

Financial Statements of

THE ISLANDS TRUST FUND

Year ended March 31, 2018

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 the Islands Trust Fund Board, the Trustees of the Islands Trust Council and the Minister of Municipal Affairs and Housing

We have audited the accompanying financial statements of The Islands Trust Fund, which comprise the statement of financial position as at March 31, 2018, the statements of operations, changes in fund balances 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 qualified audit opinion.

Basis for Qualified Opinion

In common with many charitable organizations, The Islands Trust Fund derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of The Islands Trust Fund. Therefore, we were not able to determine whether as at March 31, 2018 and for the years ended March 31, 2018 and March 31, 2017, any adjustments might be necessary to revenue and excess of revenue over expenses reported in the statement of operations, statement of cash flows, statement of changes in fund balances and assets and fund balances reported in the statement of financial position as at March 31, 2018. This caused us to qualify our audit opinion on the financial statements as at and for the year ended March 31, 2017.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of The Islands Trust Fund as at March 31, 2018, its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants

Victoria, Canada
July 17, 2018

THE ISLANDS TRUST FUND

Statement of Financial Position

March 31, 2018, with comparative information for 2017

	Opportunity Fund	Restricted Fund	Capital Fund	Endowment Fund	2018 Total	2017 Total
(Schedule 1)						
Assets:						
Current assets:						
Cash	\$ 29,214	\$ 184,597	\$ -	\$ -	\$ 213,811	\$ 249,356
Short-term investments (note 2)	-	164,772	-	88,000	252,772	253,452
Accounts receivable	-	-	-	-	-	27,300
Inventory of fundraising items	667	-	-	-	667	1,342
	29,881	349,369	-	88,000	467,250	531,450
Investments (note 3)	-	66,522	-	-	66,522	64,870
Land (notes 4 and 6)	-	-	7,624,169	6,176,601	13,800,770	13,250,504
	\$ 29,881	\$ 415,891	\$ 7,624,169	\$ 6,264,601	\$ 14,334,542	\$ 13,846,824
Liabilities:						
Current liabilities:						
Property tax payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 498
Due to Islands Trust	-	-	-	-	-	2,921
Deferred revenue	-	-	-	-	-	541
	-	-	-	-	-	3,960
Fund Balances:						
Unrestricted	29,881	-	-	-	29,881	31,950
Investment in land (note 4)	-	-	7,624,169	-	7,624,169	7,073,903
Internally restricted (note 5)	-	23,439	-	-	23,439	24,327
Externally restricted (note 5)	-	392,452	-	-	392,452	420,783
Restricted for endowment purposes (note 6)	-	-	-	6,264,601	6,264,601	6,291,901
	29,881	415,891	7,624,169	6,264,601	14,334,542	13,842,864
	\$ 29,881	\$ 415,891	\$ 7,624,169	\$ 6,264,601	\$ 14,334,542	\$ 13,846,824

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

Approved by the Trust Fund Board:



Board member



Board member

THE ISLANDS TRUST FUND

Statement of Operations

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

	Opportunity Fund	Restricted Fund	Capital Fund	Endowment Fund	2018 Total	2017 Total
						(Schedule 2)
Revenue:						
Donations:						
Cash	\$ 3,475	\$ 466,755	\$ -	\$ -	\$ 470,230	\$ 260,724
Land	-	-	-	-	-	156,000
Grants	2,041	23,660	-	-	25,701	281,371
Rental income	-	10,200	-	-	10,200	10,200
Investment income	20	1,417	-	-	1,437	16,089
Sale of fundraising items	136	-	-	-	136	133
	5,672	502,032	-	-	507,704	724,517
Expenses:						
Repairs and maintenance - Alton property	-	1,962	-	-	1,962	1,181
Cost of sales of fundraising items	675	-	-	-	675	270
Bank charges	61	1,637	-	-	1,698	235
Donations to conservancy groups	5,000	-	-	-	5,000	6,460
Consultant fees	2,005	4,686	-	-	6,691	8,995
	7,741	8,285	-	-	16,026	17,141
Excess (deficiency) of revenue over expenses	\$ (2,069)	\$ 493,747	\$ -	\$ -	\$ 491,678	\$ 707,376

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

THE ISLANDS TRUST FUND

Statement of Changes in Fund Balances

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

	Opportunity Fund	Restricted Fund	Capital Fund	Endowment Fund	Total
Fund balances, March 31, 2016	\$ 36,113	\$ 540,871	\$ 7,073,903	\$ 5,484,601	\$ 13,135,488
Excess of revenue over expenses	(4,163)	282,539	-	429,000	707,376
Interfund transfer	-	(378,300)	-	378,300	-
Fund balances, March 31, 2017	31,950	445,110	7,073,903	6,291,901	13,842,864
Excess of revenue over expenses	(2,069)	493,747	-	-	491,678
Interfund transfer (note 7)	-	(522,966)	550,266	(27,300)	-
Fund balances, March 31, 2018	\$ 29,881	\$ 415,891	\$ 7,624,169	\$ 6,264,601	\$ 14,334,542

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

THE ISLANDS TRUST FUND

Statement of Cash Flows

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

	2018	2017
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 491,678	\$ 707,376
Item not involving cash:		
Donation of land	-	(156,000)
Changes in non-cash operating working capital:		
Inventory of fundraising items	675	270
Accounts receivable	27,300	(27,300)
Property tax payable	(498)	498
Due to Islands Trust	(2,921)	2,921
Deferred revenue	(541)	541
	515,693	528,306
Capital activities:		
Cash paid to acquire land	(550,266)	(624,000)
Investing activities:		
Increase (decrease) in short-term investments	680	(13,667)
(Decrease) in long-term investments	(1,652)	(1,613)
	(972)	(15,280)
(Decrease) in cash	(35,545)	(110,974)
Cash, beginning of year	249,356	360,330
Cash, end of year	\$ 213,811	\$ 249,356

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

THE ISLANDS TRUST FUND

Notes to Financial Statements

Year ended March 31, 2018

The 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.

The Islands Trust Fund (the "Trust Fund") is also incorporated under The Islands Trust Act of British Columbia and is empowered to accept donations, grants and bequests on behalf of the Trust and to hold land and other property in compliance with a Trust Fund plan approved by the Ministry of Municipal Affairs and Housing.

The Trust Fund is administered by the Trust and for financial reporting purposes, the Trust and the Trust Fund are reported on separately. The Trust Fund's annual expenses are funded by and reported as part of the Trust in accordance with The Islands Trust Act. These financial statements present the financial position and changes in fund balances of the Trust Fund.

On May 31, 2018, the Islands Trust Fund changed its legal name from Islands Trust Fund to Islands Trust Conservancy.

1. Significant accounting policies:

The financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards including the 4200 standards for government not-for-profit organizations:

(a) Fund accounting:

The Trust Fund follows the restricted fund method of accounting for contributions.

The Opportunity Fund reports unrestricted resources.

The Restricted Fund reports the assets, liabilities, revenue and expenses related to internally and externally restricted assets.

The Capital Fund reports the assets, liabilities, revenue and expenses related to the Trust Fund's capital assets.

The Endowment Fund reports resources that are contributed for endowment purposes.

(b) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. Management has elected to record all investments at fair value as they are managed and evaluated on a fair value basis.

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations.

THE ISLANDS TRUST FUND

Notes to Financial Statements

Year ended March 31, 2018

1. Significant accounting policies (continued):

(b) Financial instruments (continued):

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses. When the asset is sold, the unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations. During the years presented, there are no unrealized gains and losses, and as a result, no statement of remeasurement gains and losses has been included in these financial statements. All investments held by the Trust Fund are classified as Level 2 investments for fair value measurement and there were no changes in classification in the years presented.

(c) Land:

Purchased land is recorded at cost. Contributed land is recorded at estimated fair value at the date of contribution.

(d) Revenue recognition:

Restricted contributions are recorded as revenue of the appropriate restricted fund when received or receivable, if the amount can be reasonably estimated and collection is reasonably assured.

Unrestricted contributions are recorded as revenue of the Opportunity Fund in the year received or receivable if the amount can be reasonably estimated and collection is reasonably assured.

Contributions for endowment are recorded as revenue in the Endowment Fund balance.

Interest income earned on Endowment Fund resources is restricted for the purpose of maintaining certain specified property and is recorded in the Restricted Fund. Interest income of internally restricted funds is recorded as revenue of the Restricted Fund. Other interest income is recorded as revenue of the Opportunity Fund when earned.

All other forms of income are recorded as revenue of the Opportunity Fund when received or receivable.

THE ISLANDS TRUST FUND

Notes to Financial Statements

Year ended March 31, 2018

1. Significant accounting policies (continued):

(e) 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 Fund 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.

(f) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the period. Significant estimates include assumptions used in estimating the fair value of contributed land at the date of contribution. Actual results could differ from those estimates.

(g) 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. Short-term investments:

Short-term investments consist of an endowment fund with the Victoria Foundation and Municipal Finance Authority of British Columbia ("MFA") Short Term Bond and Money Market Funds. Investments in MFA Funds are recorded at market value.

3. Investments:

Investments consist of a guaranteed investment certificate that matures on April 16, 2019. It has an interest rate of 2.55%.

THE ISLANDS TRUST FUND

Notes to Financial Statements

Year ended March 31, 2018

4. Land:

	Acquisition date	2018	2017
Inner Island Nature Reserve, Denman Island	1992	\$ 70,000	\$ 70,000
Coats Millstone Reserve, Gabriola Island	1994	100,000	100,000
Medicine Beach Nature Sanctuary, North Pender Island	1996	477,000	477,000
Cunningham Reserve, Salt Spring Island	1994	265,000	265,000
Deep Ridge Reserve, Salt Spring Island	1992	255,000	255,000
Lower Mt. Erskine Nature Reserve, Salt Spring Island	1996	284,000	284,000
Kwel Nature Sanctuary, Lasqueti Island	1997	195,497	195,497
Singing Woods Nature Reserve, Bowen Island	1999	157,000	157,000
Trincomali Nature Sanctuary, Galiano Island	2001	242,406	242,406
Horton Bayviary Nature Reserve, Mayne Island	2002	210,000	210,000
Morrison Marsh Nature Reserve, Denman Island	2006	438,000	438,000
Brigade Bay Bluffs Nature Reserve, Gambier Island	2006	150,000	150,000
Long Bay Wetland Nature Reserve, Gambier Island	2006	305,000	305,000
Elder Cedar Nature Reserve, Gabriola Island	2007	658,000	658,000
Mount Artaban Nature Reserve, Gambier Island	2009	1,177,000	1,177,000
Fairy Fen Nature Reserve, Bowen Island	2011	1,817,000	1,817,000
Laughlin Lake Nature Reserve, Galiano Island	2013	56,000	56,000
Vanilla Leaf Land Nature Reserve, Galiano Island	2014	217,000	217,000
Fairy Slipper Forest Nature Reserve, Thetis Island	2017	550,266	-
		\$ 7,624,169	\$ 7,073,903

5. Restricted Fund balances:

	2018	2017
Internally restricted:		
McFadden Creek management fund	\$ 23,439	\$ 24,327
Externally restricted:		
Alton Nature Reserve - maintenance fund	115,080	102,043
Morrison Fund	20,070	20,062
Covenant Defense Fund	105,534	103,824
Lasqueti Acquisition Fund	34,114	33,344
Gambier Acquisition Fund	116,368	116,891
Thetis Island Acquisition Fund	1,286	44,619
	392,452	420,783
	\$ 415,891	\$ 445,110

THE ISLANDS TRUST FUND

Notes to Financial Statements

Year ended March 31, 2018

6. Restricted for endowment purposes:

	Acquisition date	2018	2017
Short-term investments			
Alton Nature Reserve – maintenance	2002	\$ 88,000	\$ 88,000
Land:			
Lindsay Dickson Nature Reserve, Denman Island	2001	\$ 2,200,000	\$ 2,200,000
Alton Nature Reserve, Salt Spring Island	2002	454,000	454,000
McFadden Creek Nature Sanctuary, Salt Spring Island	2015	422,601	422,601
Properties acquired under the Federal Government Ecological Gifts program:			
Mt. Trematon Nature Reserve, Lasqueti Island	2006	320,000	320,000
David Otter Nature Reserve, Bowen Island	2007	620,000	620,000
John Osland Nature Reserve, Lasqueti Island	2012	890,000	890,000
Valens Brook Nature Reserve, Denman Island	2013	280,000	280,000
Burren's Acres Nature Reserve, Gabriola Island	2014	210,000	210,000
Moore Hill Nature Reserve, Thetis Island	2017	780,000	780,000
		6,176,601	6,176,601
		\$ 6,264,601	\$ 6,264,601

Investment gains (losses) on endowment funds for the year of (\$157) (2017 - \$12,306) have been recorded in the Restricted Fund.

Two properties owned by the Trust Fund, the Lindsay Dickson property on Denman Island, and the Alton property on Salt Spring Island, were donated on the condition that the properties be used and managed in certain ways. The Lindsay Dickson property was donated "for so long as the land is used as a nature reserve for the use, benefit and enjoyment of the residents of B.C.". The Alton property is to be held, managed and preserved for its ecological environment and scenic features and not as a recreational park. The residence, gardens and driveway are to be preserved and managed for non-profit purposes.

In the event that these properties are not managed accordingly, the properties could revert to the Province of British Columbia in the case of the Lindsay Dickson Nature Reserve and to the Executors of the donor's estate in the case of the Alton Nature Reserve.

In 2015, the McFadden Creek Nature Sanctuary on Salt Spring Island was donated to the Trust Fund on the condition that the property was to be protected, preserved and maintained in its natural state. Should a disposition of this property ever be triggered, there is a Right of First Refusal on the property in favor of the Wild Bird Trust of BC.

Certain properties as listed in the preceding table were acquired under the Federal Government Ecological Gift program. Recipients of ecological gifts are responsible for maintaining the biodiversity and environmental heritage values of the property in perpetuity.

THE ISLANDS TRUST FUND

Notes to Financial Statements

Year ended March 31, 2018

7. Interfund transfer:

During the year, there were interfund transfers of \$550,266 (2017 - \$nil) from the Restricted Fund to the Capital Fund, representing cash paid to acquire the Fairy Slipper Forest Nature Reserve on Thetis Island, and \$27,300 from the Endowment Fund to the Restricted Fund representing grant monies received for the purchase of Moore Hill Nature Reserve in the previous fiscal period.

8. Related party:

The Trust is related to the Trust Fund through the composition of the Trust Fund's Board. The Trust Fund's Board is comprised of three members from the Trust's Council and up to three members appointed by the Minister of Municipal Affairs and Housing.

The Trust Fund's annual expenses are funded by and reported as part of the Trust in accordance with The Islands Trust Act. The 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
	<u>\$ 702,951</u>	<u>\$ 629,627</u>

For the year ended March 31, 2018, amounts payable to Islands Trust were \$nil (2017 - \$2,921).

9. Financial risks and concentration of risk:

The Trust Fund's financial instruments consist of cash, short-term investments, accounts receivable, investments, property tax payable and due to Islands Trust. It is management's opinion that the Trust Fund is not exposed to significant interest, currency or credit risk arising from these financial instruments. The maximum exposure to credit risk at March 31, 2018 is the carrying value of cash, accounts receivable, short-term investments and investments. The Trust Fund deals with creditworthy counterparties to mitigate credit risk. The Trust Fund manages its liquidity risk by monitoring its operating requirements. Interest rate risk is not significant due to the short term nature of investments held. There have been no significant changes to risk exposure in the years presented.

THE ISLANDS TRUST FUND

Statement of Financial Position

Schedule 1

March 31, 2017

	Opportunity Fund	Restricted Fund	Capital Fund	Endowment Fund	2017 Total
Assets:					
Current assets:					
Cash	\$ 34,144	\$ 215,212	\$ -	\$ -	\$ 249,356
Short-term investments (note 2)	-	165,452	-	88,000	253,452
Accounts receivable	-	-	-	27,300	27,300
Inventory of fundraising items	1,342	-	-	-	1,342
	35,486	380,664		115,300	531,450
Investments (note 3)	-	64,870	-	-	64,870
Land (notes 4 and 6)	-	-	7,073,903	6,176,601	13,250,504
	\$ 35,486	\$ 445,534	\$ 7,073,903	\$ 6,291,901	\$ 13,846,824
Liabilities:					
Current liabilities:					
Property tax payable	\$ -	\$ 498	\$ -	\$ -	\$ 498
Due to Islands Trust	2,995	(74)	-	-	2,921
Deferred revenue	541	-	-	-	541
	3,536	424	-	-	3,960
Fund Balances:					
Unrestricted	31,950	-	-	-	31,950
Investment in land (note 4)	-	-	7,073,903	-	7,073,903
Internally restricted (note 5)	-	24,327	-	-	24,327
Externally restricted (note 5)	-	420,783	-	-	420,783
Restricted for endowment purposes (note 6)	-	-	-	6,291,901	6,291,901
	31,950	445,110	7,073,903	6,291,901	13,842,864
	\$ 35,486	\$ 445,534	\$ 7,073,903	\$ 6,291,901	\$ 13,846,824

THE ISLANDS TRUST FUND

Statement of Operations

Schedule 2

Year ended March 31, 2017

	Opportunity Fund	Restricted Fund	Capital Fund	Endowment Fund	2017 Total
Revenue:					
Donations:					
Cash	\$ 2,480	\$ 258,244	\$ -	\$ -	\$ 260,724
Land	-	-	-	156,000	156,000
Grants	2,959	5,412	-	273,000	281,371
Rental income	-	10,200	-	-	10,200
Investment income	21	16,068	-	-	16,089
Sale of fundraising items	133	-	-	-	133
	5,593	289,924	-	429,000	724,517
Expenses:					
Repairs and maintenance - Alton property	-	1,181	-	-	1,181
Cost of sales of fundraising items	270	-	-	-	270
Bank charges	31	204	-	-	235
Donations to conservancy groups	6,460	-	-	-	6,460
Consultant fees	2,995	6,000	-	-	8,995
	9,756	7,385	-	-	17,141
Excess (deficiency) of revenue over expenses	\$ (4,163)	\$ 282,539	\$ -	\$ 429,000	\$ 707,376