

Financial Statements of

ISLANDS TRUST

Year ended March 31, 2018

ISLANDS TRUST

Financial Statements

Year ended March 31, 2018

Financial Statements

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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 Chartered Professional Accountants of Canada. 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
Services



Director of Administration



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INDEPENDENT AUDITORS' REPORT

To the Trustees of Islands Trust and the Minister of Municipal Affairs and Housing

We have audited the accompanying financial statements of Islands Trust, which comprise the statement of financial position as at March 31, 2018, 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, 2018, 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.

Chartered Professional Accountants

Victoria, Canada
June 20, 2018

ISLANDS TRUST

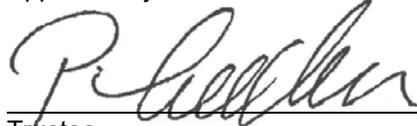
Statement of Financial Position

March 31, 2018, with comparative information for 2017

	2018	2017
Financial assets:		
Cash and cash equivalents (note 2)	\$ 846,842	\$ 858,607
Accounts receivable	53,917	187,821
Investments (note 3)	3,530,012	3,532,520
	<u>4,430,771</u>	<u>4,578,948</u>
Liabilities:		
Accounts payable and accrued liabilities	483,454	482,084
Wages and benefits payable	1,154,784	1,116,701
Deferred revenue	37,491	29,983
Employee benefit obligations (note 4)	119,140	138,864
Obligations under capital leases (note 5)	78,309	58,059
Cost recovery deposits (note 13(b))	22,979	13,251
	<u>1,896,157</u>	<u>1,838,942</u>
Net financial assets	2,534,614	2,740,006
Non-financial assets:		
Tangible capital assets (note 6)	204,083	123,111
Prepaid expenses	110,726	57,370
	<u>314,809</u>	<u>180,481</u>
Commitments (note 11)		
Contingent liabilities (note 12)		
Accumulated surplus (note 7)	<u>\$ 2,849,423</u>	<u>\$ 2,920,487</u>

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

Approved by the Trust Council:


Trustee


Trustee

ISLANDS TRUST

Statement of Operations

Year ended March 31, 2018, with comparative information for 2017

	Budget (note 9)	2018	2017
Revenue:			
Property tax - general	\$ 6,312,330	\$ 6,312,332	\$ 6,249,834
Property tax levy - Bowen Island municipality	242,680	242,680	223,418
Property tax - special requisition	98,500	98,500	110,500
Government transfers (note 8)	180,000	180,000	185,380
Fees and sales	110,000	139,199	136,863
Interest income	50,000	71,295	63,629
Other income	150,000	16,795	19,680
Total revenue	7,143,510	7,060,801	6,989,304
Expenses (note 10):			
Council services	1,180,470	1,117,190	1,071,007
Local trust committee services	5,850,352	5,311,724	4,887,902
Trust fund services (note 13)	737,688	702,951	629,627
Total expenses	7,768,510	7,131,865	6,588,536
Annual surplus (deficit)	(625,000)	(71,064)	400,768
Accumulated surplus, beginning of year	2,920,487	2,920,487	2,519,719
Accumulated surplus, end of year	\$ 2,295,487	\$ 2,849,423	\$ 2,920,487

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

ISLANDS TRUST

Statement of Change in Net Financial Assets

Year ended March 31, 2018, with comparative information for 2017

	Budget (note 9)	2018	2017
Annual surplus (deficit)	\$ (625,000)	\$ (71,064)	\$ 400,768
Acquisition of tangible capital assets	-	(104,684)	(27,647)
Acquisition of tangible capital assets through capital lease	-	(69,007)	(25,735)
Amortization of tangible capital assets	65,000	76,262	67,668
Loss on disposal of capital assets	-	16,457	-
	(560,000)	(152,036)	415,054
Acquisition of prepaid expenses	-	(53,356)	(16,457)
Change in net financial assets	(560,000)	(205,392)	398,597
Net financial assets, beginning of year	2,740,006	2,740,006	2,341,409
Net financial assets, end of year	\$ 2,180,006	\$ 2,534,614	\$ 2,740,006

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

ISLANDS TRUST

Statement of Cash Flows

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ (71,064)	\$ 400,768
Items not involving cash:		
Amortization of tangible capital assets	76,262	67,668
Loss on disposal of tangible capital assets	16,457	-
Extinguishing of obligations under capital leases	(22,912)	-
Changes in non-cash operating assets and liabilities:		
Accounts receivable	133,904	170,281
Wages and benefits payable	38,083	51,881
Accounts payable and accrued liabilities	1,370	65,492
Deferred revenue	7,508	(14,125)
Employee benefit obligations	(19,724)	33,421
Cost recovery deposits	9,728	6,609
Prepaid expenses	(53,356)	(16,457)
Net change in cash from operating activities	116,256	765,538
Capital activities:		
Acquisition of tangible capital assets	(104,684)	(27,647)
Investing activities:		
Redemption of investments	3,532,520	-
Purchase of investments	(3,500,000)	(2,500,000)
Investment interest reinvested	(30,012)	(29,323)
	2,508	(2,529,323)
Financing activities:		
Principal payments on obligations under capital leases	(25,845)	(61,452)
Change in cash and cash equivalents	(11,765)	(1,852,884)
Cash and cash equivalents, beginning of year	858,607	2,711,491
Cash and cash equivalents, end of year	\$ 846,842	\$ 858,607
Supplemental cash flow information:		
Assets acquired under capital lease	\$ 69,007	\$ 25,735

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

ISLANDS TRUST

Notes to Financial Statements

Year ended March 31, 2018

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 Chartered Professional Accountants of Canada. 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 13).

(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.

(c) Revenue recognition:

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.

Tax revenue is recognized on an accrual basis.

ISLANDS TRUST

Notes to Financial Statements

Year ended March 31, 2018

1. Significant accounting policies (continued):

(d) 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.

(e) Investment income:

Investment income is reported as revenue in the period earned. When required by the funding government or related Act, investment income earned on restricted funds is added to the investment and forms part of the deferred revenue balance.

(f) 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 paid by the Public Service Pension Plan.

(g) Liability for contaminated sites:

A liability for contaminated sites is recognized when a site is not in productive use and the following criteria are met:

- (i) an environmental standard exists;
- (ii) contamination exceeds the environmental standard;
- (iii) the Trust is directly responsible or accepts responsibility
- (iv) it is expected that future economic benefits will be given up; and
- (v) a reasonable estimate of the amount can be made.

The liability is recognized as management's estimate of the cost of post-remediation including operation, maintenance and monitoring that are an integral part of the remediation strategy for a contaminated site.

(h) 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.

ISLANDS TRUST

Notes to Financial Statements

Year ended March 31, 2018

1. Significant accounting policies (continued):

(h) Non-financial assets (continued):

(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

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.

ISLANDS TRUST

Notes to Financial Statements

Year ended March 31, 2018

1. Significant accounting policies (continued):

(i) 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. Actual results could differ from these estimates.

(j) Adoption of new accounting standards:

On April 1, 2017, the Trust adopted PS2200, *Related Party Disclosures*, PS 3420, *Inter-entity Transactions*, PS3210 *Assets*, PS3320 *Contingent Assets* and PS3380 *Contractual Rights*. There were no transitional adjustments recorded to accumulated surplus, annual surplus or disclosures as a result of adoption of the new standards.

2. Cash and cash equivalents:

	2018	2017
Bank account balances	\$ 846,842	\$ 858,607

3. Investments:

Investments consist of guaranteed investment certificates with a cost plus accrued interest that approximates market value. The stated interest rates are between 1.50% and 1.60% and the maturity dates range from April 2018 to September 2018.

4. Employee benefit obligations:

	2018	2017
Vacation pay	\$ 90,190	\$ 100,608
Compensatory time off	28,950	38,256
	\$ 119,140	\$ 138,864

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.

ISLANDS TRUST

Notes to Financial Statements

Year ended March 31, 2018

4. Employee benefit obligations (continued):

Other pension plans:

The Trust and its employees contribute to the Public Service Pension Plan (a jointly trustee pension plan). The Public Service Pension Board of Trustees, representing plan members and employers, is responsible for administering the plan, including investment of assets and administration of benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula. As at March 31, 2017, the plan has about 59,000 active members and approximately 46,000 retired members.

Every three years, an actuarial valuation is performed to assess the financial position of the plan and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plan. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plan. This rate is then adjusted to the extent there is amortization of any funding deficit.

The latest actuarial valuation as at March 31, 2017, indicated a funding surplus of \$1,896 million for basic pension benefits on a going concern basis. The next valuation will be as at March 31, 2020, with results available in early 2021. Employers participating in the plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plan records accrued liabilities and accrued assets for the plan in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plan.

The Trust paid \$308,487 (2017 - \$307,473) for employer contributions to the plan in fiscal 2018.

5. Obligations under capital leases:

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

2019	\$	20,082
2020		19,310
2021		18,169
2022		14,391
2023 and thereafter		17,502
<hr/>		
Total minimum lease payments		89,454
Less amounts representing interest (at rates ranging from 4.70% to 5.25%)		11,145
<hr/>		
Present value of net minimum capital lease payments	\$	78,309

Interest of \$2,812 (2017 - \$3,111) relating to capital lease obligations has been included in expenses on the statement of operations.

ISLANDS TRUST

Notes to Financial Statements

Year ended March 31, 2018

6. Tangible capital assets:

	Denman Island Site	Furniture and equipment	Computers	Leasehold improvements	Total 2018	Total 2017
Cost:						
Balance, beginning of year	\$ 10,000	\$ 195,689	\$ 245,427	\$ 257,622	\$ 708,738	\$ 655,356
Additions	-	107,819	65,873	-	173,692	53,382
Disposals	-	(93,141)	(76,784)	-	(169,925)	-
Balance, end of year	10,000	210,367	234,516	257,622	712,505	708,738
Accumulated amortization:						
Balance, beginning of year	10,000	117,168	216,278	242,181	585,627	517,959
Additions	-	39,176	32,844	4,242	76,262	67,668
Disposals	-	(76,683)	(76,784)	-	(153,467)	-
Balance, end of year	10,000	79,661	172,338	246,423	508,422	585,627
Net book value, end of year	\$ -	\$ 130,706	\$ 62,178	\$ 11,199	\$ 204,083	\$ 123,111

Contributed tangible capital assets:

There were no contributed assets received during 2018 or 2017.

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.

Included in tangible capital assets is assets under capital leases with a net book value of \$78,309 (2017 - \$58,059).

7. Accumulated surplus:

Accumulated surplus consists of:

	2018	2017
Invested in tangible capital assets	\$ 125,774	\$ 65,052
General Revenue Fund	2,716,673	2,848,329
Special property tax requisition fund	6,976	7,106
	\$ 2,849,423	\$ 2,920,487

ISLANDS TRUST

Notes to Financial Statements

Year ended March 31, 2018

8. Government transfers:

Government transfers recorded as revenue on the statement of operations are comprised of:

	2018	2017
Provincial operating grant	\$ 180,000	\$ 177,880
Salt Spring Island Water Protection Project	-	2,500
Province of BC grant - Saltspring Island potential incorporation transition strategy	-	5,000
	\$ 180,000	\$ 185,380

9. Budget data:

The budget data presented in these financial statements is based upon the 2018 operating budget approved by Trust Council on March 15, 2017. The following reconciles the approved budget to the budget figures reported in these financial statements.

	Budget amount
Operating budget:	
Revenue	\$ 7,703,510
Less appropriation from surplus	560,000
	7,143,510
Expenses	7,703,510
Plus amortization expense	65,000
	7,768,510
Annual deficit	\$ (625,000)

10. Classification of expenses by object:

	2018	2017
Staff salaries and benefits	\$ 4,232,814	\$ 4,137,903
Traveling/training and recruitment	228,305	201,207
Council and trustee costs	844,643	810,697
Office operations	963,333	930,099
Programs	555,607	384,020
Legal	214,444	56,942
Amortization	76,262	67,668
Loss on disposal of Assets	16,457	-
	\$ 7,131,865	\$ 6,588,536

ISLANDS TRUST

Notes to Financial Statements

Year ended March 31, 2018

11. Commitments:

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

2019	\$	322,647
2020		307,123
2021		271,312
2022		274,930
2023		255,830

12. Contingent liabilities:

In the normal course of operations, claims for alleged damages are made against the Trust. The Trust records an accrual in respect of legal claims that are likely to be successful and for which a liability amount is reasonably determinable. The remaining claims, should they be successful as a result of litigation, will be recorded when a liability is likely and determinable. The Trust is covered through an independent insurance program against certain claims.

13. Trust activities:

(a) Trust Fund:

The Trust pays the administration expenses of 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 and to hold land and other property in compliance with a plan approved by the Ministry of Municipal Affairs and Housing. The Fund's Board is comprised of three members from Trust Council and up to three members appointed by the Minister of Municipal Affairs and Housing.

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.

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:

	2018	2017
Operations and Property Management	\$ 515,807	\$ 459,775
Board	23,098	15,566
Administration	164,046	154,286
	<hr/> \$ 702,951	<hr/> \$ 629,627

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Notes to Financial Statements

Year ended March 31, 2018

13. Trust activities (continued):

(b) Cost-recoveries:

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

	2018	2017
Cash received during the year	\$ 38,381	\$ 27,825
Cash paid during the year	29,177	14,447

The net payable from development applicants of \$22,979 (2017 - \$13,251) is included in cost recoveries on the statement of financial position.

14. Comparative information:

Certain comparative information has been reclassified to conform to the financial statement presentation adopted in the current year.