



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.



Jay B. Meyer
Executive Director



Catherine Patterson, CPA, CA
Director of Finance



Independent Auditors' Report

To the Members
Saskatchewan Association of Rural Municipalities

Opinion

We have audited the consolidated financial statements of Saskatchewan Association of Rural Municipalities, which comprise the consolidated statement of financial position as at December 31, 2018 and the consolidated statements of operations, changes in fund balance and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as at December 31, 2018, and its financial performance and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in Saskatchewan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report to members, but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Association or to cease operations, or has no realistic alternative but to do so.

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

INDEPENDENT AUDITORS' REPORT continued

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Association to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with those charged with governance regarding, among other matters, the planned scope and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

February 13, 2019
Regina, Saskatchewan

Virtus Group LLP

Chartered Professional Accountants

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

At December 31, 2018

(with comparative figures at December 31, 2017)

	2018	2017
Assets		
Current Assets		
Cash	\$ 2,270,771	\$ 3,617,813
Amounts Receivable	694,145	752,931
Accrued Interest Receivable	74,114	47,965
Investments ^{Note 3}	9,570,543	8,790,459
Inventory	13,151	16,264
Prepaid Expenses & Deposits	29,170	61,165
	12,651,894	13,286,597
Long-Term Assets		
Investments ^{Note 3}	16,944,163	15,692,579
Capital Assets ^{Note 5}	6,852,045	7,382,916
	23,796,208	23,075,495
Total Assets	\$ 36,448,102	\$ 36,362,092
Liabilities & Fund Balance		
Current Liabilities		
Amounts Payable ^{Note 6}	\$ 2,545,876	\$ 5,731,601
Deferred Contributions & Revenue ^{Note 7}	554,714	373,877
Accrued Insurance Claims ^{Note 9}	359,723	881,422
	3,460,313	6,986,900
Long-Term Liabilities		
Due to Investment Pool ^{Note 10}	3,090,205	3,523,000
	3,090,205	3,523,000
Fund Balance:		
General Fund	6,880,626	6,397,279
Restricted Funds:		
Insurance & Benefit Funds	21,163,280	20,224,037
Other Funds	1,853,678	(769,124)
	29,897,584	25,852,192
Total Liabilities & Fund Balance	\$ 36,448,102	\$ 36,362,092

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, 2018
(with comparative figures for the year ended December 31, 2017)

	2018	2017
General Fund		
General Revenues		
Membership Fees	\$ 845,640	\$ 820,933
Investment Income ^{Note 4}	60,490	196,046
Administration Fees ^{Note 11}	2,086,258	1,997,264
Convention Income	335,971	326,564
Contributions	40,190	23,509
Other Revenues	13,546	77,200
	3,382,095	3,441,516
Member Services (Schedule1) ^{Note 13}	15,145,223	11,991,100
	18,527,318	15,432,616
General Expenses		
Conventions & Division Meetings	347,535	336,412
Board & Other Meetings	506,564	483,882
Advocacy & Communications Expenses	132,142	124,353
Meetings & Conferences	24,013	21,972
Staff Salaries & Other Staff Expenses	1,592,954	1,561,834
Office Expenses	46,855	59,872
General Service Expenses	174,874	109,578
Property & Amortization	323,228	674,651
Interest on Loan	90,337	37,995
Other Expenses	42,743	52,300
	3,281,245	3,462,849
Member Services (Schedule1) ^{Note 13}	14,762,726	11,654,176
	18,043,971	15,117,025
General Fund Surplus	483,347	315,591
Insurance & Benefit Restricted Funds (Schedule 2)		
Premiums & Other Revenues	4,609,295	5,369,622
Claims Expense, SARM Fee & Other Expenses	3,628,606	4,739,957
Insurance & Benefit Funds Surplus	980,689	629,665
Other Restricted Funds (Schedule 3)		
Contributions, Fees & Interest	20,570,217	14,509,542
Program Expenses	17,947,415	19,063,177
Other Restricted Funds Net Change	2,622,802	(4,553,635)
 Consolidated Surplus / Change in Fund Balance	 \$ 4,086,838	 \$ (3,608,379)

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, 2018

	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	\$ 6,397,279	\$ -	\$ -	\$ 483,347	\$ 6,880,626
Insurance & Benefit Restricted Funds:					
SARM Benefits	3,488,502	-	-	463,856	3,952,358
Liability Self-Insurance	13,656,677	(12,382)	-	(285,142)	13,359,153
Fidelity Bond Self-Insurance	425,651	-	-	42,300	467,951
Property Self-Insurance	2,653,207	(29,064)	-	759,675	3,383,818
	<u>20,224,037</u>	<u>(41,446)</u>	<u>-</u>	<u>980,689</u>	<u>21,163,280</u>
Other Restricted Funds^{Note 14}					
Municipal Roads for the Economy Program	(2,205,566)	-	-	1,820,667	(384,899)
Canadian Agricultural Partnership	-	-	-	1,549,163	1,549,163
Strategic Initiatives Program	929,620	-	-	(287,251)	642,369
Municipal Leadership Development Program	31,120	-	-	(9,322)	21,798
Invasive Plant Management	(12,475)	-	-	12,475	-
Invasive Plant Control	(1,295)	-	-	1,295	-
Provincial Rat Eradication	354,758	-	-	(331,657)	23,101
Beaver Control Program	134,714	-	-	(132,568)	2,146
	<u>(769,124)</u>	<u>-</u>	<u>-</u>	<u>2,622,802</u>	<u>1,853,678</u>
Totals	<u>\$ 25,852,192</u>	<u>\$ (41,446)</u>	<u>\$ -</u>	<u>\$ 4,086,838</u>	<u>\$ 29,897,584</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, 2018
(with comparative figures for the year ended December 31, 2017)

	<u>2018</u>	<u>2017</u>
Operating Activities		
General Fund Surplus	\$ 483,347	\$ 315,591
Items Not Affecting Cash:		
Amortization of Capital Assets	172,383	42,402
Amortization of Deferred Contribution to Purchase Capital Assets	(13,545)	(16,362)
Loss on Disposal of Assets	484	-
Amortization of Discount on Investments	(179,015)	(256,216)
Realized (Gain) Loss on Investments	(159,020)	(74,842)
Unrealized Loss (Gain) on Investments	878,389	(281,324)
Insurance & Benefit Restricted Funds Surplus	980,689	629,665
Other Restricted Funds Change in Fund Balance	<u>2,622,802</u>	<u>(4,553,635)</u>
	4,786,514	(4,194,721)
Members' Contributions - Liability Self Insurance Plan	6,356	9,890
Members' Withdrawals - Liability Self Insurance Plan	(18,738)	-
Members' Withdrawals - Property Self Insurance Plan	(29,064)	-
External Contribution to Purchase Capital Assets	192,891	258,185
Change in Non-Cash Current Assets	67,745	130,126
Change in Current Liabilities Other Than Deferred Contributions	<u>(3,705,933)</u>	<u>4,492,852</u>
Cash Provided	<u>1,299,771</u>	<u>696,332</u>
Financing and Investing Activities		
Investment in Capital Assets	(274,496)	(4,154,815)
Proceeds on Disposal of Capital Assets	7,500	-
Sale of Land	625,000	-
Repayment of Loan to Investment Pool	(432,795)	-
Net Change in Investments	<u>(2,572,022)</u>	<u>4,843,668</u>
Cash (Used) Provided	<u>(2,646,813)</u>	<u>688,853</u>
(Decrease) Increase in Cash	(1,347,042)	1,385,185
Cash, Beginning of Year	<u>3,617,813</u>	<u>2,232,628</u>
Cash, End of Year	<u>\$ 2,270,771</u>	<u>\$ 3,617,813</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, 2018

(with comparative figures for the year ended December 31, 2017)

	<u>2018</u>	<u>2017</u>
RMA Fuel		
Fuel & Lubricant Sales	\$ 3,980,715	\$ 3,620,629
Purchases & Program Fees	<u>3,968,634</u>	<u>3,607,106</u>
Surplus	<u>12,081</u>	<u>13,523</u>
Trading Services		
Sales & Rebates	4,060,204	2,135,616
Purchases & Other Expenses	<u>3,890,857</u>	<u>1,984,851</u>
Surplus	<u>169,347</u>	<u>150,765</u>
Legal Services		
Fees for Service and Disbursements	607,195	596,267
Staff Salaries & Other Staff Expenses	376,130	375,991
Other Direct Expenses	<u>222,765</u>	<u>240,357</u>
Deficit	<u>8,300</u>	<u>(20,081)</u>
Community Planning Services		
Fees for Service and Disbursements	112,629	99,578
Staff Salaries & Other Staff Expenses	185,336	223,729
Other Direct Expenses	<u>71,779</u>	<u>15,115</u>
Deficit	<u>(144,486)</u>	<u>(139,266)</u>
Insurance and Benefit Programs		
Premium Revenues	6,312,013	5,422,468
Premium Expenses	<u>5,998,096</u>	<u>5,147,458</u>
Surplus	<u>313,917</u>	<u>275,010</u>
Rural Councillor		
Advertising Fees	40,821	40,160
Printing & Distribution Expenses	<u>41,050</u>	<u>43,211</u>
Deficit	<u>(229)</u>	<u>(3,051)</u>
Other Member Services		
Fees for Service	31,646	76,382
Expenses	<u>8,079</u>	<u>16,358</u>
Surplus	<u>23,567</u>	<u>60,024</u>
Total Revenues	15,145,223	11,991,100
Total Expenses	<u>14,762,726</u>	<u>11,654,176</u>
Surplus	<u>\$ 382,497</u>	<u>\$ 336,924</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, 2018
(with comparative figures for the year ended December 31, 2017)

	<u>2018</u>	<u>2017</u>
SARM Benefits Plan		
Premiums	\$ 2,194,314	\$ 2,135,410
Investment (Loss) Income ^{Note 4}	(1,265)	162,717
Total Revenues	<u>2,193,049</u>	<u>2,298,127</u>
Claims Expense	1,174,247	1,467,038
SARM Administration Fee ^{Note 11}	548,579	533,852
Other Expenses	6,367	7,962
Total Expenses	<u>1,729,193</u>	<u>2,008,852</u>
Surplus	<u>463,856</u>	<u>289,275</u>
Liability Self-Insurance Plan		
Premiums	587,005	553,172
Endorsement Income	1,000	-
Investment (Loss) Income ^{Note 4}	(3,879)	561,701
Total Revenues	<u>584,126</u>	<u>1,114,873</u>
Claims Expense ^{Note 9}	188,703	171,839
SARM Administration Fee ^{Note 11}	176,102	165,952
Other Expenses	504,463	518,555
Total Expenses	<u>869,268</u>	<u>856,346</u>
(Deficit) Surplus	<u>(285,142)</u>	<u>258,527</u>
Fidelity Bond Self-Insurance Plan		
Premiums	56,900	56,105
Investment (Loss) Income ^{Note 4}	(134)	18,712
Recovery of Claims	3,004	578
Total Revenues	<u>59,770</u>	<u>75,395</u>
Claims Expense ^{Note 9}	-	51,868
SARM Administration Fee ^{Note 11}	17,070	16,832
Other Expenses	400	1,276
Total Expenses	<u>17,470</u>	<u>69,976</u>
Surplus	<u>42,300</u>	<u>5,419</u>
Property Self-Insurance Program		
Premiums	1,763,599	1,646,243
Investment (Loss) Income ^{Note 4}	(1,065)	140,963
Recovery of Claims	9,816	94,021
Total Revenues	<u>1,772,350</u>	<u>1,881,227</u>
Claims Expense ^{Note 9}	293,905	1,117,937
SARM Administration Fee ^{Note 11}	529,080	493,873
Other Expenses	189,690	192,973
Total Expenses	<u>1,012,675</u>	<u>1,804,783</u>
Surplus	<u>759,675</u>	<u>76,444</u>
Total Revenues	4,609,295	5,369,622
Total Expenses	<u>3,628,606</u>	<u>4,739,957</u>
Surplus	<u>\$ 980,689</u>	<u>\$ 629,665</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, 2018

(with comparative figures for the year ended December 31, 2017)

	<u>2018</u>	<u>2017</u>
Municipal Roads for the Economy Program		
Contributions & Interest	\$ 17,550,513	\$ 11,036,529
Program Expenses	15,729,846	15,271,827
Change in Fund Balance	<u>1,820,667</u>	<u>(4,235,298)</u>
Canadian Agricultural Partnership		
Contributions - Plant Health Network	595,833	-
Program Expenses - Plant Health Network	400,932	-
	<u>194,901</u>	<u>-</u>
Contributions - Invasive Plant Control	416,667	-
Program Expenses - Invasive Plant Control	42,211	-
	<u>374,456</u>	<u>-</u>
Contributions - Beaver Control	375,000	-
Program Expenses - Beaver Control	45,562	-
	<u>329,438</u>	<u>-</u>
Contributions - Rat Control	750,000	-
Program Expenses - Rat Control	99,632	-
	<u>650,368</u>	<u>-</u>
Change in Fund Balance	<u>1,549,163</u>	<u>-</u>
Strategic Initiatives Funding		
Contributions	553,078	668,573
Program Expenses	840,329	973,675
Change in Fund Balance	<u>(287,251)</u>	<u>(305,102)</u>
Municipal Leadership Development Program		
Program Fees & Interest	49,808	81,262
Program Expenses	59,130	69,763
Change in Fund Balance	<u>(9,322)</u>	<u>11,499</u>
Invasive Plant Management Program		
Contributions	35,049	112,977
Program Expenses	22,574	110,000
Change in Fund Balance	<u>12,475</u>	<u>2,977</u>
Invasive Plant Control Program		
Contributions	33,733	654,007
Program Expenses	32,438	635,568
Change in Fund Balance	<u>1,295</u>	<u>18,439</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, 2018
(with comparative figures for the year ended December 31, 2017)

	<u>2018</u>	<u>2017</u>
Provincial Rat Eradication Program		
Contributions & Interest	536	1,405,356
Program Expenses	<u>332,193</u>	<u>1,454,722</u>
Change in Fund Balance	<u>(331,657)</u>	<u>(49,366)</u>
Beaver Control Program		
Contributions	210,000	500,000
Program Expenses	<u>342,568</u>	<u>510,978</u>
Change in Fund Balance	<u>(132,568)</u>	<u>(10,978)</u>
Beaver Management in Provincial Parks		
Contributions & Interest	-	12,632
Program Expenses	<u>-</u>	<u>35,830</u>
Change in Fund Balance	<u>-</u>	<u>(23,198)</u>
Irrigation Structure Repair & Replacement Program		
Contributions	-	38,206
Program Expenses	<u>-</u>	<u>814</u>
Change in Fund Balance	<u>-</u>	<u>37,392</u>
Total Revenues	20,570,217	14,509,542
Total Expenses	<u>17,947,415</u>	<u>19,063,177</u>
Net Change in Fund Balance for the Year	<u>\$ 2,622,802</u>	<u>\$ (4,553,635)</u>

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

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2018

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 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.
- 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.
- Pursuant to various agreements with Provincial Ministries, SARM delivers programs that provide assistance to rural municipalities and rural Saskatchewan. Current programs include the Municipal Roads for the Economy Program (MREP) and the Canadian Agricultural Partnership (CAP) Programs, which comprise Rat Control, Invasive Plant Control, Beaver Control, and Plant Health Network. The Growing Forward Programs including the Provincial Rat Eradication Program (PREP), the Invasive Plant Management Program, the Invasive Plant Control Program, and the Beaver Control Program ended March 31, 2018. The Beaver Management in Provincial Parks Program and the Irrigation Structure Repair and Replacement Program ended March 31, 2017.

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2018

- SARM, on behalf of several municipal organizations, is the administrator of the Municipal Leadership Development Program (MLDP).

SARM 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) 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.

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2018

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.

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

Investment income for cash and term investments includes accrued interest, interest received in the year, amortized premium and discount, realized gains or losses on the sale or redemption of investments, and the unrealized appreciation and depreciation resulting from the change in the market value of the 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 equity investments includes dividends received, realized gains or losses on the sale of investments, unrealized appreciation and depreciation resulting from the change in the market value of the equity investments, 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, are recognized by SARM when a valid claim, based on program guidelines, has been received by December 31.

Claims under the Canadian Agricultural Partnership Invasive Plant Control Program (CAP-IPCP), the Beaver Control Program (CAP-BCP) and the Rat Control Program

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(CAP-RCP) are recognized by SARM after eligible rebate amounts have been confirmed by the Canadian Agricultural Partnership Technical Committees.

- (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.

(e) Financial Instruments

SARM initially measures its financial assets and financial liabilities at fair value.

Financial assets subsequently measured at fair value are cash, accounts receivable, term investments (including non-viability contingent capital (NVCC), subordinated debt investments, other fixed income debt investments, and 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 term investments and equity investments is market value, with the market value as reported by CIBC Wood Gundy.

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 term investments that mature within one year and equity investments. Term investments and the internal loan, with maturities greater than one year are classified as long-term assets.

(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 for, upon the commencement of the utilization of the assets, over the assets' estimated useful lives using the following methods and rates or duration:

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	Straight Line	Declining Balance
Building and Land Improvements	20 - 40 years	
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.

(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.

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- (iii) The investment income for the year is apportioned to member accounts based on each member's 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 investments 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 \$49.6 million is primarily invested in the debt of financial institutions (63.1% of the total) and structured notes and equity investments (30.7% of the total). The credit risk for term 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

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authorized line of credit in the event there are short-term cash flow requirements – the line of credit was not used in 2018.

(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 as they are measured at market 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, 2018 was 53.5% (2017 – 50.5%). SARM's share of the bank balance and accrued interest receivable as at December 31, 2018 are included in the bank and accrued interest receivable balances in the Statement of Financial Position.

The investments are measured at market value, as reported by CIBC Wood Gundy, as at December 31, 2018. At December 31, 2017, the Term Investments classified as Term Investments - Other Debt were measured at amortized cost.

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The following table provides a summary of SARM's share of the investments in the investment pool at December 31, 2018.

Investment Categories	2018	2017
Term Investments		
NVCC Subordinated Debt	\$ 14,258,862	\$ 10,796,785
Other Debt	2,467,829	3,828,002
Structured Notes	370,083	348,001
	<u>17,096,774</u>	<u>14,972,788</u>
Equity Investments		
Equities - Canadian Corporations	5,529,717	5,652,548
Equities - US Corporations	2,236,468	2,077,022
	<u>7,766,185</u>	<u>7,729,570</u>
Other Investments		
Internal Loan to SARM	1,651,747	1,780,680
	<u>1,651,747</u>	<u>1,780,680</u>
Total Investments	<u>\$ 26,514,706</u>	<u>\$ 24,483,038</u>
Current Assets		
Term Investments - Other Debt	1,434,275	1,060,889
Term Investments - Structured Notes	370,083	-
Equities - Canadian Corporations	5,529,717	5,652,548
Equities - Non-Canadian Corporations	2,236,468	2,077,022
	<u>9,570,543</u>	<u>8,790,459</u>
Long Term Assets		
Term Investments - NVCC Subordinated Debt	14,258,862	10,796,785
Term Investments - Other Debt	1,033,554	2,767,113
Term Investments - Structured Notes	-	348,001
Internal Loan	1,651,747	1,780,680
	<u>16,944,163</u>	<u>15,692,579</u>
Total Investments	<u>\$ 26,514,706</u>	<u>\$ 24,483,038</u>

The investment maturities are staggered over time to provide for annual cash flow to meet the requirements of the funds participating in the investment pool. The table below provides details of the term to maturity of term investments in the total investment pool:

Term Investments	2018			
	Up To 1 Year	1 to 3 Years	3 to 7 Years	Over 7 Years
NVCC Subordinated Debt	-	9,169,344	13,686,804	3,820,330
Other Debt	2,683,344	1,427,298	506,346	-
Structured Notes	692,377	-	-	-
	<u>3,375,721</u>	<u>10,596,642</u>	<u>14,193,150</u>	<u>3,820,330</u>
Term Investments	2017			
	Up To 1 Year	1 to 3 Years	3 to 7 Years	Over 7 Years
NVCC Subordinated Debt	-	9,170,062	6,692,645	5,498,272
Other Debt	2,114,438	4,036,266	1,539,530	-
Structured Notes	688,506	-	-	-
	<u>2,802,944</u>	<u>13,206,328</u>	<u>8,232,175</u>	<u>5,498,272</u>

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The NVCC Subordinated Debt investments have effective interest rates ranging from 2.47% to 3.51% with an average of 2.98%

For most of the other debt investments held at December 31, 2018, there is no interest paid – these investments were purchased at a discount with the annual investment income attributed to the amortized discount. There is one bond, with a maturity date of May 15, 2019, which is a step-up deposit note with an effective interest rate of 2.88%.

There is one structured note investment - a TD Canadian Equity Note (Principal Protected) with a face value of \$700,000 (market value of \$692,377 at December 31, 2018). 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 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 NVCC Subordinated Notes and Other Debt plus 0.50% of Structured Notes and Equities

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4. Investment Income and Expenses

	2018				
	SARM General Fund	SARM Benefits Plan	Liability Self- Insurance Plan	Fidelity Bond Self-Insurance Plan	Property Self- Insurance Program
	Term Investments				
Interest	\$ 36,730	\$ 51,388	\$ 157,623	\$ 5,438	\$ 43,266
Amortization of Discount (Premium)	22,330	31,243	95,830	3,307	26,305
(Losses) on Sales	(2,002)	(2,800)	(8,590)	(296)	(2,358)
Change in Market Value	(18,676)	(26,130)	(80,147)	(2,766)	(22,000)
Equity Investments					
Dividends	35,208	49,261	151,095	5,214	41,474
Gains on Sales	21,838	30,554	93,716	3,234	25,724
Change in Market Value	(90,894)	(127,173)	(390,072)	(13,460)	(107,071)
Internal Loan - Interest	5,792	8,104	24,857	858	6,823
Investment Management Fees	(12,137)	(16,982)	(52,087)	(1,797)	(14,297)
Other Interest					
Bank & Other Interest	98,578	1,270	3,896	134	1,070
Interest Allocated to Programs	(36,277)				
Total Investment Income (Loss)	\$ 60,490	\$ (1,265)	\$ (3,879)	\$ (134)	\$ (1,065)
Investment Income Net of Fees	\$ 150,224	\$ 124,284	\$ 381,214	\$ 13,154	\$ 104,641
Gains on Sales	19,836	27,754	85,126	2,938	23,366
Unrealized (Depreciation) in Market Value	(109,570)	(153,303)	(470,219)	(16,226)	(129,071)
Total Investment Income (Loss)	\$ 60,490	\$ (1,265)	\$ (3,879)	\$ (134)	\$ (1,065)
	2017				
	SARM General Fund	SARM Benefits Plan	Liability Self- Insurance Plan	Fidelity Bond Self-Insurance Plan	Property Self- Insurance Program
Term Investments					
Interest	\$ 42,338	\$ 39,413	\$ 136,054	\$ 4,533	\$ 34,145
Amortization of Discount (Premium)	42,294	39,372	135,913	4,529	34,108
Gains on Sales	6,775	6,306	21,770	724	5,463
Change in Market Value	(2,350)	(2,188)	(7,552)	(252)	(1,895)
Equity Investments					
Dividends	42,372	39,444	136,160	4,536	34,170
Gains on Sales	5,580	5,195	17,932	597	4,500
Change in Market Value	48,790	45,418	156,784	5,223	39,346
Internal Loan - Interest	3,216	2,994	10,335	344	2,594
Investment Management Fees	(15,367)	(14,305)	(49,382)	(1,645)	(12,393)
Other Interest					
Bank & Other Interest	64,283	1,068	3,687	123	925
Interest Allocated to Programs	(41,885)				
Total Investment Income (Loss)	\$ 196,046	\$ 162,717	\$ 561,701	\$ 18,712	\$ 140,963
Investment Income Net of Fees	\$ 137,251	\$ 107,986	\$ 372,767	\$ 12,420	\$ 93,549
Gains on Sales	12,355	11,501	39,702	1,321	9,963
Unrealized Appreciation in Market Value	46,440	43,230	149,232	4,971	37,451
Total Investment Income (Loss)	\$ 196,046	\$ 162,717	\$ 561,701	\$ 18,712	\$ 140,963

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5. Capital Assets

Description	Cost	Accumulated Amortization	2018 Net	2017 Net
Land	\$ 1,450,000	\$ -	\$ 1,450,000	\$ 1,450,000
Land Held for Sale	-	-	-	625,000
Building	4,984,319	168,994	4,815,325	4,931,792
Equipment & Furniture	88,301	20,155	68,146	69,977
Software	621,864	147,107	474,757	295,503
Vehicle	45,211	1,394	43,817	10,644
	<u>\$ 7,189,695</u>	<u>\$ 337,650</u>	<u>\$ 6,852,045</u>	<u>\$ 7,382,916</u>

Land Held for Sale is a property that was purchased from SaskPower as a possible site for a new office building. The purchase agreement was subject to a development covenant and included the option for SaskPower to repurchase the property for \$625,000 at any time up to December 31, 2018. The land was sold back to SaskPower on January 12, 2018.

The SARM office was moved to the new building in November 2017. Amortization was recorded from November 15 to the end of the year in 2017 and for the full year in 2018.

SARM received external funding, approved as Strategic Initiatives, to pay for the acquisition of certain capital assets for the newly constructed office building. 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 2018 was \$11,948 (2017 - \$59,637) and included the purchase and installation of a noise emission system and a security system. The 2017 assets included exterior signage, board room audio visual equipment, board room furniture and other equipment.

SARM entered into a contract in 2016 to acquire benefits software. The total estimated cost of the software, including licensing, testing and implementation is \$645,000 with costs of \$474,757 capitalized to the end of 2018. As at December 31, 2018, funding of up to \$592,612 has been approved through Strategic Initiatives towards the cost of the custom software. Once the software is operational (anticipated to be in early 2019), the amortization of the software cost will commence, and an equal amount of deferred revenue will be taken into income each year.

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.

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6. Accounts Payable

	<u>2018</u>	<u>2017</u>
Trade Accounts Payable	\$ 453,321	\$ 380,990
Government Remittances Payable	35,076	32,253
Accrued Audit Fees and Other Expenses	23,694	140,745
Accrued Investment Management Fees	6,681	4,549
Salaries and Benefits Payable	132,070	149,098
Due to Employees	608	764
Construction Contract Holdback and Payable	24,185	111,467
SARM Group Benefits Claims and Expenses Payable	69,736	-
Liability Self- Insurance Plan Accrued Liabilities	3,978	-
Property Self Insurance Fund Claims and Expenses Payable	23,781	
Property Self Insurance Reserve Payable	16,517	97,118
CAP - Beaver Control Rebates Payable	8,062	-
Municipal Roads for the Economy Program (MREP) Grants Payable	1,615,710	3,557,403
MREP Bridge Inspection Holdback	48,257	206,556
MREP Traffic Counts Payable	84,200	-
Provincial Rat Eradication Program Grants and Expenses Payable	-	466,141
Invasive Plant Control Rebates Payable	-	555,757
Beaver Control Programs Claims Payable	-	28,761
	<u>\$ 2,545,876</u>	<u>\$ 5,731,601</u>

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7. Deferred Contributions and Revenue

	<u>2018</u>		<u>2017</u>	
	Office Furniture & Equipment	Custom Benefits Software	Office Furniture & Equipment	Custom Benefits Software
Deferred Contributions:				
Beginning Balance	\$ 56,923	\$ 293,814	\$ 13,648	\$ 95,266
Amortization	(13,545)	-	(16,362)	-
Contributions to Purchase Capital Assets	11,948	180,943	59,637	198,548
Ending Balance	<u>\$ 55,326</u>	<u>\$ 474,757</u>	<u>\$ 56,923</u>	<u>\$ 293,814</u>
		<u>530,083</u>		<u>350,737</u>
Deferred Revenue:				
Benefits Premiums - LTD, EHD		-		6,057
Fidelity Bond Premiums		106		-
Group Benefits Premiums		-		3,897
Liability Insurance Premiums		1,623		-
Membership Fees		2,198		-
Municipal Leadership Development Program Fees		2,320		1,160
Property Insurance Program Premiums		5,568		-
Rural Councillor Advertising		790		-
Rural Municipal Road Map Advertising		12,026		12,026
		<u>24,631</u>		<u>23,140</u>
		<u>\$ 554,714</u>		<u>\$ 373,877</u>

The Deferred Contributions to Purchase Capital Assets are provided through the Strategic Initiatives funding for assets acquired for the newly constructed office building. The funding is taken into revenue annually in an amount equal to the amortization for those assets acquired with the funding. The 2018 contributions to purchase capital assets for the newly constructed office building include the purchase and installation of a noise emission system and a security system. The 2017 contributions were used to purchase exterior signage, board room audio visual equipment, board room furniture and other equipment.

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 2019).

Some SARM fees applicable to the 2019 fiscal year were invoiced in 2018. To the extent that the fees are paid in 2018, 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 \$315 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.
- 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 2018 and 2017 for which the Board members received per diem payments.

Board Member	Current Position	2018	2017
Orb, Ray	President	159.5	152.0
Sterling, Carmen	Vice-President	111.0	107.0
Huber, Bill	Director, Division 1	90.5	72.5
Nordgulen, Norm	Director, Division 2	104.0	105.0
Grant, Larry	Director, Division 3	66.0	67.0
Malanowich, Harvey	Director, Division 4	76.0	71.0
Harwood, Judy	Director, Division 5	85.0	80.5
Wiens, Rodney	Director, Division 6	70.5	78.0
Gowda, Wendy	Director, Ex Officio	64.0	58.5
		826.5	791.5

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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.

2018				
Liability Self-Insurance Plan	Claim Payments	Accrued Claims	Adjustments to Deductibles	Claims Expense
Prior Year Claims Paid	\$ 133,702	\$ (116,535)	\$ -	\$ 17,167
Current Year Claims Paid	19,037	-	-	19,036
Adjustment for Prior Year Accrued Claims	-	124,500	(2,000)	122,500
Current Year Accrued Claims	-	30,000	-	30,000
	\$ 152,739	37,965	\$ (2,000)	\$ 188,703
Accrued Claims - Beginning of Year		\$ 116,535		
Accrued Claims - End of Year		\$ 154,500		

2017				
Liability Self-Insurance Plan	Claim Payments	Accrued Claims	Adjustments to Deductibles	Claims Expense
Prior Year Claims Paid	\$ 105,038	\$ (62,307)	\$ (1,000)	\$ 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		

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	2018		
	Claim Payments	Accrued Claims	Claims Expense
Property Self-Insurance Program			
Prior Year Claims Paid	\$ 614,338	\$ (664,886)	\$ (50,548)
Current Year Claims Paid	190,030	-	190,030
Adjustment for Prior Year Accrued Claims	-	(5,000)	(5,000)
Current Year Accrued Claims	-	159,423	159,423
	\$ 804,368	(510,463)	\$ 293,905
Accrued Claims - Beginning of Year		\$ 714,887	
Accrued Claims - End of Year		\$ 204,423	

	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
	\$ 850,346	267,591	\$ 1,117,937
Accrued Claims - Beginning of Year		\$ 447,296	
Accrued Claims - End of Year		\$ 714,887	

	2018		
	Claim Payments	Accrued Claims	Claims Expense
Fidelity Bond Self-Insurance Program			
Current Year Claims Paid	\$ 1,861	\$ -	\$ 1,861
Current Year Accrued Claims	44,335	(49,200)	(4,865)
	\$ 46,196	(49,200)	\$ (3,004)
Accrued Claims - Beginning of Year		\$ 50,000	
Accrued Claims - End of Year		\$ 800	

	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
	\$ 1,868	50,000	\$ 51,868
Accrued Claims - Beginning of Year		\$ -	
Accrued Claims - End of Year		\$ 50,000	

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10. Long Term Liability

	2018	2017
Due to Investment Pool		
Loan, with no fixed repayment conditions, plus interest at a rate of 2.75%	\$ 3,090,205	\$ 3,523,000
	\$ 3,090,205	\$ 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.

	2018	2017
General Administration Fees:		
TLE Trust Fund	\$ 83,905	\$ 65,071
Specific Claims Trust Fund	6,299	5,967
Municipal Potash Tax Sharing Administration Board	18,318	18,000
Municipal Habitat Conservation Fund	13,404	16,098
Provincial Sales Tax Commission	-	215
	121,926	105,351
Administration Fees From Restricted Funds:		
SARM Benefits Plan	548,579	533,852
Fidelity Bond Self-Insurance Plan	17,070	16,832
Liability Self-Insurance Plan	176,102	165,952
Property Self-Insurance Program	529,080	493,873
Municipal Leadership Development Program	6,980	11,780
CAP - Plant Health Network	50,315	-
CAP - Invasive Plant Control	41,667	-
CAP - Beaver Control	37,500	-
CAP - Rat Control	75,000	-
Irrigation Bridge Program	-	164
Beaver Control Program	19,850	50,085
Beaver Management in Provincial Parks	-	1,480
Weed Management Program	2,500	10,000
Weed Control Program	21,105	79,451
	1,525,748	1,363,469
Cost Recovery Administration Fees:		
Provincial Rat Eradication Program	19,755	81,933
Municipal Roads for the Economy Program	103,304	92,348
Strategic Initiatives	107,884	152,143
Strat Initiatives - Community Planning	206,025	198,774
Board Expenses	1,616	3,246
	438,584	528,444
Total Administration Fees	\$ 2,086,258	\$ 1,997,264

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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 2018 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:

- **RMA Fuel** –RMA Fuel, a division of the Rural Municipalities of Alberta's (RMA), manages a fuel buying program for municipalities, school divisions, and other public-sector entities across Canada. The program enables participants to benefit from the pricing received through volume contracts with fuel suppliers. There are about 40 municipalities that purchase fuel and lubricants 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

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expense for fuel is substantial, the return to SARM is limited to 25% of the commission. SARM's share of the commission in 2018 was \$12,081 (2017 - \$13,523).

- **Trading Services** – SARM has partnered with like-minded municipal organizations to offer our members access to products and services that have been competitively tendered and awarded to reliable vendors. Products and services available include office products, custom printing, credit card processing services, a National Account Tire Program, road and traffic signs, Finning equipment parts and service, UAV aerial imaging services, fire trucks and apparatus, a contract capital purchasing program, NAPA auto parts, and rodent control products. Through negotiated arrangements with suppliers, SARM provides savings to participating municipalities, while generating commission or rebate revenue for SARM to continue serving its members.
- **Legal Services** – SARM provides legal services on a fee for service basis to members and the SARM benefit and insurance funds. In 2018, the fees charged to members by the lawyers employed by SARM were \$68,600 (2017 - \$48,100). SARM has a contract lawyer for which fees charged to member municipalities were \$32,472 (2017 - \$42,710). The fees charged to the SARM benefit and insurance funds were \$333,434 (2017 - \$323,595). 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.

	2018	2017
Fees for Service	\$ 110,499	\$ 95,209
Other Fees	2,130	4,369
	112,629	99,578
Salaries and Other Staff Expenses	185,336	223,729
Other Direct Expenses	71,779	15,115
Allocated Expenses	61,539	59,508
Net Expense - Community Planning	\$ 206,025	\$ 198,774

- **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 2018 were \$313,917 (2017 - \$275,010).

- **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 2018-19 is \$14,000,000 (2017-18 - \$14,000,000). 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>2018</u>	<u>2017</u>
Provincial Contributions	\$ 17,500,000	\$ 11,000,000
Interest	35,740	36,529
Fees for Services	14,773	-
Total Revenue	<u>17,550,513</u>	<u>11,036,529</u>
Administrative Costs	485,211	391,881
Traffic Counts	336,360	231,996
Bridge Inspections	454,629	512,826
Corridor Project Grants	171,410	382,686
Heavy Haul Road Project Grant	3,541,056	3,939,924
Corridor Maintenance Grants	8,161,767	6,756,270
Bridge & Culvert Project Grants	2,579,413	3,056,244
Total Expense	<u>\$ 15,729,846</u>	<u>\$ 15,271,827</u>

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In 2018, the revenue exceeds expenses by \$1,820,667. There was \$1,748,167 included in amounts payable at December 31, 2018. Funding of \$7,000,000 from the 2017-18 year was received in 2018.

In 2017 the expenses exceeded 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.

- **Canadian Agricultural Partnership – Pest Biosecurity Programs** – SARM has entered into an agreement with the Province (Ministry of Agriculture) to administer four programs providing rural municipalities and First Nations, south of the Northern Administrative District, with resources to deal with issues regarding invasive plants, rats, nuisance beavers, clubroot and other pests. The agreement is for delivery of the programs from April 1, 2018 – March 31, 2020. The following table provides summary information on the revenue and expenditures of the programs:

Canadian Agricultural Partnership Programs	Plant Health Network	Invasive Plant Control	Beaver Control	Rat Control
2018-19 Fiscal Year Funding Provided by the Agreement	<u>\$ 794,000</u>	<u>\$ 556,000</u>	<u>\$ 500,000</u>	<u>\$1,000,000</u>
Provincial Contributions	\$ 595,833	\$ 416,667	\$ 375,000	\$ 750,000
Program Expenses	347,997	545	-	24,632
Payments to RMs & First Nation Bands	-	-	8,062	-
Administration Expenses	52,935	41,666	37,500	75,000
Total Expense	<u>\$ 400,932</u>	<u>\$ 42,211</u>	<u>\$ 45,562</u>	<u>\$ 99,632</u>

- **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 has been \$5,249,910. Contributions towards SARM staff, board and office expenses in 2018 were \$107,884 (2017 - \$152,143).

Active Initiatives:

- Administrator Recruitment and Training
- Asset Management Initiatives
- Assistance to SARM for office relocation
- Bylaw Enforcement
- Community Planning
- Elected Officials Training & Development
- Insurance & Benefits System Development
- Management Essentials Training
- Outside Worker Education
- Signing Manuals
- Standing Committees

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- SARM Strategic Priorities

Completed Initiatives:

- Alternative Bridge Design Project
 - Community Planner Program
 - Election Reporting Website
 - Got Gravel
 - Municipal Capacity Development
 - Public Industry Partnership
 - Resource & Economic Development Committee
-
- **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 2018 were \$6,980 (2017 - \$11,780). 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 2018 or 2017. At December 31, 2018, the fund balance of the MLDP program held in trust by SARM is \$21,798 (2017 - \$31,120). The funds include unexpended funds initially provided by the Province and surplus funds available for distribution to the partners.
 - **Invasive Plant Management Program** – In 2013 SARM entered into an agreement with the Province (Ministry of Agriculture) for the delivery of the Invasive Plant Management Program. The agreement for the delivery of the 2017-18 program ended March 31, 2018. The funding was used for a contracted resource to deliver the program throughout the province. Funding of up to \$150,000 per year was provided. The 2018 expenditures included \$2,500 (2017 - \$10,000) for SARM's administration of the program.
 - **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 agreement for the delivery of the 2017-18 program ended March 31, 2018. This program provided funding to cover costs for control of certain invasive plant species for rural municipalities, First Nations Bands and other landowners or lessors. The total approved funding for 2017-18 was \$800,000 (\$800,000 in 2016-17) of which a maximum of \$80,000 could be spent on administration. The 2018 expenditures included \$21,105 (2017 - \$79,451) for SARM's administration of the program and \$11,298 for rebates (2017 - \$555,757).
 - **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 agreement for delivery of the program 2017-18 program ended March 31, 2018. The agreement provided funding of \$1,400,000 (\$1,400,000 in 2016-17).

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Funding included \$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.

	<u>2018</u>	<u>2017</u>
Provincial Contributions	\$ -	\$ 1,400,000
Other	536	5,356
	<u>536</u>	<u>1,405,356</u>
SARM Administration Fee	19,755	81,933
Board & Regional PCO Supervi:	12,173	50,510
Other Expenses	5,458	24,275
Payments to RMs	294,807	1,298,005
Total Expense	<u>\$ 332,193</u>	<u>\$ 1,454,722</u>

- **Beaver Control Program** - SARM entered into an agreement with the Province (Ministry of Agriculture) in 2011. The agreement for delivery of the program went from April 1, 2015 to March 31, 2018. Funding of up to \$500,000 was provided in 2017-18 (\$500,000 in 2016-17) 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.

	<u>2018</u>	<u>2017</u>
Provincial Contributions	\$ 210,000	\$ 500,000
SARM Administration Fee	19,850	50,085
Payments to RMs & First Nation Bands	<u>322,718</u>	<u>460,893</u>
Total Expense	<u>\$ 342,568</u>	<u>\$ 510,978</u>

- **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 \$0 in 2018 (\$1,480 in 2017).
- **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.

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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. The construction contract was awarded by tender to Quorex Construction. The contract price and change orders approved to December 31, 2018 total \$4,552,426. SARM has been invoiced \$4,539,698 to date, \$4,428,231 of which is paid and \$5,500 is recorded as a holdback payable at December 31, 2018.

SARM has entered into two agreements with Penad Pension Services which are ongoing at December 31, 2018. 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 \$425,000, of which \$385,000 has been paid by the end of December 2018. 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 January 2019. 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 \$4,966 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 \$4,966 plus taxes.

SARM has leases for copiers/printers and mailing equipment. Future commitments for lease payments are \$7,884 in 2019, \$5,157 in 2020, \$4,248 in 2021, \$4,248 in 2022, and \$1,287 in 2023.

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 \$10,512 in 2019, \$10,512 in 2020, \$10,512 in 2021, and \$9,636 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

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advertising revenue is deferred at December 31, 2018. The cost of printing the remaining 25,000 maps, which SARM is committed to, is around \$12,500.

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 8 intern agreements that have remaining commitments - the total commitment is \$83,732 in 2019. 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, 2018 there are 9 agreements that have remaining commitments - the total maximum potential commitment is \$1,823,670. 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, 2018 there was \$700,900 in contributions committed to RMs under agreements for the MREP program year ending March 31, 2019. 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 an agreement to use the facilities at Prairieland in Saskatoon for the SARM annual convention in March 2019. 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 2020 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 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 until July 1, 2018 and 9.0% effective that date) to the Municipal Employees Pension Plan of \$172,449 (2017 - \$162,438) 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, 2016 indicated

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that on a management valuation, there was a surplus of \$196.4 million (funded ratio of 110.1%). On a solvency basis, the plan has a shortfall of solvency assets as compared to solvency liabilities of \$324.3 million (funded ratio of 87.5%). The actuary does not attribute portions of the surplus to individual employers. The plan covers approximately 14,352 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, 2018 there is no bank indebtedness for SARM or the trust funds.

18. Comparative Figures

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