

Trans Canada Trail

Consolidated financial statements
March 31, 2023



Independent auditor's report

To the Directors of
Trans Canada Trail

Opinion

We have audited the consolidated financial statements of **Trans Canada Trail** and its subsidiary ["TCT"], which comprise the consolidated statement of financial position as at March 31, 2023, and the consolidated statement of changes in net assets, consolidated statement of operations and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of TCT as at March 31, 2023, and its consolidated results of operations and its consolidated 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 consolidated financial statements* section of our report. We are independent of TCT in accordance with the ethical requirements that are relevant to our audit of the consolidated 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 consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing TCT'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 TCT or to cease operations, or has no realistic alternative but to do so.

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



Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 TCT'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 TCT'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 consolidated 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 TCT to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within TCT to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Canada
June 27, 2023



Trans Canada Trail

Consolidated statement of financial position

As at March 31

	General Fund \$	Endowment Fund \$	Total 2023 \$	Total 2022 \$
Assets				
Cash	2,245,886	—	2,245,886	2,689,869
Short-term investments <i>[note 3]</i>	10,700,000	50,752	10,750,752	9,000,752
Accrued interest receivable	111,307	—	111,307	25,780
Accounts receivable <i>[note 4]</i>	503,579	—	503,579	1,130,807
Prepaid expenses	211,519	—	211,519	176,732
Due from other funds	—	1,902	1,902	51,902
Capital assets, net <i>[note 5]</i>	49,315	—	49,315	37,072
	13,821,606	52,654	13,874,260	13,112,914
Liabilities and net assets				
Liabilities				
Accounts payable and accrued liabilities	1,461,107	—	1,461,107	751,531
Deferred contributions <i>[note 7]</i>	1,613,918	—	1,613,918	1,756,132
Due to other funds	1,902	—	1,902	51,902
Total liabilities	3,076,927	—	3,076,927	2,559,565
Commitments and contingency <i>[note 8]</i>				
Net assets				
Internally restricted <i>[note 9]</i>	5,000,000	—	5,000,000	5,000,000
Unrestricted	5,744,679	—	5,744,679	5,500,695
Endowment Fund	—	52,654	52,654	52,654
Total net assets	10,744,679	52,654	10,797,333	10,553,349
	13,821,606	52,654	13,874,260	13,112,914

See accompanying notes

Trans Canada Trail

Consolidated statement of changes in net assets

Year ended March 31

	Internally restricted	Unrestricted	Endowment Fund	Total 2023	Total 2022
	\$	\$	\$	\$	\$
Balance, beginning of year	5,000,000	5,500,695	52,654	10,553,349	11,111,629
Excess (deficiency) of revenue over expenses for the year	—	243,984	—	243,984	(558,280)
Balance, end of year	5,000,000	5,744,679	52,654	10,797,333	10,553,349

See accompanying notes

Trans Canada Trail

Consolidated statement of operations

Year ended March 31

	2023	2022
	\$	\$
Revenue		
Government grants <i>[note 10]</i>	9,000,000	7,840,000
Donations	2,755,873	2,801,771
Interest income	330,608	52,704
Other contributions	169,166	73,222
Miscellaneous income	8,635	122,431
	12,264,282	10,890,128
Expenses		
Trail construction	6,473,870	7,142,631
Trail promotion and education	1,977,342	2,064,003
Fundraising	1,506,933	750,099
General and administrative	2,049,807	1,478,517
Amortization of equipment	12,346	13,158
	12,020,298	11,448,408
Excess (deficiency) of revenue over expenses for the year	243,984	(558,280)

See accompanying notes

Trans Canada Trail

Consolidated statement of cash flows

Year ended March 31

	2023	2022
	\$	\$
Operating activities		
Excess (deficiency) of revenue over expenses for the year	243,984	(558,280)
Add (deduct) items not involving cash		
Amortization of equipment	12,346	13,158
Loss on disposal of capital assets	3,267	631
Accrued interest receivable	(85,527)	(12,229)
Deferred contributions recognized in the year	(1,019,234)	(861,664)
	<u>(845,164)</u>	<u>(1,418,384)</u>
Changes in non-cash working capital balances related to operations		
Accounts receivable	627,228	(572,712)
Prepaid expenses	(34,787)	(61,983)
Accounts payable and accrued liabilities	709,576	(678,109)
Cash used in operating activities	<u>1,302,017</u>	<u>(2,731,188)</u>
Investing activities		
Additions to equipment	(27,856)	(11,256)
Additions to short-term investments	(20,750,000)	(9,000,000)
Maturity of short-term investments	19,000,000	2,500,000
Cash provided by (used in) investing activities	<u>(1,777,856)</u>	<u>(6,511,256)</u>
Financing activities		
Contributions received in the year and deferred	877,020	372,690
Cash provided by financing activities	<u>877,020</u>	<u>372,690</u>
Net increase (decrease) in cash during the year	(443,983)	(8,869,754)
Cash, beginning of year	<u>2,689,869</u>	<u>11,559,623</u>
Cash, end of year	<u>2,245,886</u>	<u>2,689,869</u>

See accompanying notes

Trans Canada Trail

Notes to the consolidated financial statements

March 31, 2023

1. Nature of business

Trans Canada Trail ["TCT"] was founded in 1992 and is continued under the *Canada Not-for-profit Corporations Act* as a not-for-profit organization, and is a registered charity under the *Income Tax Act* (Canada).

TCT's mission is the creation, promotion and support of a national recreational trail, linking local trails and the development and construction of new trails, that support this iconic network of trails that will stretch from coast to coast.

2. Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

Basis of consolidation

The consolidated financial statements include the accounts of TCT and Trans Canada Trail Foundation ["TCTF"]. TCT has control over TCTF as it is the sole member of TCTF and, as the sole member, has the right to appoint the board of directors of TCTF. TCTF is devoted to raising funds for the support of the Trans Canada Trail. On consolidation, all intercompany transactions and balances have been eliminated.

TCT has prepared a separate set of audited non-consolidated financial statements as at and for the year ended March 31, 2023.

Use of estimates

The preparation of consolidated financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. In particular, the estimation of TCT's allowance for doubtful accounts related to their accounts receivable, the useful lives of TCT's capital assets, and the accrual of expenses at year-end contain estimates within the consolidated financial statements. Actual results could differ from those estimates. These estimates are reviewed annually and as adjustments become necessary, they are recorded in the consolidated financial statements in the period they become known.

Fund accounting

In order to recognize the limitations and restrictions placed on the use of resources available to TCT, the accounts are maintained in accordance with the principles of fund accounting. Accordingly, resources are classified for accounting and reporting purposes into funds. These funds are held in accordance with the objectives specified by the donors or in accordance with directives issued by the Board of Directors [the "Board"]. Transfers between the funds are made when they are considered appropriate and authorized by the Board. To meet the objectives of financial reporting and stewardship over assets, certain interfund transfers are necessary to ensure the appropriate allocation of assets and liabilities to the respective funds. These interfund transfers are recorded in the consolidated statement of changes in net assets.

Trans Canada Trail

Notes to the consolidated financial statements

March 31, 2023

For financial reporting purposes, the accounts have been classified into the following funds:

- [i] Revenue and expenses related to financing the trail building, maintenance and promotion activities and general and administrative activities are reported in the General Fund.
- [ii] Funds where either donor or internal restrictions require that the principal be invested by TCT in perpetuity are recorded in the Endowment Fund. Investment income earned on the Endowment Fund is reported in the General Fund.

Revenue recognition

TCT follows the deferral method of accounting for contributions.

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.

Restricted contributions, including government grants and donations, are deferred and recognized as revenue in the year in which the related expenses are incurred.

Endowment contributions are recognized as direct increases in the Endowment Fund balance.

Pledges from large corporations, foundations and all other pledges are recorded on an accrual basis when the amount to be received can be reasonably estimated and ultimate collection is reasonably assured.

Investment income generated from assets held due to restrictions must be used in accordance with the various restrictions established by the donor and is deferred until expenses related to that restriction are incurred. Unrestricted investment income is recognized as revenue when earned.

Trail construction

The majority of trail construction expenses represent construction grants and partner support to trail groups. Consequently, none of the trail construction amounts are capitalized in the consolidated financial statements of TCT.

Capital and intangible assets

Capital assets consist of computer equipment and are recorded at cost, including any impairment identified. Amortization is provided for on a declining balance basis at a rate of 20% per annum.

In 1998 and 2000, TCT accepted trail development donations in kind from Canadian Pacific Railway and Canadian National Railway former railway rights-of-way. As these assets are not used in the normal course of operations of TCT, would not have otherwise been purchased by TCT, and a fair value cannot be reasonably estimated, the donated land is not recognized in the consolidated financial statements. TCT has disposed of the majority of the properties and expects to transfer to third parties or renounce any ownership interest back to the railway companies for the remaining sections.

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TCT has chosen to apply the simplification approach to account for expenditures in cloud computing arrangements. Under this approach, TCT recognizes the expenditures related to the elements in cloud computing arrangement as an expense as incurred.

Donated services and assets

A significant portion of TCT's work is dependent on the contributions of volunteers. Volunteer services are not normally purchased by TCT and, due to difficulty in determining their fair value, these services are not recognized in these consolidated financial statements.

Contributed capital assets are recorded at fair value if readily available in the year of the contribution.

Financial instruments

TCT initially measures its financial assets and financial liabilities at fair value. TCT subsequently measures its financial assets and financial liabilities at amortized cost.

Financial assets subsequently measured at amortized cost are tested for impairment when there are indicators of possible impairment. Any impairment loss is recognized in excess (deficiency) of revenue over expenses. The previously recognized impairment loss may subsequently be reversed to a maximum of the amortized cost that would have been reported at the date of the reversal had the impairment not been recognized previously.

The carrying amount of the financial asset or liability is adjusted by the transaction costs, which are recognized in excess (deficiency) of revenue over expenses using the straight-line method.

3. Short-term investments

Short-term investments with fixed interest rates are recorded at amortized cost, include investments with term to maturity from acquisition of less than one year and mature June and September 2023 and bear interest at a weighted-average rate of 2.58% [2022 – 0.49%] per annum.

4. Accounts receivable

Accounts receivable consist of the following:

	2023	2022
	\$	\$
Parks Canada	—	750,000
Minister of Natural Resources	72,440	—
Pledges [note 11]	191,250	255,000
Sales taxes	69,942	47,621
Other	169,947	78,186
	<u>503,579</u>	<u>1,130,807</u>

Pledges receivable recognized as revenue during the year were nil [2022 – nil].

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5. Capital and intangible assets

Capital assets consist of the following:

	2023		2022	
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Furniture and fixtures	—	—	—	3,614
Computer equipment	496,143	446,828	49,315	33,458
	496,143	446,828	49,315	37,072

During the year ended March 31, 2023, all furniture and fixtures were sold and TCT expensed \$169,945 [2022 – nil] for elements in cloud computing arrangements. These amounts are included in general and administrative expenses.

TCT has commitments to make expenditures on cloud computing arrangements; these commitments are disclosed in note 8.

6. Bank facility

TCT's credit facility consists of a revolving demand facility in the amount of \$500,000 bearing interest at the bank's prime rate plus 1.00%. As security for the facility, TCT has signed a movable hypothec in the amount of \$500,000 constituting a first-ranking security interest in the universality of all present and future debts and claims of TCT, and a movable hypothec in the amount of \$500,000 constituting a first-ranking security interest in the universality of all present and future assets of TCTF. As at March 31, 2023, TCT has not drawn on its bank facility [2022 – nil].

TCT has put in place the credit facility to provide financing, if required, to fund commitments for trail construction prior to the receipt of contracted donations.

7. Deferred contributions

In accordance with TCT's revenue recognition policy, contributions and donations related to funding designated for use on specific projects related to the trail are recorded in revenue as related expenses are incurred.

As at March 31, 2023, an amount of \$6,143 [2022 – \$8,776] represents the deferred portion of in-kind donations of equipment and \$8,830 [2022 – nil] represents a rent deposit received from the sub-tenant.

	2023	2022
	\$	\$
Deferred contributions, beginning of year	1,756,132	2,245,106
Designated contributions and donations received	9,868,190	7,462,690
Designated contributions and donations recognized as revenue in the year	(10,016,601)	(7,947,903)
Sub-tenant deposit received	8,830	—
In-kind donations recognized as revenue in the year	(2,633)	(3,761)
Deferred contributions, end of year	1,613,918	1,756,132

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8. Commitments and contingency

Commitments

Trail construction

As at March 31, 2023, TCT had commitments to trail groups to fund trail construction totaling \$1,984,826.

Cloud computing

In November 2022 TCT entered into an agreement to implement a cloud computing solution for data arrangement. As of March 31, 2023, \$373,668 was an outstanding commitment.

Leases

The commitments of TCT under a lease agreement terminating November 30, 2024 aggregates to \$83,000. Other commitments under this lease agreement include payments for operating expenses, real estate taxes and utilities. The minimum annual payments are approximately as follows:

	\$
2024	50,000
2025	33,000

On March 1, 2023 TCT entered into a sub-leasing agreement beginning March 1, 2023, terminating November 30, 2024.

Contingency

There may be outstanding tax assessments or other claims in respect of the former railway rights-of-way donated by Canadian Pacific Railway and Canadian National Railway. In the opinion of management, financial liability for the Company is uncertain but appears unlikely at this time. As such, the amounts have not been paid or reflected in the accounts.

9. Internal restrictions

In 2019, the board of directors of TCTF resolved to restrict \$5,000,000 to support TCT's day-to-day operations in the event of revenue shortfalls or unforeseen expenses. The operating reserve cannot be accessed without the approval of TCTF's Board.

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10. Government of Canada agreements

On September 1, 2022, TCT signed a \$55,000,000 contribution agreement with Parks Canada, based on eligible expenditures incurred between April 1, 2022 and March 31, 2027 with the maximum amount payable by fiscal year as follows:

2022–23	\$9,000,000
2023–24	\$10,000,000
2024–25	\$11,000,000
2025–26	\$12,000,000
2026–27	\$13,000,000

The objective of the contribution was to support the renewal and expansion of the Trans Canada Trail, with the goal of maintaining and growing Canada's trails network.

On October 27, 2022, TCT signed a \$310,000 contribution agreement with the Minister of Natural Resources for the period April 1, 2022 to March 31, 2024 for a project called Five Year Strategic Planning to Nationally Mobilize the Trails Sector in the 2 Billion Tree Commitment. Over a two-year period, TCT will develop a strategic plan that will result in the planting of 1000 trees along the Trans Canada Trail and lay the foundation for engaging the trail sector in the federal government's 2 Billion Trees Program. An Amendment to the original agreement was signed March 17, 2023 to change the allocation of funding by year to \$73,000 in 2022-2023 and \$237,000 in 2023-2024.

11. Pledges

Unrecognized and recognized pledges to be received in future years are as follows:

	Restricted \$	Unrestricted \$	Total \$
2024	660,968	14,886	675,854
2025	360,968	9,886	370,854
2026	180,000	9,886	189,886
Thereafter	5,000	—	5,000
	<u>1,206,936</u>	<u>34,658</u>	<u>1,241,594</u>

As at March 31, 2023, \$191,250 [2022 – \$255,000] of pledges is included in accounts receivable.

12. Related party transaction

General and administrative expenses include approximately \$32,346 [2022 – \$36,133] in legal services from a director's law firm. The services were performed in the normal course of operations and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the parties.

Notes to the consolidated financial statements

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13. Financial instruments and risk management

TCT is exposed to various risks through its financial instruments. The following analysis provides a measure of TCT's risk exposure as at the consolidated statement of financial position date.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

TCT is exposed to credit risk on its accounts receivable and short-term investments, including interest receivable. TCT determines, on a continuing basis, the probable losses and sets up a provision for losses based on the estimated realizable value.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

TCT is exposed to interest rate risk on its fixed-interest short-term financial instruments.

Liquidity risk

Liquidity risk is the risk TCT will have difficulty in meeting obligations associated with financial liabilities, which include accounts payable and accrued liabilities. Prudent management of liquidity risk implies retaining a sufficient level of liquidity and arranging for appropriate credit facilities. TCT believes that its recurring financial resources are adequate to cover all its obligations.