

Muskoka Conservancy
Financial Statements
For the year ended December 31, 2016

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Independent Auditor's Report

To the Board of Directors of Muskoka Conservancy

We have audited the accompanying financial statements of Muskoka Conservancy which comprise the statement of financial position as at December 31, 2016, and the statement of operations, statement of changes in net assets and statement of 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.

Auditor's 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 auditor's 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 auditor considers 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 qualified audit opinion.

Basis for Qualified Opinion

In common with many not-for-profit organizations, Muskoka Conservancy derives revenue from donations and fundraising activities, 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 Muskoka Conservancy. Therefore, we were not able to determine whether any adjustments might be necessary to donations and fundraising revenue, excess of revenues over expenses, and cash flows from operations for the years ended December 31, 2016 and December 31, 2015, current assets as at December 31, 2016 and December 31, 2015, and net assets as at January 1 and December 31 for both the 2016 and 2015 years. Our audit opinion on the statements for the year ended December 31, 2016 was modified accordingly because of the possible effects of this limitation in scope.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Muskoka Conservancy as at December 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.

BDO Canada LLP

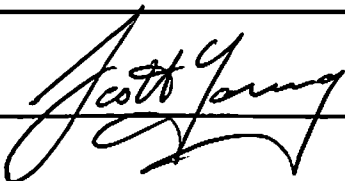
Chartered Professional Accountants, Licensed Public Accountants

Bracebridge, Ontario
April 29, 2017

**Muskoka Conservancy
Statement of Financial Position**

December 31	2016	2015
Assets		
Current		
Cash	\$ 121,890	\$ 69,449
Short-term investments	299,648	92,049
Accounts receivable	11,151	11,677
Inventory	10,204	12,430
Prepaid expenses	5,859	6,794
	<u>448,752</u>	<u>192,399</u>
Restricted cash and investments (Note 2)	902,012	758,183
Capital assets (Note 3)	2,466	3,767
Nature reserves (Note 4)	8,201,137	8,201,137
Conservation easements (Note 5)	5,963,150	5,963,150
	<u>\$ 15,517,517</u>	<u>\$ 15,118,636</u>
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 6)	\$ 32,042	\$ 66,312
Deferred contributions (Notes 2 & 7)	897,012	753,183
	<u>929,054</u>	<u>819,495</u>
Deferred contributions related to capital assets (Note 8)	721	1,184
	<u>929,775</u>	<u>820,679</u>
Net assets		
Invested in nature reserves and easements	14,164,287	14,164,287
Internally restricted net assets - legacy fund (Note 9)	156,587	144,542
Restricted for endowment purposes	5,000	5,000
Unrestricted	261,868	(15,872)
	<u>14,587,742</u>	<u>14,297,957</u>
	<u>\$ 15,517,517</u>	<u>\$ 15,118,636</u>

On behalf of the Board:

	Director
	<i>EXECUTIVE</i> Director

Muskoka Conservancy Statement of Changes in Net Assets

For the year ended December 31	Internally Restricted 2016	Unrestricted 2016	Restricted for Endowment 2016	Nature Reserves and Easements 2016	Total 2016	Total 2015
Balance, beginning of year	\$ 144,542	\$ (15,872)	\$ 5,000	\$ 14,164,287	\$ 14,297,956	\$ 14,394,101
Excess of revenue over expenses for the year	-	289,785	-	-	289,785	(96,145)
Internally imposed restriction	12,045	(12,045)	-	-	-	-
Balance, end of year	\$ 156,587	\$ 261,868	\$ 5,000	\$ 14,164,287	\$ 14,587,741	\$ 14,297,956

The accompanying notes are an integral part of these financial statements

Muskoka Conservancy Statement of Operations

For the year ended December 31	2016	2015
Revenue		
Donations	\$ 409,453	\$ 97,383
Donations - in kind (Note 11)	46,995	455
Fundraising	124,550	15,862
Grants (Note 12)	9,860	75,529
Investment income	21,898	33,504
Gain (loss) on disposal of investments	(902)	13,074
Unrealized gain (loss) on investments (Note 7)	47,180	(22,487)
Memberships	39,673	35,631
Sale of products	23,297	22,460
Other	100	2,000
	722,104	273,411
Less contributions deferred (Note 7)	(207,630)	(150,975)
Deferred contributions recognized (Note 7)	63,799	132,559
Amortization of deferred contributions (Note 8)	463	794
	578,736	255,789
Expenses		
Advertising	6,681	4,618
Amortization of capital assets	1,301	1,772
Bank charges and interest	5,457	3,444
Cost of goods sold	13,074	15,292
Dues, fees and licenses	2,510	4,954
Fundraising costs	74,840	3,033
Insurance	4,375	4,905
MLA water quality expenses	14,042	42,762
Office and general	9,003	47,506
Professional fees	35,772	44,156
Property taxes (recovery)	(190)	9,306
Rent	13,004	15,220
Telephone	1,837	3,144
Travel	1,035	6,274
Wages and benefits	106,210	145,548
	288,951	351,934
Excess (deficiency) of revenues over expenses for the year	\$ 289,785	\$ (96,145)

The accompanying notes are an integral part of these financial statements

Muskoka Conservancy
Statement of Cash Flows

For the year ended December 31	2016	2015
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenues over expenses for the year	\$ 289,785	\$ (96,145)
Adjustments for		
Amortization of capital assets	1,301	1,772
Amortization of deferred contributions related to capital assets	(463)	(794)
	<u>290,623</u>	<u>(95,167)</u>
Changes in non-cash working capital balances		
Short-term investments	(207,599)	68,445
Accounts receivable	526	8,733
Inventory	2,226	2,051
Prepaid expenses	935	1,241
Accounts payable and accrued liabilities	(34,270)	32,115
	<u>52,441</u>	<u>17,418</u>
Investing activities		
Purchase of capital assets	-	(796)
	<u>52,441</u>	<u>16,622</u>
Increase in cash during the year	52,441	16,622
Cash, beginning of year	<u>69,449</u>	<u>52,827</u>
Cash, end of year	\$ 121,890	\$ 69,449

Muskoka Conservancy

Notes to Financial Statements

December 31, 2016

1. Summary of Significant Accounting Policies

i) Nature and Purpose of Organization

Muskoka Conservancy ("organization") is incorporated without share capital under the laws of Canada. The organization shall be carried on without the purpose of gain for its members and any profits or accretions to the organization shall be used in promoting its objects.

The organization operates programs and performs research towards protection, preservation, and enhancement of Muskoka and adjacent areas for recreational use and enjoyment as a part of the natural heritage of Canada.

The organization is a registered charity and, as such, is exempt from income tax and may issue income tax receipts to donors.

ii) Basis of Accounting

These financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO).

iii) Revenue Recognition

The organization follows the deferral method of accounting for contributions.

Restricted contributions are recognized as revenue of the appropriate fund in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue of the appropriate fund 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 net investment income is recognized as revenue in the year in which the related expenses are incurred. Restricted net investment income that must be added to the principal amount of resources held for endowment is recognized as a direct increase in net assets. Unrestricted net investment income is recognized as revenue when earned.

Revenues from products sold are recognized when delivered to the customers.

iv) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is generally determined on a first-in, first-out basis.

v) Capital Assets

Capital assets are stated at cost less accumulated amortization. Contributed tangible capital assets are recorded at fair value at the date of contribution and are amortized, unless fair value is not determinable in which case contributed tangible capital assets are recorded at nominal value at the date of contribution.

Amortization based on the estimated useful life of the asset is calculated as follows:

Computers and equipment	- 30 - 45%	declining balance basis
Equipment	- 30%	declining balance basis
Furniture and fixtures	- 20%	declining balance basis

Muskoka Conservancy Notes to Financial Statements

December 31, 2016

1. Summary of Significant Accounting Policies (continued)

vi) Contributed Materials and Services

Volunteers contribute many hours per year to assist the organization in carrying out its activities. Due to the difficulty of determining their fair value, these contributed services are not recognized in the financial statements.

Contributed materials and services which are used in the normal course of the organization's operations and would otherwise have been purchased are recorded at their fair value at the date of contribution if fair value can be reasonably estimated.

vii) Financial Instruments

Financial Instruments are recorded at fair value at initial recognition.

In subsequent periods, equities traded in an active market are reported at fair value, with any change in fair value reported in income. All other financial instruments are reported at cost or amortized cost less impairment. Transaction costs on the acquisition, sale or issue of financial instruments are expensed for those items measured at fair value and charged to the financial instrument for those measured at amortized cost.

Financial assets are tested for impairment when indicators of impairment exist.

2. Restricted Cash and Investments

	<u>2016</u>	<u>2015</u>
Cash	\$ 10,391	\$ 17,573
Fixed income investments - maturing 2019 - 2032, with interest ranging from 1.35% to 6.93%	251,378	246,815
Portfolio shares	308,605	261,513
Mutual funds	72,653	62,785
Foreign securities	28,324	29,346
Guaranteed Investment Certificates and investment savings	225,661	135,151
	<hr/>	<hr/>
Restricted cash and investments - general (Note 7)	897,012	753,183
Restricted investment - endowment	5,000	5,000
	<hr/>	<hr/>
	\$ 902,012	\$ 758,183

The organization is exposed to interest rate risk on its fixed and floating interest rate financial instruments. The fair value of fixed rate instruments will fluctuate as market rates change.

The organization is exposed to market risk through its long-term investments which are held in portfolio shares and mutual fund markets.

The organization is exposed to credit risk arising from bank and investment accounts being held at one financial institution and deposits are only insured up to \$100,000.

**Muskoka Conservancy
Notes to Financial Statements**

December 31, 2016

3. Capital Assets

	2016		2015	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computers and equipment	\$ 35,976	\$ 30,460	\$ 35,976	\$ 29,330
Equipment	7,501	10,768	7,501	10,651
Furniture and fixtures	918	701	918	647
	\$ 44,395	\$ 41,929	\$ 44,395	\$ 40,628
Net book value		\$ 2,466		\$ 3,767

4. Nature Reserves

	2016	2015
Browning Island, Town of Bracebridge	\$ 1,219,033	\$ 1,219,033
Catherine Brook, Town of Huntsville	85,000	85,000
Campbell-Mason, Township of Muskoka Lakes	3,016,533	3,016,533
Dyer Memorial, Town of Huntsville	264,555	264,555
Eileen Gowan Island, Town of Bracebridge	254,740	254,740
Grand Family Memorial, Townships of Muskoka Lakes	186,276	186,276
Indigo Marsh, Town of Huntsville	44,000	44,000
Island K, Township of Muskoka Lakes	2,025,104	2,025,104
Kahshe Sanctuary, Town of Gravenhurst	1,143	1,143
Kitty's Wish, Town of Huntsville	27,189	27,189
Loon Lake, Town of Gravenhurst	80,941	80,941
McLeans Bay, Town of Gravenhurst	188,500	188,500
Muskoka Delta, Town of Bracebridge	40,000	40,000
Musquash Road, Township of Muskoka Lakes	60,765	60,765
Nelson Head, Town of Huntsville	85,335	85,335
Pileated Ridge, Town of Huntsville	53,082	53,082
Pen Lake Farms, Township of Lake of Bays	211,303	211,303
Portage Lake, Township of Sequin	17,918	17,918
Robinson Lake, Town of Huntsville	39,744	39,744
Upjohn, Town of Bracebridge	127,113	127,113
Aufhaben, Parry Sound District	172,863	172,863
	\$ 8,201,137	\$ 8,201,137

Muskoka Conservancy
Notes to Financial Statements

December 31, 2016

5. Conservation Easements

	<u>2016</u>	<u>2015</u>
Barisic, Town of Huntsville	\$ 1,092	\$ 1,092
Braaten, Township of Muskoka Lakes	1,028,500	1,028,500
Campbell-Mason, Township of Muskoka Lakes	606,952	606,952
Goering, Township of Lake of Bays	250,000	250,000
Island K, Township of Muskoka Lakes	1	1
Longline Lake, Township of Lake of Bays	3,000	3,000
Strawberry Mountain, Township of Lake of Bays	624,182	624,182
Turner Island, Township of Muskoka Lakes	2,006,315	2,006,315
Wolf Mountain, Township of Lake of Bays	693,500	693,500
Yoho Island, Township of Muskoka Lakes	575,000	575,000
Darker, Severn Township	1	1
Upjohn, Town of Bracebridge	6,396	6,396
Lischkoff, Township of Lake of Bays	168,211	168,211
	<u>\$ 5,963,150</u>	<u>\$ 5,963,150</u>

6. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities is \$3,110 (2015 - \$3,130) in government remittances payable.

Muskoka Conservancy Notes to Financial Statements

December 31, 2016

7. Deferred Restricted Contributions

Deferred land maintenance and defence contributions represent externally restricted donations and investment income received which have not been spent for the restricted purpose. The amount of revenue recognized during the year is based on expenses incurred to monitor and support stewardship activities of the nature reserves and conservation easements.

Deferred property acquisition contributions represent externally restricted grants and donations received which have not yet been spent for the restricted purpose. The amount of revenue recognized during the year is based on expenses incurred and associated with land acquisition.

Deferred general and grant contributions represent externally restricted donations and grants received which have not yet been spent for the restricted purpose. The amount of revenue recognized during the year is based on direct and indirect expenses incurred to administer specific projects.

Deferred Dyer Memorial funds were received as part of the transfer of the lands known as the Dyer Memorial. The funds are to be used for the maintenance and benefit of the monument and memorial site designated as Part 1 on Plan 35R-22980 and are held in a separate account.

The changes in deferred restricted contributions for the year are as follows:

	Land Maintenance and Defence	Property Acquisition	General and Grants	Dyer Memorial	Total 2016	Total 2015
Balance, beginning of year	\$ 37,425	\$ 55,709	\$ 47,073	\$ 612,974	\$ 753,181	\$ 734,765
Contributions received	2,800	123,100	17,008	-	142,908	140,480
Investment income earned	-	-	-	18,444	18,444	19,908
Realized gains (losses)	-	-	-	(902)	(902)	13,074
Unrealized gains (losses)	-	-	-	47,180	47,180	(22,487)
Contributions deferred	2,800	123,100	17,008	64,722	207,630	150,975
Contributions recognized	(621)	(6,794)	(38,164)	(18,220)	(63,799)	(132,559)
Balance, end of year	\$ 39,604	\$ 172,015	\$ 25,917	\$ 659,476	\$ 897,012	\$ 753,181

Muskoka Conservancy
Notes to Financial Statements

December 31, 2016

7. Deferred Restricted Contributions (continued)

A further breakdown of certain deferred restricted contributions is as follows:

	2016	2015
Land maintenance and defence		
Maintenance and defence, general	\$ 13,307	\$ 10,550
Island K monitoring	13,080	13,080
McVittie monitoring	10,648	11,228
Cliffs Island monitoring	1,000	1,000
Tough technical fund	569	569
Legal defence fund	1,000	1,000
Total maintenance and defence	39,604	37,427
Property acquisition	172,017	55,709
General and grants		
Esson bursary	913	738
Private Landowner Stewardship (PSMSN)	21,927	21,963
MNR fist habitat	442	442
MLA water quality	2,061	1,132
Little Sprouts	572	1,250
Healthy trees grant	-	21,548
Total general and grants	25,915	47,073
Dyer Memorial fund	659,476	612,974
Total	\$ 897,012	\$ 753,183

8. Deferred Contributions Related to Capital Assets

Deferred contributions represent the unamortized portion of capital assets purchased using operating grants received from the Harbinger Grant, Service Canada and the Ontario Trillium Foundation. The changes for the year in the deferred contributions balance are as follows:

	2016	2015
Balance, beginning of year	\$ 1,184	\$ 1,978
Amortization of deferred contributions	(463)	(794)
Balance, end of year	\$ 721	\$ 1,184

Muskoka Conservancy Notes to Financial Statements

December 31, 2016

9. Internally Restricted Net Assets

The internally restricted net assets are comprised of funds known as the legacy fund. This fund represents internally restricted donations and related investment revenues which have not yet been spent. These funds are to be used to support the ongoing operational budget for the purpose of maintaining the organization's ability to continue as a going concern with less reliance on external funding.

10. Commitments

The company has leased premises and equipment for which the minimum annual lease payments over the next four years are approximately as follows:

Year	Amount
2017	\$ 6,527
2018	1,850
2019	925

11. Contributed Materials and Services

During the year materials consisting of items for resale and silent auction items were contributed to the organization. Management has determined the fair value of these contributed materials to be \$46,995. These amounts have been recorded as revenue and expenses in these financial statements.

Contributed services are not recognized in the financial statements because of the difficulty in determining their fair value.

	2016	2015
Items for resale	\$ 798	\$ 1,035
Items for silent auction	46,197	-
Other	-	455
	\$ 46,995	\$ 1,490

12. Grants

Sources of grant revenue recognized as revenue in the year are as follows:

	2016	2015
Municipal	\$ 1,860	\$ 500
Provincial	-	61,529
Private	8,000	13,500
	\$ 9,860	\$ 75,529