

Management's Responsibility for Financial Reporting

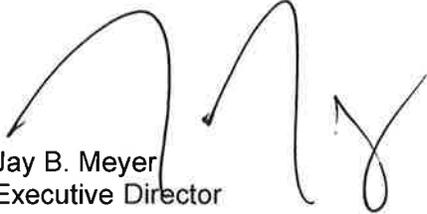
To the Beneficiaries of the
Rural Municipal Tax Loss Compensation Trust Fund

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, 2020 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, 2020, and its financial performance and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITORS' REPORT continued

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

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

February 17, 2021
Regina, Saskatchewan

VIRTUS GROUP LLP
Chartered Professional Accountants

Rural Municipal Tax Loss Compensation Trust Fund
Statement of Financial Position

At December 31, 2020

(with comparative figures at December 31, 2019)

	2020	2019 (Restated - Note 3)
Assets		
Current Assets		
Cash	\$ 977,477	\$ 315,807
Contributions Receivable	428,785	-
Amounts Receivable	13,526	1,576
Accrued Interest & Dividends Receivable	79,668	68,638
Investments ^{Note 4}	6,866,341	9,083,417
	8,365,797	9,469,438
Long-Term Assets		
Investments ^{Note 4}	11,134,475	9,374,739
Total Assets	\$ 19,500,272	\$ 18,844,177
Liabilities & Fund Balance		
Current Liabilities		
Amounts Payable	\$ 7,820	\$ 7,929
Accrued Investment Management Fees	3,639	4,431
	11,459	12,360
Fund Balance		
Restricted Fund Balance	19,488,813	18,831,817
Total Liabilities & Fund Balance	\$ 19,500,272	\$ 18,844,177

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, 2020
(with comparative figures for the year ended December 31, 2019)

	2020	2019 (Restated - Note 3)
Revenues		
Federal Contributions	\$ 830,378	\$ 103,893
Provincial Contributions	355,876	44,525
Investment Income: ^{Note 5}		
Realized Investment Income	886,305	606,447
Unrealized Change in Market Value	(12,934)	859,019
Other Revenue	5,888	-
Total Revenues	2,065,513	1,613,884
Expenses		
Payments to Rural Municipalities	1,330,258	1,328,897
SARM Administration Fee	70,013	69,850
Audit Fees and Other Expenses	8,246	7,994
Total Expenses	1,408,517	1,406,741
Surplus	656,996	207,143
Fund Balance - Beginning of Year	18,831,817	18,624,674
Fund Balance - End of Year	\$ 19,488,813	\$ 18,831,817

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

Rural Municipal Tax Loss Compensation Trust Fund
Statement of Cash Flows

For The Year Ended December 31, 2020

(with comparative figures for the year ended December 31, 2019)

	2020	2019 (Restated - Note 3)
Operating Activities		
Surplus	\$ 656,996	\$ 207,143
Investment Items Not Affecting Cash:		
Amortization of Discount on Investments	(62,700)	(90,118)
Unrealized Change in Market Value	12,933	(859,019)
Change in Non-Cash Current Assets and Liabilities	(452,666)	264,083
Cash Provided (Used)	154,563	(477,911)
Investing Activities		
Net Change in Investments	507,107	511,777
Increase (Decrease) In Cash Position	661,670	33,866
Cash, Beginning of Year	315,807	281,941
Cash, End of Year	\$ 977,477	\$ 315,807

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

Rural Municipal Tax Loss Compensation Trust Fund
Notes to the Financial Statements
December 31, 2020

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 because 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 due to 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 title of the applicable lands is transferred to the Crown. Contributions for lands set apart are calculated as 22.5 times the municipal taxes for the year prior to year the title for lands is transferred to the Crown, with 70% paid by the Government of Canada and 30% paid by the Government of Saskatchewan.
- (ii) Investment income is income allocated from the investment pool (see Note 5).

Investment income for term investments (non-viability contingent capital (NVCC) subordinated debt investments, other fixed income debt investments, and structured notes) includes interest earned in the year (accrued or received), amortized premium and discount, realized gains or losses on the sale of investments, and the unrealized change in in the market value of the investments. Purchase premiums and discounts are amortized on a straight-line basis over the term of the earlier of the maturity or call date. NVCC Subordinated Debt investments that earn interest have effective interest rates ranging from 2.6% to 3.9%.

Rural Municipal Tax Loss Compensation Trust Fund
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Investment income for externally managed portfolio investments (money market and fixed income exchange traded funds, Canadian equities and trust units and non-Canadian equities) includes dividends earned in the year (accrued or received), realized gains or losses on the sale of investments, and the unrealized change in the market value of the investments.

Investment income on the internal loan is interest earned in the year (accrued or received).

The allocated investment income is net of investment management fees. The fees are based on the average daily market value of the assets. The fee rates are 0.5% for structured notes, 0.15% for NVCC Subordinated Notes and other term investments, and 0.75% for the externally managed portfolios. There are no fees for the internal loan.

(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 NVCC subordinated debt investments, other fixed income debt investments, and structured note investments), and portfolio investments. Financial liabilities subsequently measured at fair value are amounts payable and accrued liabilities. The fair value of contributions and amounts receivable and amounts payable approximate their carrying value due to their nature or capacity for prompt liquidation. The fair value of term and portfolio 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, money market ETF investments, short-term fixed income ETF investments, and equity and trust unit investments. Term investments with maturities greater than one year, the internal loan and mid to long-term fixed income ETF investments 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

Rural Municipal Tax Loss Compensation Trust Fund
Notes to the Financial Statements
December 31, 2020

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 has cash balances of approximately \$2.9 million and investments of approximately \$52.8 million. The investments are invested in the debt of financial institutions or fixed income ETFs (67.7% of the total), and equity investments and structured notes where the principal is at risk (28.3% of the total), and an internal loan (4.0% 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 and trust unit 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.

Rural Municipal Tax Loss Compensation Trust Fund
Notes to the Financial Statements
December 31, 2020

3. Change in Accounting Policy

During the year, the Trust Fund changed its revenue recognition policy to recognize contributions in the year that the legal title of land transfers to the Crown, rather than in the year of the Ministerial Order. New federal legislation, *Additions to Reserve Land and Reserve Creation Act*, that came into force on August 29, 2019, specifies that the effective date for transfers of land to reserves is the date where legal title of the land transfers to the name of the Crown. The timing of when the lands are set apart as reserves impacts the recognition of contribution revenue, tax loss compensation payments, and administration fees for Order 2019-048, which was originally recognized in 2019 based on the order date. As the legal title for this order was not transferred until 2020, the financial effects of this transaction were removed from 2019 and recognized in 2020.

As a result of the change in accounting policy, 2019 has been restated with an impact of:

- Decreasing contributions by \$714,805 due to the effective date for the contributions for Order 2019-048 changing from December 19, 2019 to March 24, 2020. There is a decrease in Contributions Receivable of the same amount.
- Decreasing the tax loss compensation expense by \$1,497 and the administration fee expense and other expense by \$79 for Order 2019-048. There is an increase in amounts receivable of \$1,575 as of December 31, 2019 related to the recovery of the reduced expenditures.
- Decreasing the Fund Balance by \$713,230 as of December 31, 2019 resulting from the net change between the decrease in revenues of \$714,805 and the decrease in expenses of \$1,576.

4. Investments

The investment pool includes investments the Rural Municipal Tax Loss Compensation Trust Fund, SARM (General Fund and Insurance & Benefit Restricted Funds), and the Rural Municipal Specific Claims Tax Loss Compensation Trust Fund. The assets and liability attributed to each fund is apportioned based on the investment of each fund in the pool as of the end of the year and is reflected in each fund's statement of financial position. The apportionment of investment income is attributed to each fund based on the investment of each fund in the pool throughout the year and is reflected in each fund's statement of operations. The Trust Fund's share of the assets and liability of the investment fund as at December 31, 2020 was 34.09% (2019 – 34.09%).

The investment pool is managed within the investment policy adopted by SARM, that limits total equity investments to 30% of the investment fund, and total non-Canadian equity investments to 15% of the investment fund. The investment fund includes investments and cash balances and excludes accrued amounts. As of December 31, 2020, total equities were 26.8% (2019 – 30.8%) of the investment fund and non-Canadian equities were 4.0% (2019 – 7.7%) of the investment fund.

Rural Municipal Tax Loss Compensation Trust Fund
Notes to the Financial Statements
December 31, 2020

Term investments include NVCC subordinated debt investments, other term debt investments, and structured notes. There are two structured notes, one with the principal at risk and one with the principal protected. The term investments are managed internally with support through CIBC Wood Gundy. As of December 31, 2020, the maturity timeframes for the term investments are:

- Term investments with terms of up to 1 year, 0.0% (2019 – 28.0%).
- Term investments with terms of 1 to 3 years, 26.5% (2019 – 20.1%).
- Term investments with terms of 3 to 7 years, 73.5% (2019 – 51.9%).

The externally managed portfolios are managed by the Investment Consulting Service of CIBC Wood Gundy. Investments were transferred to these funds in January 2020 from two previous externally managed equity funds. There are two managed funds, a Canadian Core Balanced portfolio, and a North American Yield Balanced portfolio. As of December 31, 2020, the externally managed portfolios are invested 2.4% in money market ETFs, 38.8% in fixed income ETFs, 49.4% in Canadian equities or trust units, and 9.4% in non-Canadian equities.

The following table provides a summary of the Trust Fund's share of the investments in the investment pool by type of asset. The investments are measured at market value, as reported by CIBC Wood Gundy, as of December 31, 2020.

	<u>2020</u>	<u>2019</u>
Current Assets		
Money Market ETFs	\$ 191,592	\$ -
NVCC Subordinated Debt	-	3,169,861
Other Term Debt	382,206	132,967
Structured Notes - At Risk	-	-
Structured Notes - Protected	-	-
Short Term Fixed Income ETFs	1,520,828	-
Canadian Equities and Trust Units	4,005,520	4,340,843
Non-Canadian Equities	766,195	1,439,746
	<u>6,866,341</u>	<u>9,083,417</u>
Long Term Assets		
NVCC Subordinated Debt	7,622,567	7,942,056
Other Term Debt	188,813	549,742
Structured Notes - At Risk	321,699	-
Structured Notes - Protected	661,344	-
Mid to Long Term Fixed Income ETFs	1,627,438	-
Internal Loan	712,615	882,941
	<u>11,134,476</u>	<u>9,374,739</u>
Total Investments	<u>\$ 18,000,817</u>	<u>\$ 18,458,156</u>

Rural Municipal Tax Loss Compensation Trust Fund
Notes to the Financial Statements
December 31, 2020

Investment Income and Expenses

The following table provides a summary of the Trust Fund's share of the investment income for 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Term Investments		
Interest	\$ 227,885	\$ 281,634
Amortization of Discount (Premium)	62,700	90,118
Realized Losses on Sales	(1,916)	(18)
Unrealized Change in Market Value	155,560	215,338
Portfolio Investments		
Dividends	226,166	210,726
Realized Gains on Sales	421,837	62,035
Unrealized Change in Market Value	(168,493)	643,681
Internal Loan Interest	18,009	25,876
Investment Management Fees	(70,860)	(68,914)
Investment Account Interest	2,483	4,990
Investment Income	<u>873,371</u>	<u>1,465,466</u>
Investment Income Net of Fees	466,383	544,430
Realized Gains on Sales	419,921	62,017
Unrealized Change in Market Value	<u>(12,933)</u>	<u>859,019</u>
Investment Income	<u>\$ 873,371</u>	<u>\$ 1,465,466</u>

5. Bank Indebtedness

SARM has an authorized line of credit of \$500,000 with the Canadian Imperial Bank of Commerce that can be drawn on by SARM for the purpose of its operations or those of the Trust Fund. The amount drawn on the line of credit bears interest at the bank prime rate. As of December 31, 2020, 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.