Financial Statements of

# THE TORONTO HUMANE SOCIETY

Years ended December 31, 2012 and 2011

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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 statements of financial position as at December 31, 2012, December 31, 2011 and January 1, 2011, the statements of operations, changes in net assets, and cash flows for the years ended December 31, 2012 and December 31, 2011, 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 accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform 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 qualified opinion.

*Basis for Qualified Opinion*

In common with many not-for profit organizations, The Toronto Humane Society derives revenue from fundraising, promotion and public education activities and legacies and bequests, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of The Toronto Humane Society.

Therefore, we were not able to determine whether, as at December 31, 2012, December 31, 2011, and January 1, 2011 and for the years ended December 31, 2012 and December 31, 2011, any adjustments might be necessary to fundraising, promotion, public education, legacies and bequests revenues and excess of revenues over expenses reported in the statements of operations, excess of revenues over expenses reported in the statements of cash flows and current assets and unrestricted net assets reported in the statements of financial position.

*Qualified Opinion*

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of The Toronto Humane Society as at December 31, 2012, December 31, 2011 and January 1, 2011, and its results of operations and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

May 7, 2013
Toronto, Canada

# THE TORONTO HUMANE SOCIETY

Statements of Financial Position

December 31, 2012, December 31, 2011 and January 1, 2011

| | December 31, 2012 | December 31, 2011 | January 1, 2011 |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash | $ 508,488 | $ 622,635 | $ 126,872 |
| Accounts receivable (note 2) | 411,748 | 255,683 | 647,429 |
| Prepaid expenses | 55,991 | 47,752 | 56,205 |
| | 976,227 | 926,070 | 830,506 |
| Investments and marketable securities (note 3) | 1,702,151 | 1,190,218 | 1,155,951 |
| Capital assets (note 4) | 5,546,051 | 5,546,199 | 5,913,279 |
| | $ 8,224,429 | $ 7,662,487 | $ 7,899,736 |
| **Liabilities, Deferred Contributions and Net Assets** | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | $ 854,655 | $ 692,794 | $ 932,281 |
| Deferred contributions (note 6) | | | |
| Related to capital assets | 1,280,134 | 1,349,327 | 1,412,281 |
| Related to operations | - | - | 6,974 |
| | 1,280,134 | 1,349,327 | 1,419,255 |
| Net assets: equity: | | | |
| Invested in capital assets (note 7) | 4,265,917 | 4,266,029 | 4,525,642 |
| Restricted for endowment purposes (note 8) | 10,000 | 10,000 | 10,000 |
| Unrestricted | 1,813,723 | 1,344,337 | 1,012,558 |
| | 6,089,640 | 5,620,366 | 5,548,200 |
| Commitments (note 10) | | | |
| Contingencies (note 11) | | | |
| | $ 8,224,429 | $ 7,662,487 | $ 7,899,736 |

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

# THE TORONTO HUMANE SOCIETY

Statements of Operations

Years ended December 31, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| Revenue: | | |
| Fundraising, promotion and public education | $ 4,447,670 | $ 4,659,185 |
| Legacies and bequests | 3,896,554 | 2,658,048 |
| Spay/Neuter Clinic Income | 190,118 | - |
| Realized investment income (note 3) | 68,192 | 77,094 |
| Unrealized gain (loss) on investments | 47,897 | (28,901) |
| Amortization of deferred contributions (notes 6(a) and 7(b)) | 119,386 | 114,441 |
| Adoption of animal donations and related fees | 436,610 | 418,861 |
| Insurance proceeds (note 2) | 194,384 | 45,280 |
| | 9,400,811 | 7,944,008 |
| Expenses: | | |
| Animal care and shelter services | 5,819,945 | 5,341,272 |
| Fundraising, promotion and public education | 1,361,514 | 1,085,862 |
| Subsidized veterinary care and spay and neuter clinic | 140,266 | 97,754 |
| General and administration | 1,077,407 | 1,126,100 |
| Education programs | 123,118 | 196,874 |
| Spay/Neuter Clinic Expense | 386,802 | - |
| Investment expense | 22,485 | 13,599 |
| Recoverable legal and other expenses (note 2) | - | 10,381 |
| | 8,931,537 | 7,871,842 |
| Excess of revenue over expenses | $ 469,274 | $ 72,166 |

See accompanying notes to financial statements.

# THE TORONTO HUMANE SOCIETY

Statements of Changes in Net Assets

Years ended December 31, 2012 and 2011

| December 31, 2012 | Invested in capital assets | Restricted for endowment purposes | Unrestricted | Total |
| --- | --- | --- | --- | --- |
| | (note 7) | | | |
| Net assets, beginning of of year | $ 4,266,029 | $ 10,000 | $ 1,344,337 | $ 5,620,366 |
| Excess of revenue over expenses (expenses over revenue) | (358,853) | - | 828,127 | 469,274 |
| Net change in investment in capital assets | 358,741 | - | (358,741) | - |
| Net assets, of year | $ 4,265,917 | $ 10,000 | $ 1,813,723 | $ 6,089,640 |

| December 31, 2011 | Invested in capital assets | Restricted for endowment purposes | Unrestricted | Total |
| --- | --- | --- | --- | --- |
| | (note 7) | | | |
| Net assets, beginning of of year | $ 4,525,642 | $ 10,000 | $ 1,012,558 | $ 5,548,200 |
| Excess of revenue over expenses (expenses over revenue) | (312,964) | - | 385,130 | 72,166 |
| Net change in investment in capital assets | 53,351 | - | (53,351) | - |
| Net assets, of year | $ 4,266,029 | $ 10,000 | $ 1,344,337 | $ 5,620,366 |

See accompanying notes to financial statements.

# THE TORONTO HUMANE SOCIETY

Statements of Cash Flows

Years ended December 31, 2012 and 2011

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Cash provided by (used in): | | | | |
| Operations: | | | | |
| Excess of revenue over expenses (expenses over revenue) | $ | 469,274 | $ | 72,166 |
| Items not involving cash: | | | | |
| Amortization of capital assets | | 478,239 | | 420,431 |
| Amortization of deferred capital contributions | | (119,386) | | (107,467) |
| Donated investments | | (20,426) | | (1,031) |
| Amortization of deferred contributions | | - | | (6,974) |
| Net realized (gain) on disposal of investments | | 198 | | (32,089) |
| Unrealized (gain) loss on investments | | (47,897) | | 28,901 |
| | | 760,002 | | 373,937 |
| Changes in non-cash operating working capital | | (2,443) | | 160,712 |
| | | 757,559 | | 534,649 |
| Financing activities: | | | | |
| Receipt of deferred capital contributions | | 50,193 | | 44,513 |
| Investing activities: | | | | |
| Purchase of capital assets | | (478,091) | | (53,351) |
| Purchase of investments | | (2,074,570) | | (270,200) |
| Proceeds from disposal of investments | | 1,597,101 | | 198,667 |
| | | (955,560) | | (124,884) |
| Increase (decrease) in cash | | (147,808) | | 454,278 |
| Cash, beginning of year | | 663,829 | | 209,551 |
| Cash, end of year | $ | 516,021 | $ | 663,829 |
| Represented by: | | | | |
| Cash | $ | 508,488 | $ | 622,635 |
| Cash and cash equivalents in investments account | | 7,533 | | 41,194 |
| | $ | 516,021 | $ | 663,829 |
| Supplemental cash flow information: | | | | |
| Interest received | $ | 8,705 | $ | 8,447 |
| Dividends received | | 58,798 | | 35,890 |
| Investment income distribution | | 887 | | 669 |

See accompanying notes to financial statements.

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.

On January 1, 2012, the Society adopted Canadian accounting standards for Not-For-Profit Organizations in Part III of the Canadian Institute of Chartered Accountants' ("CICA") Handbook. These are the first financial statements prepared in accordance with Not-For-Profit Standards.

In accordance with the transitional provisions in not-for-profit standards, the Society has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is January 1, 2011 and all comparative information provided has been presented by applying not-for-profit standards.

There are no adjustments to net assets as at January 1, 2011 or excess of revenue over expenses for the year ended December 31, 2011 as a result of the transition to not-for-profit standards.

## 1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian Accounting Standards for Not-For-Profit Organizations in Part III of the CICA Handbook.

(a) Revenue recognition:

The Society 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.

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.

**1. Significant accounting policies:**

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

(b) Contributed services:

Volunteers contribute a significant amount of their time to the Society each year. Because of the difficulty in determining the fair value, contributed services are not recognized in the financial statements.

(c) 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.

(d) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated life of an asset are capitalized. When a capital asset not longer contributes to the Society's ability to provide services, its carrying amount is written down to its residual value.

Capital assets are amortized on a 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% |

**1. Significant accounting policies:**

(e) Financial instruments :

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measure at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Society has elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expenses as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Society determines if there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Society expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(f) 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.

(g) 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 items subject to such estimates and assumptions include 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 legal and other ongoing matters. 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. At year end, accounts receivable includes nil (December 31, 2011 - $10,381, January 1, 2011 - $350,553) of recoverable legal and other expenses.

## 3. Investments and marketable securities:

| | December 31, 2012 | December 31, 2011 | January 1, 2010 |
|---|---|---|---|
| Cash and cash equivalents | $ 7,533 | $ 41,194 | $ 82,679 |
| Fixed income securities, measured at fair value | 1,121,816 | 560,428 | 522,227 |
| Equity securities and pooled funds, measured at fair value | 572,802 | 588,596 | 551,045 |
| | $ 1,702,151 | $ 1,190,218 | $ 1,155,951 |

The fixed income securities bear an average yield to maturity of 5.01% (December 31, 2011 - 5.12%, January 1, 2011 - 5.15%) with staggered maturity dates and an average term to maturity of four years (December 31, 2011 - five years, January 1, 2011 - 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. There has been no change to the risk exposure from 2011.

(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.

## 3. Investments and marketable securities (continued):

(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 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.

Realized investment income consists of:

| | 2012 | 2011 |
|---|---|---|
| Interest | $ 8,705 | $ 8,447 |
| Dividends | 58,798 | 35,890 |
| Investment income distribution | 887 | 668 |
| Capital gain (loss) | (198) | 32,089 |
| | $ 68,192 | $ 77,094 |

## 4. Capital assets:

| December 31, 2012 | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| Land - capital asset | $ 822,912 | $ - | $ 822,912 |
| Building - capital asset | 4,977,531 | 3,916,355 | 1,061,176 |
| Machinery and equipment | 216,107 | 163,810 | 52,297 |
| Furniture and fixtures | 2,653,331 | 1,677,840 | 975,491 |
| Vehicles | 243,228 | 243,228 | - |
| Computer | 807,253 | 786,315 | 20,938 |
| Building improvements | 1,499,575 | 781,795 | 717,780 |
| Paving | 30,038 | 29,866 | 172 |
| Software | 169,661 | 128,100 | 41,561 |
| Cat Sky House | 2,363,732 | 510,008 | 1,853,724 |
| | $ 13,783,368 | $ 8,237,317 | $ 5,546,051 |

| December 31, 2011 | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| Land - capital asset | $ 822,912 | $ - | $ 822,912 |
| Building - capital asset | 4,977,531 | 3,791,917 | 1,185,614 |
| Machinery and equipment | 191,341 | 155,301 | 36,040 |
| Furniture and fixtures | 2,327,287 | 1,496,184 | 831,103 |
| Vehicles | 270,107 | 270,107 | - |
| Computer | 804,026 | 772,918 | 31,108 |
| Building improvements | 1,438,112 | 743,808 | 694,304 |
| Paving | 30,038 | 28,831 | 1,207 |
| Software | 107,071 | 104,429 | 2,642 |
| Cat Sky House | 2,363,732 | 422,463 | 1,941,269 |
| | $ 13,332,157 | $ 7,785,958 | $ 5,546,199 |

**4. Capital assets (continued):**

| January 1, 2011 | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| Land - capital asset | $ 822,912 | $ - | $ 822,912 |
| Building - capital asset | 4,977,531 | 3,667,558 | 1,309,973 |
| Machinery and equipment | 191,341 | 147,261 | 44,080 |
| Furniture and fixtures | 2,297,115 | 1,349,061 | 948,054 |
| Vehicles | 270,107 | 270,107 | - |
| Computer | 785,052 | 761,078 | 23,974 |
| Building improvements | 1,436,444 | 705,390 | 731,054 |
| Paving | 30,038 | 27,623 | 2,415 |
| Software | 104,534 | 102,532 | 2,002 |
| Cat Sky House | 2,363,732 | 334,917 | 2,028,815 |
| | $ 13,278,806 | $ 7,365,527 | $ 5,913,279 |

**5. Bank indebtedness:**

The Society has a credit facility of $1,100,000 that bears interest at prime plus 1% per annum and is secured by a general security agreement.

**6. Deferred contributions:**

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:

| | 2012 | 2011 |
|---|---|---|
| Balance, beginning of year | $ 1,349,327 | $ 1,412,281 |
| Amounts received during the year | 50,193 | 44,513 |
| Amounts amortized to revenue | (119,386) | (107,467) |
| Balance, end of year | $ 1,280,134 | $ 1,349,327 |

As of December 31, 2012, there was nil (December 31, 2011 - $69,157, January 1, 2011 - $24,644) of deferred capital contributions received that were not spent.

## 7. Investment in capital assets:

(a) Investment in capital assets is calculated as follows:

| | December 31, 2012 | December 31, 2011 | January 1, 2011 |
|---|---|---|---|
| Capital assets (note 4) | $ 5,546,051 | $ 5,546,199 | $ 5,913,279 |
| Amounts financed by deferred contributions (note 6) | (1,280,134) | (1,280,170) | (1,387,637) |
| | $ 4,265,917 | $ 4,266,029 | $ 4,525,642 |

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

| | 2012 | 2011 |
|---|---|---|
| Excess of revenues over expenses: | | |
| Amortization of deferred contributions related to capital assets | $ 119,386 | $ 107,467 |
| Amortization of capital assets | (478,239) | (420,431) |
| | $ (358,853) | $ (312,964) |
| Net change in investment in capital assets: | | |
| Donated and purchased capital assets | $ 478,091 | $ 53,351 |
| Amounts funded by deferred capital contributions | (119,350) | - |
| | $ 358,741 | $ 53,351 |

## 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 2012 fiscal year, the Society received $13,480 (2011 - $3,449) of donated goods. As noted in note 1(b), the Society is unable to quantify other donated goods and services.

## 10. Commitments:

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

| | | |
|---|---|---|
| Year ending December 31: | | |
| 2013 | $ | 113,000 |
| 2014 | | 107,000 |
| 2015 | | 79,000 |
| 2016 | | 14,000 |
| 2017 | | 7,000 |
| Thereafter | | - |
| | | - |
| | $ | 320,000 |

## 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, 2012 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.