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GWAII TRUST SOCIETY  
FINANCIAL STATEMENTS  
AS AT AUGUST 31, 2008

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McAlpine  
& Co. <sup>CA</sup>  

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CHARTERED ACCOUNTANTS

AUDITORS' REPORT

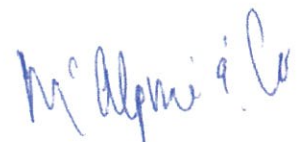
To the Members of the  
Gwaii Trust Society

We have audited the statement of financial position of Gwaii Trust Society as at August 31, 2008 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, 2008 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 30, 2008



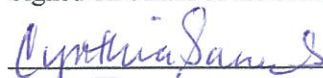
CHARTERED ACCOUNTANTS

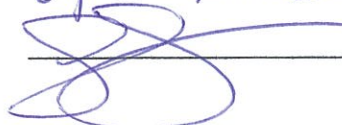
## GWAII TRUST SOCIETY

Statement Of Financial Position  
As at August 31, 2008

	2008	2007
<b>Assets</b>		
Current assets		
Cash	\$ 151,002	\$ 881,074
Restricted cash - note 8		146,931
Accounts receivable, trade and other	2,545	27,681
Investment income receivable	269,972	378,758
Prepaid expenses	6,504	6,551
Advances to Gwail Forest Charitable Trust - note 6	146,771	
	576,794	1,440,995
Property, plant and equipment - note 3 and note 4	7,918	35,431
Long term investments - note 2 and note 5	72,935,809	71,874,870
Loan receivable - note 6	310,000	
	\$ 73,830,521	\$ 73,351,296
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 80,561	\$ 97,231
Wages payable	67	
	80,628	97,231
Program commitments - note 8	5,740,902	5,725,644
Other liabilities - note 9		146,931
	5,821,530	5,969,806
<b>Net assets</b>		
Net assets invested in property, plant and equipment - note 10	7,918	35,431
Restricted net assets - note 11	51,934,467	50,178,229
Unrestricted net assets	16,066,606	17,167,830
	68,008,991	67,381,490
	\$ 73,830,521	\$ 73,351,296

Signed on behalf of the board:


 Director


 Director

## GWAI TRUST SOCIETY

Statement of Operations  
Year ended August 31, 2008

	Actual 2008	Budget 2008	Actual 2007
Revenue			
Investment income - note 7	\$ 4,415,022	\$	\$ 7,198,562
Recovered costs	3,805		10,794
	4,418,827		7,209,356
Investment management expenses			
Actuary	43,577	36,000	58,937
Custodian fees	62,397	72,000	69,151
Investment administration fees	358,547	350,000	405,117
	464,521	458,000	533,205
Net investment earnings	3,954,306		6,676,151
Administrative expenses			
Advertising and promotion	8,460	27,000	8,428
Bank charges and interest	1,656	1,600	1,491
Equipment rental and repairs	10,493	15,000	9,036
Honoraria	80,758	75,000	76,422
Insurance	14,345	16,000	15,468
Meetings and functions	9,345	8,000	18,312
Office, postage and miscellaneous	7,595	22,000	6,918
Professional fees	52,910	39,000	41,165
Rent and utilities	16,198	16,000	16,302
Supplies	25,225	20,000	12,578
Telecommunications	14,342	15,000	13,704
Training, board development and recruitment	16,158	10,000	2,857
Travel	50,099	30,000	30,430
Vehicle expense	12,754	15,000	12,518
Wages and employee benefits	112,689	150,000	124,816
Amortization	2,545		14,123
	435,572	459,600	404,568
Income from operations	3,518,734		6,271,583
SMFRA administration recovery - note 9			92,544
Broadband project contribution			(93,094)
Loss on disposal of capital assets	(24,968)		
	(24,968)		(550)
Operational surplus	3,493,766		6,271,033
Grant inflation allocation - note 11	1,756,238		838,771
Surplus available for program commitments	1,737,528		5,432,262
Program commitments - note 12	3,255,103	3,738,149	4,597,038
Operating surplus (deficit) for the year	(1,517,575)		835,224
Unrealized loss on investments - note 5	(4,761,572)		
Net surplus (deficit) for the year	\$ (6,279,147)	\$	\$ 835,224

## GWAII TRUST SOCIETY

Statement of Changes in Net Assets  
Year ended August 31, 2008

Net Assets	Invested in			2008		2007	
	property, plant and equipment	Restricted	Unrestricted	Total	Total	Total	Total
Balance - beginning of year	\$ 35,431	\$ 50,178,229	\$ 17,167,830	\$ 67,381,490	\$ 65,707,495		
Change in accounting policy - note 2			5,150,410	5,150,410			
Net income (loss) for the year	(27,513)		(6,251,634)	(6,279,147)	835,224		
Grant inflation protection		1,756,238		1,756,238	838,771		
Balance - end of year	\$ 7,918	\$ 51,934,467	\$ 16,066,606	\$ 68,008,991	\$ 67,381,490		

## GWAII TRUST SOCIETY

Statement of Cash Flows  
Year ended August 31, 2008

	2008	2007
<b>Operating activities</b>		
Net surplus (deficit) for the year	\$ (6,279,147)	\$ 835,224
Items not involving cash:		
- loss on sale of assets	24,968	
- grant inflation allocation	1,756,238	838,771
- amortization	2,545	14,123
- unrealized loss on investments	5,150,410	
	655,014	1,688,118
Cash provided by changes in non-cash working capital items - note 13	(29,405)	47,450
	625,609	1,735,568
<b>Financing activities</b>		
Increase (decrease) in amount held for SMFRA and Gwaii Tel Society	(146,931)	(128,697)
Increase in net program commitments	15,258	1,184,476
	(131,673)	1,055,779
<b>Investing activities</b>		
Net change in investments	(1,060,939)	(2,695,130)
Purchase of property, plant and equipment		(19,903)
Loan to Gwaii Forest Charitable Trust	(310,000)	
	(1,370,939)	(2,715,033)
Increase during the year	(877,003)	76,314
Cash - beginning of year	1,028,005	951,691
Cash - end of year	\$ 151,002	\$ 1,028,005
<b>Cash represented by:</b>		
Cash	\$ 151,002	\$ 881,074
Restricted cash		146,931
	\$ 151,002	\$ 1,028,005

## GWAII TRUST SOCIETY

Notes to Financial Statements  
Year ended August 31, 2008

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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. Change in accounting policies

Effective September 1, 2007, the Society adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 3855 "Financial Instruments - Recognition and Measurement" and 3861 "Financial Instruments - Disclosure and Presentation". Under the new standards, all financial instruments are initially recorded on the statement of financial position at fair value. They are subsequently valued at fair value or amortized cost depending on the classification selected for the financial instrument. Financial assets are classified as either "held-for-trading", "held-to-maturity", "available-for-sale" or "loans and receivables" and financial liabilities are classified as either "held-for-trading" or "other liabilities". Financial assets and liabilities classified as held-for-trading are measured at fair value with the change in fair value recorded in the statement of operations. The fair value of financial instruments is defined as market value. Financial assets classified as held-to-maturity or loans and receivables and financial liabilities classified as other liabilities are subsequently measured at amortized cost using the effective interest method. Available-for-sale financial assets that have a quoted price in an active market are measured at fair value with the change in fair value recorded in changes in fund balances. Such gains or losses are reclassified to the statement of operations when the related financial asset is disposed of or when the decline in value is considered to be other-than temporary.

The Society has classified its financial instruments as follows:

- Cash is classified as held-for-trading.
- Accounts receivable and accrued interest receivable are classified as loans and receivables.
- Investments are classified as held for trading.
- Accounts payable and accrued liabilities are classified as other liabilities.

The change in the accounting policy is treated prospectively as required under the standard. The effect on the opening fund balances as at September 1, 2007 is an increase of \$5,150,410.

## 3. 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.

## GWAII TRUST SOCIETY

Notes to Financial Statements  
Year ended August 31, 2008

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

Investment are recorded at fair value in compliance with the provision of section 3855 of the CICA handbook.

## (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

## 4. Property, plant and equipment

	Cost	Accumulated amortization	Net book value	
			2008	2007
Computer equipment	\$ 6,457	\$ 3,293	\$ 3,164	\$ 24,597
Furniture and fixtures	15,519	10,765	4,754	5,054
	\$ 21,976	\$ 14,058	\$ 7,918	\$ 29,651

## 5. Investments

	2008		2007	
	Cost	Market	Cost	Market
Treasury bills	\$ 646,144	\$ 646,144	\$ 468,490	\$ 468,490
Federal bonds	10,036,557	11,746,146	17,211,495	18,108,158
Provincial bonds	8,882,976	9,077,654	8,308,407	8,323,283
Corporate bonds	18,746,435	18,239,890	13,861,091	13,167,652
Mortgages	5,047,814	5,067,801	4,733,678	4,758,411
Equities	7,942,745	9,017,468	7,133,768	9,889,284
International equities - note 5	21,279,825	19,140,706	20,193,465	22,310,000
	72,582,496	72,935,809	71,910,394	77,025,278
Less bond amortization			35,524	
	\$ 72,582,496	\$ 72,935,809	\$ 71,874,870	\$ 77,025,278



## GWAII TRUST SOCIETY

Notes to Financial Statements  
Year ended August 31, 2008

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As described in note 2, effective September 1, 2007, the investments are recorded at fair value. This change in accounting policy is treated prospectively as required by the standard. The effect of the treatment is that the investments as at August 31, 2007 are recorded at cost, whereas the August 31, 2008 investments are recorded at fair value.

## 6. Gwaii Forest Charitable Trust

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

## i) Operating advances

The Gwaii Trust paid various operating expenses on behalf of the Gwaii Forest Charitable Trust during the year. The balance receivable is non-interest bearing and will be collected during the next fiscal year.

## ii) Long term loan receivable

The Gwaii Trust agreed to provide the Gwaii Forest Charitable Trust with a loan for operational purposes of \$800,000. The loan is non-interest bearing and is to be repaid periodically with 20% of surplus earnings after inflation protection from the Gwaii Forest Charitable Trust's investment portfolio. As of August 31, 2008 \$310,000 of the authorized funds had been advanced.

## 7. Investment income

	2008	2007
Interest received and accrued	\$ 3,065,349	\$ 2,885,186
Dividends received and accrued	388,819	323,162
Gain on disposal of investments	960,854	3,990,214
	\$ 4,415,022	\$ 7,198,562

## 8. 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.

	2008	2007
Committed balance - beginning of year	\$ 5,725,645	\$ 4,541,168
Current project allocations - note 10	3,244,160	4,597,038
	8,969,805	9,138,206
Less project costs paid during the year	3,241,438	3,412,561
Current project decommitments and adjustments	(12,535)	
	\$ 5,740,902	\$ 5,725,645

## GWAII TRUST SOCIETY

Notes to Financial Statements  
Year ended August 31, 2008

## 9. Other liabilities and restricted cash

- i) The Gwaii Trust Society has entered into an agreement in a prior year 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. During the year the SMFRA program ended with the creation of the Gwaii Forest Charitable Trust and any balance in the SMFRA program was transferred at that time.

	2008	2007
Current year transfers	\$	\$ 512,360
Approved expenditures		
Net project costs paid during the year		375,523
Administration expenses and transfers	46,359	273,562
Administration expenses refunded to Gwaii Trust		92,544
	46,359	741,629
Transfers less expenditures	(46,359)	(229,269)
Balance - beginning of year	46,359	275,628
Restricted cash balance - end of year		46,359
ii) Broadband project funding held on behalf of Gwaii Tel Society		100,572
Total	\$	\$ 146,931

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

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

	2008	2007
Unamortized balance - beginning of year	\$ 35,431	\$ 29,650
Property, plant and equipment purchased during year - net		19,904
Amortization expense	(2,545)	(14,123)
Loss on disposal of equipment	(24,968)	
Unamortized balance - end of year	\$ 7,918	\$ 35,431

**GWAII TRUST SOCIETY**

Notes to Financial Statements  
Year ended August 31, 2008

**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 Pricing Index (CPI). The change in the CPI for the current year is 3.5% (2007 - 1.7%).

**12. Program commitments**

Program commitment allocations for the year were as follows:

	Actual	2008 Budget
New Legacy	\$ 285,571	\$ 350,000
Major Contributions	950,264	950,000
Healthy Humans	288,837	300,000
Culture as it Relates to Tourism	289,261	300,000
Arts Program	67,342	50,000
Christmas Allocation		60,000
Education Programs	379,059	500,000
Haida Parity Allocation	983,826	1,078,149
Contingency		150,000
	3,244,160	3,738,149
Program de-commitments and adjustments	10,943	
	<u>\$ 3,255,103</u>	<u>\$ 3,738,149</u>

**13. Statement of cash flows**

Cash provided (used) by changes in the following:

	2008	2007
Accounts receivable	\$ 25,136	\$ (6,398)
Advances to Gwaii Forest Charitable Trust	(146,771)	
Prepaid expenses	47	1,256
Accounts and wages payable	(16,603)	12,207
Investment income receivable	108,786	40,385
	<u>\$ (29,405)</u>	<u>\$ 47,450</u>

**14. Financial instruments**

The Society'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.