

Financial Statements of

**COAST ECONOMIC
DEVELOPMENT SOCIETY**

And Independent Auditors' Report thereon

Year ended December 31, 2021



KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

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 "Society"), which comprise:

- the statement of financial position as at December 31, 2021
- 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 Society as at December 31, 2021, 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 Society 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 2021 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 2021 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 Society'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 Society or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Society'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 Society'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 Society'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 Society 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 26, 2022

COAST ECONOMIC DEVELOPMENT SOCIETY

Statement of Financial Position

December 31, 2021

	2021	2020
Assets		
Current assets:		
Cash	\$ 4,072,083	\$ 7,800,143
Interest receivable	1,858	3,176
Short-term investments (note 3)	3,805,837	2,627,200
Due from the Foundation (note 4)	219,018	-
Prepaid expenses	7,469	6,900
	<u>8,106,265</u>	<u>10,437,419</u>
Investments (note 3)	11,611,308	14,807,705
Tangible capital assets	-	427
	<u>\$ 19,717,573</u>	<u>\$ 25,245,551</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (note 5)	\$ 225,357	\$ 298,878
Accrued project funding distribution	2,996,380	6,476,380
Due to the Foundation (note 4)	-	291,334
	<u>3,221,737</u>	<u>7,066,592</u>
Net assets:		
Externally restricted:		
Renewable Energy for Remote Communities fund	375,321	629,661
Federal revenue fund	5,677,880	6,122,045
Regional economic development planning fund	180,599	193,668
Federal economic development fund	10,262,036	11,233,585
	<u>16,495,836</u>	<u>18,178,959</u>
	<u>\$ 19,717,573</u>	<u>\$ 25,245,551</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:



Director



Director

COAST ECONOMIC DEVELOPMENT SOCIETY

Statement of Operations and Changes in Net Assets

Year ended December 31, 2021

	Externally restricted				2021	2020
	Renewable Energy for Remote Communities fund	Federal revenue fund	Regional economic development planning fund	Federal economic development fund		
Revenue:						
Net investment income (note 6)	\$ 30,067	\$ 148,433	\$ -	\$ -	\$ 178,500	\$ 800,715
Grants	-	-	-	-	-	51,209
	30,067	148,433	-	-	178,500	851,924
Expenses:						
Administration (recovery)	35,809	(3,492)	-	-	32,317	42,137
Board	9,200	96,959	-	-	106,159	118,867
Communications	6,000	14,607	-	-	20,607	41,107
Facilities and equipment	2,284	7,044	-	-	9,328	17,203
Personnel	208,364	591,191	-	-	799,555	995,796
Professional fees	-	59,872	-	-	59,872	52,332
Projects	-	-	13,069	971,549	984,618	11,171,535
	261,657	766,181	13,069	971,549	2,012,456	12,438,977
Payment to (recovery from) the Foundation (note 4)						
	22,750	(173,583)	-	-	(150,833)	(132,802)
	284,407	592,598	13,069	971,549	1,861,623	12,306,175
Deficiency of revenue over expenses	(254,340)	(444,165)	(13,069)	(971,549)	(1,683,123)	(11,454,251)
Net assets, beginning of year	629,661	6,122,045	193,668	11,233,585	18,178,959	29,633,210
Net assets, end of year	\$ 375,321	\$ 5,677,880	\$ 180,599	\$ 10,262,036	\$ 16,495,836	\$ 18,178,959

See accompanying notes to financial statements.

COAST ECONOMIC DEVELOPMENT SOCIETY

Statement of Cash Flows

Year ended December 31, 2021

	2021	2020
Cash provided by (used in):		
Operations:		
Deficiency of revenue over expenses	\$ (1,683,123)	\$ (11,454,251)
Items not involving cash:		
Amortization	427	1,703
Fair value adjustments on investments	257,871	(277,410)
Changes in non-cash operating working capital:		
Interest receivable	1,318	6,379
Due to/from the Foundation	(510,352)	564,388
Prepaid expenses	(569)	2,791
Accounts payables and accrued liabilities	(73,521)	12,473
Accrued project funding distribution	(3,480,000)	5,353,030
	(5,487,949)	(5,790,897)
Investing:		
Redemption of investments, net	1,759,889	2,427,918
Decrease in cash	(3,728,060)	(3,362,979)
Cash, beginning of year	7,800,143	11,163,122
Cash, end of year	\$ 4,072,083	\$ 7,800,143

See accompanying notes to financial statements.

COAST ECONOMIC DEVELOPMENT SOCIETY

Notes to the Financial Statements

December 31, 2021

1. Operations:

The Coast Economic Development Society (the "Society") is incorporated under the Societies Act (British Columbia). The Society commenced operations in September 2007, with the appointment of the Board of Directors (the "Board").

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 project distributions. These funds are described in note 2(b) and the monies in these funds have been invested in fixed income instruments and treasury accounts. The Society's investments and investment income will decrease as projects are disbursed, and hence net investment income may be less than operating expenses.

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This resulted in governments worldwide, including the Canadian federal and provincial governments enacting emergency measures to combat the spread of the virus. The economic conditions had a short-term impact on the Society's operating results and financial position in 2020 and 2021. The situation is expected to continue to have an impact on the economy and on Coast Funds operations though the future impact is not known at this time.

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) General fund:

The general fund is used to manage and report on unrestricted revenue and expenses. As at December 31, 2021, there are no funds held in the general fund (2020 – nil).

(ii) Externally restricted funds:

Renewable Energy for Remote Communities fund:

This fund includes contributions from the Province of British Columbia that have been restricted for the funding of projects for renewable energy projects in seven First Nations communities in coastal British Columbia and for the operating and administrative activities related to the program.

COAST ECONOMIC DEVELOPMENT SOCIETY

Notes to the Financial Statements

December 31, 2021

2. Significant accounting policies (continued):

(b) Fund accounting (continued):

(ii) Externally restricted funds (continued):

Federal revenue fund:

This fund includes income earned on the regional economic development planning fund and federal economic development fund and are used first for the funding of the Society's operational and administrative activities. Any remaining balance is used for projects for sustainable economic development projects by First Nations in the project area.

Regional economic development planning fund:

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

Federal economic development fund:

This fund includes contributions from the Government of Canada that have been restricted for the funding of projects for sustainable economic development projects by First Nations in the project area. As at December 31, 2021, this fund includes a balance of \$444,990 (2020 - \$444,990) held specifically to be used towards those First Nations who have not signed a Land Use Planning Agreement.

(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 project funding distribution:

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

(e) 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. Actual results could differ from those estimates.

COAST ECONOMIC DEVELOPMENT SOCIETY

Notes to the Financial Statements

December 31, 2021

2. Significant accounting policies (continued):

(f) Financial instruments:

The Society's financial instruments include cash, interest receivable, amounts due to/from the Foundation, investments, accounts payable and accrued liabilities and accrued project funding 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 fair value of the investments held by the Society.

	2021	2020
Investments at fair value:		
Fixed income securities	\$ 8,486,985	\$ 10,790,876
Pooled mortgage fund	6,930,160	6,644,029
	15,417,145	17,434,905
Less short-term fixed income securities	3,805,837	2,627,200
Total non-current investments	\$ 11,611,308	\$ 14,807,705

Fixed income securities consist of bonds maturing between 2022 and 2024 (2020 - 2021 and 2024) at rates varying between 1.4% and 3.5% (2020 - 1.0% and 4.0%).

COAST ECONOMIC DEVELOPMENT SOCIETY

Notes to the Financial Statements

December 31, 2021

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 incorporated under the Societies Act (British Columbia). The purpose of the Foundation is to fund stewardship 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, 2021 is as follows:

	2021	2020
Financial position:		
Total assets	\$ 98,989,411	\$ 89,659,197
Total liabilities	3,056,605	2,072,452
Total net assets	\$ 95,932,806	\$ 87,586,745
Results of operations:		
Total revenue	\$ 12,902,912	\$ 7,835,156
Total expenses	4,556,851	3,001,379
Excess of revenue over expenses	\$ 8,346,061	\$ 4,833,777
Cash flows:		
Operating activities	\$ 786,124	\$ 219,892
Investing activities	(2,237,713)	(1,224,186)

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, 2021, the Society charged the Foundation \$300,479 (2020 - \$262,790), and the Foundation charged the Society \$149,646 (2020 - \$129,988) for their respective share of the expenses incurred by each of the two parties. Recovery of expenses from the Foundation of \$150,833 (2020 - \$132,802) recorded on the statement of operations excludes taxes received of \$6,867 (2020 - \$5,754) on a portion of services billed by the Society to the Foundation.

As at December 31, 2021, the balance owing by the Foundation to the Society was \$219,018 (2020 - balance owing from the Foundation to the Society of \$291,334). The balance is unsecured, non-interest bearing and has no specific terms of repayment.

COAST ECONOMIC DEVELOPMENT SOCIETY

Notes to the Financial Statements

December 31, 2021

4. Related party transactions (continued):

Cost sharing with the Foundation is comprised of the following:

	2021	2020
Expenses charged to the Foundation:		
Administration	\$ 9,119	\$ 11,778
Board	4,567	5,257
Communications	7,212	15,539
Facilities and equipment	2,375	519
Personnel	256,276	228,595
Professional fees	20,930	1,102
	<u>300,479</u>	<u>262,790</u>
Less: expenses charged from the Foundation:		
Administration	(15,750)	(15,750)
Facilities and equipment	(118,063)	(91,594)
Insurance	(11,208)	(9,655)
Professional fees	(4,625)	(12,989)
	<u>(149,646)</u>	<u>(129,988)</u>
	<u>\$ 150,833</u>	<u>\$ 132,802</u>

5. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government GST remittances payable of \$3,202 (2020 - \$3,249).

6. Net investment income:

	2021	2020
Interest income	\$ 545,215	\$ 685,165
Realized loss on sale of investments	(34,593)	(80,594)
Change in fair value adjustments on investments	(257,871)	277,410
	<u>252,751</u>	<u>881,981</u>
Less investment manager and custodian fees	74,251	81,266
	<u>\$ 178,500</u>	<u>\$ 800,715</u>

COAST ECONOMIC DEVELOPMENT SOCIETY

Notes to the Financial Statements

December 31, 2021

7. 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 or cash flows from 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.

(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 significant changes to any of the above risk exposures from 2020.

8. 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 projects 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.

COAST ECONOMIC DEVELOPMENT SOCIETY

Notes to the Financial Statements

December 31, 2021

8. Capital management (continued):

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 to 2026, in agreement with the Province of British Columbia. 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, 2021, the Society has complied with all externally imposed capital restrictions.

9. Disclosure of director, employee and contractor remuneration:

For the year ending December 31, 2021, the Society paid total remuneration of \$698,611 to five 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 Foundation (note 4).

For the year ending December 31, 2021, the Society remunerated the following directors for attending twenty-five meetings throughout the course of the year:

Chair	\$	11,475
Former chair		10,200
Secretary		8,925
Treasurer		8,075
Former director		6,800
Former director		3,825
Former director		4,250
Director		9,775
Director		6,375
Director		8,075
Director		1,700
Director		1,275
Total	\$	80,750
