

Financial Statements of

**COAST CONSERVATION ENDOWMENT FUND
FOUNDATION**

December 31, 2018



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Coast Conservation Endowment Fund Foundation

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Coast Conservation Endowment Fund Foundation (the "Entity"), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of operations and changes in net 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 the Entity as at December 31, 2018, and its results of operations, its changes in net assets and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

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.

Other Information

Management is responsible for the other information. Other information comprises the information, other than the financial statements and the auditors' report thereon, included in the 2018 Annual Report.



Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the 2018 Annual Report as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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 accounting standards for not-for-profit organizations, 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 the Entity'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 the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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 the Entity'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 the Entity'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 the Entity 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.

Report on other Legal and Regulatory Requirements

As required by the Societies Act (British Columbia), we report that, in our opinion, the accounting policies applied in preparing and presenting the financial statements in accordance with Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

Chartered Professional Accountants

Vancouver, Canada

April 23, 2019

COAST CONSERVATION ENDOWMENT FUND FOUNDATION

Statement of Financial Position

December 31, 2018

	2018	2017
Assets		
Current assets:		
Cash	\$ 2,126,730	\$ 2,431,151
Prepaid expenses	12,018	9,635
Government and other receivables	19,668	26,370
Short-term investments (note 3)	-	51,718
	<u>2,158,416</u>	<u>2,518,874</u>
Property and equipment (note 4)	10,313	12,883
Intangible asset (note 5)	15,276	38,189
Investments (note 3)	76,671,954	78,271,269
	<u>\$ 78,855,959</u>	<u>\$ 80,841,215</u>

Liabilities and Net Assets

Liabilities:		
Accounts payable and accrued liabilities	\$ 88,439	\$ 66,257
Deferred revenue	62,500	-
Due to Society (note 6)	191,239	80,007
Accrued award distribution	<u>1,648,465</u>	<u>1,702,748</u>
	1,990,643	1,849,012
Net assets:		
General	86,618	80,987
Externally restricted:		
Revenue fund (note 11)	20,790,873	22,923,391
Regional conservation planning fund	159,210	159,210
Conservation endowment fund	<u>55,828,615</u>	<u>55,828,615</u>
	76,865,316	78,992,203

Commitments (note 8)

	<u>\$ 78,855,959</u>	<u>\$ 80,841,215</u>
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See accompanying notes to financial statements.

Approved on behalf of the Board:

Percy Crank

Director

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Director

COAST CONSERVATION ENDOWMENT FUND FOUNDATION

Statement of Operations and Changes in Net Assets

Year ended December 31, 2018

	Unrestricted		Externally restricted			2018	2017
	General	Revenue fund	Regional conservation planning fund	Conservation endowment fund			
Revenue:							
Contributions	\$ 56,000	\$ -	\$ -	\$ -	\$ 56,000	\$ 10,400	
Net investment income (note 7)	-	699,547	-	-	699,547	6,846,034	
	56,000	699,547	-	-	755,547	6,856,434	
Expenses:							
Administration	12,700	13,255	-	-	25,955	5,795	
Awards	-	2,411,606	-	-	2,411,606	2,369,614	
Capacity	-	-	-	-	-	15,790	
Communications	-	18,538	-	-	18,538	-	
Cost sharing with the Society (note 6)	-	166,498	-	-	166,498	241,586	
Facilities and equipment	-	144,300	-	-	144,300	152,952	
Personnel	37,669	-	-	-	37,669	-	
Professional fees	-	77,868	-	-	77,868	56,635	
	50,369	2,832,065	-	-	2,882,434	2,842,372	
(Deficiency) excess of revenue over expenses	5,631	(2,132,518)	-	-	(2,126,887)	4,014,062	
Net assets, beginning of year	80,987	22,923,391	159,210	55,828,615	78,992,203	74,978,141	
Net assets, end of year	\$ 86,618	\$ 20,790,873	\$ 159,210	\$ 55,828,615	\$ 76,865,316	\$ 78,992,203	

See accompanying notes to financial statements.

COAST CONSERVATION ENDOWMENT FUND FOUNDATION

Statement of Cash Flows

Year ended December 31, 2018

	2018	2017
Cash provided by (used in):		
Operations:		
(Deficiency) excess of revenue over expenses	\$ (2,126,887)	\$ 4,014,062
Items not involving cash:		
Amortization	29,223	59,383
Fair value adjustment on investments	2,769,154	(3,309,959)
Changes in non-cash operating working capital:		
Government and other receivables	6,702	13,892
Prepaid expenses	(2,383)	5,718
Accounts payable and accrued liabilities	22,182	(1,498)
Deferred revenue	62,500	-
Due to Society	111,232	(85,725)
Accrued award distribution	(54,283)	51,039
	817,440	746,912
Investing:		
(Increase) decrease in investments	(1,118,121)	645,508
Purchase of property and equipment	(3,740)	(11,991)
	(1,121,861)	633,517
(Decrease) increase in cash	(304,421)	1,380,429
Cash, beginning of year	2,431,151	1,050,722
Cash, end of year	\$ 2,126,730	\$ 2,431,151

See accompanying notes to financial statements.

COAST CONSERVATION ENDOWMENT FUND FOUNDATION

Notes to the Financial Statements

Year ended December 31, 2018

1. Operations:

The Coast Conservation Endowment Fund Foundation (the "Foundation") was incorporated under the Society Act of British Columbia on December 24, 2004. The Foundation commenced operations in September 2007, with the appointment of the Board of Directors. The Foundation transitioned to the new Societies Act (British Columbia) on July 18, 2017.

The Foundation is a registered charity under the Income Tax Act. Its purpose is to fund conservation and resource management initiatives in the central and northern coastal regions of British Columbia and Haida Gwaii in collaboration with First Nations.

2. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CPA Canada Handbook.

(b) Fund accounting:

The Foundation follows the restricted fund method of accounting for contributions. For accounting purposes, funds have been established as follows:

(i) General fund:

The general fund is used to manage and report on revenue and expenses related to unrestricted contributions and grants. The fund balance represents net assets that are not subject to externally imposed restrictions.

(ii) Restricted funds:

Revenue fund:

These amounts represent income earned on the contributions to the regional conservation planning fund and the conservation endowment fund which have been restricted first for the funding of the Foundation's operational and administrative activities. Any remaining balance is restricted for awards for conservation initiatives connected with the project area.

The Foundation's Board of Directors approved a policy for the determination of an annual allocation from the revenue fund for First Nation awards (note 11). This policy provides for a reserve to support stable funding during periods when investment income is less than a target minimum.

Regional conservation planning fund:

The amounts in this fund are restricted by the donors to fund awards for regionally focused conservation planning projects.

Conservation endowment fund:

This fund represents contributions received by the Foundation, the principal of which is to be maintained on a permanent basis. Investment income earned on the Foundation's externally restricted endowments is externally restricted and is reported in the revenue fund and used to fund operational and administrative costs and approved conservation initiatives.

COAST CONSERVATION ENDOWMENT FUND FOUNDATION

Notes to the Financial Statements

Year ended December 31, 2018

2. Significant accounting policies (continued):

(c) Revenue recognition:

Restricted contributions:

Restricted contributions are recognized as revenue in the appropriate restricted fund when they are receivable by the Foundation if the amount to be received can be reasonably estimated and collection is reasonably assured. Restricted contributions that have no specific restricted fund are recognized as revenue in the General Fund in the year in which the related expenses are incurred.

Investment income:

Investment income on the Foundation's endowments and restricted contributions is recorded when earned.

Unrestricted contributions:

Unrestricted contributions are recognized as revenue in the General Fund in the year received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured.

(d) Accrued award distribution:

Payment of awards to First Nations may be conditional on the recipient meeting certain criteria and providing certain supporting information. Accrued award distribution is recorded upon execution of a funding agreement, when the amount payable can be reasonably estimated and payments reasonably assured.

(e) Property and equipment:

Property and equipment are recorded at cost and are amortized over the estimated useful lives of assets as follows:

Asset	Basis	Rate
Software	Straight-line	Over a 3 year period

(f) Intangible assets:

Intangible assets include costs incurred towards the development of the Foundation's website. Any costs to support or service the website are expensed in the period incurred. When an intangible asset no longer contributes to the Foundation's ability to provide services, its carrying amount is written down to its residual value. Amortization commences when the website is brought into service. The costs are amortized using the straight-line method over the estimated useful life of the website of 3 years.

COAST CONSERVATION ENDOWMENT FUND FOUNDATION

Notes to the Financial Statements

Year ended December 31, 2018

2. Significant accounting policies (continued):

(g) Use of estimates:

The preparation of the financial statements 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 amount of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the determination of accrued award distribution and provisions for contingencies. Actual results could differ from those estimates.

(h) Financial instruments:

The Foundation's financial instruments include cash, amounts due to the Society, investments, accounts payable and accrued liabilities and accrued award distribution. Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. Investments are recorded at the trade date and measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost.

Transaction costs incurred on the acquisition of the 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.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Foundation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Foundation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(i) Foreign currency translation:

Monetary assets and liabilities denominated in foreign currencies, and that have not been hedged, are translated into Canadian dollars at the rates of exchange in effect at the statement of financial position date. Other assets, liabilities and items affecting earnings are translated into Canadian dollars at the rates of exchange in effect at the date of the transaction. Gains or losses arising from these foreign currency transactions are included in the determination of excess (deficiency) of revenues over expenditures.

COAST CONSERVATION ENDOWMENT FUND FOUNDATION

Notes to the Financial Statements

Year ended December 31, 2018

3. Investments:

The table below summarizes the investments held by the Foundation at fair value.

	2018	2017
Investments at fair value:		
Fixed income securities	\$ 16,943,186	\$ 9,576,022
Canadian equities	7,519,523	23,838,793
Global equities	19,277,328	20,391,045
Canadian pooled mortgage fund	16,757,155	9,368,754
Canadian pooled real estate fund	8,279,106	7,824,330
Infrastructure	7,895,656	7,324,043
	76,671,954	78,322,987
Less short term fixed income securities	-	51,718
Total non-current investments	\$ 76,671,954	\$ 78,271,269

Fixed income securities consist of bonds maturing between 2020 and 2050 (2017 - 2018 and 2048) at rates varying between 0.0% and 5.7% (2017 - 0.0% and 5.6%). Infrastructure investments are held in Axiom Infrastructure NA Limited Partnership.

In December 2018, the Foundation revised its investment allocation, divesting \$14,285,000 from Canadian equities to further invest in Canadian real estate funds and infrastructure investments. The funds divested from Canadian equities were invested in fixed income securities and Canadian pooled mortgage funds until other investment opportunities arise. On January 31, 2019, the Foundation sold Canadian pooled mortgage funds of \$7,100,000 and subsequently invested these funds in the Canadian pooled real estate fund.

4. Property and equipment:

	2018		2017	
	Cost	Accumulated amortization	Net book value	Net book value
Software	\$ 119,742	\$ 109,429	\$ 10,313	\$ 12,883

5. Intangible asset:

	2018		2017	
	Cost	Accumulated amortization	Net book value	Net book value
Website	\$ 68,741	\$ 53,465	\$ 15,276	\$ 38,189

COAST CONSERVATION ENDOWMENT FUND FOUNDATION

Notes to the Financial Statements

Year ended December 31, 2018

6. Related party transactions:

The Foundation is related to the Coast Economic Development Society (the "Society") as all of the directors of the Foundation are also directors of the Society. The Society is a not-for-profit organization and was incorporated on December 24, 2004 under the Society Act of British Columbia. The Society transitioned to the Societies Act (British Columbia) on July 18, 2017. The purpose of the Society is to fund sustainable economic development initiatives in the central and northern coastal regions of British Columbia and Haida Gwaii in collaboration with First Nations.

The net assets and results from operations of the Society have not been included in these financial statements. A financial summary of the Society as at and for the year ended December 31, 2018 is as follows:

	2018	2017
Financial position:		
Total assets	\$ 23,890,127	\$ 26,589,069
Total liabilities	1,178,379	1,270,482
Total net assets	\$ 22,711,748	\$ 25,318,587
Results of operations:		
Total revenue	\$ 513,222	\$ 331,659
Total expenses	3,120,061	1,732,934
Deficiency of revenue over expenses	\$ (2,606,839)	\$ (1,401,275)
Cash flows:		
Operating activities	\$ (2,427,398)	\$ (2,836,718)
Investing activities	1,860,900	3,260,334

The Foundation and Society share operating resources under a cost sharing agreement.

In accordance with the cost sharing agreement, during the year ended December 31, 2018, the Foundation charged the Society \$122,140 (2017 - \$94,757), and the Society charged the Foundation \$288,638 (2017 - \$336,343) for their respective share of the expenses incurred by each of the two parties. Cost sharing with the Society of \$166,498 (2017 - \$241,586) recorded on the statement of operations excludes taxes paid of \$5,479 (2017 - \$5,770) on a portion of services billed by the Society to the Foundation.

As at December 31, 2018, the balance owed by the Foundation to the Society was \$191,239 (2017 - \$80,007). The balance is unsecured, non-interest bearing and has no specific terms of repayment.

COAST CONSERVATION ENDOWMENT FUND FOUNDATION

Notes to the Financial Statements

Year ended December 31, 2018

6. Related party transactions (continued):

Cost sharing with the Society is comprised of the following:

	2018	2017
Expenses charged from the Society:		
Administration	\$ 27,932	\$ 30,217
Board expenses	15,770	11,063
Communications	14,128	10,131
Facilities and equipment	1,524	14,478
Personnel	220,965	231,697
Professional fees	8,319	38,757
	288,638	336,343
Less: expenses recovered from the Society:		
Facilities and equipment	(99,061)	(94,757)
Professional Fees	(15,211)	-
Insurance	(7,868)	-
	(122,140)	(94,757)
	\$ 166,498	\$ 241,586

The Society is not charged for its use of the offices leased by the Foundation.

7. Net investment income:

	2018	2017
Interest income	\$ 719,125	\$ 768,965
Dividend income	937,783	976,191
Realized gains on sale of investments	2,424,197	2,218,863
Change in fair value adjustments on investments	(2,769,154)	3,309,959
	1,311,951	7,273,978
Less investment manager and custodian fees	612,404	427,944
	\$ 699,547	\$ 6,846,034

8. Commitments:

The Foundation entered into an operating lease agreement with respect to the Foundation and Society's new premises. The minimum annual payments under the lease are as follows:

2019	\$ 47,021
2020	47,208
2021	3,934
	\$ 98,163

COAST CONSERVATION ENDOWMENT FUND FOUNDATION

Notes to the Financial Statements

Year ended December 31, 2018

9. Financial instruments:

(a) Market risk:

Market risk is the risk that the fair value of the Foundation's financial instruments will fluctuate as a result of changes in market prices. Market risk is comprised of currency risk, interest rate risk and other price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing return. This risk is managed by the Foundation through closely monitoring its investments, employing investment diversification and maintaining the instruments within the Foundation's Investment Policy. All securities present a risk of loss equivalent to their fair values.

Currency risk:

Currency risk is the risk that the fair value of the Foundation's financial instruments will fluctuate due to changes in foreign exchange rates. The Foundation is directly exposed to currency risk on its investments in U.S. and global equity securities. The Foundation does not enter into forward contracts to mitigate this risk.

Interest rate risk:

Interest rate risk is the risk that the value of interest-bearing financial instruments will fluctuate due to changes in the levels of market interest rates. The Foundation's interest rate risk is mostly related to investments in fixed income instruments and the Canadian pooled mortgage fund. The Foundation's interest rate risk is managed by the Foundation with an investment manager through construction of a diversified portfolio and monitoring of the investments by management.

Other price risk:

Other price risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from currency risk or interest rate risk) whether they are caused by factors specific to an individual investment, its issuer or by factors affecting all instruments traded in the market.

(b) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Foundation is not exposed to any significant credit risk.

(c) Liquidity risk:

Liquidity risk is the risk that the Foundation will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Foundation manages its liquidity risk by monitoring its operating requirements. The Foundation prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

There has been no change to any of the above risk exposures from 2017.

COAST CONSERVATION ENDOWMENT FUND FOUNDATION

Notes to the Financial Statements

Year ended December 31, 2018

10. Capital management:

The Foundation defines capital to be net assets.

The primary objective of the Foundation's capital management is to generate investment income to fund awards to First Nations for conservation initiatives and operating expenses of the Foundation. This objective is balanced with the need to preserve capital.

The Foundation manages capital in accordance with the Conservation Investments and Incentives Agreement which requires the use of socially responsible investment screens and the utilization of professional investment management services.

As of December 31, 2018, the Foundation has complied with all externally imposed capital restrictions.

11. Revenue fund:

As described in note 2(b)(ii), the revenue fund is restricted first for the funding of the Foundation's operational and administrative activities. Any remaining balance is restricted for awards for conservation initiatives connected with the project area.

As at December 31, 2018, the balance in the revenue fund is \$20,790,873 (2017 - \$22,923,391). Of this balance, \$16,467,040 (2017 - \$15,013,976) is currently available to be drawn down for award distribution. The remaining balance of \$4,323,833 (2017 - \$7,909,415) has been set aside for future distributions, and is comprised of a reserve amount of \$4,000,000 (2017 - \$4,000,000) and an additional retention of \$323,833 (2017 - \$3,909,415). The reserve has been established to meet the Board of Director's policy of ensuring that there is a balance available to be drawn down for award distribution when investment income is less than a target minimum in a future year. The additional retention is based on the Foundation's financial results for the year, and has been calculated in accordance with the Foundation's governing documents. This retention amount is established for the purpose of minimizing year-over-year variability in funds available to be drawn down for future award distributions.

12. Disclosure of director, employee and contractor remuneration:

For the year ended December 31, 2018, no individual employee or contractor for services received total annual remuneration of \$75,000 or greater.

In accordance with the bylaws of the Foundation, no remuneration was paid to any directors of the Foundation during the year.