

Financial Statements

**The Nature Conservancy of Canada**

June 30, 2011

# 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 June 30, 2011 and the statements of operations and changes in operating deficit, 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 generally accepted accounting principles, 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 June 30, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

As required by the Canada Corporations Act, we report that, in our opinion, Canadian generally accepted accounting principles have been applied on a basis consistent with that of the preceding year.

Toronto, Canada,  
November 16, 2011.

*Ernst + Young LLP*

Chartered 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 June 30

	2011	2010
	\$	\$
<b>ASSETS [note 6[g]]</b>		
<b>Current</b>		
Cash and cash equivalents	19,340,236	30,514,417
Short-term investments [note 3[a]]	15,102,065	23,972,970
Accounts receivable and other	5,732,651	6,334,811
<b>Total current assets</b>	<b>40,174,952</b>	<b>60,822,198</b>
Investments [note 3[b]]	63,209,991	45,955,799
Capital assets, net [note 4]	4,156,784	4,394,111
Conservation lands and agreements [note 5]	478,279,199	432,188,352
	<b>585,820,926</b>	<b>543,360,460</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	6,249,565	7,550,829
Operating loan [notes 6[f], [g] and [h]]	1,500,000	798,682
Current portion of long-term debt [note 6[a]]	3,245,096	6,236,732
Deferred contributions [note 7]	31,042,301	49,344,372
<b>Total current liabilities</b>	<b>42,036,962</b>	<b>63,930,615</b>
Long-term debt [note 6[a]]	2,650,163	2,368,805
Deferred revenue related to sales of carbon offset credits [note 8]	6,000,000	—
<b>Total liabilities</b>	<b>50,687,125</b>	<b>66,299,420</b>
<b>Net assets</b>		
Internally restricted		
Invested in conservation lands and agreements	475,772,688	430,050,878
Other [note 9]	1,619,492	3,606,821
	<b>477,392,180</b>	<b>433,657,699</b>
Operating deficit	(1,392,236)	(2,174,159)
Science and Stewardship Endowments [note 10]	59,133,857	45,577,500
<b>Total net assets</b>	<b>535,133,801</b>	<b>477,061,040</b>
	<b>585,820,926</b>	<b>543,360,460</b>

See accompanying notes

On behalf of the Board:



Chair



Treasurer

**The Nature Conservancy of Canada**

**STATEMENT OF OPERATIONS AND CHANGES IN  
OPERATING DEFICIT**

Year ended June 30

	2011 \$	2010 \$
<b>REVENUE</b>		
Donations of conservation lands and agreements <i>[note 5]</i>	15,055,828	5,463,382
Other donations and grants <i>[notes 7 and 12]</i>	73,216,983	57,135,566
Proceeds from property sales <i>[note 5[c]]</i>	3,272,800	160,000
Other <i>[notes 7, 10[b] and 11]</i>	6,738,008	5,688,880
	<b>98,283,619</b>	<b>68,447,828</b>
<b>EXPENSES</b>		
Conservation lands and agreements acquired <i>[note 5]</i>		
Purchased	31,881,659	19,313,810
Donated	15,055,828	5,463,382
Loan repayments for prior year acquisitions <i>[note 6[b]]</i>	150,298	81,074
Contributions to properties acquired and property related expenses incurred by others	15,970,518	13,527,972
	<b>63,058,303</b>	<b>38,386,238</b>
Property related <i>[notes 6[b] and [h]]</i>	17,212,145	15,402,688
Support <i>[note 6[h]]</i>	14,416,384	13,354,429
	<b>94,686,832</b>	<b>67,143,355</b>
<b>Excess of revenue over expenses for the year</b>	<b>3,596,787</b>	<b>1,304,473</b>
Net transfer from (to) internally restricted net assets <i>[note 9]</i>	2,303,956	(1,215,715)
Transfer to internally endowed net assets <i>[notes 10[b] and [c]]</i>	(5,118,820)	(1,907,994)
<b>Net change in operating deficit</b>	<b>781,923</b>	<b>(1,819,236)</b>
Operating deficit, beginning of year	(2,174,159)	(354,923)
<b>Operating deficit, end of year</b>	<b>(1,392,236)</b>	<b>(2,174,159)</b>

*See accompanying notes*

The Nature Conservancy of Canada

STATEMENT OF CHANGES IN NET ASSETS

Year ended June 30

	2011						2010
	Operating deficit	Internally restricted			Science and Stewardship Endowments	Total	Total
			Invested in conservation lands and agreements	Other			
	\$	\$	\$	\$	\$	\$	
<b>Balance, beginning of year</b>	<b>(2,174,159)</b>	<b>430,050,878</b>	<b>3,606,821</b>	<b>433,657,699</b>	<b>45,577,500</b>	<b>477,061,040</b>	448,253,345
Excess of revenue over expenses for the year	<b>3,596,787</b>	—	—	—	—	<b>3,596,787</b>	1,304,473
Purchases of conservation lands and agreements internally financed <i>[note 5[b]]</i>	—	<b>31,881,659</b>	—	<b>31,881,659</b>	—	<b>31,881,659</b>	19,313,810
Repayment of loans used for property acquisitions <i>[note 6[b]]</i>	—	<b>150,298</b>	—	<b>150,298</b>	—	<b>150,298</b>	81,074
Transfer of conservation lands and agreements to others <i>[note 5[b]]</i>	—	<b>(8,700)</b>	—	<b>(8,700)</b>	—	<b>(8,700)</b>	(956,000)
Cost of conservation lands and agreements sold <i>[notes 5[b] and [c]]</i>	—	<b>(1,357,275)</b>	—	<b>(1,357,275)</b>	—	<b>(1,357,275)</b>	(100,000)
Donations received of conservation lands and agreements <i>[note 5[b]]</i>	—	<b>15,055,828</b>	—	<b>15,055,828</b>	—	<b>15,055,828</b>	5,463,382
Endowment contributions	—	—	—	—	<b>2,672,267</b>	<b>2,672,267</b>	2,682,331
Investment income related to preservation of capital on externally endowed net assets (shortfall of investment income) <i>[note 10[b]]</i>	—	—	—	—	<b>2,357,514</b>	<b>2,357,514</b>	(1,522,512)
Transfer to internally endowed net assets <i>[notes 10[b] and [c]]</i>	<b>(5,118,820)</b>	—	—	—	<b>5,118,820</b>	—	—
Other interfund transfer <i>[note 9]</i>	<b>2,303,956</b>	—	<b>(1,987,329)</b>	<b>(1,987,329)</b>	<b>(316,627)</b>	—	—
Transfer from deferred contributions <i>[note 7]</i>	—	—	—	—	<b>3,724,383</b>	<b>3,724,383</b>	2,541,137
<b>Balance, end of year</b>	<b>(1,392,236)</b>	<b>475,772,688</b>	<b>1,619,492</b>	<b>477,392,180</b>	<b>59,133,857</b>	<b>535,133,801</b>	477,061,040

See accompanying notes

## The Nature Conservancy of Canada

### STATEMENT OF CASH FLOWS

Year ended June 30

	2011 \$	2010 \$
<b>OPERATING ACTIVITIES</b>		
Excess of revenue over expenses for the year	3,596,787	1,304,473
Add item not affecting cash		
Amortization	590,564	226,295
	<b>4,187,351</b>	1,530,768
Changes in non-cash working capital balances related to operations		
Decrease (increase) in accounts receivable and other	(948,234)	209,328
Increase (decrease) in deferred contributions	(17,710,203)	6,911,058
Decrease in accounts payable and accrued liabilities	(1,301,264)	(4,201,599)
Increase in deferred revenue related to sales of carbon offset credits	6,000,000	—
<b>Cash provided by (used in) operating activities</b>	<b>(9,772,350)</b>	4,449,555
<b>INVESTING ACTIVITIES</b>		
Purchase of long-term investments, net	(11,443,108)	(3,733,039)
Decrease (increase) in short-term investments	8,549,850	(15,207,010)
Conservation lands and agreements acquired using debt	(519,335)	(432,751)
Decrease (increase) in deposits on land	1,550,394	(2,233,140)
Additions to capital assets	(353,237)	(781,524)
<b>Cash used in investing activities</b>	<b>(2,215,436)</b>	(22,387,464)
<b>FINANCING ACTIVITIES</b>		
Endowment contributions	2,672,267	2,682,331
Proceeds from operating loan	701,318	798,682
Proceeds from debt used for conservation land and agreement acquisitions	519,335	432,751
Proceeds from debt used for property and support expenses	266,600	301,555
Repayments of debt used for property and support expenses	(3,273,267)	(1,038,366)
Repayment of capital asset acquisition loans	(72,648)	(59,297)
<b>Cash provided by financing activities</b>	<b>813,605</b>	3,117,656
<b>Net decrease in cash and cash equivalents during the year</b>	<b>(11,174,181)</b>	(14,820,253)
Cash and cash equivalents, beginning of year	30,514,417	45,334,670
<b>Cash and cash equivalents, end of year</b>	<b>19,340,236</b>	30,514,417

See accompanying notes

## The Nature Conservancy of Canada

# NOTES TO FINANCIAL STATEMENTS

June 30, 2011

## 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 membership 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and applied within the framework of the significant accounting policies summarized below:

### Revenue recognition

The Conservancy follows the deferral method of accounting for contributions.

Externally restricted contributions other than endowment contributions are recognized as revenue in the year in which the related expenses are incurred or property acquired.

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

Proceeds from property sales are recognized when title is transferred.

Endowment contributions are recognized as direct increases in endowment net assets.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Donations are recognized on a cash basis.

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



## The Nature Conservancy of Canada

### NOTES TO FINANCIAL STATEMENTS

June 30, 2011

#### Cash and cash equivalents

Cash and cash equivalents represent cash in banks, units in money market funds and short-term deposits with original maturities of less than 90 days from the date of purchase. Cash and investments meeting the definition of cash and cash equivalents that are held for investing rather than liquidity purposes are classified as long-term investments.

#### Investments

Publicly traded securities are valued based on the latest bid prices and pooled funds are valued based on reported unit values. Short-term securities are valued based on cost plus accrued income, which approximates fair value. Transactions are recorded on a settlement date basis and transaction costs are expensed as incurred.

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 deficit, except to the extent it relates to externally endowed net assets [note 10] and certain deferred contributions [note 7].

#### Capital assets

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

Building	4% straight-line
Computer hardware and software	20% straight-line
Furniture and fixtures	10% straight-line
Leasehold improvements	straight-line over the term of the lease
Stewardship equipment	20% straight-line

Effective July 1, 2010, the Conservancy changed its method of computing amortization from the declining balance method to the straight-line method for the Conservancy's computer hardware, software and stewardship equipment. The net difference as a result of this change is a decrease in amortization of \$124,677 recorded in the statement of operations and changes in operating deficit for the year ended June 30, 2011.

## The Nature Conservancy of Canada

### NOTES TO FINANCIAL STATEMENTS

June 30, 2011

#### 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. 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 deficit. 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.

Contributed conservation lands and agreements are recorded at fair market value when title is transferred, unless the fair market value is subject to review by regulatory authorities, in which case the contribution is recorded when an amount is approved by the authorities. 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 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 asset and liability balances are translated at the year-end spot rates. Exchange gains and losses related to investments are included in investment income and allocated in accordance with the accounting policy for investment income. Other exchange gains and losses are included in the statement of operations and changes in operating deficit.

#### 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.

#### Financial instruments

The Conservancy has chosen to apply CICA 3861, *Financial Instruments - Disclosure and Presentation*, in place of CICA 3862, *Financial Instruments - Disclosures*, and CICA 3863, *Financial Instruments - Presentation*.

## **The Nature Conservancy of Canada**

### **NOTES TO FINANCIAL STATEMENTS**

June 30, 2011

#### **Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### **Donated materials and services**

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

#### **Future changes in accounting policies**

In November 2010, the Accounting Standards Board of the CICA issued Part III of the CICA Handbook that sets out the accounting standards for not-for-profit organizations that are effective for fiscal years beginning on or after January 1, 2012, with an option to early-adopt. The Conservancy is currently evaluating the impact of these standards.

### **3. INVESTMENTS**

[a] Short-term investments consist of bonds and guaranteed investment certificates. The securities have a weighted average rate of return of 2.29% and terms to maturity of 91 to 1,015 days. 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.

**The Nature Conservancy of Canada**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2011

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

	<b>2011</b>		<b>2010</b>	
	\$	%	\$	%
Cash	<b>1,204,267</b>	<b>2</b>	963,006	2
Short-term investments	—	—	1,549,739	3
Equities				
Canadian	<b>13,063,810</b>	<b>21</b>	9,768,858	21
U.S.	<b>10,726,243</b>	<b>17</b>	6,767,400	15
International	<b>13,513,765</b>	<b>21</b>	9,751,705	21
	<b>37,303,818</b>	<b>59</b>	26,287,963	57
Canadian bonds	<b>24,701,906</b>	<b>39</b>	17,155,091	38
	<b>63,209,991</b>	<b>100</b>	45,955,799	100

Bonds mature within one to 20 years and have a weighted average interest rate of 4.73% [2010 - 4.90%].

As at June 30, 2011 and 2010, investments in equities consist of units in pooled funds, exchange-traded funds and iShares.

The Nature Conservancy of Canada

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

4. CAPITAL ASSETS

Capital assets consist of the following:

	<b>2011</b>		<b>Net book value</b>
	<b>Cost</b>	<b>Accumulated amortization</b>	
	\$	\$	\$
Land <i>[note 6[a]]</i>	800,000	—	800,000
Building <i>[note 6[a]]</i>	2,446,313	367,919	2,078,394
Computer hardware	352,239	260,115	92,124
Computer software	1,375,951	312,486	1,063,465
Furniture and fixtures	153,223	79,481	73,742
Leasehold improvements	81,222	59,630	21,592
Stewardship equipment	55,145	27,678	27,467
	<b>5,264,093</b>	<b>1,107,309</b>	<b>4,156,784</b>

	<b>2010</b>		<b>Net book value</b>
	<b>Cost</b>	<b>Accumulated amortization</b>	
	\$	\$	\$
Land <i>[note 6[a]]</i>	800,000	—	800,000
Building <i>[note 6[a]]</i>	2,446,313	270,067	2,176,246
Computer hardware	1,417,841	1,259,266	158,575
Computer software	1,451,676	372,975	1,078,701
Furniture and fixtures	324,452	231,599	92,853
Leasehold improvements	234,060	196,127	37,933
Stewardship equipment	123,832	74,029	49,803
	<b>6,798,174</b>	<b>2,404,063</b>	<b>4,394,111</b>

The Nature Conservancy of Canada

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

5. CONSERVATION LANDS AND AGREEMENTS

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

	2011 \$	2010 \$
Purchased conservation lands	233,134,420	210,384,760
Donated conservation lands	123,771,787	118,331,912
	<b>356,906,207</b>	328,716,672
Purchased conservation agreements	23,465,714	15,180,355
Donated conservation agreements	97,907,278	88,291,325
	<b>121,372,992</b>	103,471,680
	<b>478,279,199</b>	432,188,352

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:

	2011 \$	2010 \$
<b>Balance, beginning of year</b>	<b>432,188,352</b>	408,034,409
Purchases internally financed	31,881,659	19,313,810
Purchases financed by debt	519,335	432,751
Donated	15,055,828	5,463,382
Transferred to others	(8,700)	(956,000)
Cost of land sold	(1,357,275)	(100,000)
<b>Balance, end of year</b>	<b>478,279,199</b>	432,188,352

[c] During 2011, conservation land with a cost of \$662,500 was sold to the Province of Alberta for conservation purposes for cash proceeds of \$2,848,000. The proceeds, net of \$100,000 of future costs related to the sale, were recorded as revenue in the statement of operations and changes in operating deficit. An amount of \$2,648,000 was transferred from operating deficit to internally endowed net assets [note 10[c]].

## The Nature Conservancy of Canada

### NOTES TO FINANCIAL STATEMENTS

June 30, 2011

During 2011, conservation lands with a cost of \$14,002 were expropriated by the New Brunswick Department of Transportation for proceeds of \$34,800. The cash proceeds will be spent in accordance with the restrictions of the original donations used to fund the purchases.

During 2011, buildings and related non-conservation land with a cost of \$680,773 were severed from conservation land and sold for cash proceeds of \$490,000. The proceeds were recorded as revenue in the statement of operations and changes in operating deficit and an amount equal to the proceeds was transferred from operating deficit to the Ted Boswell Land Conservation Fund ["TBLCF"] portion of other internally restricted net assets *[note 9]*.

During 2010, conservation land with a cost of \$100,000 was sold for cash proceeds of \$160,000. As part of the sale, the Conservancy acquired a First Right of Refusal and a Conservation Agreement on the property. The cash proceeds were used to fund securement and stewardship activities in the natural area in which the property sold was located.

## The Nature Conservancy of Canada

### NOTES TO FINANCIAL STATEMENTS

June 30, 2011

#### 6. DEBT

[a] Debt consists of the following:

	2011 \$	2010 \$
Notes payable <i>[note 6[c]]</i>	1,634,500	1,634,500
Demand mortgage payable, interest at 5.85% to June 2012, with monthly payments of principal and interest of \$13,654, with land and building pledged as collateral	1,985,530	2,037,484
Demand mortgage payable, interest at prime plus 3% [June 30, 2011 - 6.0%], with monthly payments of principal and interest of \$4,043, with land and building pledged as collateral	476,516	588,101
Demand mortgage payable, interest at 3.78% to May 2012, with monthly payments of principal and interest of \$3,494, with land and building pledged as collateral	608,547	517,655
Term loans payable <i>[notes 6[e] and [g]]</i>	438,609	419,109
Note payable, interest at prime plus 0.5% [June 30, 2011 - 3.5%], with 60 monthly payments of principal of \$6,574 <i>[note 6[d]]</i>	348,357	315,196
Note payable, interest at prime [June 30, 2011 - 3.0%], with 60 monthly payments of principal and interest in an amount to be determined after final advance received <i>[note 6[d]]</i>	403,200	—
Mortgage payable, interest at prime or bankers' acceptance rate plus 0.6%, due no later than April 30, 2011	—	3,000,000
Note payable, interest at 5.086% due March 31, 2011, with monthly payments of principal and interest of \$7,972	—	70,224
Note payable, interest at 6.0% due March 31, 2011, with monthly payments of principal and interest of \$2,629	—	23,268
	<b>5,895,259</b>	<b>8,605,537</b>
Less current portion	<b>3,245,096</b>	<b>6,236,732</b>
	<b>2,650,163</b>	<b>2,368,805</b>



## The Nature Conservancy of Canada

### NOTES TO FINANCIAL STATEMENTS

June 30, 2011

[b] Debt is held for the following purposes:

	2011	2010
	\$	\$
Acquisition of conservation lands and agreements	2,506,511	2,137,474
Acquisition of capital assets	2,967,384	3,040,032
To finance unfunded property and support expenses	421,364	3,428,031
	<b>5,895,259</b>	<b>8,605,537</b>

During the year, with respect to debt held for conservation lands and agreements, the Conservancy had proceeds of \$519,335 [2010 - \$432,751]. Loan repayments for prior year acquisitions of \$150,298 [2010 - \$81,074] are recorded as property related expenses in the statement of operations and changes in operating deficit 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 had repayments of \$72,648 [2010 - \$59,297]. With respect to the financing of unfunded property and support expenses, the Conservancy had proceeds of \$266,600 [2010 - \$301,555] and repayments of \$3,273,267 [2010 - \$1,038,366].

[c] The notes payable of \$1,634,500 [2010 - \$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 land purchased with the loan proceeds has been pledged as collateral.

It is not possible to determine the fair value of the non-interest bearing notes since there are no fixed terms of repayment.

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

[e] The Conservancy has a \$2,000,000 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 [June 30, 2011 - 3.0%]. The conservation land financed by loans must be pledged as collateral. As at June 30, 2011, the Conservancy has drawings on this line of \$438,609 [2010 - \$419,109]. The loans are repayable in fiscal 2012.

## The Nature Conservancy of Canada

### NOTES TO FINANCIAL STATEMENTS

June 30, 2011

[f] The Conservancy has a \$1,500,000 revolving operating line of credit with interest payable at RBC prime plus 0.75% [June 30, 2011 - 3.75%]. As at June 30, 2011, there were drawings on this line of \$1,500,000 [2010 - \$798,682].

[g] The Conservancy has provided one lender with a general security agreement over substantially all of its assets in connection with one of the mortgages payable, the term loans [note 6[e]] and the operating line of credit [note 6[f]].

[h] Interest of \$295,156 [2010 - \$238,770] related to debt has been recorded in the accounts, of which \$164,335 [2010 - \$169,490] relates to the demand mortgages payable, \$45,517 [2010 - \$11,353] relates to the operating line of credit, and \$85,304 [2010 - \$57,521] 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.

#### 7. DEFERRED CONTRIBUTIONS

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

	2011	2010
	\$	\$
<b>Balance, beginning of year</b>	<b>49,344,372</b>	43,206,219
Add		
Amounts received for restricted purposes [note 12]	<b>43,065,567</b>	55,087,961
Investment income [note 11]	<b>321,035</b>	182,795
Amount available for spending [notes 10 and 11]	<b>2,811,480</b>	1,768,232
Less		
Amount recognized as revenue during the year		
Other donations and grants	<b>(58,643,690)</b>	(46,848,032)
Investment income included in other revenue	<b>(2,132,080)</b>	(1,511,666)
Amount transferred to endowment net assets [note 10[b]]	<b>(3,724,383)</b>	(2,541,137)
<b>Balance, end of year</b>	<b>31,042,301</b>	49,344,372

The transfer to endowment net assets includes the excess over the calculated amount available for spending on internally endowed restricted funds of \$863,278 [note 10[b]] and amounts where the conditions of the donation now require, or the donor's instructions now provide, that the amounts be endowed.

## The Nature Conservancy of Canada

### NOTES TO FINANCIAL STATEMENTS

June 30, 2011

#### 8. DEFERRED REVENUE RELATED TO SALES OF CARBON OFFSET CREDITS

During the year, 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.

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 June 30, 2011, no amount was recorded as revenue in the statement of operations and changes in operating deficit since the sales took place late in the year.

#### 9. OTHER INTERNALLY RESTRICTED NET ASSETS

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

	2011	2010
	\$	\$
Ted Boswell Land Conservation Fund <i>[note 9[b]]</i>	2,056,480	2,522,379
Future projects <i>[note 9[c]]</i>	463,012	1,084,442
Expenses to be funded by carbon offset credit revenue <i>[note 9[d]]</i>	(900,000)	—
	<b>1,619,492</b>	<b>3,606,821</b>

## The Nature Conservancy of Canada

### NOTES TO FINANCIAL STATEMENTS

June 30, 2011

- [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 deficit 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 deficit or endowment net assets.

The fiscal 2011 decrease in the TBLCF represents transfers to endowment net assets and operating deficit to fund purchases and endowments offset by repayments of internal loans advanced in prior years.

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

	2011	2010
	\$	\$
Transfers from operating deficit	371,458	1,202,020
Transfers to internally endowed net assets	—	(1,000,000)
Cost of projects carried out during the year	(1,008,916)	(745,107)
Investment gain related to internally restricted net assets recorded in the statement of operations and changes in operating deficit	16,028	39,209
	<b>(621,430)</b>	<b>(503,878)</b>

- [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 8]. An amount equal to expenses of \$900,000 incurred in fiscal 2011 [2010 - nil] has been transferred from other internally restricted net assets to operating deficit. In future years, the amount of revenue recorded in the statement of operations and changes in operating deficit will be transferred from operating deficit to other internally restricted net assets until the amount of expenses funded by this revenue has been fully offset by transfers.

## The Nature Conservancy of Canada

### NOTES TO FINANCIAL STATEMENTS

June 30, 2011

#### 10. 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:

	2011 \$	2010 \$
Science Endowments		
Externally endowed	<b>5,726,604</b>	5,292,030
Stewardship Endowments		
Externally endowed	<b>29,700,274</b>	23,115,758
Internally endowed donor restricted	<b>12,547,696</b>	11,859,121
Internally endowed unrestricted	<b>11,159,283</b>	5,310,591
	<b>53,407,253</b>	40,285,470
	<b>59,133,857</b>	45,577,500

- [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 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 deficit 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 required for spending, an amount is transferred from endowment net assets to operating deficit or deferred contributions for this purpose.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

In fiscal 2011, there was investment income of \$6,079,560 related to endowment net assets. Of this amount, \$2,357,514, 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. The amount made available for spending on externally endowed funds of \$1,420,392 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 \$1,391,088 was recorded as deferred contributions [note 7] and the amount with no restrictions of \$910,566 was recorded as other revenue in the statement of operations and changes in operating deficit. An amount of \$863,278, 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 \$590,735, which represents the excess over the calculated amount available for spending on internally endowed unrestricted funds, is included in transfers from operating deficit to internally endowed net assets.

In fiscal 2010, there was investment income of \$260,225 related to endowment net assets. Of this amount, \$175,606, which represented investment income earned on externally endowed net assets, was recorded as deferred contributions [note 7]. With respect to internally endowed funds, the investment income that must be used for restricted purposes of \$70,114 was recorded as deferred contributions [note 7] and the amount with no restrictions of \$14,505 was recorded as other revenue in the statement of operations and changes in operating deficit. The shortfall between investment income and the amount made available for spending on externally endowed net assets of \$1,099,194 was recorded as a direct reduction of endowment net assets and an increase in deferred contributions. The shortfall between investment income and the amount made available for spending on internally endowed net assets with a restricted purpose of \$423,318 was recorded as a transfer from internally endowed net assets to deferred contributions [note 7]. The shortfall between the investment income and the amount made available for spending on internally endowed net assets with no restrictions of \$207,464 was recorded as a transfer from internally endowed net assets to operating deficit.

[c] Undesignated bequests are normally transferred to Stewardship Endowments.

In fiscal 2011, the Board approved the transfer of \$4,528,085 [2010 - \$2,115,458] to the internally endowed unrestricted portion of Stewardship Endowments from operating deficit. This amount includes \$394,333 [2010 - \$533,806] of undesignated bequests, the transfers to internally endowed funds related to the proceeds on sale of conservation land [note 5[c]] and transfers of other amounts internally endowed with the income to be available for future expenses.

## The Nature Conservancy of Canada

### NOTES TO FINANCIAL STATEMENTS

June 30, 2011

#### 11. INVESTMENT INCOME

Investment income earned consists of the following:

	2011	2010
	\$	\$
Total investment income earned, net of management fees	6,643,786	581,167
Amount allocated to deferred contributions <i>[note 7]</i>		
Amount available for spending related to endowed funds <i>[note 10[b]]</i>	(2,811,480)	(245,720)
Other investment income <i>[note 7]</i>	(321,035)	(182,795)
Investment income allocated to endowment net assets <i>[note 10[b]]</i>	(2,357,514)	—
<b>Total investment income included in other revenue</b>	<b>1,153,757</b>	<b>152,652</b>

#### 12. FRIENDS OF NATURE CONSERVANCY OF CANADA

The Friends of Nature Conservancy of Canada 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, the Friends of Nature Conservancy of Canada made restricted contributions of \$189,574 [2010 - \$1,178,300] and unrestricted contributions of \$1,023,883 [2010 - \$689,764] to the Conservancy. The unrestricted contributions are recorded as other donations and grants in the statement of operations and changes in operating deficit and the restricted donations are recorded as deferred contributions *[note 7]*.

#### 13. FINANCIAL INSTRUMENTS

The Conservancy is subject to market risk, foreign currency risk and interest rate price risk with respect to its investment portfolio. To manage these risks, the Conservancy has established a target mix of investment types designed to achieve the optimal return within reasonable risk tolerances.

The Conservancy is subject to interest rate cash flow risk with respect to its floating rate debt payable and interest rate price risk with respect to its fixed rate debt.

## The Nature Conservancy of Canada

### NOTES TO FINANCIAL STATEMENTS

June 30, 2011

#### 14. LEASE COMMITMENTS AND CONTINGENCY

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

	\$
2012	679,200
2013	427,689
2014	272,321
2015	84,334
2016	60,402
Thereafter	24,748
	<hr/> 1,548,694 <hr/>

[b] The Conservancy is subject to a claim for damages. The outcome of the claim is not determinable at this time. However, management believes the claim is without merit. Losses, if any, related to the claim will be recorded in the period during which the liability can be estimated.

#### 15. CAPITAL MANAGEMENT

In managing capital, the Conservancy focuses on liquid resources available for operations. The Conservancy's objective is to have sufficient liquid resources to continue operating despite adverse events with financial consequences and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. The Conservancy has an available operating line of credit of \$1,500,000 that is used when sufficient cash flow is not available from operations to cover operating expenditures. In addition, the Conservancy has a revolving uncommitted facility by way of a series of term loans of \$2,000,000 to finance up to 50% of the cost of acquisition of real properties, including conservation agreements. Other financing is sometimes obtained to fund the acquisition of specific properties. As at June 30, 2011, the Conservancy has met its objective of having sufficient liquid resources to meet its current obligations.

#### 16. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2011 financial statements.



