

**ATHLII GWAI LEGACY TRUST**

**Financial Statements**

**As at June 30, 2016**

*(Unaudited)*

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## REVIEW ENGAGEMENT REPORT

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To the Trustees of Athlii Gwaii Legacy Trust

We have reviewed the statement of financial position of Athlii Gwaii Legacy Trust as at June 30, 2016 and the statements of revenues and expenditures, changes in net assets and cash flow for the period then ended. Our review was made in accordance with Canadian generally accepted standards for review engagements and, accordingly, consisted primarily of inquiry, analytical procedures and discussion related to information supplied to us by the trust.

A review does not constitute an audit and, consequently, we do not express an audit opinion on these financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian accounting standards for not-for-profit organizations.


Terrace, BC  
July 29, 2016


*MNP* LLP  
Chartered Professional Accountants

**ATHLII GWAII LEGACY TRUST**  
**Statement of Financial Position**  
**As at June 30, 2016**  
*(Unaudited)*

	<i>June 30</i> <b>2016</b>	<i>December 31</i> <b>2015</b>
<b>Assets</b>		
Current		
Cash	\$ 139,707	\$ 47,177
Investment income receivable	60,528	74,289
Prepaid expenses	2,673	628
	<b>202,908</b>	122,094
Long term investments <i>(Notes 3, 4, 5)</i>	<b>40,957,903</b>	41,263,036
	<b>\$ 41,160,811</b>	<b>\$ 41,385,130</b>
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	\$ 44,199	\$ 57,539
Advances from Gwaii Trust Society	43,363	2,363
	<b>87,562</b>	59,902
Program commitments <i>(Note 6)</i>	<b>50,592</b>	50,592
	<b>138,154</b>	110,494
<b>Net assets</b>		
Unrestricted	<b>13,143,244</b>	13,612,614
Grant fund <i>(Note 8)</i>	<b>27,879,413</b>	27,662,022
	<b>41,022,657</b>	41,274,636
	<b>\$ 41,160,811</b>	<b>\$ 41,385,130</b>

On behalf of the Board

 \_\_\_\_\_ Trustee

 \_\_\_\_\_ Trustee

See notes to financial statements

**ATHLII GWAII LEGACY TRUST**  
**Statement of Revenues and Expenditures**  
**Period Ended June 30, 2016**  
*(Unaudited)*

	<i>June 30</i> <b>2016</b> <i>(6 months)</i>	<i>December 31</i> <b>2015</b> <i>(12 months)</i>
<b>Income</b>		
Investment income <i>(Note 7)</i>	\$ 1,007,775	\$ 2,598,744
<b>Investment management and regulatory expenses</b>		
Custodial fees	31,227	57,584
Investment management	85,213	166,570
Professional fees	11,746	88,076
Trust protector fees	11,568	24,834
	<b>139,754</b>	<b>337,064</b>
<b>Net trust earnings</b>	<b>868,021</b>	<b>2,261,680</b>
<b>Expenses</b>		
Advertising and promotion	253	
Bank charges	37	79
Communication		112
Facility costs	7,500	15,000
Honoraria	10,000	20,000
Insurance	2,014	3,970
Management salaries	50,000	100,000
Meetings and conventions	5,000	10,000
Travel	7,500	15,000
Vehicle	2,000	4,000
	<b>84,304</b>	<b>168,161</b>
<b>Excess of income over expenses from operations</b>	<b>783,717</b>	<b>2,093,519</b>
Grant inflation protection <i>(Note 8)</i>	<b>(217,391)</b>	<b>(495,649)</b>
<b>Excess of income over expenses before program costs and unrealized gains on long term investments</b>	<b>566,326</b>	<b>1,597,870</b>
Project commitments		63,240
Net Surplus for the period	<b>566,326</b>	<b>1,534,630</b>
Unrealized gains (losses) on long term investments	<b>(1,035,696)</b>	<b>499,637</b>
<b>Net Surplus (deficit) for the period</b>	<b>\$ (469,370)</b>	<b>\$ 2,034,267</b>

See notes to financial statements

**ATHLII GWAI LEGACY TRUST**  
**Statement of Changes in Net Assets**  
**For the Period Ended June 30, 2016**  
*(Unaudited)*

	Unrestricted	Grant Fund	June 30 2016	December 31 2015
<b>Net assets - beginning of period</b>	\$ 13,612,614	\$ 27,662,022	\$ 41,274,636	\$ 38,744,720
Deficiency of income over expenses	(469,370)		(469,370)	2,034,267
Grant inflation protection		217,391	217,391	495,649
<b>Net assets - end of period</b>	\$ 13,143,244	\$ 27,879,413	\$ 41,022,657	\$ 41,274,636

**ATHLII GWAII LEGACY TRUST****Statement of Cash Flow**

Period Ended June 30, 2016

*(Unaudited)*

	<i>June 30</i> <b>2016</b> <i>(6 months)</i>	<i>December 31</i> <b>2015</b> <i>(12 months)</i>
<b>Operating activities</b>		
Excess (deficiency) of income over expenses	\$ (469,370)	\$ 2,034,267
Item not affecting cash:		
Grant inflation protection	217,391	495,649
	<b>(251,979)</b>	<b>2,529,916</b>
Changes in non-cash working capital:		
Investment income receivable	13,761	(11,852)
Accounts payable and accrued liabilities	(13,340)	11,539
Prepaid expenses	(2,045)	(50)
Advances from Gwaii Trust Society	41,000	(79,137)
	<b>39,376</b>	<b>(79,500)</b>
Cash flow from (used by) operating activities	<b>(212,603)</b>	<b>2,450,416</b>
<b>Investing activities</b>		
Program commitments		50,592
Net change in investments	<b>305,133</b>	<b>(2,487,071)</b>
Cash flow from (used by) investing activities	<b>305,133</b>	<b>(2,436,479)</b>
<b>Increase in cash flow</b>	<b>92,530</b>	<b>13,937</b>
<b>Cash - beginning of period</b>	<b>47,177</b>	<b>33,240</b>
<b>Cash - end of period</b>	<b>\$ 139,707</b>	<b>\$ 47,177</b>

See notes to financial statements

## **ATHLII GWAII LEGACY TRUST**

### **Notes to Financial Statements**

**Period Ended June 30, 2016**

*(Unaudited)*

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

The Athlii Gwaii Legacy Trust (originally named 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.

During 2014, in accordance with the provisions of the Deed of Trust, the Trustees changed the name of the Trust from the Gwaii Forest Charitable Trust to the Athlii Gwaii Legacy Trust. The name has been changed in order to properly reflect the broad purposes of the Trust and to suitably honour the unique place of Athlii Gwaii, also known as Lyell Island, in some of the most important events in the history of Haida Gwaii including the origin of the Trust.

#### **2. Future operations**

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

The Trustees of the Athlii Gwaii Legacy Trust had previously suspended any further disbursements of Trust assets for program funding up to December 31, 2014. As the market value of the investment portfolio of the Trust at June 30, 2016 of \$40,957,903 has risen above the the inflation adjusted endowment value of \$27,879,413, the Trustees have committed to resuming disbursements of Trust assets for program funding.

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

##### **Basis of presentation**

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNFPPO). Canadian accounting standards for not-for-profit organizations are part of Canadian GAAP.

##### **Cash and cash equivalents**

Cash includes cash and cash equivalents. Cash equivalents are investments in treasury bills and other short term instruments and are valued at cost plus accrued interest. The carrying amounts approximate fair value because they have maturities at the date of purchase of less than ninety days.

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**ATHLII GWAII LEGACY TRUST**  
**Notes to Financial Statements**  
**Period Ended June 30, 2016**  
*(Unaudited)*

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

Financial instruments policy

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, financial assets with actively traded markets are reported at fair value, with any unrealized gains and losses reported in income. All other financial instruments are reported at amortized cost, and tested for impairment at each reporting date. Transaction costs on the acquisition, sale, or issue of financial instruments are expensed when incurred.

Revenue recognition

Athlii Gwaii Legacy Trust follows the deferral method of accounting for contributions.

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.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations 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.

**4. Investments**

	2016		2015	
	Cost	Market	Cost	Market
Cash	\$ 34,071	\$ 34,073	\$ 32,197	\$ 32,197
Treasury bills and short term investments	49,929	49,929	224,805	224,805
Federal and Provincial Government bonds	4,202,966	4,337,996	3,980,154	4,014,719
Corporate bonds	7,484,740	8,041,074	7,439,807	7,664,555
Mortgage funds	629,176	647,836	764,176	785,660
Equities	6,566,316	7,516,310	6,363,534	6,867,158
International equities	12,093,200	15,948,426	11,607,676	17,416,619
Equities - real estate investment trusts	2,639,987	4,382,259	2,517,598	4,257,323
	<b>\$ 33,700,385</b>	<b>\$ 40,957,903</b>	<b>\$ 32,929,947</b>	<b>\$ 41,263,036</b>



**ATHLII GWAII LEGACY TRUST**  
**Notes to Financial Statements**  
**Period Ended June 30, 2016**  
*(Unaudited)*

**5. Statement of investment policies and procedures**

The investment strategies of the AthlII Gwaii Legacy Trust (the "Trust") are guided by the Statement of Investment Policies and Procedures (SIPP). The SIPP has been written in order to assist the Trustees in establishing the guidelines for the investment of the assets of the Trust (the "Fund") and in monitoring and evaluating the investment performance achieved by the Fund. A summary of the current investment guidelines contained in the SIPP and the current asset mix of the Fund is as follows.

**Period end:**  
June 30, 2016

	Portfolio Value (\$\$)		% of Portfolio		AGLT Current SIPP %		
	Cost	Market	Cost	Market	Min	Target	Max
Canadian equities	\$ 6,566,316	\$ 7,516,310	19%	18%	15%	20%	25%
International equities	6,951,811	7,413,951					
Nicola - US	5,141,390	8,534,475					
<b>Total international</b>	<b>12,093,201</b>	<b>15,948,426</b>	<b>36%</b>	<b>39%</b>	<b>28%</b>	<b>33%</b>	<b>38%</b>
<b>Total equities</b>	<b>18,659,517</b>	<b>23,464,736</b>	<b>55%</b>	<b>57%</b>	<b>43%</b>	<b>53%</b>	<b>63%</b>
Real return bonds	4,873,895	5,202,669	14%	13%	10%	15%	20%
Government bonds -							
Federal	1,733,071	1,749,666	5%	4%			
Govt bonds - Prov &							
municipal	2,469,895	2,588,330	7%	6%			
Corporate bonds	2,196,578	2,263,089	7%	6%			
<b>Total nominal bonds</b>	<b>6,399,544</b>	<b>6,601,086</b>	<b>19%</b>	<b>16%</b>	<b>12%</b>	<b>17%</b>	<b>22%</b>
High yield bonds	414,266	575,316	1%	1%	0%	5%	10%
<b>Total bonds</b>	<b>11,687,705</b>	<b>12,379,071</b>	<b>35%</b>	<b>30%</b>	<b>22%</b>	<b>37%</b>	<b>52%</b>
Mortgage fund	629,176	647,836	2%	2%			
Real estate funds	2,639,987	4,382,259	8%	11%			
<b>Total mortgage &amp; real est</b>	<b>3,269,163</b>	<b>5,030,095</b>	<b>10%</b>	<b>12%</b>	<b>5%</b>	<b>10%</b>	<b>15%</b>
Cash	26,510	26,510	0%	0%			
Cash - Nicola	7,562	7,562	0%	0%			
	34,072	34,072	0%	0%			
Treasury bills and short							
term investments	49,929	49,929	0%	0%			
Cash/Short term notes	84,001	84,001	0%	0%	0%	0%	0%
	\$33,700,385	\$40,957,903	100%	100%	70%	100%	130%

**ATHLII GWAII LEGACY TRUST**  
**Notes to Financial Statements**  
**Period Ended June 30, 2016**  
*(Unaudited)*

**6. Program commitments**

The Athlii Gwaii Legacy Trust funds projects that are in general agreement with its aims and objectives. The balance outstanding represents projects approved by the Trustees which were not completed as at the period end.

	<i>June 30</i> <b>2016</b>	<i>December 31</i> <b>2015</b>
Committed balance - beginning of period	\$ 50,592	\$
Current project allocations		63,240
Subtotal	50,592	63,240
Project costs paid during the period		(12,648)
Committed balance - end of period	\$ 50,592	\$ 50,592

**7. Investment income**

	<i>June 30</i> <b>2016</b>	<i>December 31</i> <b>2015</b>
Interest income	\$ 150,246	\$ 388,167
Dividend income	130,697	274,934
Other investment income	578,254	1,668,111
Realized gain (loss) on investments	148,578	267,532
	\$ 1,007,775	\$ 2,598,744

**8. Restricted net assets**

The Athlii Gwaii Legacy 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 period ended June 30, 2016 has been calculated at the average monthly CPI index of 1.5% (2015 - 1.6%) for the period.

**ATHLII GWAII LEGACY TRUST**  
**Notes to Financial Statements**  
**Period Ended June 30, 2016**

*(Unaudited)*

**9. Related party transaction**

During the quarter, administration fees of \$41,000 were paid to the Gwaii Trust Society. These fees represent operating costs paid by the Gwaii Trust Society on behalf of the Athlii Gwaii Legacy Trust. The Gwaii Trust Society is the trustee of the Athlii Gwaii Legacy Trust.

	<i>June 30</i>		<i>2015</i>
	<b>2016</b>		
Board honoraria	\$ 10,000	\$	20,000
Meetings	5,000		10,000
Rent and utilities	7,500		15,000
Travel	7,500		15,000
Vehicle expense	2,000		4,000
Wages and benefits	50,000		100,000
	<b>\$ 82,000</b>	\$	<b>164,000</b>

**10. Financial instruments**

The trust is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the trust's risk exposure and concentration as of June 30, 2016.

**Market risk**

Market Risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency rate risk, interest rate risk and other price risk.

**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 trust is exposed to foreign currency exchange risk on cash, accounts receivable, and accounts payable held in U.S. dollars. The trust does not use derivative instruments to reduce its exposure to foreign currency risk.

**Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the trust manages exposure through its normal operating and financing activities. The trust is exposed to interest rate risk primarily through its floating interest rate bank indebtedness and credit facilities.

**Other price risk**

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The trust is exposed to other price risk through its investment in quoted shares.

**ATHLII GWAII LEGACY TRUST**  
**Notes to Financial Statements**  
**Period Ended June 30, 2016**  
*(Unaudited)*

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**11. Comparative figures**

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