

ATHLII GWAI LEGACY TRUST
Financial Statements
As at December 31, 2018

Independent Auditor's Report

To the Trustees of Athlii Gwaii Legacy Trust:

Opinion

We have audited the financial statements of Athlii Gwaii Legacy Trust (the "Trust"), which comprise the statement of financial position as at December 31, 2018, and the statements of revenues and expenses, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, 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.

In preparing the financial statements, management is responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Trust or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Trust's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Terrace, British Columbia

February 8, 2019

MNP LLP

Chartered Professional Accountants

ATHLII GWAII LEGACY TRUST
Statement of Financial Position
As at December 31, 2018

	2018	2017
Assets		
Current		
Cash	\$ 177,811	\$ 98,766
Investment income receivable	58,751	59,437
Prepaid expense	634	634
	237,196	158,837
Long term investments (Notes 4, 5)	45,602,951	46,775,043
	\$ 45,840,147	\$ 46,933,880
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 85,748	\$ 57,070
Advances from Gwaii Trust Society (Note 6)	48,750	48,750
	134,498	105,820
Program commitments (Note 7)	39,915	39,915
	174,413	145,735
Net assets		
Unrestricted	16,547,451	18,240,809
Restricted (Note 8)	29,118,283	28,547,336
	45,665,734	46,788,145
	\$ 45,840,147	\$ 46,933,880

On behalf of the Board

Jason Alsop
Jason Alsop (Feb 15, 2019)

Trustee

Clyde Greenough
Clyde Greenough (Feb 15, 2019)

Trustee

See notes to financial statements

ATHLII GWAII LEGACY TRUST
Statement of Revenues and Expenses
Year Ended December 31, 2018

	2018	2017
Revenue		
Investment income <i>(Note 9)</i>	\$ 3,468,510	\$ 3,124,270
Investment management and regulatory expenses		
Custodial fees	44,763	50,560
Investment management	193,572	187,057
Professional fees	31,604	41,637
Trust protector fees	24,818	34,918
	294,757	314,172
Net trust earnings	3,173,753	2,810,098
Expenses		
Advertising and promotion	402	221
Bank charges	65	81
Honoraria	24,000	24,000
Communication	112	112
Insurance	4,060	4,058
Management salaries	120,000	120,000
Meetings and conventions	12,000	12,000
Facility costs	17,000	17,000
Travel	17,000	17,000
Vehicle	5,000	5,000
	199,639	199,472
Excess of revenue over expenses before unrealized gains on long term investments	2,974,114	2,610,626
Unrealized gains (losses)		
Unrealized gains (losses) on long term investments	(4,444,738)	315,812
Unrealized foreign exchange gains	348,213	125,058
	(4,096,525)	440,870
Excess (deficiency) of revenue over expenses for the year	\$ (1,122,411)	\$ 3,051,496

ATHLII GWAII LEGACY TRUST
Statement of Changes in Net Assets
Year Ended December 31, 2018

	Unrestricted	Restricted	2018	2017
Net assets - beginning of year	\$ 18,240,809	\$ 28,547,336	\$ 46,788,145	\$ 43,736,649
Excess (deficiency) of revenue over expenses	(1,122,411)	-	(1,122,411)	3,051,496
Grant inflation protection <i>(Note 8)</i>	(570,947)	570,947	-	-
Net assets - end of year	\$ 16,547,451	\$ 29,118,283	\$ 45,665,734	\$ 46,788,145

ATHLII GWAII LEGACY TRUST
Statement of Cash Flow
Year Ended December 31, 2018

	2018	2017
Operating activities		
Excess (deficiency) of revenue over expenses	\$ (1,122,411)	\$ 3,051,496
Changes in non-cash working capital:		
Investment income receivable	685	1,589
Accounts payable and accrued liabilities	28,679	(7,346)
Prepaid expenses	-	(2)
Advances from (to) Gwaii Trust Society	-	46,387
	29,364	40,628
Cash flow from (used by) operating activities	(1,093,047)	3,092,124
Financing activities		
Program commitments	-	(10,677)
Net change in investments	1,172,092	(2,913,478)
Cash flow from (used by) financing activities	1,172,092	(2,924,155)
Increase in cash	79,045	167,969
Cash (deficiency) - beginning of year	98,766	(69,203)
Cash - end of year	\$ 177,811	\$ 98,766

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Year Ended December 31, 2018

1. Purpose of the organization

The Athlii Gwaii Legacy 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 and funding commitment

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 of \$45,602,951 at December 31, 2018 has risen above the the inflation adjusted endowment value of \$29,118,283, the Trustees 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 (ASNFPO). 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.

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Year Ended December 31, 2018

3. Summary of significant accounting policies (continued)

Financial instruments policy

The Trust recognizes its financial instruments when the Trust becomes party to the contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value, including financial assets and liabilities originated and issued in a related party transaction with management. Financial assets and liabilities originated and issued in all other related party transactions are initially measured at their carrying or exchange amount in accordance with Section 3840 Related Party Transactions (refer to Note 6).

At initial recognition, the Trust may irrevocably elect to subsequently measure any financial instrument at fair value. The Trust has not made such an election during the year.

The Trust subsequently measures investments in equity instruments quoted in an active market and all derivative instruments, except those designated in a qualifying hedging relationship or that are linked to, and must be settled by delivery of, unquoted equity instruments of another entity, at fair value. Fair value is determined by published price quotations. Investments in equity instruments not quoted in an active market and derivatives that are linked to, and must be settled by delivery of, unquoted equity instruments of another entity, are subsequently measured at cost less impairment. With the exception of financial liabilities indexed to a measure of the Trust's performance or value of its equity and those instruments designated at fair value, all other financial assets and liabilities are subsequently measured at amortized cost.

Transaction costs and financing fees directly attributable to the origination, acquisition, issuance or assumption of financial instruments subsequently measured at fair value are immediately recognized in the excess (deficiency) of revenues over expenses for the current period. Conversely, transaction costs and financing fees are added to the carrying amount for those financial instruments subsequently measured at cost or amortized cost.

Other investments

Investments for which there are quoted prices in an active market are carried at fair value. Unrealized gains or losses are reported as part of net income. Investments for which there is not an active market are carried at amortized cost except when it is established that their value is impaired. Impairment losses, or reversal of previously recognized impairment losses, are reported as part of net income.

Foreign currency translation

Accounts in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities have been translated at the year end exchange rate. Non-monetary assets have been translated at the rate of exchange prevailing at the date of transaction. Revenues and expenses have been translated at the average rates of exchange during the year, except for amortization, which has been translated at the same rate as the related assets.

Foreign exchange gains and losses on monetary assets and liabilities are included in the determination of earnings.

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Year Ended December 31, 2018

3. Summary of significant accounting policies (continued)

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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in excess of revenues and expenses in the year in which they become known.

4. Investments

	2018		2017	
	Cost	Market	Cost	Market
Cash	\$ 80,191	\$ 80,191	\$ 35,602	\$ 35,602
Treasury bills and short term investments	821,964	821,964	399,127	399,127
Federal and Provincial Government bonds	4,423,210	4,330,713	5,845,144	5,752,995
Corporate bonds	8,948,213	8,744,864	7,797,662	7,859,103
Mortgage funds	380,986	386,028	408,777	411,332
Equities	7,320,809	7,876,829	6,623,422	8,296,095
International equities	13,025,894	16,728,522	11,640,723	18,927,225
Equities - real estate investment trusts	3,274,041	6,633,840	2,561,484	5,093,564
	\$ 38,275,308	\$ 45,602,951	\$ 35,311,941	\$ 46,775,043

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Year Ended December 31, 2018

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: December 31, 2018

	Portfolio Value (\$\$)		% of Portfolio		AGLT Current SIPP %		
	Cost	Market	Cost	Market	Min	Target	Max
Canadian equities	\$ 7,320,809	\$ 7,876,829	19%	17%	15%	20%	25%
International equities	13,025,894	16,728,522	34%	37%	28%	33%	48%
Total equities	20,346,702	24,605,351	53%	54%	43%	53%	73%
Real return bonds	6,019,602	5,851,100	16%	13%	5%	6%	20%
Government bonds - Federal	1,913,823	1,913,036	5%	4%			
Government bonds - Provincial and municipal	2,509,388	2,417,677	7%	5%			
Corporate bonds	2,926,195	2,891,419	8%	6%			
Total nominal bonds	7,349,405	7,222,132	19%	16%	12%	17%	22%
High yield bonds	2,415	2,345	0%	0%	0%	5%	10%
Global bonds	-	-	0%	0%	0%	5%	5%
Total bonds	13,371,422	13,075,577	35%	29%	17%	33%	57%
Mortgage fund	380,986	386,028	1%	1%			
Real estate funds	3,274,041	6,633,840	9%	15%			
Total mortgage and real estate	3,655,028	7,019,868	10%	15%	5%	10%	22%
Private Placement	-	-	0%	0%	0%	4%	10%
Cash	80,191	80,191	0%	0%			
Treasury bills and short term investments	821,964	821,964	2%	2%			
Cash/Short term notes	902,156	902,156	2%	2%	0%	0%	5%
	\$ 38,275,308	\$ 45,602,951	100%	100%	65%	100%	167%

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Year Ended December 31, 2018

6. Related party transaction

During the year, administration fees of \$195,000 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 administration costs have been calculated and allocated as follows to represent the actual costs of operating and administering the Athlii Gwaii Legacy Trust. The Gwaii Trust Society is the trustee of the Athlii Gwaii Legacy Trust.

	2018	2017
Board honoraria	\$ 24,000	\$ 24,000
Meetings	12,000	12,000
Rent and utilities	17,000	17,000
Travel	17,000	17,000
Vehicle expense	5,000	5,000
Wages and benefits	120,000	120,000
	\$ 195,000	\$ 195,000

Balances outstanding consist of the administration fees or other operating costs paid by the Gwaii Trust Society on behalf of the Athlii Gwaii Legacy Trust.

7. 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 fiscal year end.

	2018	2017
Committed balance - beginning of year	\$ 39,915	\$ 50,592
Project Expenditures	-	(10,677)
Committed balance - end of period	\$ 39,915	\$ 39,915

8. Restricted net assets

The Athlii Gwaii Legacy Trust Grant 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, 2018 has been calculated at the CPI index of 2.0% (2017 - 1.9%) for the year.

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Year Ended December 31, 2018

9. Investment income

	2018	2017
Interest income	\$ 483,230	\$ 402,090
Dividend income	374,422	235,750
Other investment income	2,487,958	2,314,465
Realized gain on investments	122,900	171,965
	\$ 3,468,510	\$ 3,124,270

10. Financial instruments

The company 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 company's risk exposure and concentration as of December 31, 2018.

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

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Trust enters into transactions to denominated in United States currency for which the related revenues, expenses, accounts receivable and accounts payable balances are subject to exchange rate fluctuations.

During the year, the value of the Canadian dollar depreciated by \$0.1097 against the US dollar. The Trust has significant investments in US dollars. As a result, the change in the exchange rate has increased the Trust's foreign currency risk exposure, resulting in an increase of \$348,213 in unrealized foreign exchange gains.

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. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk.

The Trust is exposed to interest rate cash flow risk with respect to it's investment portfolio.

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 company is exposed to other price risk through its investment in quoted shares.









Athlii Gwaii Legacy Trust 2018.12.31 - Financial Statements

Final Audit Report

2019-02-15

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