

**GWAII FOREST CHARITABLE TRUST**  
**Financial Statements**  
**As at December 31, 2011**

**McAlpine**  
**& Co. CA<sup>11</sup>**  

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**CHARTERED ACCOUNTANTS**

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## INDEPENDENT AUDITOR'S REPORT

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To the Trustees of Gwaii Forest Charitable Trust

We have audited the accompanying financial statements of Gwaii Forest Charitable Trust, which comprise the statement of financial position as at December 31, 2011, 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.

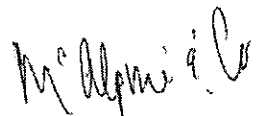
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Gwaii Forest Charitable Trust as at December 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.  
February 7, 2012

  
CHARTERED ACCOUNTANTS

**GWAII FOREST CHARITABLE TRUST****Statement of Financial Position****As at December 31, 2011**

	2011	2010
<b>Assets</b>		
Current		
Cash	\$ 224,245	\$ 129,085
Investment income receivable	111,116	116,589
Prepaid expenses	564	564
	<b>335,925</b>	246,238
Long term investments (Notes 3, 4)	<b>28,153,783</b>	27,867,402
	<b>\$ 28,489,708</b>	\$ 28,113,640
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	\$ 28,999	\$ 61,536
Due to Gwaii Trust Society	81,832	
Advances payable - Gwaii Trust Society		1,000,000
	<b>110,831</b>	1,061,536
<b>Net Assets</b>		
Grant fund (Note 6)	26,237,628	25,647,730
Unrestricted	2,141,249	1,404,374
	<b>28,378,877</b>	27,052,104
	<b>\$ 28,489,708</b>	\$ 28,113,640

**ON BEHALF OF THE BOARD**

  
\_\_\_\_\_  
Trustee

  
\_\_\_\_\_  
Trustee

See notes to financial statements

**GWAII FOREST CHARITABLE TRUST**  
**Statement of Revenues and Expenditures**  
**Year Ended December 31, 2011**

	2011	2010
<b>Income</b>		
Investment income <i>(Note 5)</i>	\$ 1,123,122	\$ 1,935,371
Investment management expenses		
Actuary	16,018	16,222
Custodial fees	40,027	30,267
Investment management	102,010	98,399
	158,055	144,888
Net investment earnings	965,067	1,790,483
<b>Expenses</b>		
Accounting and audit fees	10,798	10,047
Administration fees <i>(Note 7)</i>	60,500	59,000
Advertising and promotion	78	
Bank charges	16,485	
Communication	302	358
Insurance	3,610	3,610
Legal fees	5,572	6,008
Meetings and conventions	9,929	9,698
Office and miscellaneous		54
Trust protector fees	31,971	23,145
	139,245	111,920
<b>Excess of income over expenses from operations</b>	<b>825,822</b>	<b>1,678,563</b>
Grant inflation protection <i>(Note 6)</i>	589,898	601,119
Surplus available for program activities	235,924	1,077,444
Transfers to (recoveries from) Gwaii Forest Society for program activities		4,000
Net surplus for the year	235,924	1,073,444
Unrealized gains on long term investments	500,951	188,580
<b>Comprehensive surplus for the year</b>	<b>\$ 736,875</b>	<b>\$ 1,262,024</b>

See notes to financial statements

**GWAIL FOREST CHARITABLE TRUST**  
**Statement of Changes in Net Assets**  
**Year Ended December 31, 2011**

	Unrestricted	Grant Fund	2011	2010
<b>Balance - beginning of year</b>	\$ 1,404,374	\$ 25,647,730	<b>\$ 27,052,104</b>	\$ 25,188,961
Comprehensive surplus for the year	736,875		<b>736,875</b>	1,262,024
Grant inflation protection		589,898	<b>589,898</b>	601,119
<b>Balance - end of year</b>	<b>\$ 2,141,249</b>	<b>\$ 26,237,628</b>	<b>\$ 28,378,877</b>	<b>\$ 27,052,104</b>

See notes to financial statements

**GWAII FOREST CHARITABLE TRUST****Statement of Cash Flow****Year Ended December 31, 2011**

	2011	2010
<b>Operating activities</b>		
Net income	\$ 736,875	\$ 1,262,024
Item not affecting cash:		
Grant inflation protection	589,898	601,119
	<b>1,326,773</b>	<b>1,863,143</b>
Changes in non-cash working capital:		
Investment income receivable	5,473	(70,189)
Accounts payable and accrued liabilities	(32,537)	36,537
Due to Gwaii Trust Society	81,832	(384,732)
Advances payable - Gwaii Trust Society	(1,000,000)	1,000,000
	<b>(945,232)</b>	<b>581,616</b>
Cash flow from operating activities	<b>381,541</b>	<b>2,444,759</b>
<b>Investing activity</b>		
Net change in investments	<b>(286,381)</b>	<b>(1,518,740)</b>
<b>Financing activity</b>		
Repayment of long term debt		(800,000)
<b>Increase in cash</b>	<b>95,160</b>	<b>126,019</b>
Cash - beginning of year	<b>129,085</b>	<b>3,066</b>
<b>Cash - end of year</b>	<b>\$ 224,245</b>	<b>\$ 129,085</b>

See notes to financial statements

# **GWAII FOREST CHARITABLE TRUST**

## **Notes to Financial Statements**

**Year Ended December 31, 2011**

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### **1. Purpose of the organization**

The Gwaii Forest Charitable Trust was settled on March 29, 2007 under the terms of the Deed of Trust. The Trust was established to provide a vehicle for the repatriation of the funds contributed under the South Moresby Agreement by the Province of British Columbia and the Government of Canada to Haida Gwaii. The funds endowed by the Federal and Provincial governments are 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 Charitable Trust is a non-profit organization under the Income Tax Act and accordingly is exempt from income taxes.

### **2. Future operations**

Under the terms of the Deed of Trust referred to in Note 1, the Gwaii Forest Charitable Trust is required to maintain, at a minimum, funds equal to the initial endowment of \$24,000,000 adjusted for inflation annually.

As at December 31, 2011, the market value of the investment portfolio of the Trust of \$28,153,783 had risen above the the inflation adjusted endowment value of \$26,237,628. While the Gwaii Forest Charitable Trust is currently not in breach of the terms of the Deed of Trust, the Trustees have suspended any further disbursements of Trust assets for program funding until such time as the market value of the Trust assets recovers to at least \$3,000,000 greater than the inflation adjusted endowment value. The Trust will continue to pay such expenses as are required to maintain the Trust and meet all regulatory requirements, either directly or as reimbursement of amounts expended on behalf of the Trust by the Trustees.

### **3. Summary of significant accounting policies**

#### **Basis of accounting**

The Gwaii Forest Charitable Trust 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.

#### **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.

*(continues)*

# GWAII FOREST CHARITABLE TRUST

## Notes to Financial Statements

Year Ended December 31, 2011

### 3. Summary of significant accounting policies (continued)

#### Financial Instruments

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

- The Charitable Trust initially 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.
- 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 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 Charitable Trust 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 principals 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. Actual results could differ from these estimates.

### 4. Investments

	2011		2010	
	Cost	Market	Cost	Market
Cash	\$ 10,110	\$ 10,110	\$ 34,287	\$ 34,286
Treasury bills and short term investments	499,421	499,421	49,872	49,872
Federal and Provincial Government bonds	5,308,336	5,850,666	4,639,715	4,863,563
Corporate bonds	8,733,075	9,136,676	12,169,451	12,238,281
Mortgage funds	1,708,792	1,770,577	1,637,721	1,672,215
Equities	4,490,359	4,759,959	4,301,613	4,602,166
International equities	6,080,801	4,007,602	6,331,528	4,407,019
Equities - real estate investment trusts	2,118,772	2,118,772	-	-
	<b>\$ 28,949,666</b>	<b>\$ 28,153,783</b>	<b>\$ 29,164,187</b>	<b>\$ 27,867,402</b>



**GWAII FOREST CHARITABLE TRUST****Notes to Financial Statements****Year Ended December 31, 2011****5. Investment income**

	2011	2010
Interest income	\$ 770,318	\$ 990,108
Dividend income	152,000	183,547
Other investment income	239,555	108,918
Realized gain (loss) on investments	(38,751)	652,797
	<b>\$ 1,123,122</b>	<b>\$ 1,935,370</b>

**6. Restricted net assets**

The Gwaii Trust Charitable Trust Investment Fund represents the initial endowment of \$24,000,000 received from the Governments of Canada and British Columbia. 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, 2011 has been calculated at the published CPI index of 2.3% (2010 - 2.4%) for the previous twelve month period.

**7. Related party transaction**

During the year, administration fees of \$60,500 were paid to the Gwaii Trust Society. These fees represent operating costs paid by the Gwaii Trust Society on behalf of the Gwaii Forest Charitable Trust.

	2011	2009
Advertising and promotion	\$ 1,800	\$ 1,800
Bank charges	600	600
Board honoraria	10,600	10,350
Meetings	2,650	2,600
Office and postage	2,650	2,600
Rent and utilities	3,800	3,600
Office supplies	1,850	1,800
Telecommunications	5,800	5,650
Travel	2,550	2,500
Vehicle expense	1,550	1,500
Wages and benefits	26,650	26,000
	<b>\$ 60,500</b>	<b>\$ 59,000</b>

**8. Financial instruments**

The Charitable Trust's financial instruments consist of cash and cash equivalents, accounts receivable, investments in marketable securities accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Charitable Trust is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.