

Financial Statements of

THE ISLANDS TRUST FUND

Year ended March 31, 2011



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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 Community, Sport and Cultural Development

We have audited the accompanying financial statements of The Islands Trust Fund, which comprise the statement of financial position as at March 31, 2011, the statements of operations and 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 generally accepted accounting principles, 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, our verification of these revenues was limited to the amounts recorded in the records of The Islands Trust Fund and we were not able to determine whether, as at or for the years ended March 31, 2011 and March 31, 2010, any adjustments might be necessary to revenue and excess of revenue over expenses reported in the statements of operations and changes in fund balances and current assets and fund balances reported in the statement of financial position.

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, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

July 21, 2011
Victoria, Canada

THE ISLANDS TRUST FUND

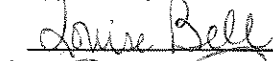

Statement of Financial Position

March 31, 2011, with comparative information for 2010

	Opportunity Fund	Restricted Fund	Capital Fund	Endowment Fund	2011 Total	2010 Total
Assets:						
Current assets:						
Cash	\$ 40,409	\$ 87,582	\$ -	\$ -	\$ 127,991	\$ 105,715
Short-term investments	-	151,470	-	88,000	239,470	131,367
Receivables	-	-	-	-	-	1,102
Inventory of fundraising items	2,708	-	-	-	2,708	2,948
	43,117	239,052	-	88,000	370,169	241,132
Land (notes 2 and 4)	-	-	6,800,903	3,594,000	10,394,903	8,577,903
	43,117	239,052	6,800,903	3,682,000	10,765,072	8,819,035
Liabilities:						
Accounts payable	-	14,740	-	-	14,740	-
	\$ 43,117	\$ 224,312	\$ 6,800,903	\$ 3,682,000	\$ 10,750,332	\$ 8,819,035
Fund Balances						
Unrestricted	\$ 43,117	\$ -	\$ -	\$ -	\$ 43,117	\$ 46,764
Investment in land (note 2)	-	-	6,800,903	-	6,800,903	4,983,903
Internally restricted (note 3)	-	15,980	-	-	15,980	15,294
Externally restricted (note 3)	-	208,332	-	-	208,332	91,074
Restricted for endowment purposes (note 4)	-	-	-	3,682,000	3,682,000	3,682,000
	\$ 43,117	\$ 224,312	\$ 6,800,903	\$ 3,682,000	\$ 10,750,332	\$ 8,819,035

See accompanying notes to financial statements.

Approved by the Trust Fund Board:

 Board member
 Board member

THE ISLANDS TRUST FUND

Statement of Operations and Changes in Fund Balances

Year ended March 31, 2011, with comparative information for 2010

	Opportunity Fund	Restricted Fund	Capital Fund	Endowment Fund	2011 Total	2010 Total
Revenue:						
Donations:						
Cash	\$ 6,174	\$ 123,428	\$ -	\$ -	\$ 129,603	\$ 9,248
Land	-	-	1,817,000	-	1,817,000	-
Grants	-	2,840	-	-	2,840	3,703
Rental income	-	7,525	-	-	7,525	6,800
Investment income	151	6,150	-	-	6,300	14,596
Sale of fundraising items	435	-	-	-	435	870
	6,760	139,943	1,817,000	-	1,963,703	35,217
Expenses:						
Repairs and maintenance - Alton property	-	21,998	-	-	21,998	10,291
Cost of sales of fundraising items	240	-	-	-	240	172
Bank charges	65	1	-	-	66	40
Donations to conservancy groups	10,102	-	-	-	10,102	-
	10,407	21,999	-	-	32,406	10,503
Excess (deficiency) of revenue over expenses	(3,647)	117,944	1,817,000	-	1,931,297	24,714
Fund balances, beginning of year	46,764	106,368	4,983,903	3,682,000	8,819,035	8,794,321
Fund balances, end of year (notes 2, 3 and 4)	\$ 43,117	\$ 224,312	\$ 6,800,903	\$ 3,682,000	\$ 10,750,332	\$ 8,819,035

See accompanying notes to financial statements.

THE ISLANDS TRUST FUND

Statement of Cash Flows

Year ended March 31, 2011, with comparative information for 2010

	2011	2010
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 1,931,297	\$ 24,714
Item not involving cash:		
Donation of land	(1,817,000)	-
Changes in non-cash operating working capital:		
Receivables	- 1,102	(264)
Inventory of fundraising items	240	172
Accounts payable	14,740	-
	<u>130,379</u>	<u>24,622</u>
Investing activities:		
Increase in short-term investments	(108,103)	(14,016)
Increase in cash	<u>22,276</u>	<u>10,606</u>
Cash, beginning of year	105,715	95,109
Cash, end of year	<u>\$ 127,991</u>	<u>\$ 105,715</u>

See accompanying notes to financial statements.

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Notes to Financial Statements

Year ended March 31, 2011

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 Community, Sport and Cultural Development.

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.

1. Significant accounting policies:

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations and include the following significant accounting policies:

(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:

The Trust Fund has designated all non-derivative financial assets and liabilities as held for trading with the exception of certain obligations designated as other liabilities and loans and receivables. The Trust Fund initially records all non-derivative financial assets and liabilities at fair value. Cash and short-term investments are classified as held for trading and measured at fair value. The Trust Fund has not classified any assets or liabilities as available for sale. The Trust Fund does not currently hold any derivative financial instruments.

The Trust Fund complies with the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, for the presentation and disclosure of financial instruments and non-financial derivatives.

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Notes to Financial Statements

Year ended March 31, 2011

1. Significant accounting policies (continued):

(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.

(e) Investment income:

Investment income, which is recorded on the accrual basis, includes interest income, dividends, net gain on sale of securities and net unrealized gains (losses).

(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. Actual results could differ from those estimates.

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Notes to Financial Statements

Year ended March 31, 2011

2. Land:

	Acquisition date	2011	2010
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
Kwei 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	-
		\$ 6,800,903	\$ 4,983,903

3. Restricted Fund balances:

	2011	2010
Internally restricted:		
McFadden property	\$ 15,980	\$ 15,294
Externally restricted:		
Alton Nature Reserve - maintenance fund	20,617	27,001
Covenant Defense Fund – interest receivable	1,217	1,102
Covenant Defense Fund	57,300	35,000
Lasqueti Acquisition Funds	28,070	27,971
Gambier Acquisition Fund	101,128	-
	208,332	91,074
	\$ 224,312	\$ 106,368

The Covenant Defense Fund was previously named the Marilyn King – Covenant protection endowment.

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Notes to Financial Statements

Year ended March 31, 2011

4. Restricted for endowment purposes:

	Acquisition date	2011	2010
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
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
		3,594,000	3,594,000
Total restricted for endowment purposes		\$ 3,682,000	\$ 3,682,000

Investment gain on endowment funds for the year of \$5,907 (2010 - \$18,407) has been recorded in the restricted fund.

Two properties owned by the Trust Fund Board, 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.

The Mt. Trematon Nature Reserve property on Lasqueti Island and the David Otter Nature Reserve property on Bowen Island 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.

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Year ended March 31, 2011

5. 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 Community, Sport and Cultural Development.

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:

	2011	2010
Programs	\$ 464,117	\$ 443,480
Board	15,638	17,355
Administration	132,915	126,506
	<u>\$ 612,670</u>	<u>\$ 587,341</u>

6. Financial instruments:

The Trust Fund's financial instruments include cash, short-term investments, receivables and accounts payable. The fair value of these instruments approximates their carrying values. It is management's opinion that the Trust Fund is not exposed to significant interest, currency or credit risks arising from these financial instruments.

7. Capital management:

The Trust Fund receives its principal source of capital through funding received from donations, grants and bequests. The Trust Fund's annual expenses are funded by the Islands Trust. The Trust Fund defines capital to be fund balances.

The Trust Fund's objective to manage its capital is to preserve capital with the monitoring of funding, grants and expenses. The Trust Fund has complied with the external restrictions on the funding provided.

8. Comparative information:

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