

THE NATURE CONSERVANCY OF CANADA

2014–2015
FINANCIAL STATEMENTS



NATURE
CONSERVANCY
CANADA

INDEPENDENT AUDITORS' REPORT

To the Members of
The Nature Conservancy of Canada

We have audited the accompanying financial statements of **The Nature Conservancy of Canada**, which comprise the statement of financial position as at May 31, 2015, and the statements of operations and changes in operating surplus, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **The Nature Conservancy of Canada** as at May 31, 2015 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.

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

Toronto, Canada,
October 1, 2015

Chartered Professional Accountants
Licensed Public Accountants

The Nature Conservancy of Canada

STATEMENT OF FINANCIAL POSITION

As at May 31

	2015	2014
	\$	\$
ASSETS [note 7[e]]		
Current		
Cash and cash equivalents	9,051,564	2,217,719
Short-term investments [note 3[a]]	7,994,347	7,856,350
Accounts receivable and other	8,568,311	14,636,094
Total current assets	25,614,222	24,710,163
Investments [note 3[b]]	104,315,086	93,351,310
Capital assets, net [note 4]	973,931	543,246
Conservation lands and agreements [note 5]	619,604,269	594,367,012
	750,507,508	712,971,731
LIABILITIES AND NET ASSETS		
Current		
Operating loan [note 7[e][ii]]	1,000,000	—
Accounts payable and accrued liabilities [note 6]	2,462,319	2,783,630
Current portion of long-term debt [note 7[a]]	269,290	2,833,658
Deferred contributions [note 8]	13,711,390	13,052,950
Total current liabilities	17,442,999	18,670,238
Long-term debt [note 7[a]]	1,740,181	2,087,462
Deferred revenue related to sales of carbon offset credits [note 9]	5,760,000	5,820,000
Total liabilities	24,943,180	26,577,700
Commitments and contingencies [notes 9, 15 and 16]		
Net assets		
Internally restricted		
Invested in conservation lands and agreements [note 5[c]]	617,722,772	592,222,647
Other [note 10]	6,934,289	4,865,507
	624,657,061	597,088,154
Operating surplus	1,398,938	459,036
Science and Stewardship Endowments [note 11]	99,508,329	88,846,841
Total net assets	725,564,328	686,394,031
	750,507,508	712,971,731

See accompanying notes

On behalf of the Board:



Board Chair



Audit Committee Chair

The Nature Conservancy of Canada

STATEMENT OF OPERATIONS AND CHANGES IN OPERATING SURPLUS

	Year ended May 31, 2015 \$	Eleven-month period ended May 31, 2014 \$
REVENUE		
Donations of conservation lands and agreements <i>[note 5]</i>	9,538,281	21,055,593
Other donations and grants <i>[notes 8 and 13]</i>	52,018,131	58,418,878
Proceeds from property sales <i>[note 5[d]]</i>	5,000	11,000
Proceeds from capital asset sales <i>[note 4[b]]</i>	—	784,654
Other <i>[notes 9, 11[b] and 12]</i>	7,431,798	7,417,595
	68,993,210	87,687,720
EXPENSES		
Conservation lands and agreements acquired <i>[note 5]</i>		
Purchased	16,797,503	26,632,275
Donated	9,538,281	21,055,593
Loan repayments for prior year acquisitions <i>[note 7[b]]</i>	262,868	209,676
Contributions to properties acquired and property-related expenses incurred by others	5,208,284	6,547,908
	31,806,936	54,445,452
Property-related <i>[notes 7[b] and [g]]</i>	16,706,937	15,575,494
Support <i>[note 7[g]]</i>	16,391,840	14,477,958
	64,905,713	84,498,904
Excess of revenue over expenses for the period	4,087,497	3,188,816
Net transfer to internally restricted net assets <i>[note 10]</i>	(1,888,262)	(740,161)
Net transfer to internally endowed net assets <i>[notes 11[b] and [c]]</i>	(1,259,333)	(2,747,576)
Net increase (decrease) in operating surplus	939,902	(298,921)
Operating surplus, beginning of period	459,036	757,957
Operating surplus, end of period	1,398,938	459,036

See accompanying notes

STATEMENT OF CHANGES IN NET ASSETS

	Year ended May 31, 2015					
	Internally restricted					
	Operating surplus	Invested in conservation lands and agreements	Other	Total	Science and Stewardship Endowments	Total
\$	\$	\$	\$	\$	\$	
Balance, beginning of year	459,036	592,222,647	4,865,507	597,088,154	88,846,841	686,394,031
Excess of revenue over expenses for the year	4,087,497	—	—	—	—	4,087,497
Purchases of conservation lands and agreements internally financed [note 5[b]]	—	16,797,503	—	16,797,503	—	16,797,503
Repayment of loans used for property acquisitions [note 7[b]]	—	262,868	—	262,868	—	262,868
Transfer of conservation lands and agreements to others [note 5[b]]	—	(1,096,425)	—	(1,096,425)	—	(1,096,425)
Cost of conservation lands and agreements sold [note 5[b]]	—	(2,102)	—	(2,102)	—	(2,102)
Donations of conservation lands and agreements [note 5[b]]	—	9,538,281	—	9,538,281	—	9,538,281
Endowment contributions [note 11]	—	—	—	—	2,068,607	2,068,607
Investment income related to preservation of capital on externally endowed net assets [note 11[b]]	—	—	—	—	3,864,464	3,864,464
Net transfer to internally endowed net assets [notes 11[b] and [c]]	(1,259,333)	—	—	—	1,259,333	—
Other interfund transfers [note 10]	(1,888,262)	—	2,068,782	2,068,782	(180,520)	—
Transfer from deferred contributions [note 8]	—	—	—	—	3,649,604	3,649,604
Balance, end of year	1,398,938	617,722,772	6,934,289	624,657,061	99,508,329	725,564,328

See accompanying notes

STATEMENT OF CHANGES IN NET ASSETS CONT'D

Eleven-month period ended May 31, 2014

	Internally restricted					Total	Total
	Operating surplus	Invested in conservation lands and agreements	Other	Total	Science and Stewardship Endowments		
	\$	\$	\$	\$	\$	\$	
Balance, beginning of period	757,957	546,964,803	2,940,380	549,905,183	73,569,032	624,232,172	
Excess of revenue over expenses for the period	3,188,816	—	—	—	—	3,188,816	
Purchases of conservation lands and agreements internally financed [note 5[b]]	—	26,632,275	—	26,632,275	—	26,632,275	
Repayment of loans used for property acquisitions [note 7[b]]	—	209,676	—	209,676	—	209,676	
Transfer of conservation lands and agreements to others [note 5[b]]	—	(2,628,700)	—	(2,628,700)	—	(2,628,700)	
Cost of conservation lands and agreements sold [note 5[b]]	—	(11,000)	—	(11,000)	—	(11,000)	
Donations of conservation lands and agreements [note 5[b]]	—	21,055,593	—	21,055,593	—	21,055,593	
Endowment contributions [note 11]	—	—	—	—	2,354,167	2,354,167	
Investment income related to preservation of capital on externally endowed net assets [note 11[b]]	—	—	—	—	4,840,453	4,840,453	
Net transfer to internally endowed net assets [notes 11[b] and [c]]	(2,747,576)	—	—	—	2,747,576	—	
Other interfund transfers [note 10]	(740,161)	—	1,925,127	1,925,127	(1,184,966)	—	
Transfer from deferred contributions [note 8]	—	—	—	—	6,520,579	6,520,579	
Balance, end of period	459,036	592,222,647	4,865,507	597,088,154	88,846,841	686,394,031	

See accompanying notes

The Nature Conservancy of Canada

STATEMENT OF CASH FLOWS

	Year ended May 31, 2015 \$	Eleven-month period ended May 31, 2014 \$
OPERATING ACTIVITIES		
Excess of revenue over expenses for the period	4,087,497	3,188,816
Add (deduct) items not affecting cash		
Amortization	404,207	419,005
Carbon offset credits revenue	(60,000)	(60,000)
Gain on sale of capital assets	—	(784,654)
	4,431,704	2,763,167
Changes in non-cash working capital balances related to operations		
Decrease (increase) in accounts receivable and other	6,224,856	(8,343,234)
Decrease in accounts payable and accrued liabilities	(321,311)	(1,016,776)
Increase (decrease) in deferred contributions	731,085	(17,061,448)
Cash provided by (used in) operating activities	11,066,334	(23,658,291)
INVESTING ACTIVITIES		
Purchase of long-term investments, net	(3,522,353)	(7,138,744)
(Increase) decrease in short-term investments, net	(137,997)	4,778,838
(Increase) decrease in deposits on land	(157,073)	16,270
Additions to capital assets	(834,892)	(95,968)
Proceeds on disposal of capital assets	—	3,419,664
Cash provided by (used in) investing activities	(4,652,315)	980,060
FINANCING ACTIVITIES		
Endowment contributions	2,068,607	2,354,167
Proceeds from debt used for property-related and support expenses	—	2,575,479
Proceeds from operating loan	1,000,000	—
Repayments of debt used for property-related and support expenses	(2,648,781)	(76,964)
Repayment of capital asset acquisition loans	—	(2,862,192)
Cash provided by financing activities	419,826	1,990,490
Net increase (decrease) in cash and cash equivalents during the period	6,833,845	(20,687,741)
Cash and cash equivalents, beginning of period	2,217,719	22,905,460
Cash and cash equivalents, end of period	9,051,564	2,217,719

See accompanying notes

The Nature Conservancy of Canada

NOTES TO FINANCIAL STATEMENTS

May 31, 2015

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 Corporation Act as of 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 protect areas of biological diversity for their intrinsic value and for the benefit of future generations. Its mission is to purchase and protect lands, flora and fauna having unique or significant natural values.

During 2014, the Conservancy changed its year end from June 30 to May 31.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Part III of the Chartered Professional Accountants of Canada [“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.

Proceeds from property sales are recognized when title is transferred.

The Nature Conservancy of Canada

NOTES TO FINANCIAL STATEMENTS

May 31, 2015

Revenue related to the sale of carbon offset credits is amortized over the term of the agreements related to the sale of the credits since there is an obligation to maintain the accreditation of the offset credits.

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 11] or other restricted balances [note 8].

Cash and cash equivalents

Cash and cash equivalents represent cash in financial institutions, units in money market funds and short-term deposits with a short maturity of approximately three months or less from the date of purchase, unless they are held for investment rather than liquidity purposes, in which case they 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.

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 accounts receivable and accounts payable, are initially recorded at fair value, and subsequently measured at amortized cost.

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NOTES TO FINANCIAL STATEMENTS

May 31, 2015

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 invested in conservation lands and agreements to operating surplus.

Contributed conservation lands and agreements are recorded at fair market value when title is transferred. 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 consistent with investment income.

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.

The Nature Conservancy of Canada

NOTES TO FINANCIAL STATEMENTS

May 31, 2015

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 2.04% and terms to maturity of 96 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 the proceeds from sales of carbon offset credits, endowments and certain internally restricted net assets, are recorded at fair value and consist of the following:

	2015		2014	
	\$	%	\$	%
Cash	2,073,417	2	997,314	1
Equity exchange traded funds				
Canadian	25,355,074	24	9,014,515	10
American	10,844,577	10	9,198,152	10
Other international	7,105,185	7	12,802,264	13
	43,304,836	41	31,014,931	33
Funds				
Canadian	5,656,053	5	8,966,189	10
American	4,055,784	4	9,218,466	10
Other international	21,759,559	21	8,301,611	9
	31,471,396	30	26,486,266	29
Alternative investment funds				
Equity hedge	9,099,368	9	—	—
Diversifying hedge	12,326,838	12	—	—
Commodities	1,940,310	2	—	—
Infrastructure	4,098,921	4	—	—
	27,465,437	27	—	—
Fixed income - Canadian bonds	—	—	34,852,799	37
	104,315,086	100	93,351,310	100

At May 31, 2015, exchange traded funds have a portfolio of bonds amounting to \$18,150,634 that have a weighted average maturity of 10.4 years and have a weighted average interest rate of 3.16%. At May 31, 2014, Canadian bonds consisted of a portfolio of bonds with maturities within one to eight years and a weighted average interest rate of 3.72%.

The Nature Conservancy of Canada

NOTES TO FINANCIAL STATEMENTS

May 31, 2015

4. CAPITAL ASSETS

[a] Capital assets consist of the following:

	2015		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Tangible			
Computer hardware	451,003	247,273	203,730
Furniture and fixtures	179,510	97,476	82,034
Leasehold improvements	74,251	10,602	63,649
Stewardship equipment	62,404	52,171	10,233
Intangible			
Computer software	1,966,450	1,352,165	614,285
	2,733,618	1,759,687	973,931

	2014		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Tangible			
Computer hardware	352,008	172,791	179,217
Furniture and fixtures	138,911	80,800	58,111
Leasehold improvements	4,632	4,632	—
Stewardship equipment	62,404	39,690	22,714
Intangible			
Computer software	1,362,633	1,079,429	283,204
	1,920,588	1,377,342	543,246

[b] During the year ended May 31, 2015, fully amortized capital assets with a value of \$21,862 [2014 - \$90,119] were written off.

During the eleven months ended May 31, 2014, the Conservancy sold land and building having a net book value of \$2,633,762 for net proceeds of \$3,418,105 resulting in a gain on disposition of \$784,343. Net proceeds and gains from other capital asset disposals were \$1,559 and \$311, respectively.

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NOTES TO FINANCIAL STATEMENTS

May 31, 2015

5. CONSERVATION LANDS AND AGREEMENTS

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

	2015	2014
	\$	\$
Purchased conservation lands <i>[note 7[c]]</i>	300,404,300	287,018,125
Donated conservation lands	142,099,649	140,172,577
	442,503,949	427,190,702
Purchased conservation agreements <i>[note 7[c]]</i>	46,977,983	44,665,183
Donated conservation agreements	130,122,337	122,511,127
	177,100,320	167,176,310
	619,604,269	594,367,012

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:

	2015	2014
	\$	\$
Balance, beginning of period	594,367,012	549,318,844
Purchases internally financed	16,797,503	26,632,275
Donated	9,538,281	21,055,593
Transferred to others	(1,096,425)	(2,628,700)
Cost of conservation lands and agreements sold <i>[note 5[d]]</i>	(2,102)	(11,000)
Balance, end of period	619,604,269	594,367,012

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

	2015	2014
	\$	\$
Conservation lands and agreements <i>[note 5[a]]</i>	619,604,269	594,367,012
Conservation lands and agreements financed by debt <i>[note 7[b]]</i>	(1,881,497)	(2,144,365)
	617,722,772	592,222,647

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NOTES TO FINANCIAL STATEMENTS

May 31, 2015

[d] During fiscal 2015, conservation lands with a cost of \$2,102 was sold for proceeds of \$5,000. A portion of the sale proceeds were returned to one of the original contributors and the remaining proceeds were used in accordance with the restrictions on the original contributions used to fund the original purchase.

During fiscal 2014, conservation lands were sold for proceeds equal to the cost of the land of \$11,000. The sale proceeds were used in accordance with the restrictions on the original contributions used to fund the purchase of the land that was sold.

6. GOVERNMENT REMITTANCES PAYABLE

As at May 31, 2015, there are no remittances payable [2014 - nil].

7. DEBT

[a] Debt consists of the following:

	2015	2014
	\$	\$
Notes payable <i>[note 7[c]]</i>	1,634,500	1,634,500
Note payable, with interest rates ranging from 3.50% to 3.73% [May 31, 2015 - 2.85%], with 60 monthly payments of principal and interest <i>[note 7[d]]</i>	297,724	485,102
Note payable, interest at 4.47% [May 31, 2015 - 3.35%], with 60 monthly payments of principal of \$6,574 <i>[note 7[d]]</i>	77,247	151,039
Notes payable of US \$2,370,000, interest at 2.275%, with annual principal payments of US \$474,000 and a final payment of the remaining principal and all interest due December 2016 <i>[note 7[f]]</i>	—	2,575,479
Term loans payable <i>[note 7[e]]</i>	—	75,000
	2,009,471	4,921,120
Less current portion	269,290	2,833,658
	1,740,181	2,087,462

The Nature Conservancy of Canada

NOTES TO FINANCIAL STATEMENTS

May 31, 2015

[b] Debt is held for the following purposes:

	2015	2014
	\$	\$
Acquisition of conservation lands and agreements <i>[note 5(c)]</i>	1,881,497	2,144,365
Financing of unfunded property- related and support expenses	127,974	2,776,755
	2,009,471	4,921,120

During the year ended May 31, 2015, the Conservancy made loan repayments for prior year acquisitions of \$262,868 [2014 - \$209,676] which are recorded in the statement of operations and changes in operating surplus and, therefore, classified as an operating activity in the statement of cash flows. With respect to the financing of unfunded property-related expenses, the Conservancy obtained debt financing of nil [2014 - \$2,575,479] and made repayments of \$2,648,781 [2014 - \$76,964].

[c] The notes payable of \$1,634,500 [2014 - \$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 have a net book value of \$1,673,275 as at May 31, 2015, which have been pledged as collateral.

[d] The Conservancy has an agreement with the Province of Québec who has agreed to make the payments on certain notes payable directly to the lender provided that the Conservancy ensures the long term conservation and protection of the properties.

[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, 2015 - 2.85%]. The conservation lands and agreements financed by these loans must be pledged as collateral. As at May 31, 2015, the Conservancy has drawings on this line of credit of nil [2014 - \$75,000 repayable in June 2015].

[ii] A \$1,500,000 revolving operating line of credit with interest payable at prime plus 0.50% [May 31, 2015 - 3.35%]. As at May 31, 2015, the Conservancy has utilized \$1,000,000 of the facility [2014 - nil].

The Nature Conservancy of Canada

NOTES TO FINANCIAL STATEMENTS

May 31, 2014

[iii] Subsequent to May 31, 2015, the Conservancy obtained 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 borrowings advanced pursuant to each term loan are repayable within one year of the advance with interest payable at prime plus 0.25%.

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

[f] The Conservancy has a promissory note payable of nil [2014 - US \$2,370,000] recorded in the accounts at its Canadian dollar value of nil [2014 - \$2,575,479]. The Conservancy made repayment in full during the year ended May 31, 2015.

[g] Interest of \$47,243 [2014 - \$104,750] related to debt has been recorded in the accounts, of which nil [2014 - \$57,473] relates to the demand mortgages payable, \$26,503 [2014 - \$4,404] relates to the operating line of credit and \$20,740 [2014 - \$42,873] 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.

8. DEFERRED CONTRIBUTIONS

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

	2015	2014
	\$	\$
Balance, beginning of period	13,052,950	32,925,870
Add		
Amounts received for restricted purposes <i>[note 13]</i>	50,611,869	23,972,530
Investment income <i>[note 12]</i>	47,313	133,804
Amount available for spending <i>[notes 11[b] and 12]</i>	3,529,646	3,575,303
Less		
Amounts recognized as revenue during the year	(49,880,784)	(41,033,978)
Amounts transferred to endowment net assets <i>[note 11[b]]</i>	(3,649,604)	(6,520,579)
Balance, end of period	13,711,390	13,052,950

The Nature Conservancy of Canada

NOTES TO FINANCIAL STATEMENTS

May 31, 2015

9. DEFERRED REVENUE RELATED TO SALES OF CARBON OFFSET CREDITS

In fiscal 2011, the Conservancy finalized the verification and validation of 956,865 carbon offset credits. Of these credits, 700,000 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 proceeds of \$6,000,000 on the sale of carbon offset credits were recorded as deferred revenue in the statement of financial position and will be recorded as revenue over the 100 years during which the credits must be maintained. During the year ended May 31, 2015, \$60,000 [2014 - \$60,000] was recorded as other revenue in the statement of operations and changes in operating surplus.

10. OTHER INTERNALLY RESTRICTED NET ASSETS

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

	2015	2014
	\$	\$
Ted Boswell Land Conservation Fund <i>[note 10[b]]</i>	4,020,840	2,867,995
Future projects <i>[note 10[c]]</i>	4,618,788	3,762,851
Expenses to be funded by carbon offset credit revenue <i>[note 10[d]]</i>	(1,705,339)	(1,765,339)
	6,934,289	4,865,507

[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.

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The fiscal 2015 and 2014 net increases in the TBLCF represent 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 in other internally restricted net assets for future projects consists of the following:

	2015	2014
	\$	\$
Transfers from operating surplus for future project expenses	—	2,405,493
Transfers from (to) internally endowed unrestricted net assets	2,828,257	(173,797)
Transfers to operating surplus related to cost of projects carried out during the year	(2,432,624)	(2,297,439)
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	460,303	571,509
	855,936	505,766

[d] The Conservancy has incurred expenses, which the Board of Directors [the “Board”] has approved funding with the revenue earned by the sale of the carbon offset credits [note 9]. In fiscal 2015 and 2014, an amount equal to the revenue of \$60,000 related to the carbon offset credits [note 9] was transferred from operating surplus to other internally restricted net assets to fund expenses previously incurred. In future years, the revenue recorded in the statement of operations and changes in operating surplus related to the carbon offset credits will be transferred from operating surplus to other internally restricted net assets until the amount of expenses covered by transfers from internally restricted net assets has been fully offset by transfers of revenue earned in future years.

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11. SCIENCE AND STEWARDSHIP ENDOWMENTS

[a] The net assets for Science and Stewardship Endowments consist of amounts subject to donor and Board 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.

The Science and Stewardship Endowments consist of the following:

	2015 \$	2014 \$
Science Endowments		
Externally endowed	6,557,939	6,145,960
Stewardship Endowments		
Externally endowed	57,350,958	49,562,012
Internally endowed – donor restricted	16,633,559	15,981,832
Internally endowed – unrestricted	18,965,873	17,157,037
	<u>92,950,390</u>	<u>82,700,881</u>
	<u>99,508,329</u>	<u>88,846,841</u>

[b] Effective July 1, 2005, the Board 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% [2014 – 4%] 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.

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In fiscal 2015, there was investment income of \$9,172,000 [2014 - \$10,506,355] related to endowment net assets. Of this amount, \$3,864,464 [2014 - \$4,840,453], which represents 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. The amount made available for spending on externally endowed funds of \$1,949,778 [2014 - \$1,610,946] was recorded as deferred contributions [note 8]. With respect to internally endowed funds, the investment income that had to be used for restricted purposes of \$1,579,868 [2014 - \$1,964,357] was recorded as deferred contributions [note 8] and the amount with no restrictions of \$1,777,890 [2014 - \$2,090,599] was recorded as other revenue in the statement of operations and changes in operating surplus. An amount of \$1,020,503 [2014 - \$1,449,599], which represents the excess over the calculated amount available for spending on internally endowed restricted funds, is included in transfers to endowment net assets from deferred contributions [note 8].

An amount of \$1,177,394 [2014 - \$1,518,804], 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, 2015, the Board approved a net transfer of \$81,939 [2014 - \$1,228,772] to the internally endowed unrestricted portion of Stewardship Endowments from operating surplus.

12. INVESTMENT INCOME

Investment income earned consists of the following:

	2015	2014
	\$	\$
Total investment income earned, net of management fees	10,029,188	11,369,478
Amount allocated to deferred contributions [note 8]		
Amount available for spending related to endowed funds [note 11[b]]	(3,529,646)	(3,575,303)
Other investment income	(47,313)	(133,804)
Preservation of capital on externally endowed net assets [note 11[b]]	(3,864,464)	(4,840,453)
Total investment income included in other revenue	2,587,765	2,819,918

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13. THE FRIENDS OF THE NATURE CONSERVANCY OF CANADA, INC.

The Friends of The Nature Conservancy of Canada, 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, 2015, The Friends of The Nature Conservancy of Canada, Inc. made restricted contributions of \$504,204 [2014 - \$2,629,033], and unrestricted contributions of \$2,846 [2014 - \$582,434] to the Conservancy. The unrestricted contributions are recorded as other donations and grants in the statement of operations and changes in operating surplus and the restricted donations are recorded as deferred contributions [note 8].

14. FINANCIAL INSTRUMENTS

The Conservancy is exposed to various financial risks through transactions in financial instruments.

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, 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%.

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 held 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 or currency risks] in connection with its investments in exchange traded funds, funds and alternative assets.

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15. COMMITMENTS

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

	\$
2016	896,134
2017	773,278
2018	542,787
2019	310,999
2020	164,504
Thereafter	66,357
	<u>2,754,059</u>

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

16. CONTINGENCIES

In the normal course of operations, the Conservancy is subject to claims or potential claims. Management records its best estimate of the potential liability related to these claims where potential liability is likely and able to be estimated. In other cases, the ultimate outcome of the claims cannot be determined at this time. Any additional losses related to claims would be recorded in the year during which the amount of the liability is able to be estimated or adjustments to the amount recorded are determined to be required.



MALBAIE RIVER; PHOTO BY MIKE DEMBECK.

THE NATURE CONSERVANCY OF CANADA
2014–2015 AUDITED FINANCIAL STATEMENTS

**400–36 Eglinton Ave W
Toronto, Ontario M4R 1A1**

Questions/comments about this report?

Contact us at 1 800 465 8005,
or supporter.services@natureconservancy.ca
natureconservancy.ca

