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GWAII TRUST SOCIETY  
FINANCIAL STATEMENTS  
AS AT AUGUST 31, 2006

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**McAlpine & Co.**

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CHARTERED ACCOUNTANTS

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# McALPINE & CO.

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CHARTERED ACCOUNTANTS

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201 - 4630 LAZELLE AVENUE  
TERRACE, BC  
V8G 1S6

Telephone: (250) 635-4925  
Toll Free: 1-888-311-3356  
Fax No.: (250) 635-4975  
E-mail: [info@mcalpine-ca.net](mailto:info@mcalpine-ca.net)

JIM RIDING, C.A.  
CURTIS BILLEY, B. Comm, C.A.  
RORY REINBOLT, C.A.  
MICHAEL JOHNSON, C.A.

*(A partnership of incorporated professionals)*

## AUDITORS' REPORT

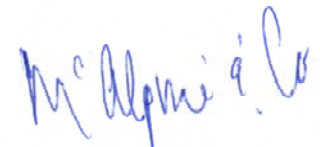
To the Members of the  
Gwaii Trust Society

We have audited the statement of financial position of Gwaii Trust Society as at August 31, 2006 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the society's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the society as at August 31, 2006 and the results of its operations and cash flow for the year then ended in accordance with generally accepted accounting principles. As required by the Society Act of British Columbia, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Terrace, B.C.  
October 11, 2006



CHARTERED ACCOUNTANTS

## GWAIL TRUST SOCIETY

Statement Of Financial Position  
As at August 31, 2006

	2006	2005
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 676,063	\$ 127,618
Restricted cash - note 7	275,628	130,264
Accounts receivable	21,283	1,244
Investment income receivable	419,143	499,235
Prepaid expenses	7,807	8,527
	1,399,924	766,888
Property, plant and equipment - note 2 and note 3	29,651	28,388
Long term investments - note 2 and note 4	69,179,740	57,721,384
	\$ 70,609,315	\$ 58,516,660
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 85,024	\$ 80,050
	85,024	80,050
Program commitments - note 6	4,541,168	4,092,555
Other liabilities - note 7	275,628	130,264
	4,901,820	4,302,869
<b>Net assets</b>		
Net assets invested in property, plant and equipment - note 8	29,650	28,388
Restricted net assets - note 9	49,339,458	48,324,641
Unrestricted net assets	16,338,387	5,860,762
	65,707,495	54,213,791
	\$ 70,609,315	\$ 58,516,660

Signed on behalf of the board:

 Director

 Director

## GWAII TRUST SOCIETY

Statement of Operations  
Year ended August 31, 2006

	Actual 2006	Budget 2006	Actual 2005
<b>Revenue</b>			
Investment income - note 5	\$ 16,170,313	\$	\$ 7,000,546
Recovered costs	3,217		2,332
	16,173,530		7,002,878
<b>Investment management expenses</b>			
Actuary	19,065	40,000	20,615
Custodian fees	66,005	55,000	60,695
Investment administration fees	168,676	180,000	190,261
	253,746	275,000	271,571
<b>Net investment earnings</b>	<b>15,919,784</b>		<b>6,731,307</b>
<b>Administrative expenses</b>			
Accounting and audit	10,994	12,000	10,582
Advertising and promotion	15,476	27,000	13,866
Bank charges and interest	1,402	1,000	638
Equipment rental	7,901	10,000	7,324
Honoraria	72,213	60,000	60,052
Insurance	15,413	25,000	16,270
Legal	19,246	25,000	38,561
Meetings and functions	5,777	5,000	11,684
Office, postage and miscellaneous	7,713	18,000	5,466
Rent and utilities	18,481	15,000	16,808
Repairs and maintenance	3,323	5,000	4,398
Supplies	8,871	20,000	6,800
Telecommunications	12,990	10,000	10,581
Training and board development	6,795	10,000	1,041
Travel	36,799	40,000	43,158
Vehicle expense	8,354	8,000	7,416
Wages and employee benefits	124,376	124,000	125,210
Depreciation and amortization	9,648		17,679
	385,772	415,000	397,534
<b>Income from operations</b>	<b>15,534,012</b>		<b>6,333,773</b>
<b>SMFRA Administration recovery (expense)</b>	<b>34,333</b>		<b>(7,376)</b>
<b>Operational surplus</b>	<b>15,568,345</b>		<b>6,326,397</b>
<b>Grant inflation allocation - note 9</b>	<b>1,014,817</b>		<b>1,224,601</b>
<b>Net surplus available for program commitments</b>	<b>14,553,528</b>		<b>5,101,796</b>
<b>Program commitments - note 10</b>	<b>4,074,641</b>	<b>4,150,000</b>	<b>4,040,469</b>
<b>Net income for the year</b>	<b>\$ 10,478,887</b>	<b>\$</b>	<b>\$ 1,061,327</b>

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## GWAII TRUST SOCIETY

Statement of Changes in Net Assets  
Year ended August 31, 2006

Net Assets	Invested in property, plant and equipment	Restricted	Unrestricted	2006 Total	2005 Total
Balance - beginning of year	\$ 28,388	\$ 48,324,641	\$ 5,860,762	\$ 54,213,791	\$ 51,927,863
Net income (loss) for the year	(9,648)		10,488,535	10,478,887	1,061,327
Investment in property, plant and equipment	10,910		(10,910)		
Grant inflation protection		1,014,817		1,014,817	1,224,601
Balance - end of year	\$ 29,650	\$ 49,339,458	\$ 16,338,387	\$ 65,707,495	\$ 54,213,791

## GWAII TRUST SOCIETY

Statement of Cash Flows  
Year ended August 31, 2006

	2006	2005
Operating activities		
Net income for the year	\$ 10,478,887	\$ 1,061,327
Items not involving cash:		
- grant inflation allocation	1,014,817	1,224,601
- depreciation and amortization	9,648	17,679
	11,503,352	2,303,607
Cash provided by changes in non-cash working capital items - note 11	65,747	(12,668)
	11,569,099	2,290,939
Financing activities		
Increase in amount held for SMFRA	145,364	(336,968)
Increase (decrease) in net program commitments	448,613	308,173
	593,977	(28,795)
Investing activities		
Net change in investments	(11,458,356)	(2,710,693)
Purchase of property, plant and equipment	(10,911)	(7,946)
	(11,469,267)	(2,718,639)
Increase (decrease) during the year	693,809	(456,495)
Cash - beginning of year	257,882	714,377
Cash - end of year	\$ 951,691	\$ 257,882
Cash represented by:		
Cash	\$ 676,063	\$ 127,618
Restricted (SMFRA) cash	275,628	130,264
	\$ 951,691	\$ 257,882

GWAII TRUST SOCIETY

Notes to Financial Statements  
Year ended August 31, 2006

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1. Purpose of the organization

The Gwaii Trust Society was incorporated on September 16, 1994 under the Society Act of British Columbia. The Society was established to advise and assist, economically and socially, the communities of Haida Gwaii/Queen Charlotte Islands. The Federal government awarded the Society a grant of \$38.2 million in 1995 to assist the Society to achieve these objectives.

The Society is a non-profit organization under the Income Tax Act and accordingly is exempt from income taxes.

2. Significant accounting policies

(a) Basis of accounting

The Gwaii Trust Society follows the deferral method of accounting for contributions. The financial statements have been prepared in accordance with the recommendations for not-for-profit organizations found in Section 4400 of the CICA handbook.

(b) Revenue recognition

Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Endowment contributions are recognized as direct increases in net assets.

Restricted investment income is recognized as revenue in the year in which the related expenses are incurred. Unrestricted investment income is recognized as revenue when earned.

(c) Investments

Trading investments, comprising of Canadian treasury bills and certain bond issues, are purchased for resale over a short period of time. These are stated at the lower of cost and market value determined on a portfolio basis.

Portfolio investments are purchased with the original intention to hold the securities to maturity or until market conditions render alternative investments more attractive. Mortgages and equities are stated at cost while bonds are stated at amortized cost. Premiums and discounts on bond purchases are amortized using the straight line basis over the period to maturity of the related bond. Gains and losses on disposal of securities are calculated on an average cost basis.

Investment carrying values are adjusted to market value only where a permanent decline in value has occurred.

(d) Property, plant and equipment

Property, plant and equipment items are recorded at cost and amortization is calculated annually, using the following rates and methods:

Computer equipment	30% declining balance
Furniture and fixtures	20% declining balance

## GWAII TRUST SOCIETY

Notes to Financial Statements  
Year ended August 31, 2006

## 3. Property, plant and equipment

	Cost	Accumulated amortization	Net book value	
			2006	2005
Computer equipment	\$ 97,329	\$ 72,732	\$ 24,597	\$ 24,346
Furniture and fixtures	13,144	8,090	5,054	4,042
	\$ 110,473	\$ 80,822	\$ 29,651	\$ 28,388

## 4. Investments

	2006		2005	
	Cost	Market	Cost	Market
Treasury bills				
• Trading	\$ 274,563	\$ 274,563	\$ 2,243,873	\$ 2,243,873
Federal bonds				
• Trading	14,616,875	14,844,606	11,205,355	11,258,936
• Portfolio	5,449,600	8,444,859	6,327,194	10,455,145
Provincial bonds				
• Trading	3,718,575	3,848,906	4,222,961	4,511,043
• Portfolio	1,813,711	2,091,689	1,813,711	2,157,500
Corporate bonds	12,615,525	12,315,127	10,975,606	11,203,901
Mortgages	4,973,818	5,060,751	6,450,541	6,450,541
Equities	6,546,140	10,294,559	14,670,175	28,034,636
International equities - note 5	19,400,000	19,626,333		
	69,408,807	76,801,393	57,909,416	76,315,575
Less bond amortization	229,067		188,032	
	\$ 69,179,740	\$ 76,801,393	\$ 57,721,384	\$ 76,315,575

## Summary of investments

	2006		2005	
	Cost	Market	Cost	Market
Trading	\$ 18,610,013	\$ 18,968,075	\$ 17,672,189	\$ 18,013,852
Portfolio	50,569,727	57,833,318	40,049,195	58,301,723
	\$ 69,179,740	\$ 76,801,393	\$ 57,721,384	\$ 76,315,575

## GWAII TRUST SOCIETY

Notes to Financial Statements  
Year ended August 31, 2006

## 5. Investment income

	2006	2005
Interest received and accrued	\$ 2,494,450	\$ 2,401,651
Dividends received and accrued	460,309	579,766
Gain on disposal of investments	13,215,554	4,019,129
	<u>\$ 16,170,313</u>	<u>\$ 7,000,546</u>

During the year the Gwaii Trust realigned the investment portfolio to take advantage of new investment opportunities. In order to accomplish this, certain securities were sold and the proceeds reinvested in international markets. The gains realized on the sale of these securities had accrued over the time since the inception of the Fund and are not directly attributed to market activity during the current year. While the realignment of the portfolio has resulted in a significant increase in the historical cost of the portfolio, there has been no immediate affect on the market value.

## 6. Program commitments

- (i) The Gwaii Trust funds projects that are in general agreement with its aims and objectives. The balance outstanding represents projects approved by the Board which were not completed as at the fiscal year end.

	2006	2005
Committed balance - beginning of year	\$ 4,092,555	\$ 3,784,382
Current project allocations	4,091,174	4,104,824
	8,183,729	7,889,206
Less project costs paid during the year	3,684,573	3,728,414
Current project decommitments and adjustments	(42,012)	68,237
Committed balance - end of year	<u>\$ 4,541,168</u>	<u>\$ 4,092,555</u>

- (ii) Other project commitments

During the year the Gwaii Trust entered into an agreement with Industry Canada to development a Broadband Internet network for the Islands. The Gwaii Trust has committed up to \$500,000 to the project which will be included in the project allocation budget for the subsequent year. This amount will be matched by Industry Canada.

## GWAII TRUST SOCIETY

Notes to Financial Statements  
Year ended August 31, 2006

## 7. Other liabilities and restricted cash

The Gwaii Trust Society has entered into an agreement with the Province of British Columbia to act as the Administrator of the South Moresby Forest Replacement Account (SMFRA) program. SMFRA was established through a joint initiative of the Government of Canada and the Province of British Columbia. The purpose of the fund is to enhance the stability of the Islands forest resources. The balance at the end of the fiscal year represents the cash balance of funds transferred to the Gwaii Trust from the Province less project payments approved by the SMFRA Interim Management Committee.

The cash balance is restricted to payments for approved projects and administration fees as set out in the Program Administration Agreement.

	2006	2005
Current year transfers	\$ 788,920	\$ 516,866
Approved expenditures		
Net project costs paid during the year	532,809	824,049
Administration expenses	110,747	29,785
	<u>643,556</u>	<u>853,834</u>
Transfers less expenditures	145,364	(336,968)
Balance - beginning of year	130,264	467,232
Restricted cash balance - end of year	<u>\$ 275,628</u>	<u>\$ 130,264</u>

## 8. Net assets invested in property, plant and equipment

Net assets invested in property, plant and equipment is calculated as follows:

	2006	2005
Unamortized balance - beginning of year	\$ 28,388	\$ 38,121
Property, plant and equipment purchased during year - net	10,910	7,946
Amortization expense	(9,648)	(17,679)
Unamortized balance - end of year	<u>\$ 29,650</u>	<u>\$ 28,388</u>

## 9. Restricted net assets

The Gwaii Trust Society Investment Fund represents the initial endowment of \$38,200,000 received from the Government of Canada. The Fund is adjusted annually by the inflation rate for the year to protect the value of the original grant for future generations. The fund has been established as a perpetual investment fund and, as such, the original endowment with the accumulated inflation adjustments can never be touched, allocated or expended.

The annual inflation adjustment is based on the Canadian Pricing Index (CPI). The change in the CPI for the current year is 2.1% (2005 - 2.6%).

## GWAII TRUST SOCIETY

Notes to Financial Statements  
Year ended August 31, 2006

## 10. Program commitments

Program commitments budgeted and actual are allocated as follows:

	2006	
	Actual	Budget
New Legacy	\$ 300,966	\$ 300,000
Major Contributions	1,906,890	1,800,000
Healthy Humans	280,204	250,000
Culture as it Relates to Tourism	502,434	500,000
Arts Program	49,285	70,000
Christmas Allocation	60,000	60,000
Education Programs	391,395	420,000
Haida Parity Allocation	600,000	600,000
Contingency		150,000
	4,091,174	4,150,000
Program de-commitments and adjustments	(16,533)	
	\$ 4,074,641	\$ 4,150,000

## 11. Statement of cash flows

	2006	2005
Cash provided (used) by changes in the following:		
Accounts receivable	\$ (20,039)	\$
Prepaid expenses	720	(312)
Accounts and wages payable	4,974	19,017
Investment income receivable	80,092	(31,373)
	\$ 65,747	\$ (12,668)

## 12. Commitments and contingencies

The Society is committed to lease payments on certain equipment. The future minimum lease payments to expiration of the leases are as follows:

2007	2008	2009	Total
\$ 4,986	\$ 2,007	\$ 2,007	\$ 9,000

## GWAII TRUST SOCIETY

Notes to Financial Statements

Year ended August 31, 2006

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## 13. Financial instruments

The company's financial instruments consist of cash, accounts receivable, long-term investments, accounts payable and other liabilities. Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

## 14. Measurement uncertainty

These financial statements have been prepared in accordance with accounting practices generally accepted in Canada. In preparing these financial statements management has made estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates.