

Financial Statements of

**ISLANDS TRUST**

Year ended March 31, 2014

# ISLANDS TRUST

## Financial Statements

Year ended March 31, 2014

### Financial Statements

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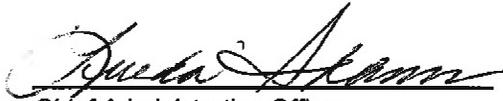
## **MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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

  
Treasurer



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**Chartered Accountants**  
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## 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, 2014, 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, 2014, 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.

Chartered Accountants

June 19, 2014  
Victoria, Canada

# ISLANDS TRUST

## Statement of Financial Position

March 31, 2014, with comparative information for 2013

	2014	2013
<b>Financial assets:</b>		
Cash and cash equivalents (note 2)	\$ 3,696,156	\$ 3,702,155
Accounts receivable	55,271	88,562
	<u>3,751,427</u>	<u>3,790,717</u>
<b>Liabilities:</b>		
Wages and benefits payable	985,269	950,174
Accounts payable and accrued liabilities	295,217	383,501
Deferred revenue	53,981	55,714
Employee benefit obligations (note 3)	94,538	99,130
Obligations under capital leases (note 4)	55,265	43,481
Cost recovery deposits (note 11(ii))	9,675	15,110
	<u>1,493,945</u>	<u>1,547,110</u>
Net financial assets	2,257,482	2,243,607
<b>Non-financial assets:</b>		
Tangible capital assets (note 5)	115,322	124,979
Prepaid expenses	52,273	35,137
	<u>167,595</u>	<u>160,116</u>
Commitments (note 9)		
Contingent liabilities (note 10)		
<b>Accumulated surplus (note 6)</b>	<b>\$ 2,425,077</b>	<b>\$ 2,403,723</b>

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, 2014, with comparative information for 2013

	Budget (note 7)	2014	2013
Revenue:			
Property tax - general	\$ 6,066,025	\$ 6,066,025	\$ 5,929,199
Property tax levy - Bowen Island Municipality	225,170	225,170	165,374
Provincial grant - operating	85,184	85,184	186,998
Fees and sales	110,000	103,604	110,465
Interest income	95,000	40,196	105,791
Other income	60,000	2,089	52,501
Total revenue	6,641,379	6,522,268	6,550,328
Expenses (note 8):			
Council services	1,123,808	997,420	978,323
Local trust committee services	5,135,200	4,879,667	4,753,668
Trust fund services	693,184	623,827	615,270
Total expenses	6,952,192	6,500,914	6,347,261
Annual surplus (deficit)	(310,813)	21,354	203,067
Accumulated surplus, beginning of year	2,403,723	2,403,723	2,200,656
Accumulated surplus, end of year	\$ 2,092,910	\$ 2,425,077	\$ 2,403,723

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

# ISLANDS TRUST

## Statement of Change in Net Financial Assets

Year ended March 31, 2014, with comparative information for 2013

	Budget (note 7)	2014	2013
Annual surplus (deficit)	\$ (310,813)	\$ 21,354	\$ 203,067
Acquisition of tangible capital assets	-	(18,550)	(52,429)
Acquisition of tangible capital assets through capital lease	-	(39,754)	(7,579)
Amortization of tangible capital assets	55,000	59,312	70,187
Loss on disposal of capital assets	-	8,649	-
	(255,813)	31,011	213,246
Acquisition of prepaid expenses	-	(17,136)	(4,302)
Change in net financial assets	(255,813)	13,875	208,944
Net financial assets, beginning of year	2,243,607	2,243,607	2,034,663
Net financial assets, end of year	\$ 1,987,794	\$ 2,257,482	\$ 2,243,607

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

# ISLANDS TRUST

## Statement of Cash Flows

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
Cash provided by (used in):		
<b>Operating activities:</b>		
Annual surplus	\$ 21,354	\$ 203,067
Items not involving cash:		
Amortization of tangible capital assets	59,312	70,187
Loss on disposal of tangible capital assets	8,649	-
Change in non-cash operating assets and liabilities:		
Accounts receivable	33,291	16,896
Wages and benefits payable	35,095	(64,571)
Accounts payable and accrued liabilities	(88,284)	117,996
Deferred revenue	(1,733)	(32,283)
Employee benefit obligations	(4,592)	(17,446)
Cost recovery deposits	(5,435)	(14,792)
Prepaid expenses	(17,136)	(4,302)
Net change in cash from operating activities	40,521	274,752
<b>Capital activities:</b>		
Acquisition of tangible capital assets	(18,550)	(52,429)
<b>Financing activities:</b>		
Principal payments on obligations under capital leases	(27,970)	(14,812)
Change in cash and cash equivalents	(5,999)	207,511
Cash and cash equivalents, beginning of year	3,702,155	3,494,644
Cash and cash equivalents, end of year	\$ 3,696,156	\$ 3,702,155
Supplemental cash flow information:		
Assets acquired under capital lease	\$ 39,754	\$ 7,579

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

# ISLANDS TRUST

## Notes to Financial Statements

Year ended March 31, 2014

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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 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.

# ISLANDS TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2014

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## 1. Significant accounting policies (continued):

### (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.

# ISLANDS TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2014

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## 1. Significant accounting policies (continued):

### (c) Revenue recognition (continued):

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

The tax revenue is recognized on an accrual basis.

### (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. 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.

### (e) 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.

### (f) 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

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# ISLANDS TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2014

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## 1. Significant accounting policies (continued):

### (f) 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.

### (g) 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.

# ISLANDS TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2014

## 2. Cash and cash equivalents:

	2014	2013
Bank account balances	\$ 457,494	\$ 734,012
Municipal Finance Authority Bond Fund	861,744	2,906,135
Municipal Finance Authority Intermediate Fund	-	58,902
Municipal Finance Authority Money Market Fund	2,376,918	3,106
	<u>\$ 3,696,156</u>	<u>\$ 3,702,155</u>

## 3. Employee benefit obligations:

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

	2014	2013
Vacation pay	\$ 67,893	\$ 73,488
Compensatory time off	26,645	25,642
	<u>\$ 94,538</u>	<u>\$ 99,130</u>

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.

### Other pension plans

The Trust and its employees make contributions to the Public Service Pension Plan (the "Plan"), a jointly trustee 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 (2013 - \$245,590) during the year.

# ISLANDS TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2014

## 4. Obligations under capital leases:

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

2015	\$	14,965
2016		13,888
2017		13,791
2018		10,482
2019 and thereafter		9,623
Total minimum lease payments		62,749
Less amounts representing interest (at rates ranging from 2.25% to 6.25%)		7,484
Present value of net minimum capital lease payments	\$	55,265

Interest of \$1,718 (2013 - \$1,920) 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 2014	Total 2013
<b>Cost:</b>						
Balance, beginning of year	\$ 10,000	\$ 119,099	\$ 155,470	\$ 244,268	\$ 528,837	\$ 476,581
Additions	-	39,754	18,550	-	58,304	60,008
Disposals	-	(45,790)	-	-	(45,790)	(7,752)
Balance, end of year	10,000	113,063	174,020	244,268	541,351	528,837
<b>Accumulated amortization:</b>						
Balance, beginning of year	10,000	78,565	112,454	202,839	403,858	341,423
Disposals	-	(37,141)	-	-	(37,141)	(7,752)
Amortization expense	-	16,632	24,932	17,748	59,312	70,187
Balance, end of year	10,000	58,056	137,386	220,587	426,029	403,858
Net book value, end of year	\$ -	\$ 55,007	\$ 36,634	\$ 23,681	\$ 115,322	\$ 124,979

# ISLANDS TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2014

## 5. Tangible capital assets (continued):

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 2014 or 2013.

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:

	2014	2013
Invested in tangible capital assets	\$ 60,057	\$ 81,498
General Revenue Fund	2,365,020	2,322,225
	<u>\$ 2,425,077</u>	<u>\$ 2,403,723</u>

## 7. Budget data:

The budget data presented in these financial statements is based upon the 2014 operating budget approved by Trust Council on March 6, 2013. The following reconciles the approved budget to the budget figures reported in these financial statements.

	Budget amount
Operating budget:	
Revenue	\$ 6,952,193
Less appropriation from surplus	(310,814)
	<u>6,641,379</u>
Expenses	6,952,193
Annual deficit	<u>\$ (310,814)</u>

# ISLANDS TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2014

## 8. Classification of expenses by object:

	2014	2013
Staff salaries and benefits	\$ 3,870,438	\$ 3,757,191
Traveling/training and recruitment	160,699	160,912
Council and trustee costs	785,377	801,185
Office operations	876,356	883,645
Programs	450,526	385,797
Legal	298,206	288,344
Amortization	59,312	70,187
<b>Total expenses by object</b>	<b>\$ 6,500,914</b>	<b>\$ 6,347,261</b>

## 9. Commitments:

Minimum annual lease payments:

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

2015	\$ 340,756
2016	281,845
2017	129,934
2018	9,173
2019	9,173

## 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.

# ISLANDS TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2014

## 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.

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:

	2014	2013
Programs	\$ 465,536	\$ 457,587
Board	14,082	18,559
Administration	144,701	139,124
	\$ 624,319	\$ 615,270

(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:

	2014	2013
Cash received during the year	\$ 10,300	\$ 19,340
Cash paid during the year	15,735	34,132

The net payable from development applicants of \$9,675 (2013 - \$15,110) is reported as a liability on the statement of financial position.