

**GWAI TRUST SOCIETY**  
**Financial Statements**  
**As at August 31, 2012**

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

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**CHARTERED ACCOUNTANTS**

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## INDEPENDENT AUDITOR'S REPORT

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To the Members of the Gwaii Trust Society

We have audited the accompanying financial statements of the Gwaii Trust Society, which comprise the statement of financial position as at August 31, 2012 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 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.

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Independent Auditor's Report to the Members of the Gwaii Trust Society *(continued)*

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Gwaii Trust Society as at August 31, 2012, 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.  
November 20, 2012

  
CHARTERED ACCOUNTANTS

**GWAI TRUST SOCIETY**  
**Statement of Financial Position**  
**As at August 31, 2012**

	2012	2011
<b>Assets</b>		
Current		
Cash	\$ 308,340	\$ 1,730,529
Accounts receivable	468	818
Investment income receivable	274,522	356,151
Prepaid expenses	7,347	12,206
Advances from Gwaii Forest Charitable Trust (Note 3)	40,333	51,582
	<b>631,010</b>	<b>2,151,286</b>
Long term investments (Note 4)	66,600,214	64,096,417
Property, plant and equipment (Notes 2, 5)	296,046	294,744
Other assets (Notes 2, 6)	36,740	37,120
	<b>\$ 67,564,010</b>	<b>\$ 66,579,567</b>
<b>Liabilities</b>		
Current		
Accounts payable	\$ 144,299	\$ 108,800
Program commitments (Note 7)	2,284,040	4,139,197
Due to investment partners (Note 8)	1,135,730	1,059,105
	<b>3,564,069</b>	<b>5,307,102</b>
<b>Net assets</b>		
Unrestricted	8,559,008	6,485,910
Restricted (Note 9)	55,108,147	54,454,691
Invested in property and equipment (Note 10)	332,786	331,864
	<b>63,999,941</b>	<b>61,272,465</b>
	<b>\$ 67,564,010</b>	<b>\$ 66,579,567</b>

ON BEHALF OF THE BOARD

  
 \_\_\_\_\_ Director

  
 \_\_\_\_\_ Director

See notes to financial statements

**GWAI TRUST SOCIETY**  
**Statement of Revenues and Expenditures**  
**Year Ended August 31, 2012**

	Budget 2012	2012	2011
<b>Revenue</b>			
Investment income (Note 11)	\$ -	\$ 3,576,785	\$ 4,044,796
Administration fees and cost recoveries (Note 3)	-	70,583	80,203
Other income	-	2,872	550
	-	3,650,240	4,125,549
<b>Investment management fees</b>			
Actuary	70,000	61,328	60,720
Custodian fees	52,000	57,086	57,654
Investment management	275,000	315,075	315,921
	397,000	433,489	434,295
<b>Net investment earnings</b>		<b>3,216,751</b>	<b>3,691,254</b>
<b>Administrative expenses</b>			
Advertising and promotion	25,000	20,011	23,009
Bank charges	1,900	2,675	2,502
Computer and internet costs - directors	10,000	11,585	13,421
Equipment rent and repairs	16,500	15,851	13,529
Honoraria	65,000	67,995	68,125
Insurance	15,500	10,685	10,127
Meetings and functions	13,500	15,296	22,419
Office, postage and miscellaneous	10,000	16,588	15,653
Professional fees and consultants	55,000	59,815	41,272
Rent and utilities	10,000	5,992	12,193
Salaries and wages	325,000	326,059	333,676
Special projects	65,000	-	-
Supplies	20,000	16,783	21,059
Telecommunications	41,000	26,268	20,729
Training and board development	40,000	15,829	22,864
Travel	75,000	62,070	69,060
Vehicle	6,500	8,422	9,333
Amortization	-	25,671	20,948
	794,900	707,595	719,919
<b>Operational surplus</b>		<b>2,509,156</b>	<b>2,971,335</b>
Grant inflation allocation (Note 9)	-	653,456	1,637,338
<b>Surplus available for program commitments</b>		<b>1,855,700</b>	<b>1,333,997</b>
Program commitments (Note 12)	1,442,125	1,118,288	6,440,030
<b>Net surplus (deficit) for the year</b>		<b>737,412</b>	<b>(5,106,033)</b>
Unrealized gain (loss) on investments	-	1,336,608	(131,502)
<b>Comprehensive surplus (deficit) for the year</b>		<b>\$ 2,074,020</b>	<b>\$ (5,237,535)</b>

See notes to financial statements

**GWAIL TRUST SOCIETY**  
**Statement of Changes in Net Assets**  
**Year Ended August 31, 2012**

	Unrestricted	Restricted	Invested in property and equipment	2012	2011
<b>Net assets - beginning of year</b>	\$ 6,485,910	\$ 54,454,691	\$ 331,864	\$ 61,272,465	\$ 64,872,661
Surplus (deficit) for the year	2,099,691	-	(25,671)	<b>2,074,020</b>	(5,237,535)
Investment in property and equipment	(26,593)	-	26,593	-	-
Grant inflation protection	-	653,456	-	<b>653,456</b>	1,637,338
<b>Net assets - end of year</b>	\$ 8,559,008	\$ 55,108,147	\$ 332,786	\$ 63,999,941	\$ 61,272,464

See notes to financial statements

**GWAII TRUST SOCIETY**  
**Statement of Cash Flow**  
**Year Ended August 31, 2012**

	2012	2011
<b>Operating activities</b>		
Excess (deficiency) of revenue over administrative expenses	\$ 2,074,020	\$ (5,237,535)
Items not affecting cash:		
Amortization of property, plant and equipment	25,671	20,948
Grant inflation protection	653,456	1,637,338
Unrealized loss (gain) on investments	(1,336,608)	131,502
	<b>1,416,539</b>	<b>(3,447,747)</b>
Changes in non-cash working capital:		
Accounts receivable	350	3,413
Investment income receivable	81,629	(187,193)
Accounts payable	35,499	21,569
Prepaid expenses	4,859	34,069
Advances to Gwaii Forest Charitable Trust	11,249	179,105
	<b>133,586</b>	<b>50,963</b>
Cash flow from (used by) operating activities	<b>1,550,125</b>	<b>(3,396,784)</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(26,593)	(9,714)
Purchase of long term land lease	-	(37,500)
Increase in amount due to investment partners	76,625	59,105
Long term investments	(1,167,189)	2,044,705
Loan to Gwaii Forest Charitable Trust	-	800,000
Received from investors	-	1,000,000
Cash flow from (used by) investing activities	<b>(1,117,157)</b>	<b>3,856,596</b>
<b>Financing activity</b>		
Program commitments	(1,855,157)	617,105
Increase (decrease) in cash flow	<b>(1,422,189)</b>	<b>1,076,917</b>
Cash - beginning of year	<b>1,730,529</b>	<b>653,612</b>
Cash - end of year	<b>\$ 308,340</b>	<b>\$ 1,730,529</b>

See notes to financial statements

**GWAI TRUST SOCIETY**  
**Notes to Financial Statements**  
**Year Ended August 31, 2012**

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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. Summary of significant accounting policies**

**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.

**Future changes in significant accounting policies**

The following accounting standards have been issued by the Canadian Institute of Chartered Accountants (CICA) but are not yet effective for the society. The society is currently evaluating the effect of adopting these standards, which it expects to do in fiscal year 2013.

The Accounting Standards Board will be implementing Part III of the CICA Handbook Accounting Standards for Not-for-Profit Organizations effective for annual financial statements for fiscal years beginning on or after January 1, 2012. The society will be assessing the impact of the new standards on its financial statements over the next year. Early adoption is permitted for the new standards.

**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.

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**GWAIL TRUST SOCIETY**  
**Notes to Financial Statements**  
**Year Ended August 31, 2012**

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**2. Summary of significant accounting policies (continued)**

**Financial Instruments**

The Society has designated all non-derivative financial assets and liabilities as held for trading with the exception of certain obligations as other liabilities and receivables which are designated as held to maturity.

- The Society initial records all non-derivative financial assets and liabilities at fair value
- Assets and liabilities classified as held for trading are measured at fair value and changes in fair value are recognized in the statement of operations. Fair value is determined by quoted value on listed exchanges.
- Receivables are measured at amortized cost using the effective interest rate method.
- Other liabilities are recorded at amortized cost.
- All transaction costs incurred on receivables and other liabilities are incorporated in the fair value of the instrument and are amortized to operations using the effective interest rate method.

Assets and liabilities are classified as available for sale are measured at fair value and changes in fair value are recorded in the statement of changes in net assets until the financial instruments are re-recognized or other than temporarily impaired at which time the amounts are recorded in the statement of operations. The Society has not classified any assets or liabilities as available for sale.

**Measurement uncertainty**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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, plant and equipment are stated at cost less accumulated amortization. Property, plant and equipment are amortized over their estimated useful lives at the following rates and methods:

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

**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.

**GWAII TRUST SOCIETY**  
**Notes to Financial Statements**  
**Year Ended August 31, 2012**

**3. 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. The GFCT has directors in common with the Gwaii Trust Society and is administered by the Gwaii Trust staff. During the year the Gwaii Trust Society had the following transactions with the GFCT:

	2012	2011
Balance receivable - beginning of period	\$ 51,582	\$ 230,687
Administration fees charged to GFCT - included in income	70,583	60,576
Expenses paid on behalf of GFCT		21,386
Payments received from GFCT	<b>(81,832)</b>	<b>(261,067)</b>
<b>Balance receivable - end of period</b>	<b>\$ 40,333</b>	<b>\$ 51,582</b>

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.

**4. Investments**

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

	2012		2011	
	Cost	Market	Cost	Market
Cash	\$ 139,230	\$ 139,230	\$ 23,853	\$ 23,853
Treasury bills and short term investments	1,645,695	1,645,695	499,076	499,076
Government bonds	10,441,438	11,247,684	11,152,412	11,825,783
Corporate bonds	14,954,499	15,864,420	19,494,770	19,973,255
Mortgage funds	3,133,763	3,211,000	3,771,167	3,918,374
Equities	11,321,228	13,293,862	6,669,478	7,921,672
Equities - real estate investment trusts	6,050,512	7,099,101	6,130,000	6,349,363
International equities	18,385,422	14,099,222	17,985,732	13,585,041
	<b>\$ 66,071,787</b>	<b>\$ 66,600,214</b>	<b>\$ 65,726,488</b>	<b>\$ 64,096,417</b>

**5. Property, plant and equipment**

	Cost	Accumulated amortization	2012 Net book value	2011 Net book value
Building improvements	\$ 281,151	\$ 32,407	\$ 248,744	\$ 259,109
Motor vehicles	20,608	10,056	10,552	13,190
Computer equipment	39,049	18,670	20,379	7,841
Furniture and fixtures	39,295	22,924	16,371	14,604
	<b>\$ 380,103</b>	<b>\$ 84,057</b>	<b>\$ 296,046</b>	<b>\$ 294,744</b>

**GWAII TRUST SOCIETY**  
**Notes to Financial Statements**  
**Year Ended August 31, 2012**

**6. Other assets**

	2012	2011
Long term land lease	\$ 37,500	\$ 37,500
Accumulated amortization	(760)	(380)
	<b>\$ 36,740</b>	<b>\$ 37,120</b>

**7. 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.

	2012	2011
Committed balance - beginning of year	\$ 4,139,197	\$ 3,522,092
Current project allocations	1,195,797	6,409,667
	<b>5,334,994</b>	<b>9,931,759</b>
Project costs paid during the year	(2,973,445)	(5,822,925)
Current project decommitments and adjustments	(77,509)	30,363
Committed balance - end of year	<b>\$ 2,284,040</b>	<b>\$ 4,139,197</b>

**8. Due to investment partners**

	2012	2011
Opening balance	\$ 1,059,105	\$ -
Amount invested during year	-	1,000,000
Investment partner's share of income	76,625	59,105
	<b>\$ 1,135,730</b>	<b>\$ 1,059,105</b>

The Tl'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 from the Gwaii Trust of 7.10% (2011 - 5.9%) has been applied to the investor funds.

**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 Consumer Price Index (CPI). The change for the year ended August 31, 2012 has been calculated at the average published CPI index of 1.2% (2011 - 3.1%) for the period.

**GWAIL TRUST SOCIETY**  
**Notes to Financial Statements**  
**Year Ended August 31, 2012**

**10. Net assets invested in property and equipment**

	2012	2011
<b>Net asset invested in property and equipment</b>		
Capital assets	\$ 380,103	\$ 353,511
Land lease	37,500	37,500
Capital assets - accumulated amortization	(84,057)	(58,767)
Land lease - accumulated amortization	(760)	(380)
	<b>\$ 332,786</b>	<b>\$ 331,864</b>
<b>Change in net assets invested in property and equipment</b>		
Asset additions	\$ 26,593	\$ 37,500
Amortization expense	(25,671)	(20,948)
	<b>\$ 922</b>	<b>\$ 16,552</b>

**11. Investment income**

	2012	2011
Interest received and accrued	\$ 1,398,686	\$ 1,814,352
Dividends received and accrued	412,268	308,282
Other investment income	1,221,581	608,005
Gain (loss) on disposal of investments	620,875	1,373,262
	<b>3,653,410</b>	<b>4,103,901</b>
Investment partner's share of income	(76,625)	(59,105)
	<b>\$ 3,576,785</b>	<b>\$ 4,044,796</b>

**GWAII TRUST SOCIETY**  
**Notes to Financial Statements**  
**Year Ended August 31, 2012**

**12. Program allocations**

Program allocations for the year were as follows:

	Budget	2012	2011
Major Contribution	\$ 400,000	\$ 400,000	\$ 447,587
School Food Program	85,000	85,000	-
Arts Program and Workshops	35,000	36,844	26,146
Christmas Allocation	60,000	60,000	60,000
Education Programs	453,500	336,345	365,979
Haida Parity Allocation	-	89,000	5,000,000
Food Security	80,000	70,846	-
Youth Program	150,000	117,762	-
Community Foundation	178,625	-	-
Contingency	-	-	80,850
Discontinued programs	-	-	429,105
	1,442,125	1,195,797	6,409,667
Program de-commitments and adjustments	-	(77,509)	30,363
	\$ 1,442,125	\$ 1,118,288	\$ 6,440,030

**13. 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 \$3,494,705 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 \$1,279,420 outstanding at August 31, 2012 for a total of \$4,774,125 in Haida Parity funds remaining to be to be paid.

**14. Financial instruments**

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 company is exposed to foreign currency exchange risk on cash and long term investments held in U.S. dollars. The company does not use derivative instruments to reduce its exposure to foreign currency risk.

**15. Comparative figures**

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