Financial Statements of

ISLANDS TRUST

Year ended March 31, 2017

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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*

KPMG

KPMG LLP
St. Andrew's Square II
800-730 View Street
Victoria BC V8W 3Y7
Canada
Telephone 250-480-3500
Fax 250-480-3539

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, 2017, 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, 2017, its results of operations, changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants

June 21, 2017
Victoria, Canada

ISLANDS TRUST

Statement of Financial Position

March 31, 2017, with comparative information for 2016

		2017		2016
Financial assets:				
Cash and cash equivalents (note 2)	$	858,607	$	2,711,491
Accounts receivable		187,821		358,102
Investments (note 3)		3,532,520		1,003,197
		4,578,948		4,072,790
Liabilities:				
Accounts payable and accrued liabilities		482,084		416,592
Wages and benefits payable		1,116,701		1,064,820
Deferred revenue		29,983		44,108
Employee benefit obligations (note 4)		138,864		105,443
Obligations under capital leases (note 5)		58,059		93,776
Cost recovery deposits (note 13(b))		13,251		6,642
		1,838,942		1,731,381
Net financial assets		2,740,006		2,341,409
Non-financial assets:				
Tangible capital assets (note 6)		123,111		137,397
Prepaid expenses		57,370		40,913
		180,481		178,310
Commitments (note 11)				
Contingent liabilities (note 12)				
Accumulated surplus (note 7)	$	2,920,487	$	2,519,719

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, 2017, with comparative information for 2016

	Budget (note 9)	2017	2016
Revenue:			
Property tax - general	$ 6,249,833	$ 6,249,834	$ 6,187,953
Property tax levy - Bowen Island municipality	223,418	223,418	213,766
Property tax - special requisition	110,500	110,500	119,500
Government transfers (note 8)	180,000	185,380	430,898
Fees and sales	110,000	136,863	132,273
Interest income	50,000	63,629	55,976
Other income	50,000	19,680	5,257
Total revenue	6,973,751	6,989,304	7,145,623
Expenses (note 10):			
Council services	1,228,062	1,071,007	1,020,080
Local trust committee services	5,431,404	4,887,902	5,468,019
Trust fund services (note 13)	697,542	629,627	604,274
Total expenses	7,357,008	6,588,536	7,092,373
Annual surplus (deficit)	(383,257)	400,768	53,250
Accumulated surplus, beginning of year	2,519,719	2,519,719	2,466,469
Accumulated surplus, end of year	$ 2,136,462	$ 2,920,487	$ 2,519,719

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

ISLANDS TRUST

Statement of Change in Net Financial Assets

Year ended March 31, 2017, with comparative information for 2016

	Budget (note 9)	2017	2016
Annual surplus (deficit)	$ (383,257)	$ 400,768	$ 53,250
Acquisition of tangible capital assets	-	(27,647)	(25,935)
Acquisition of tangible capital assets through capital lease	-	(25,735)	(75,631)
Amortization of tangible capital assets	65,000	67,668	49,688
Loss on disposal of capital assets	-	-	6,086
	(318,257)	415,054	7,458
Acquisition of prepaid expenses	-	(16,457)	18,277
Change in net financial assets	(318,257)	398,597	25,735
Net financial assets, beginning of year	2,341,409	2,341,409	2,315,674
Net financial assets, end of year	$ 2,023,152	$ 2,740,006	$ 2,341,409

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

ISLANDS TRUST

Statement of Cash Flows

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Annual surplus	$ 400,768	$ 53,250
Items not involving cash:		
Amortization of tangible capital assets	67,668	49,688
Loss on disposal of tangible capital assets	-	6,086
Changes in non-cash operating assets and liabilities:		
Accounts receivable	170,281	(271,718)
Wages and benefits payable	51,881	14,983
Accounts payable and accrued liabilities	65,492	118,103
Deferred revenue	(14,125)	(9,241)
Employee benefit obligations	33,421	24,219
Cost recovery deposits	6,609	3,203
Prepaid expenses	(16,457)	18,277
Net change in cash from operating activities	765,538	6,850
Capital activities:		
Acquisition of tangible capital assets	(27,647)	(25,935)
Investing activities:		
Purchase of Investments	(2,529,323)	(41)
Financing activities:		
Principal payments on obligations under capital leases	(61,452)	(28,330)
Change in cash and cash equivalents	(1,852,884)	(47,456)
Cash and cash equivalents, beginning of year	2,711,491	2,758,947
Cash and cash equivalents, end of year	$ 858,607	$ 2,711,491
Supplemental cash flow information:		
Assets acquired under capital lease	$ 25,735	$ 75,631

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

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

1. Significant accounting policies:

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

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. Investment income is reported as revenue in the period earned.

(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 born 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.

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.

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:

	2017	2016
Bank account balances	$ 858,607	$ 1,074,332
Raymond James GIC	-	1,637,159
	$ 858,607	$ 2,711,491

3. Investments:

Investments consist of guaranteed investment certificates with a cost plus accrued interest that approximates market value. The stated interest rates are between 1.25% and 1.50% and the maturity dates range from April 2017 to February 2018.

4. Employee benefit obligations:

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

	2017	2016
Vacation pay	$ 100,608	$ 73,269
Compensatory time off	38,256	32,174
	$ 138,864	$ 105,443

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.

4. Employee benefit obligations (continued):

Other pension plans:

The Trust and its employees contribute to the Public Service Pension Plan (a jointly trusteed 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, 2016, the plan has about 58,000 active members and approximately 45,000 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, 2014, indicated a funding surplus of $194 million for basic pension benefits on a going concern basis. The next valuation will be as at March 31, 2017, with results available in early 2018. 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 $307,473 (2016 - $290,507) for employer contributions to the plan in fiscal 2017.

5. Obligations under capital leases:

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

2018	$	30,613
2019		17,273
2020		9,629
2021		6,296
2022 and thereafter		-
Total minimum lease payments		63,811
Less amounts representing interest (at rates ranging from 4.7% to 5.25%)		5,752
Present value of net minimum capital lease payments	$	58,059

Interest of $3,111 (2016 - $1,582) relating to capital lease obligations has been included in expenses on the statement of operations.

6. Tangible capital assets:

	Denman Island Site	Furniture and equipment	Computers	Leasehold improvements	Total 2017	Total 2016
Cost:						
Balance, beginning of year	$ 10,000	$ 169,954	$ 225,580	$ 249,822	$ 655,356	$ 572,443
Additions	-	25,735	19,847	7,800	53,382	105,708
Disposals	-	-	-	-	-	(22,795)
Balance, end of year	10,000	195,689	245,427	257,622	708,738	655,356
Accumulated amortization:						
Balance, beginning of year	10,000	78,438	190,152	239,369	517,959	480,839
Additions	-	-	-	-	-	(12,568)
Disposals	-	38,730	26,126	2,812	67,668	49,688
Balance, end of year	10,000	117,168	216,278	242,181	585,627	517,959
Net book value, end of year	$ -	$ 78,521	$ 29,150	$ 15,441	$ 123,111	$ 137,397

Contributed tangible capital assets:

There were no contributed assets received during 2017 or 2016.

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 $58,059 (2016 - $91,516).

7. Accumulated surplus:

Accumulated surplus consists of:

	2017	2016
Invested in tangible capital assets	$ 65,052	$ 43,621
General Revenue Fund	2,848,329	2,476,098
Special property tax requisition fund	7,106	-
	$ 2,920,487	$ 2,519,719

8. Government transfers:

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

	2017	2016
Provincial operating grant	$ 177,880	$ 123,052
Lasqueti energy project	-	278,268
Salt Spring Island Water Protection Project	2,500	11,823
Province of BC grant - Saltspring Island potential incorporation transition strategy	5,000	-
Other	-	17,755
	$ 185,380	$ 430,898

9. Budget data:

The budget data presented in these financial statements is based upon the 2017 operating budget approved by Trust Council on March 24, 2016. The following reconciles the approved budget to the budget figures reported in these financial statements.

	Budget amount
Operating budget:	
Revenue	$ 7,292,008
Less appropriation from surplus	318,257
	6,973,751
Expenses	7,292,008
Plus amortization expense	65,000
	7,357,008
Annual deficit	$ (383,257)

10. Classification of expenses by object:

	2017	2016
Staff salaries and benefits	$ 4,137,903	$ 4,003,460
Traveling/training and recruitment	201,207	210,249
Council and trustee costs	810,697	812,513
Office operations	930,099	932,044
Programs	384,020	768,332
Legal	56,942	316,087
Amortization	67,668	49,688
	$ 6,588,536	$ 7,092,373

11. 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:

2018	$ 348,763
2019	299,787
2019	306,748
2021	276,113
2022	282,503

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 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:

	2017	2016
Programs	$ 459,775	$ 432,813
Board	15,566	15,155
Administration	154,286	156,306
	$ 629,627	$ 604,274

13. Trust activities (continued):

(b) Deferred revenue:

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

		2017		2016
Cash received during the year	$	27,825	$	9,200
Cash paid during the year		14,447		10,784

The net payable from development applicants of $13,251 (2016 - $6,642) is reported as deferred revenue 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.