NATURE CONSERVANCY CANADA
CONSERVATION DE LA NATURE CANADA

2020-2021
AUDITED FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

To the Members of
The Nature Conservancy of Canada

Opinion

We have audited the financial statements of **The Nature Conservancy of Canada** [the "Conservancy"], which comprise the statement of financial position as at May 31, 2021, and the statement of operations and changes in operating surplus, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Conservancy as at May 31, 2021, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for opinion

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Conservancy's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Conservancy's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Conservancy to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Ernst & Young LLP

Toronto, Canada
September 30, 2021

Chartered Professional Accountants
Licensed Public Accountants

STATEMENT OF FINANCIAL POSITION

As at May 31

	2021 $	2020 $
Assets		
Current		
Cash and cash equivalents	**77,982,036**	4,404,481
Short-term investments, at amortized cost *[note 3[a]]*	**—**	51,129,155
Accounts receivable, deposits on land and other *[note 12]*	**7,858,887**	7,945,667
Total current assets	**85,840,923**	63,479,303
Investments, at fair value *[note 3[b]]*	**182,180,945**	147,127,408
Capital assets, net *[note 4]*	**760,152**	1,052,794
Conservation lands and agreements *[note 5]*	**817,046,069**	772,422,968
	1,085,828,089	984,082,473
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities	**2,455,930**	1,363,170
Deferred contributions *[note 7]*	**61,338,717**	53,017,801
Total current liabilities	**63,794,647**	54,380,971
Long-term debt *[note 6]*	**—**	1,634,500
Total liabilities	**63,794,647**	56,015,471
Commitments and contingencies *[notes 3[c] and 13]*		
Net assets		
Internally restricted		
Invested in conservation lands and agreements *[note 5[c]]*	**817,046,069**	770,788,468
Other *[note 8]*	**26,004,672**	13,826,565
	843,050,741	784,615,033
Operating surplus	**3,487,898**	1,849,751
Science and Stewardship Endowments *[note 9]*	**175,494,803**	141,602,218
Total net assets	**1,022,033,442**	928,067,002
	1,085,828,089	984,082,473

See accompanying notes

On behalf of the Board:

Board Chair

Audit Committee Chair

STATEMENT OF OPERATIONS AND CHANGES IN OPERATING SURPLUS

Year ended May 31

	2021 $	2020 $
Revenue		
Donations of conservation lands and agreements *[notes 5[b] and 11]*	**16,588,238**	7,036,876
Other donations and grants *[notes 6[b], 7, 11 and 12]*	**94,718,858**	87,363,479
Proceeds from property sales *[note 5[d]]*	**50,850**	—
Other *[notes 9[b] and 10]*	**20,872,529**	10,003,518
	132,230,475	104,403,873
Expenses		
Conservation lands and agreements acquired *[note 5]*		
Purchased	**27,445,335**	21,086,176
Donated	**16,588,238**	7,036,876
Loan repayments for prior year acquisitions *[note 6[b]]*	**1,634,500**	131,274
Contributions to properties acquired and property-related expenses incurred by others	**15,228,679**	24,900,806
	60,896,752	53,155,132
Property-related *[notes 6[b] and [f]]*	**25,968,720**	24,173,429
Support *[note 6[f]]*	**23,885,673**	25,143,304
	110,751,145	102,471,865
Excess of revenue over expenses for the year	**21,479,330**	1,932,008
Net transfer to internally restricted net assets *[note 8]*	**(11,848,668)**	(2,019,345)
Net transfer from (to) internally endowed net assets *[notes 9[b] and [c]]*	**(7,992,515)**	189,750
Net increase in operating surplus	**1,638,147**	102,413
Operating surplus, beginning of year	**1,849,751**	1,747,338
Operating surplus, end of year	**3,487,898**	1,849,751

See accompanying notes

STATEMENT OF CHANGES IN NET ASSETS

Year ended May 31

	2021					
		Internally restricted				
	Operating surplus $	Invested in conservation lands and agreements $	Other $	Total $	Science and Stewardship Endowments $	Total $
Balance, beginning of year	**1,849,751**	**770,788,468**	**13,826,565**	**784,615,033**	**141,602,218**	**928,067,002**
Excess of revenue over expenses for the year	21,479,330	—	—	—	—	21,479,330
Purchases of conservation lands and agreements internally financed *[note 5[b]]*	—	27,445,335	—	27,445,335	—	27,445,335
Repayment of loans used for property acquisitions *[note 6[b]]*	—	1,634,500	—	1,634,500	—	1,634,500
Transfer of conservation lands and agreements from others, net *[note 5[b]]*	—	640,378	—	640,378	—	640,378
Cost of conservation lands and agreements sold *[note 5[d]]*	—	(50,850)	—	(50,850)	—	(50,850)
Donations of conservation lands and agreements *[note 5[b]]*	—	16,588,238	—	16,588,238	—	16,588,238
Endowment contributions *[note 9]*	—	—	—	—	1,371,304	1,371,304
Investment income related to preservation of capital on externally endowed net assets and amount available for spending in excess of income earned *[note 9[b]]*	—	—	—	—	15,854,445	15,854,445
Net transfer to internally endowed net assets *[notes 9[b] and [c]]*	(7,992,515)	—	—	—	7,992,515	—
Other interfund transfers *[note 8]*	(11,848,668)	—	12,178,107	12,178,107	(329,439)	—
Transfer from deferred contributions *[note 7]*	—	—	—	—	9,003,760	9,003,760
Balance, end of year	**3,487,898**	**817,046,069**	**26,004,672**	**843,050,741**	**175,494,803**	**1,022,033,442**

See accompanying notes

STATEMENT OF CHANGES IN NET ASSETS

Year ended May 31

	2020					
		Internally restricted				
	Operating surplus $	Invested in conservation lands and agreements $	Other $	Total $	Science and Stewardship Endowments $	Total $
Balance, beginning of year	**1,747,338**	**743,199,142**	**11,379,028**	**754,578,170**	**138,303,945**	**894,629,453**
Excess of revenue over expenses for the year	1,932,008	—	—	—	—	1,932,008
Purchases of conservation lands and agreements internally financed *[note 5[b]]*	—	21,086,176	—	21,086,176	—	21,086,176
Repayment of loans used for property acquisitions *[note 6[b]]*	—	131,274	—	131,274	—	131,274
Transfer of conservation lands and agreements to others *[note 5[b]]*	—	(665,000)	—	(665,000)	—	(665,000)
Donations of conservation lands and agreements *[note 5[b]]*	—	7,036,876	—	7,036,876	—	7,036,876
Endowment contributions *[note 9]*	—	—	—	—	2,559,218	2,559,218
Investment income related to preservation of capital on externally endowed net assets and amount available for spending in excess of income earned *[note 9[b]]*	—	—	—	—	(2,072,443)	(2,072,443)
Net transfer from internally endowed net assets *[notes 9[b] and [c]]*	189,750	—	—	—	(189,750)	—
Other interfund transfers *[note 8]*	(2,019,345)	—	2,447,537	2,447,537	(428,192)	—
Transfer from deferred contributions *[note 7]*	—	—	—	—	3,429,440	3,429,440
Balance, end of year	**1,849,751**	**770,788,468**	**13,826,565**	**784,615,033**	**141,602,218**	**928,067,002**

See accompanying notes

STATEMENT OF CASH FLOWS

Year ended May 31

	2021 $	2020 $
Operating activities		
Excess of revenue over expenses for the year	**21,479,330**	1,932,008
Add item not involving cash		
Amortization	**455,818**	388,475
	21,935,148	2,320,483
Changes in non-cash working capital balances related to operations		
Decrease (increase) in accounts receivable and other	**240,088**	(2,399,654)
Increase (decrease) in accounts payable and accrued liabilities	**1,092,760**	(592,651)
Increase in deferred contributions	**9,068,364**	22,066,515
Cash provided by operating activities	**32,336,360**	21,394,693
Investing activities		
Purchase of long-term investments, net	**(10,942,780)**	(2,017,710)
Decrease (increase) in short-term investments, net	**51,129,155**	(38,648,118)
Decrease (increase) in deposits on land	**(153,308)**	2,000
Decrease in trade lands	**—**	45,000
Additions to capital assets	**(163,176)**	(285,183)
Cash provided by (used in) investing activities	**39,869,891**	(40,904,011)
Financing activities		
Endowment contributions	**1,371,304**	2,559,218
Repayments of debt used for property-related and support expenses	**—**	(4,150)
Cash provided by financing activities	**1,371,304**	2,555,068
Net increase (decrease) in cash during the year	**73,577,555**	(16,954,250)
Cash and cash equivalents, beginning of year	**4,404,481**	21,358,731
Cash and cash equivalents, end of year	**77,982,036**	4,404,481

See accompanying notes

1. Organization

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

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

2. Summary of significant accounting policies

These financial statements are prepared in accordance with Part III of the *CPA Canada Handbook – Accounting,* "Accounting Standards for Not-for Profit Organizations", which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies set out below.

Revenue recognition

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

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

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

Proceeds from property sales are recognized when title is transferred.

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

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

Cash and cash equivalents

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

Financial instruments

Investments reported at fair value consist of exchange-traded funds, funds and fixed income investments that are 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 cash and cash equivalents, accounts receivable, deposits on land and other and accounts payable and accrued liabilities, are initially recorded at fair value and subsequently measured at cost, net of any provisions for impairment.

Capital assets

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

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

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

Conservation lands and agreements

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

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

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

Foreign currency translation

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

Allocation of expenses

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

Donated materials and services

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

3. Investments

[a] Short-term investments consist primarily of short-term notes and guaranteed investment certificates valued at amortized cost. As at May 31, 2020, securities represented the investment of deferred contributions classified as short-term and since all the securities were highly liquid, they were classified as short-term.

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

	2021		2020	
	$	%	$	%
Cash	**10,210,560**	**6**	7,670,897	5
Exchange-traded funds				
Canadian bonds	**21,243,224**	**12**	21,377,543	15
American bonds	**2,617,216**	**1**	2,702,560	2
Canadian equities	**454,740**	**0**	3,314,289	2
American equities	**16,781,546**	**10**	10,968,764	7
Canadian gold bullion	**1,644,180**	**1**	—	
Other international equities	**5,947,480**	**3**	4,566,180	3
	48,688,386	**27**	42,929,336	29
Funds				
Canadian	**5,930,933**	**3**	8,423,509	6
American	**6,079,803**	**3**	4,635,895	3
International	**21,806,770**	**12**	21,100,497	14
Global	**50,653,776**	**28**	29,579,110	20
	84,471,282	**46**	63,739,011	43
Alternative investment funds				
Equity hedge	**2,529,768**	**1**	1,386,710	1
Diversifying hedge	**15,154,501**	**8**	14,917,974	10
Multi-asset	**4,401,241**	**2**	3,761,731	3
Commodities	**3,428,396**	**2**	3,695,923	2
Private investment	**10,247,271**	**6**	4,293,515	3
Infrastructure	**3,049,540**	**2**	4,732,311	4
	38,810,717	**21**	32,788,164	23
	182,180,945	**100**	147,127,408	100

As at May 31, 2021, Canadian bond exchange-traded funds have a weighted average maturity of 12.4 years [2020 – 12.2 years] and have a weighted average interest rate of 2.80% [2020 – 3.00%].

[c] As at May 31, 2021, the Conservancy has uncalled commitments related to investments in private funds of $16,413,756 [2020 – $12,831,163] that are expected to be called on over the next five to seven years. The Conservancy has agreed to dispose of investments in American equity of $3,020,250 [2020 – nil] and hedge funds of $176,902 [2020 – $41,329] over the next two years. The proceeds will be used to finance uncalled commitments and other investments.

4. Capital assets

Capital assets consist of the following:

	2021		
	Cost $	**Accumulated amortization** $	**Net book value** $
Tangible			
Computer hardware	**681,856**	**396,379**	**285,477**
Furniture and fixtures	**200,703**	**103,387**	**97,316**
Leasehold improvements	**318,754**	**225,127**	**93,627**
Stewardship equipment	**13,897**	**13,897**	**—**
Intangible			
Computer software	**1,229,398**	**945,666**	**283,732**
	2,444,608	**1,684,456**	**760,152**

	2020		
	Cost $	**Accumulated amortization** $	**Net book value** $
Tangible			
Computer hardware	658,406	361,966	296,440
Furniture and fixtures	169,140	83,317	85,823
Leasehold improvements	355,097	210,751	144,346
Stewardship equipment	13,897	11,118	2,779
Intangible			
Computer software	1,223,193	699,787	523,406
	2,419,733	1,366,939	1,052,794

Fully amortized capital assets, that are no longer in use, with a cost of $138,301 [2020 – $119,932] were written off.

5. Conservation lands and agreements

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

	2021 $	2020 $
Purchased conservation lands *[notes 6[c] and 6[d]]*	**398,442,500**	374,666,136
Donated conservation lands	**194,254,379**	181,629,441
	592,696,879	556,295,577
Purchased conservation agreements *[note 6[c]]*	**70,915,191**	66,656,692
Donated conservation agreements	**153,433,999**	149,470,699
	224,349,190	216,127,391
	817,046,069	772,422,968

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:

	2021 $	2020 $
Balance, beginning of year	**772,422,968**	744,964,916
Purchases internally financed	**27,445,335**	21,086,176
Donated *[note 11]*	**16,588,238**	7,036,876
Transferred to others	**(1,191,000)**	(665,000)
Transferred from others *[note 5[e]]*	**1,831,378**	—
Cost of purchased conservation lands and agreements sold *[note 5[d]]*	**(50,850)**	—
Balance, end of year	**817,046,069**	772,422,968

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

	2021	2020
	$	$
Conservation lands and agreements *[note 5[a]]*	**817,046,069**	772,422,968
Conservation lands and agreements financed by debt *[note 6[b]]*	**—**	(1,634,500)
	817,046,069	770,788,468

[d] In 2021, the Conservancy sold conservation properties for proceeds of $50,850 and a carrying value of $50,850 *[note 5[b]]*; the sale proceeds were externally endowed to be used for stewarding lands and disposition costs. In 2020, the Conservancy had no sale of conservation properties and no unspent proceeds from prior years.

[e] In 2021, the Conservancy received several properties transferred from an unrelated party, The Nature Conservancy of Canada (PEI) Inc., with a total value of $2,964,278, of which $1,831,378 [note 5[b]] was previously financed by the Conservancy and included in the transfer and $1,132,900 is included as donations received.

6. Long-term debt

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

	2021	2020
	$	$
Notes payable *[note 6[c]]*	**—**	1,634,500

[b] Debt is held for the following purposes:

	2021	2020
	$	$
Acquisition of conservation lands and agreements *[note 5[c]]*	**—**	1,634,500

During the year ended May 31, 2021, the Conservancy was forgiven loans for prior-year acquisitions of $1,634,500 *[note 5[c]]*, which are recorded in revenue in other donations and grants in the statement of operations and changes in operating surplus. During the year ended May 31, 2020, the Conservancy made loan repayments for prior-year acquisitions of $131,274, which are recorded in revenue in other donations and grants in the statement of operations and changes in operating surplus.

[c] In the prior year, notes payable of $1,634,500 were only repayable if certain events occurred. They were non-interest bearing until such time as the lender demanded the payment of the interest, which was calculated at the bank's prime rate plus 10%. During fiscal 2021, these notes were forgiven *[note 5[b]]*.

[d] The Conservancy has four 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, 2021 – 2.45%]. As at May 31, 2021 and 2020, the Conservancy has no drawings on this line of credit.

[ii] A $1,500,000 revolving operating line of credit with interest payable at prime plus 0.5% [May 31, 2021 – 2.95%]. As at May 31, 2021 and 2020, the Conservancy has not utilized the facility.

[iii] A $10,000,000 revolving facility available by way of a series of term loans for bridge financing of land conservation and development projects of federal government funding through the natural areas conservation program funding agreement from 2014 to 2019. The agreement was renewed in May 2019 for bridge financing of federal government funding in place, and any amount owed by the Conservancy under the previous agreement is deemed to be a borrowing in the new agreement. The borrowings advanced pursuant to each term loan are repayable within one year of the advance, with interest payable at prime plus 0.25% [May 31, 2021 – 2.7%]. As at May 31, 2021 and 2020, the Conservancy has no drawings on this facility.

[iv] In fiscal 2020, the Conservancy obtained a $10,000,000 revolving facility available by way of a series of term loans for bridge financing of land conservation and development projects. The borrowings advanced pursuant to each term loan are repayable within two years of the advance with interest payable at prime plus 0.25% [May 31, 2021 – 2.7%]. As at May 31, 2020, the Conservancy has no drawings on this facility. Borrowings outstanding under this facility plus all amounts under the facility [ii] and [iii] must not exceed at any time the sum of $13,500,000. The amount of borrowing must not exceed 60% of the total value of the related project, and not exceed $10,000,000.

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

[f] Interest of $19,945 [2020 – $47,534] related to debt has been recorded in the accounts, of which nil [2020 – $47,207] relates to the revolving facility for bridge financing of federal government funding and $19,945 [2020 – $327] relates to temporary debt from borrowings and the revolving facility that was incurred for property acquisitions. Interest is classified as property-related or support expenses, depending on the purpose for which the debt was used.

7. Deferred contributions

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

	2021 $	2020 $
Balance, beginning of year	**53,017,801**	30,967,604
Add		
Amounts received for restricted purposes *[note 11]*	**85,162,958**	90,006,710
Investment income *[notes 9[b] and 10]*	**5,044,402**	320,820
Amount available for spending related to externally endowed funds *[notes 9[b] and 10]*	**3,211,910**	3,092,302
Less		
Amounts recognized as revenue during the year	**(76,094,594)**	(67,940,195)
Amounts transferred to endowment net assets *[note 9[b]]*	**(9,003,760)**	(3,429,440)
Balance, end of year	**61,338,717**	53,017,801

8. Other internally restricted net assets

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

	2021 $	2020 $
Ted Boswell Land Conservation Fund *[note 8[b]]*	**2,588,698**	3,521,916
Future projects *[note 8[c]]*	**23,415,974**	10,304,649
	26,004,672	13,826,565

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

The fiscal 2021 and 2020 net decrease in the TBLCF represents the loan advances in excess of repayments and additions of the fund.

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

	2021 $	2020 $
Transfers from operating surplus for future project expenses	**16,261,987**	7,247,119
Transfers to operating surplus related to cost of projects carried out during the year	**(3,192,372)**	(4,124,012)
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	**41,710**	42,735
	13,111,325	3,165,842

9. Science and Stewardship Endowments

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

The Science and Stewardship Endowments consist of the following:

	2021 $	2020 $
Science Endowments		
Externally endowed	**7,601,268**	6,489,770
Stewardship Endowments		
Externally endowed	**106,249,248**	85,279,074
Internally endowed – donor restricted	**25,685,496**	21,537,659
Internally endowed – unrestricted	**35,958,791**	28,295,715
	167,893,535	135,112,448
	175,494,803	141,602,218

[b] Effective July 1, 2005, the Board of Directors established a policy with the objective of protecting the real value of the endowment net assets by limiting the amount of income made available for spending and requiring the reinvestment of any income earned in excess of this limit. The amount available for spending is calculated based on 3.5% [2020 – 3.5%] of the market value of individual funds. The preservation of capital is recorded as a direct increase in endowment net assets for externally endowed funds. For internally endowed unrestricted funds, the preservation of capital is recorded as revenue in the statement of operations and changes in operating surplus and transferred to endowment net assets in the statement of changes in net assets. For internally endowed restricted funds, the preservation of capital is recorded as deferred contributions and transferred to endowment net assets. In any year, should net investment income not be sufficient to fund the amount made available for spending, an amount is transferred from endowment net assets to operating surplus or deferred contributions for this purpose.

For the year ended May 31, 2021, there was investment income of $29,500,247 related to endowment net assets. Of this amount, $15,854,445 represents income in excess of the amount made available for spending on externally endowed net assets and is recorded as a direct increase to endowment net assets for the preservation of capital. The amount made available for spending on externally endowed funds of $3,211,910 is recorded as deferred contributions *[note 7]*. With respect to internally endowed funds, the investment income that had to be used for restricted purposes of $4,431,625 is recorded as deferred contributions *[note 7]* and the amount with no restrictions of $6,002,267 is recorded as other revenue in the statement of operations and changes in operating surplus. An amount of $3,677,807, which represented 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 7]*. An amount of $5,011,917, 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.

In fiscal 2020, there was investment income of $1,490,122 related to endowment net assets. The amount available for spending of $3,092,302 less the investment income related to externally endowed net assets of $1,019,859 totalling $2,072,443, was recorded as a direct reduction of endowment net assets. The amount made available for spending related to externally endowed restricted funds was recorded in deferred contributions *[note 7]*. The gain related to internally endowed restricted funds, where the investment income has been used for restricted purposes, of $229,951, was recorded as deferred contributions *[note 7]* with an equal amount transferred to internally endowed restricted net assets from deferred contributions *[note 7]*. The amount made available for spending related to internally endowed restricted funds of $736,358 was recorded as a transfer from endowment net assets to deferred contributions *[note 7]*. This gain related to internally endowed unrestricted funds of $240,312 was recorded as other revenue in the statement of operations and changes in operating surplus, and there was an equal amount transferred to internally endowed unrestricted net assets from operating surplus. The amount made available for spending related to internally endowed unrestricted funds of $1,011,978 was recorded as a reduction in other revenue in the statement of operations and changes in operating surplus, and an amount was recorded as a transfer from endowment net assets to operating surplus.

[c] For the year ended May 31, 2021, the Board of Directors approved a net transfer of $2,980,598 [2020 – $581,916] to the internally endowed unrestricted portion of Stewardship Endowments from operating surplus.

10. Investment income

Investment income earned consists of the following:

	2021 $	2020 $
Total investment income, net of management fees	**31,256,742**	2,253,386
Amount allocated to deferred contributions *[note 7]*		
Amount available for spending related to externally endowed funds *[note 9[b]]*	**(3,211,910)**	(3,092,302)
Investment income on internally endowed restricted funds *[note 9[b]]*	**(4,431,625)**	(229,951)
Other investment income	**(612,777)**	(90,869)
Investment gain less amount available for spending on externally endowed net assets *[note 9[b]]*	**—**	2,072,443
Investment income for preservation of capital on externally endowed net assets *[note 9[b]]*	**(15,854,445)**	—
	7,145,985	912,707

11. American Friends of Canadian Nature, Inc.

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

During the year ended May 31, 2021, the American Friends of Canadian Nature, Inc. made land donations with a fair value of $60,000 [2020 – nil] and restricted contributions of $1,042,273 [2020 – $1,179,141] to the Conservancy. The restricted donations are recorded as deferred contributions *[note 7]*.

12. Financial instruments and risk management

The Conservancy is exposed to various financial risks through transactions in financial instruments. During fiscal 2021, there were no significant changes in risk exposures from 2020.

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 20% to 60%.

Credit risk

The Conservancy is exposed to credit risk in connection with its accounts receivable, deposits on land and other and its short-term and fixed income investments because of the risk that one party to the financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Conservancy manages this risk by primarily holding 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 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, when utilized, because cash flows will fluctuate as the interest rate is linked to the bank’s prime rate, which changes from time to time. The Conservancy mitigates the risk in its investment portfolio through its investment policy and the allocation to funds impacted by this risk.

Other price risk

The Conservancy is exposed to other price risk through changes in market prices [other than changes arising from interest rate risk or foreign currency risk] in connection with its investments *[note 3].* The Conservancy manages this risk through its investment policy and the balancing of the allocations of funds in the various portfolio categories.

Liquidity risk

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

COVID-19 pandemic

In March 2020, the World Health Organization declared the spread of COVID-19 to be a global pandemic. This resulted in governments worldwide enacting emergency measures to combat the spread of the virus including travel restrictions in and out of Canada, barring gatherings of people, and the implementation of other social distancing measures. These restrictions had no significant impact on the operations of the Conservancy as systems were sufficiently flexible and robust to facilitate remote work.

During the year, the Conservancy qualified and applied for the federal government Canada Emergency Wage Subsidy. For the year ended May 31, 2021, the Conservancy recorded $5,565,257 [2020 – $2,900,911] in revenue in donations and grants, of which nil [2020 – $963,876] is included in accounts receivable. Management considered the impact of COVID-19 in its budget process and assessment of the Conservancy’s assets and liabilities and its ability to continue as a going concern. Management believes that the current stability of its revenues and sufficiency of its liquid resources enable the Conservancy to effectively manage through the COVID-19 pandemic.

13. Commitments and contingencies

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

	$
2022	1,466,261
2023	1,273,798
2024	782,384
2025	417,359
2026	354,009
Thereafter	1,302,503
	5,596,314

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

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

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

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

[c] The nature of the Conservancy's activities is such that there is often litigation pending or in progress. Where the potential liability is likely and able to be estimated, management records its best estimate of the potential liability. With respect to claims as at May 31, 2021, it is management's position that the Conservancy has valid defences and appropriate insurance coverage to offset the cost of unfavourable settlements, if any, which may result from such claims. In other cases, the ultimate outcome of the claims cannot be determined at this time. Any additional losses related to claims will be recorded in the year during which the liability is able to be estimated or adjustments to any amount recorded are determined to be required.