

Lake Superior Watershed Conservancy
Consolidated Financial Statements
For the year ended December 31, 2016

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Independent Auditor's Report

To the Members of Lake Superior Watershed Conservancy

We have audited the accompanying consolidated financial statements of Lake Superior Watershed Conservancy, which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated statements of operations, 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

In common with many charitable organizations, Lake Superior Watershed Conservancy derives revenue from donations and fundraising, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the organization. Therefore, we were not able to determine whether any adjustments might be necessary to revenue, excess of revenue over expenses, and cash flows from operations for the year ended December 31, 2016, current assets as at December 31, 2016, and net assets as at January 1, 2016 and December 31, 2016. The predecessor auditor's opinion on the consolidated financial statements for the year ended December 31, 2015 was modified accordingly because of the possible effects of a similar limitation in scope.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of Lake Superior Watershed Conservancy as at December 31, 2016 and the results of its operations and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Other Matters

The consolidated financial statements of Lake Superior Watershed Conservancy for the year ended December 31, 2015 were audited by another auditor who expressed a qualified opinion on those consolidated financial statements on April 23, 2016 for the reasons described in the Basis for Qualified Opinion paragraph.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Sault Ste. Marie, Ontario
April 24, 2017

Lake Superior Watershed Conservancy
Consolidated Statement of Financial Position

December 31 **2016** **2015**

Assets

Current

Cash	\$ 177,751	\$ 112,869
Accounts receivable	47,617	16,421
Prepaid expenses	630	2,931

	225,998	132,221
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Capital assets (Note 2)

	94,554	93,499
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	\$ 320,552	\$ 225,720
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Liabilities and Net Assets

Current

Accounts payable and accrued liabilities	\$ 16,472	\$ 3,199
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Net assets

Unrestricted net assets	304,080	222,521
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	\$ 320,552	\$ 225,720
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On behalf of the Board:

_____ Director

_____ Director

Lake Superior Watershed Conservancy
Consolidated Statement of Operations and Changes in Net Assets

For the year ended December 31	2016	2015
Revenue		
Grants - Trans Canada Trail	\$ 425,807	\$ 452,883
Grants - Trans Canada Trail Ontario	-	20,895
Grants - Other	42,400	37,737
Contributions	75,629	30,849
Fundraising	16,350	-
Interest	987	264
	<u>561,173</u>	<u>542,628</u>
Expenses		
Amortization	762	996
Bank charges	245	73
Grants paid	-	6,538
Honorarium	-	398
HST expense	-	7,497
Insurance	3,676	2,170
Licenses and fees	1,298	2,040
Meetings and conferences	777	3,296
Office	3,119	5,016
Professional fees	5,499	3,200
Property taxes	1,046	749
Signage	8,507	-
Subcontracts	17,207	4,566
Telephone	2,309	1,248
Trans Canada Trail Project	377,797	451,147
Wages and benefits	53,279	24,299
	<u>475,521</u>	<u>513,233</u>
Excess of revenue over expenses from operations	85,652	29,395
Unrealized exchange gain (loss)	(4,093)	16,423
	<u>81,559</u>	<u>45,818</u>
Excess of revenue over expenses	81,559	45,818
Unrestricted net assets, beginning of year	222,521	176,703
	<u>222,521</u>	<u>176,703</u>
Unrestricted net assets, end of year	\$ 304,080	\$ 222,521

The accompanying notes are an integral part of these financial statements.

Lake Superior Watershed Conservancy
Consolidated Statement of Cash Flows

For the year ended December 31	2016	2015
Cash flows from operating activities		
Excess of revenue over expenses from operations	\$ 81,559	\$ 45,818
Amortization	762	996
	82,321	46,814
Changes in non-cash working capital balances		
Accounts receivable	(31,196)	(13,382)
Prepaid expenses	2,301	(2,931)
Accounts payable and accrued liabilities	13,273	1,325
	66,699	31,826
Cash flows from investing activities		
Purchase of capital assets	(1,817)	-
Increase in cash and equivalents during the year	64,882	31,826
Cash and cash equivalents, beginning of year	112,869	81,043
Cash and cash equivalents, end of year	\$ 177,751	\$ 112,869

The accompanying notes are an integral part of these financial statements.

Lake Superior Watershed Conservancy

Notes to Consolidated Financial Statements

December 31, 2016

1. Significant accounting policies

Nature of Operations Lake Superior Watershed Conservancy is incorporated under the Canada Not-For-Profit Act without share capital and is a registered charity under the Income Tax Act. The organization is exempt from income taxation under section 149(1)(f) of the Income Tax Act. Its purpose is to conserve and protect the Lake Superior watershed.

Basis of Accounting The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

Basis of Consolidation The organization controls Lake Superior Watershed Conservancy Inc., since the organization appoints and shares a Board of Directors with Lake Superior Watershed Conservancy Inc. Lake Superior Watershed Conservancy Inc. was established to raise funds for the use of the organization for its charitable activities in the United States. Lake Superior Watershed Conservancy Inc. is incorporated in the State of Michigan and is classified as a Public Charity in the US Internal Revenue Code.

Lake Superior Watershed Conservancy Inc. has been consolidated in the organization's financial statements.

Revenue Recognition The organization 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.

Capital Assets Capital assets are recorded at cost. Amortization, based on the estimated useful life of the asset, using the straight line basis, is as follows:

Equipment - 5 years

Financial Instruments Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, they are reported at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired.

Foreign Currency Translation Foreign currency accounts are translated to Canadian dollars as follows:

At the year end date, revenues and expenses are translated into Canadian dollars by the use of the average exchange rate for the year. At the year end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date. The resulting net foreign exchange gain or loss is included in income in the current period.

Contributed Services A number of organizations and individuals donate materials to the organization and a number of volunteers contribute a significant amount of hours to assist the organization in carrying out its activities. Because of the difficulty of determining their fair value, contributed services are not recognized in the financial statements.

Lake Superior Watershed Conservancy

Notes to Consolidated Financial Statements

December 31, 2016

1. Significant accounting policies (continued)

Use of Estimates

The preparation of financial statements in accordance 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 at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

2. Capital assets

	2016		2015	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 92,500	\$ -	\$ 92,500	\$ -
Equipment	3,812	1,758	1,995	996
	<u>\$ 96,312</u>	<u>\$ 1,758</u>	<u>\$ 94,495</u>	<u>\$ 996</u>
Net book value		<u>\$ 94,554</u>		<u>\$ 93,499</u>

3. Financial instrument risk

The organization's management monitors, evaluates and manages the principal risks assumed with financial instruments on a daily basis. The risks that arise from transacting financial instruments include liquidity risk, currency risk and credit risk.

Liquidity risk

Liquidity risk arises from the organization's management of accounts payable and accrued liabilities. It is the risk that the organization will encounter difficulty in meeting its financial obligations as they fall due.

Currency risk

Currency risk arises from the organization's financial instruments denominated in U.S. dollars. It 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 Canadian dollar equivalent of these balances are:

Bank	\$ 72,729
Accounts payable	\$ 5,996

Credit risk

Credit risk arises from the organization's accounts receivable. It is the risk that a third party will fail to discharge its obligation to the organization thereby reducing the expected cash inflow.