

Financial Statements of

ISLANDS TRUST

And Independent Auditors' Report thereon

Year ended March 31, 2019

ISLANDS TRUST

Financial Statements

Year ended March 31, 2019

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



Director of Administration Services



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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of Islands Trust which comprise:

- the statement of financial position as at March 31, 2019
- the statement of operations for the year then ended
- the statement of change in net financial assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Islands Trust as at March 31, 2019, and 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.

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 auditors' report.

We are independent of the Entity 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 the 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.

In preparing the financial statements, management is responsible for assessing Island Trust'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 Islands Trust or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Island Trust'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 the 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 Islands Trust'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 Island Trust'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 Islands Trust 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.
- 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.

Chartered Professional Accountants

Victoria, Canada
June 19, 2019

ISLANDS TRUST

Statement of Financial Position

March 31, 2019, with comparative information for 2018

	2019	2018
Financial assets:		
Cash and cash equivalents (note 2)	\$ 1,473,052	\$ 846,842
Accounts receivable	64,636	53,917
Investments (note 3)	2,749,388	3,530,012
	<u>4,287,076</u>	<u>4,430,771</u>
Liabilities:		
Accounts payable and accrued liabilities	465,834	483,454
Wages and benefits payable	1,183,963	1,154,784
Deferred revenue	29,161	37,491
Employee benefit obligations (note 4)	136,206	119,140
Obligations under capital leases (note 5)	60,670	78,309
Cost recovery deposits (note 13(b))	27,177	22,979
	<u>1,903,011</u>	<u>1,896,157</u>
Net financial assets	2,384,065	2,534,614
Non-financial assets:		
Tangible capital assets (note 6)	388,159	204,083
Prepaid expenses	99,046	110,726
	<u>487,205</u>	<u>314,809</u>
Commitments (note 11)		
Contingent liabilities (note 12)		
Accumulated surplus (note 7)	<u>\$ 2,871,270</u>	<u>\$ 2,849,423</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, 2019, with comparative information for 2018

	Budget (note 9)	2019	2018
Revenue:			
Property tax - general	\$ 6,501,702	\$ 6,501,701	\$ 6,312,332
Property tax levy - Bowen Island municipality	293,933	293,933	242,680
Property tax - special requisition	98,500	98,500	98,500
Government transfers (note 8)	180,000	191,946	180,000
Fees and sales	120,000	166,154	139,199
Interest income	60,000	104,384	71,295
Other income	202,000	5,074	16,795
Total revenue	7,456,135	7,361,692	7,060,801
Expenses (note 10):			
Council services	1,462,153	1,357,324	1,117,190
Local trust committee services	5,917,737	5,313,437	5,311,724
Trust fund services (note 13)	746,245	669,084	702,951
Total expenses	8,126,135	7,339,845	7,131,865
Annual surplus (deficit)	(670,000)	21,847	(71,064)
Accumulated surplus, beginning of year	2,849,423	2,849,423	2,920,487
Accumulated surplus, end of year	\$ 2,179,423	\$ 2,871,270	\$ 2,849,423

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

ISLANDS TRUST

Statement of Change in Net Financial Assets

Year ended March 31, 2019, with comparative information for 2018

	Budget (note 9)	2019	2018
Annual surplus (deficit)	\$ (670,000)	\$ 21,847	\$ (71,064)
Acquisition of tangible capital assets	-	(264,055)	(104,684)
Acquisition of tangible capital assets through capital lease	-	-	(69,007)
Amortization of tangible capital assets	65,000	79,979	76,262
Loss on disposal of capital assets	-	-	16,457
	(605,000)	(162,229)	(152,036)
Acquisition of prepaid expenses	-	11,680	(53,356)
Change in net financial assets	(605,000)	(150,549)	(205,392)
Net financial assets, beginning of year	2,534,614	2,534,614	2,740,006
Net financial assets, end of year	\$ 1,929,614	\$ 2,384,065	\$ 2,534,614

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

ISLANDS TRUST

Statement of Cash Flows

Year ended March 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 21,847	\$ (71,064)
Items not involving cash:		
Amortization of tangible capital assets	79,979	76,262
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	(10,719)	133,904
Wages and benefits payable	29,179	38,083
Accounts payable and accrued liabilities	(17,620)	1,370
Deferred revenue	(8,330)	7,508
Employee benefit obligations	17,066	(19,724)
Cost recovery deposits	4,198	9,728
Prepaid expenses	11,680	(53,356)
Net change in cash from operating activities	127,280	116,256
Capital activities:		
Acquisition of tangible capital assets	(264,055)	(104,684)
Investing activities:		
Redemption of investments	780,624	2,508
Financing activities:		
Principal payments on obligations under capital leases	(17,639)	(25,845)
Change in cash and cash equivalents	626,210	(11,765)
Cash and cash equivalents, beginning of year	846,842	858,607
Cash and cash equivalents, end of year	\$ 1,473,052	\$ 846,842
Supplemental cash flow information:		
Assets acquired under capital lease	\$ -	\$ 69,007

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

ISLANDS TRUST

Notes to Financial Statements

Year ended March 31, 2019

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, 2019

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, 2019

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, 2019

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.

2. Cash and cash equivalents:

	2019	2018
Bank account balances	\$ 1,473,052	\$ 846,842

3. Investments:

Investments consist of guaranteed investment certificates with a cost plus accrued interest that approximates market value. The stated interest rates are between 2.25% and 2.59% and the maturity dates range from April 2019 to September 2019.

4. Employee benefit obligations:

	2019	2018
Vacation pay	\$ 109,174	\$ 90,190
Compensatory time off	27,032	28,950
	\$ 136,206	\$ 119,140

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, 2019

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, 2018, the plan has about 62,000 active members and approximately 48,000 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 \$314,456 (2018 - \$308,487) for employer contributions to the plan in fiscal 2019.

5. Obligations under capital leases:

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

2020	\$	19,310
2021		18,169
2022		14,391
2023		14,391
2024 and thereafter		3,111
Total minimum lease payments		69,372
Less amounts representing interest (at rates ranging from 4.70% to 5.25%)		8,702
<hr/> Present value of net minimum capital lease payments		<hr/> \$ 60,670

Interest of \$2,367 (2018 - \$2,812) 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, 2019

6. Tangible capital assets:

	Denman Island Site	Furniture and equipment	Computers	Leasehold improvements	Total 2019	Total 2018
Cost:						
Balance, beginning of year	\$ 10,000	\$ 210,367	\$ 234,516	\$ 257,622	\$ 712,505	\$ 708,738
Additions	-	-	70,554	193,501	264,055	173,692
Disposals	-	-	(81,478)	(243,232)	(324,710)	(169,925)
Balance, end of year	10,000	210,367	223,592	207,891	651,850	712,505
Accumulated amortization:						
Balance, beginning of year	10,000	79,661	172,338	246,423	508,422	585,627
Additions	-	30,531	45,386	4,062	79,979	76,262
Disposals	-	-	(81,478)	(243,232)	(324,710)	(153,467)
Balance, end of year	10,000	110,192	136,246	7,253	263,691	508,422
Net book value, end of year	\$ -	\$ 100,175	\$ 87,346	\$ 200,638	\$ 388,159	\$ 204,083

Contributed tangible capital assets:

There were no contributed assets received during 2019 or 2018.

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 \$60,670 (2018 - \$78,309).

7. Accumulated surplus:

Accumulated surplus consists of:

	2019	2018
Invested in tangible capital assets	\$ 327,490	\$ 125,774
General Revenue Fund	2,477,152	2,716,673
Local Trust Committee Project Specific Reserve Fund	42,287	-
Special property tax requisition fund	24,341	6,976
	\$ 2,871,270	\$ 2,849,423

ISLANDS TRUST

Notes to Financial Statements

Year ended March 31, 2019

8. Government transfers:

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

	2019	2018
Provincial operating grant	\$ 180,000	\$ 180,000
Salt Spring Island Water Protection Project	8,329	-
Transport Canada	3,617	-
Other	-	-
	<u>\$ 191,946</u>	<u>\$ 180,000</u>

9. Budget data:

The budget data presented in these financial statements is based upon the 2019 operating budget approved by Trust Council on March 15, 2018. The following reconciles the approved budget to the budget figures reported in these financial statements.

	Budget amount
Operating budget:	
Revenue	\$ 8,061,135
Less appropriation from surplus	(605,000)
	<u>7,456,135</u>
Expenses	8,061,135
Plus amortization expense	65,000
	<u>8,126,135</u>
Annual deficit	<u>\$ (670,000)</u>

10. Classification of expenses by object:

	2019	2018
Staff salaries and benefits	\$ 4,367,315	\$ 4,232,814
Traveling/training and recruitment	171,028	228,305
Council and trustee costs	911,090	844,643
Elections	140,865	-
Office operations	1,001,077	963,333
Programs	413,775	555,607
Legal	254,716	214,444
Amortization	79,979	76,262
Loss on disposal of assets	-	16,457
	<u>\$ 7,339,845</u>	<u>\$ 7,131,865</u>

ISLANDS TRUST

Notes to Financial Statements

Year ended March 31, 2019

11. Commitments:

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

2020	\$ 364,234
2021	330,584
2022	333,680
2023	306,130
2024	243,013

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 Conservancy:

The Trust pays the administration expenses of The Islands Trust Conservancy (the "Conservancy") which is related through the composition of the Conservancy's Board. The Conservancy 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 Conservancy'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 Conservancy are reported on separately. These financial statements present the financial position and results of operations of the Trust.

The Conservancy'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:

	2019	2018
Operations and Property Management	\$ 485,276	\$ 515,807
Board	18,409	23,098
Administration	165,399	164,046
	<hr/>	<hr/>
	\$ 669,084	\$ 702,951

ISLANDS TRUST

Notes to Financial Statements

Year ended March 31, 2019

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:

	2019	2018
Cash received during the year	\$ 53,231	\$ 38,381
Cash paid during the year	49,034	29,177

The net payable from development applicants of \$27,177 (2018 - \$22,979) is included in cost recoveries on the statement of financial position.