

**GWAII FOREST CHARITABLE TRUST**  
**Financial Statements**  
**As at September 30, 2013**  
*(Unaudited)*

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

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CHARTERED ACCOUNTANTS

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## REVIEW ENGAGEMENT REPORT

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To the Trustees of Gwaii Forest Charitable Trust

We have reviewed the statement of financial position of Gwaii Forest Charitable Trust as at September 30, 2013 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, B.C.  
November 1, 2013



CHARTERED ACCOUNTANTS

**GWAII FOREST CHARITABLE TRUST**

**Statement of Financial Position**

**As at September 30, 2013**

*(Unaudited)*

	2013 <i>(September 30)</i>	2012 <i>(December 31)</i>
<b>Assets</b>		
Current		
Cash	\$ 35,808	\$ 198,712
Investment income receivable	87,589	71,667
Prepaid expenses	1,504	562
	124,901	270,941
Long term investments <i>(Notes 3, 4)</i>	33,168,687	30,617,559
	\$ 33,293,588	\$ 30,888,500
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	\$ 35,499	\$ 48,173
Due to Gwaii Trust Society <i>(Note 8)</i>	31,000	61,000
	66,499	109,173
<b>Net assets</b>		
Unrestricted	6,616,292	4,331,798
Grant fund <i>(Note 8)</i>	26,610,797	26,447,529
	33,227,089	30,779,327
	\$ 33,293,588	\$ 30,888,500

On behalf of the Board

 \_\_\_\_\_ Trustee

 \_\_\_\_\_ Trustee

See notes to financial statements

**GWAII FOREST CHARITABLE TRUST**  
**Statement of Revenues and Expenditures**  
**Period Ended September 30, 2013**  
*(Unaudited)*

	<b>2013</b> <i>(9 months)</i>	<b>2012</b> <i>(12 months)</i>
<b>Income</b>		
Investment income <i>(Note 6)</i>	\$ 2,135,559	\$ 1,622,405
<b>Investment management and regulatory expenses</b>		
Actuary	13,380	31,852
Custodial fees	38,586	45,176
Investment management	107,180	116,406
Legal fees	12,437	16,607
Trust protector fees	27,968	36,538
	<b>199,551</b>	<b>246,579</b>
<b>Net trust earnings</b>	<b>1,936,008</b>	<b>1,375,826</b>
<b>Expenses</b>		
Accounting and audit fees	9,667	9,332
Administration fees <i>(Note 8)</i>	46,500	61,000
Advertising and promotion		78
Bank charges	3	5
Communication	124	168
Insurance	2,743	3,612
	<b>59,037</b>	<b>74,195</b>
<b>Excess of income over expenses from operations</b>	<b>1,876,971</b>	<b>1,301,631</b>
Grant inflation protection <i>(Note 7)</i>	<b>(163,268)</b>	<b>(209,901)</b>
Surplus for the period	<b>1,713,703</b>	<b>1,091,730</b>
Unrealized gains on long term investments	<b>570,791</b>	<b>1,098,820</b>
<b>Net surplus for the period</b>	<b>\$ 2,284,494</b>	<b>\$ 2,190,550</b>

**GWAII FOREST CHARITABLE TRUST**

**Statement of Changes in Net Assets**

**Period Ended June 30, 2013**

*(Unaudited)*

	Unrestricted	Grant Fund	2013	2012
<b>Net assets - beginning of period</b>	\$ 4,331,798	\$ 26,447,529	<b>\$ 30,779,327</b>	\$ 28,378,875
Excess of income over expenses	2,284,494		<b>2,284,494</b>	2,190,550
Grant inflation protection <i>(Note 7)</i>		163,268	<b>163,268</b>	209,901
<b>Net assets - end of period</b>	<b>\$ 6,616,292</b>	<b>\$ 26,610,797</b>	<b>\$ 33,227,089</b>	<b>\$ 30,779,326</b>

**GWAII FOREST CHARITABLE TRUST****Statement of Cash Flow****Period Ended March 31, 2013***(Unaudited)*

	<b>2013</b> <i>(9 months)</i>	<b>2012</b> <i>(12 months)</i>
<b>Operating activities</b>		
Excess of income over expenses	\$ 2,284,494	\$ 2,190,550
Item not affecting cash:		
Grant inflation protection	163,268	209,901
	<b>2,447,762</b>	<b>2,400,451</b>
Changes in non-cash working capital:		
Investment income receivable	(15,922)	39,449
Accounts payable and accrued liabilities	(12,674)	19,173
Prepaid expenses	(942)	2
Due to Gwaii Trust Society	(30,000)	(20,832)
	<b>(59,538)</b>	<b>37,792</b>
Cash flow from operating activities	<b>2,388,224</b>	<b>2,438,243</b>
<b>Financing activity</b>		
Net change in investments	(2,551,128)	(2,463,776)
<b>Decrease in cash flow</b>	<b>(162,904)</b>	<b>(25,533)</b>
<b>Cash - beginning of period</b>	<b>198,712</b>	<b>224,245</b>
<b>Cash - end of period</b>	<b>\$ 35,808</b>	<b>\$ 198,712</b>

# **GWAII FOREST CHARITABLE TRUST**

## **Notes to Financial Statements**

**Period Ended June 30, 2013**

*(Unaudited)*

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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 September 30, 2013, the market value of the investment portfolio of the Trust of \$33,168,687 had risen above the the inflation adjusted endowment value of \$26,610,797. 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 a community consultation process on the Islands has been completed. 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 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.

#### **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.

*(continues)*

# GWAII FOREST CHARITABLE TRUST

## Notes to Financial Statements

Period Ended June 30, 2013

(Unaudited)

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

#### Revenue recognition

Gwaii Forest Charitable 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

	2013		2012	
	Cost	Market	Cost	Market
Cash	\$ 9,189	\$ 9,189	\$ 731,039	\$ 731,039
Treasury bills and short term investments	124,805	124,805	124,848	124,848
Federal and Provincial Government bonds	3,287,989	3,250,720	3,671,762	3,804,840
Corporate bonds	7,658,581	7,701,879	5,806,149	6,201,143
Mortgage funds	719,174	725,516	1,056,804	1,080,594
Equities	5,833,155	6,714,049	5,407,648	6,362,625
International equities	10,381,773	11,359,049	9,496,365	8,524,427
Equities - real estate investment trusts	2,717,348	3,283,480	3,559,502	3,788,043
	\$ 30,732,014	\$ 33,168,687	\$ 29,854,117	\$ 30,617,559



# GWAII FOREST CHARITABLE TRUST

## Notes to Financial Statements

Period Ended June 30, 2013

(Unaudited)

### 5. Statement of investment policies and procedures

The investment strategies of the Gwaii Forest Charitable 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: September 30, 2013

	Portfolio Value (\$\$)		% of Portfolio		GFCT Current SIPP %		
	Cost	Market	Cost	Market	Min	Target	Max
Canadian equities	\$ 5,833,155	\$ 6,714,049	19%	20%	15%	20%	25%
International equities	10,381,773	11,359,049	34%	34%	28%	33%	38%
Total equities	16,214,928	18,073,098	53%	54%	43%	53%	63%
Real return bonds	3,741,472	3,636,940	12%	11%	10%	15%	20%
Government bonds - Federal	1,153,370	1,154,289	4%	3%			
Government bonds - Provincial & municipal	2,134,619	2,096,431	7%	6%			
Corporate bonds	2,882,738	2,871,487	9%	9%			
Total nominal bonds	6,170,727	6,122,207	20%	18%	12%	17%	22%
High yield bonds	1,034,371	1,193,452	3%	4%	0%	5%	10%
Total bonds	10,946,570	10,952,599	36%	33%	22%	37%	52%
Mortgage fund	719,174	725,516	2%	2%			
Real estate funds	2,717,348	3,283,480	9%	10%			
Total mortgage & real estate	3,436,522	4,008,996	11%	12%	5%	10%	15%
Cash	9,189	9,189	0%	0%			
Treasury bills and short term investments	124,805	124,805	0%	0%			
Cash/Short term notes	133,994	133,994	0%	0%	0%	0%	0%
	\$ 30,732,014	\$ 33,168,687	100%	100%	70%	100%	130%

# GWAII FOREST CHARITABLE TRUST

## Notes to Financial Statements

Period Ended June 30, 2013

(Unaudited)

### 6. Investment income

	2013	2012
Interest income	\$ 351,163	\$ 657,990
Dividend income	172,582	205,143
Other investment income	1,220,793	370,865
Realized gain (loss) on investments	391,021	388,407
	<b>\$ 2,135,559</b>	<b>\$ 1,622,405</b>

### 7. 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 period ended September 30, 2013 has been calculated at the average monthly CPI index of 0.9% (2012 - 0.8%) for the period.

### 8. Related party transaction

During the quarter, administration fees of \$15,500 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. The Gwaii Trust Society is the trustee of the Gwaii Forest Charitable Trust.

	2013	2012
Advertising and promotion	\$ 1,410	\$ 1,860
Bank charges	465	600
Board honoraria	8,250	10,800
Meetings	2,100	2,700
Office and postage	2,100	2,700
Rent and utilities	2,700	3,800
Office supplies	1,425	1,860
Telecommunications	4,425	5,800
Travel	2,025	2,600
Vehicle expense	1,350	1,580
Wages and benefits	20,250	26,700
	<b>\$ 46,500</b>	<b>\$ 61,000</b>

# **GWAII FOREST CHARITABLE TRUST**

## **Notes to Financial Statements**

**Period Ended June 30, 2013**

*(Unaudited)*

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### **9. 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 December 31, 2013.

#### **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 company 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.

### **10. Comparative figures**

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