

AUDITED FINANCIAL STATEMENTS

2018-19

THE NATURE CONSERVANCY OF CANADA



NATURE CONSERVANCY OF CANADA

INDEPENDENT AUDITORS' 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, 2019, 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, 2019, 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 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.

NATURE CONSERVANCY OF CANADA

- 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.

Toronto, Canada
September 19, 2019

The signature of Ernst & Young LLP is written in a black, cursive script.

Chartered Professional Accountants
Licensed Public Accountants

NATURE CONSERVANCY OF CANADA

STATEMENT OF FINANCIAL POSITION

As at May 31

	2019 \$	2018 \$
Assets [note 6[e]]		
Current		
Cash and cash equivalents	21,358,731	15,373,675
Short-term investments, at amortized cost [note 3[a]]	12,481,037	14,183,013
Accounts receivable, deposits on land and other	5,548,013	7,405,512
Trade lands	45,000	—
Total current assets	39,432,781	36,962,200
Investments, at fair value [note 3[b]]	143,769,019	141,169,517
Capital assets, net [note 4]	1,156,086	1,090,749
Conservation lands and agreements [note 5]	744,964,916	715,196,087
	929,322,802	894,418,553
Liabilities and net assets		
Current		
Operating and term loans [note 6[e]]	—	4,850,000
Accounts payable and accrued liabilities	1,955,821	1,511,425
Current portion of long-term debt [note 6[a]]	135,424	—
Deferred contributions [note 7]	30,967,604	24,802,954
Total current liabilities	33,058,849	31,164,379
Long-term debt [note 6]	1,634,500	1,985,616
Total liabilities	34,693,349	33,149,995
Commitments and contingencies [notes 3[c] and 13]		
Net assets		
Internally restricted		
Invested in conservation lands and agreements [note 5[c]]	743,199,142	713,210,471
Other [note 8]	11,379,028	11,468,959
	754,578,170	724,679,430
Operating surplus	1,747,338	835,845
Science and Stewardship Endowments [note 9]	138,303,945	135,753,283
Total net assets	894,629,453	861,268,558
	929,322,802	894,418,553

See accompanying notes

On behalf of the Board:



Board Chair



Audit Committee Chair

NATURE CONSERVANCY OF CANADA

STATEMENT OF OPERATIONS AND CHANGES IN OPERATING SURPLUS

Year ended May 31

	2019	2018
	\$	\$
Revenue		
Donations of conservation lands and agreements <i>[notes 5[b] and 11]</i>	11,006,687	12,655,801
Other donations and grants <i>[notes 7 and 11]</i>	69,698,313	71,162,814
Proceeds from property sales <i>[note 5[d]]</i>	—	28,657
Other <i>[notes 9[b] and 10]</i>	8,286,460	7,858,610
	<u>88,991,460</u>	<u>91,705,882</u>
Expenses		
Conservation lands and agreements acquired <i>[note 5]</i>		
Purchased	27,737,314	17,500,387
Donated	11,006,687	12,655,801
Loan repayments for prior year acquisitions <i>[note 6[b]]</i>	219,842	191,448
Contributions to properties acquired and property-related expenses incurred by others	5,735,931	13,511,755
	<u>44,699,774</u>	<u>43,859,391</u>
Property-related <i>[notes 6[b] and [f]]</i>	21,601,225	20,041,181
Support <i>[note 6 [f]]</i>	23,343,663	21,102,445
	<u>89,644,662</u>	<u>85,003,017</u>
Excess (deficiency) of revenue over expenses for the year	(653,202)	6,702,865
Net transfer from (to) internally restricted net assets <i>[note 8]</i>	335,431	(2,720,448)
Net transfer from (to) internally endowed net assets <i>[notes 9[b] and [c]]</i>	1,229,264	(3,593,075)
Net increase in operating surplus	911,493	389,342
Operating surplus, beginning of year	835,845	446,503
Operating surplus, end of year	<u>1,747,338</u>	<u>835,845</u>

See accompanying notes

NATURE CONSERVANCY OF CANADA

STATEMENT OF CHANGES IN NET ASSETS

Year ended May 31

	2019					
	Operating surplus	Internally restricted			Science and Stewardship Endowments	Total
		Invested in conservation lands and agreements	Other	Total		
\$	\$	\$	\$	\$	\$	
Balance, beginning of year	835,845	713,210,471	11,468,959	724,679,430	135,753,283	861,268,558
Deficiency of revenue over expenses for the year	(653,202)	—	—	—	—	(653,202)
Purchases of conservation lands and agreements internally financed <i>[note 5[b]]</i>	—	27,737,314	—	27,737,314	—	27,737,314
Repayment of loans used for property acquisitions <i>[note 6[b]]</i>	—	219,842	—	219,842	—	219,842
Transfer of conservation lands and agreements to others <i>[note 5[b]]</i>	—	(8,975,172)	—	(8,975,172)	—	(8,975,172)
Donations of conservation lands and agreements <i>[notes 5[b] and 11]</i>	—	11,006,687	—	11,006,687	—	11,006,687
Endowment contributions <i>[note 9]</i>	—	—	—	—	2,965,427	2,965,427
Investment income related to preservation of capital on externally endowed net assets and amount available for spending in excess of income earned <i>[note 9[b]]</i>	—	—	—	—	(2,174,112)	(2,174,112)
Net transfer from internally endowed net assets <i>[notes 9[b] and [c]]</i>	1,229,264	—	—	—	(1,229,264)	—
Other interfund transfers <i>[note 8]</i>	335,431	—	(89,931)	(89,931)	(245,500)	—
Transfer from deferred contributions <i>[note 7]</i>	—	—	—	—	3,234,111	3,234,111
Balance, end of year	1,747,338	743,199,142	11,379,028	754,578,170	138,303,945	894,629,453

See accompanying notes

NATURE CONSERVANCY OF CANADA

STATEMENT OF CHANGES IN NET ASSETS cont'd

Year ended May 31

	2018					
	Operating surplus	Internally restricted			Science and Stewardship Endowments	Total
		Invested in conservation lands and agreements	Other	Total		
\$	\$	\$	\$	\$	\$	
Balance, beginning of year	446,503	682,960,816	8,270,950	691,231,766	123,092,480	814,770,749
Excess of revenue over expenses for the year	6,702,865	—	—	—	—	6,702,865
Purchases of conservation lands and agreements internally financed <i>[note 5[b]]</i>	—	17,500,387	—	17,500,387	—	17,500,387
Repayment of loans used for property acquisitions <i>[note 6[b]]</i>	—	191,448	—	191,448	—	191,448
Transfer of conservation lands and agreements to others <i>[note 5[b]]</i>	—	(69,324)	—	(69,324)	—	(69,324)
Cost of purchased conservation lands and agreements sold <i>[note 5[b]]</i>	—	(28,657)	—	(28,657)	—	(28,657)
Donations of conservation lands and agreements <i>[notes 5[b] and 11]</i>	—	12,655,801	—	12,655,801	—	12,655,801
Endowment contributions <i>[note 9]</i>	—	—	—	—	3,172,124	3,172,124
Investment income related to preservation of capital on externally endowed net assets <i>[note 9[b]]</i>	—	—	—	—	220,410	220,410
Net transfer to internally endowed net assets <i>[notes 9[b] and [c]]</i>	(3,593,075)	—	—	—	3,593,075	—
Other interfund transfers <i>[note 8]</i>	(2,720,448)	—	3,198,009	3,198,009	(477,561)	—
Transfer from deferred contributions <i>[note 7]</i>	—	—	—	—	6,152,755	6,152,755
Balance, end of year	835,845	713,210,471	11,468,959	724,679,430	135,753,283	861,268,558

See accompanying notes

NATURE CONSERVANCY OF CANADA

STATEMENT OF CASH FLOWS

Year ended May 31

	2019	2018
	\$	\$
Operating activities		
Excess (deficiency) of revenue over expenses for the year	(653,202)	6,702,865
Add items not involving cash		
Amortization	361,678	347,156
Loss on disposal of capital assets	—	51,087
	(291,524)	7,101,108
Changes in non-cash working capital balances related to operations		
Decrease in accounts receivable and other	1,836,999	321,433
Increase in accounts payable and accrued liabilities	444,396	305,485
Increase (decrease) in deferred contributions	6,171,755	(6,024,235)
Cash provided by operating activities	8,161,626	1,703,791
Investing activities		
Purchase of long-term investments, net	(1,546,608)	(9,193,725)
Decrease in short-term investments, net	1,701,976	7,084,414
Decrease in deposits on land	20,500	144,220
Decrease (increase) in trade lands	(45,000)	587,250
Additions to capital assets	(427,015)	(297,652)
Cash used in investing activities	(296,147)	(1,675,493)
Financing activities		
Endowment contributions	2,965,427	3,172,124
Repayment of operating and term loans	(4,850,000)	(565,000)
Proceeds from (repayments of) debt used for property-related and support expenses	4,150	(26,608)
Cash provided by (used in) financing activities	(1,880,423)	2,580,516
Net increase in cash during the year	5,985,056	2,608,814
Cash and cash equivalents, beginning of year	15,373,675	12,764,861
Cash and cash equivalents, end of year	21,358,731	15,373,675

See accompanying notes

NATURE CONSERVANCY OF CANADA

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*, 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 initially 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 quoted in an active market using closing prices on the securities exchange.

NATURE CONSERVANCY OF CANADA

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 amortized cost.

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
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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 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.

NATURE CONSERVANCY OF CANADA

3. Investments

[a] Short-term investments consist primarily of short-term notes and guaranteed investment certificates valued at amortized cost. The securities have a weighted average rate of return of 1.98% [2018 – 1.54%] and terms to maturity of days 3 to 648 days [2018 – 40 to 1,013 days] as at the date of the statement of financial position. Since the securities represent the investment of deferred contributions classified as short term and since all the securities are highly liquid, they have been classified as short term.

[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:

	2019		2018	
	\$	%	\$	%
Cash	6,857,479	5	6,193,928	4
Exchange-traded funds				
Canadian bonds	23,216,328	16	21,616,402	15
American bonds	2,537,968	2	1,967,085	1
Canadian equities	9,087,025	6	9,181,991	6
American equities	9,494,636	7	9,788,733	7
Other international equities	8,799,842	6	5,934,589	4
	53,135,799	37	48,488,800	33
Funds				
Canadian	4,881,457	3	6,775,360	5
American	4,253,877	3	4,775,769	3
International	23,900,981	17	23,681,913	17
Global	17,928,692	12	16,409,132	12
	50,965,007	35	51,642,174	37
Alternative investment funds				
Equity hedge	4,368,027	3	6,094,072	4
Diversifying hedge	13,772,032	10	14,330,226	11
Multi-asset	3,710,433	3	3,577,864	3
Commodities	4,353,859	3	4,360,557	3
Private investment	1,859,110	1	642,590	1
Infrastructure	4,747,273	3	5,839,306	4
	32,810,734	23	34,844,615	26
	143,769,019	100	141,169,517	100

As at May 31, 2019, Canadian bond exchange-traded funds have a weighted average maturity of 9.5 years [2018 – 9.5 years] and have a weighted average interest rate of 2.89% [2018 – 2.87%].

[c] As at May 31, 2019, the Conservancy has uncalled commitments related to investments in private funds of \$9,802,423 [2018 – \$4,098,120] that are expected to be called on over the next five to seven years. The Conservancy has agreed to dispose of investments in hedge funds of \$4,010,972 [2018 – \$3,049,474] over the next two years. The proceeds will be used to finance uncalled commitments and other investments.

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4. Capital assets

[a] Capital assets consist of the following:

	2019		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Tangible			
Computer hardware	640,251	346,282	293,969
Furniture and fixtures	149,010	70,339	78,671
Leasehold improvements	275,773	149,612	126,161
Stewardship equipment	13,897	8,338	5,559
Intangible			
Computer software	1,175,551	523,825	651,726
	2,254,482	1,098,396	1,156,086

	2018		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Tangible			
Computer hardware	522,676	288,463	234,213
Furniture and fixtures	142,882	60,391	82,491
Leasehold improvements	275,773	104,523	171,250
Stewardship equipment	16,179	7,841	8,338
Intangible			
Computer software	952,959	358,502	594,457
	1,910,469	819,720	1,090,749

[b] Fully amortized capital assets, that are no longer in use, with a cost of \$83,002 [2018 – \$144,282] were written off. During the year ended May 31, 2018, capital assets no longer in use with a cost of \$159,141, accumulated amortization of \$108,054 and a net book value of \$51,087 were written off.

NATURE CONSERVANCY OF CANADA

5. Conservation lands and agreements

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

	2019 \$	2018 \$
Purchased conservation lands <i>[notes 6[c] and 6[d]]</i>	356,637,460	341,407,298
Donated conservation lands	174,075,065	169,081,399
	530,712,525	510,488,697
Purchased conservation agreements <i>[note 6[c]]</i>	65,749,192	60,732,212
Donated conservation agreements	148,503,199	143,975,178
	214,252,391	204,707,390
	744,964,916	715,196,087

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:

	2019 \$	2018 \$
Balance, beginning of year	715,196,087	685,137,880
Purchases internally financed	27,737,314	17,500,387
Donated <i>[note 11]</i>	11,006,687	12,655,801
Transferred to others	(8,975,172)	(69,324)
Cost of purchased lands and agreements sold <i>[note 5[d]]</i>	—	(28,657)
Balance, end of year	744,964,916	715,196,087

On December 11, 2018, the Conservancy entered into an agreement for a contribution of exploratory permits comprising 1.96 million hectares [4.8 million acres] along the west coast of Vancouver Island, and through Queen Charlotte Sound and Hecate Strait between Haida Gwaii and the mainland. The permits were transferred on December 20, 2018 and will be subsequently surrendered to the federal government at no cost. No valuation has been placed on the permits; therefore, they are not included in these financial statements.

NATURE CONSERVANCY OF CANADA

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

	2019	2018
	\$	\$
Conservation lands and agreements <i>[note 5[a]]</i>	744,964,916	715,196,087
Conservation lands and agreements financed by debt <i>[note 6[b]]</i>	(1,765,774)	(1,985,616)
	<u>743,199,142</u>	<u>713,210,471</u>

[d] In 2019, the Conservancy had no sale of conservation properties [2018 – \$28,657 proceeds and carrying value. The sale proceeds were internally endowed to be used for stewarding lands and disposition costs].

6. Long-term debt

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

	2019	2018
	\$	\$
Notes payable <i>[note 6[c]]</i>	1,634,500	1,634,500
Note payable of US\$101,622, interest at 2.485%, payable in full on or before August 30, 2019 <i>[note 6[d]]</i>	135,424	351,116
	<u>1,769,924</u>	<u>1,985,616</u>
Less current portion	135,424	—
	<u>1,634,500</u>	<u>1,985,616</u>

[b] Debt is held for the following purposes:

	2019	2018
	\$	\$
Acquisition of conservation lands and agreements <i>[note 5[c]]</i>	1,765,774	1,985,616
Financing of unfunded property-related and support expenses	4,150	—
	<u>1,769,924</u>	<u>1,985,616</u>

During the year ended May 31, 2019, the Conservancy made loan repayments for prior year acquisitions of \$219,842 [2018 – \$191,448], which are recorded in the statement of operations and changes in operating surplus and, therefore, are classified as an operating activity in the statement of cash flows. With respect to the financing of unfunded property-related expenses, the Conservancy made repayments of nil [2018 – \$26,608]. In 2019, the \$4,150 noted above is related to the foreign exchange on the US note payable *[note 6[c]]*.

[c] The notes payable of \$1,634,500 [2018 – \$1,634,500] are only repayable if certain events occur. They are non-interest bearing until such time as the lender demands the payment of the interest, which is calculated at the bank's prime rate plus 10%. The conservation lands and agreements purchased with the loan proceeds had a carrying value of \$1,673,275 as at May 31, 2019 and have been pledged as collateral.

[d] The Conservancy has a promissory note payable of US\$101,622. Conservation lands financed by this note have a carrying value of \$7,216,593 as at May 31, 2019, which have been pledged as collateral.

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[e] The Conservancy has three 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, 2019 – 3.95%]. As at May 31, 2019 and 2018, the Conservancy has no drawings on this line of credit.
- [ii] A \$1,500,000 revolving operating line of credit with interest payable at prime plus 0.5% [May 31, 2019 – 4.45%]. As at May 31, 2019 and 2018, 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 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, 2019 – 4.2%]. As at May 31, 2019, the Conservancy has not utilized [2018 – \$4,850,000] this facility.

The Conservancy has provided a general security agreement over all of its assets, excluding conservation lands and agreements, for these three facilities.

[f] Interest of \$58,841 [2018 – \$112,174] related to debt has been recorded in the accounts, of which \$52,430 [2018 – \$101,151] relates to the revolving facility for bridge financing of federal government funding and \$6,411 [2018 – \$11,023] relates to debt initially incurred with a term of more than one year. Interest is classified as property-related or support expenses, depending on the purpose for which the debt was used.

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7. Deferred contributions

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

	2019 \$	2018 \$
Balance, beginning of year	24,802,954	33,538,394
Add		
Amounts received for restricted purposes <i>[note 11]</i>	69,728,939	50,518,911
Investment income <i>[notes 9[b] and 10]</i>	260,006	776,967
Amount available for spending related to externally endowed funds <i>[notes 9[b] and 10]</i>	2,967,001	2,664,583
Less		
Amounts recognized as revenue during the year	63,557,185	56,543,146
Amounts transferred to endowment net assets <i>[note 9[b]]</i>	3,234,111	6,152,755
Balance, end of year	30,967,604	24,802,954

8. Other internally restricted net assets

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

	2019 \$	2018 \$
Ted Boswell Land Conservation Fund <i>[note 8[b]]</i>	4,240,221	3,663,389
Future projects <i>[note 8[c]]</i>	7,138,807	7,805,570
	11,379,028	11,468,959

[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 bridge the financing of 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 2019 and 2018 net increase in the TBLCF represents repayments of internal loans advanced in prior years offset by transfers to endowment net assets and operating surplus to fund purchases and endowments.

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

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	2019	2018
	\$	\$
Transfers from operating surplus for future project expenses	3,096,722	5,433,318
Transfers to operating surplus related to cost of projects carried out during the year	(3,807,372)	(3,618,954)
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	43,887	43,844
	(666,763)	1,858,208

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:

	2019	2018
	\$	\$
Science Endowments		
Externally endowed	6,649,000	6,828,190
Stewardship Endowments		
Externally endowed	81,702,480	77,943,268
Internally endowed – donor restricted	21,038,808	20,593,405
Internally endowed – unrestricted	28,913,657	30,388,420
	131,654,945	128,925,093
	138,303,945	135,753,283

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- [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 3.5% [2018 – 3.5%] 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.

In fiscal 2019, there was an investment income of \$1,250,005 related to endowment net assets. The amount made available for spending of \$2,967,001 less the investment income related to externally endowed net assets of \$792,889, totalling \$2,174,112, was recorded as a direct reduction of endowment net assets. The amount made available for spending related to externally endowed restricted funds was recorded in deferred contributions [note 7]. The gain related to internally endowed restricted funds, where the investment income has to be used for restricted purposes, of \$186,784, was recorded as deferred contributions [note 7] with an equal amount transferred to internally endowed restricted net assets from deferred contributions [note 7]. The amount made available for spending related to internally endowed restricted funds of \$720,769 was recorded as a transfer from endowment net assets to deferred contributions [note 10]. The gain related to internally endowed unrestricted funds of \$270,332 was recorded as other revenue in the statement of operations and changes in operating surplus, and there was an equal amount transferred to internally endowed unrestricted net assets from operating surplus. The amount made available for spending related to internally endowed unrestricted funds of \$1,063,595 was recorded as a reduction in other revenue in the statement of operations and changes in operating surplus, and an amount was recorded as a transfer from endowment net assets to operating surplus.

In fiscal 2018, there was an investment income of \$4,562,251 related to endowment net assets. Of this amount, \$220,410, which represented income in excess of the amount made available for spending on externally endowed net assets, was recorded as a direct increase to endowment net assets for the preservation of capital. The amount made available for spending on externally endowed funds of \$2,664,583 was recorded as deferred contributions [note 7]. With respect to internally endowed funds, the investment income that had to be used for restricted purposes of \$717,509 was recorded as deferred contributions [note 7], and the amount with no restrictions of \$959,749 was recorded as other revenue in the statement of operations and changes in operating surplus. An amount of \$28,407, which represented the excess over the calculated amount available for spending on internally endowed restricted funds, was included in transfers to endowment net assets from deferred contributions [note 7]. An amount of \$5,197, which represents the excess over the calculated amount available for spending on internally endowed unrestricted funds, is included in transfers from operating surplus to internally endowed net assets.

- [c] For the year ended May 31, 2019, the Board of Directors approved a net transfer of \$672,999 [2018 – \$3,587,878] to the internally endowed unrestricted portion of Stewardship Endowments from operating surplus.

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10. Investment income

Investment income earned consists of the following:

	2019 \$	2018 \$
Total investment income, net of management fees	1,885,750	5,138,842
Amount allocated to deferred contributions <i>[note 7]</i>		
Amount available for spending related to externally endowed funds <i>[note 9[b]]</i>	(2,967,001)	(2,664,583)
Investment income on internally endowed restricted funds <i>[note 9[b]]</i>	(186,784)	(717,509)
Other investment income	(73,222)	(59,458)
Investment gain (loss) less amount available for spending (investment income for preservation of capital) on externally endowed net assets <i>[note 9[b]]</i>	2,174,112	(220,410)
	832,855	1,476,882

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, 2019, the American Friends of Canadian Nature, Inc. made land donations with a fair value of \$132,160 [2018 – \$99,500], restricted contributions of \$1,063,664 [2018 – \$288,845] and unrestricted contributions of nil [2018 – \$37,770] to the Conservancy. The restricted donations are recorded as deferred contributions *[note 7]*.

12. Financial instruments and risk management

The Conservancy is exposed to various financial risks through transactions in financial instruments. During 2019, there were no significant changes in risk exposures from 2018.

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 30% to 70%. The US dollar-denominated loan is expected to be paid with US dollar-denominated donations.

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Credit risk

The Conservancy is exposed to credit risk in connection with its accounts receivable, deposits on land and other 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 holds fixed income investments in bonds that have a minimum "A" rating.

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.

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 foreign currency risk] in connection with its investments [note 3].

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:

	\$
2020	1,336,821
2021	989,026
2022	831,413
2023	642,743
2024	215,503
	4,015,506

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

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- [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 the Conservancy would 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, 2019, it is management's position that the Conservancy has valid defences 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.

THE NATURE CONSERVANCY OF CANADA
2018-2019 AUDITED FINANCIAL STATEMENTS

245 Eglinton Ave. East, Suite 410, Toronto, ON M4P 3J1

Questions/comments about this report? Contact us at **1 800 465 8005** or supporter.services@natureconservancy.ca

FRONT COVER: BRENT CALVER. BACK COVER: STEVE OGLE.