

## 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, 2023 and the statements of operations, 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, 2023, 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 timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**February 14, 2024**  
**Regina, Saskatchewan**

**VIRTUS GROUP LLP**  
**Chartered Professional Accountants**

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

At December 31, 2023  
(with comparative figures at December 31, 2022)

	2023	2022
<b>Assets</b>		
Current Assets		
Cash	\$ 380,728	\$ 519,158
Contributions Receivable	48,597	5,574
Accrued Interest & Dividends Receivable	62,929	85,657
Investments <sup>Note 3</sup>	10,553,602	9,993,000
	11,045,856	10,603,389
Long-Term Assets		
Investments <sup>Note 3</sup>	6,961,846	7,415,980
<b>Total Assets</b>	<b>\$ 18,007,702</b>	<b>\$ 18,019,369</b>
<b>Liabilities &amp; Fund Balance</b>		
Current Liabilities		
Amounts Payable	\$ 5,612	\$ 5,134
Accrued Investment Management Fees	623	736
	6,235	5,870
Fund Balance		
Restricted Fund Balance	18,001,467	18,013,499
<b>Total Liabilities &amp; Fund Balance</b>	<b>\$ 18,007,702</b>	<b>\$ 18,019,369</b>

Approved by the Board:

  
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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, 2023**  
(with comparative figures for the year ended December 31, 2022)

	<b>2023</b>	<b>2022</b>
<b>Revenues</b>		
Federal Contributions	\$ 244,540	\$ 555,587
Provincial Contributions	104,802	238,108
Investment Income: <sup>Note 4</sup>		
Realized Investment Income	516,378	841,361
Unrealized Change in Market Value	688,748	(1,666,466)
<b>Total Revenues</b>	<b>1,554,468</b>	<b>(31,410)</b>
<b>Expenses</b>		
Payments to Rural Municipalities	1,479,289	1,494,035
SARM Administration Fee	77,857	78,633
Audit Fees and Other Expenses	9,354	9,066
<b>Total Expenses</b>	<b>1,566,500</b>	<b>1,581,734</b>
<b>Loss</b>	(12,032)	(1,613,144)
Fund Balance - Beginning of Year	18,013,499	19,626,643
<b>Fund Balance - End of Year</b>	<b>\$ 18,001,467</b>	<b>\$ 18,013,499</b>

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, 2023**  
(with comparative figures for the year ended December 31, 2022)

	<b>2023</b>	<b>2022</b>
<b>Operating Activities</b>		
Loss	\$ (12,032)	\$ (1,613,144)
Investment Items Not Affecting Cash:		
Amortization of Discount on Investments	(60,797)	(40,745)
Unrealized Change in Market Value	(688,748)	1,666,466
Change in Non-Cash Current Assets and Liabilities	(19,930)	58,453
Cash (Used) Provided	(781,507)	71,030
<b>Investing Activities</b>		
Change in Investments	643,077	(223,580)
<b>Decrease In Cash Position</b>	(138,430)	(152,550)
Cash, Beginning of Year	519,158	671,708
<b>Cash, End of Year</b>	\$ 380,728	\$ 519,158

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, 2023**

**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 dated October 6, 1993, between Saskatchewan and the Saskatchewan Association of Rural Municipalities (SARM) 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 Notes 3 & 4).

Investment income for term investments (non-viability contingent capital subordinated debt investments, other fixed income debt investments, and structured notes) includes interest earned in the year (received or accrued), amortized purchase premiums and discounts, realized gains or losses on the sale of investments, and the unrealized change 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 and other fixed income debt investments that earn interest have effective interest rates ranging from 1.67% to 4.85% (2022 – 1.67% to 4.85%).

**Rural Municipal Tax Loss Compensation Trust Fund**  
**Notes to the Financial Statements**  
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**(a) Revenue Recognition (continued)**

Investment income for externally managed portfolio investments (money market and fixed income exchange traded funds (ETF), 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 (received or accrued).

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% (2022 – 0.5%) for structured notes, 0.15% (2022 – 0.15%) for NVCC Subordinated Notes and other term investments, and 0.69% (2022 – 0.69%) 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



**Rural Municipal Tax Loss Compensation Trust Fund**  
**Notes to the Financial Statements**  
**December 31, 2023**

**(c) Use of Estimates (continued)**

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 has cash balances of approximately \$1.2 million and investments of approximately \$56.2 million. The investments are invested in the debt of financial institutions or fixed income ETFs (59.9% of the total), and equity investments and structured notes where the principal is at risk (38.5% of the total), and an internal loan (1.6% 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, 2023

**3. 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 investment assets attributed to each fund are 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 Trust Fund's share of the assets of the investment fund as of December 31, 2023, was 31.2% (2022 – 32.0%).

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, 2023.

	<u>2023</u>	<u>2022</u>
<b>Current Assets</b>		
Money Market ETFs	\$ 199,831	\$ 208,172
NVCC Subordinated Debt	2,307,630	2,092,752
Short Term Fixed Income ETFs	1,921,928	1,695,215
Canadian Equities and Trust Units	5,417,443	5,178,313
Non-Canadian Equities	706,770	818,548
	<u>10,553,602</u>	<u>9,993,000</u>
<b>Long Term Assets</b>		
NVCC Subordinated Debt	1,508,086	2,510,707
Other Term Debt	968,316	984,301
Structured Notes - At Risk	622,468	603,124
Structured Notes - Protected	1,668,321	1,309,750
Mid to Long Term Fixed Income ETFs	1,917,235	1,611,308
Internal Loan	277,420	396,790
	<u>6,961,846</u>	<u>7,415,980</u>
<b>Total Investments</b>	<u>\$ 17,515,448</u>	<u>\$ 17,408,980</u>

The investment pool is managed within the investment policy adopted by SARM, that limits total equity investments to 40% of the investment fund (investments and cash balances), and total non-Canadian equity investments to 15% of the investment fund. As of December 31, 2023, total equities were 37.6% (2022 – 36.8%) of the investment fund and non-Canadian equities were 3.9% (2022 – 4.6%) of the investment fund.

Equity portfolios are managed by the Investment Consulting Service of CIBC Wood Gundy. There are two managed funds, a Canadian Core Balanced portfolio, and a North American Yield Balanced portfolio. As of December 31, 2023, the externally managed portfolios are invested 2.0% (2022 – 2.2%) in money market ETFs, 37.8% (2022 – 34.8%) in fixed income ETFs, 53.3% (2022 – 54.4%) in Canadian equities or trust units, and 7.0% (2022 – 8.6%) in non-Canadian equities.

**Rural Municipal Tax Loss Compensation Trust Fund**  
**Notes to the Financial Statements**  
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**3. Investments (continued)**

Term investments are managed internally with support through CIBC Wood Gundy. Term investments include NVCC subordinated debt investments, other term debt investments, and structured notes. There are nine structured notes, two with the principal at risk and seven with the principal protected. As of December 31, 2023, the maturity timeframes for the term investments are:

- Term investments with terms of up to 1 year, 12.8% (2022 – 11.6%).
- Term investments with terms of 1 to 3 years 6.0% (2022 – 10.1%).
- Term investments with terms of 3 to 7 years, 18.6% (2022 – 19.9%).

**4. Investment Income and Expense**

The apportionment of investment income and expense 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 following table provides a summary of the Trust Fund's share of the investment income and expense for 2023 and 2022.

	<b>2023</b>	<b>2022</b>
<b>Term Investments</b>		
Interest	\$ 119,837	\$ 223,282
Amortization of Discount	60,797	40,745
Realized Losses on Sales	-	-
Unrealized Change in Market Value	249,142	(578,972)
<b>Portfolio Investments</b>		
Dividends	331,657	335,976
Realized Gains on Sales	56,681	297,341
Unrealized Change in Market Value	439,606	(1,087,494)
<b>Internal Loan Interest</b>	10,661	12,499
<b>Investment Account Interest</b>	19,185	10,765
<b>Investment Management Fees</b>	(82,440)	(79,247)
<b>Investment Income (Loss)</b>	1,205,126	(825,105)
<b>Investment Income Net of Fees</b>	459,697	544,020
<b>Realized Gains on Sales</b>	56,681	297,341
<b>Unrealized Change in Market Value</b>	688,748	(1,666,466)
<b>Investment Income (Loss)</b>	\$ 1,205,126	\$ (825,105)

**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, 2023, there is no bank indebtedness for the Trust Fund.

**Rural Municipal Tax Loss Compensation Trust Fund**  
**Notes to the Financial Statements**  
December 31, 2023

**6. Comparative Figures**

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