

GWAIL TRUST SOCIETY
Financial Statements
As at August 31, 2011

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 well as the statements of operations, changes in net assets and cash flows, 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 generally accepted accounting principles, 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.

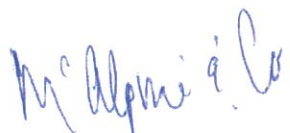
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Gwaii Trust Society as at August 31, 2011, and the results of its operations and its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

Terrace, B.C.
October 20, 2011



CHARTERED ACCOUNTANTS

GWAII TRUST SOCIETY


Statement Of Financial Position
As at August 31, 2011

	2011	2010
Assets		
Current assets		
Cash	\$ 1,730,529	\$ 653,612
Accounts receivable, trade and other	818	4,231
Investment income receivable	356,151	168,958
Prepaid expenses	12,206	46,275
Advances to Gwaii Forest Charitable Trust - note 5	51,582	230,687
	2,151,286	1,103,763
Property, plant and equipment - note 2 and note 3	331,864	305,596
Long term investments - note 2 and note 4	64,096,417	66,272,624
Loan receivable - note 5		800,000
	\$ 66,579,567	\$ 68,481,983
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 108,800	\$ 87,230
Program commitments - note 8	4,139,197	3,522,092
Due to investment partners - note 6	1,059,105	
	5,307,102	3,609,322
Net assets		
Net assets invested in property, plant and equipment - note 9	331,864	305,597
Restricted net assets - note 10	54,454,691	52,817,353
Unrestricted net assets	6,485,910	11,749,711
	61,272,465	64,872,661
	\$ 66,579,567	\$ 68,481,983

Signed on behalf of the board:



Director



Director

GWAII TRUST SOCIETY

Statement of Operations
Year ended August 31, 2011

	Actual 2011	Budget 2011	Actual 2010
Revenue			
Investment income - note 7	\$ 4,044,796	\$	\$ 4,010,064
Administration fees and cost recoveries - note 5	80,203		56,379
Other income	550		50
	4,125,549		4,066,493
Investment management expenses			
Actuary	60,720	38,080	66,046
Custodian fees	57,654	76,159	50,334
Investment administration fees	315,921	370,220	259,479
	434,295	484,459	375,859
Net investment earnings	3,691,254		3,690,634
Administrative expenses			
Advertising and promotion	23,009	15,000	2,850
Bank charges and interest	2,501	1,692	2,496
Computer and internet costs - directors	13,421		11,754
Equipment rental and repairs	13,477	10,523	16,051
Honoraria	68,125	79,333	57,200
Insurance	10,127	16,924	15,066
Meetings, elections and functions	22,419	8,000	12,044
Office, postage and miscellaneous	15,705	25,000	7,753
Professional fees and consultants	41,272	41,253	67,132
Rent and utilities	12,193	12,500	13,274
Supplies	21,059	21,155	23,306
Telecommunications	20,729	15,867	22,484
Training, board development and strategic planning	22,864	25,000	41,213
Travel	69,060	31,733	62,881
Vehicle expense	9,333	5,000	13,040
Wages and employee benefits	333,676	225,000	292,473
Amortization	20,948		20,974
	719,918	533,980	681,991
Income from operations	2,971,336		3,008,643
Operational surplus	2,971,336		3,008,643
Grant inflation allocation - note 10	1,637,338		882,886
Surplus available for program commitments	1,333,998		2,125,757
Program commitments - note 11	6,440,030	6,850,000	2,263,726
Operating deficit for the year	(5,106,032)		(137,969)
Unrealized gain (loss) on investments - note 4	(131,502)		231,229
Net surplus (deficit) for the year	\$ (5,237,534)	\$	\$ 93,260

GWAII TRUST SOCIETY

Statement of Changes in Net Assets
Year ended August 31, 2011

Net Assets	Invested in property, plant and equipment	Restricted	Unrestricted	2011 Total	2010 Total
Balance - beginning of year	\$ 305,597	\$ 52,817,353	\$ 11,749,711	\$ 64,872,661	\$ 63,896,515
Net income (loss) for the year	(20,948)		(5,216,586)	(5,237,534)	93,260
Investment in property, plant and equipment - note 9	47,215		(47,215)		
Grant inflation protection		1,637,338		1,637,338	882,886
Balance - end of year	\$ 331,864	\$ 54,454,691	\$ 6,485,910	\$ 61,272,465	\$ 64,872,661

GWAII TRUST SOCIETY

Statement of Cash Flows
Year ended August 31, 2011

	2011	2010
Operating activities		
Net deficit for the year	\$ (5,237,534)	\$ 93,260
Items not involving cash:		
- grant inflation allocation	1,637,338	882,886
- amortization	20,948	20,974
- unrealized loss (gain) on investments	131,502	(231,229)
	(3,447,746)	765,891
Cash provided by changes in non-cash working capital items - note 13	50,964	28,575
	(3,396,782)	794,466
Financing activities		
Increase in amount due to investors	59,105	
Decrease in net program commitments	617,105	(1,078,852)
	676,210	(1,078,852)
Investing activities		
Net change in investments	2,044,706	(879,078)
Received from investors	1,000,000	
Long term land lease	(37,500)	
Purchase of property, plant and equipment	(9,717)	(316,150)
Loan to Gwaii Forest Charitable Trust	800,000	
	3,797,489	(1,195,228)
Increase (decrease) during the year	1,076,917	(1,479,614)
Cash - beginning of year	653,612	2,133,226
Cash - end of year	\$ 1,730,529	\$ 653,612

GWAII TRUST SOCIETY

Notes to Financial Statements
Year ended August 31, 2011

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 and financial instruments

Financial instruments including investments are recorded in compliance with the provision of section 3855 of the CICA handbook. Investments are recorded at fair value and the remainder of the Society's financial instruments are classified 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.

(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:

Building improvements	4% declining balance
Computer equipment	30% declining balance
Furniture and fixtures	20% declining balance
Vehicles	20% declining balance
Land lease	Straight line - 99 years

GWAII TRUST SOCIETY

Notes to Financial Statements
Year ended August 31, 2011

3. Property, plant and equipment

	Cost		Accumulated amortization		Net book value	
	2011	2010	2011	2010	2011	2010
Computer equipment	\$ 17,778	\$ 9,937	\$ 7,841	\$ 4,512		
Furniture and fixtures	33,973	19,369	14,604	14,692		
Building improvements	281,151	22,042	259,109	269,905		
Vehicles	20,608	7,418	13,190	16,487		
Land lease	37,500	380	37,120			
	\$ 391,010	\$ 59,146	\$ 331,864	\$ 305,596		

4. Investments

	2011		2010	
	Cost	Market	Cost	Market
Cash	\$ 23,853	\$ 23,853	\$ 18,792	\$ 18,792
Treasury bills	499,076	499,076	774,145	774,145
Federal and provincial bonds	11,152,412	11,825,783	10,375,103	10,983,295
Corporate bonds	19,494,770	19,973,255	15,519,910	16,253,391
Mortgages	3,771,167	3,918,374	3,839,441	3,997,307
Equities	6,669,478	7,921,672	17,354,244	19,041,042
Real estate funds	6,349,363	6,349,363		
International equities - note 5	17,985,732	13,585,041	20,132,763	15,204,652
	\$ 65,945,851	\$ 64,096,417	\$ 68,014,398	\$ 66,272,624

5. Gwaii Forest Charitable Trust

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

i) Operating advances and related party transactions.

Balance receivable from GFCT at August 31, 2010	\$ 230,687
Expenses paid on behalf of GFCT	21,386
Administration fees charged to GFCT	60,576
Repayments by GFCT	(261,067)
Balance receivable from GFCT at August 31, 2011	\$ 51,582

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 which has subsequently been repaid.

GWAII TRUST SOCIETY

Notes to Financial Statements
Year ended August 31, 2011

6. Due to investment partners

	2011
Opening balance	\$
Amount invested during year	1,000,000
Investment partner's share of income	59,105
Balance at end of year	\$ 1,059,105

The TI'azt'en First Nation has invested \$1,000,000 with the Gwaii Trust during the year 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 to all investors due to reduced fees applicable to a larger portfolio.

The annualized return for the Gwaii Trust of 5.9% has been applied to the investor funds.

7. Investment income

	2011	2010
Interest received and accrued	\$ 2,422,358	\$ 2,341,989
Dividends received and accrued	308,281	419,371
Gain (loss) on disposal of investments	1,373,262	1,248,704
	4,103,901	4,010,064
Investment partner's share of income	(59,105)	
	\$ 4,044,796	\$ 4,010,064

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.

	2011	2010
Committed balance - beginning of year	\$ 3,522,092	\$ 4,600,945
Current project allocations - note 11	6,409,667	2,465,327
	9,931,759	7,066,272
Less project costs paid during the year	(5,822,925)	(3,342,579)
Current project decommitments and adjustments	30,363	(201,601)
Committed balance - end of year	\$ 4,139,197	\$ 3,522,092

GWAII TRUST SOCIETY

Notes to Financial Statements
Year ended August 31, 2011

9. Net assets invested in property, plant and equipment

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

	2011	2010
Unamortized balance - beginning of year	\$ 305,596	\$ 10,419
Property, plant and equipment purchased during year - net	9,716	316,151
Long term lease	37,500	
Amortization expense	(20,948)	(20,974)
Unamortized balance - end of year	\$ 331,864	\$ 305,596

10. 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 3.1% (2010: 1.7%).

11. Program commitments

Program commitment allocations for the year were as follows:

	Actual	2011 Budget
New Legacy	\$ 150,659	\$ 150,000
Major Contributions	447,587	750,000
Healthy Humans	128,446	235,000
Culture as it Relates to Tourism	150,000	150,000
Arts Program and Workshops	26,146	35,000
Christmas Allocation	60,000	60,000
Education Programs	365,979	470,000
Haida Parity Allocation	5,000,000	5,000,000
Contingency	80,850	
	6,409,667	6,850,000
Program de-commitments and adjustments	30,363	
	\$ 6,440,030	\$ 6,850,000

GWAII TRUST SOCIETY

Notes to Financial Statements
Year ended August 31, 2011

12. 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 \$3,583,705 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 \$2,692,951 outstanding at August 31, 2011 for a total of \$6,276,656 in Haida Parity funds remaining to be to be paid.

13. Statement of cash flows.

Cash provided (used) by changes in the following:

	2011	2010
Accounts receivable	\$ 3,413	\$ (3,763)
Advances to Gwaii Forest Charitable Trust	179,105	39,043
Prepaid expenses	34,069	(40,123)
Accounts and wages payable	21,570	376
Investment income receivable	(187,193)	33,042
	<u>\$ 50,964</u>	<u>\$ 28,575</u>

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.

15. Comparative figures

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