



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 printed name and title.

Jay B. Meyer
Executive Director

A handwritten signature in blue ink, appearing to read "Catherine Patterson", is written over the printed name and title.

Catherine Patterson, CPA, CA
Director of Finance



Independent Auditors' Report

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

Opinion

We have audited the financial statements of Rural Municipal Specific Claims Tax Loss Compensation Trust Fund, which comprise the statement of financial position as at December 31, 2018 and the statements of operations and 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 Fund 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 Fund 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.

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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITORS' REPORT continued

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 Fund'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 Fund'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 Fund 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

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


At December 31, 2018

(with comparative figures at December 31, 2017)

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash	\$ 79,324	\$ 108,837
Contributions Receivable	30,291	9,346
Accounts Receivable	-	25
Accrued Interest Receivable	14,171	10,121
Investments ^{Note 3}	<u>1,830,052</u>	<u>1,854,818</u>
	1,953,838	1,983,147
Long-Term Assets		
Investments ^{Note 3}	<u>3,240,015</u>	<u>3,311,191</u>
Total Assets	<u>\$ 5,193,853</u>	<u>\$ 5,294,338</u>
Liabilities & Fund Balance		
Current		
Amounts Payable	\$ 3,522	\$ 3,470
Accrued Investment Management Fees	<u>1,278</u>	<u>960</u>
	4,800	4,430
Fund Balance		
Restricted Fund Balance	<u>5,189,053</u>	<u>5,289,908</u>
Total Liabilities & Fund Balance	<u>\$ 5,193,853</u>	<u>\$ 5,294,338</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, 2018
(with comparative figures for the year ended December 31, 2017)

	2018	2017
Revenues		
Municipal Contributions	\$ 30,291	\$ 9,346
Investment (Loss) Income ^{Note 4}	(1,473)	213,929
Total Revenues	28,818	223,275
Expenses		
Payments to Rural Municipalities	119,622	113,500
SARM Administration Fee	6,295	5,974
Audit Fees and Other Expenses	3,756	3,599
Total Expenses	129,673	123,073
(Deficit) Surplus	(100,855)	100,202
Fund Balance - Beginning of Year	5,289,908	5,189,706
Fund Balance - End of Year	\$ 5,189,053	\$ 5,289,908

Rural Municipal Specific Claims Tax Loss Compensation Trust Fund
Statement of Cash Flows
For The Year Ended December 31, 2018
(with comparative figures for the year ended December 31, 2017)

	2018	2017
Operating Activities		
(Deficit) Surplus	\$ (100,855)	\$ 100,202
Items Not Affecting Cash:		
Amortization of Discount on Investments	(36,394)	(51,764)
Realized Gain on Investments	(32,330)	(55,996)
Unrealized Loss (Gain) on Investments	178,579	(210,483)
Change in Non-Cash Current Assets and Liabilities	(24,600)	(9,417)
Cash Provided (Used)	(15,600)	(227,458)
Investing Activities		
Net Change in Investments	(13,913)	273,924
(Decrease) Increase In Cash Position	(29,513)	46,466
Cash, Beginning of Year	108,837	62,371
Cash, End of Year	\$ 79,324	\$ 108,837

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

Rural Municipal Specific Claims Tax Loss Compensation Trust Fund

Notes to the Financial Statements

December 31, 2018

Purpose

The Rural Municipal Specific Claims Tax Loss Compensation Trust Fund (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 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.

Rural Municipal Specific Claims Tax Loss Compensation Trust Fund
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Investment income for 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.

(b) Financial Instruments

The Trust Fund initially measures its financial assets and financial liabilities at fair value.

Financial assets subsequently measured at fair value are cash, contributions 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 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 term and equity investments is market value, with the market value as reported by CIBC Wood Gundy.

At the end of each reporting period, the Trust Fund 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.

(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 investments and estimates for the assessed value of properties. These estimates have implications on the

Rural Municipal Specific Claims Tax Loss Compensation Trust Fund
Notes to the Financial Statements
December 31, 2018

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 \$49.6 million is primarily invested in the debt of financial institutions (63.1% of the total), or structured notes and equity investments (30.7% 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 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 term 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. The Trust Fund 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.

Rural Municipal Specific Claims Tax Loss Compensation Trust Fund

Notes to the Financial Statements

December 31, 2018

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, 2018 was 10.2% (2017 – 10.7%). The Trust Fund's share of the bank balance and accrued interest receivable as at December 31, 2018 are shown 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.

The following table provides a summary of the Trust Fund's share of the investments in the investment pool.

Investment Categories	2018	2017
Term Investments		
NVCC Subordinated Debt	\$ 2,726,540	\$ 2,278,161
Other Debt	471,891	807,721
Structured Notes	70,766	73,430
	<u>3,269,197</u>	<u>3,159,312</u>
Equity Investments		
Equities - Canadian Corporations	1,057,377	1,192,708
Equities - US Corporations	427,651	438,259
	<u>1,485,028</u>	<u>1,630,967</u>
Other Investments		
Internal Loan to SARM	315,842	375,730
	<u>315,842</u>	<u>375,730</u>
Total Investments	<u>\$ 5,070,067</u>	<u>\$ 5,166,009</u>
Current Assets		
Term Investments - Other Debt	\$ 274,258	\$ 223,851
Term Investments - Structured Notes	70,766	-
Equities - Canadian Corporations	1,057,377	1,192,708
Equities - Non-Canadian Corporations	427,651	438,259
	<u>1,830,052</u>	<u>1,854,818</u>
Long Term Assets		
Term Investments - NVCC Subordinated Debt	2,726,540	2,278,161
Term Investments - Other Debt	197,633	583,870
Term Investments - Structured Notes	-	73,430
Internal Loan	315,842	375,730
	<u>3,240,015</u>	<u>3,311,191</u>
Total Investments	<u>\$ 5,070,067</u>	<u>\$ 5,166,009</u>

The investment maturities are staggered over time to provide 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:

Rural Municipal Specific Claims Tax Loss Compensation Trust Fund
Notes to the Financial Statements
December 31, 2018

	2018			
	Up To 1 Year	1 to 3 Years	3 to 7 Years	Over 7 Years
Term Investments				
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>
	2017			
	Up To 1 Year	1 to 3 Years	3 to 7 Years	Over 7 Years
Term Investments				
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>

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

Rural Municipal Specific Claims Tax Loss Compensation Trust Fund
Notes to the Financial Statements
December 31, 2018

4. Investment Income and Expenses

	2018	2017
Term Investments		
Interest	\$ 59,860	\$ 51,817
Amortization of Discount	36,394	51,764
(Losses) Gains on Sales	(3,262)	8,291
Change in Market Value	(30,438)	(2,876)
Equity Investments		
Dividends	57,383	51,868
Gains on Sales	35,592	6,829
Change in Market Value	(148,141)	59,707
Internal Loan		
Interest	9,440	3,933
Investment Expenses		
Management Fees	(19,781)	(18,807)
Other Interest		
Investment Bank Interest	1,480	1,403
Total Investment (Loss) Income	\$ (1,473)	\$ 213,929
Investment Income Less Fees	\$ 144,776	\$ 141,978
Gains on Sales	32,330	15,120
Unrealized (Depreciation)		
Appreciation in Market Value	(178,579)	56,831
Total Investment (Loss) Income	\$ (1,473)	\$ 213,929

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, 2018 there is no bank indebtedness for the Trust Fund.

6. Comparative Figures

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