

Management's Responsibility for Financial Reporting

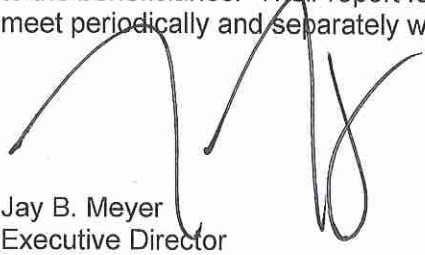
To the Beneficiaries of the
Rural Municipal Specific Claims Tax Loss Compensation Trust Fund

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 trustee who reviews financial statements in detail with management prior to their approval of the financial statements for publication.

External auditors are appointed by the trustee to audit the financial statements and report directly to the beneficiaries. Their report follows. The external auditors have full and free access to, and meet periodically and separately with, the trustee.

A handwritten signature in black ink, appearing to read "Jay B. Meyer", is written over the text of the signature block.

Jay B. Meyer
Executive Director

A handwritten signature in blue ink, appearing to read "Catherine Patterson", is written over the text of the signature block.

Catherine Patterson, CPA, CA
Director of Finance



Independent Auditors' Report

To the Beneficiaries

Rural Municipal Specific Claims Tax Loss Compensation Trust Fund

We have audited the accompanying financial statements of the Rural Municipal Specific Claims Tax Loss Compensation Trust Fund which comprise the statement of financial position as at December 31, 2017 and the statements of operations and fund balance and cash flows for the years 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 Trust Fund'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 Trust Fund'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 Rural Municipal Specific Claims Tax Loss Compensation Trust Fund 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.

Chartered Professional Accountants

February 15, 2018
Regina, Saskatchewan

**Rural Municipal Specific Claims Tax Loss Compensation Trust Fund
Statement of Financial Position**

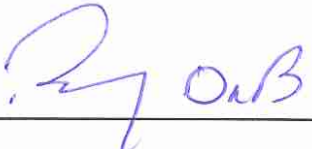
At December 31, 2017

(with comparative figures at December 31, 2016)

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash	\$ 108,837	\$ 62,371
Contributions Receivable	9,346	-
Accounts Receivable	25	-
Accrued Interest Receivable	10,121	9,899
Investments ^{Note 3}	1,928,247	2,120,691
	<u>2,056,576</u>	<u>2,192,961</u>
Long-Term Assets		
Investments ^{Note 3}	3,237,762	3,000,999
Total Assets	<u><u>\$ 5,294,338</u></u>	<u><u>\$ 5,193,960</u></u>
Liabilities & Fund Balance		
Current		
Amounts Payable	\$ 3,470	\$ 3,320
Accrued Investment Management Fees	960	934
	<u>4,430</u>	<u>4,254</u>
Fund Balance		
Restricted Fund Balance	5,289,908	5,189,706
Total Liabilities & Fund Balance	<u><u>\$ 5,294,338</u></u>	<u><u>\$ 5,193,960</u></u>

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

Approved by the Board:





Rural Municipal Specific Claims Tax Loss Compensation Trust Fund
Statement of Operations and Fund Balance
For The Year Ended December 31, 2017
(with comparative figures for the year ended December 31, 2016)

	<u>2017</u>	<u>2016</u>
Revenues		
Municipal Contributions	\$ 9,346	\$ 20,483
Investment Income ^{Note 4}	213,929	392,232
Total Revenues	<u>223,275</u>	<u>412,715</u>
Expenses		
Payments to Rural Municipalities	113,500	101,524
SARM Administration Fee	5,974	5,344
Audit Fees and Other Expenses	3,599	3,567
Total Expenses	<u>123,073</u>	<u>110,435</u>
Surplus	100,202	302,280
Fund Balance - Beginning of Year	5,189,706	4,887,426
Fund Balance - End of Year	<u><u>\$ 5,289,908</u></u>	<u><u>\$ 5,189,706</u></u>

Rural Municipal Specific Claims Tax Loss Compensation Trust Fund
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		
Surplus	\$ 100,202	\$ 302,280
Change in Non-Cash Current Assets and Liabilities	183,027	(410,967)
Cash Provided (Used)	283,229	(108,687)
Investing Activities		
Change in Long-Term Investments	(236,763)	145,124
Increase In Cash Position	46,466	36,437
Cash, Beginning of Year	62,371	25,934
Cash, End of Year	<u><u>\$ 108,837</u></u>	<u><u>\$ 62,371</u></u>

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

Rural Municipal Specific Claims Tax Loss Compensation Trust Fund
Notes to the Consolidated Financial Statements
December 31, 2017

Purpose

The Rural Municipal Specific Claims Tax Loss Compensation Trust Fund was established pursuant to Article 2 of the Rural Municipal Specific Claims Agreement entered into on May 25, 2000 by Saskatchewan and the Saskatchewan Association of Rural Municipalities (SARM). The purposes of the Trust Fund are:

- (a) Receiving the payment to be made by Saskatchewan pursuant to section 3 of the Agreement;
- (b) Receiving from rural municipalities specific claims tax loss compensation paid by Bands to rural municipalities; and
- (c) Disbursing payments to rural municipalities that lose tax revenue as a result of lands which had been situated within the municipality being set apart as reserves pursuant to the settlement of specific claims.

The specific claims funding, administered through the Trust Fund, results from negotiations by Canada with certain Indian Bands in Saskatchewan for the settlement of their specific claims against Canada. The specific claims settlement agreements with the Bands may provide that the Band is entitled to acquire by purchase a certain number of acres of land to which Canada is prepared to grant reserve status.

The beneficiaries of the Trust Fund are the rural municipalities that lose tax revenue as a result of lands being set apart as reserves pursuant to the settlement of specific claims. The Agreement designates SARM as the trustee. The Agreement provides that SARM is entitled to deduct 5% of the payments to rural municipalities pursuant to the Agreement for the administrative expenses that it incurs in the operation of the Trust Fund.

The Trust Fund is exempt from income tax.

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) Revenue Recognition

- (i) Contributions are received from rural municipalities. The contributions are the amounts received by the rural municipality from the Indian Band for lands set apart as reserves. The Rural Municipal Specific Claim Tax Loss Compensation Trust Fund is a restricted fund, and contributions are recognized as revenue in the year the funds are received from the Rural Municipality.
- (ii) Investment income is 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 instruments, structured notes, equity investments, and an internal loan to SARM.

Rural Municipal Specific Claims Tax Loss Compensation Trust Fund
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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 NVCC 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, 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.

(b) Financial Instruments

The Trust Fund 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, contributions receivable, NVCC subordinated debt investments, structured note and equity investments. Financial liabilities subsequently measured at fair value are accounts payable and accrued liabilities. The fair value of contributions receivable and accounts payable approximate their carrying value due to their nature or capacity for prompt liquidation. The fair value of NVCC subordinated debt, structured notes 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

Rural Municipal Specific Claims Tax Loss Compensation Trust Fund
Notes to the Consolidated Financial Statements
December 31, 2017

investments. Fixed income investments, including NVCC subordinated debt, and the internal loan, with a maturity greater than one year are classified as long-term assets.

(c) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and the reported amount of revenues and expenses during the reporting period. 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 the assessed value of properties. These estimates have implications on the valuation of certain investments, the determination of investment income and the calculation of the tax loss payments to rural municipalities.

2. Financial Risk Management

The Trust Fund has a comprehensive risk management framework to monitor, evaluate and manage the principal risks assumed with financial instruments. The significant financial risks to which the Trust Fund 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.

The Trust Fund 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 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. The Trust Fund meets its liquidity risk by monitoring cash flows from operations along with the cash flow of the investment pool.

(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 notes and equity investments). While the investments are significant in terms of the total investment pool (84.4% of the total investments are measured at fair value), the entities

Rural Municipal Specific Claims Tax Loss Compensation Trust Fund
Notes to the Consolidated Financial Statements
December 31, 2017

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. The Trust Fund's share of the assets of the investment fund at December 31, 2017 was 10.7% (2016 – 10.4%). The Trust Fund's share of the bank balance and accrued interest receivable as at December 31, 2017 are shown in the Statement of Financial Position.

The following table provides a summary of the Trust Fund'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	\$ 807,721	\$ 1,986,392
Measured At Fair Value		
NVCC Subordinated Debt - Canadian Financial Institutions	2,278,161	1,502,231
Structured Notes - Canadian Financial Institutions	73,430	176,288
Other - Internal Loan to SARM	375,730	-
Equities - Canadian Corporations	1,192,708	1,054,900
Equities - US Corporations	438,259	401,879
	<u>4,358,288</u>	<u>3,135,298</u>
Total Investments	<u><u>5,166,009</u></u>	<u><u>5,121,690</u></u>
Current Assets		
Fixed Income - Canadian Financial Institutions	223,850	487,624
Structured Notes - Canadian Financial Institutions	73,430	176,288
Equities - Canadian Corporations	1,192,708	1,054,900
Equities - US Corporations	438,259	401,879
	<u>1,928,247</u>	<u>2,120,691</u>
Long Term Assets		
Fixed Income - Canadian Financial Institutions	583,871	1,498,768
Other - Internal Loan to SARM	375,730	-
NVCC Subordinated Debt	2,278,161	1,502,231
	<u>3,237,762</u>	<u>3,000,999</u>
Total Investments	<u><u>\$ 5,166,009</u></u>	<u><u>\$ 5,121,690</u></u>

Rural Municipal Specific Claims Tax Loss Compensation Trust Fund
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For the investments measured at amortized cost, the market value of the Trust Fund's share of investments as at December 31, 2017 was \$820,168 (2016 - \$2,027,036). The investments have maturity dates that range from 2018 to 2024 – the investments are staggered over time to provide 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.

There are seven NVCC subordinated debt investments held in the investment pool. The table below provides details on the NVCC bonds for the entire pool.

	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, with a maturity date of April 2019. Interest paid on this structured note 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

Rural Municipal Specific Claims Tax Loss Compensation Trust Fund
Notes to the Consolidated Financial Statements
December 31, 2017

4. Investment Income and Expenses

	<u>2017</u>	<u>2016</u>
Interest From Cash		
Investment Bank Interest	\$ 1,403	\$ 1,448
investments Measured at Amortized Cost		
Interest - Fixed Income	1,532	27,741
Amortization - Fixed Income	90,715	95,899
(Losses) Gains - Fixed Income	(35,664)	9,221
Interest - Internal Loan	3,933	-
Investments Measured at Fair Value		
Interest - NVCC Subordinated Debt	46,641	10,912
Interest - Structured Notes	3,657	6,405
Gains - NVCC Subordinated Debt	3,284	752
Gains (Losses) - Structured Notes	(1,123)	8,137
Gains (Losses) - Equity Investments	66,490	198,941
Dividends - Equities	51,868	45,098
Expenses		
Management Fees	(18,807)	(12,322)
	<u>\$ 213,929</u>	<u>\$ 392,232</u>

5. 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 the purpose of its operations or those of the Trust Fund. 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 the Trust Fund.

5. Comparative Figures

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