

IISD Experimental Lakes Area Inc.

Financial statements

March 31, 2018



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, 2018, and the statements of operations and changes in unrestricted net operating surplus (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, 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.

Winnipeg, Canada
July 18, 2018

Ernst & Young LLP

Chartered Professional Accountants



Table of contents

Statement of financial position	1
Statement of operations and changes in unrestricted net operating surplus (deficit)	2
Statement of changes in net assets	3
Statement of cash flows	4
Notes to financial statements	5

IISD Experimental Lakes Area Inc.

Statement of financial position

As at March 31

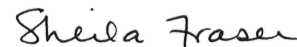
	2018	2017
	\$	\$
Assets		
Current		
Cash	825,192	341,920
Restricted cash <i>[note 3]</i>	504,437	442,650
Current portion of grants receivable <i>[note 4]</i>	322,657	109,000
Accounts receivable	30,563	21,243
Prepaid expenses	67,024	91,734
Total current assets	1,749,873	1,006,547
Grants receivable <i>[note 4]</i>	230,742	15,000
Investments <i>[note 5]</i>	907,613	784,524
Capital assets, net <i>[note 6]</i>	1,096,576	1,023,052
Intangible assets	25,985	25,985
	4,010,789	2,855,108
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities <i>[note 7]</i>	338,114	189,849
Due to International Institute for Sustainable Development <i>[note 14]</i>	60,074	70,990
Current portion of deferred contributions <i>[note 8]</i>	809,304	182,498
Current portion of deferred capital contributions <i>[note 9]</i>	107,375	79,401
Total current liabilities	1,314,867	522,738
Deferred contributions <i>[note 8]</i>	393,067	209,981
Deferred capital contributions <i>[note 9]</i>	783,394	791,994
Total liabilities	2,491,328	1,524,713
Commitments <i>[note 10]</i>		
Net assets		
Net assets invested in capital assets	183,704	151,657
Sustainable Future Fund <i>[note 11]</i>	800,000	750,000
Remediation fund <i>[note 3]</i>	504,437	442,650
Unrestricted net operating surplus (deficit)	31,320	(13,912)
Total net assets	1,519,461	1,330,395
	4,010,789	2,855,108

See accompanying notes

On behalf of the Board:



Director



Director

IISD Experimental Lakes Area Inc.

**Statement of operations and changes in
unrestricted net operating surplus (deficit)**

Year ended March 31

	2018	2017
	\$	\$
Revenue [note 15]		
Designated grants [note 14]	3,475,133	3,289,902
Sustainable Future Fund [note 11]	5,820	197,360
Donations – unrestricted	87,514	159,316
Amortization of deferred capital contributions [note 9]	107,375	105,367
Other [note 14]	319,359	93,494
Investment income [note 14]	12,957	14,139
	4,008,158	3,859,578
Expenses		
Field station operations	936,917	994,714
Field research [note 14]	1,396,977	934,199
Administration [note 14]	822,904	675,248
Marketing and fundraising [note 14]	191,333	258,365
Outreach and education [note 14]	276,961	256,328
Laboratory research	218,204	187,119
Offsite research and technical review [note 14]	25,796	49,830
	3,869,092	3,355,803
Excess of revenue over expenses for the year	139,066	503,775
Appropriation from to unrestricted net operating deficit		
Change in net assets invested in remediation fund [note 3]	(61,787)	(127,632)
Change in net assets invested in capital assets [note 12]	(32,047)	(50,024)
Increase in unrestricted net operating surplus (deficit)	45,232	326,119
Unrestricted net operating deficit, beginning of year	(13,912)	(340,031)
Unrestricted net operating surplus (deficit), end of year	31,320	(13,912)

See accompanying notes

IISD Experimental Lakes Area Inc.

Statement of changes in net assets

Year ended March 31

	Net assets invested in capital assets \$ [note 12]	Sustainable Future Fund \$ [note 11]	Remediation fund \$ [note 3]	Unrestricted net operating surplus (deficit) \$	Total 2018 \$	Total 2017 \$
Balance, beginning of year	151,657	750,000	442,650	(13,912)	1,330,395	576,620
Excess (deficiency) of revenue over expenses for the year	(106,777)	73,547	—	172,296	139,066	503,775
Transfer of interest earned on investments to deferred contributions [notes 8 and 11]	—	(73,547)	—	73,547	—	—
Contributions received during the year	—	50,000	—	—	50,000	250,000
Transfer to remediation fund [note 3]	—	—	61,787	(61,787)	—	—
Investment in capital assets	138,824	—	—	(138,824)	—	—
Balance, end of year	183,704	800,000	504,437	31,320	1,519,461	1,330,395

See accompanying notes

IISD Experimental Lakes Area Inc.

Statement of cash flows

Year ended March 31

	2018	2017
	\$	\$
Operating activities		
Excess of revenue over expenses for the year	139,066	503,775
Add (deduct) items not affecting cash		
Amortization of capital assets	106,777	91,548
Amortization of capital assets funded by capital contributions	107,375	105,367
Amortization of deferred capital contributions to revenue	(107,375)	(105,367)
Gain on disposal of capital assets	(13,678)	—
Sustainable Future Fund	(5,820)	(197,360)
	<u>226,345</u>	<u>397,963</u>
Changes in non-cash working capital balances related to operations		
Grants receivable	(429,399)	230,530
Accounts receivable	(9,320)	31,282
Prepaid expenses	24,710	33,394
Accounts payable and accrued liabilities	148,265	(99,389)
Due to International Institute for Sustainable Development	(10,916)	(152,187)
Deferred contributions	815,712	56,567
Cash provided by operating activities	<u>765,397</u>	<u>498,160</u>
Investing activities		
Proceeds on sale of capital assets	13,678	—
Purchase of capital assets	(287,676)	(711,553)
Purchase of intangible assets	—	(25,985)
Purchase of investments – net	(123,089)	(784,524)
Contributions to restricted cash	(61,787)	(127,632)
Cash used in investing activities	<u>(458,874)</u>	<u>(1,649,694)</u>
Financing activities		
Capital contributions received	126,749	569,981
Contributions received for the Sustainable Future Fund	50,000	250,000
Cash provided by financing activities	<u>176,749</u>	<u>819,981</u>
Net increase (decrease) in cash during the year	483,272	(331,553)
Cash, beginning of year	341,920	673,473
Cash, end of year	<u>825,192</u>	<u>341,920</u>

See accompanying notes

IISD Experimental Lakes Area Inc.

Notes to financial statements

March 31, 2018

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*, "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, 2018

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, grants 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 operations and changes in unrestricted net operating surplus (deficit) 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	Remaining 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, 2018

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, 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 was 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 of \$5 thousand was earned on the account.

4. Grants receivable

Grants receivable consist of the following:

	2018 \$000s	2017 \$000s
Canadian Energy Pipeline Association	270	—
Canadian Association of Petroleum Producers	268	—
Thomas Sill Foundation	15	30
Manitoba Hydro	—	94
	553	124
Less current portion	322	109
	231	15

IISD Experimental Lakes Area Inc.

Notes to financial statements

March 31, 2018

5. Investments

Investments consist of the following

	2018 \$000s	2017 \$000s
Cash	—	74
Common shares, measured at fair value	425	112
Canadian fixed income, measured at amortized cost	286	276
Mutual funds, measured at fair value	197	323
	908	785

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

Canadian fixed income investments consist of bonds that have a weighted average term to maturity of 10 years, 3 months and a weighted average yield to maturity of 2.50%.

Foreign fixed income investments consist of bonds that have a weighted average term to maturity of 9 years, 6 months and a weighted average yield to maturity of 2.50%.

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:

	2018		2017	
	Cost \$000s	Accumulated amortization \$000s	Cost \$000s	Accumulated amortization \$000s
Boats, motors and vehicles	375	293	323	259
Equipment	344	158	233	89
Computer systems	70	63	70	44
Office equipment	20	6	20	4
Leasehold improvements	138	83	139	68
Buildings	794	41	34	2
Construction in progress	—	—	670	—
	1,741	644	1,489	466
Net book value		1,097		1,023

IISD Experimental Lakes Area Inc.

Notes to financial statements

March 31, 2018

7. Government remittances payable

Accounts payable and accrued liabilities include government remittances payable of \$7 thousand [2017 – \$6 thousand].

8. Deferred contributions

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

	2018	2017
	\$000s	\$000s
Balance, beginning of year	393	533
Deferred contributions received	4,205	3,341
Transfer of interest earned from Sustainable Future Fund <i>[note 11]</i>	73	6
Amounts amortized to revenue	(3,469)	(3,487)
Balance, end of year	1,202	393

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

	2018	2017
	\$000s	\$000s
Canadian Energy Pipeline Association	350	—
Canadian Association of Petroleum Producers	329	—
Manitoba Hydro	151	250
RBC Foundation	125	59
National Sciences and Engineering Research Council of Canada	88	—
Sustainable Future Fund	73	6
Tides Canada	22	—
Michael Paterson and Gail Asper	19	26
Estate of Robert Cooke	13	12
Telus Foundation	12	—
Salamander Foundation	9	—
Winnipeg Foundation	7	15
Richardson Foundation	4	1
McLean Foundation	—	20
National Energy Board	—	4
	1,202	393
Less current portion	809	183
	393	210

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

IISD Experimental Lakes Area Inc.

Notes to financial statements

March 31, 2018

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:

	2018 \$000s	2017 \$000s
Balance, beginning of year	871	406
Capital contributions	127	570
Amounts amortized to revenue	(107)	(105)
Balance, end of year	891	871

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

	2018 \$000s	2017 \$000s
Michael Paterson and Gail Asper	663	692
Richardson Foundation	124	47
Manitoba Hydro	52	57
Thomas Sill Foundation	30	40
Government of Canada [Department of Fisheries and Oceans]	17	35
Canadian Energy Pipeline Association	5	—
	891	871
Less current portion	107	79
	784	792

10. Commitments

IISD ELA Inc. is obligated to make annual rental payments of \$95 thousand to its parent company, IISD, over the next two 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 years, the fund received "Additional Capital" of \$750 thousand. During fiscal 2018, the fund received additional contributions of \$50 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 \$6 thousand were incurred during fiscal 2018 [2017 – \$197 thousand], resulting in revenue of that amount being recorded to match the expenses incurred. The current year interest earned on the Additional Capital of \$73 thousand was recorded in deferred contributions [2017 – \$6 thousand].

IISD Experimental Lakes Area Inc.

Notes to financial statements

March 31, 2018

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

12. Internally restricted for capital assets

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

	2018 \$000s	2017 \$000s
Amortization of capital assets	(107)	(92)
Purchase of capital assets	139	142
	<u>32</u>	<u>50</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 hold 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.

IISD Experimental Lakes Area Inc.

Notes to financial statements

March 31, 2018

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.

14. Related party transactions

IISD is the sole member of IISD ELA Inc. During the year, IISD ELA Inc. earned revenue from IISD of \$29 thousand [2017 – \$6 thousand] and incurred \$365 thousand in expenses under a shared services agreement with IISD [2017 – \$319 thousand], in addition to \$127 thousand of additional services provided by IISD [2017 – \$169 thousand]. At March 31, 2018, IISD ELA Inc. has an amount owing to IISD of \$60 thousand [2017 – \$71 thousand]. This amount owing to IISD represents the prior months' expenses due as at March 31 and accordingly the balances are non-interest bearing.

Throughout the year, IISD ELA Inc. and IISD required intercompany loans for cash flow purposes, which were fully repaid during the year. Interest charged on these loans was at prime plus 1%. Total interest expense paid to IISD for the year was \$6 thousand [2017 – \$4 thousand] and is recorded in administration expenses.

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 77% of the total revenue in the current year [2017 – 80%]. In March 2018, a one-year extension of the current funding agreement with the Government of Ontario was signed providing funding for \$2 million. Subsequently, in May 2018, a new funding agreement with the Government of Canada [Fisheries and Oceans] was entered into for a four-year term ending March 2022 for \$1 million per year.

16. Subsequent events

In May 2018, a four-year funding agreement ending March 31, 2022 with the Government of Canada [Fisheries and Oceans] was signed, providing funding of \$1 million per year.

17. Comparative figures

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