



Management's Responsibility for Financial Reporting

To the Members
Saskatchewan Association of Rural Municipalities

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

In discharging its responsibilities for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls designed to provide assurance that transactions are authorized, assets safeguarded, and proper records maintained.

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

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

A handwritten signature in blue ink, appearing to read "Jay B. Meyer".

Jay B. Meyer
Executive Director

A handwritten signature in black ink, appearing to read "Catherine Patterson".

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, 2019 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, 2019, 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 12, 2020
Regina, Saskatchewan

VIRTUS GROUP LLP

Chartered Professional Accountants

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

At December 31, 2019

(with comparative figures at December 31, 2018)

	2019	2018
Assets		
Current Assets		
Cash	\$ 8,035,964	\$ 2,270,771
High Interest Savings Accounts ^{Note 3}	7,053,831	-
Amounts Receivable	670,358	694,145
Accrued Interest Receivable	112,816	74,114
Investments ^{Note 4}	14,929,795	9,570,543
Inventory	6,447	13,151
Prepaid Expenses & Deposits	50,648	29,170
	30,859,859	12,651,894
Long-Term Assets		
Investments ^{Note 4}	15,408,618	16,944,163
Capital Assets ^{Note 6}	6,820,060	6,852,045
	22,228,678	23,796,208
Total Assets	\$ 53,088,537	\$ 36,448,102
 Liabilities & Fund Balance		
Current Liabilities		
Amounts Payable ^{Note 7}	\$ 6,346,638	\$ 2,525,030
Accrued Insurance Claims ^{Note 8}	572,378	380,569
Deferred Contributions ^{Note 9}	468,290	530,083
Deferred Revenue	152,488	24,631
Due to Members - High Interest Savings ^{Note 3}	7,053,831	-
	14,593,625	3,460,313
Long-Term Liabilities		
Due to Investment Pool ^{Note 10}	2,590,205	3,090,205
Fund Balance:		
General Fund	7,647,646	6,880,626
Restricted Funds:		
Insurance & Benefit Funds	23,505,825	21,163,280
Other Funds	4,751,236	1,853,678
	35,904,707	29,897,584
Total Liabilities & Fund Balance	\$ 53,088,537	\$ 36,448,102

Approved by the Board:





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

Saskatchewan Association of Rural Municipalities
Consolidated Statement of Operations
For The Year Ended December 31, 2019
(with comparative figures for the year ended December 31, 2018)

	2019	2018
General Fund		
General Revenues		
Membership Fees	\$ 871,070	\$ 845,640
Investment Income ^{Note 5}	418,604	60,490
Administration Fees ^{Note 11}	2,205,362	2,086,258
Convention Income	341,131	335,971
Contributions	119,979	40,190
Other Revenues	12,573	13,546
	3,968,719	3,382,095
Member Services (Schedule 1) ^{Note 14}	15,739,842	15,145,223
	19,708,561	18,527,318
General Expenses		
Conventions & Division Meetings	412,848	347,535
Board & Other Meetings ^{Note 12}	547,716	506,830
Advocacy & Engagement	154,383	152,908
Staff Salaries & Benefits	1,665,989	1,537,506
Administrative Expenses	423,948	319,888
Property & Amortization	478,258	323,228
Interest on Loan	72,905	90,337
Other Expenses	595	3,013
	3,756,642	3,281,245
Member Services (Schedule 1) ^{Note 14}	15,210,146	14,762,726
	18,966,788	18,043,971
General Fund Surplus	741,773	483,347
Insurance & Benefit Restricted Funds (Schedule 2)		
Premiums & Other Revenues	6,792,292	4,606,291
Claims Expense, SARM Fee & Other Expenses	4,456,299	3,625,602
Insurance & Benefit Funds Surplus	2,335,993	980,689
Other Restricted Funds (Schedule 3)^{Note 15}		
Contributions, Fees & Interest	20,918,501	20,570,217
Program Expenses	17,995,696	17,947,415
Other Restricted Funds Net Change	2,922,805	2,622,802
Consolidated Surplus/Change in Fund Balance	\$ 6,000,571	\$ 4,086,838

The accompanying notes are 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, 2019

	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	\$ 6,880,626	\$ -	\$ 25,247	\$ 741,773	\$ 7,647,646
Insurance & Benefit Restricted Funds:					
SARM Benefits	3,952,358	-	-	496,096	4,448,454
Liability Self-Insurance	13,359,153	6,552	-	863,612	14,229,317
Fidelity Bond Self-Insurance	467,951	-	-	74,301	542,252
Property Self-Insurance	3,383,818	-	-	901,984	4,285,802
	<u>21,163,280</u>	<u>6,552</u>	<u>-</u>	<u>2,335,993</u>	<u>23,505,825</u>
Other Restricted Funds ^{Note 15}					
Municipal Roads for the Economy Program	(384,899)	-	-	3,365,938	2,981,039
Canadian Agricultural Partnership	1,549,163	-	-	(221,746)	1,327,417
Strategic Initiatives Program	642,369	-	-	(213,654)	428,715
Municipal Leadership Development Program	21,798	-	-	(7,733)	14,065
Provincial Rat Eradication	23,101	-	(23,101)	-	-
Beaver Control Program	2,146	-	(2,146)	-	-
	<u>1,853,678</u>	<u>-</u>	<u>(25,247)</u>	<u>2,922,805</u>	<u>4,751,236</u>
Totals	<u>\$ 29,897,584</u>	<u>\$ 6,552</u>	<u>\$ -</u>	<u>\$ 6,000,571</u>	<u>\$ 35,904,707</u>

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

Saskatchewan Association of Rural Municipalities
Consolidated Statement of Cash Flows
For The Year Ended December 31, 2019
(with comparative figures for the year ended December 31, 2018)

	<u>2019</u>	<u>2018</u>
Operating Activities		
General Fund Surplus	\$ 741,773	\$ 483,347
Insurance & Benefit Restricted Funds Surplus	2,335,993	980,689
Other Restricted Funds Surplus	2,922,805	2,622,802
Members' Contributions - Liability Self Insurance Plan	6,552	6,356
Members' Withdrawals - Liability Self Insurance Plan	-	(18,738)
Members' Withdrawals - Property Self Insurance Plan	-	(29,064)
Change in Current Assets Except Cash	(29,689)	67,745
Change in Current Liabilities Except Deferred Contributions	<u>4,141,274</u>	<u>(3,705,933)</u>
	10,118,708	407,204
Items Not Affecting Cash:		
Amortization of Capital Assets	246,010	172,383
Amortization of Deferred Capital Asset Contributions	(61,793)	(13,545)
Gain on Disposal of Capital Assets	-	484
Contribution to Purchase Capital Assets	-	192,891
Amortization of Investment Discounts & Premiums	(138,371)	(179,015)
Realized Gain on Investments	(95,226)	(159,020)
Unrealized (Gain) Loss on Investments	<u>(1,318,967)</u>	<u>878,389</u>
Cash Provided	<u>8,750,361</u>	<u>1,299,771</u>
Financing and Investing Activities		
Investment in Capital Assets	(214,025)	(274,496)
Proceeds on Disposal of Capital Assets	-	632,500
Repayment of Loan to Investment Pool	(500,000)	(432,795)
Net Change in Investments	<u>(2,271,143)</u>	<u>(2,572,022)</u>
Cash Used	<u>(2,985,168)</u>	<u>(2,646,813)</u>
Increase (Decrease) in Cash	5,765,193	(1,347,042)
Cash, Beginning of Year	<u>2,270,771</u>	<u>3,617,813</u>
Cash, End of Year	<u><u>\$ 8,035,964</u></u>	<u><u>\$ 2,270,771</u></u>

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

Saskatchewan Association of Rural Municipalities
Schedule 1 - Operations Summary - Member Services
For The Year Ended December 31, 2019
(with comparative figures for the year ended December 31, 2018)

	<u>2019</u>	<u>2018</u>
Trading Services ^{Note 14}		
Sales, Commissions & Rebates	\$ 8,077,833	\$ 8,040,919
Cost of Products and Services	<u>7,826,833</u>	<u>7,859,491</u>
Surplus	<u>251,000</u>	<u>181,428</u>
Legal Services ^{Note 14}		
Fees for Service and Disbursements	550,562	607,195
Staff Salaries & Benefits	422,738	364,938
Other Direct Expenses	<u>146,781</u>	<u>233,957</u>
(Deficit) Surplus	<u>(18,957)</u>	<u>8,300</u>
Community Planning Services ^{Note 14}		
Fees for Service and Disbursements	114,378	112,629
Staff Salaries & Benefits	285,132	180,125
Other Direct Expenses	<u>39,032</u>	<u>76,990</u>
Deficit	<u>(209,786)</u>	<u>(144,486)</u>
Insurance and Benefit Programs ^{Note 14}		
Premium Revenues	6,929,215	6,312,013
Premium Expenses	<u>6,441,404</u>	<u>5,998,096</u>
Surplus	<u>487,811</u>	<u>313,917</u>
Other Member Services ^{Note 14}		
Fees for Service	67,854	72,467
Expenses	<u>48,226</u>	<u>49,129</u>
Surplus	<u>19,628</u>	<u>23,338</u>
Total Revenues	15,739,842	15,145,223
Total Expenses	<u>15,210,146</u>	<u>14,762,726</u>
Surplus	<u>\$ 529,696</u>	<u>\$ 382,497</u>

The accompanying notes are 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, 2019
(with comparative figures for the year ended December 31, 2018)

	<u>2019</u>	<u>2018</u>
SARM Benefits Plan		
Premiums	\$ 2,251,266	\$ 2,194,314
Investment Income (Loss) ^{Note 5}	388,891	(1,265)
Total Revenues	<u>2,640,157</u>	<u>2,193,049</u>
Claims Expense	1,563,428	1,174,247
SARM Administration Fee ^{Note 11}	562,816	548,579
Other Expenses	17,817	6,367
Total Expenses	<u>2,144,061</u>	<u>1,729,193</u>
Surplus	<u>496,096</u>	<u>463,856</u>
Liability Self-Insurance Plan		
Premiums & Other Revenue	620,168	588,005
Investment Income (Loss) ^{Note 5}	1,097,195	(3,879)
Total Revenues	<u>1,717,363</u>	<u>584,126</u>
Claims Expense ^{Note 8}	187,472	188,703
SARM Administration Fee ^{Note 11}	186,051	176,102
Other Expenses	480,228	504,463
Total Expenses	<u>853,751</u>	<u>869,268</u>
Surplus (Deficit)	<u>863,612</u>	<u>(285,142)</u>
Fidelity Bond Self-Insurance Plan		
Premiums & Other Revenue	58,997	56,900
Investment Income (Loss) ^{Note 5}	40,587	(134)
Total Revenues	<u>99,584</u>	<u>56,766</u>
Claims Expense ^{Note 8}	6,205	(3,004)
SARM Administration Fee ^{Note 11}	17,546	17,070
Other Expenses	1,532	400
Total Expenses	<u>25,283</u>	<u>14,466</u>
Surplus	<u>74,301</u>	<u>42,300</u>
Property Self-Insurance Program		
Premiums	1,931,364	1,763,599
Investment Income (Loss) ^{Note 5}	356,334	(1,065)
Recovery of Claims	47,490	9,816
Total Revenues	<u>2,335,188</u>	<u>1,772,350</u>
Claims Expense ^{Note 8}	514,492	293,905
SARM Administration Fee ^{Note 11}	579,409	529,080
Other Expenses	339,303	189,690
Total Expenses	<u>1,433,204</u>	<u>1,012,675</u>
Surplus	<u>901,984</u>	<u>759,675</u>
Total Revenues	<u>6,792,292</u>	<u>4,606,291</u>
Total Expenses	<u>4,456,299</u>	<u>3,625,602</u>
Surplus	<u>\$ 2,335,993</u>	<u>\$ 980,689</u>

The accompanying notes are 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, 2019
(with comparative figures for the year ended December 31, 2018)

	<u>2019</u>	<u>2018</u>
Municipal Roads for the Economy Program ^{Note 15}		
Contributions & Interest	\$ 17,556,191	\$ 17,550,513
Program Expenses	<u>14,190,253</u>	<u>15,729,846</u>
Change in Fund Balance	<u>3,365,938</u>	<u>1,820,667</u>
Canadian Agricultural Partnership ^{Note 15}		
Contributions	2,884,753	2,137,500
Program Expenses	<u>3,106,499</u>	<u>588,337</u>
Change in Fund Balance	<u>(221,746)</u>	<u>1,549,163</u>
Strategic Initiatives Funding ^{Note 15}		
Contributions	427,241	553,078
Program Expenses	<u>640,895</u>	<u>840,329</u>
Change in Fund Balance	<u>(213,654)</u>	<u>(287,251)</u>
Municipal Leadership Development Program ^{Note 15}		
Program Fees & Interest	50,316	49,808
Program Expenses	<u>58,049</u>	<u>59,130</u>
Change in Fund Balance	<u>(7,733)</u>	<u>(9,322)</u>
Invasive Plant Management Program		
Contributions	-	35,049
Program Expenses	<u>-</u>	<u>22,574</u>
Change in Fund Balance	<u>-</u>	<u>12,475</u>
Invasive Plant Control Program		
Contributions	-	33,733
Program Expenses	<u>-</u>	<u>32,438</u>
Change in Fund Balance	<u>-</u>	<u>1,295</u>
Provincial Rat Eradication Program		
Contributions & Interest	-	536
Program Expenses	<u>-</u>	<u>332,193</u>
Change in Fund Balance	<u>-</u>	<u>(331,657)</u>
Beaver Control Program		
Contributions	-	210,000
Program Expenses	<u>-</u>	<u>342,568</u>
Change in Fund Balance	<u>-</u>	<u>(132,568)</u>
Total Revenues	20,918,501	20,570,217
Total Expenses	<u>17,995,696</u>	<u>17,947,415</u>
Net Change in Fund Balance for the Year	<u>\$ 2,922,805</u>	<u>\$ 2,622,802</u>

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

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2019

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, each representing a division, are elected by delegates 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 members for the purchase of products (including fuel, office supplies, tires, equipment, and equipment parts and services) 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 participating SARM members. SARM also provides 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 employees of participating SARM members, 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 Liability Self-Insurance Plan participants. Participants may also purchase additional coverage for administrative errors and omissions.
- Pursuant to various agreements with Provincial Ministries, SARM delivers programs that assist rural municipalities and rural Saskatchewan. Programs include the Municipal Roads for the Economy Program (MREP) and the Canadian Agricultural Partnership (CAP) Program. The CAP program includes initiatives for rat control, beaver control, plant health support and invasive plant control.
- SARM, on behalf of several municipal organizations, is the administrator of the Municipal Leadership Development Program (MLDP).

SARM is exempt from income tax.

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2019

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

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

- (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,

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2019

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 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 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 accrued interest and 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) are recognized by SARM when a valid claim, based on program guidelines, has been received by December 31.

Claims under the Canadian Agricultural Partnership Programs 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.

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2019

(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, high interest savings accounts, accounts receivable, accrued interest 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, high interest savings accounts due to members, 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. Amortization is provided for, upon the commencement of the utilization of the assets, over the assets' estimated useful lives. When a capital asset no longer contributes to SARM's ability to provide services, it's carrying amount is written down to its residual value.

The amortization categories estimated useful lives and amortization rates are:

- (i) Building and land improvements – all components are amortized on a straight-line basis. The building structure is amortized over 40 years, the building service systems and land improvements over 25 years and building finishes over 20 years.
- (ii) Equipment and furniture – amortized on a straight-line basis over 5 years.
- (iii) Computer software – the group benefits system is amortized on a straight-line basis over 10 years, with other software amortized on a straight-line basis over five years.

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2019

- (iv) Vehicle – amortized using the declining balance method at a rate of 25%.

(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 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 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 each participating member. Each year, the individual member's account is adjusted for the following amounts:

- (i) Member withdrawals for the current year. A withdrawal is only permitted when a member ceases to participate in PSIP.
- (ii) The annual surplus or deficit, excluding investment income, is apportioned to member accounts based on the premium paid by each participant for the year in relation to the total premiums for the year.
- (iii) The investment income for the year is apportioned to member accounts based on each 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.

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2019

(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 \$55.2 million is primarily invested in the debt of financial institutions (62.6% 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 manages its liquidity risk by monitoring cash flows from operations along with the cash flow of the investment pool. SARM has an authorized line of credit in the event there are short-term cash flow requirements – the line of credit was not used in 2019.

(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

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2019

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. High Interest Savings Accounts

SARM has partnered with CIBC Commercial Banking to offer members a pooled High Interest Savings Account. Each member's funds are held in-trust for the member in their own account. The interest rate paid on the funds in the pooled accounts is prime less 1.70%, which is 2.25%, at December 31, 2019. An administration fee of 0.05% is paid to SARM by CIBC.

The liability for the amounts held in-trust for members are shown as Due to Members – High Interest Savings.

4. 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, 2019 was 56.0% (2018 – 53.5%). SARM's share of the bank balance, accrued interest receivable and accrued management fees payable as at December 31, 2019 are included in the balances in the Statement of Financial Position.

The investments are measured at market value, as reported by CIBC Wood Gundy, as at December 31, 2019.

Investments include term investments (NVCC Subordinated Debt investments and other term debt investments), equities (preferred and common shares) in Canadian and US companies, and an internal loan to SARM to finance the construction of SARM's new building.

Term investment maturities are staggered over time to provide cash flow to meet the requirements of the investment pool participants. As of December 31, 2019, the portion of term investments that mature within certain timeframes are:

- Term investments with terms of up to 1 year, 28.0% (2018 – 10.6%).
- Term investments with terms of 1 to 3 years, 20.1% (2018 – 33.1%).
- Term investments with terms of 3 to 7 years, 51.9% (2018 – 44.4%).
- Term investments with terms of over 7 years, none (2018 – 11.9%).

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2019

The following table provides a summary of SARM's share of the investments in the investment pool at December 31, 2019.

	<u>2019</u>	<u>2018</u>
Term Investments		
NVCC Subordinated Debt	\$ 18,263,899	\$ 14,258,862
Other Debt	1,122,122	2,467,830
Structured Notes	-	370,083
	<u>19,386,021</u>	<u>17,096,775</u>
Equity Investments		
Equities - Canadian Corporations	7,134,748	5,529,716
Equities - US Corporations	2,366,413	2,236,468
	<u>9,501,161</u>	<u>7,766,184</u>
Other Investments		
Internal Loan to SARM	1,451,231	1,651,747
Total Investments	<u>\$ 30,338,413</u>	<u>\$ 26,514,706</u>
Current Assets		
Term Investments - NVCC Subordinated Debt	\$ 5,210,086	\$ -
Term Investments - Other Debt	218,548	1,434,276
Term Investments - Structured Notes	-	370,083
Equities - Canadian Corporations	7,134,748	5,529,716
Equities - Non-Canadian Corporations	2,366,413	2,236,468
	<u>14,929,795</u>	<u>9,570,543</u>
Long Term Assets		
Term Investments - NVCC Subordinated Debt	13,053,813	14,258,862
Term Investments - Other Debt	903,574	1,033,554
Term Investments - Structured Notes	-	-
Internal Loan	1,451,231	1,651,747
	<u>15,408,618</u>	<u>16,944,163</u>
Total Investments	<u>\$ 30,338,413</u>	<u>\$ 26,514,706</u>

5. Investment Income and Expenses

For Term Investments, 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.

NVCC Subordinated Debt investments have effective interest rates ranging from 2.47% to 3.89% with an average of 3.23%. For the other debt investments there is no interest paid. The investments were purchased at a discount with the annual investment income attributed to the amortized discount.

Equity investments are primarily in investments that pay dividends and include Canadian and US companies with investments in 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.

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2019

Investment management fees are based on the average daily market value of the assets. The investment management fee rates are 0.5% for structured notes and equities, and 0.15% of NVCC Subordinated Notes and other term investments. There are no fees for the internal loan.

The following tables provide a summary of SARM's share of the investment income (loss) for 2019 and 2018.

	2019				
	SARM General Fund	SARM Benefits Plan	Liability Self- Insurance Plan	Fidelity Bond Self- Insurance Plan	Property Self- Insurance Program
Term Investments					
Interest	\$ 70,553	\$ 74,737	\$ 210,859	\$ 7,800	\$ 68,480
Amortization of Discount & Premium	22,576	23,915	67,471	2,496	21,913
Losses on Sales	(5)	(4)	(11)	-	(4)
Change in Market Value	53,945	57,144	161,224	5,964	52,360
Equity Investments					
Dividends	52,790	55,920	157,770	5,836	51,239
Gains on Sales	15,541	16,462	46,445	1,718	15,084
Change in Market Value	161,251	170,814	481,924	17,827	156,514
Internal Loan - Interest	6,482	6,867	19,373	717	6,292
Investment Management Fees	(17,264)	(18,288)	(51,596)	(1,909)	(16,757)
Bank Interest	52,735	1,324	3,736	138	1,213
Investment Income	\$ 418,604	\$ 388,891	\$ 1,097,195	\$ 40,587	\$ 356,334
Investment Income Less Fees	\$ 187,872	\$ 144,475	\$ 407,613	\$ 15,078	\$ 132,380
Gains on Sales	15,536	16,458	46,434	1,718	15,080
Unrealized Appreciation in Market Value	215,196	227,958	643,148	23,791	208,874
Investment Income	\$ 418,604	\$ 388,891	\$ 1,097,195	\$ 40,587	\$ 356,334

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2019

	2018				
	SARM General Fund	SARM Benefits Plan	Liability Self- Insurance Plan	Fidelity Bond Self- Insurance Plan	Property Self- Insurance Program
Term Investments					
Interest	\$ 36,729	\$ 51,388	\$ 157,623	\$ 5,438	\$ 43,265
Amortization of Discount	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)
Bank Interest	62,302	1,270	3,896	134	1,070
Investment Income (Loss)	\$ 60,490	\$ (1,265)	\$ (3,879)	\$ (134)	\$ (1,065)
Investment Income Less Fees	\$ 150,224	\$ 124,284	\$ 381,214	\$ 13,154	\$ 104,640
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)
Investment Income (Loss)	\$ 60,490	\$ (1,265)	\$ (3,879)	\$ (134)	\$ (1,065)

6. Capital Assets

The following table is a summary of the capital assets at December 31, 2019. Capital assets are recorded at cost. Amortization is provided for over the assets' estimated useful lives, upon the commencement of the utilization of the assets. When a capital asset no longer contributes to SARM's ability to provide services, it's carrying amount is written down to its residual value.

Description	Cost	Accumulated Amortization	2019 Net	2018 Net
Land	\$ 1,450,000	\$ -	\$ 1,450,000	\$ 1,450,000
Building	4,984,319	319,215	4,665,104	4,815,325
Equipment & Furniture	88,301	37,815	50,486	68,146
Software	705,543	83,936	621,607	474,757
Vehicle	45,211	12,348	32,863	43,817
	\$ 7,273,374	\$ 453,314	\$ 6,820,060	\$ 6,852,045

SARM has received external funding through Strategic Initiatives, to pay for the acquisition of certain capital assets, including a portion of the cost for a new benefits system, and specific furniture and equipment for the new 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 amortization categories estimated useful lives and amortization rates are:

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2019

- Building and land improvements – all components are amortized on a straight-line basis. The building structure is amortized over 40 years, the building service systems and land improvements over 25 years and building finishes over 20 years.
- Equipment and furniture – amortized on a straight-line basis over 5 years.
- Computer software – the group benefits system is amortized on a straight-line basis over 10 years, with other software amortized on a straight-line basis over five years.
- Vehicle – amortized using the declining balance method at a rate of 25%.

7. Accounts Payable

Details of the accounts payable are shown in the following table.

	<u>2019</u>	<u>2018</u>
Trade Accounts	\$ 297,233	\$ 453,320
Government Remittances	35,179	35,076
Salaries and Benefits	108,043	132,070
Other Payables	113,209	55,169
SARM Group Benefits Claims & Expenses	176,403	69,736
Liability Self-Insurance Plan Expenses	2,369	-
Property Self-Insurance Program Expenses	6,353	6,913
Property Self-Insurance Program Reserve	-	16,517
CAP Program Rebates & Expenses	333,301	8,062
MREP Program Grants & Expenses	5,274,548	1,748,167
	<u>\$ 6,346,638</u>	<u>\$ 2,525,030</u>

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2019

8. Accrued Claims and Claims Expense

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

Liability Self-Insurance Plan	2019		
	Claim Payments	Accrued Claims	Claims Expense
Balance - Beginning of Year		\$ 154,500	
Prior Year Claims	\$ 64,188	(82,500)	\$ (18,312)
Current Year Claims	25,019	-	25,019
Accrued Adjustment - Prior Year Claims	-	138,900	138,900
Accrued Adjustment - Current Year Claims	-	46,628	46,628
	89,207	103,028	192,235
Claim Deductibles		(263)	(4,763)
Balance - End of Year	\$ 89,207	\$ 257,265	\$ 187,472

Liability Self-Insurance Plan	2018		
	Claim Payments	Accrued Claims	Claims Expense
Balance - Beginning of Year		\$ 116,535	
Prior Year Claims Paid	\$ 133,702	(116,535)	\$ 17,167
Current Year Claims Paid	15,059	-	15,059
Accrued Adjustment - Prior Year Claims	-	124,500	124,500
Accrued Adjustment - Current Year Claims	-	33,977	33,977
	148,761	158,477	190,703
Claim Deductibles			(2,000)
Balance - End of Year	\$ 148,761	\$ 158,477	\$ 188,703

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2019

	2019		
Property Self-Insurance Plan	Claim Payments	Accrued Claims	Claims Expense
Balance - Beginning of Year		\$ 204,423	
Prior Year Claims	\$ 98,053	(169,423)	\$ (71,370)
Current Year Claims	310,567	-	310,567
Accrued Adjustment - Prior Year Claims	-	5,439	5,439
Accrued Adjustment - Current Year Claims	-	269,856	269,856
Balance - End of Year	<u>\$ 408,620</u>	<u>\$ 310,295</u>	<u>\$ 514,492</u>

	2018		
Property Self-Insurance Plan	Claim Payments	Accrued Claims	Claims Expense
Balance - Beginning of Year		\$ 714,887	
Prior Year Claims Paid	\$ 614,338	(664,887)	\$ (50,549)
Current Year Claims Paid	173,162	-	173,162
Accrued Adjustment - Prior Year Claims	-	(5,000)	(5,000)
Accrued Adjustment - Current Year Claims	-	176,292	176,292
Balance - End of Year	<u>\$ 787,500</u>	<u>\$ 221,292</u>	<u>\$ 293,905</u>

	2019		
Fidelity Bond Self-Insurance Plan	Claim Payments	Accrued Claims	Claims Expense
Balance - Beginning of Year		\$ 800	
Prior Year Claims	\$ 776	(800)	\$ (24)
Current Year Claims	1,411	-	1,411
Accrued Adjustment - Prior Year Claims	-	-	-
Accrued Adjustment - Current Year Claims	-	4,818	4,818
Balance - End of Year	<u>\$ 2,187</u>	<u>\$ 4,818</u>	<u>\$ 6,205</u>

	2018		
Fidelity Bond Self-Insurance Plan	Claim Payments	Accrued Claims	Claims Expense
Balance - Beginning of Year		\$ 50,000	
Prior Year Claims Paid	\$ 44,335	(50,000)	\$ (5,665)
Current Year Claims Paid	1,861	-	1,861
Accrued Adjustment - Prior Year Claims	-	-	-
Accrued Adjustment - Current Year Claims	-	800	800
Balance - End of Year	<u>\$ 46,196</u>	<u>\$ 800</u>	<u>\$ (3,004)</u>

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2019

9. Deferred Contributions

The Deferred Contributions to Purchase Capital Assets were provided through Strategic Initiatives funding to fund a portion of the cost of custom benefits software and 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 following table provides details on the total deferred contributions, including the contributions and amortization for the current and prior year.

	<u>2019</u>	<u>2018</u>
Custom Benefits Software:		
Beginning Balance	\$ 474,757	\$ 293,814
Amortization	(47,476)	-
Contributions	-	180,943
Ending Balance	<u>427,281</u>	<u>474,757</u>
Office Furniture & Equipment:		
Beginning Balance	55,326	56,923
Amortization	(14,317)	(13,545)
Contributions	-	11,948
Ending Balance	<u>41,009</u>	<u>55,326</u>
	<u>\$ 468,290</u>	<u>\$ 530,083</u>

10. Long Term Liability

In August 2016, the Board approved an internal loan to SARM from the investment pool of up to \$4 million to fund the construction of the new office building. There were no fixed repayment terms. Subject to the authorized loan limit, the Board delegated to the SARM Investment Management Committee decisions on the loan amount, interest rate, and repayment schedule.

The loan balance as the end of 2019 is \$2,590,205 (2018 – \$3,090,205). The policy with respect to the repayment of the internal loan is:

- The minimum repayment each year is \$175,000; and,
- For each year that SARM has a General Fund surplus, an additional repayment in the following year will be made of the lesser of \$175,000 or 50% of the prior year's General Fund surplus; and,
- Such further repayments as approved by the Executive Director based on an analysis of SARM's cash.

The loan repayment in 2019 was \$500,000 (2018 – \$432,795). The interest rate is currently 2.49% (previous rate set in December 2018 was 2.75%). The rate is reviewed every six months and is set based on bond rates for 3, 5 and 7-year bonds.

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2019

11. Administration Fees

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

	<u>2019</u>	<u>2018</u>
SARM Benefits Plan	\$ 562,816	\$ 548,579
Fidelity Bond Self-Insurance Plan	17,546	17,070
Liability Self-Insurance Plan	186,051	176,102
Property Self-Insurance Program	579,409	529,080
Canadian Agricultural Partnership	287,618	204,481
Municipal Roads for the Economy Program	108,522	103,304
Community Planning - Strategic Initiatives	298,300	206,025
TLE Trust Fund	69,928	83,905
Specific Claims Trust Fund	6,979	6,299
Municipal Habitat Conservation Fund	14,408	13,404
Municipal Potash Tax Sharing Administration Board	19,682	18,318
Municipal Leadership Development Program	7,040	6,980
High Interest Savings Program	380	-
Board Meeting Expenses	1,133	1,617
Board and Staff Costs - Strategic Initiatives	45,550	107,884
Beaver Control Program	-	19,850
Weed Management Program	-	2,500
Weed Control Program	-	21,105
Provincial Rat Eradication Program	-	19,755
	<u>\$ 2,205,362</u>	<u>\$ 2,086,258</u>

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 Strategic Initiative funding for Community Planning is to fund the net cost for community planning services.

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.

The fees from the TLE Trust Fund and Specific Claims Trust Funds are pursuant to the agreements for the administration of the trust funds. The fees are 5% of the potential tax loss compensation for the year for properties transferred to reserve. The remaining 95% of the potential tax loss compensation is paid to the participating rural municipalities. The fees from the Municipal Potash Tax Sharing Administration Board and the Municipal Habitat Conservation Fund are pursuant to agreements to cover the costs of administration of the programs.

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2019

12. Board of Directors' Remuneration – Board and Other Meetings

Pursuant to the Governance Bylaw 2016-01, SARM is administered by a Board of Directors. The Board consists of a President, Vice-President, six directors and one ex-officio director. The Board meets 11 times per year. In addition, board members participate in Committee meetings and represent SARM at other meetings and events.

The Board has adopted a policy, updated annually, that details the remuneration and expenses board members are eligible to claim while representing SARM. Pursuant to the policy, in 2019, board members were eligible to receive the following:

- Per Diem payments of \$350 per day for meetings, in addition to one day per month for meeting preparation time.
- A meal allowance of \$67 per day.
- A phone and data allowance of \$111 per month.
- Remuneration for travel time of 28 cents per kilometer.
- Honorariums of \$12,500 for the President, and \$7,500 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 expenses) based on actual expenditures incurred.

The table below is a summary of the number of days in 2019 and 2018 for which the Board members received per diem payments.

Board Member	Board Position	2019	2018
Orb, Ray	President	149.5	159.5
Sterling, Carmen	Vice-President	124.0	111.0
Huber, Bill	Director, Division 1	90.0	90.5
Nordgulen, Norm	Director, Division 2	86.0	104.0
Grant, Larry	Director, Division 3	62.0	66.0
Malanowich, Harvey	Director, Division 4	67.0	76.0
Harwood, Judy	Director, Division 5	99.0	85.0
Whitfield, Darwin	Director, Division 6	63.5	-
Gowda, Wendy	Director, Ex Officio	60.5	64.0
Wiens, Rodney	Former Director	16.5	70.5
		818.0	826.5

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2019

13. Contingencies

The General Fund is contingently liable as a past 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 2019 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 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.

14. Member Services

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

- **Trading Services** – SARM has partnered with other municipal organizations to offer members access to products and services based on pricing that results from competitive tenders. Through negotiated arrangements with suppliers, SARM provides savings to participating municipalities, while generating revenue (commissions, rebates and price markups) for SARM to fund services that serve members. The costs of salaries and benefits, other direct expenses and indirect costs are not allocated to Trading Services. The following tables detail the products and services provided, along with the program's operating results for the current and prior year.

	2019		
	Program Revenues	Program Costs	Net Revenue
Fuel & Lubricants	\$ 3,601,234	\$ 3,589,845	\$ 11,389
Equipment Parts & Services	1,692,567	1,643,221	49,346
Road & Traffic Signs	656,513	623,740	32,773
Tire Purchase & Repair	710,749	686,613	24,136
Rodent Control Products	833,712	772,551	61,161
Office Equipment & Supplies	496,477	460,581	35,896
Aerial Mapping	50,909	48,437	2,472
Capital Equipment Acquisition	34,054	-	34,054
Other Commissions	1,618	-	1,618
Other Expenses	-	1,845	(1,845)
Totals	\$ 8,077,833	\$ 7,826,833	\$ 251,000

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2019

	2018		
	Program Revenues	Program Costs	Net Revenue
Fuel & Lubricants	\$ 3,980,715	\$ 3,968,634	\$ 12,081
Equipment Parts & Services	1,406,900	1,366,441	40,459
Road & Traffic Signs	688,255	649,508	38,747
Tire Purchase & Repair	620,845	629,016	(8,171)
Rodent Control Products	816,556	758,032	58,524
Office Equipment & Supplies	510,424	472,078	38,346
Aerial Mapping	16,356	15,559	797
Capital Equipment Acquisition	-	-	-
Other Commissions	868	-	868
Other Expenses	-	223	(223)
Totals	\$ 8,040,919	\$ 7,859,491	\$ 181,428

- **Legal Services** – SARM provides legal services on a fee for service basis to members and the SARM benefit and insurance funds. The fees to the SARM funds are an expense to those funds. Indirect expenses are not allocated to Legal Services.

	2019	2018
Fees to SARM Members	\$ 108,404	\$ 101,072
Fees to SARM Funds	338,748	333,434
Other Charges	103,410	172,689
	550,562	607,195
Salaries & Benefits	422,738	364,938
Other Direct Costs	146,781	233,957
	569,519	598,895
Net (Expense) Revenue	\$ (18,957)	\$ 8,300

- **Community Planning Services** – SARM provides community planning services on a fee for service basis to members and other municipalities. SARM has set the community planning rates to ensure that rural municipalities have access to professional community planning services at a reasonable cost. The following tables detail the program's operating results for the current and prior year.

	2019	2018
Fees for Service	\$ 110,436	\$ 110,499
Other Fees	3,942	2,130
	114,378	112,629
Salaries and Benefits	285,132	180,125
Other Direct Expenses	39,032	76,990
Allocated Expenses	88,600	59,639
	412,764	316,754
Net Expense	\$ (298,386)	\$ (204,125)

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2019

The net expense of Community Planning Services is funded through a contribution from the Strategic Initiatives Program.

- **Insurance and Benefit Programs** – In addition to the insurance and benefit funds administered by SARM, SARM offers other insurance and benefit programs to member municipalities. The following tables details the programs provided, and the program's operating results for the current and prior year. The additional programs are provided through external carriers, with SARM responsible for the administration with participating members.

2019			
	Program Revenues	Program Costs	Net Revenue
Extended Health & Dental	\$ 5,143,654	\$ 4,817,078	\$ 326,576
Long Term Disability	1,320,294	1,214,290	106,004
Group Life Insurance	218,414	199,028	19,386
Optional Life Insurance	44,540	40,069	4,471
Excesss Liability Insurance	202,313	170,938	31,375
Totals	\$ 6,929,215	\$ 6,441,403	\$ 487,812

2018			
	Program Revenues	Program Costs	Net Revenue
Extended Health & Dental	\$ 4,810,040	\$ 4,625,157	\$ 184,883
Long Term Disability	1,123,493	1,030,120	93,373
Group Life Insurance	140,323	127,565	12,758
Optional Life Insurance	47,586	42,795	4,791
Excesss Liability Insurance	190,571	172,459	18,112
Totals	\$ 6,312,013	\$ 5,998,096	\$ 313,917

- **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 by email and the SARM website of notices and advertisements. These services are funded through advertising fees, service fees, and sale of the products.

2019			
	Program Revenues	Program Costs	Net Revenue
Rural Councillor	\$ 41,050	\$ 41,332	\$ (282)
Calendars	6,637	6,524	113
Email and Website Notices	18,625	-	18,625
Grid Road Maps	1,542	371	1,171
Totals	\$ 67,854	\$ 48,227	\$ 19,627

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2019

	2018		
	Program Revenues	Program Costs	Net Revenue
Rural Councillor	\$ 40,821	\$ 41,050	\$ (229)
Calendars	7,366	6,524	842
Email and Website Notices	18,563	-	18,563
Grid Road Maps	5,717	1,555	4,162
Totals	\$ 72,467	\$ 49,129	\$ 23,338

15. Other Restricted Funds

Schedule 3 summarizes the revenues and expenses for programs undertaken by SARM to support rural municipalities and other communities. 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 has entered into an agreement with the Province (Ministry of Highways) for the MREP Program. The current agreement is for the term April 1, 2019 to March 31, 2024. Funding is determined annually by the Province. The agreement establishes a Program Management Board to manage the program and details the responsibilities of SARM. The following tables details the MREP components, the program's operating results and fund balance for the current and prior year.

	2019	2018
Provincial Contributions (2017-18)	\$ -	\$ 7,000,000
Provincial Contributions (2018-19)	4,000,000	10,500,000
Provincial Contributions (2019-20)	13,500,000	-
Interest	41,522	35,740
Fees for Services	14,669	14,773
	17,556,191	17,550,513
Administrative Costs	491,491	485,212
Traffic Counts	293,994	336,360
Bridge Inspections	605,040	454,629
Corridor Grants	2,617,566	171,409
Heavy Haul Road Grants	2,148,843	3,541,056
Corridor Maintenance & Sign Grants	5,399,800	8,161,767
Bridge & Culvert Grants	2,633,519	2,579,413
	14,190,253	15,729,846
Change in Fund Balance	3,365,938	1,820,667
Fund Balance - Start of Year	(384,899)	(2,205,566)
Fund Balance - End of Year	\$ 2,981,039	\$ (384,899)

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2019

- **Canadian Agricultural Partnership – Pest Biosecurity Programs** – SARM has entered into an agreement with the Province (Ministry of Agriculture) to administer programs providing funding and support to rural municipalities and First Nations (south of the Northern Administrative District). The agreement is from April 1, 2018 – March 31, 2020. The following tables details the CAP components, the program’s operating results and fund balance for the current and prior year.

	2019	2018
Provincial Contributions (2018-19)	\$ 484,753	\$ 2,137,500
Provincial Contributions (2019-20)	2,400,000	-
	<u>2,884,753</u>	<u>2,137,500</u>
Plant Health Network Expenses	576,405	347,997
Beaver Control Rebates	698,584	-
Invasive Plant Control Rebates	247,578	8,062
Rat Control Expenses:		
Rat Control Rebates	1,191,917	-
Program Delivery Expenses	29,661	24,632
Administrative Expenses	362,354	207,646
	<u>3,106,499</u>	<u>588,337</u>
Change in Fund Balance	(221,746)	1,549,163
Fund Balance - Start of Year	1,549,163	-
Fund Balance - End of Year	<u>\$ 1,327,417</u>	<u>\$ 1,549,163</u>

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2019

- **Strategic Initiatives** – Since 2010 the Province (Ministry of Government Relations) has provided funding to SARM for Strategic Initiatives that benefit rural municipalities. The initiatives and funding allocated are subject to the approval of the Ministry. The following table details the initiatives, and the program’s operating results and fund balance for the current and prior year.

	<u>2019</u>	<u>2018</u>
Provincial Contributions	\$ 427,241	\$ 553,078
Active Initiatives Expenses:		
Administrator Recruitment & Training	240,163	196,090
Community Planning	298,300	208,499
SARM Strategic Priorities Initiatives	55,930	49,345
Management Essentials Training	9,839	7,834
Elected Officials Training & Dev	1,770	7,146
Outside Worker Education	1,718	1,741
Asset Management	1,813	4,485
Bylaw Enforcement	215	861
Sign Manuals	807	2,394
Completed Initiatives Expenses:		
SARM Office Relocation	-	37,798
Benefits Review & System	-	181,928
Standing Committees	30,340	73,911
Got Gravel	-	68,010
Municipal Capacity Development	-	190
Public Industry Partnership	-	97
	<u>640,895</u>	<u>840,329</u>
Change in Fund Balance	(213,654)	(287,251)
Fund Balance - Start of Year	<u>642,369</u>	<u>929,620</u>
Fund Balance - End of Year	<u>\$ 428,715</u>	<u>\$ 642,369</u>

- **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. The following table details the program’s operating results and fund balance for the current and prior year. The fund balance includes unexpended funds initially provided by the Province and undistributed surplus funds. The partners, subject to a decision by the partner group, could approve a distribution of the undistributed surplus funds. The partners’ share of the surplus funds is based on the registrations from each partner group each year.

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2019

	2019	2018
Registration Fees	\$ 50,316	\$ 49,808
Interest and Other Revenue	-	-
	<u>50,316</u>	<u>49,808</u>
Instructor's Fees and Expenses	21,579	19,506
Other Course Expenses	28,143	31,806
SARM Administration Fees	7,040	6,980
Other Expenses	1,287	838
	<u>58,049</u>	<u>59,130</u>
Change in Fund Balance	(7,733)	(9,322)
Fund Balance - Start of Year	21,798	31,120
Distribution to Program Partners	-	-
Fund Balance - End of Year	<u>\$ 14,065</u>	<u>\$ 21,798</u>

- **Terminated Programs** – Several programs funded by the Province and delivered by SARM were terminated March 31, 2018. The terminated programs have been replaced by the programs offered through the Canadian Agricultural Partnership programs. Schedule 3 includes contributions and expenses for these programs from January 1, 2018 to March 31, 2018. The terminated programs were:
 - Invasive Plant Management (IPCP)
 - Invasive Plant Control Program (IPCP)
 - Provincial Rat Eradication Program (PREP)
 - Beaver Control Program (BCP)

16. Contractual Obligations

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 \$5,920 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 \$6,417 in 2020, \$5,508 in 2021, \$5,508 in 2022, and \$2,547 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 both 2020 and 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, more than 10% of the total, for the remaining months of the contract.

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2019

SARM entered into an agreement, with the Ministry of Highways, to publish and distribute a Rural Municipal Road Map for the Province of Saskatchewan. The term of the agreement is November 24, 2015 to November 23, 2020. SARM is responsible to manage, finance and print 50,000 copies of the Map prior to the expiration of the term. There were 25,000 maps printed in 2017. Advertising was sold to finance the printing of the map and \$12,026 of advertising revenue is deferred at December 31, 2019. 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 6 intern agreements that have remaining commitments - the total commitment is \$50,833 in 2020. 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, 2019 there are 3 agreements that have remaining commitments - the total maximum potential commitment is \$1,017,708. 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, 2019 there was \$1,884,000 in contributions committed to RMs under agreements for the MREP program year ending March 31, 2020. 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 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.

SARM has entered into an agreement with Oh Media for the development of the sarm.ca website. The initial deposit was made in March 2019, with the remaining 50% of \$10,338 due upon completion of the project, which is expected to be February 2020.

17. Employee Pension Benefits

SARM and its eligible employees contribute to the Municipal Employees Pension Plan, a multi-employer defined benefit plan. Employer contributions, which match the employee contributions, are 9.0% of an employee's salary (8.15% to July 1, 2018). Contributions of

Saskatchewan Association of Rural Municipalities
Notes to the Consolidated Financial Statements
December 31, 2019

\$197,034 in 2019 (2018 - \$172,449) 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, 2018 indicated that on a management valuation, there was a surplus of \$494.3 million (funded ratio of 124.6%). On a solvency basis, the plan has a shortfall of solvency assets as compared to solvency liabilities of \$276.8 million (funded ratio of 89.8%). The actuary does not attribute portions of the surplus to individual employers. The plan covers approximately 14,341 active members, of which 27 are employees of SARM.

18. 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, 2019 there is no bank indebtedness for SARM or the trust funds.

19. Comparative Figures

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