Financial Statements of

THE TORONTO HUMANE SOCIETY

Year ended December 31, 2017

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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, 2017, 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 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 the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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.

KPMG

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit 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 and for the years ended December 31, 2017 and December 31, 2016, 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. This caused us to qualify our audit opinion on the financial statements as at and for the year ended December 31, 2017.

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, 2017, 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

May 8, 2018

Vaughan, Canada

THE TORONTO HUMANE SOCIETY

Statement of Financial Position

December 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$ 1,768,053	$ 1,911,482
Accounts receivable	1,011,420	792,817
Prepaid expenses	46,832	45,453
	2,826,305	2,749,752
Investments and marketable securities (note 3)	7,242,607	4,544,022
Capital assets (note 4)	5,187,643	5,028,031
	$ 15,256,555	$ 12,321,805
Liabilities, Deferred Contributions and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 658,698	$ 520,348
Deferred contributions	48,000	435,333
Current portion of long-term debt (note 6)	65,939	58,838
	772,637	1,014,519
Deferred capital contributions (note 5)	777,108	932,772
Long-term debt (note 6)	-	53,896
Net assets:		
Invested in capital assets (note 7) Restricted	4,410,535	4,095,259
for endowment purposes (note 8)	370,000	370,000
Unrestricted	8,926,275	5,855,359
	13,706,810	10,320,618
Commitments (note 10)		
	$ 15,256,555	$ 12,321,805

See accompanying notes to financial statements.

On behalf of the Board:

____________ Director ____________ Director

THE TORONTO HUMANE SOCIETY

Statement of Operations

Year ended December 31, 2017, with comparative information for 2016

		2017		2016
Revenue:				
Fundraising, promotion and public education (note 9)	$	5,633,826	$	5,295,279
Legacies and bequests (note 9)		6,951,450		5,637,817
Adoption of animal donations and related fees (note 9)		1,082,075		889,456
Spay/Neuter Clinic income		937,816		830,921
Realized investment income (note 3)		295,046		199,046
Amortization of deferred capital contributions (note 5)		155,664		155,663
Unrealized gain (loss) on investments		(36,125)		20,152
		15,019,752		13,028,334
Expenses:				
Animal care and shelter services		7,994,830		7,645,131
Spay/Neuter Clinic expense		1,035,873		1,199,991
General and administration		1,098,467		1,101,562
Fundraising, promotion and public education		970,943		936,516
Education programs		261,138		226,600
Subsidized veterinary care		225,558		187,334
Investment expense		46,751		33,190
		11,633,560		11,330,324
Excess of revenue over expenses	$	3,386,192	$	1,698,010

See accompanying notes to financial statements.

THE TORONTO HUMANE SOCIETY

Statement of Changes in Net Assets

Year ended December 31, 2017, with comparative information for 2016

				2017	2016
	Invested in capital assets (note 7)	Restricted for endowment purposes (note 8)	Unrestricted	Total	Total
Net assets, beginning of of year	$ 4,095,259	$ 370,000	$ 5,855,359	$ 10,320,618	$ 8,622,608
Excess of revenue over expenses	(364,133)	-	3,750,325	3,386,192	1,698,010
Investment in capital assets	679,409	-	(679,409)	-	-
Net assets, of year	$ 4,410,535	$ 370,000	$ 8,926,275	$ 13,706,810	$ 10,320,618

See accompanying notes to financial statements.

THE TORONTO HUMANE SOCIETY

Statement of Cash Flows

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	$ 3,386,192	$ 1,698,010
Items not involving cash:		
Amortization of capital assets	519,797	605,856
Amortization of deferred capital contributions	(155,664)	(155,663)
Donated investments	(2,825,033)	(963,573)
Net realized (gain) loss on disposal of investments	(86,460)	(90,832)
Unrealized (gain) loss on investments	36,125	(20,152)
	874,957	1,073,646
Changes in non-cash operating working capital:		
Accounts receivable	(218,603)	(72,340)
Prepaid expenses	(1,379)	38,755
Accounts payable and accrued liabilities	138,350	(94,424)
Deferred contributions realized	(435,333)	-
	357,992	945,637
Financing activities:		
Receipt of deferred contributions	48,000	435,333
Repayment of long-term debt	(46,795)	(53,057)
	1,205	382,276
Investing activities:		
Purchase of capital assets	(679,409)	(170,097)
Purchase of investments	(4,990,199)	(1,800,109)
Proceeds from disposal of investments	5,166,982	1,099,925
	(502,626)	(870,281)
Increase in cash and cash equivalents	(143,429)	457,632
Cash and cash equivalents, beginning of year	1,911,482	1,453,850
Cash and cash equivalents, end of year	$ 1,768,053	$ 1,911,482

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.

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 Chartered Professional Accountants 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.

Adoption and revenue from services performed is recorded when earned. Investment income which is recorded on an accrual basis, includes interest income, distributions from mutual funds, unrealized gains and losses on investments and realized gains and losses on the sales of investments.

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.

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.

1. Significant accounting policies (continued):

(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.

(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 no 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	2.5%
Machinery and equipment	10%
Furniture and fixtures	10%
Vehicles	33.5%
Computer	20%
Building improvements	4%
Paving	10%
Software	33.3%
Cat Sky House	3.7%

(e) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured 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 expensed 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.

1. Significant accounting policies (continued):

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 capital assets and deferred capital contributions. Actual results could differ from those estimates.

2. Bank facility:

The Society has a revolving demand credit facility of $1,100,000 that bears interest at prime plus 1% per annum and is secured by a general security agreement over all personal property of the Society. At December 31, 2017, the Society had drawn nil (2016 - nil) against the facility.

3. Investments and marketable securities:

	2017	2016
Cash and cash equivalents	$ 1,882,238	$ 1,281,577
Fixed income securities	2,781,078	1,375,880
Equity securities and pooled funds	2,579,291	1,886,565
	$ 7,242,607	$ 4,544,022

In 2016, the fixed income securities bore an average yield to maturity of 4.34% with staggered maturity dates and an average term to maturity of five years. The 2017 fixed income securities include pooled fixed income mutual funds.

Realized investment income consists of:

	2017	2016
Interest	$ 100,264	$ 62,231
Dividends	70,334	32,745
Pooled funds distributions	37,988	13,238
Realized gain on investments	86,460	90,832
	$ 295,046	$ 199,046

4. Capital assets:

			2017	2016
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 822,912	$ -	$ 822,912	$ 822,912
Building	5,026,772	4,542,951	483,821	609,491
Machinery and equipment	334,996	247,533	87,463	90,034
Furniture and fixtures	3,517,442	2,781,304	736,138	888,848
Vehicles	124,000	117,364	6,636	29,957
Computer	1,066,624	1,066,624	-	3,180
Building improvements	2,631,567	996,890	1,634,677	1,080,068
Paving	30,038	30,038	-	-
Software	181,428	181,428	-	-
Cat Sky House	2,363,732	947,736	1,415,996	1,503,541
	$ 16,099,511	$ 10,911,868	$ 5,187,643	$ 5,028,031

5. Deferred capital contributions:

The balance of unamortized deferred capital contributions consists of the following:

	2017	2016
Unamortized capital contributions used to purchase assets	$ 777,108	$ 932,772

Deferred capital contributions represent the unamortized amount of donations received for the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenue in the statement of operations on the same basis as the amortization expense related to capital assets.

	2017	2016
Balance, beginning of year	$ 932,772	$ 1,088,435
Less amortization of deferred capital contributions	(155,664)	(155,663)
Balance, end of year	$ 777,108	$ 932,772

6. Long-term debt:

	2017	2016
Equipment loan, bearing interest at 10.39% with monthly blended payments of $5,650 and maturing in October 2018	$ 65,939	$ 112,734
Less current portion	65,939	58,838
	$ -	$ 53,896

During the year, interest expense on the above-noted debt amounted to $21,008 (2016 - $14,748).

6. Long-term debt (continued):

Principal payments required in the next year is as follows:

2018	$ 65,939

7. Net assets invested in capital assets:

(a) Net assets invested in capital assets is calculated as follows:

	2017	2016
Capital assets	$ 5,187,643	$ 5,028,031
Amounts financed by deferred capital contributions (note 5)	(777,108)	(932,772)
	$ 4,410,535	$ 4,095,259

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

	2017	2016
Excess of revenues over expenses:		
Amortization of deferred capital contributions	$ 155,664	$ 155,663
Amortization of capital assets	(519,797)	(605,856)
	$ (364,133)	$ (450,193)
Net change in net assets invested in capital assets:		
Purchase of capital assets	$ 679,409	$ 170,097

8. Net assets restricted for endowment purposes:

Within the net assets restricted for endowment purposes, a balance of $10,000 is 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. The remaining balance of $360,000 is required to be held for a period of at least ten years with the income being used for the purposes of the Society expiring in 2023.

9. Donations in kind:

During the 2017 fiscal year, the Society received $183,444 (2016 - $139,077) of donated goods and $2,825,033 (2016 - $963,573) of donated investments and marketable securities. As noted in note 1(a and b), the Society is unable to quantify other donated goods and services.

10. Commitments:

The Society has long-term commitments under various office equipment leases as follows:

2018	$ 13,116
2019	13,116
2020	10,460
2021	9,132
2022	1,523
	$ 47,347

11. Financial risks and concentration of credit risk:

The following disclosures provide information that assists users of financial statements in assessing the extent of risk related to financial instruments.

(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 has formal policies and procedures that establish target asset mix and monitors the current interest rate to ensure rates do not vary from the market rate.

11. Financial risks and concentration of credit risk (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) Currency risk:

Currency risk arises from gains and losses due to fluctuations in foreign currency exchange rates on the Society's foreign securities. The Society mitigates this risk through controls to monitor and limit concentration levels.

(d) Liquidity risk:

Liquidity risk is defined as the risk that the Society may not be able to meet or settle its obligations as they become due. The Society has taken steps to ensure that it will have sufficient working capital to meet its obligations.

(e) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Society is exposed to credit risk with respect to the accounts receivable. The Society assesses, on a contributions basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts.

There has been no changes to risks from prior year.

12. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.