

School Division Tax Loss Compensation Fund



Financial Statements 2018-19

Letters of Transmittal



*The Honourable
Gordon S. Wyant, Q.C.
Minister of Education*

Office of the Lieutenant Governor of Saskatchewan

I am pleased to present the Financial Statements of the School Division Tax Loss Compensation Fund for the fiscal year ending March 31, 2019.

A stylized, handwritten signature in black ink, consisting of several loops and a long horizontal stroke.

Gordon S. Wyant, Q.C.
Minister of Education



*J. Robert Currie
Deputy Minister of Education*

The Honourable Gordon S. Wyant, Q.C.
Minister of Education

Dear Minister:

I have the honour of submitting the Financial Statements of the School Division Tax Loss Compensation Fund for the fiscal year ending March 31, 2019.

A handwritten signature in black ink, written in a cursive style, reading "J. Robert Currie".

J. Robert Currie
Deputy Minister of Education

Management's Responsibility for the Financial Statements

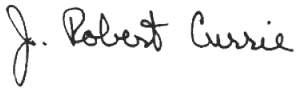
Management of the School Division Tax Loss Compensation Fund is responsible for the accompanying financial statements. The School Division Tax Loss Compensation Fund maintains a system of accounting and administrative controls to ensure that accurate and reliable financial statements are prepared and to obtain reasonable assurance that transactions are authorized, assets are safeguarded and financial records are maintained.

Management of the School Division Tax Loss Compensation Fund prepares these statements in accordance with Canadian public sector accounting standards, as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants (CPA) Canada.

The Provincial Auditor expresses an independent opinion on these statements. Their report provides the scope of their audit and states their opinion.

Enclosed are the financial statements of the School Division Tax Loss Compensation Fund for the year ended March 31, 2019, and the Provincial Auditor's report on these financial statements.

On behalf of the School Division Tax Loss Compensation Fund,

A handwritten signature in black ink that reads "J. Robert Currie". The signature is written in a cursive, flowing style.

J. Robert Currie
Deputy Minister of Education



INDEPENDENT AUDITOR'S REPORT

To: The Members of the Legislative Assembly of Saskatchewan

Opinion

We have audited the financial statements of the School Division Tax Loss Compensation Fund, which comprise the statement of financial position as at March 31, 2019, and the statement of operations and net assets for the year then ended, and notes to the financial statements which includes a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the School Division Tax Loss Compensation Fund as at March 31, 2019, and the results of its operations and net assets for the year then ended in accordance with Canadian Public Sector Accounting Standards.

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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the School Division Tax Loss Compensation Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, 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 these financial statements in accordance with Canadian Public Sector Accounting Standards for Treasury Board's approval, 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 School Division Tax Loss Compensation 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 School Division Tax Loss Compensation Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the School Division Tax Loss Compensation Fund's financial reporting process.

Auditor's 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 auditor's 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 School Division Tax Loss Compensation 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 School Division Tax Loss Compensation 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 auditor's 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 auditor's report. However, future events or conditions may cause the School Division Tax Loss Compensation 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 identified during the audit.

Regina, Saskatchewan
July 3, 2019

Judy Ferguson, FCPA, FCA
Provincial Auditor
Office of the Provincial Auditor

School Division Tax Loss Compensation Fund
Statement of Financial Position
As at March 31

ASSETS

	2019	2018
	<hr/>	<hr/>
Due from General Revenue Fund (<i>Note 4</i>)	\$ 7,990,546	\$ 7,802,320
Accounts receivable	-	81,271
Interest receivable	34,214	23,227
	<hr/>	<hr/>
	\$ 8,024,760	\$ 7,906,818
	<hr/> <hr/>	<hr/> <hr/>

LIABILITIES and NET ASSETS

Liabilities		
Accounts payable	\$ 46,426	\$ 61,917
	<hr/>	<hr/>
Net assets (<i>Statement 2</i>)	7,978,334	7,844,901
	<hr/>	<hr/>
	\$ 8,024,760	\$ 7,906,818
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Contractual rights (*Note 7*)

(See accompanying notes to the financial statements)

School Division Tax Loss Compensation Fund
Statement of Operations and Net Assets
For the Year Ended March 31

	<u>2019</u>	<u>2018</u>
Revenue		
Contributions	\$ 47,076	\$ 117,021
Interest income	121,662	67,541
	<u>168,738</u>	<u>184,562</u>
Expenses		
Compensation to school divisions <i>(Note 6)</i>	<u>35,305</u>	<u>87,765</u>
Surplus for the year	133,433	96,797
Net assets, beginning of year	<u>7,844,901</u>	<u>7,748,104</u>
Net assets, end of year – to Statement 1	<u><u>\$ 7,978,334</u></u>	<u><u>\$ 7,844,901</u></u>

(See accompanying notes to the financial statements)

School Division Tax Loss Compensation Fund
Notes to the Financial Statements
March 31, 2019

1. Purpose and Creation of the Fund

The School Division Tax Loss Compensation Fund (the Fund) was created by an amendment to *The Education Act, 1995*, through *The Treaty Land Entitlement Implementation Act*. The amendment came into force on June 22, 1993. Order in Council #840/94 established regulations to administer the Fund on December 14, 1994.

The Fund is administered by the Ministry of Education on behalf of school boards. The purpose of the Fund is to provide tax loss compensation to school divisions that lose tax revenue as a result of lands within that school division being set apart as an Indian reserve. The Fund receives money from the provincial (Ministry of Government Relations) and federal (Department of Indigenous and Northern Affairs) governments as part of the *Treaty Land Entitlement Framework Agreement*. Payments are made to affected school divisions according to the formula stated in the regulations.

2. Significant Accounting Policies

These financial statements are prepared in accordance with Canadian public sector accounting standards, as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants (CPA) Canada. These financial statements do not present a Statement of Change in Net Assets or a Statement of Cash Flows because this information is readily apparent from the Statement of Operations and Net Assets. The Statement of Remeasurement Gains/Losses has been omitted as there were no relevant transactions to report.

Revenue

Contributions and Interest Income are recorded when earned, provided the amount to be received can be reasonably estimated and collection is reasonably assured.

Expenses

Compensation to school divisions is recorded when the Minister's Order or Order in Council is issued.

Use of Estimates

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Due to the inherent uncertainty involved in such assessments, actual results may differ from those estimates.

3. Related Party Transactions

The Fund has not been charged with any administrative costs and no provision for such costs is reflected in these statements. These costs are borne by the Ministry of Education. Included in revenue is \$14,122 (2018 – \$35,106) from the Ministry of Government Relations, of which \$0 (2018 – \$23,484) was receivable at March 31, 2019. Accounts payable to school divisions at March 31, 2019, is \$46,426 (2018 – \$61,917). Other related party transactions are disclosed separately in these financial statements.

The Fund is related to all Saskatchewan Crown agencies such as ministries, corporations, boards and commissions under the common control of the Government of Saskatchewan. Also, the Fund is related to non-Crown enterprises which the Government jointly controls. Related parties also include key management personnel, close family members of its key management personnel, and entities controlled by, or under shared control of any of these individuals.

4. Due from the General Revenue Fund

The monies of the Fund are deposited in the General Revenue Fund. The Fund's interest is calculated and paid from the General Revenue Fund on a quarterly basis using the Government's thirty-day borrowing rate and the Fund's average daily account balance. The Government's average thirty-day borrowing rate for the year ended March 31, 2019, is 1.54% (2018 – 0.87%). Interest receivable from the General Revenue Fund at March 31, 2019, is \$34,214 (2018 - \$23,227).

5. Financial Instruments

The Fund's financial instruments include due from General Revenue Fund, accounts receivable, interest receivable and accounts payable. Due to the immediate or short-term nature, the fair value of these financial instruments approximates their carrying values. Given the financial instruments are from the federal and provincial governments, credit risk is very low. Liquidity risk is also low, as the federal and provincial governments pay the Fund for the compensation to school divisions, and the interest receivable is from the General Revenue Fund.

Interest Rate Risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Interest receivable is subject to interest rate risk.

Interest income is a small portion of the Fund's total revenue and increases or decreases in interest rates would not be expected to impact the fund's operations.

6. Compensation to School Divisions

The following lists the distributions made to school divisions.

	2019	2018
Chinook SD #211	\$ -	\$ 7,133
Good Spirit SD #204	-	2,810
Horizon SD #205	-	8,312
Living Sky SD #202	-	4,042
Northwest SD #203	1,472	8,710
Prairie Valley SD #208	7,289	12,284
Prairie South SD #210	24,730	-
Prairie Spirit SD #206	1,814	-
Saskatchewan Rivers SD #119	-	36,615
South East Cornerstone SD #209	-	7,859
Total	\$ 35,305	\$ 87,765

7. Contractual Rights

The *Saskatchewan Treaty Land Entitlement Framework Agreement, 1992*, provides tax loss compensation to school divisions and rural municipalities that lose tax revenue as a result of reserve creation under Treaty Land Entitlement (TLE). Payment of lost tax revenue is cost-shared between the federal government and the provincial government on a 70/30 basis.

The maximum amount that each government will pay for tax loss compensation is based on a cap that was set out in the TLE agreement. The original cap was \$50 million to address tax loss for 1.7 million acres of potential reserve land. There have been subsequent agreements that have resulted in an increase in the cap to the current amount of \$83.5 million for 2.3 million acres of potential reserve land. This cap represents total potential reserve land for both school divisions and rural municipalities. The current balance in the cap is approximately \$36.9 million.

Tax loss compensation is based on prior year tax notices for affected properties. The amount of tax loss compensation for school divisions is calculated at 17.5 times the previous year's taxes.

The amount of tax loss compensation in a given year is based on the number of acres transferred to reserve status. The federal government is responsible for reserve creation. As a result, the provincial government has no control over how many acres are transferred each year. There is also no time limit governing when First Nations must transfer land to reserve under their TLE agreements. As a result, the expected tax loss compensation to be received from the federal government is estimated to be \$13.3 million at March 31, 2019 (2018 - \$13.4 million).

8. New Accounting Standards

On April 1, 2018, the Fund adopted the following new Canadian public sector accounting standard:

- (a) PS 3430 Restructuring Transactions, a new standard on how to account for and report restructuring transactions by transferors and recipients of assets and/or liabilities. The adoption of Section 3430 has not had a material impact on these financial statements. The new standard has been adopted on a prospective basis, without restatement of prior period comparative amounts.

A number of new Canadian public sector accounting standards and amendments to standards will be coming into effect for the Fund as of the dates indicated below. The following standards were analyzed:

- (a) PS 3280 Asset Retirement Obligations (effective April 1, 2021), a new standard defining the recognition and measurement of Asset Retirement Obligations.
- (b) PS 3400 Revenue (effective April 1, 2022), a new standard that establishes standards on how to account for and report revenue, specifically differentiating between revenue arising from transactions that include performance obligations (exchange transactions) and those that do not (non-exchange transactions).

The Fund plans to adopt these new standards on the effective dates and is currently analyzing the impact this will have on these financial statements.