
GWAII TRUST SOCIETY
FINANCIAL STATEMENTS
AS AT AUGUST 31, 2010

McAlpine
& Co. ^{CA}
CHARTERED ACCOUNTANTS

AUDITORS' REPORT

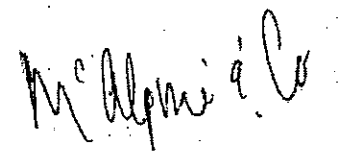
To the Members of the
Gwaii Trust Society

We have audited the statement of financial position of Gwaii Trust Society as at August 31, 2010 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, 2010 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.
November 2, 2010




CHARTERED ACCOUNTANTS

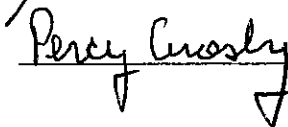
GWAII TRUST SOCIETY

Statement Of Financial Position
As at August 31, 2010

| | 2010 | 2009 |
|---|---------------|---------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 653,612 | \$ 2,133,226 |
| Accounts receivable, trade and other | 4,231 | 468 |
| Investment income receivable | 168,958 | 202,000 |
| Prepaid expenses | 46,275 | 6,152 |
| Advances to Gwaii Forest Charitable Trust - note 6 | 230,687 | 269,730 |
| | 1,103,763 | 2,611,576 |
| Property, plant and equipment - note 3 and note 4 | 305,597 | 10,419 |
| Long term investments - note 2 and note 5 | 66,272,624 | 65,162,317 |
| Loan receivable - note 6 | 800,000 | 800,000 |
| | \$ 68,481,984 | \$ 68,584,312 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 87,231 | \$ 86,853 |
| Program commitments - note 8 | 3,522,092 | 4,600,944 |
| | 3,609,323 | 4,687,797 |
| Net assets | | |
| Net assets invested in property, plant and equipment - note 9 | 305,597 | 10,419 |
| Restricted net assets - note 10 | 52,817,353 | 51,934,467 |
| Unrestricted net assets | 11,749,711 | 11,951,629 |
| | 64,872,661 | 63,896,515 |
| | \$ 68,481,984 | \$ 68,584,312 |

Signed on behalf of the board:

 Director

 Director

GWAI TRUST SOCIETY

Statement of Operations
Year ended August 31, 2010

| | Actual 2010 | Budget 2010 | Actual 2009 |
|---|------------------|------------------|-----------------------|
| Revenue | | | |
| Investment income - note 7 | \$ 4,010,064 | \$ | \$ 2,465,338 |
| Administration fees - note 6 | 56,379 | | 27,705 |
| Other income | 50 | | 2,721 |
| | 4,066,493 | | 2,495,764 |
| Investment management expenses | | | |
| Actuary | 66,046 | 37,260 | 73,309 |
| Custodian fees | 50,334 | 74,520 | 59,783 |
| Investment administration fees | 259,479 | 362,250 | 267,007 |
| | 375,859 | 474,030 | 400,099 |
| Net investment earnings | 3,690,634 | | 2,095,665 |
| Administrative expenses | | | |
| Advertising and promotion | 2,850 | 15,715 | 14,122 |
| Bank charges and interest | 2,496 | 1,656 | 1,536 |
| Equipment rental and repairs | 16,051 | 13,025 | 17,908 |
| Honoraria | 57,200 | 77,625 | 74,705 |
| Insurance | 15,066 | 16,560 | 13,558 |
| Meetings and functions | 12,044 | 5,780 | 15,448 |
| Office, postage and miscellaneous | 7,753 | 43,000 | 16,639 |
| Professional fees and consultants | 67,132 | 40,365 | 44,123 |
| Rent and utilities | 13,274 | 16,560 | 19,602 |
| Supplies | 35,060 | 20,700 | 32,382 |
| Telecommunications | 22,484 | 15,525 | 24,052 |
| Training, board development and strategic planning | 41,213 | 25,884 | 2,383 |
| Travel | 62,881 | 31,050 | 62,974 |
| Vehicle expense | 13,040 | 15,525 | 12,408 |
| Wages and employee benefits | 292,473 | 190,000 | 245,051 |
| Amortization | 20,974 | | 3,167 |
| | 681,991 | 528,970 | 600,058 |
| Operational surplus | 3,008,643 | | 1,495,607 |
| Grant inflation allocation - note 10 | 882,886 | | |
| Surplus available for program commitments | 2,125,757 | | 1,495,607 |
| Program commitments - note 11 | 2,263,726 | 2,075,000 | 3,281,768 |
| Operating deficit for the year | (137,969) | | (1,786,161) |
| Unrealized gain (loss) on investments - note 5 | 231,229 | | (2,326,315) |
| Net surplus (deficit) for the year | \$ 93,260 | \$ | \$ (4,112,476) |

GWAII TRUST SOCIETY

Statement of Changes in Net Assets
Year ended August 31, 2010

| Net Assets | Invested in | | | 2010 | | 2009 | |
|---|----------------------------------|---------------|---------------|---------------|---------------|-------|-------|
| | property, plant and equipment | Restricted | Unrestricted | Total | Total | Total | Total |
| Balance - beginning of year | \$ 10,419 | \$ 51,934,467 | \$ 11,951,629 | \$ 63,896,515 | \$ 68,008,991 | | |
| Net income (loss) for the year | (20,974) | | 114,234 | 93,260 | (4,112,476) | | |
| Investment in property, plant and equipment - note 9 | 316,152 | | (316,152) | | | | |
| Grant inflation protection | | 882,886 | | 882,886 | | | |
| Balance - end of year | \$ 305,597 | \$ 52,817,353 | \$ 11,749,711 | \$ 64,872,661 | \$ 63,896,515 | | |

GWAIL TRUST SOCIETY

Statement of Cash Flows
Year ended August 31, 2010

| | 2010 | 2009 |
|--|-------------|----------------|
| Operating activities | | |
| Net deficit for the year | \$ 93,260 | \$ (4,112,476) |
| Items not involving cash: | | |
| - grant inflation allocation | 882,886 | |
| - amortization | 20,974 | 3,167 |
| - unrealized loss (gain) on investments | (231,229) | 2,326,315 |
| | 765,891 | (1,782,994) |
| Cash provided by changes in non-cash working capital items - note 13 | 28,577 | (46,333) |
| | 794,468 | (1,829,327) |
| Financing activities | | |
| Decrease in net program commitments | (1,078,852) | (1,139,958) |
| | (1,078,852) | (1,139,958) |
| Investing activities | | |
| Net change in investments | (879,078) | 5,469,314 |
| Purchase of property, plant and equipment | (316,152) | (5,668) |
| Loan to Gwaii Forest Charitable Trust | | (490,000) |
| | (1,195,230) | 4,973,646 |
| Increase (decrease) during the year | (1,479,614) | 2,004,361 |
| Cash - beginning of year | 2,133,226 | 128,865 |
| Cash - end of year | \$ 653,612 | \$ 2,133,226 |

GWAII TRUST SOCIETY

Notes to Financial Statements

Year ended August 31, 2010

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 was 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.

GWAIL TRUST SOCIETY

Notes to Financial Statements
Year ended August 31, 2010

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 |

4. Property, plant and equipment

| | Cost | Accumulated amortization | Net book value | |
|------------------------|-------------------|-----------------------------|-------------------|------------------|
| | | | 2010 | 2009 |
| Computer equipment | \$ 11,090 | \$ 6,576 | \$ 4,514 | \$ 3,147 |
| Furniture and fixtures | 30,947 | 16,256 | 14,691 | 7,272 |
| Building improvements | 281,151 | 11,246 | 269,905 | |
| Vehicles | 20,608 | 4,121 | 16,487 | |
| | <u>\$ 343,796</u> | <u>\$ 38,199</u> | <u>\$ 305,597</u> | <u>\$ 10,419</u> |

5. Investments

| | 2010 | | 2009 | |
|---------------------------------|----------------------|----------------------|----------------------|----------------------|
| | Cost | Market | Cost | Market |
| Cash | \$ 18,792 | \$ 18,792 | \$ 24,766 | \$ 24,766 |
| Treasury bills | 774,145 | 774,145 | 1,249,380 | 1,249,380 |
| Federal and provincial bonds | 10,375,103 | 10,983,295 | 16,763,467 | 17,684,562 |
| Corporate bonds | 15,519,910 | 16,253,391 | 15,481,313 | 16,072,170 |
| Mortgages | 3,839,441 | 3,997,307 | 3,642,077 | 3,606,924 |
| Equities | 17,354,244 | 19,041,042 | 8,391,880 | 9,275,675 |
| International equities - note 5 | 20,132,763 | 15,204,652 | 21,582,438 | 17,248,840 |
| | <u>\$ 68,014,398</u> | <u>\$ 66,272,624</u> | <u>\$ 67,135,321</u> | <u>\$ 65,162,317</u> |

GWAII TRUST SOCIETY

Notes to Financial Statements
Year ended August 31, 2010

6. 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, 2009 | \$ 269,730 |
| Expenses paid on behalf of GFCT | 129,444 |
| Administration fees charged to GFCT | 56,379 |
| Repayments by GFCT | (224,866) |
| <hr/> | |
| Balance receivable from GFCT at August 31, 2010 | \$ 230,687 |

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.

7. Investment income

| | 2010 | 2009 |
|--|--------------|--------------|
| Interest received and accrued | \$ 2,341,989 | \$ 2,435,989 |
| Dividends received and accrued | 419,371 | 437,598 |
| Gain (loss) on disposal of investments | 1,248,704 | (408,249) |
| <hr/> | | |
| | \$ 4,010,064 | \$ 2,465,338 |

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.

| | 2010 | 2009 |
|---|--------------|--------------|
| Committed balance - beginning of year | \$ 4,600,943 | \$ 5,740,902 |
| Current project allocations - note 11 | 2,465,327 | 4,650,390 |
| <hr/> | | |
| | 7,066,270 | 10,391,292 |
| Less project costs paid during the year | (3,342,578) | (4,421,727) |
| Current project decommitments and adjustments | (201,601) | (1,368,622) |
| <hr/> | | |
| Committed balance - end of year | \$ 3,522,091 | \$ 4,600,943 |

GWAII TRUST SOCIETY

Notes to Financial Statements
Year ended August 31, 2010

9. Net assets invested in property, plant and equipment

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

| | 2010 | 2009 |
|---|-------------------|------------------|
| Unamortized balance - beginning of year | \$ 10,419 | \$ 7,918 |
| Property, plant and equipment purchased during year - net | 316,152 | 5,668 |
| Amortization expense | (20,974) | (3,167) |
| Unamortized balance - end of year | \$ 305,597 | \$ 10,419 |

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 1.7% (2009: -0.08%).

11. Program commitments

Program commitment allocations for the year were as follows:

| | Actual | 2010 Budget |
|--|---------------------|---------------------|
| New Legacy | \$ 132,937 | \$ 175,000 |
| Major Contributions | 500,000 | 500,000 |
| Healthy Humans | 130,941 | 180,000 |
| Culture as it Relates to Tourism | 124,400 | 150,000 |
| Arts Program and Workshops | 16,698 | 35,000 |
| Christmas Allocation | 60,000 | 60,000 |
| Education Programs | 364,913 | 475,000 |
| Haida Parity Allocation | 500,000 | 500,000 |
| Haida Parity carry forward adjustment | 635,438 | |
| | 2,465,327 | 2,075,000 |
| Program de-commitments and adjustments | (201,601) | |
| | \$ 2,263,726 | \$ 2,075,000 |

During the year unallocated annual commitments to the Haida Parity program in the amount of \$635,438 were included in the project commitment allocations.

GWAII TRUST SOCIETY

Notes to Financial Statements
Year ended August 31, 2010

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 \$8,700,639 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 \$968,772 outstanding at August 31, 2010 for a total of \$9,669,411 in Haida Parity funds remaining to be to be paid.

13. Statement of cash flows.

Cash provided (used) by changes in the following:

| | 2010 | 2009 |
|---|------------------|--------------------|
| Accounts receivable | \$ (3,763) | \$ 2,077 |
| Advances to Gwaii Forest Charitable Trust | 39,043 | (122,959) |
| Prepaid expenses | (40,123) | 352 |
| Accounts and wages payable | 378 | 6,225 |
| Investment income receivable | 33,042 | 67,972 |
| | <u>\$ 28,577</u> | <u>\$ (46,333)</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.