NATURE CONSERVANCY CANADA

CONSERVATION DE LA NATURE CANADA

AUDITED FINANCIAL STATEMENTS
2022-2023


Photo: Madeline Maher


Photo: Sean Feagan


Photo: Étienne Artigau


Photo: Jon Werenko

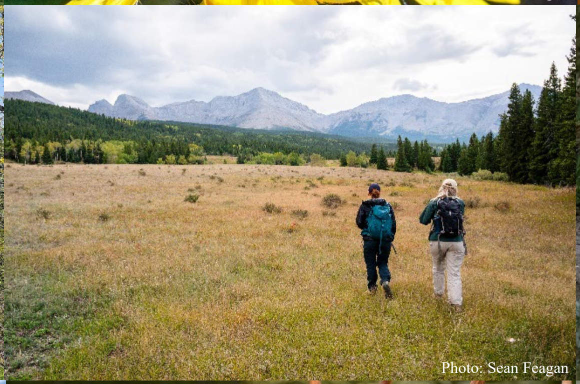
Photo: Sean Feagan


Photo: Nicholas Carbol Media


Photo: Sean Feagan


Photo: Linda Tanner


Photo: Denis Trépanier

INDEPENDENT AUDITOR'S REPORT

To the Members of
The Nature Conservancy of Canada

Opinion

We have audited the financial statements of **The Nature Conservancy of Canada** [the "Conservancy"], which comprise the statement of financial position as at May 31, 2023, and the statement of operations and changes in operating surplus, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Conservancy as at May 31, 2023, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Conservancy in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Conservancy's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Conservancy or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Conservancy's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Conservancy's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Conservancy's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Conservancy to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
October 5, 2023

STATEMENT OF FINANCIAL POSITION

As at May 31

	2023 $	2022 $
Assets		
Current		
Cash and cash equivalents	**34,183,604**	51,262,537
Short-term investments, at amortized cost *[notes 3[a] and 6[c][v]]*	**60,600,000**	48,000,000
Accounts receivable, deposits on land and other *[note 12]*	**22,298,989**	12,872,177
Total current assets	**117,082,593**	112,134,714
Investments, at fair value *[note 3[b]]*	**217,949,919**	191,475,635
Capital assets, net *[note 4]*	**799,374**	886,475
Conservation lands and agreements *[note 5]*	**1,078,090,993**	888,513,278
	1,413,922,879	1,193,010,102
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities	**4,290,230**	2,979,854
Deferred contributions *[note 7]*	**80,755,827**	79,603,400
Short-term debt *[note 6]*	**5,589,000**	—
Total current liabilities	**90,635,057**	82,583,254
Commitments, guarantees and contingencies *[notes 3[c], 6[c], 6[d] and 13]*		
Net assets		
Internally restricted		
Invested in conservation lands and agreements *[note 5[c]]*	**1,072,501,993**	888,513,278
Other *[note 8]*	**33,847,070**	31,859,461
	1,106,349,063	920,372,739
Operating surplus	**5,903,819**	5,288,874
Science and Stewardship Endowments *[note 9]*	**211,034,940**	184,765,235
Total net assets	**1,323,287,822**	1,110,426,848
	1,413,922,879	1,193,010,102

See accompanying notes

On behalf of the Board:

Board Chair

Audit Committee Chair

STATEMENT OF OPERATIONS AND CHANGES IN OPERATING SURPLUS

Year ended May 31

	2023 $	2022 $
Revenue		
Donations of conservation lands and agreements *[notes 5[b] and 11]*	**61,125,905**	24,272,795
Other donations and grants *[notes 7, 11 and 12]*	**213,053,683**	127,973,986
Proceeds from property sales *[note 5[d]]*	**4,933**	—
Other *[notes 9[b] and 10]*	**15,391,723**	17,880,488
	289,576,244	170,127,269
Expenses		
Conservation lands and agreements acquired *[note 5[b]]*		
Purchased	**122,933,436**	48,631,099
Donated	**61,125,905**	24,272,795
Contributions to properties acquired and property-related expenses incurred by others	**18,969,132**	19,301,470
	203,028,473	92,205,364
Property-related *[note 6[e]]*	**45,812,389**	36,770,239
Support *[note 6[e]]*	**34,069,745**	30,019,442
	282,910,607	158,995,045
Excess of revenue over expenses for the year	**6,665,637**	11,132,224
Net transfer to internally restricted net assets *[note 8]*	**(928,746)**	(5,711,878)
Net transfer to internally endowed net assets *[notes 9[b] and 9[c]]*	**(5,121,946)**	(3,619,370)
Net increase in operating surplus	**614,945**	1,800,976
Operating surplus, beginning of year	**5,288,874**	3,487,898
Operating surplus, end of year	**5,903,819**	5,288,874

See accompanying notes

STATEMENT OF CHANGES IN NET ASSETS

Year ended May 31

	2023					
		Internally restricted				
	Operating surplus $	Invested in conservation lands and agreements $	Other $	Total $	Science and Stewardship Endowments $	Total $
Balance, beginning of year	**5,288,874**	**888,513,278**	**31,859,461**	**920,372,739**	**184,765,235**	**1,110,426,848**
Excess of revenue over expenses for the year	**6,665,637**	**—**	**—**	**—**	**—**	**6,665,637**
Purchases of conservation lands and agreements internally financed *[note 5[b]]*	**—**	**122,933,436**	**—**	**122,933,436**	**—**	**122,933,436**
Transfer of conservation lands and agreements to others, net *[note 5[b]]*	**—**	**(70,058)**	**—**	**(70,058)**	**—**	**(70,058)**
Cost of conservation lands and agreements sold *[note 5[d]]*	**—**	**(568)**	**—**	**(568)**	**—**	**(568)**
Donations of conservation lands and agreements *[note 5[b]]*	**—**	**61,125,905**	**—**	**61,125,905**	**—**	**61,125,905**
Endowment contributions *[note 9]*	**—**	**—**	**—**	**—**	**4,078,535**	**4,078,535**
Amounts available for spending in excess of income earned on externally endowed net assets *[note 9[b]]*	**—**	**—**	**—**	**—**	**(967,775)**	**(967,775)**
Net transfer to internally endowed net assets *[notes 9[b] and 9[c]]*	**(5,121,946)**	**—**	**—**	**—**	**5,121,946**	**—**
Other interfund transfers *[note 8]*	**(928,746)**	**—**	**1,987,609**	**1,987,609**	**(1,058,863)**	**—**
Transfer from deferred contributions *[note 7]*	**—**	**—**	**—**	**—**	**19,095,862**	**19,095,862**
Balance, end of year	**5,903,819**	**1,072,501,993**	**33,847,070**	**1,106,349,063**	**211,034,940**	**1,323,287,822**

See accompanying notes

STATEMENT OF CHANGES IN NET ASSETS

Year ended May 31

	2022					
		Internally restricted				
	Operating surplus $	**Invested in conservation lands and agreements** $	**Other** $	**Total** $	**Science and Stewardship Endowments** $	**Total** $
Balance, beginning of year	3,487,898	817,046,069	26,004,672	843,050,741	175,494,803	1,022,033,442
Excess of revenue over expenses for the year	11,132,224	—	—	—	—	11,132,224
Purchases of conservation lands and agreements internally financed *[note 5[b]]*	—	48,631,099	—	48,631,099	—	48,631,099
Transfer of conservation lands and agreements from others, net *[note 5[b]]*	—	(1,436,685)	—	(1,436,685)	—	(1,436,685)
Donations of conservation lands and agreements *[note 5[b]]*	—	24,272,795	—	24,272,795	—	24,272,795
Endowment contributions *[note 9]*	—	—	—	—	2,372,479	2,372,479
Amounts available for spending in excess of income earned on externally endowed net assets *[note 9[b]]*	—	—	—	—	(3,851,860)	(3,851,860)
Net transfer to internally endowed net assets *[notes 9[b] and 9[c]]*	(3,619,370)	—	—	—	3,619,370	—
Other interfund transfers *[note 8]*	(5,711,878)	—	5,854,789	5,854,789	(142,911)	—
Transfer from deferred contributions *[note 7]*	—	—	—	—	7,273,354	7,273,354
Balance, end of year	5,288,874	888,513,278	31,859,461	920,372,739	184,765,235	1,110,426,848

See accompanying notes

STATEMENT OF CASH FLOWS

Year ended May 31

	2023 $	2022 $
Operating activities		
Excess of revenue over expenses for the year	**6,665,637**	11,132,224
Add items not affecting cash		
Amortization	**327,947**	347,311
Loss on capital assets written off	**3,782**	—
	6,997,366	11,479,535
Changes in non-cash working capital balances related to operations		
(Increase) in accounts receivable and other	**(9,723,637)**	(4,073,775)
Increase in accounts payable and accrued liabilities	**1,310,376**	523,924
Increase in deferred contributions	**13,476,903**	21,119,554
Cash provided by operating activities	**12,061,008**	29,049,238
Investing activities		
Purchase of long-term investments, net	**(20,670,673)**	(8,728,067)
Increase in short-term investments, net	**(12,600,000)**	(48,000,000)
Decrease (increase) in deposits on land	**296,825**	(939,515)
Increase in conservation lands and agreements	**(5,589,000)**	—
Purchase of capital assets	**(244,628)**	(473,634)
Cash used in investing activities	**(38,807,476)**	(58,141,216)
Financing activities		
Endowment contributions	**4,078,535**	2,372,479
Proceeds of short-term debt	**5,589,000**	—
Cash provided by financing activities	**9,667,535**	2,372,479
Net decrease in cash during the year	**(17,078,933)**	(26,719,499)
Cash and cash equivalents, beginning of year	**51,262,537**	77,982,036
Cash and cash equivalents, end of year	**34,183,604**	51,262,537

See accompanying notes

1. Organization

The Nature Conservancy of Canada [the "Conservancy"] was incorporated under the laws of Canada as a corporation without share capital under letters patent dated November 28, 1962, and has continued under the new *Canada Not-for-profit Corporations Act* as at September 4, 2014. The Conservancy is registered as a charitable organization and, accordingly, is exempt from income taxes.

The Conservancy is a national organization dedicated to protecting areas of biological diversity for their intrinsic value and for the benefit of future generations. Its mission is to conserve important natural areas and biological diversity across all regions of Canada.

2. Summary of significant accounting policies

These financial statements are 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 significant accounting policies set out below.

Revenue recognition

The Conservancy follows the deferral method of accounting for contributions, which include grants and donations. Grants and bequests are recorded in the accounts when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Other donations are recorded when received since pledges are not legally enforceable claims. Unrestricted contributions are recognized as revenue when recorded in the accounts. Externally restricted contributions, except endowment contributions, are deferred when initially recorded in the accounts and recognized as revenue in the year in which the related expenses are recognized. Externally restricted endowment contributions are recognized as direct increases in net assets when recorded in the accounts.

Contributions of conservation lands and agreements are recorded as revenue and as expenses in the statement of operations and changes in operating surplus in the year in which title to the property is acquired.

Contributions of non-conservation lands [trade lands] are recorded at the fair market value at the time of the contribution. These lands are held to be disposed of and as such are classified as short-term on the statement of financial position. If the contribution is for a restricted purpose, the amount is initially recorded as deferred contributions and recognized as revenue in the year when the stipulations are met. If the contribution is unrestricted, the amount is recorded in revenue in the year received.

Proceeds from property sales are recognized when title is transferred.

Revenue related to the sale of carbon offset credits is recognized when the Conservancy has transferred to the buyer the significant risks and rewards of the ownership of the carbon credits, the amount is fixed and determinable and collectability is reasonably assured.

Investment income, which consists of interest, dividends, distributions from pooled and other funds, exchange-traded funds, hedge funds, alternative investments, fixed income investments and realized and unrealized gains and losses, is recorded as other revenue in the statement of operations and changes in operating surplus, except to the extent that it is externally restricted, in which case it is added to or deducted from endowment net assets *[note 9]* or other restricted balances *[note 7]*.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and short-term investments with maturities of less than 90 days at the date of purchase held for operating purposes. Cash and investments meeting the definition of cash and cash equivalents that are held for investing rather than operating purposes are classified as long-term investments.

Financial instruments

Investments reported at fair value consist of exchange-traded funds, funds and fixed income investments that are Other funds and alternative investments are valued at the net asset value per unit reported by each investment fund manager, which represents fair value.

All transactions are recorded on the trade date. Transaction costs are recognized consistent with the recognition of investment income (loss).

Investments in short-term investments are initially recorded at fair value plus transaction costs and are subsequently measured at amortized cost using the straight-line method, less any provision for impairment.

Other financial instruments, including cash and cash equivalents, accounts receivable, deposits on land and other and accounts payable and accrued liabilities, are initially recorded at fair value and subsequently measured at cost, net of any provisions for impairment.

Capital assets

Purchased tangible and intangible capital assets are recorded at cost. Contributed tangible and intangible capital assets are recorded at fair market value. Amortization is provided using the following annual rates and methods:

Tangible	
Computer hardware	20% straight-line
Furniture and fixtures	10% straight-line
Leasehold improvements	Straight-line over the term of the lease
Stewardship equipment	20% straight-line
Intangible	
Computer software	20% straight-line

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not contribute to the Conservancy's ability to provide goods and services. Any impairment results in a write-down of the asset and an expense in the statement of operations and changes in operating surplus. An impairment loss is not reversed if the fair value of the related asset subsequently increases.

Conservation lands and agreements

Purchased conservation lands and agreements are recorded at cost when title is transferred. The purchases are recorded as an expense to the extent that the purchase is internally financed. Repayments of debt related to property acquisitions are expensed when made. An amount equal to the expense related to purchases and debt repayments is added to net assets invested in conservation lands and agreements. When a loan is obtained in a subsequent year related to an internally financed purchase, an amount equal to the debt is transferred from net assets invested in conservation lands and agreements to operating surplus.

Contributed conservation lands and agreements are recorded at fair market value when title is transferred. When purchased conservation lands and agreements are acquired substantially below fair market value, the difference between consideration paid and fair value is reported as contributed conservation lands and agreements. The contributions are recorded as revenue and expenses and also as an asset offset by net assets invested in conservation lands and agreements.

Properties transferred to others are recorded as a reduction of conservation lands and agreements and net assets invested in conservation lands and agreements.

Foreign currency translation

Revenue and expenses denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect on the date of the related transaction. Monetary assets and liabilities are translated into Canadian dollars at the year-end spot rates. Non-monetary assets and liabilities are translated at the historic rate. Exchange gains and losses are included in the statement of operations and changes in operating surplus, except to the extent that they relate to investments, in which case they are accounted for consistent with investment income (loss).

Allocation of expenses

Salaries and benefits expenses are allocated between property-related and support expenses based on the primary job responsibilities of the employee's position. No support expenses are allocated to property-related expenses.

Donated materials and services

Donated materials and services are not recognized in the financial statements.

3. Investments

[a] Short-term investments consist primarily of short-term notes and guaranteed investment certificates that represent the investment of excess funds related to deferred contributions classified as short-term. As at May 31, 2023, these securities have a weighted average rate of return of 5.12% [2022 – 1.30%] and terms to maturity of 1 to 250 days [2022 – 1 to 62 days].

[b] Long-term investments, which are primarily held for endowments and certain internally restricted net assets, are recorded at fair value and consist of the following:

	2023		**2022**	
	$	%	$	%
Cash	**10,332,128**	**5**	11,867,875	6
Exchange-traded funds				
Canadian bonds	**28,011,124**	**13**	22,441,246	12
American bonds	**6,556,769**	**3**	3,683,888	2
Canadian equities	**975,673**	**—**	499,530	—
American equities	**26,499,069**	**12**	17,591,858	9
Canadian gold bullion	**1,654,606**	**1**	1,557,644	1
Other international equities	**5,499,708**	**3**	4,238,589	2
	69,196,949	**32**	50,012,755	26
Funds				
Canadian	**7,793,595**	**4**	6,446,319	3
International	**20,582,656**	**9**	18,201,444	10
Global	**53,170,195**	**24**	53,307,612	28
	81,546,446	**37**	77,955,375	41
Alternative investment funds				
Equity hedge	**2,872,331**	**1**	2,648,484	1
Diversifying hedge	**19,014,833**	**9**	16,316,022	9
Multi-asset	**4,672,811**	**2**	4,289,824	2
Commodities	**3,009,002**	**1**	4,975,911	3
Private investment	**23,308,445**	**11**	19,437,268	10
Infrastructure	**3,996,974**	**2**	3,972,121	2
	56,874,396	**26**	51,639,630	27
	217,949,919	**100**	191,475,635	100

As at May 31, 2023, Canadian bond exchange-traded funds have a weighted average maturity of 10.5 years [2022 – 11.5 years] and have a weighted average interest rate of 2.90% [2022 – 2.60%].

[c] As at May 31, 2023, the Conservancy has uncalled commitments related to investments in private funds of $20,168,138 [2022 – $15,185,513] that are expected to be called in the next four to seven years. The Conservancy has agreed to dispose of investments in hedge funds of $80,458 [2022 – $95,422] over the next two years. The proceeds will be used to finance uncalled commitments and other investments.

4. Capital assets

[a] Capital assets consist of the following:

	2023		
	Cost $	Accumulated amortization $	Net book value $
Tangible			
Computer hardware	**901,753**	**508,123**	**393,630**
Furniture and fixtures	**244,556**	**125,342**	**119,214**
Leasehold improvements	**167,597**	**103,491**	**64,106**
Stewardship equipment	**135,042**	**53,808**	**81,234**
Intangible			
Computer software	**356,356**	**215,166**	**141,190**
	1,805,304	**1,005,930**	**799,374**

	2022		
	Cost $	Accumulated amortization $	Net book value $
Tangible			
Computer hardware	851,856	483,487	368,369
Furniture and fixtures	224,559	103,726	120,833
Leasehold improvements	359,154	281,540	77,614
Stewardship equipment	133,998	26,800	107,198
Intangible			
Computer software	356,356	143,895	212,461
	1,925,923	1,039,448	886,475

[b] Fully amortized capital assets, that are no longer in use, with a cost of $360,519 [2022 – $992,319] were written off.

[c] During the year, computer hardware with a cost of $4,728 and net book value of $3,782 were written off.

5. Conservation lands and agreements

[a] Conservation lands and agreements consist of the following:

	2023 $	2022 $
Purchased conservation lands *[note 6[c][v]]*	**549,549,118**	445,088,609
Donated conservation lands	**250,411,275**	217,516,269
	799,960,393	662,604,878
Purchased conservation agreements *[note 6[c][v]]*	**95,479,796**	71,463,496
Donated conservation agreements	**182,650,804**	154,444,904
	278,130,600	225,908,400
	1,078,090,993	888,513,278

Conservation lands and agreements, either purchased or donated, are assets held as part of the Conservancy's collection. Conservation agreements are legal agreements entered into by the Conservancy under which a landowner voluntarily restricts or limits the type and amount of development that may take place on his or her land to conserve its natural features. Once registered on title, that agreement runs with the title and binds all future owners.

[b] The continuity of conservation lands and agreements is as follows:

	2023 $	2022 $
Balance, beginning of year	**888,513,278**	817,046,069
Purchases internally financed	**122,933,436**	48,631,099
Purchases financed by debt *[note 6[c][v]]*	**5,589,000**	—
Donated *[note 11]*	**61,125,905**	24,272,795
Transferred to others	**(70,058)**	(1,436,685)
Cost of purchased conservation lands and agreements sold *[note 5[d]]*	**(568)**	—
Balance, end of year	**1,078,090,993**	888,513,278

[c] Net assets internally restricted for conservation lands and agreements are represented by:

	2023 $	2022 $
Conservation lands and agreements *[note 5[a]]*	**1,078,090,993**	888,513,278
Conservation lands and agreements financed by debt *[note 6[b]]*	**(5,589,000)**	—
	1,072,501,993	888,513,278

[d] In 2023, the Conservancy sold conservation properties for proceeds of $4,933 and a carrying value of $568 *[note 5[b]]*; the sale proceeds were used for disposition costs and the remainder restricted for future stewardship expenses. In 2022, the Conservancy had no sale of conservation properties.

6. Credit facilities

[a] Short-term debt consists of the following:

	2023 $	2022 $
Notes payable *[note 6[c][v]]*	**5,589,000**	—
	5,589,000	—

[b] Short-term debt is held for the following purposes:

	2023 $	2022 $
Acquisition of conservation lands and agreements *[note 5[c]]*	**5,589,000**	—
	5,589,000	—

[c] The Conservancy has six facilities with one financial institution as follows:

[i] A $3,500,000 revolving facility available by way of a series of term loans to finance up to 50% of the cost of acquisition of real properties, including conservation agreements. The borrowings advanced pursuant to each term loan are repayable in full not later than two years from the date of advance, with interest payable at prime [May 31, 2023 – 6.7%]. As at May 31, 2023 and 2022, the Conservancy has no drawings on this line of credit.

[i]i A $1,500,000 revolving operating line of credit with interest payable at prime plus 0.5% [May 31, 2023 – 7.2%]. As at May 31, 2023 and 2022, the Conservancy has not utilized the facility.

[iii] A $10,000,000 revolving facility available by way of a series of term loans for bridge financing of land conservation and development projects of federal government funding through the natural areas conservation program funding agreement from 2014 to 2019. The agreement was renewed in May 2019 for bridge financing of federal government funding in place, and any amount owed by the Conservancy under the previous agreement is deemed to be a borrowing in the new agreement. The borrowings advanced pursuant to each term loan are repayable within one year of the advance, with interest payable

at prime plus 0.25% [May 31, 2023 – 6.95%]. As at May 31, 2023 and 2022, the Conservancy has no drawings on this facility.

[iv] A $10,000,000 revolving facility available by way of a series of term loans for bridge financing of land conservation and development projects. The borrowings advanced pursuant to each term loan are repayable within two years of the advance with interest payable at prime plus 0.25% [May 31, 2023 – 6.95%]. Borrowings outstanding under this facility plus all amounts under facilities [i], [ii] and [iii] must not exceed at any time the sum of $13,500,000. The amount of borrowing must not exceed 60% of the total value of the related project, and not exceed $10,000,000. As at May 31, 2023 and 2022, the Conservancy has no drawings on this facility.

[v] A $13,000,000 revolving demand facility available by way of Letters of Guarantee, secured by cash collateral in the form of Guaranteed Investment Certificates in the amount of $13,000,000, for bridge financing of land conservation and development projects charged at a fixed fee of 1% per annum on drawn Letters of Guarantee. As of May 31, 2023, the Conservancy had drawn one Letter of Guarantee in the amount of $5,589,000 [2022 – $11,735,000].

[vi] In fiscal 2023, the Conservancy obtained a $13,500,000 revolving demand facility available by way of Letters of Guarantee, charged at a fixed fee of 1% per annum on drawn Letters of Guarantee, fees to be advised on a transaction-by-transaction basis, and a minimum fee of $100. Borrowings outstanding under this facility plus all amounts under facilities [i], [ii], [iii] and [iv] must not exceed at any time the sum of $13,500,000, and the equity of the Conservancy in the property being acquired must be not less than 50%. As of May 31, 2023, the Conservancy had no drawings on this facility.

[d] The Conservancy has provided a general security agreement over all of its assets, excluding conservation lands and agreements and financial assets, for the facilities [i] to [iv] above.

[e] Interest of $28,262 [2022 – nil] related to debt has been recorded in the accounts, of which $13,768 [2022 – nil] relates to the Irrevocable Standby Letter of Credit, and $14,494 [2022 – nil] relates to temporary debt from borrowings and the revolving facility that was incurred for property acquisitions. Interest is classified as property-related or support expenses, depending on the purpose for which the debt was used.

7. Deferred contributions

Deferred contributions represent unspent externally restricted donations for the purchase of properties or donor-specified programs as follows:

	2023 $	2022 $
Balance, beginning of year	**79,603,400**	61,338,717
Add		
Amounts received for restricted purposes *[note 11]*	**209,109,951**	133,681,545
Investment income *[notes 9[b] and 10]*	**2,134,424**	149,088
Amount available for spending related to externally endowed funds *[notes 9[b] and 10]*	**4,636,962**	4,269,394
Less		
Amounts recognized as revenue during the year	**(195,633,048)**	(112,561,990)
Amounts transferred to endowment net assets *[note 9[b]]*	**(19,095,862)**	(7,273,354)
Balance, end of year	**80,755,827**	79,603,400

8. Other internally restricted net assets

[a] Other internally restricted net assets consist of the following:

	2023 $	2022 $
Ted Boswell Land Conservation Fund *[note 8[b]]*	**7,560,485**	6,361,370
Future projects *[note 8[c]]*	**26,286,585**	25,498,091
	33,847,070	31,859,461

[b] The Ted Boswell Land Conservation Fund ["TBLCF"] is an internally restricted fund available for land purchases, other related work and endowments to support stewardship activities. Amounts may be transferred from the TBLCF to operating surplus to help finance the acquisition of conservation lands and agreements and to finance the completion of projects. Amounts may also be transferred to endowment net assets to establish endowments as required by internal policy. The intention is that the amounts transferred from the TBLCF will be replaced by future transfers from operating surplus or by amounts previously transferred to internally endowed net assets when donor restricted contributions are received.

The fiscal 2023 net decrease [2022 – net increase] in the TBLCF represents the loan advances in excess of the loan repayments. In 2022, there was a transfer from internally restricted net assets *[note 8[c]]*.

[c] The net increase (decrease) in other internally restricted net assets for future projects consists of the following:

	2023 $	2022 $
Transfers from operating surplus for future project expenses	**17,761,342**	15,409,255
Transfer to TBLCF net assets *[note 8[b]]*	**(8,000,000)**	(6,000,000)
Transfers to operating surplus related to cost of projects carried out during the year	**(9,026,875)**	(7,379,482)
Transfer from operating surplus in connection with investment income related to internally restricted net assets recorded in the statement of operations and changes in operating surplus	**54,027**	52,344
	788,494	2,082,117

9. Science and Stewardship Endowments

[a] The net assets for Science and Stewardship Endowments consist of amounts subject to donor and Board of Directors imposed restrictions stipulating that the principal be maintained intact and the income used in accordance with the various purposes established by the donor or the Board of Directors.

The Science and Stewardship Endowments consist of the following:

	2023 $	2022 $
Science Endowments		
Externally endowed	**7,277,603**	7,355,226
Stewardship Endowments		
Externally endowed	**127,455,073**	108,568,847
Internally endowed – donor restricted	**32,803,931**	29,405,912
Internally endowed – unrestricted	**43,498,333**	39,435,250
	203,757,337	177,410,009
	211,034,940	184,765,235

[b] Effective July 1, 2005, the Board of Directors established a policy with the objective of protecting the real value of the endowment net assets by limiting the amount of income made available for spending and requiring the reinvestment of any income earned in excess of this limit. The amount available for spending is calculated based on 4.00% [2022 – 3.75%] of the market value of individual funds. The preservation of capital is recorded as a direct increase in endowment net assets for externally endowed funds. For internally endowed unrestricted funds, the preservation of capital is recorded as revenue in the statement of operations and changes in operating surplus and transferred to endowment net assets in the statement of changes in net assets. For internally endowed restricted funds, the preservation of capital is recorded as deferred contributions and transferred to endowment net assets. In any year, should net investment income not be sufficient to fund the amount made available for spending, an amount is transferred from endowment net assets to operating surplus or deferred contributions for this purpose.

For the year ended May 31, 2023, there was investment income of $5,885,540 related to endowment funds. The amount available for spending on externally restricted endowment funds of $4,636,962 less the investment income related to these external endowment funds of $3,669,187 was a deficiency of $967,775 which was recorded as a direct reduction of the externally restricted endowment net assets. The amount made available for spending related to externally endowed restricted funds was recorded in deferred contributions *[note 7]*. The amount available for spending on internally endowed restricted funds of $1,176,236 less the investment income related to these internally endowed restricted funds of $954,130 was a deficiency of $222,106 and is recorded as a transfer from internally endowed restricted net assets to deferred contributions *[note 7]*. The amount made available for spending related to internally endowed restricted funds is recorded in deferred contributions *[note 7]*. The investment income related to internally endowed unrestricted funds of $1,262,222 was recorded as other revenue in the statement of operations and changes in operating surplus. The amount made available for spending related to internally endowed unrestricted funds of $1,577,410 less the investment income related to these internally endowed unrestricted funds was $315,188 and is recorded as a transfer from endowment net assets to operating surplus.

For the year ended May 31, 2022, there was investment income of $542,799 related to endowment funds. The amount available for spending on externally restricted endowment funds of $4,269,394 less the investment income related to these external endowment funds of $417,534 was a deficiency of $3,851,860 which was recorded as a direct reduction of the externally restricted endowment net assets. The amount made available for spending related to externally endowed restricted funds was recorded in deferred contributions *[note 7]*. The amount made available for spending on internally endowed restricted funds of $963,206 plus investment loss related to these internally endowed restricted funds of $18,253 was a deficiency of $981,459 and was recorded as a transfer from internally endowment restricted net assets to deferred contributions *[note 7]*. The investment income related to internally endowed unrestricted funds of $143,516 was recorded as other revenue in the statement of operations and changes in operating surplus. The amount made available for spending related to internally endowed unrestricted funds of $1,348,455 less the investment income related to these internally endowed unrestricted funds was $1,204,939 and was recorded as a transfer from endowment net assets to operating surplus.

[c] For the year ended May 31, 2023, the Board of Directors approved a net transfer of $5,437,134 [2022 – $4,824,309] to the internally endowed unrestricted portion of Stewardship Endowments from operating surplus.

10. Investment income

Investment income earned, included in other revenue in the statement of operations and changes in operating surplus, consists of the following:

	2023 $	2022 $
Total investment income, net of management fees	**10,041,542**	1,102,136
Amount allocated (to) from deferred contributions *[note 7]*		
Amount available for spending related to externally endowed funds *[note 9[b]]*	**(4,636,962)**	(4,269,394)
Investment (income) loss on internally endowed restricted funds *[note 9[b]]*	**(954,130)**	18,253
Other investment income	**(1,180,294)**	(167,342)
Investment income deficiency for amounts available for spending [transfer from externally endowed net assets] *[note 9[b]]*	**967,775**	3,851,860
	4,237,931	535,513

11. American Friends of Canadian Nature, Inc.

The American Friends of Canadian Nature, Inc. is a separate corporation without share capital and with its own Board of Directors. It is registered as a charitable organization in the United States. Substantially all of the donations it receives are transferred to the Conservancy based on donor intentions.

During the year ended May 31, 2023, the American Friends of Canadian Nature, Inc. made land donations with a fair value of $678,000 [2022 – nil] and restricted contributions of $1,460,244 [2022 – $2,061,173]. The restricted donations are recorded as deferred contributions *[note 7]* and the land contribution is included in donations of conservation lands and agreements revenue.

12. Financial instruments and risk management

The Conservancy is exposed to various financial risks through transactions in financial instruments. During fiscal 2023, there were no significant changes in risk exposures from 2022.

Foreign currency risk

The Conservancy is exposed to foreign currency risk with respect to its investments denominated in foreign currencies, including the underlying investments of funds denominated in foreign currencies, and with its US dollar denominated loan, because of fluctuations in the relative value of foreign currencies against the Canadian dollar. The Conservancy has a policy to manage risk by limiting foreign currency exposure in the long-term investments within a range of 20% to 60%. The US dollar denominated loan is expected to be paid with US dollar denominated donations.

Credit risk

The Conservancy is exposed to credit risk in connection with its accounts receivable and its short-term and fixed income investments because of the risk that one party to the financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Conservancy manages this risk by primarily holding fixed income investments that have an average of an “A” rating or better.

Interest rate risk

The Conservancy is exposed to interest rate risk with respect to its fixed rate debt, its investments in fixed income investments, and exchange-traded funds and other funds that hold fixed income securities because the fair value will fluctuate due to changes in market interest rates. In addition, the Conservancy is exposed to interest rate risk with respect to its floating rate debt because cash flows will fluctuate as the interest rate is linked to the bank’s prime rate, which changes from time to time. The Conservancy mitigates the risk in its investment portfolio through its investment policy and the allocation to funds impacted by this risk.

Other price risk

The Conservancy 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 *[note 3]*. The Conservancy manages this risk through its investment policy and the balancing of the allocations of funds in the various portfolio categories.

Liquidity risk

The Conservancy is exposed to liquidity risk to the extent that it will encounter difficulty in meeting obligations associated with its financial liabilities. To manage liquidity risk, the Conservancy keeps sufficient cash resources readily available to meet its obligations. The Conservancy has investments in publicly traded liquid assets that are easily sold and converted to cash.

13. Commitments and contingencies

[a] The Conservancy, under lease commitments for office space, office equipment and vehicles, is obligated to future minimum annual rental payments as follows:

	$
2024	1,171,863
2025	1,133,859
2026	959,364
2027	935,138
2028	876,097
Thereafter	1,789,040
	6,865,361

In addition to minimum rental payments, leases for office space generally require the payment of various operating costs.

[b] In fiscal 2011, the Conservancy finalized the verification and validation carbon offset credits. The credits were sold to third parties for total proceeds of $6,000,000.

In connection with the agreements related to the sale of the credits, the Conservancy was required to provide a commitment that the greenhouse gas emission removals associated with the sale of the credits would be maintained for 100 years and, if they were not maintained, would be replaced by the Conservancy or pay damages equal to the fair market value of the number of credits that were sold.

The Conservancy has adequate insurance to mitigate any replacement claims and has put in place monitoring and appropriate protocols to sustain the carbon sequestered, which also includes ensuring that the habitat on the property is maintained for the benefit of future generations.

[c] The nature of the Conservancy's activities is such that there is often litigation pending or in progress. Where the potential liability is likely and able to be estimated, management records its best estimate of the potential liability. With respect to claims as at May 31, 2023, it is management's position that the Conservancy has valid defenses and appropriate insurance coverage to offset the cost of unfavourable settlements, if any, which may result from such claims. In other cases, the ultimate outcome of the claims cannot be determined at this time. Any additional losses related to claims will be recorded in the year during which the liability is able to be estimated or adjustments to any amount recorded are determined to be required.

Photo: Sean Feagan

NATURE CONSERVANCY CANADA

CONSERVATION DE LA NATURE CANADA

TM/MC