

Financial Statements of

**COAST ECONOMIC
DEVELOPMENT SOCIETY**

December 31, 2018



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Coast Economic Development Society

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Coast Economic Development Society (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 ECONOMIC DEVELOPMENT SOCIETY

Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
Assets		
Current assets:		
Cash	\$ 1,174,684	\$ 1,741,182
Short-term investments (note 3)	5,499,649	4,685,363
Due from the Foundation (note 4)	191,239	80,007
Prepaid expenses	2,656	5,305
	<u>6,868,228</u>	<u>6,511,857</u>
Investments (note 3)	17,018,855	20,072,864
Property and equipment (note 5)	3,044	4,348
	<u>\$ 23,890,127</u>	<u>\$ 26,589,069</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 130,611	\$ 116,904
Accrued award distribution	1,047,768	1,153,578
	<u>1,178,379</u>	<u>1,270,482</u>
Net assets:		
Federal revenue fund	6,374,394	6,721,633
Regional economic development planning fund	193,668	274,918
Federal economic development fund	16,143,686	18,322,036
	<u>22,711,748</u>	<u>25,318,587</u>
	<u>\$ 23,890,127</u>	<u>\$ 26,589,069</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:

Percy C. Cook Director ds Director

COAST ECONOMIC DEVELOPMENT SOCIETY

Statement of Operations and Changes in Net Assets

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

	Federal revenue fund	Regional economic development planning fund	Federal economic development fund	2018	2017
Revenue:					
Net investment income (note 7)	\$ 513,222	\$ -	\$ -	\$ 513,222	\$ 331,659
Expenses:					
Administration	75,058	-	-	75,058	97,744
Awards	-	81,250	2,178,350	2,259,600	860,292
Board expenses	125,317	-	-	125,317	108,049
Capacity and support services	6,500	-	-	6,500	6,500
Communications	40,380	-	-	40,380	28,203
Facilities and equipment	3,794	-	-	3,794	43,680
Personnel	741,210	-	-	741,210	708,742
Professional fees	34,700	-	-	34,700	121,310
	1,026,959	81,250	2,178,350	3,286,559	1,974,520
Recovery from the Foundation (note 4)	(166,498)	-	-	(166,498)	(241,586)
	860,461	81,250	2,178,350	3,120,061	1,732,934
Deficiency of revenue over expenses	(347,239)	(81,250)	(2,178,350)	(2,606,839)	(1,401,275)
Net assets, beginning of year	6,721,633	274,918	18,322,036	25,318,587	26,719,862
Net assets, end of year	\$ 6,374,394	\$ 193,668	\$ 16,143,686	\$ 22,711,748	\$ 25,318,587

See accompanying notes to financial statements.

COAST ECONOMIC DEVELOPMENT SOCIETY

Statement of Cash Flows

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

	2018	2017
Cash provided by (used in):		
Operations:		
Deficiency of revenue over expenses	\$ (2,606,839)	\$ (1,401,275)
Items not involving cash:		
Amortization	1,304	1,921
Fair value adjustments on investments	378,823	84,018
Changes in non-cash operating working capital:		
Due from the Foundation	(111,232)	85,725
Prepaid expenses	2,649	3,149
Accounts payables and accrued liabilities	13,707	18,405
Accrued award distribution	(105,810)	(1,628,661)
	(2,427,398)	(2,836,718)
Investing:		
Decrease in investments	1,860,900	3,260,334
Increase (decrease) in cash	(566,498)	423,616
Cash, beginning of year	1,741,182	1,317,566
Cash, end of year	\$ 1,174,684	\$ 1,741,182

See accompanying notes to financial statements.

COAST ECONOMIC DEVELOPMENT SOCIETY

Notes to the Financial Statements

December 31, 2018

1. Operations:

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

The Society is a not-for-profit organization under the Income Tax Act. Its purpose 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 Society has established several funds whose purposes are to fund the Society's operational and administrative activities, and award distributions. These funds are described in note 2(b) and have been invested in fixed income instruments. The Society's investments and investment income will decrease as awards are disbursed, and hence net investment income may be less than expenses.

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 Society follows the restricted fund method of accounting for contributions. For accounting purposes, the following restricted funds have been established:

(i) Federal revenue fund:

This fund includes income earned on the regional economic development planning fund and federal economic development fund and have been restricted first for the funding of the Society's operational and administrative activities. Any remaining balance is restricted for awards for sustainable economic development projects by First Nations in the project area. Unrestricted revenue and expenses are also recorded in this fund.

(ii) Regional economic development planning fund:

This fund includes contributions that have been restricted for the funding of awards for regional economic development planning projects by First Nations in the central and northern coast of British Columbia and Haida Gwaii.

(iii) Federal economic development fund:

This fund includes contributions from the Government of Canada that have been restricted for the funding of awards for sustainable economic development projects by First Nations in the project area. As at December 31, 2018, this fund includes a balance of \$814,816 (2017 - \$814,816) held specifically to be used towards those First Nations who have not signed a Land Use Planning Agreement.

COAST ECONOMIC DEVELOPMENT SOCIETY

Notes to the Financial Statements

December 31, 2018

2. Significant accounting policies (continued):

(c) Revenue recognition:

(i) Restricted contributions:

Restricted contributions are recognized as revenue in the appropriate restricted fund when they are receivable by the Society if the amount to be received can be reasonably estimated and collection is reasonably assured.

(ii) Investment income:

Investment income is recorded when earned.

(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
Equipment	Declining balance	30%
Software	Straight-line	Over 3 years

(f) 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 amounts 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.

COAST ECONOMIC DEVELOPMENT SOCIETY

Notes to the Financial Statements

December 31, 2018

2. Significant accounting policies (continued):

(g) Financial instruments:

The Society's financial instruments include cash, amounts due from the Foundation, 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 Society 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 Society 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.

3. Investments:

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

	2018	2017
Investments at fair value:		
Fixed income securities	\$ 14,029,258	\$ 16,371,983
Canadian equities	-	2,584,711
Pooled mortgage fund	8,489,246	5,801,533
	22,518,504	24,758,227
Less short term fixed income securities	5,499,649	4,685,363
Total non-current investments	\$ 17,018,855	\$ 20,072,864

Fixed income securities consist of bonds maturing between 2019 and 2022 (2017 - 2018 and 2022) at rates varying between 1.15% and 5.45% (2017 - 1.20% and 5.45%).

COAST ECONOMIC DEVELOPMENT SOCIETY

Notes to the Financial Statements

December 31, 2018

4. Related party transactions:

The Society is related to the Coast Conservation Endowment Fund Foundation (the "Foundation") as all of the directors of the Society are also directors of the Foundation. The Foundation is a registered charity and was incorporated on December 24, 2004 under the Society Act of British Columbia. The Foundation transitioned to the Societies Act (British Columbia) on July 18, 2017. The purpose of the Foundation 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.

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

	2018	2017
Financial position:		
Total assets	\$ 78,855,959	\$ 80,841,215
Total liabilities	1,990,643	1,849,012
Total net assets	\$ 76,865,316	\$ 78,992,203
Results of operations:		
Total revenue	\$ 755,547	\$ 6,856,434
Total expenses	2,882,434	2,842,372
Excess (deficiency) of revenue over expenses	\$ (2,126,887)	\$ 4,014,062
Cash flows:		
Operating activities	\$ 817,440	\$ 746,912
Investing activities	(1,121,861)	633,517

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

In accordance with the cost sharing agreement, during the year ended December 31, 2018, the Society charged the Foundation \$288,638 (2017 - \$336,343), and the Foundation charged the Society \$122,140 (2017 - \$94,757) for their respective share of the expenses incurred by each of the two parties.

Recovery of expenses from the Foundation of \$166,498 (2017 - \$241,586) recorded on the statement of operations excludes taxes received of \$5,479 (2017 - \$5,770) on a portion of services billed by the Society to the Foundation.

COAST ECONOMIC DEVELOPMENT SOCIETY

Notes to the Financial Statements

December 31, 2018

4. Related party transactions (continued):

Recovery of expenses from the Foundation is comprised of the following:

	2018	2017
Expenses charged to the Foundation:		
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 charged from the Foundation:		
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.

As at December 31, 2018, the balance owing from 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.

5. Property and equipment:

	2018		2017	
	Cost	Accumulated amortization	Net book value	Net book value
Equipment	\$ 11,658	\$ 8,614	\$ 3,044	\$ 4,348
Software	35,757	35,757	-	-
	\$ 47,415	\$ 44,371	\$ 3,044	\$ 4,348

6. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government GST remittances payable of \$2,766 (2017 - \$3,298).

COAST ECONOMIC DEVELOPMENT SOCIETY

Notes to the Financial Statements

December 31, 2018

7. Net investment income:

	2018	2017
Interest income	\$ 712,239	\$ 735,675
Dividend income	40,499	71,843
Realized gain (loss) on sale of investments	226,424	(300,299)
Change in fair value adjustments on investments	(378,823)	(84,018)
	600,339	423,201
Less investment manager and custodian fees	87,117	91,542
	\$ 513,222	\$ 331,659

8. Financial instruments:

(a) Market risk:

Market risk is the risk that the fair value of the Society's financial instruments will fluctuate as a result of changes in market prices. Market risk is comprised of 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 Society through closely monitoring its investments and maintaining the instruments within the Society's Investment Policy. All securities present a risk of loss equivalent to their fair values.

(i) 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 Society's interest rate risk is mostly related to investments in fixed income instruments and the pooled mortgage fund. The Society's interest rate risk is managed by the Society with an investment manager through construction of a diversified portfolio and monitoring of the investments by management.

(ii) 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 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 Society is not exposed to any significant credit risk.

COAST ECONOMIC DEVELOPMENT SOCIETY

Notes to the Financial Statements

December 31, 2018

8. Financial instruments (continued):

(c) Liquidity risk:

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

There have been no changes to any of the above risk exposures from 2017.

9. Capital management:

The Society defines capital to be net assets.

The primary objective of the Society's capital management is to preserve capital and ensure availability of cash to fund awards to First Nations. This objective is balanced with the need to generate investment income to fund operating expenses of the Society.

The Society manages capital in accordance with the Conservation Investments and Incentives Agreement which requires utilization of professional investment management services. The Society also manages capital in accordance with the Performance and Accountability Funding Agreement dated March 3, 2007.

Under both these agreements the Society agreed to make its best efforts to expend the restricted fund balances in their entirety within a seven year period ending 2014. The Board has determined that, despite best efforts, the restricted fund balances were not expended within this timeframe. The term of the Performance and Accountability Funding Agreement was extended for an additional three years to 2017, and subsequently, in agreement with the Province of British Columbia, further extended to 2026. On an annual basis, the Board will review the status of the restricted fund balances to assess the likelihood of these balances being fully expended.

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

10. Disclosure of director, employee and contractor remuneration:

For the year ending December 31, 2018, the Society paid total remuneration of \$294,322 to two employees and contractors for services, each of whom received total annual remuneration of \$75,000 or greater. This amount is inclusive of remuneration costs of employees and contractors incurred by the Society subject to the cost sharing agreement with the Coast Conservation Endowment Fund Foundation (note 4).

COAST ECONOMIC DEVELOPMENT SOCIETY

Notes to the Financial Statements

December 31, 2018

10. Disclosure of director, employee and contractor remuneration (continued):

For the year ending December 31, 2018, the Society remunerated the following directors for attending twenty four meetings throughout the course of the year:

Chair	\$	19,325
Retired chair		15,525
Secretary		8,750
Treasurer		8,125
Director		9,075
Director		7,725
Director		7,050
Director		5,775
Director		1,275
Total	\$	82,625
