

GWAI TRUST SOCIETY
Financial Statements
As at December 31, 2013

McAlpine
& Co. ^{CA}

CHARTERED ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Members of Gwaii Trust Society

We have audited the accompanying financial statements of Gwaii Trust Society, which comprise the statement of financial position as at December 31, 2013 and the statements of revenues and expenditures, changes in net assets and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

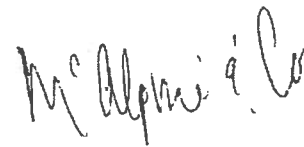
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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Gwaii Trust Society as at December 31, 2013 and the results of its operations and its cash flow for the year then ended in accordance with Canadian Accounting Standards for Not-for-Profit Organizations.

As required by the Society Act of B.C., we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.


Terrace, B.C.
March 6, 2014




CHARTERED ACCOUNTANTS

	2013	2012
Assets		
Current		
Cash	\$ 2,103,487	\$ 610,337
Accounts receivable	2,067	468
Investment income receivable	116,160	156,423
Prepaid expenses	2,837	2,837
Due from Gwaii Forest Charitable Trust (Note 4)	46,500	61,000
	2,271,051	831,065
Long term Investments (Notes 5, 6)	75,439,502	68,761,415
Property and equipment (Note 7)	274,304	289,020
Other assets (Note 8)	36,233	36,613
	\$ 78,021,090	\$ 69,918,113
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 125,512	\$ 130,465
Program commitments (Note 9)	1,706,888	1,724,794
Due to investment partners (Note 10)	1,390,089	1,193,570
	3,222,489	3,048,829
Net assets		
Unrestricted	18,532,491	11,251,582
Restricted (Note 11)	55,955,573	55,292,068
Invested in property and equipment (Note 12)	310,537	325,634
	74,798,601	66,869,284
	\$ 78,021,090	\$ 69,918,113

On behalf of the Board


 _____ Director


 _____ Director

See notes to financial statements

	Budget 2013	2013	(4 months) 2012
Revenue			
Investment income (Note 13)	\$ -	\$ 6,068,604	\$ 1,122,684
Administration fees and cost recoveries (Note 4)	-	62,000	20,667
Other income	-	1,050	-
	-	6,131,654	1,143,351
Investment management and regulatory expenses			
Actuary	40,000	53,440	19,620
Custodian fees	59,000	70,741	24,616
Investment management	301,000	344,014	111,869
Professional fees and consultants	55,000	48,557	20,834
	455,000	516,752	176,939
Net investment earnings		5,614,902	966,412
Administrative expenses			
Advertising and promotion	25,000	19,267	11,472
Bank charges	2,500	2,003	853
Community foundation	-	9,399	-
Computer and internet costs - directors	15,000	18,519	7,833
Equipment rent and repairs	16,500	16,731	2,691
Honoraria	60,000	57,450	23,600
Insurance	15,500	11,365	6,046
Meetings and functions	13,500	18,130	7,785
Office, postage and miscellaneous	11,000	11,607	3,291
Rent and utilities	12,500	13,238	11,084
Salaries and wages	330,000	436,405	89,061
Special projects	10,000	6,054	-
Supplies	20,000	15,590	7,072
Telecommunications	30,000	25,063	4,809
Training	40,000	19,672	164
Travel	60,000	57,296	14,301
Vehicle	8,500	4,729	1,271
Amortization	-	22,560	7,152
	670,000	765,078	198,485
Operational surplus		4,849,824	767,927
Grant inflation allocation	-	663,505	183,921
Surplus available for program commitments		4,186,319	584,006
Program commitments (Note 14)	1,679,000	1,678,036	288,970
Surplus for the period		2,508,283	295,036
Unrealized gain on investments	-	4,757,529	2,390,386
Net surplus for the period		\$ 7,265,812	\$ 2,685,422

See notes to financial statements

	Unrestricted	Restricted	Invested in property and equipment	2013	2012
Net assets -					
beginning of year	\$ 11,251,582	\$ 55,292,068	\$ 325,634	\$ 66,869,284	\$ 63,999,941
Surplus (deficit) for the period	7,288,372	-	(22,560)	7,265,812	2,685,422
Investment in property and equipment	(7,463)	-	7,463	-	-
Grant inflation protection (Note 11)	-	663,505	-	663,505	183,921
Net assets - end of year	\$ 18,532,491	\$ 55,955,573	\$ 310,537	\$ 74,798,601	\$ 66,869,284

See notes to financial statements

Year Ended December 31, 2013

	2013 <i>(12 months)</i>	2012 <i>(4 months)</i>
Operating activities		
Surplus for the period	\$ 7,265,812	\$ 2,685,422
Items not affecting cash:		
Amortization of property and equipment	22,560	7,152
Grant inflation protection	663,505	183,921
Unrealized gain on investments	(4,757,529)	(2,390,386)
	3,194,348	486,109
Changes in non-cash working capital:		
Accounts receivable	(1,599)	
Investment income receivable	40,263	118,099
Accounts payable and accrued liabilities	(4,953)	(13,833)
Prepaid expenses		4,510
Due from Gwaii Forest Charitable Trust	14,500	(20,667)
	48,211	88,109
Cash flow from operating activities	3,242,559	574,218
Investing activities		
Purchase of property and equipment	(7,464)	
Due to investment partners	196,519	57,840
Long term Investments	(1,920,558)	229,185
Cash flow from (used by) investing activities	(1,731,503)	287,025
Financing activity		
Program commitments	(17,906)	(559,246)
Increase in cash flow	1,493,150	301,997
Cash - beginning of year	610,337	308,340
Cash - end of year	\$ 2,103,487	\$ 610,337

See notes to financial statements

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. Summary of significant accounting policies

Basis of presentation

The financial statements were prepared in accordance with Canadian Accounting Standards for Not-for-Profit Organizations (ASNFPO). Canadian Accounting Standards for Not-for-Profit Organizations are part of Canadian GAAP.

Cash and short term investments

Cash and cash equivalents consist primarily of commercial paper and deposits with an original maturity date of purchase of three months or less. Because of the short term maturity of these investments, their carrying amount approximates fair value.

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.

Financial instruments policy

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, financial assets with actively traded markets are reported at fair value, with any unrealized gains and losses reported in income. All other financial instruments are reported at amortized cost, and tested for impairment at each reporting date. Transaction costs on the acquisition, sale, or issue of financial instruments are expensed when incurred.

Other investments

Investments for which there are quoted prices in an active market are carried at fair value. Unrealized gains or losses are reported as part of net income. Investments for which there is not an active market are carried at amortized cost except when it is established that their value is impaired. Impairment losses, or reversal of previously recognized impairment losses, are reported as part of net income.

Controlled organizations

The Gwaii Trust Society has chosen not to consolidate the organizations it controls but to instead disclose information about the resources of the controlled organizations.

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2. Summary of significant accounting policies (continued)

Measurement uncertainty

The preparation of financial statements in conformity with Canadian Accounting Standards for Not-for-Profit Organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

Property and equipment

Property and equipment are stated at cost or deemed cost less accumulated amortization. Property and equipment are amortized over their estimated useful lives on a declining balance basis at the following rates and methods:

Buildings	4%	declining balance method
Motor vehicles	20%	declining balance method
Computer equipment	30%	declining balance method
Furniture and fixtures	20%	declining balance method

The Society regularly reviews its property and equipment to eliminate obsolete items.

Other assets

The Society has entered into a ninety-nine year land lease over the Masset, B.C. office property. The lease is being amortized on a straight-line basis over life of the lease.

3. Controlled organizations

The Gwaii Forest Charitable Trust (GFCT) is controlled by the Gwaii Trust Society as the trustees of the GFCT are comprised of the executive members of the Gwaii Trust Society Board of Directors.

The GFCT was endowed by the Federal and Provincial governments during 2007 for the purpose of increasing the sustainable forest management on Haida Gwaii and to increase community stability through enhancing the forest related economy of Haida Gwaii.

The summary financial statements of the GFCT are as follows:

	2013	2012
Statement of Financial Position		
Assets		
Current		
Cash	\$ -	\$ 198,712
Investment income receivable and other	56,294	72,229
	56,294	270,941
Investment portfolio	35,162,468	30,617,559
	\$ 35,218,762	\$ 30,888,500
Current liabilities		
Bank indebtedness	\$ 65,085	\$ -
Trade accounts payable	63,848	48,173
Due to Gwaii Trust Society	46,500	61,000
	175,433	109,173
Net assets		
Restricted net assets - Grant fund	26,764,899	26,447,529
Unrestricted net assets	8,278,430	4,331,798
	\$ 35,218,762	\$ 30,888,500

The Gwaii Forest Charitable Trust and the Gwaii Trust Society follow the same accounting principals.

Statement of Revenues and Expenditures

Revenues		
Investment revenue	\$ 2,973,256	\$ 1,622,405
Unrealized gains (losses) on investment portfolio	1,708,277	1,098,820
	4,681,533	2,721,225
Expenses		
Investment management and regulatory expenses	339,753	246,579
Administrative expenses	77,778	74,195
Grant inflation protection	317,370	209,901
	734,901	530,675
Net surplus for the year	\$ 3,946,632	\$ 2,190,550

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3. Controlled organizations (continued)

Statement of Cash Flow			
Operating activities	\$	4,281,112	\$ 2,438,243
Financing activities		(4,544,909)	(2,463,776)
Increase (decrease) in cash		(263,797)	(25,533)
Cash - beginning of year		198,712	224,245
Cash - end of year	\$	(65,085)	\$ 198,712

4. Gwaii Forest Charitable Trust

During the year the Gwaii Trust Society had the following transactions with the Gwaii Forest Charitable Trust:

	2013	2012
Balance receivable - beginning of period	\$ 61,000	\$ 40,333
Administration fees charged to GFCT - included in income	62,000	20,667
Payments received from GFCT	(76,500)	-
Balance receivable - end of period	\$ 46,500	\$ 61,000

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

5. Long term investments

The investments in the following marketable securities are recorded at market value as determined by quotes on active markets.

	December 31, 2013		December 31, 2012	
	Cost	Market	Cost	Market
Cash	\$ 49,475	\$ 49,475	\$ 885,027	\$ 885,027
Treasury bills and short term investments	199,595	199,595	324,636	324,636
Government bonds	6,950,026	6,831,476	7,876,505	8,346,132
Corporate bonds	15,970,266	15,671,203	12,854,251	13,664,684
Mortgage funds	1,539,856	1,539,350	2,437,754	2,475,034
Equities	11,992,037	15,274,781	11,486,861	14,223,227
Equities - real estate investment trusts	5,984,643	7,887,000	5,414,390	5,995,903
International equities	21,980,010	27,986,622	24,123,739	22,846,772
	\$ 64,665,908	\$ 75,439,502	\$ 65,403,163	\$ 68,761,415

6. Statement of investment policies and procedures

The investment strategies of the Gwaii Trust Society are guided by the Statement of Investment Policies and Procedures (SIPP). The SIPP has been written in order to assist the Directors in establishing the guidelines for the investment of the assets of the Society (the "Fund") and in monitoring and evaluating the investment performance achieved by the Fund. A summary of the current investment guidelines contained in the SIPP and the current asset mix of the Fund is as follows.

Period end: December 31, 2013

	Portfolio Value (\$\$)		% of Portfolio		GTS Current SIPP %		
	Cost	Market	Cost	Market	Min	Target	Max
Canadian equities	\$ 11,992,037	\$ 15,274,781	19%	20%	15%	20%	25%
International equities	21,980,010	27,986,622	34%	37%	28%	33%	38%
Total equities	33,972,047	43,261,403	53%	57%	43%	53%	63%
Real return bonds	8,091,882	7,500,591	13%	10%	10%	15%	20%
Government bonds - Federal	2,611,560	2,603,290	4%	3%			
Govt bonds - Provincial & municipal	4,338,466	4,228,186	7%	6%			
Corporate bonds	6,293,202	6,268,745	10%	8%			
Total nominal bonds	13,243,228	13,100,221	20%	17%	12%	17%	22%
High yield bonds	1,585,182	1,901,867	2%	3%	0%	5%	10%
Total bonds	22,920,292	22,502,679	35%	30%	22%	37%	52%
Mortgage fund	1,539,856	1,539,350	2%	2%			
Real estate funds	5,984,643	7,887,000	9%	10%			
Total mortgage & real estate	7,524,499	9,426,350	12%	12%	5%	10%	15%
Cash	49,475	49,475	0%	0%			
Treasury bills and short term investments	199,595	199,595	0%	0%			
Cash/Short term notes	249,070	249,070	0%	0%	0%	0%	0%
	\$ 64,665,908	\$ 75,439,502	100%	100%	70%	100%	130%

7. Property and equipment

	Cost	Accumulated amortization	2013 Net book value	2012 Net book value
Buildings	\$ 281,151	\$ 45,549	\$ 235,602	\$ 245,419
Motor vehicles	20,608	12,731	7,877	9,846
Computer equipment	46,512	28,453	18,059	18,335
Furniture and fixtures	39,295	26,529	12,766	15,420
	\$ 387,566	\$ 113,262	\$ 274,304	\$ 289,020

8. Other assets

	2013	2012
Long term land lease	\$ 37,500	\$ 37,500
Accumulated amortization	(1,267)	(887)
	\$ 36,233	\$ 36,613

9. Program commitments

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.

	2013	2012
Committed balance - beginning of period	\$ 1,724,794	\$ 2,284,040
Current project allocations	1,689,187	296,092
	3,413,981	2,580,132
Project costs paid during the year	(1,695,942)	(848,216)
Current project decommitments and adjustments	(11,151)	(7,122)
Committed balance - end of period	\$ 1,706,888	\$ 1,724,794

10. Due to investment partners

	2013	2012
Opening balance	\$ 1,193,570	\$ 1,135,730
Investment partner's share of income	196,519	57,840
	\$ 1,390,089	\$ 1,193,570

The Tl'azt'en First Nation has invested \$1,000,000 with the Gwaii Trust to be included in the Gwaii Trust investment portfolio. This allows other Not-For-Profit and First Nations organizations to access the investment management services available to the Gwaii Trust and will reduce fees paid by all investors due to reduced fees applicable to a larger portfolio.

The periodic return for the Gwaii Trust of 16.5% (2012 - 5.09%) has been applied to the investor funds.

11. 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 Consumer Price Index (CPI). The change for the year ended December 31, 2013 has been calculated at the published CPI index of 1.2% (December 31, 2012 - 1.0%) for the year.

12. Net assets invested in property and equipment

	2013	2012
Net asset invested in property and equipment		
Capital assets	\$ 387,566	\$ 380,103
Land Lease	37,500	37,500
Capital assets - accumulated amortization	(113,262)	(91,082)
Land Lease amortization	(1,267)	(887)
	\$ 310,537	\$ 325,634
Change in net assets invested in property and equipment		
Asset additions	\$ 7,463	\$ -
Amortization Expense	(22,560)	(7,152)
	\$ (15,097)	\$ (7,152)

13. Investment income

	2013	2012
Interest received and accrued	\$ 1,099,767	\$ 507,257
Dividends received and accrued	490,741	184,743
Other investment income	3,152,758	339,010
Gain (loss) on disposal of investments	1,521,857	149,514
	6,265,123	1,180,524
Investment partner's share of income	(196,519)	(57,840)
	\$ 6,068,604	\$ 1,122,684

14. Program allocations

Program allocations for the year were as follows:

	Budget	2013 (12 months)	2012 (4 months)
Major Contribution	\$ 400,000	\$ 281,675	\$ -
School Food Program	85,000	85,000	-
Arts Program	40,000	33,670	21,942
Arts workshops	10,000	8,851	-
Christmas Allocation	60,000	60,000	60,000
Special Initiatives in Education	50,000	36,890	13,058
Travel Assistance Program	100,000	85,538	20,441
Post Secondary Education Grant	75,000	58,000	3,000
Mature Student Bursary	75,000	67,457	13,927
University Tours Program	40,000	31,301	29,250
High School Scholarships	45,000	45,000	-
Haida Parity Fund	450,000	450,000	-
Food Security	80,000	66,924	25,474
Youth Program	169,000	128,881	109,000
Contingency	-	250,000	-
	1,679,000	1,689,187	296,092
Program de-commitments and adjustments	-	(11,151)	(7,122)
	\$ 1,679,000	\$ 1,678,036	\$ 288,970

15. Haida Parity

The annually approved Haida Parity amounts are commitments of the Gwaii Trust Society even if not fully allocated to approved projects during any given fiscal year. Of the original Parity amount of \$12,300,000, there is a balance remaining of \$3,044,705 to be included in the annual budgets of the Gwaii Trust over the next ten years. In addition to this, there are allocated but undisbursed funds of \$1,060,750 outstanding at December 31, 2013 for a total of \$4,105,455 in Haida Parity funds remaining to be paid.

16. Financial instruments

The Society is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the Society's risk exposure and concentration as of December 31, 2013.

Market risk

Market Risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency rate risk, interest rate risk and other price risk. The Society is mainly exposed to currency risk and other price risk.

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16. Financial instruments (continued)

Currency risk

Currency risk is the risk to the company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Society is exposed to foreign currency exchange risk on cash, accounts receivable, and investments held in U.S. dollars. The company does not use derivative instruments to reduce its exposure to foreign currency risk.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Society is exposed to other price risk through its investment in quoted shares.

17. Comparative figures

Some of the comparative figures have been reclassified to conform to the current year's presentation.