

Financial Statements

IISD Experimental Lakes Area Inc.
March 31, 2016

INDEPENDENT AUDITORS' REPORT

To the Members 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, 2016, and the statements of operations and changes in unrestricted net operating assets, 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, 2016 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 22, 2016

Ernst & Young LLP

Chartered Professional Accountants

Table of contents

Statement of financial position	1
Statement of operations and changes in unrestricted net operating 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

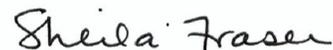
	2016	2015
	\$	\$
ASSETS		
Current		
Cash	673,473	117,613
Restricted cash [note 3]	315,018	188,177
Grants receivable [note 4]	354,530	261,000
Accounts receivable	52,525	41,608
Prepaid expenses	125,128	157,372
Total current assets	1,520,674	765,770
Capital assets [note 5]	507,602	332,368
	2,028,276	1,098,138
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities [note 6]	289,238	203,460
Due to IISD [note 13]	223,177	271,416
Deferred contributions [note 7]	533,272	87,861
Deferred capital contributions [note 8]	405,969	202,563
Total current liabilities	1,451,656	765,300
Commitments [note 9]		
Net assets		
Net assets invested in capital assets	101,633	129,805
Sustainable Future Fund [note 10]	500,000	250,641
Unrestricted net operating deficit	(25,013)	(47,608)
Total net assets	576,620	332,838
	2,028,276	1,098,138

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

	2016	2015
	\$	\$
REVENUE		
Designated grants	2,250,000	2,250,000
Other	463,580	233,871
Sustainable Future Fund <i>[note 10]</i>	56,841	—
Interest	1,564	2,095
	<u>2,771,985</u>	<u>2,485,966</u>
EXPENSES		
Field station operations	899,321	758,737
Field research	628,312	458,035
Administration	572,587	905,189
Laboratory research	280,841	146,553
Marketing and fundraising	228,707	49,683
Outreach and education	167,794	85,572
	<u>2,777,562</u>	<u>2,403,769</u>
Excess of revenue over expenses (expenses over revenue) for the year	(5,577)	82,197
Appropriation to (from) unrestricted net operating deficit		
Change in net assets invested in capital assets <i>[note 11]</i>	28,172	(129,805)
Decrease (increase) in unrestricted net operating deficit	<u>22,595</u>	<u>(47,608)</u>
Unrestricted net operating deficit, beginning of year	(47,608)	—
Unrestricted net operating deficit, end of year	<u>(25,013)</u>	<u>(47,608)</u>

See accompanying notes

IISD Experimental Lakes Area Inc.

STATEMENT OF CHANGES IN NET ASSETS

Year ended March 31

	Net assets invested in capital assets \$	Sustainable Future Fund \$	Unrestricted net operating deficit \$	Total 2016 \$	Total 2015 \$
Balance, beginning of year	129,805	250,641	(47,608)	332,838	—
Transfer of original capital to deferred contributions <i>[notes 7 and 10]</i>	—	(250,641)	—	(250,641)	—
Contributions received <i>[note 10]</i>	—	500,000	—	500,000	250,641
Excess of revenue over expenses (expenses over revenue) for the year	(79,606)	—	74,029	(5,577)	82,197
Net investment in capital assets	51,434	—	(51,434)	—	—
Balance, end of year	101,633	500,000	(25,013)	576,620	332,838

See accompanying notes

IISD Experimental Lakes Area Inc.

STATEMENT OF CASH FLOWS

Year ended March 31

	2016	2015
	\$	\$
OPERATING ACTIVITIES		
Excess of revenue over expenses (expenses over revenue) for the year	(5,577)	82,197
Add (deduct) items not affecting cash		
Amortization of capital assets	79,606	22,909
Amortization of capital assets related to capital contributions	85,680	85,680
Amortization of deferred capital contributions to revenue Sustainable Future Fund	(85,680)	(85,680)
	(56,841)	—
	17,188	105,106
Changes in non-cash working capital balances related to operations		
Grants receivable	(93,530)	(261,000)
Accounts receivable	(10,917)	(41,608)
Prepaid expenses and deposits	32,244	(157,372)
Accounts payable and accrued liabilities	85,778	203,460
Due to IISD	(48,239)	271,416
Deferred contributions	251,611	87,861
Cash provided by operating activities	234,135	207,863
INVESTING ACTIVITIES		
Purchase of capital assets	(51,434)	(152,714)
Contributions to restricted cash	(126,841)	(188,177)
Cash used in investing activities	(178,275)	(340,891)
FINANCING ACTIVITIES		
Contributions received for the Sustainable Future Fund	500,000	250,641
Cash provided by financing activities	500,000	250,641
Net increase in cash during the year	555,860	117,613
Cash, beginning of year	117,613	—
Cash, end of year	673,473	117,613

See accompanying notes

IISD Experimental Lakes Area Inc.

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

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 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. Until expended, amounts related to the Original Capital are recorded as deferred contributions.

Interest income

Interest income is recorded on an accrual basis.

IISD Experimental Lakes Area Inc.

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

Other revenue

Other revenue includes donations and cost recoveries. They are recognized when received, since pledges are not legally enforceable claims.

Financial instruments

IISD ELA Inc. initially measures its financial assets and financial liabilities at fair value. It subsequently measures all its financial assets and financial liabilities at amortized cost.

The financial assets subsequently measured at amortized cost include accounts receivable. The financial liabilities measured at amortized cost include accounts payable and accrued liabilities, 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.

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
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, 2016

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 life 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 as follows: \$187.5 thousand for the year ended March 31, 2015, and \$125 thousand in each of the following three years, up to a maximum of \$500 thousand in total. The funds are held in an interest-bearing escrow account, with IISD ELA Inc. and the Government of Ontario having joint signing authority.

4. GRANTS RECEIVABLE

Grants receivable consist of the following:

	2016 \$000's	2015 \$000's
Manitoba Hydro	198	—
Gail Asper and Michael Paterson	96	—
Thomas Sill Foundation	45	—
Estate of Robert L. Cooke	16	—
Government of Ontario	—	261
	355	261

IISD Experimental Lakes Area Inc.

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

5. CAPITAL ASSETS

The categories of capital assets are summarized as follows:

	2016		2015	
	Cost \$000's	Accumulated amortization \$000's	Cost \$000's	Accumulated amortization \$000's
Boats, motors and vehicles	255	157	209	68
Equipment	114	42	97	18
Computer systems	50	20	12	4
Office equipment	23	2	20	1
Leasehold improvements	138	53	103	18
Construction in progress	202	—	—	—
	782	274	441	109
Net book value		508		332

6. GOVERNMENT REMITTANCES PAYABLE

Accounts payable and accrued liabilities include government remittances payable of \$4 thousand [2015 – \$3 thousand].

7. DEFERRED CONTRIBUTIONS

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

	2016 \$000's	2015 \$000's
Balance, beginning of year	88	—
Deferred contributions received	328	90
Transfer of original capital from IISD ELA Future Fund	251	—
Amounts amortized to revenue	(134)	(2)
Balance, end of year	533	88

IISD Experimental Lakes Area Inc.

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

As of March 31, 2016, \$197 thousand of the deferred contributions balance pertains to the IISD ELA Sustainable Future Fund's Original Capital and related interest earned [note 10]. This will be used to cover eligible expenditures incurred from April 1 to December 31, 2016. Any amounts not expended by that time will revert back to the capital of the IISD ELA Sustainable Future Fund and be recorded as such in fiscal 2017 by being transferred from deferred contributions to the IISD ELA Sustainable Future Fund.

8. 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:

	2016 \$000's	2015 \$000's
Balance, beginning of year	203	—
Capital contributions	289	288
Amounts amortized to revenue	(86)	(85)
Balance, end of year	406	203

9. COMMITMENTS

IISD ELA Inc. is obligated to make annual rental payments of \$86 thousand to its parent company, IISD, over the next four years.

10. IISD ELA SUSTAINABLE FUTURE FUND

The IISD ELA Sustainable Future Fund was created with the initial donation of capital of \$250 thousand by a private donor. This initial donation will be the "Original Capital", and will be expended per the agreement executed on December 19, 2014. Per the agreement, the Original Capital will be expendable and directed to fund one post-doctoral fellow [or two graduate students], in addition to three summer students to be hired for the 2015 and 2016 field seasons at IISD ELA Inc.

The remainder of the Original Capital, if any, shall be held as capital of the Fund. Last year, the Original Capital of \$250 thousand and interest earned were recorded as an increase to the Fund. As the amounts were utilized to cover certain eligible expenses this year, the remaining Original Capital amount was transferred to deferred contributions.

IISD Experimental Lakes Area Inc.

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

During fiscal 2016, \$57 thousand of these eligible expenses were incurred. In addition, the previous year's interest of \$1 thousand and current year interest of \$3 thousand were recorded as deferred contributions.

During fiscal 2016, the fund received additional contributions of \$500 thousand, which is "Additional Capital". To the extent possible, the interest earned from the Additional Capital and the remainder of the Original Capital [if any] after the 2016 field season will be used to support two to three summer students each year, as per the agreement.

11. INTERNALLY RESTRICTED FOR CAPITAL ASSETS

Change in net assets internally restricted for capital assets is calculated as follows:

	2016 \$000's	2015 \$000's
Amortization of capital assets	(79)	(23)
Purchase of capital assets	51	153
Change in restriction during the year	(28)	130

12. 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.

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.

IISD Experimental Lakes Area Inc.

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

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.

13. RELATED PARTY TRANSACTIONS

IISD is the sole member of IISD ELA Inc. During the year, IISD ELA Inc. earned revenues from IISD of \$10 thousand [2015 – \$15 thousand] and incurred \$452 thousand in expenses under a shared services agreement with IISD [2015 – \$401 thousand].

Due to IISD consists of the following:

	2016 \$000's	2015 \$000's
Amounts owing to IISD	223	260
Accrued interest	—	11
	223	271

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

14. ECONOMIC DEPENDENCE

IISD ELA Inc. has funding agreements with the Government of Ontario and the Government of Canada ending March 31, 2018, for \$2 million and \$250 thousand respectively per year. These designated grants account for 84% of the total revenue in the current year [2015 – 94%].

15. COMPARATIVE FIGURES

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