

Financial Statements of

**THE TORONTO HUMANE
SOCIETY**

Year ended December 31, 2010



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INDEPENDENT AUDITORS' REPORT

To the Members of The Toronto Humane Society

We have audited the accompanying financial statements of The Toronto Humane Society which comprise the statement of financial position as at December 31, 2010, the statements of operations, changes in net assets, and cash flows for the year then ended, and notes, comprising 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 an 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 our 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, we 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.



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Basis for Qualified Opinion

In common with many charitable organizations, the entity derives revenue from fundraising, promotion and public education and legacies and bequests, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of such revenue was limited to the amounts recorded in the records of the entity and we were not able to determine whether any adjustments for unrecorded revenue might be necessary to revenue, excess of revenue over expenses (expenses over revenue), current assets and net assets.

Qualified Opinion

In our opinion, except for the effect of adjustments, if any, which might have been determined to be necessary had we been able to satisfy ourselves concerning the completeness of the revenue referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of The Toronto Humane Society as at December 31, 2010, 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 Corporations Act (Ontario), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

May 24, 2011
Toronto, Canada

THE TORONTO HUMANE SOCIETY

Statement of Financial Position

December 31, 2010, with comparative figures for 2009

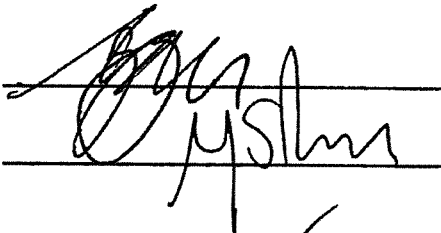
| | 2010 | 2009 |
|--|---------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 126,872 | \$ - |
| Restricted cash | - | 400,000 |
| Accounts receivable (note 2) | 647,429 | 1,294,072 |
| Prepaid expenses | 56,205 | 50,073 |
| | <u>830,506</u> | <u>1,744,145</u> |
| Investments and marketable securities (note 3) | 1,155,951 | 1,445,032 |
| Capital assets (note 4) | 5,913,279 | 6,252,026 |
| | <u>\$ 7,899,736</u> | <u>\$ 9,441,203</u> |

Liabilities, Deferred Contributions and Net Assets

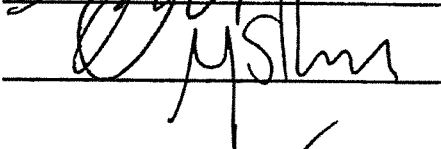
| | | |
|---|---------------------|---------------------|
| Current liabilities: | | |
| Bank indebtedness (note 5) | \$ - | \$ 169,239 |
| Accounts payable and accrued liabilities (note 2) | 932,281 | 2,264,156 |
| | <u>932,281</u> | <u>2,433,395</u> |
| Deferred contributions (note 6): | | |
| Related to capital assets | 1,412,281 | 1,495,104 |
| Related to operations | 6,974 | 6,974 |
| | <u>1,419,255</u> | <u>1,502,078</u> |
| Net assets: | | |
| Invested in capital assets (note 7) | 4,525,642 | 4,756,922 |
| Restricted for endowment purposes (note 8) | 10,000 | 10,000 |
| Unrestricted | 1,012,558 | 738,808 |
| | <u>5,548,200</u> | <u>5,505,730</u> |
| Commitments (note 10) | | |
| Contingencies (note 11) | | |
| | <u>\$ 7,899,736</u> | <u>\$ 9,441,203</u> |

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

THE TORONTO HUMANE SOCIETY

Statement of Operations

Year ended December 31, 2010, with comparative figures for 2009

| | 2010 | 2009 |
|--|------------------|-------------------|
| Revenue: | | |
| Fundraising, promotion and public education | \$ 4,649,498 | \$ 6,402,138 |
| Legacies and bequests | 1,570,188 | 3,011,952 |
| Realized investment income (note 3) | 69,063 | - |
| Unrealized gain on investments | 50,315 | 290,812 |
| Amortization of deferred contributions related to capital assets (notes 6(a) and 7(b)) | 107,467 | 107,467 |
| Adoption of animal donations and related fees | 248,431 | 413,803 |
| Insurance proceeds (note 2) | 1,282,928 | 678,045 |
| | <u>7,977,890</u> | <u>10,904,217</u> |
| Expenses: | | |
| Animal care and shelter services | 4,014,831 | 6,154,443 |
| Fundraising, promotion and public education | 757,520 | 1,537,109 |
| Subsidized veterinary care and spay and neuter clinic | 109,297 | 370,091 |
| General and administration | 1,534,775 | 1,263,323 |
| Education programs | 183,868 | 121,274 |
| Investigation departments | 38,302 | 184,848 |
| Realized investment loss (note 3) | - | 50,718 |
| Investment expense | 13,899 | 21,595 |
| Television expense | - | 380,497 |
| Recoverable legal and other expenses (note 2) | 1,282,928 | 678,045 |
| | <u>7,935,420</u> | <u>10,761,943</u> |
| Excess of revenue over expenses | \$ 42,470 | \$ 142,274 |

See accompanying notes to financial statements.

THE TORONTO HUMANE SOCIETY

Statement of Changes in Net Assets

Year ended December 31, 2010, with comparative figures for 2009

| | 2010 | | | 2009 | | |
|--|--|---|---------------------|---------------------|---------------------|-------|
| | Invested in capital assets (note 7) | Restricted for endowment purposes | Unrestricted | Total | Total | Total |
| Net assets, beginning of year | \$ 4,756,922 | \$ 10,000 | \$ 738,808 | \$ 5,505,730 | \$ 5,363,456 | |
| Excess of revenue over expenses (expenses over revenue) | (316,428) | - | 358,898 | 42,470 | 142,274 | |
| Investment in capital assets | 85,148 | - | (85,148) | - | - | |
| Net assets, end of year | \$ 4,525,642 | \$ 10,000 | \$ 1,012,558 | \$ 5,548,200 | \$ 5,505,730 | |

See accompanying notes to financial statements.

THE TORONTO HUMANE SOCIETY

Statement of Cash Flows

Year ended December 31, 2010, with comparative figures for 2009

| | 2010 | 2009 |
|--|------------|--------------|
| Cash provided by (used in): | | |
| Operations: | | |
| Excess of revenue over expenses (expenses over revenue) | \$ 42,470 | \$ 142,274 |
| Items not involving cash: | | |
| Amortization of capital assets | 423,895 | 401,604 |
| Amortization of deferred capital contributions | (107,467) | (107,467) |
| Donated investments | (51,207) | - |
| Net realized (gain) loss on disposal of investments | (18,352) | 132,652 |
| Unrealized (gain) loss on investments | (50,315) | (290,812) |
| | 239,024 | 278,251 |
| Change in non-cash operating working capital | (691,364) | 6,999 |
| | (452,340) | 285,250 |
| Financing activities: | | |
| Receipt of deferred capital contributions | 24,644 | - |
| Investing activities: | | |
| Purchase of capital assets | (85,148) | (811,056) |
| Purchase of investments | (580,585) | (356,507) |
| Proceeds from disposal of investments | 977,510 | 911,655 |
| | 311,777 | (255,908) |
| Increase (decrease) in cash | (115,919) | 29,342 |
| Cash, beginning of year | 325,470 | 296,128 |
| Cash, end of year | \$ 209,551 | \$ 325,470 |
| Represented by: | | |
| Cash (bank indebtedness) | \$ 126,872 | \$ (169,239) |
| Cash and cash equivalents in investments account | 82,679 | 94,709 |
| Cash held in trust by others | - | 400,000 |
| | \$ 209,551 | \$ 325,470 |
| Supplemental cash flow information: | | |
| Interest received | \$ 7,847 | \$ 5,083 |
| Dividends received | 35,746 | 67,199 |
| Investment income distribution | 7,117 | 9,652 |

See accompanying notes to financial statements.

THE TORONTO HUMANE SOCIETY

Notes to Financial Statements

Year ended December 31, 2010

The Toronto Humane Society (the "Society") is incorporated under the laws of Ontario as a not-for-profit organization without share capital. The mission of the Society is to promote the humane care and protection of all animals and to prevent cruelty and suffering.

The Society is registered as a charitable organization and, as such, is exempt from income taxes provided certain requirements under the Income Tax Act are met.

1. Significant accounting policies:

(a) Revenue recognition:

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.

Pledges are recognized as revenue when they are made if the amount to be received can be reasonably estimated and collection is reasonably assured.

Investment income, adoption and revenue from services performed is recorded when earned.

Externally restricted contributions other than endowment contributions are recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related capital assets.

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

(b) Donations:

Donations of capital assets, materials and services are recorded at fair values when fair values can reasonably be estimated.

Volunteers contribute significant time to the Society. Due to the difficulty in determining the fair values of these contributions, contributed services are not recognized in the financial statements.

THE TORONTO HUMANE SOCIETY

Notes to Financial Statements (continued)

Year ended December 31, 2010

1. Significant accounting policies (continued):

(c) Capital assets:

Purchased capital assets are stated at cost. Amortization is provided on the straight-line basis using the following annual rates:

| | |
|--------------------------|-------|
| Building - capital asset | 2.5% |
| Furniture and fixtures | 10% |
| Vehicles | 33.3% |
| Machinery and equipment | 10% |
| Computer | 20% |
| Building improvements | 4% |
| Paving | 10% |
| Software | 33.3% |
| Cat Sky House | 3.7% |

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(d) Financial instruments other than investments:

The Society designates its cash (bank indebtedness) as held-for-trading, which is measured at fair value. Accounts receivable is classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities is classified as other financial liabilities, which are measured at amortized cost.

The Society has adopted The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3861, Financial Instruments - Disclosure and Presentation. In accordance with the Accounting Standards Board's decision to exempt not-for-profit organizations from the disclosure requirements with respect to financial instruments contained within Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation, the Society has elected not to adopt these standards in its financial statements.

THE TORONTO HUMANE SOCIETY

Notes to Financial Statements (continued)

Year ended December 31, 2010

1. Significant accounting policies (continued):

(e) Investments and marketable securities:

Investments and marketable securities are classified as held for trading and are measured at fair value. The gain or loss arising from a change in the fair value of investments and marketable securities is included in excess of revenue and expenditures in the period in which it arises.

(f) Cash and cash equivalents:

The Society considers deposits in banks, certificates of deposit and short-term investments with original maturities of 90 days or less as cash and cash equivalents and has classified these as held for trading.

(g) Allocation of Fundraising/General Administration Expenses:

The Society classifies expenses on the statement of operations by function. The Society does not allocate expenses between functions on the statement of operations.

(h) Use of estimates:

The preparation of financial statements 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 year. Significant areas requiring the use of estimates relate to the rate of amortization of deferred charges and accounts payable and accrued liabilities. Actual results could differ from those estimates.

2. Recoverable legal and other expenses:

Insurance proceeds and recoverable legal expenses are offsetting amounts relating to the charges laid by the Ontario Society for the Prevention of Cruelty to Animals ("OSPCA") in fiscal 2009 and legal and other ongoing matters in fiscal 2010. Certain legal and professional fees incurred were billed directly to the Society's insurance carrier and did not affect the cash flows of the Society. All charges laid by the OSPCA against the Society were withdrawn by the Crown in 2010. At year end, accounts receivable includes \$350,553 (2009 - \$678,045) of recoverable legal and other expenses.

THE TORONTO HUMANE SOCIETY

Notes to Financial Statements (continued)

Year ended December 31, 2010

3. Investments and marketable securities:

| | 2010 | | 2009 | |
|------------------------------------|--------------|--------------|--------------|--------------|
| | Market value | Cost | Market value | Cost |
| Cash and cash equivalents | \$ 82,679 | \$ 82,679 | \$ 94,709 | \$ 94,709 |
| Fixed income securities | 522,227 | 512,437 | 848,476 | 843,139 |
| Equity securities and pooled funds | 551,045 | 488,370 | 501,847 | 485,034 |
| | \$ 1,155,951 | \$ 1,083,486 | \$ 1,445,032 | \$ 1,422,882 |

The fixed income securities bear an average yield to maturity of 5.15% (2009 - 5.06%) with staggered maturity dates and an average term to maturity of five years (2009 - five years).

Investment risk management:

Risk management relates to understanding and active management of risk associated with all areas of the business and the associated operating environment. Investments are primarily exposed to interest rate risk, market risk, and credit risk.

(a) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect the value of fixed income securities held by the Society. The Society manages this risk by holding a balanced portfolio where some of this loss would be offset by gains in equity securities and pooled funds.

(b) Market risk:

Market risk arises as a result of trading in equity securities, pooled funds and fixed income securities. Fluctuations in the market expose the Society to a risk of loss. The Society mitigates this risk through controls to monitor and limit concentration levels.

(c) Credit risk:

Credit risk arises as a result of the possibility that one party to a financial instrument will fail to discharge an obligation and the cause the Society to incur financial loss. The Society manages this risk by diversifying its portfolio and by dealing with reputable and credit worthy counter parties.

THE TORONTO HUMANE SOCIETY

Notes to Financial Statements (continued)

Year ended December 31, 2010

3. Investments and marketable securities (continued):

Realized investment income (loss) consists of:

| | 2010 | 2009 |
|--------------------------------|------------------|--------------------|
| Interest | \$ 7,848 | \$ 5,083 |
| Dividends | 35,746 | 67,199 |
| Investment income distribution | 7,117 | 9,652 |
| Capital gain (loss) | 18,352 | (132,652) |
| | \$ 69,063 | \$ (50,718) |

4. Capital assets:

| | 2010 | | 2009 | |
|--------------------------|----------------------|-----------------------------|---------------------|---------------------|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Land - capital asset | \$ 822,912 | \$ - | \$ 822,912 | \$ 822,912 |
| Building - capital asset | 4,977,531 | 3,667,558 | 1,309,973 | 1,426,471 |
| Furniture and fixtures | 2,297,115 | 1,349,061 | 948,054 | 1,038,986 |
| Vehicles | 270,107 | 270,107 | - | 5,369 |
| Machinery and equipment | 191,341 | 147,261 | 44,080 | 52,337 |
| Computer | 785,052 | 761,078 | 23,974 | 18,281 |
| Building improvements | 1,436,444 | 705,390 | 731,054 | 764,172 |
| Paving | 30,038 | 27,623 | 2,415 | 3,450 |
| Software | 104,534 | 102,532 | 2,002 | 3,687 |
| Cat Sky House | 2,363,732 | 334,917 | 2,028,815 | 2,116,361 |
| | \$ 13,278,806 | \$ 7,365,527 | \$ 5,913,279 | \$ 6,252,026 |

5. Bank indebtedness:

The Society has a credit facility of \$600,000 that bears interest at prime plus 1% per annum and is secured by a general security agreement.

THE TORONTO HUMANE SOCIETY

Notes to Financial Statements (continued)

Year ended December 31, 2010

6. Deferred contributions:

- (a) Deferred contributions related to capital assets represent the unamortized amount of donations received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations:

| | 2010 | 2009 |
|----------------------------------|---------------------|---------------------|
| Balance, beginning of year | \$ 1,495,104 | \$ 1,602,571 |
| Amounts received during the year | 24,644 | - |
| Amounts amortized to revenue | (107,467) | (107,467) |
| Balance, end of year | \$ 1,412,281 | \$ 1,495,104 |

As of December 31, 2010, there was \$24,644 (2009 - nil) of deferred capital contributions received that were not spent.

- (b) Deferred contributions related to operations represent unspent externally restricted donations for cruelty prevention and wild bird care:

| | 2010 | 2009 |
|-----------------------------|-----------------|-----------------|
| Balance, beginning of year | \$ 6,974 | \$ 6,974 |
| Balance, end of year | \$ 6,974 | \$ 6,974 |

7. Invested in capital assets:

- (a) Invested in capital assets is calculated as follows:

| | 2010 | 2009 |
|--|---------------------|---------------------|
| Capital assets (note 4) | \$ 5,913,279 | \$ 6,252,026 |
| Amounts financed by deferred contributions (note 6(a)) | (1,387,637) | (1,495,104) |
| | \$ 4,525,642 | \$ 4,756,922 |

THE TORONTO HUMANE SOCIETY

Notes to Financial Statements (continued)

Year ended December 31, 2010

7. Invested in capital assets (continued):

- (b) Change in net assets invested in capital assets as a component of excess of revenue over expenses is calculated as follows:

| | 2010 | 2009 |
|--|--------------|--------------|
| Amortization of deferred contributions related to capital assets | \$ 107,467 | \$ 107,467 |
| Amortization of capital assets | (423,895) | (401,604) |
| | \$ (316,428) | \$ (294,137) |

- (c) Change in net assets invested in capital assets is calculated as follows:

| | 2010 | 2009 |
|--------------------------------------|-----------|------------|
| Donated and purchased capital assets | \$ 85,148 | \$ 811,056 |

8. Net assets restricted for endowment purposes:

The net assets restricted for endowment purposes are subject to externally imposed restrictions stipulating that the income on the endowment be awarded to a person, group or organization that has contributed to the relief of suffering of animals or as a reward for apprehension of persons charged with cruelty to animals.

9. Donations in kind:

During the 2010 fiscal year, the Society received \$228 (2009 - \$2,462) of donated goods. As noted in note 1(b), the Society is unable to quantify other donated goods and services.

THE TORONTO HUMANE SOCIETY

Notes to Financial Statements (continued)

Year ended December 31, 2010

10. Commitments:

The Society has long-term commitments under a premises lease and various office equipment leases as follows:

Year ending December 31:

| | | |
|------|----|------------|
| 2011 | \$ | 151,000 |
| 2012 | | 150,000 |
| 2013 | | 92,000 |
| 2014 | | 81,000 |
| 2015 | | 71,000 |
| | | <hr/> |
| | | \$ 545,000 |

11. Contingencies:

The Society has been named as the defendant in certain legal actions, in which damages have been sought. The outcome of these actions are not determinable as at December 31, 2010 and accordingly, no provision has been made in these financial statements for any liability which may result.

The Society is involved in various legal actions that are within the normal course of operations. In the opinion of management, any resulting liabilities are not expected to have a material adverse effect on the financial position or net operations.

12. Fair values of financial instruments:

Fair value information with respect to the Society's investments is provided in note 3. The fair value of cash, restricted cash, accounts receivable, bank indebtedness, and accounts payable and accrued liabilities approximate their carrying values due to the short periods to expected settlement.