Financial Statements of

ISLANDS TRUST

Year ended March 31, 2013

ISLANDS TRUST
Financial Statements

Year ended March 31, 2013

Financial Statements

Management's Responsibility for the Financial Statements	1
Independent Auditors' Report	2
Statement of Financial Position	3
Statement of Operations	4
Statement of Change in Net Financial Assets	5
Statement of Cash Flows	6
Notes to Financial Statements	7

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying financial statements of Islands Trust (the "Trust") are the responsibility of the Trust's management and have been prepared in compliance with legislation, and in accordance with generally accepted accounting standards for local governments as established by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants. A summary of the significant accounting policies are described in note 1 to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The Trust's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

The Trust, acting through its Audit Committee, meets with management and the external auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the financial statements.

The financial statements have been audited by KPMG LLP, independent external auditors appointed by Trust Council. The accompanying Independent Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the Trust's financial statements.

Chief Administrative Officer

Treasurer

KPMG LLP
Chartered Accountants
St. Andrew's Square II
800-730 View Street
Victoria BC V8W 3Y7
Canada

Telephone (250) 480-3500
Fax (250) 480-3539
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Trustees of Islands Trust and the Minister of Community, Sport and Cultural Development

We have audited the accompanying financial statements of Islands Trust, which comprise the statement of financial position as at March 31, 2013, statement of remeasurement gains and losses, the statements of operations, change in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility 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, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Islands Trust as at March 31, 2013, and its remeasurement gains and losses, its results of operations, changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants

June 12, 2013
Victoria, Canada

ISLANDS TRUST

Statement of Financial Position

March 31, 2013, with comparative information for 2012

	2013	2012
Financial assets:		
Cash and cash equivalents (note 2)	$ 3,702,155	$ 3,494,644
Accounts receivable	88,562	105,458
	3,790,717	3,600,102
Financial liabilities:		
Wages and benefits payable	878,534	943,105
Accounts payable and accrued liabilities	455,141	337,145
Deferred revenue	55,714	87,997
Employee benefit obligations (note 3)	99,130	116,576
Obligations under capital leases (note 4)	43,481	50,714
Cost recovery deposits (note 11(ii))	15,110	29,902
	1,547,110	1,565,439
Net financial assets	2,243,607	2,034,663
Non-financial assets:		
Tangible capital assets (note 5)	124,979	135,158
Prepaid expenses	35,137	30,835
	160,116	165,993
Commitments (note 9)		
Contingent liabilities (note 10)		
Accumulated surplus (note 6)	$ 2,403,723	$ 2,200,656

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

On behalf of the Trust Council:

Trustee

Trustee

ISLANDS TRUST

Statement of Operations

Year ended March 31, 2013, with comparative information for 2012

	Budget (unaudited - note 7)	2013	2012
Revenue:			
Property tax - general	$ 5,929,060	$ 5,929,199	$ 5,870,356
Property tax levy - Bowen Island Municipality	165,374	165,374	220,880
Provincial grant - operating	186,998	186,998	349,524
Fees and sales	110,000	110,465	125,403
Interest income	70,000	105,791	94,623
Other income	94,839	52,501	107,516
Total revenue	6,556,271	6,550,328	6,768,302
Expenses (note 8):			
Council services	1,078,349	978,323	1,167,154
Local trust committee services	5,118,760	4,753,668	4,744,401
Trust fund services	635,363	615,270	644,424
Total expenses	6,832,472	6,347,261	6,555,979
Annual surplus (deficit)	(276,201)	203,067	212,323
Accumulated surplus, beginning of year	2,200,656	2,200,656	1,988,333
Accumulated surplus, end of year	$ 1,924,455	$ 2,403,723	$ 2,200,656

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

ISLANDS TRUST
Statement of Change in Net Financial Assets

Year ended March 31, 2013, with comparative information for 2012

	Budget (unaudited - note 7)	2013	2012
Annual surplus (deficit)	$ (276,201)	$ 203,067	$ 212,323
Acquisition of tangible capital assets	-	(52,429)	(31,234)
Acquisition of tangible capital assets through capital lease	-	(7,579)	-
Amortization of tangible capital assets	-	70,187	54,889
	(276,201)	213,246	235,978
Acquisition of prepaid expenses	-	(4,302)	(15,956)
Change in net financial assets	(276,201)	208,944	220,022
Net financial assets, beginning of year	2,034,663	2,034,663	1,814,641
Net financial assets, end of year	$ 1,758,462	$ 2,243,607	$ 2,034,663

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

ISLANDS TRUST

Statement of Cash Flows

Year ended March 31, 2013, with comparative information for 2012

	2013	2012
Cash provided by (used in):		
Operating activities:		
Annual surplus	$ 203,067	$ 212,323
Items not involving cash:		
Amortization of tangible capital assets	70,187	54,889
Change in non-cash operating assets and liabilities:		
Accounts receivable	16,896	(800)
Wages and benefits payable	(64,571)	(103,378)
Accounts payable and accrued liabilities	117,996	40,142
Deferred revenue	(32,283)	(67,521)
Employee benefit obligations	(17,446)	(5,057)
Cost recovery deposits	(14,792)	(4,105)
Prepaid expenses	(4,302)	(15,956)
Net change in cash from operating activities	274,752	110,537
Capital activities:		
Acquisition of tangible capital assets	(52,429)	(12,580)
Financing activities:		
Principal payments on obligations under capital leases	(14,812)	(12,529)
Increase in cash and cash equivalents	207,511	85,428
Cash and cash equivalents, beginning of year	3,494,644	3,409,216
Cash and cash equivalents, end of year	$ 3,702,155	$ 3,494,644
Supplemental cash flow information:		
Assets acquired under capital lease	$ 7,579	$ 18,654

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

Islands Trust (the "Trust") is incorporated under the Islands Trust Act of British Columbia (as amended). The objectives of the Trust are to preserve and protect the Trust area and its unique amenities and environment for the benefit of the residents of the Trust area and of the Province generally.

1. Significant accounting policies:

The financial statements of Islands Trust are prepared by management in accordance with Canadian public sector accounting principles for local governments as recommended by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants. Significant accounting policies adopted by the Trust are as follows:

(a) Reporting entity:

The financial statements include a combination of all the assets, liabilities, revenues, expenses, and changes in fund balances and in financial position of the trust council and the local trust committees.

The Trust occasionally conducts work on behalf of development applicants on a cost-recovery basis. These trust activities are not included in the financial statements.

(i) Consolidated entities:

The Trust does not control any significant external entities and accordingly no entities have been consolidated with the financial statements.

(ii) Funds held in trust:

The Trust administers operations of The Islands Trust Fund. The annual expenses of The Islands Trust Fund are reported by the Trust in accordance with The Islands Trust Act (note 11).

(b) Basis of accounting:

The Trust follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

Government transfers are recognized in the financial statements as revenues in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made, except when and to the extent that the transfer gives rise to an obligation that meets the definition of a liability under section PS 3200 of public sector accounting standards.

Revenue unearned in the current period is recorded as deposits or deferred revenue.

1. Significant accounting policies (continued):

(c) Cash and cash equivalents:

Cash and cash equivalents include short-term highly liquid investments with a term to maturity of 90 days or less at acquisition. Investments in the Municipal Finance Authority of British Columbia ("MFA") Bond, Intermediate and Money Market Funds are recorded at cost plus earnings reinvested in the funds. Investment income is reported as revenue in the period earned.

(d) Employee future benefits:

The Trust and its employees make contributions to the Public Service Pension Plan, which provides benefits directly to employees upon retirement. These contributions are expensed as incurred.

A gratuity is also available to employees upon retirement. The cost of this benefit is born by the Public Service Pension Plan.

(e) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(i) Tangible capital assets:

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land, are amortized on a straight line basis over their estimated useful lives as follows:

Asset	Useful life - years
Furniture and equipment	5
Computers	3
Leasehold improvements	lesser of remaining term of the lease and useful life

1. Significant accounting policies (continued):

(e) Non-financial assets (continued):

(i) Tangible capital assets (continued):

Amortization is charged annually, including in the year of acquisition and disposal. Assets under construction are not amortized until the asset is available for productive use.

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Trust's ability to provide goods and services, or when the value of future economic benefits associated with the asset are less than the book value of the asset.

(ii) Contributions of tangible capital assets:

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and also are recorded as revenue.

(iii) Works of art and historical treasures:

Works of art and historical treasures are not recorded as assets in these financial statements.

(iv) Interest capitalization:

The Trust does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.

(v) Leased tangible capital assets:

Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

1. Significant accounting policies (continued):

(f) Use of estimates:

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Significant estimates include assumptions used in estimating provisions for accrued liabilities and estimating historical cost and useful lives of tangible capital assets. Actual results could differ from these estimates.

(g) Adoption of new accounting policy:

On April 1, 2012, the Trust adopted Public Accounting Standards PS 3410 "Government Transfers." The standards were applied prospectively from the date of adoption. There were no adjustments to accumulated surplus at April 1, 2012 or annual surplus for the year ending March 31, 2012 as a result of the adoption of the new accounting policy.

2. Cash and cash equivalents:

	2013	2012
Bank account balances	$ 734,012	$ 778,875
Municipal Finance Authority Bond Fund	2,906,135	2,654,705
Municipal Finance Authority Intermediate Fund	58,902	58,132
Municipal Finance Authority Money Market Fund	3,106	2,932
	$ 3,702,155	$ 3,494,644

3. Employee benefit obligations:

The Trust provides sick leave and certain other benefits to its employees and are recorded as follows:

	2013	2012
Vacation pay	$ 73,488	$ 93,166
Compensatory time off	25,642	23,410
	$ 99,130	$ 116,576

Vacation pay and compensatory time off represent the liability for accumulated banks for draw down at future dates and/or for payout on approved retirement, or upon termination or death.

3. Employee benefit obligations (continued):

Other pension plans

The Trust and its employees make contributions to the Public Service Pension Plan (the "Plan"), a jointly trusteed pension plan. The Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The pension plan is a multi-employer contributory pension plan. Basic pension benefits provided are defined. The Plan has about 56,000 active members and approximately 39,000 retired members.

Every three years an actuarial valuation is performed to assess the financial position of the Plan and adequacy of Plan funding. The most recent valuation as at March 31, 2011 indicated an unfunded liability of $275 million for basic pension benefits. The next valuation will be as at March 31, 2014, with results available in 2015. The actuary does not attribute portions of the unfunded liability to individual employers. Employee and employer contributions to the plan were each increased by 0.40% of salaries effective April 1, 2012 in accordance with the plan actuary's recommendations. Contributions to the plan by the Trust totaled $283,811 (2012 - $245,590) during the year.

4. Obligations under capital leases:

The amounts due for obligations under capital leases are as follows:

		2013
2014	$	17,335
2015		16,035
2016		7,452
2017		5,543
2018 and thereafter		2,234
Total minimum lease payments		48,599
Less amounts representing interest (at rates ranging from 2.25% to 6.25%)		5,118
Present value of net minimum capital lease payments	$	43,481

Interest of $1,920 (2012 - $1,617) relating to capital lease obligations has been included in expenses on the statement of operations.

5. Tangible capital assets:

	Denman Island Site	Furniture and equipment	Computers	Leasehold improvements	Total 2013	Total 2012
Cost:						
Balance, beginning of year	$ 10,000	$ 119,272	$ 103,041	$ 244,268	$ 476,581	$ 445,346
Additions	-	7,579	52,429	-	60,008	31,235
Disposals	-	(7,752)	-	-	(7,752)	-
Balance, end of year	10,000	119,099	155,470	244,268	528,837	476,581
Accumulated amortization:						
Balance, beginning of year	10,000	66,974	80,656	183,793	341,423	286,534
Disposals	-	(7,752)	-	-	(7,752)	-
Amortization expense	-	19,343	31,798	19,046	70,187	54,889
Balance, end of year	10,000	78,565	112,454	202,839	403,858	341,423
Net book value, end of year	$ -	$ 40,534	$ 43,016	$ 41,429	$ 124,979	$ 135,158

Contributed tangible capital assets:

Contributed capital assets have been recognized at fair market value at the date of contribution. There were no contributed assets received during 2013 or 2012.

In fiscal 1994, the Denman Island Ratepayers' Association donated $10,000 which was used by the Trust to purchase the Denman Island Old School Site from School District #71. The Trust agreed to facilitate the sale of the school site between School District #71 and the Ratepayers' Association and to hold title to the property on behalf of the community. The Denman Island Ratepayers' Association has leased the building on the site from the Trust for 99 years for a total fee of $10.

6. Accumulated surplus:

Accumulated surplus consists of:

	2013	2012
Invested in tangible capital assets	$ 81,498	$ 84,444
General Revenue Fund	2,322,225	2,116,212
	$ 2,403,723	$ 2,200,656

7. Budget data:

The unaudited budget data presented in these financial statements is based upon the 2013 operating budget approved by Trust Council on March 7, 2012. The following reconciles the approved budget to the budget figures reported in these financial statements.

	Budget amount
Operating budget:	
Revenue	$ 6,832,473
Less appropriation from surplus	(276,202)
	6,556,271
Expenses	6,832,472
Annual deficit	$ (276,201)

8. Classification of expenses by object:

	2013	2012
Staff salaries and benefits	$ 3,757,191	$ 3,692,973
Traveling/training and recruitment	160,912	186,067
Council and trustee costs	801,185	662,698
Office operations	883,645	941,571
Programs	385,797	585,427
Legal	288,344	309,612
Elections	-	122,742
Amortization	70,187	54,889
Total expenses by object	$ 6,347,261	$ 6,555,979

9. Commitments:

(i) Minimum annual lease payments:

The Trust is committed to leases for rented premises. Minimum future payments in the next five years are as follows:

2014	$	344,760
2015		340,756
2016		281,845
2017		129,934
2018		9,173

(ii) Contracts:

At March 31, 2013, eight contracts were in progress, with outstanding values totalling $35,305. All contracts are due for completion within six months of March 31, 2013.

10. Contingent liabilities:

In the normal course of operations, claims for alleged damages are made against the Trust. Costs, if any, are recorded when a liability is likely and reasonably determinable.

11. Trust activities:

(i) Trust Fund under administration:

The Trust administers The Islands Trust Fund (the “Fund”) which is related through the composition of the Fund’s Board. The Fund is empowered to accept donations, grants and bequests on behalf of the Trust and to hold land and other property in compliance with a plan approved by the Ministry of Community, Sport and Cultural Development. The Fund’s Board is comprised of three members from Trust Council and up to three members appointed by the Minister of Community, Sport and Cultural Development.

For financial reporting purposes, the Trust and the Fund are reported on separately. These financial statements present the financial position and results of operations of the Trust.

11. Trust activities (continued):

(i) Trust Fund under administration (continued):

The Fund's annual expenses are funded by and reported as part of the Trust in accordance with The Islands Trust Act. These expenses are summarized as follows:

	2013	2012
Programs	$ 455,441	$ 482,248
Board	18,559	19,562
Administration	138,814	142,614
	$ 612,814	$ 644,424

(ii) Third party trust funds:

The Trust administers trust activities on behalf of development applicants on a cost-recovery basis. The activities are as follows:

	2013	2012
Cash received during the year	$ 19,340	$ 12,743
Cash paid during the year	34,132	16,848

The net payable from development applicants of $15,110 (2012 - $29,902) is reported as a liability on the statement of financial position.