</u>	
Accrued Claims - End of Year		<u><u>\$ -</u></u>	

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10. Long Term Liability

	2017	2016
Due to Investment Pool		
Loan, with no fixed repayment conditions, plus interest at a rate of 2.75%	\$ 3,523,000	\$ -
Accrued Interest Payable	-	-
	\$ 3,523,000	\$ -

In August 2016, the Board approved an internal loan from the investment pool to SARM of up to \$4 million to fund the construction of the new office building. The interest rate is set by the SARM Investment Management Committee and is reviewed every six months.

11. Administration Fees

Administration fees are a major component of SARM's general revenues. The following table provides details on the sources of the administration fees.

	2017	2016
General Administration Fees:		
TLE Trust Fund	\$ 65,071	\$ 68,399
Specific Claims Trust Fund	5,967	5,342
Municipal Potash Tax Sharing Administration Board	18,000	18,000
Municipal Habitat Conservation Fund	16,098	12,896
Provincial Sales Tax Commission	215	953
	105,351	105,590
Administration Fees From Restricted Funds:		
SARM Benefits Plan	533,852	516,946
Liability Self-Insurance Plan	165,952	156,179
Fidelity Bond Self-Insurance Plan	16,832	14,612
Property Self-Insurance Program	493,873	461,728
Invasive Plant Management Program	10,000	10,000
Invasive Plant Control Program	79,451	83,188
MREP Program	92,348	92,184
Irrigation Structures Program	164	4,533
PREP Program	81,933	73,865
MCDP Program	-	5,600
Beaver Control Program	50,085	50,000
Beaver Management in Provincial Parks	1,480	5,047
MLDP - SARM Administration Fees	11,780	5,841
	1,537,750	1,479,723
Total Administration Fees	\$ 1,643,101	\$ 1,585,313

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The administration fees from the TLE Trust Fund and Specific Claims Trust Funds are 5% of the tax loss compensation for the year for properties transferred to reserve, with 95% of the compensation paid to rural municipalities. The administration fees from the Potash Tax Sharing Board and the Municipal Habitat Conservation Fund are pursuant to agreements for fees to administer the process or Fund. The work performed by SARM includes information collection, calculations, meetings, and distribution of funds to municipalities.

The administration fees from the Liability Self-Insurance Plan, Fidelity Bond Self-Insurance Plan and Property Self-Insurance Program are 30% of the premiums. The fee from the SARM Benefits Plan is 25% of premiums.

The administration fees for the Provincial Program Funds are in accordance with the agreements for delivery of the programs. The administrative fees are either a specific fee set in the agreement, or a recovery of allocated SARM costs pursuant to the provisions of the agreement.

The fees for the restricted funds are accounted for as an expense in the restricted funds (Schedules 2 and 3) and revenue in the General Fund.

12. Contingencies

The General Fund is contingently liable as a participant in all the Insurance Plans for its proportionate share of any special levy that may be assessed in the event resources become depleted and its share of claims expense paid in future years for claims initiated in 2017 and prior years.

Accrued claims reported in the consolidated financial statements represent management's best estimate of the Liability Self-Insurance Plan; Property Self-Insurance Program and Fidelity Bond Self-Insurance Plan liabilities for claims in progress. This estimate is based on information at year-end. Circumstances beyond the control of SARM or information not available during the preliminary investigations could result in settlement significantly higher or lower than the current estimate.

At year-end, the Liability Self-Insurance Plan and Property Self-Insurance Program were conducting preliminary investigations on a number of potential claims. The result of these claims is not determinable at this time and in some instances may result in a significant claim to be accrued by the Plan in a future period.

13. Member Services

Schedule 1 summarizes the revenues and expenditures for member services undertaken by SARM to support rural municipalities. Services include:

- **Prairie Petroleum Buying Group** – Prairie Fuel Advisors (PFA) manages a fuel buying program for several municipal organizations in Canada. The program enables participants to benefit from the pricing received through volume contracts with fuel suppliers. SARM coordinates the participation of rural municipalities in Saskatchewan. There are about 40 municipalities that purchase fuel and lubricants

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through the program. In addition to the price of the fuel or lubricants, a fee of 1.325 cents per litre on fuel and 6 cents per litre on lubricants is added to cover administrative costs of the program. The fee is split, with 75% paid to PFA and 25% retained by SARM. While the total revenue and expense for fuel is substantial, the return to SARM is limited to 25% of the commission. SARM's share of the commission in 2017 was \$13,523 (2016 - \$12,703).

- **Trading Services** – SARM purchases goods and services for sale to members, including office products, road signs, tires, equipment parts and service, mapping services, credit card processing services, and rodent control products. Through negotiated arrangements with suppliers, SARM can provide savings to participating municipalities, and generate revenue for SARM.
- **Legal Services** – SARM provides legal services on a fee for service basis to members and the SARM benefit and insurance funds. In 2017, the fees charged to members by the lawyers employed by SARM were \$48,100 (2016 - \$42,888). SARM has a contract lawyer for which fees charged to member municipalities were \$42,710 (2016 - \$60,671). The fees charged to the SARM benefit and insurance funds were \$323,595 (2016 - \$340,121). The fees to the benefit and insurance funds are recorded as an expense to those funds. Salaries and other staff expenses, and other direct cost, including some office and technology costs, contracted legal services, and publications are recorded as Member Services expenses. Indirect expenses are not allocated to Member Services.
- **Community Planning Services** – SARM provides community planning services on a fee for service basis to members. The cost of community planning services, including an allocation of certain general expenses, exceeds the revenue generated through fees for service. The net expense of community planning is funded through contributions charged to the Strategic Initiatives Program. The following table shows the calculation of the net expense.

	2017	2016
Fees for Service	\$ 95,209	\$ 109,010
Other Fees	2,809	5,483
	98,018	114,493
Salaries and Other Staff Expenses	223,729	180,662
Other Direct Expenses	13,555	17,637
Allocated Expenses	59,508	58,359
Net Expense - Community Planning	\$ 198,774	\$ 142,165

- **Insurance and Benefit Programs** - SARM coordinates insurance and benefit programs for participating member municipalities. The programs are a long term disability (LTD) program, an extended health and dental benefits (EHD) program, a group life insurance program, an optional life insurance (OLI) program, and an excess liability program. The insurance and benefit programs are provided through external carriers. SARM coordinates the participation in the program, collecting

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premiums from participating municipalities and paying the plan carriers. SARM retains a program administration fee – the fees retained by SARM in 2017 were \$275,010 (2016 - \$250,451).

- **Other Member Services** - includes the publication and distribution of the Rural Councillor magazine, printing and distribution of calendars (desk, wall and pocket calendars), the printing and sale of grid road maps, and the distribution of notices and advertisements for members and other parties. These services are funded through advertising fees, service fees, and the sale of the products.

14. Other Restricted Funds

Schedule 3 summarizes the revenues and expenditures for programs undertaken by SARM to support municipalities. Programs are the result of agreements between SARM and other entities. Many programs result from agreements with the Province, with the terms of the agreement setting out the responsibilities of SARM, the funding available and the eligible expenditures for the program. Each program is accounted for as a restricted fund with unexpended funds reported as a restricted fund balance. Due to the timing of the receipt of contributions and the timing of expenditures, in SARM's fiscal year, a program could have a positive or negative net change in fund balance. A negative restricted fund balance represents that funds are owed to SARM.

- **Municipal Roads for the Economy Program (MREP)** – SARM entered into an agreement with the Province (Ministry of Highways) in 2009 for delivery of the MREP Program. The current agreement is for the term April 1, 2014 to March 31, 2019. The amount of funding is determined on an annual basis by the Province – the funding for 2017-18 is \$14,000,000 (2016-17 - \$16,000,000). The agreement establishes a Program Management Board to manage the delivery of the program and sets out the responsibilities of SARM. Pursuant to the agreement, SARM can charge actual and reasonable incremental salaries and administrative costs to the program, and allocated costs subject to the allocated costs being approved by the Program Management Board. The following table provides summary information on program revenue and expenditures.

	<u>2017</u>	<u>2016</u>
Provincial Contributions	\$ 11,000,000	\$ 14,150,000
Interest	36,529	24,954
Total Revenue	<u>11,036,529</u>	<u>14,174,954</u>
Administrative Costs	391,881	415,334
Traffic Counts	231,996	258,473
Bridge Inspections	512,826	979,536
Corridor Project Grants	382,686	1,735,364
Heavy Haul Road Project Grants	3,939,924	1,668,414
Corridor Maintenance Grants	6,756,270	5,794,067
Corridor Sign Grants	-	2,158
Bridge & Culvert Project Grants	3,056,244	3,295,654
Total Expense	<u>\$ 15,271,827</u>	<u>\$ 14,149,000</u>

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In 2017, the expenses exceed revenue by \$4,235,298. There was \$3,763,959 included in amounts payable at December 31, 2017 and funding of \$3,500,000 was received in January 2018.

- **Provincial Rat Eradication Program (PREP)** – SARM has entered into agreements since 2011 with the Province (Ministry of Agriculture) for the delivery of the PREP program. The current agreement is for delivery of the program from April 1, 2017 to March 31, 2018. The agreement provides funding of \$1,400,000 (\$1,400,000 in 2016-17). Funding includes \$1,175,000 to be distributed to rural municipalities (\$1,175,000 in 2016-17) and \$225,000 (\$225,000 in 2016-17) for the delivery of the program, including SARM administrative costs. The following table provides summary information on program revenue and expenditures.

	2017	2016
Provincial Contributions	\$ 1,400,000	\$ 1,400,000
Interest	5,356	3,412
Total Revenue	1,405,356	1,403,412
Administration Expenses	102,494	93,691
Board & Regional PCO Supervisors	50,510	60,638
Workshop Expenses	3,375	3,642
Payments to Rural Municipalities	1,298,005	1,216,804
Other Payments	338	170
Total Expense	\$ 1,454,722	\$ 1,374,945

- **Invasive Plant Management Program** – SARM has entered into agreements with the Province (Ministry of Agriculture) for the delivery of the Invasive Plant Management Program. The current agreement is for a term March 15, 2013 to March 31, 2018. Funding of up to \$150,000 per year is provided. The funding is used for a contracted resource to deliver the program throughout the province. SARM administration costs of \$10,000 were charged in 2017 (2016 - \$10,000).
- **Invasive Plant Control Program** – In 2013 SARM entered into an agreement with the Province (Ministry of Agriculture) for the delivery of the Invasive Plant Control Program. The current agreement is for the 2017-18 fiscal year. This program provides funding to cover costs for control of certain invasive plant species. Rural municipalities, First Nations Bands and other landowners or lessors are eligible for funding under the program. The total approved funding for 2017-18 is \$800,000 (\$800,000 in 2016-17) of which a maximum of \$80,000 can be spent on administration. The expenditures include \$79,811 (2016 - \$84,277) for SARM's administration of the program.
- **Strategic Initiatives** – Since 2010 the Province (Ministry of Government Relations) has provided funding to SARM for Strategic Initiatives that benefit rural municipalities. The initiatives undertaken and the funding allocated to those initiatives are subject to the approval of the Ministry. Total funding provided to date

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has been \$4,696,832. Contributions towards SARM staff and office expenses in 2017 were \$91,260 (2016 - \$77,576).

Active Initiatives:

- Administrator Recruitment and Training
- Asset Management Initiatives
- Assistance to SARM for office relocation
- Bylaw Enforcement
- Community Planning
- Elected Officials Training & Development
- Got Gravel
- Insurance & Benefits Department Review & Benefits System Development
- Management Essentials Training
- Municipal Capacity Development
- Outside Worker Education
- Public Industry Partnership Program
- Signing Manuals
- Standing Committees

Completed Initiatives:

- Alternative Bridge Design Project
- Community Planner Program
- Election Reporting Website
- Resource & Economic Development Committee

- **Municipal Capacity Development Program (MCDP)** – The program assisted municipal associations in developing municipal capacity and promoted inter-municipal co-operation. The MCDP received funding through the Federal Gas Tax Fund Program until December 31, 2015, at which time the funding agreement expired. The program continued for the first 3 months of 2016 with funding from the Province (Ministry of Government Relations) in the amount of \$28,278, of which \$15,000 was funded through Strategic Initiatives. The MCDP website continues to be maintained and the expenses in 2017 (including an allocation for SARM staff and office expenses of \$581) was funded through Strategic Initiatives.
- **Beaver Control Program** - SARM entered into an agreement with the Province (Ministry of Agriculture) in 2011. The current agreement is for delivery of the program from April 1, 2015 to March 31, 2018. Funding of up to \$500,000 is to be provided in 2016-17 (\$500,000 in 2015-16). Funding is to be provided to rural municipalities and First Nation Bands for the control of problem beavers and beaver structures. Costs for administration of the program are limited to the greater of \$40,000 or 10% of the total program costs. The following table provides summary information on the Beaver Control Program revenue and expenditures.

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	2017	2016
Provincial Contributions	\$ 500,000	\$ 500,000
SARM Administration Fee	50,085	50,000
Payments to RM's & First Nation Ban	460,893	460,600
Total Expense	\$ 510,978	\$ 510,600

- **Beaver Management in Provincial Parks Program** - SARM entered into an agreement with the Province (Ministry of Agriculture) in 2014 which ended March 31, 2017. Funding for the program was jointly provided by the Ministry of Agriculture and the Ministry of Parks, Culture and Sport, up to a combined maximum of \$100,000. Funding was provided to rural municipalities for the control of problem beavers and beaver structures in six designated provincial parks. Costs for administration of the program were limited to the lesser of \$10,000 or 10% of the total program costs. The SARM administration fee was \$1,480 in 2017 (2016 - \$5,047).

- **Irrigation Structure Repair and Replacement Program** – SARM entered into an agreement with the Province (Ministry of Agriculture) in 2013 for delivery of the Irrigation Structure Repair and Replacement Program. The agreement, which ended March 31, 2017, provided funding of \$500,000, including SARM costs to administer the program.

- **Municipal Leadership Development Program (MLDP)** - The program is a partnership between the Rural Municipal Administrators Association (RMAA), Urban Municipal Administrators Association (UMAAS), Saskatchewan Urban Municipalities Association (SUMA), the New North and SARM. The program delivers education and training programs to municipal clerks, administrators and elected officials. SARM is the program administrator and receives an administration fee for each registration. The administration fees for registrations in 2017 were \$11,780 (2016 - \$5,481). SARM and the other partners share in the surplus generated by the program – the surplus is distributed based on the number of registrations each semester (fall and winter) from each partner group. SARM's share of the surplus is accounted for as a transfer of fund balance. There was no surplus transferred to SARM in 2017 or 2016. At December 31, 2017, the fund balance of the MLDP program held in trust by SARM is \$31,120 (2016 - \$19,621). The funds include unexpended funds initially provided by the Province and surplus funds available for distribution to the partners.

15. Contractual Obligations

SARM has entered into contracts for the design and construction of a new office building. The building was completed in November 2017. There is some outstanding work that will be completed in the spring. The construction contract was awarded by tender to Quorex Construction. The contract price and change orders approved to December 31, 2017 total \$4,552,426. SARM has been invoiced \$4,539,698 to date, \$4,428,231 of which is paid and \$111,467 is recorded as a holdback payable at December 31, 2017.

As December 31, 2017, there is 3 months remaining to pay for the leased space at 2221 Cornwall Street. The lease was for 5 years and 2 months from February 1, 2013 to March

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31, 2018 and includes office space and 23 parking stalls. The total remaining lease commitments based on current rates are \$100,390 in 2018 and has been expensed in 2017 as there is no future benefit to SARM.

SARM has entered into two agreements with Penad Pension Services which are ongoing at December 31, 2017. The first is for the initial configuration of a proprietary Benefits Administration System and ongoing professional services. The second is the software licensing agreement for the use of the proprietary computer software. The configuration and professional services agreement has a five-year term which began September 19, 2016. The estimated fees for configuration and implementation are \$300,000, of which \$211,000 has been paid by the end of December 2017. The software license agreement is perpetual, until terminated by either party upon not less than 90 days written notice. The total licensing fee is \$194,250. The initial payment of \$48,560 was made in 2016 and a final payment of \$145,690 is due upon the Date of Acceptance, which is expected to be in the spring of 2018. There is an annual software maintenance service commitment in the amount of \$38,850, beginning once the system is in use.

SARM retains Hill & Knowlton Canada to provide ongoing government relations services in Ottawa. The contract commenced May 9, 2009 and is ongoing, until terminated by either party upon not less than 90 days written notice. The monthly cost for the services is \$7,500 plus expenses. The commitment upon termination would be \$22,500 for three months of service.

SARM has a Services Agreement with WBM Office Systems for the provision of certain hardware, software and technical services. The monthly fee for the service is \$3,699 plus taxes. The Agreement commenced October 1, 2015 and is ongoing, until cancellation by SARM upon 30 days written notice. The commitment upon termination would be \$3,699 plus taxes.

SARM has leases for copiers/printers and mailing equipment. Future commitments for lease payments are \$6,729 in 2018, \$3,636 in 2019, and \$909 in 2020.

SARM has an agreement with SaskTel for the provision of Integrated Business Communication Services (IBC). The agreement is for a five-year term from November 30, 2017 to November 30, 2022. The commitment based on minimum requirements is \$10,452 in 2018, \$10,452 in 2019, and \$10,452 in 2020. \$10,452 in 2021, and \$9,581 in 2022. SARM can terminate up to 10% of the packages with no penalty. Termination charges are 50% of the packages cancelled, in excess of 10% of the total, for the remaining months of the contract.

SARM entered into an agreement, with the Ministry of Highways, to publish and distribute a Rural Municipal Road Map for the Province of Saskatchewan. The term of the agreement is November 24, 2015 to November 23, 2020. SARM is responsible to manage, finance and print 50,000 copies of the Map prior to the expiration of the term. There were 25,000 maps printed in 2017. Advertising was sold to finance the printing of the map and \$12,026 of advertising revenue was deferred at December 31, 2017. The cost of printing the remaining 25,000 maps, which SARM is committed to, is around \$12,500.

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SARM has entered into an agreement with McNair Business Development for the development of a Municipal Aggregate Resource Manual. The term of the agreement is September 2017 to March 31, 2018. SARM has agreed to pay fees to McNair for professional services in the amount of \$93,625. To the end of December 2017, \$31,000 in fees have been paid, leaving a commitment of \$62,625.

SARM has entered into agreements with several rural municipalities to provide funding for the hiring of interns under the Rural Municipal Administrator Internship Program (funded through Strategic Initiatives). The intern program provides funding of up to \$20,000, paid in monthly instalments of \$1,667. There are 6 intern agreements that have remaining commitments - the total commitment is \$65,000 in 2018. Either party to each of the intern agreements may terminate the agreement by providing one month's written notice.

SARM has entered into agreements with several rural municipalities to pay a percentage of eligible project costs, funded through MREP, for road and bridge projects. The contribution for approved MREP projects shall not exceed \$750,000 per rural municipality per year. At December 31, 2017 there are 9 agreements that have remaining commitments - the total maximum potential commitment is \$2,515,286. On behalf of the Ministry of Highways and Infrastructure, funded through MREP, SARM has entered into agreements with several rural municipalities to make an annual contribution of \$1,100 per kilometer towards the incremental maintenance costs of primary weight municipal roads. At December 31, 2017 there was \$1,976,100 in contributions committed to RMs under agreements for the MREP program year ending March 31, 2018. To receive the outstanding committed funding, the rural municipalities must meet obligations under the agreement, including submission of a completed application for Grant Payment, with supporting documentation, by a pre-determined deadline.

SARM has entered into an agreement with WSP Canada Inc. for a detailed inspection of bridges on rural municipal roads. The term of the five-year agreement began April 1, 2017 and the maximum total billing shall not exceed \$1,580,322. This agreement will be funded through MREP and the agreement allows for SARM to terminate the bridge inspection program if the MREP program is terminated prior to the end of the five-year agreement.

SARM has entered into an agreement with AMEC Foster-Wheeler for traffic data collection. The term of the agreement is April 24, 2017 to April 24, 2018. The total contract amount is \$317,526, of which \$231,996 has been paid to date, with a remaining commitment of \$85,530.

SARM has an agreement with Evraz Place to use the facilities at the International Trade Centre and the Queensbury Convention Centre for the SARM Annual Convention in March 2018. Cancellation of the agreement by SARM would result in SARM being required to pay the full rental rate of the rented premises plus 50% of the deposit paid. The full rental rate quoted is \$39,337 and at December 31, 2017 there was no deposit paid.

SARM has an agreement to use the facilities at TCU Place in Saskatoon for the SARM 2018 Midterm Convention in November. Cancellation of the agreement by SARM would result in SARM being required to pay 25% of the total contract value (includes food, beverage, and

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rental) and the loss of the deposit paid. A cancellation payment would be in the range of \$6,000 to \$8,000 and the deposit paid was \$4,000.

16. Employee Pension Benefits

SARM and its employees contribute to the Municipal Employees Pension Plan, a multi-employer defined benefit plan. Employer contributions (8.15% of the employee's salary) to the Municipal Employees Pension Plan of \$162,438 (2016 - \$154,897) were expensed during the year. Periodically an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent actuarial valuation for the plan at December 31, 2015 indicated that on a management valuation, there was a surplus of \$127.2 million (funded ratio of 107.0%). On a solvency basis, the plan has a shortfall of solvency assets as compared to solvency liabilities of \$368.7 million (funded ratio of 85.1%). The actuary does not attribute portions of the surplus to individual employers. The plan covers approximately 14,860 active members, of which 25 are employees of SARM.

17. Bank Indebtedness

SARM has an authorized line of credit of \$500,000 with the Canadian Imperial Bank of Commerce that can be drawn on by SARM, for use in its operations or those of the trust funds. The amount drawn on the line of credit bears interest at the bank prime rate. At December 31, 2017 there is no bank indebtedness for SARM or the trust funds.

18. Subsequent Events

Payment was received on January 12, 2018 for the sale of land to SaskPower.

19. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.