

Financial statements

**IISD Experimental Lakes Area Inc.**

March 31, 2017



Building a better  
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## Independent auditors' report

To the Member of  
**IISD Experimental Lakes Area Inc.**

We have audited the accompanying financial statements of **IISD Experimental Lakes Area Inc.**, which comprise the statement of financial position as at March 31, 2017, and the statements of operations and changes in unrestricted net operating deficit, changes in net assets and cash flows 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 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.

### **Auditors' 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 auditors' 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 auditors consider 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 **IISD Experimental Lakes Area Inc.** as at March 31, 2017 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.

Winnipeg, Canada  
June 23, 2017

*Ernst & Young LLP*

Chartered Professional Accountants



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IISD Experimental Lakes Area Inc.

Statement of financial position

As at March 31

	2017	2016
	\$	\$
<b>Assets</b>		
<b>Current</b>		
Cash	341,920	673,473
Restricted cash [note 3]	442,650	315,018
Grants receivable [note 4]	124,000	354,530
Accounts receivable	21,243	52,525
Prepaid expenses	91,734	125,128
<b>Total current assets</b>	<b>1,021,547</b>	<b>1,520,674</b>
Investments [note 5]	784,524	—
Capital assets, net [note 6]	1,023,052	507,602
Intangible assets	25,985	—
	<b>2,855,108</b>	<b>2,028,276</b>
<b>Liabilities and net assets</b>		
<b>Current</b>		
Accounts payable and accrued liabilities [note 7]	189,849	289,238
Due to IISD [note 14]	70,990	223,177
Deferred contributions [note 8]	392,479	533,272
Deferred capital contributions [note 9]	871,395	405,969
<b>Total current liabilities</b>	<b>1,524,713</b>	<b>1,451,656</b>
Commitments [note 10]		
<b>Net assets</b>		
Net assets invested in capital assets	151,657	101,633
Sustainable Future Fund [note 11]	750,000	500,000
Remediation fund [note 3]	442,650	315,018
Unrestricted net operating deficit	(13,912)	(340,031)
<b>Total net assets</b>	<b>1,330,395</b>	<b>576,620</b>
	<b>2,855,108</b>	<b>2,028,276</b>

See accompanying notes

On behalf of the Board:



Director



Director

**IISD Experimental Lakes Area Inc.**

**Statement of operations and changes in  
unrestricted net operating deficit**

Year ended March 31

	2017	2016
	\$	\$
<b>Revenue</b>		
Designated grants	3,289,902	2,354,716
Sustainable Future Fund <i>[note 11]</i>	197,360	56,841
Donations – unrestricted	159,316	187,779
Amortization of deferred capital contributions <i>[note 9]</i>	105,367	85,680
Other	93,494	85,405
Investment income	14,139	1,564
	<u>3,859,578</u>	<u>2,771,985</u>
<b>Expenses <i>[schedule 1]</i></b>		
Field station operations	994,714	899,321
Field research	934,199	573,094
Administration	675,248	572,587
Marketing and fundraising	258,365	228,707
Outreach and education	256,328	167,794
Laboratory research	187,119	280,841
Offsite research and technical review	49,830	55,218
	<u>3,355,803</u>	<u>2,777,562</u>
<b>Excess of revenue over expenses (expenses over revenue) for the year</b>	<b>503,775</b>	<b>(5,577)</b>
<b>Appropriation (from) to unrestricted net operating deficit</b>		
Change in net assets invested in remediation fund <i>[note 3]</i>	(127,632)	(126,841)
Change in net assets invested in capital assets <i>[note 12]</i>	(50,024)	28,172
<b>Increase (decrease) in unrestricted net operating deficit</b>	<b>326,119</b>	<b>(104,246)</b>
Unrestricted net operating deficit, beginning of year	(340,031)	(235,785)
<b>Unrestricted net operating deficit, end of year</b>	<b>(13,912)</b>	<b>(340,031)</b>

*See accompanying notes*

IISD Experimental Lakes Area Inc.

Statement of changes in net assets

Year ended March 31

	Net assets invested in capital assets <i>[note 12]</i> \$	Sustainable Future Fund <i>[note 11]</i> \$	Remediation fund <i>[note 3]</i> \$	Unrestricted net operating deficit \$	Total 2017 \$	Total 2016 \$
<b>Balance, beginning of year</b>	101,633	500,000	315,018	(340,031)	576,620	332,838
Excess of revenue over expenses (expenses over revenue) for the year	(91,548)	6,196	—	589,127	503,775	(5,577)
Transfer of interest earned on investments to deferred contributions <i>[notes 8 and 11]</i>	—	(6,196)	—	6,196	—	(250,641)
Contributions received during the year	—	250,000	—	—	250,000	500,000
Transfer to remediation fund <i>[note 3]</i>	—	—	127,632	(127,632)	—	—
Investment in capital assets	141,572	—	—	(141,572)	—	—
<b>Balance, end of year</b>	<b>151,657</b>	<b>750,000</b>	<b>442,650</b>	<b>(13,912)</b>	<b>1,330,395</b>	<b>576,620</b>

See accompanying notes

## IISD Experimental Lakes Area Inc.

### Statement of cash flows

Year ended March 31

	2017	2016
	\$	\$
<b>Operating activities</b>		
Excess of revenue over expenses (expenses over revenue) for the year	503,775	(5,577)
Add (deduct) items not affecting cash		
Amortization of capital assets	91,548	79,606
Amortization of capital assets funded by capital contributions	105,367	85,680
Amortization of deferred capital contributions to revenue Sustainable Future Fund	(197,360)	(56,841)
	<u>397,963</u>	17,188
Changes in non-cash working capital balances related to operations		
Grants receivable	230,530	(93,530)
Accounts receivable	31,282	(10,917)
Prepaid expenses	33,394	32,244
Accounts payable and accrued liabilities	(99,389)	85,778
Due to IISD	(152,187)	(48,239)
Deferred contributions	56,567	251,611
<b>Cash provided by operating activities</b>	<u>498,160</u>	234,135
<b>Investing activities</b>		
Purchase of capital assets	(711,553)	(340,434)
Purchase of intangible assets	(25,985)	—
Purchase of investments – net	(784,524)	—
Contributions to restricted cash	(127,632)	(126,841)
<b>Cash used in investing activities</b>	<u>(1,649,694)</u>	(467,275)
<b>Financing activities</b>		
Capital contributions received	569,981	289,000
Contributions received for the Sustainable Future Fund	250,000	500,000
<b>Cash provided by financing activities</b>	<u>819,981</u>	789,000
<b>Net increase (decrease) in cash during the year</b>	<b>(331,553)</b>	555,860
Cash, beginning of year	<u>673,473</u>	117,613
<b>Cash, end of year</b>	<u><b>341,920</b></u>	<u>673,473</u>

See accompanying notes

### Schedule of operations with expenses by nature

Year ended March 31

	2017	2016
	\$	\$
<b>Revenue</b>		
Designated grants	3,289,902	2,354,716
Sustainable Future Fund	197,360	56,841
Donations – unrestricted	159,316	187,779
Amortization of deferred capital contributions	105,367	85,680
Other	93,494	85,405
Interest	14,139	1,564
	<u>3,859,578</u>	<u>2,771,985</u>
<b>Expenses</b>		
Salaries and benefits	1,583,712	1,300,305
Travel and support	150,684	110,609
Administrative overhead	117,478	98,991
Consulting, professional and other services	479,686	357,863
Marketing and communications	164,482	242,219
Laboratory and field equipment	859,761	667,575
	<u>3,355,803</u>	<u>2,777,562</u>
<b>Excess of revenue over expenses (expenses over revenue) for the year</b>	<b>503,775</b>	<b>(5,577)</b>
<b>Appropriation (from) to unrestricted net operating deficit</b>		
Change in net assets invested in remediation fund <i>[note 3]</i>	(127,632)	(126,841)
Change in net assets invested in capital assets <i>[note 12]</i>	(50,024)	28,172
<b>Increase (decrease) in unrestricted net operating deficit</b>	<b>326,119</b>	<b>(104,246)</b>
Unrestricted net operating deficit, beginning of year	(340,031)	(235,785)
<b>Unrestricted net operating deficit, end of year</b>	<b>(13,912)</b>	<b>(340,031)</b>

See accompanying notes



## **IISD Experimental Lakes Area Inc.**

### **Notes to financial statements**

March 31, 2017

#### **1. Incorporation, mandate and tax status**

IISD Experimental Lakes Area Inc. ["IISD ELA Inc."] was incorporated on August 21, 2013 under the *Canada Not-for-profit Corporations Act* in which International Institute for Sustainable Development ["IISD"] is the sole member. The Experimental Lakes Area is a freshwater research facility in Northwestern Ontario that has operated as a government research facility over the past 45 years. IISD ELA Inc. assumed control of the management and operations of the Experimental Lakes Area on April 1, 2014. IISD ELA Inc. obtained charitable status in Canada on November 10, 2014.

#### **2. Significant accounting policies**

The financial statements have been prepared in accordance with Part III of the *CPA Canada Handbook – Accounting Standards for Not-for-profit Organizations*, which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the following significant accounting policies:

##### **Revenue recognition**

IISD ELA Inc. follows the deferral method of accounting for contributions, which includes government grants.

##### **Designated grants revenue**

Designated grants must be expended in accordance with the funder's designation. Revenue for grants designated for specific current or future activities is recorded in the accounts as the related expenses are incurred.

##### **Sustainable Future Fund revenue**

Revenue for Sustainable Future Fund projects is recorded in the accounts as the related expenses are incurred as prescribed in the funding agreement.

##### **Unrestricted donations revenue**

Donations are recognized as revenue when the funds are received.

##### **Amortization of deferred capital contributions**

Capital contributions are recognized as revenue as the related amortization expenses are incurred.

##### **Investment income**

Investment income is recorded on an accrual basis. Investment income includes dividend and interest income, distributions from mutual funds, and realized and unrealized gains and losses, less transaction costs and management fees.

##### **Other revenue**

Other revenue includes in-kind contributions and cost recoveries. Cost recoveries are recognized when received. In-kind contributions are recognized upon receipt of the in-kind item(s) and are measured at fair market value.

## IISD Experimental Lakes Area Inc.

### Notes to financial statements

March 31, 2017

#### Financial instruments

IISD ELA Inc. initially measures its financial assets and financial liabilities at fair value. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost.

The financial assets subsequently measured at amortized cost include accounts receivable and fixed income investments. The financial liabilities measured at amortized cost include accounts payable and accrued liabilities, deferred capital contributions, and deferred contributions.

#### Allocation of expenses

The costs of personnel and other expenses directly related to functions are allocated to each function. General support and other costs are not allocated.

#### Investments

Investments include cash, equities, fixed income securities and mutual funds. Investments reported at fair value consist of equity instruments quoted in an active market, mutual funds, and fixed income securities and equity instruments not quoted in an active market that the organization designates upon purchase to be measured at fair value. Transaction costs are recognized in the statement of income and changes in net assets in the period during which they are incurred. Transactions are recorded on a trade date basis.

#### Cash and cash equivalents

Cash and cash equivalents consist of cash deposits and short-term investments with an original term to maturity less than 90 days or able to be cashed on demand. Cash and investments meeting the definition of cash and cash equivalents that are held for investing rather than liquidity purposes are classified as investments and recorded as long-term assets.

#### Capital assets

Capital assets are recorded at cost. Amortization, which is based on the cost less the residual value over the useful life of the asset, is computed using the straight-line method over the following terms:

Boats, motors and vehicles	3 years, no residual
Equipment	5 years, no residual
Computer systems	3 years, no residual
Office equipment	10 years, 5% residual
Buildings	20 years, no residual
Leasehold improvements	Initial term

Construction in progress is recorded at cost. When the specific project is completed, all capitalized costs are transferred to the appropriate category of capital asset. No amortization is taken on the construction in progress.

## IISD Experimental Lakes Area Inc.

### Notes to financial statements

March 31, 2017

#### Intangible assets

IISD ELA Inc. purchased the perpetual right, through a bait block purchase, to be the sole harvester of bait fish on specific lakes and streams. Intangible assets are carried at cost, less accumulated amortization and accumulated impairment losses, if any. Management has determined its Intangible assets have an indefinite useful life and so accordingly, they are not amortized, but are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable.

#### Use of estimates

The preparation of financial statements in conformity with accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates include the useful lives of capital assets. Actual results could differ from these estimates.

#### 3. Restricted cash

IISD ELA Inc. established a fund to cover the costs of the remediation of the ELA sites under certain circumstances, as outlined in the signed funding agreement with the Province of Ontario. IISD ELA Inc. is required to contribute a total amount of \$500 thousand to the fund. The final transfer of \$57 thousand will be made in June 2017. The funds are held in an interest-bearing account, with IISD ELA Inc. and the Government of Ontario having joint signing authority. Based on the restrictions on the use of the funds, the amounts are recorded as restricted cash as well as allocated to restricted amounts within net assets. During the year, interest earned on the account of \$3 thousand as well as another \$125 thousand invested in the account were allocated from unrestricted net assets to the remediation fund.

#### 4. Grants receivable

Grants receivable consist of the following:

	<b>2017</b>	<b>2016</b>
	\$000s	\$000s
Manitoba Hydro	<b>94</b>	198
Michael Paterson and Gail Asper	—	96
Thomas Sill Foundation	<b>30</b>	45
Estate of Robert L. Cooke	—	16
	<b>124</b>	355

## IISD Experimental Lakes Area Inc.

### Notes to financial statements

March 31, 2017

#### 5. Investments:

Investments consist of:

	2017 \$000s	2016 \$000s
Cash	74	—
Common shares, measured at fair value	112	—
Canadian fixed income, measured at amortized cost	276	—
Mutual funds, measured at fair value	323	—
	<b>785</b>	<b>—</b>

All investments are denominated in Canadian dollars and invested in accordance with IISD ELA's investment policy.

Canadian fixed income investments consist of bonds that have a weighted average term to maturity of 9.76 years and a weighted average yield to maturity of 2.17%.

Foreign fixed income investments consist of bonds that have a weighted average term to maturity of 9.10 years and a weighted average yield to maturity of 2.00%.

The common shares and mutual funds consist of a diversified portfolio of widely held publicly traded securities and units of mutual funds. The unit price of these equities will fluctuate with market conditions.

The amounts invested in mutual funds consist of domestic and global bond and equity funds.

#### 6. Capital assets

The categories of capital assets are summarized as follows:

	2017		2016	
	Cost \$000s	Accumulated amortization \$000s	Cost \$000s	Accumulated amortization \$000s
Boats, motors and vehicles	323	259	255	157
Equipment	233	89	114	42
Computer systems	70	44	50	20
Office equipment	20	4	23	2
Leasehold improvements	139	68	138	53
Buildings	34	2	—	—
Construction in progress	670	—	202	—
	<b>1,489</b>	<b>466</b>	<b>782</b>	<b>274</b>
<b>Net book value</b>		<b>1,023</b>		<b>508</b>

**IISD Experimental Lakes Area Inc.**

**Notes to financial statements**

March 31, 2017

**7. Government remittances payable**

Accounts payable and accrued liabilities include government remittances payable of \$6 thousand [2016 – \$4 thousand].

**8. Deferred contributions**

Deferred contributions are amounts by which recorded funding commitments exceed the revenue recognized.

	<b>2017</b> \$000s	<b>2016</b> \$000s
<b>Balance, beginning of year</b>	<b>533</b>	88
Deferred contributions received	<b>3,341</b>	2,848
Transfer of interest earned from Sustainable Future Fund <i>[note 11]</i>	<b>6</b>	1
Amounts amortized to revenue	<b>(3,487)</b>	(2,404)
<b>Balance, end of year</b>	<b>393</b>	533

At March 31, 2017, the deferred contributions balances are as follows:

	<b>2017</b> \$000s	<b>2016</b> \$000s
Manitoba Hydro	<b>250</b>	320
RBC Foundation	<b>59</b>	—
Michael Paterson and Gail Asper	<b>26</b>	—
McLean Foundation	<b>20</b>	—
Winnipeg Foundation	<b>15</b>	—
The Estate of Robert Cooke	<b>12</b>	16
Sustainable Future Fund	<b>6</b>	197
National Energy Board	<b>4</b>	—
Richardson Foundation	<b>1</b>	—
	<b>393</b>	533

The deferred contributions are mainly intended to fund long-term monitoring and research on indicators of fish productivity, freshwater science literacy, summer students visiting and working onsite and research infrastructure.

## IISD Experimental Lakes Area Inc.

### Notes to financial statements

March 31, 2017

#### 9. Deferred capital contributions

Deferred capital contributions represent contributed assets and externally restricted contributions for the purchase or construction of capital assets. These contributions are being amortized on the same basis as the amortization of the related capital assets. The changes in the deferred capital contributions balance for the year are as follows:

	2017 \$000s	2016 \$000s
<b>Balance, beginning of year</b>	<b>406</b>	203
Capital contributions	<b>570</b>	289
Amounts amortized to revenue	<b>(105)</b>	(86)
<b>Balance, end of year</b>	<b>871</b>	406

At March 31, 2017, the deferred capital contributions balances are as follows:

	2017 \$000s	2016 \$000s
Michael Paterson and Gail Asper	<b>692</b>	224
Manitoba Hydro	<b>57</b>	20
Richardson Foundation	<b>47</b>	—
Thomas Sill Foundation	<b>40</b>	45
Government of Canada [Department of Fisheries and Oceans]	<b>35</b>	117
	<b>871</b>	406

#### 10. Commitments

IISD ELA Inc. is obligated to make annual rental payments of \$91 thousand to its parent company, IISD, over the next three years.

#### 11. Sustainable Future Fund

The Sustainable Future Fund was created with the initial donation of capital of \$250 thousand by a private donor. This initial donation, the "Original Capital", was fully expended at March 31, 2017 as per the donation agreement. In the prior year, the fund received "Additional Capital" of \$500 thousand. During fiscal 2017, the fund received additional contributions of \$250 thousand, which is also "Additional Capital". All Additional Capital is to be permanently retained. To the extent possible, the interest earned from the Additional Capital will be used to support two to three summer students each year, as per the agreement.

Expenses amounting to \$197 thousand were incurred during fiscal 2017 [2016 - \$57 thousand], resulting in revenue of that amount being recorded for the Original Capital to match the expenses incurred. The current year interest earned on the Additional Capital of \$6 thousand was recorded in deferred contributions.

The Additional Capital has been invested in an investment portfolio subject to IISD ELA's investment policy [see note 5].

## IISD Experimental Lakes Area Inc.

### Notes to financial statements

March 31, 2017

#### 12. Internally restricted for capital assets

Change in net assets internally restricted for capital assets relate to assets that were acquired without specific directed funding and is calculated as follows:

	2017 \$000s	2016 \$000s
Amortization of capital assets	(92)	(79)
Purchase of capital assets	142	51
	<u>50</u>	<u>(28)</u>

#### 13. Financial instruments

The organization is exposed to various financial risks through transactions in financial instruments.

##### Interest rate risk

IISD ELA Inc. is exposed to fluctuations in interest rates that could affect the cash flows from cash accounts. IISD ELA Inc. does not use derivative financial instruments to manage interest rate risk.

The organization is exposed to interest rate risk with respect to its fixed income investments as well as fixed income mutual funds that holds fixed income securities because the fair value of the investments will fluctuate due to changes in market interest rates.

##### Credit risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. Credit risk related to IISD ELA Inc.'s grants receivable is mitigated by the fact that the majority of the receivables are due from established entities as outlined in note 4.

##### Currency risk

Currency risk is the risk that arises from fluctuations in currency exchange rates, and the degree of volatility of these rates. Since IISD ELA Inc.'s cash inflows and outflows are mainly in Canadian dollars the exposure to currency risk is insignificant. IISD ELA Inc. does not use derivative instruments to reduce its exposure to foreign currency risk.

The organization is exposed to limited foreign currency risk with respect to the underlying investments of its global mutual funds or equity instruments denominated in foreign currencies because the fair value and future cash flows will fluctuate due to changes in the relative value of foreign currencies against the Canadian dollar.

##### Other price risk

The organization is exposed to other price risk through changes in market prices [other than changes arising from interest rate risk or currency risk] in connection with its investments in equity securities and mutual funds invested in underlying equities.

## **IISD Experimental Lakes Area Inc.**

### **Notes to financial statements**

March 31, 2017

#### **Fair value**

The carrying values of accounts receivable and accounts payable and accrued liabilities approximate their fair values due to their short-term to maturity.

#### **14. Related party transactions**

IISD is the sole member of IISD ELA Inc. During the year, IISD ELA Inc. earned revenue from IISD of \$6 thousand [2016 – \$10 thousand] and incurred \$488 thousand in expenses under a shared services agreement with IISD [2016 – \$452 thousand]. At March 31, 2017, IISD ELA Inc. has an amount owing to IISD of \$71 thousand [2016 – \$223 thousand].

Of the amount outstanding at the prior year-end, \$173 thousand was treated as a loan and interest at prime plus 2% was charged on balances outstanding through the year. This was repaid during the current fiscal year. The remaining amount in the prior year [\$50 thousand] as well as the \$71 thousand for the current year represent the prior months' expenses due at March 31st and accordingly the balances are non-interest bearing. Interest expense for 2017, prior to the loan being repaid, was charged at a rate of prime plus 3%. Total interest expense for the year was \$4 thousand [2016 – \$2 thousand] and is recorded in administration expenses.

In addition, \$1 thousand of interest revenue was earned from IISD in 2016.

Related party transactions are recorded at the exchange amount and are in the normal course of operations.

#### **15. Economic dependence**

IISD ELA Inc. has funding agreements with the Government of Ontario and the Government of Canada ending March 31, 2018 for \$2.0 million and \$1.1 million, respectively, each year. These designated grants account for 80% of the total revenue in the current year [2016 – 81%].

#### **16. Comparative figures**

Certain comparative figures have been reclassified to conform to the current year's presentation.



