

Financial Statements

The Nature Conservancy of Canada

May 31, 2014



INDEPENDENT AUDITORS' REPORT

To the Members of
The Nature Conservancy of Canada

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **The Nature Conservancy of Canada**, which comprise the statement of financial position as at May 31, 2014, and the statements of operations and changes in operating surplus, changes in net assets and cash flows for the eleven-month period 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, 2014 and the results of its operations and its cash flows for the eleven-month period then ended in accordance with Canadian accounting standards for not-for-profit organizations.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Canada Corporations Act, we report that, in our opinion, Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

Toronto, Canada,
October 2, 2014.

Ernst + Young LLP

Chartered Professional Accountants
Licensed Public Accountants

The Nature Conservancy of Canada

Incorporated under the laws of Canada as a corporation without share capital

STATEMENT OF FINANCIAL POSITION

As at

	May 31, 2014	June 30, 2013
	\$	\$
ASSETS [note 7[g]]		
Current		
Cash and cash equivalents	2,217,719	22,905,460
Short-term investments [note 3[a]]	7,856,350	12,635,188
Accounts receivable and other	14,636,094	6,309,130
Total current assets	24,710,163	41,849,778
Investments [note 3[b]]	93,351,310	77,663,007
Capital assets, net [note 4]	543,246	3,501,292
Conservation lands and agreements [note 5]	594,367,012	549,318,844
	712,971,731	672,332,921
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities [note 6]	2,783,630	3,800,406
Current portion of long-term debt [note 7[a]]	2,833,658	3,178,254
Deferred contributions [note 8]	13,052,950	32,925,870
Total current liabilities	18,670,238	39,904,530
Long-term debt [note 7[a]]	2,087,462	2,316,219
Deferred revenue related to sales of carbon offset credits [note 9]	5,820,000	5,880,000
Total liabilities	26,577,700	48,100,749
Net assets		
Internally restricted		
Invested in conservation lands and agreements	592,222,647	546,964,803
Other [note 10]	4,865,507	2,940,380
	597,088,154	549,905,183
Operating surplus	459,036	757,957
Science and Stewardship Endowments [note 11]	88,846,841	73,569,032
Total net assets	686,394,031	624,232,172
	712,971,731	672,332,921

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**

	Eleven-month period ended May 31, 2014	Year ended June 30, 2013
	\$	\$
REVENUE		
Donations of conservation lands and agreements <i>[note 5]</i>	21,055,593	11,728,803
Other donations and grants <i>[notes 8 and 13]</i>	58,418,878	74,202,866
Proceeds from sale of conservation lands <i>[note 5[c]]</i>	11,000	600,000
Gain on sale of capital assets <i>[note 4[b]]</i>	784,654	—
Other <i>[notes 9, 11[b] and 12]</i>	7,417,595	7,636,604
	87,687,720	94,168,273
EXPENSES		
Conservation lands and agreements acquired <i>[note 5]</i>		
Purchased	26,632,275	34,642,119
Donated	21,055,593	11,728,803
Loan repayments for prior year acquisitions <i>[note 7[b]]</i>	209,676	1,155,751
Contributions to properties acquired and property-related expenses incurred by others	6,547,908	8,138,554
	54,445,452	55,665,227
Property-related <i>[note 7[i]]</i>	15,575,494	18,485,439
Support <i>[note 7[i]]</i>	14,477,958	15,142,845
	84,498,904	89,293,511
Excess of revenue over expenses for the period	3,188,816	4,874,762
Net transfer to internally restricted net assets <i>[note 10]</i>	(740,161)	(87,076)
Net transfer to internally endowed net assets <i>[notes 11[b] and [c]]</i>	(2,747,576)	(2,968,875)
Net change in operating surplus (deficit)	(298,921)	1,818,811
Operating surplus (deficit), beginning of period	757,957	(1,060,854)
Operating surplus, end of period	459,036	757,957

See accompanying notes



The Nature Conservancy of Canada

STATEMENT OF CHANGES IN NET ASSETS

	Eleven-month period ended May 31, 2014					
	Internally restricted				Science and Stewardship Endowments	Total
	Operating surplus	Invested in conservation lands and agreements	Other	Total		
\$	\$	\$	\$	\$	\$	
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 CHANGES IN NET ASSETS

	Year ended June 30, 2013					
	Operating surplus (deficit)	Internally restricted			Science and Stewardship Endowments	Total
		Invested in conservation lands and agreements	Other	Total		
	\$	\$	\$	\$	\$	\$
Balance, beginning of year	(1,060,854)	500,189,460	2,681,230	502,870,690	61,837,466	563,647,302
Excess of revenue over expenses for the year	4,874,762	—	—	—	—	4,874,762
Purchases of conservation lands and agreements internally financed <i>[note 5[b]]</i>	—	34,642,119	—	34,642,119	—	34,642,119
Repayment of loans used for property acquisitions <i>[note 7[b]]</i>	—	1,155,751	—	1,155,751	—	1,155,751
Transfer of conservation lands and agreements to others <i>[note 5[b]]</i>	—	(191,330)	—	(191,330)	—	(191,330)
Cost of conservation lands and agreements sold <i>[note 5[b]]</i>	—	(560,000)	—	(560,000)	—	(560,000)
Donations of conservation lands and agreements <i>[note 5[b]]</i>	—	11,728,803	—	11,728,803	—	11,728,803
Endowment contributions <i>[note 11]</i>	—	—	—	—	1,567,216	1,567,216
Investment income related to preservation of capital on externally endowed net assets <i>[note 11[b]]</i>	—	—	—	—	2,698,383	2,698,383
Net transfer to internally endowed net assets <i>[notes 11[b] and [c]]</i>	(2,968,875)	—	—	—	2,968,875	—
Other interfund transfer <i>[note 10]</i>	(87,076)	—	259,150	259,150	(172,074)	—
Transfer from deferred contributions <i>[note 8]</i>	—	—	—	—	4,669,166	4,669,166
Balance, end of year	757,957	546,964,803	2,940,380	549,905,183	73,569,032	624,232,172

See accompanying notes



The Nature Conservancy of Canada

STATEMENT OF CASH FLOWS

	Eleven-month period ended May 31, 2014 \$	Year ended June 30, 2013 \$
OPERATING ACTIVITIES		
Excess of revenue over expenses for the period	3,188,816	4,874,762
Add (deduct) items not affecting cash		
Amortization	419,005	462,196
Carbon offset credits revenue	(60,000)	(60,000)
Gain on sale of capital assets	(784,654)	—
	2,763,167	5,276,958
Changes in non-cash working capital balances related to operations		
Decrease (increase) in accounts receivable and other	(8,343,234)	1,084,638
Increase (decrease) in deferred contributions	(17,061,448)	4,663,214
Increase (decrease) in accounts payable and accrued liabilities	(1,016,776)	1,778,788
Cash provided by (used in) operating activities	(23,658,291)	12,803,598
INVESTING ACTIVITIES		
Purchase of long-term investments, net	(7,138,744)	(6,007,738)
Decrease in short-term investments, net	4,778,838	3,033,787
Conservation lands and agreements acquired using debt	—	(75,000)
Decrease in deposits on land	16,270	73,610
Additions to capital assets	(95,968)	(150,409)
Proceeds on disposal of capital assets	3,419,664	—
Cash provided by (used in) investing activities	980,060	(3,125,750)
FINANCING ACTIVITIES		
Endowment contributions	2,354,167	1,567,216
Proceeds from debt used for conservation lands and agreements acquisitions	—	75,000
Proceeds from debt used for property-related and support expenses	2,575,479	74,138
Repayments of debt used for property-related and support expenses	(76,964)	(425,809)
Repayment of capital asset acquisition loans	(2,862,192)	(16,840)
Cash provided by financing activities	1,990,490	1,273,705
Net increase (decrease) in cash and cash equivalents during the period	(20,687,741)	10,951,553
Cash and cash equivalents, beginning of period	22,905,460	11,953,907
Cash and cash equivalents, end of period	2,217,719	22,905,460

See accompanying notes



The Nature Conservancy of Canada

NOTES TO FINANCIAL STATEMENTS

May 31, 2014

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 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 the year, 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 recognized 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.

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.

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NOTES TO FINANCIAL STATEMENTS

May 31, 2014

Investment income, which consists of interest, dividends, distributions from pooled funds, and realized and unrealized gains and losses, is recorded as 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 equity instruments that are quoted in an active market as well as investments in pooled funds and any investments in fixed income securities that the Conservancy designates upon purchase to be measured at fair value. Transaction costs are recognized consistent with the recognition of investment income (loss).

Investments in fixed income securities not designated to be measured at fair value 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.

All transactions are recorded on the trade date.

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

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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

Building	4% straight-line
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 for consistent with investment income.

The Nature Conservancy of Canada

NOTES TO FINANCIAL STATEMENTS

May 31, 2014

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 valued at amortized cost. The securities have a weighted average rate of return of 2.66% and terms to maturity of 109 to 1,066 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:

	<u>May 31, 2014</u>		<u>June 30, 2013</u>	
	\$	%	\$	%
Cash	997,314	1	727,709	1
Equities				
Canadian	17,980,704	19	14,304,384	18
U.S.	18,416,618	20	16,202,538	21
Other international	21,103,875	23	17,491,597	23
	57,501,197	62	47,998,519	62
Canadian bonds	34,852,799	37	28,936,779	37
	93,351,309	100	77,663,007	100

Bonds mature within one to eight years [June 30, 2013 - one to nine years] and have a weighted average interest rate of 3.72% [2013 - 3.47%].

As at May 31, 2014 and June 30, 2013, investments in equities consist of units in pooled funds, exchange-traded funds and iShares.

The Nature Conservancy of Canada

NOTES TO FINANCIAL STATEMENTS

May 31, 2014

4. CAPITAL ASSETS

[a] Capital assets consist of the following:

	May 31, 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

	June 30, 2013		
	Cost \$	Accumulated amortization \$	Net book value \$
Tangible			
Land	800,000	—	800,000
Building	2,446,313	563,623	1,882,690
Computer hardware	306,593	140,498	166,095
Furniture and fixtures	173,356	101,133	72,223
Leasehold improvements	21,137	20,211	926
Stewardship equipment	61,864	28,950	32,914
Intangible			
Computer software	1,353,347	806,903	546,444
	5,162,610	1,661,318	3,501,292

The Nature Conservancy of Canada

NOTES TO FINANCIAL STATEMENTS

May 31, 2014

[b] 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 \$784,654. Net proceeds and gains from other capital asset disposals were \$1,558 and \$311 respectively.

5. CONSERVATION LANDS AND AGREEMENTS

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

	May 31, 2014	June 30, 2013
	\$	\$
Purchased conservation lands <i>[note 7[c]]</i>	287,018,125	279,691,045
Donated conservation lands	140,172,577	137,044,391
	427,190,702	416,735,436
Purchased conservation agreements <i>[note 7[c]]</i>	44,665,183	29,121,483
Donated conservation agreements	122,511,127	103,461,925
	167,176,310	132,583,408
	594,367,012	549,318,844

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.

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NOTES TO FINANCIAL STATEMENTS

May 31, 2014

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

	Eleven-month period ended May 31, 2014	Year ended June 30, 2013
	\$	\$
Balance, beginning of period	549,318,844	503,624,252
Purchases internally financed	26,632,275	34,642,119
Purchases financed by debt <i>[note 7[b]]</i>	—	75,000
Donated <i>[note 13]</i>	21,055,594	11,728,803
Transferred to others	(2,628,700)	(191,330)
Cost of conservation lands and agreements sold <i>[note 5[c]]</i>	(11,000)	(560,000)
Balance, end of period	594,367,012	549,318,844

[c] 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.

During fiscal 2013, conservation lands with a cost of \$560,000 were sold for proceeds of \$600,000. The acquisition costs were originally financed by the Ted Boswell Land Conservation Fund ["TBLCF"] *[note 10[b]]*. The sale proceeds were used to repay the TBLCF *[note 10[b]]*.

6. GOVERNMENT REMITTANCES PAYABLE

As at June 30, 2013, accounts payable and accrued liabilities included government remittances payable of \$242,992. As at May 31, 2014 there are no remittances payable.

The Nature Conservancy of Canada

NOTES TO FINANCIAL STATEMENTS

May 31, 2014

7. DEBT

[a] Debt consists of the following:

	May 31, 2014	June 30, 2013
	\$	\$
Notes payable <i>[note 7[c]]</i>	1,634,500	1,634,500
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[h]]</i>	2,575,479	—
Term loans payable <i>[notes 7[e] and [g]]</i>	75,000	130,000
Note payable, interest at prime plus 0.5% [May 31, 2014 - 3.5%], with 60 monthly payments of principal of \$6,574 <i>[note 7[d]]</i>	151,039	215,836
Note payable, interest at prime [May 31, 2014 - 3.0%], with 60 monthly payments of principal and interest <i>[note 7[d]]</i>	485,102	651,109
Demand mortgage payable, interest at 3.5%, repaid January 31, 2014 <i>[note 7[b]]</i>	—	2,863,028
	4,921,120	5,494,473
Less current portion	2,833,658	3,178,254
	2,087,462	2,316,219

The Nature Conservancy of Canada

NOTES TO FINANCIAL STATEMENTS

May 31, 2014

[b] Debt is held for the following purposes:

	May 31, 2014	June 30, 2013
	\$	\$
Acquisition of conservation lands and agreements	2,144,365	2,354,041
Acquisition of capital assets	—	2,862,192
Financing of unfunded property-related expenses	2,776,755	278,240
	4,921,120	5,494,473

During the eleven-month period ended May 31, 2014, with respect to debt held for the acquisition of conservation lands and agreements, the Conservancy obtained debt financing for acquisition of new properties of nil [year ended June 30, 2013 - \$75,000]. Loan repayments for prior year acquisitions of \$209,676 [year ended June 30, 2013 - \$1,155,751] 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 debt held for the acquisition of capital assets, the Conservancy repaid the outstanding balance of \$2,862,192 [year ended June 30, 2013 - repayments of \$16,840]. With respect to the financing of unfunded property-related expenses, the Conservancy obtained debt financing of \$2,575,479 [year ended June 30, 2013 - \$74,138] and made repayments of \$76,964 [year ended June 30, 2013 - \$425,809].

- [c] The notes payable of \$1,634,500 [June 30, 2013 - \$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, 2014, 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.

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- [e] The Conservancy has a \$3,500,000 revolving uncommitted facility 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 RBC prime [May 31, 2014 - 3.0%]. The conservation lands and agreements financed by loans must be pledged as collateral. As at May 31, 2014, the Conservancy has drawings on this line of \$75,000 which are repayable in June 2015 [June 30, 2013 - \$130,000 repayable in May 2014 and June 2015].
- [f] The Conservancy has a \$1,500,000 revolving operating line of credit with interest payable at prime plus 0.50% [May 31, 2014 - 3.50%]. As at May 31, 2014 and June 30, 2013, there were no drawings on the line of credit.
- [g] The Conservancy has provided one lender with a general security agreement over substantially all of its assets in connection with the term loans [note 7[e]] and the operating line of credit [note 7[f]].
- [h] The Conservancy has a promissory note payable of US \$2,370,000 recorded in the accounts at its Canadian dollar value of \$2,575,479. The note may become due on demand at the option of the lender. Conservation lands owned by a partner organization have been pledged as collateral.
- [i] Interest of \$104,750 [year ended June 30, 2013 - \$188,799] related to debt has been recorded in the accounts, of which \$57,473 [year ended June 30, 2013 - \$121,669] relates to the demand mortgage payable, \$4,404 [June 30, 2013 - nil] relates to the operating line of credit and \$42,873 [year ended June 30, 2013 - \$67,130] 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.

The Nature Conservancy of Canada

NOTES TO FINANCIAL STATEMENTS

May 31, 2014

8. DEFERRED CONTRIBUTIONS

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

	May 31, 2014	June 30, 2013
	\$	\$
Balance, beginning of period	32,925,870	29,652,633
Add		
Amounts received for restricted purposes [note 13]	23,972,530	65,552,606
Investment income [note 12]	133,804	189,307
Amount available for spending [notes 11[b] and 12]	3,575,303	3,089,883
Less		
Amounts recognized as revenue during the year	(41,033,978)	(60,889,393)
Amounts transferred to endowment net assets [note 11[b]]	(6,520,579)	(4,669,166)
Balance, end of period	13,052,950	32,925,870

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 and 107,849 were deposited in a pool that is maintained by an independent association to replace the credits in certain circumstances.

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. The Conservancy may draw credits from the pool maintained by an independent association to replace the credits. If credits are not available from the pool, the Conservancy is required to provide the purchasers of the credits with an equivalent number of credits or pay damages equal to the fair market value of the number of credits that were sold and the number of credits that exist.

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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 eleven-month period ended May 31, 2014, \$60,000 [year ended June 30, 2013 - \$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:

	May 31, 2014	June 30, 2013
	\$	\$
Ted Boswell Land Conservation Fund <i>[note 10[b]]</i>	2,867,995	1,508,634
Future projects <i>[note 10[c]]</i>	3,762,851	3,257,085
Expenses to be funded by carbon offset credit revenue <i>[note 10[d]]</i>	(1,765,339)	(1,825,339)
	4,865,507	2,940,380

[b] The 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 2014 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.

The fiscal 2013 net decrease in the TBLCF represented transfers to operating surplus related to internal loans to finance expenditures during the year, offset by repayment of internal loans advanced during the year.

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

	May 31, 2014	June 30, 2013
	\$	\$
Transfers from operating surplus for future project expenses	2,405,493	3,536,309
Transfers to internally endowed unrestricted net assets	(173,797)	—
Transfers to operating surplus related to cost of projects carried out during the year	(2,297,439)	(869,770)
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	571,509	266,072
	505,766	2,932,611

[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 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 fiscal 2013, an amount equal to incurred expenses, net of revenue of \$60,000 [note 9], totalling \$337,718, was transferred from other internally restricted net assets to operating surplus. 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:

	May 31, 2014	June 30, 2013
	\$	\$
Science Endowments		
Externally endowed	6,145,960	5,577,761
Stewardship Endowments		
Externally endowed	49,562,012	38,357,169
Internally endowed donor restricted	15,981,832	14,039,673
Internally endowed unrestricted	17,157,037	15,594,429
	82,700,881	67,991,271
	88,846,841	73,569,032

- [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 4% [year ended June 30, 2013 – 4.5%] 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.

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In fiscal 2014, there was investment income of \$10,506,355 [2013 - \$7,363,403] related to endowment net assets. Of this amount, \$4,840,453 [2013 - \$2,698,383], 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 \$1,610,946 [2013 - \$1,635,357] 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 \$1,964,357 [2013 - \$1,454,526] was recorded as deferred contributions [note 8] and the amount with no restrictions of \$2,090,599 [2013 - \$1,575,137] was recorded as other revenue in the statement of operations and changes in operating surplus. An amount of \$1,449,568 [2013 - \$888,693], 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 \$1,518,804 [2013 - \$747,840], 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 eleven-month period ended May 31, 2014, the Board approved a net transfer of \$1,228,772 [year ended June 30, 2013 - \$2,221,035] to the internally endowed unrestricted portion of Stewardship Endowments from operating surplus.

12. INVESTMENT INCOME

Investment income earned consists of the following:

	May 31, 2014	June 30, 2013
	\$	\$
Total investment income earned, net of management fees	11,369,478	8,271,296
Amount allocated to deferred contributions [note 8]		
Amount available for spending related to endowed funds [note 11[b]]	(3,575,303)	(3,089,883)
Other investment income	(133,804)	(189,307)
Preservation of capital on externally endowed net assets [note 11[b]]	(4,840,453)	(2,698,383)
Total investment income included in other revenue	2,819,918	2,293,723

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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 eleven-month period ended May 31, 2014, The Friends of The Nature Conservancy of Canada, Inc. made land donations with a fair value of nil [year ended June 30, 2013 - \$633,200], restricted contributions of \$2,629,033 [year ended June 30, 2013 - \$161,403] and unrestricted contributions of \$582,434 [year ended June 30, 2013 - \$519,970] 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 its pooled funds denominated in foreign currencies, because of fluctuations in the relative value of foreign currencies against the Canadian dollar.

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.

Interest rate risk

The Conservancy is exposed to interest rate risk with respect to its fixed rate debt and its investments in fixed income investments 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.

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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 equity securities and pooled funds.

15. COMMITMENTS

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

	\$
2015	776,401
2016	749,371
2017	592,998
2018	324,055
2019	172,337
Thereafter	50,894
	<u>2,666,056</u>

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

