Saskatchewan Association of Rural Municipalities
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Management's Responsibility for Financial Reporting

To the Beneficiaries of the
Rural Municipal 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.

Jay B. Meyer
Executive Director

Catherine Patterson, CPA, CA
Director of Finance

Independent Auditors' Report

To the Beneficiaries
Rural Municipal Tax Loss Compensation Trust Fund

Opinion
We have audited the financial statements of Rural Municipal Tax Loss Compensation Trust Fund, which comprise the statement of financial position as at December 31, 2019 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, 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 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.

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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.

Virtus Group LLP

February 12, 2020
Regina, Saskatchewan

Chartered Professional Accountants

VIRTUS GROUP

Rural Municipal Tax Loss Compensation Trust Fund
Statement of Financial Position
At December 31, 2019
(with comparative figures at December 31, 2018)

	2019	2018
Assets		
Current Assets		
Cash	$ 315,807	$ 281,941
Contributions Receivable	714,805	280,658
Accrued Interest Receivable	68,638	50,370
Investments Note 3	9,083,417	6,504,647
	10,182,667	7,117,616
Long-Term Assets		
Investments Note 3	9,374,739	11,516,149
Total Assets	$ 19,557,406	$ 18,633,765
Liabilities & Fund Balance		
Current		
Amounts Payable	$ 7,929	$ 4,550
Accrued Investment Management Fees	4,431	4,541
	12,360	9,091
Fund Balance		
Restricted Fund Balance	19,545,046	18,624,674
Total Liabilities & Fund Balance	$ 19,557,406	$ 18,633,765

Approved by the Board:

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

Rural Municipal Tax Loss Compensation Trust Fund
Statement of Operations and Fund Balance
For The Year Ended December 31, 2019
(with comparative figures for the year ended December 31, 2018)

	2019	2018
Revenues		
Contributions	$ 863,223	$ 1,102,540
Investment Income (Loss)[Note 4]	1,465,466	(5,378)
Total Revenues	2,328,689	1,097,162
Expenses		
Payments to Rural Municipalities	1,330,394	1,594,215
SARM Administration Fee	69,928	83,905
Audit Fees and Other Expenses	7,995	8,746
Total Expenses	1,408,317	1,686,866
Surplus (Deficit)	920,372	(589,704)
Fund Balance - Beginning of Year	18,624,674	19,214,378
Fund Balance - End of Year	$ 19,545,046	$ 18,624,674

Rural Municipal Tax Loss Compensation Trust Fund
Statement of Cash Flows
For The Year Ended December 31, 2019
(with comparative figures for the year ended December 31, 2018)

	2019	2018
Operating Activities		
Surplus (Deficit)	$ 920,372	$ (589,704)
Items Not Affecting Cash:		
Amortization of Discount on Investments	(90,118)	(132,862)
Realized Gain on Investments	(62,017)	(118,023)
Unrealized (Gain) Loss on Investments	(859,019)	651,928
Change in Non-Cash Current Assets and Liabilities	(449,146)	(293,017)
Cash Used	(539,928)	(481,678)
Investing Activities		
Net Change in Investments	573,794	367,761
Increase (Decrease) In Cash Position	33,866	(113,917)
Cash, Beginning of Year	281,941	395,858
Cash, End of Year	$ 315,807	$ 281,941

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

Purpose

The Rural Municipal Tax Loss Compensation Trust Fund (Trust Fund) was established pursuant to Article 6 of the Amended Cost Sharing Agreement between Canada and Saskatchewan dated September 22, 1992. The agreement concerns the respective obligations of Canada and Saskatchewan for the payment of the anticipated costs of settling the outstanding treaty land entitlement claims of certain First Nations in Saskatchewan. Article 6 of the agreement provides that a Rural Municipal Compensation Fund shall be established to receive payments from Saskatchewan and Canada and disburse 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.

The Rural Municipal Tax Loss Compensation Agreement between Saskatchewan and the Saskatchewan Association of Rural Municipalities (SARM) dated October 6, 1993 establishes the Rural Municipal Tax Loss Compensation Trust Fund and designates SARM as the trustee. The beneficiaries of the Trust Fund are the rural municipalities that lose tax revenue as a result of lands within the municipality being set apart as reserves.

The Rural Municipal Tax Loss Compensation Agreement provides that SARM is entitled to deduct 5% of the tax loss compensation due to Rural Municipalities pursuant to the Agreement for the administrative expenses 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 the Governments of Canada and Saskatchewan for lands set apart as reserves. The Rural Municipal Tax Loss Compensation Trust Fund is a restricted fund, and contributions are recognized as revenue in the year in which the applicable lands are set apart. Contributions for lands set apart are calculated as 22.5 times the municipal taxes for the year prior to transfer, with 70% paid by the Government of Canada and 30% paid by the Government of Saskatchewan.

(i) 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.

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 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 $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. 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.

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, 2019 was 34.1% (2018 – 36.3%). The Trust Fund share of the bank balance, accrued interest receivable and accrued management fees payable as at December 31, 2019 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, 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, 0.0% (2018 – 11.9%).

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

Investment Categories	**2019**	**2018**
Term Investments		
NVCC Subordinated Debt	$ 11,111,917	$ 9,691,077
Other Debt	682,709	1,677,267
Structured Notes	-	251,528
	11,794,626	11,619,872
Equity Investments		
Equities - Canadian Corporations	4,340,843	3,758,287
Equities - US Corporations	1,439,746	1,520,022
	5,780,589	5,278,309
Other Investments		
Internal Loan to SARM	882,941	1,122,615
Total Investments	$ 18,458,156	$ 18,020,796
Current Assets		
Term Investments - NVCC Subordinated Debt	$ 3,169,861	$ -
Term Investments - Other Debt	132,967	974,810
Term Investments - Structured Notes	-	251,528
Equities - Canadian Corporations	4,340,843	3,758,287
Equities - Non-Canadian Corporations	1,439,746	1,520,022
	9,083,417	6,504,647
Long Term Assets		
Term Investments - NVCC Subordinated Debt	7,942,056	9,691,077
Term Investments - Other Debt	549,742	702,457
Internal Loan	882,941	1,122,615
	9,374,739	11,516,149
Total Investments	$ 18,458,156	$ 18,020,796

4. 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.

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 table provides a summary of the Trust Fund's share of the investment income (loss) for 2019 and 2018.

	2019	2018
Term Investments		
Interest	$ 281,634	$ 218,531
Amortization of Discount	90,118	132,862
Realized Loss on Sales	(18)	(11,909)
Unrealized Appreciation (Depreciation) in Market Value	215,338	(111,118)
Equity Investments		
Dividends	210,726	209,484
Realized Gain on Sales	62,035	129,932
Unrealized Appreciation (Depreciation) in Market Value	643,681	(540,810)
Internal Loan		
Interest	25,876	34,463
Investment Expenses		
Management Fees	(68,914)	(72,215)
Other Interest		
Investment Bank Interest	4,990	5,402
Investment Income (Loss)	$ 1,465,466	$ (5,378)
Investment Income Less Fees	$ 544,430	$ 528,527
Realized Gain on Sales	62,017	118,023
Unrealized Appreciation (Depreciation) in Market Value	859,019	(651,928)
Investment Income (Loss)	$ 1,465,466	$ (5,378)

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, 2019 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.