

BC SPCA

Management's Discussion and Analysis of the Consolidated Financial Position and Consolidated Results of Operations (MD&A)

The following discussion should be read in conjunction with the consolidated financial statements of the Society for the year ended December 31, 2016. In this MD&A, we, us, our, the Society or BC SPCA means "The British Columbia Society for the Prevention of Cruelty to Animals".

Our Mission

The BC SPCA is a non-profit organization, and a registered charity, dedicated to protecting and enhancing the quality of life for domestic, farm and wild animals in British Columbia. Through its 36 branches located across BC, wild animal rehabilitation centre, five veterinary facilities and the provincial office in Vancouver, the BC SPCA provides a wide range of services for homeless, abused, and abandoned animals around the province. The Society was created under the auspices of the provincial Prevention of Cruelty to Animals Act in 1895, and is the only animal welfare organization in BC which has the authority to enforce laws relating to animal cruelty and to prepare cases for Crown Counsel for the prosecution of individuals who inflict suffering on animals.

Effective September 30, 2016, 100% ownership of the issued share capital of Burnaby Veterinary Hospital Ltd. (BVH) was gifted to the Society. BVH is a private limited company incorporated under the Canadian Business Corporations Act, providing veterinary services and selling related products to its customers. Consequently, the operations of BVH compliment those of the Society. The operating results that follow includes the operations of BVH for three months after acquisition and the financial position at December 31, 2016 includes the assets and liabilities of BVH.

Overview

We continue work to a balanced operating budget each year to ensure that our programs are funded and our finances allow us to operate efficiently. Our operations and program expenditures are based on our strategic plan for 2014-18, as described on page 2.

We have reported surpluses of varying sizes in eleven of the past twelve years. There was, however, a step change in our operations since 2011 when we incurred a deficit of \$149k due to two unexpected events, the investigation into the killing of sled dogs in the Whistler area and the temporary closure of the Surrey shelter due to an outbreak of a highly infectious form of ringworm. Prior to 2011, we reported six small consecutive

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surpluses while growing program expenditures by an average of 5%. Between 2012 and 2016, program expenditures grew by an average of 6.2% and we have reported larger surpluses due in part to increased legacies and fluctuating investment income. The additional funds generated by these surpluses have been earmarked to partially fund future capital expenditures identified in our Facilities Development and Services Plan (FDSP).

In 2016, we have reported a surplus of \$1,256k on revenues of \$34,767k and program expenditures increased by \$1,798k or 7.7% to \$25,229k. In 2015, we reported a surplus of \$1,784k on revenues of \$32,940k. Program expenditures increased by \$1,536k or 7.0% to \$23,431k.

During 2016, there were several items which had a significant impact on our operations, operating results and balance sheet: (a) the opening of a new community animal centre in Nanaimo, which was built at a total cost of \$3,595k, (b) acquisition of the Burnaby Veterinary Hospital (c) purchase of the land and buildings for the Penticton Veterinary Hospital at a cost of \$2,217k and partially funded by a vendor take back mortgage, the veterinary practice having been acquired in 2015, and (d) financial markets were strong. In addition, our results include a full year of operations of both the BC Pet Registry and Penticton Veterinary Hospital, which were either acquired or started operation mid way through 2015.

During 2015, the significant items impacting on our results were (a) the receipt of a \$5 million capital grant from the Government of British Columbia for the FDSP, (b) a substantial increase approximating 70% in both unrestricted and designated legacy receipts, (c) the purchase of a veterinary practice in Penticton on July 6, 2015 at a discounted price, and (4) we commenced operation of a social enterprise project (BC Pet Registry) in the second quarter of 2015.

Strategic and operating plans

The Society's operations are guided by a strategic plan approved by the Board of Directors.

Our strategic plan for 2014-18 dictates that we will focus our energies and resources in the development and expansion of programs that seek to eliminate the root causes of cruelty and neglect, which in turn will move us towards the creation of humane communities throughout British Columbia. We plan to significantly increase our investment in proactive, preventative animal welfare such as pet overpopulation programs, youth and adult education and advocacy initiatives.

A copy of the strategic plan for 2014-18 can be found on the Society's website at:

<http://www.sPCA.bc.ca/assets/documents/about/governance-documents/bc-sPCA-strategic-plan-2014.pdf>

Facilities Development and Services Plan (FDSP)

In 2013, the Board of Directors approved the FDSP, whereby twelve of our facilities have been identified as requiring replacement or needing to be substantially renovated over a 10-year period with estimated costs of \$54 million. The FDSP will be funded primarily from designated contributions, including capital campaigns, and existing resources and provincial government grants.

The Society currently operates 42 facilities across the province of British Columbia. The majority of our facilities are old, at an average age of 27 years, with many requiring urgent replacement, especially our shelter and veterinary hospital in Vancouver, which are almost sixty years old.

Of the 42 facilities, the BC SPCA has title to the land and buildings of 21 facilities. In eleven facilities, the BC SPCA has title to the building, but no title to land. The remaining ten facilities are leased on various terms or are subject to the continuation of an animal control contract. Of these ten leasehold facilities, four are operated as adoption centres; two as veterinary clinics; one as a call centre and three as an integral part of animal control contracts.

Liquidity

The Society monitors cash and accounts payable on a daily basis. Cash flow is seasonal with operating expenditures being heaviest from spring to fall, and a significant portion of revenues from donations and fundraising programs received in the last few months of the year. In addition, the timing of legacy receipts is difficult to plan for. To fund operations and seasonal cash flow requirements, we have an operating line of credit of \$2 million with our lead banker, Scotiabank.

We also have a second line of credit of \$1 million to fund short term capital expenditure needs.

Summary operating results

Operating results for the year ended December 31, 2016 together with comparative figures for the prior year, are shown below:

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In \$000's	2016	2015
Revenues, including capital gains	34,767	32,940
Program expenses	25,229	23,431
General expenses (administration, program support and revenue development)	7,201	6,809
Other expenses (interest and processing/bank charges)	360	357
Operating surplus before amortization	1,977	2,343
Amortization of property, buildings and equipment and intangible assets ("PB&E")	721	559
Net operating surplus	1,256	1,784

Revenues in 2016 totalled \$34,767k and were \$1,827k or 5.5% higher than in 2015. Investment income in 2016 jumped by \$1,188k to \$1,597k, due to buoyant financial markets and a high level of invested assets. Donations and fundraising increased by 7.2% or \$1,008k to \$14,695k. Grants received increased by \$370k to \$1,229k, mainly from Foundations and from PetSmart Charities of Canada for low cost spay/neuter programs. Sheltering, medical, clinical and social enterprise revenues increased by \$991k or 15.6% to \$7,329k, due to the acquisition of Burnaby Veterinary Hospital and full year operations of the Penticton Veterinary Hospital and BC Pet Registry. Both Penticton Veterinary Hospital and the BC Pet Registry were acquired or commenced operation in mid 2015. Offsetting these was a reduction in legacy revenues by \$1,861k to \$6,845k. Legacy revenues can fluctuate from year to year and revenues in 2016, although down from 2015, were in line with receipts from 2012 to 2014. Legacy revenue in 2015 was unexpectedly high, due to the substantial size of estates being disbursed.

Revenues in 2015 totalled \$32,940k and were \$2,086k higher than in 2014. In percentage terms, the increase was 6.8%. Legacy revenue jumped substantially and were \$1,564k higher at \$8,706k. Revenues in 2015 also included (a) BC SPCA Penticton Veterinary Hospital for 6 months after acquisition, and (b) the BC Pet Registry social enterprise project since the second quarter. Combined, these operations accounted for \$600k of revenue in 2015. Donations and fundraising revenues increased by \$383k to \$13,957k. These increases were offset partially by a reduction of \$878k in investment income, which decreased from \$1,287k in 2014 to \$409k in 2015. Financial markets in 2015 were volatile and fell dramatically in the second half of the year.

Program expenditures in 2016 amounted to \$25,229k, which is \$1,798k or 7.7% higher than the prior year. Similar to prior years, additional resources were allocated to the various programs through the budgetary process. The main increases in program expenditures were in (a) cruelty investigations, which increased by \$538k (17.8%) due mainly to three large seizures in the Lower Mainland, (b) hospitals and clinics increased by \$702k to \$3,698k mainly as a result of the acquisition of Burnaby Veterinary Hospital and a full year of operations of the Penticton Veterinary Hospital, (c) expenditures for sheltering, kennelling, by-law enforcement and social enterprise increased by \$397k, due

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in part to a full year's operations of the BC Pet Registry and (d) veterinary care and spay and neuter grew by 10.5% or \$276k to \$2,898k.

Program expenditures in 2015 totalled \$23,431k and increased by \$1,536k or 7.0%. A portion of the increase in program expenses is attributable to the inclusion of partial year expenditures of the veterinary hospital in Penticton and the BC Pet Registry. Additional resources were also allocated to all programs through the budgetary process for 2015.

General expenses, including administration and program support and revenue development expenditures, increased by \$392k to \$7,201k in 2016 from \$6,809k in 2015. Administration and program support costs grew by \$228k and revenue development costs increased by \$164k. We continue to invest in training, safety, information technology and our fundraising efforts in order to support future growth of our programs.

Other expenses, which consist of bank and credit card processing charges and interest expense on borrowings, were \$360k in 2016 compared to \$357k in 2015.

Amortization of PB&E in 2016, net of amortization of deferred capital contributions, was \$721k, compared to \$559k in 2015. Net amortization increased in 2016 due to the addition of new facilities, including the new animal community centre in Nanaimo and the purchase of the land and buildings on which the Penticton Veterinary Hospital sits.

For 2016, we have reported a surplus of \$1,256k compared to a surplus of \$1,784k in 2015 and a surplus of \$1,184k in 2014.

Revenues

A breakdown of revenues is shown in the following table:

Revenues in \$000's	2016	2015
Donations and fundraising	14,965	13,957
Legacy and life insurance	6,845	8,706
Kennelling and by-law enforcement services	1,990	1,922
Sheltering, medical, clinical and social enterprise services	7,329	6,338
Lottery and raffles	815	729
Other grants received	1,229	859
Investment income and capital gains	1,594	429
	34,767	32,940

Revenues in 2016 totalled \$34,767k and increased by \$1,827k or 5.5%. Revenues in 2015 were \$32,940k and grew by \$2,086k, or 6.8%, from the previous year.

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Donations and Fundraising

Donations and fundraising continues to be our largest revenue source. We are totally dependent on the generosity of our donors. Revenues from donations and fundraising events grew to \$14,965k in 2016 compared to \$13,957k in 2015, which is an increase of \$1,008k or 7.2%.

Provincial fundraising initiatives are continually monitored and reassessed in order to develop new revenue sources and to grow existing revenue streams. In recent years, we have seen a move from over the counter donations to online giving, which increased by \$317k in 2016. In addition, major donors and foundation giving have both increased due to several extraordinary gifts from existing donors. New initiatives such as National Cupcake Day and corporate sponsorship of our Offleashed Galas are growing.

However, the mainstay of our fundraising initiatives is the Society's monthly giving program. Monthly giving has grown every year since inception and, while this initiative grew by less than 2% in 2016, revenues totalled over \$4.8 million.

At our branches, branch fundraising revenues in 2016 grew by \$126k to \$2,369k.

Offsetting these increases were a reduction in both general or over the counter donations and revenues generated by our provincial "Paws for a Cause" walks, which fell by \$140k to \$615k.

Legacy and Life Insurance

The Society has an active 'Planned Giving' marketing program that encourages donors to remember the Society in their wills. There are two types of legacy receipts (a) unrestricted, which are used to fund the area of greatest need and (b) designated, where the will maker specifies what or where the legacy monies are to be applied to.

Legacies are unpredictable and growth of legacy revenues in any year can, in part, be attributed to large legacies that may or may not be repeated in the following years. Often designated legacies are not directed to the priority initiatives specified in the strategic plan, which can place a strain on unrestricted resources.

Recent statistics have stated that \$1 trillion dollars will change hands in the next generation as baby boomers pass their life savings to their heirs and favorite charities. Accordingly, we have added additional resources to Planned Giving in recent years and will continually assess how to grow this area.

Legacy revenue in 2016 was \$6,845k, compared to \$8,706k in 2015, which is a reduction of \$1,861k year over year. While legacy revenues and receipts in 2016 were lower than the prior year, they were in line with or higher than the previous three years (2012-2014). Legacy receipts in 2015 were substantial and jumped 70% from prior year's levels and included a high level of unrestricted legacies, increasing legacy revenue accordingly.

Since 2012, there has been a step change in both designated and unrestricted legacy receipts, which were very high in the five-year period. Legacy revenues in the past five years have averaged just over \$7 million, compared to an average of \$4.8 million previously.

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Kennelling and By-law Enforcement Revenues

Kennelling and by-law enforcement revenues in 2016 amounted to \$1,990k, compared to \$1,922k in 2015, which is an increase of \$68k. The increase was due to annual cost of living adjustments in the contracts.

We have been strategically withdrawing from certain by-law enforcement contracts for many years and revenue from kennelling and by-law enforcement contracts has fallen by more than half since 2003.

Sheltering, Medical Clinical and Social Enterprise Services

Sheltering, medical, clinical and social enterprise revenues include hospital and clinic services, adoption fees, recovery of cruelty investigation costs and various services performed by the shelters for animal care and welfare. Some of these charges are levied on a “pay-as-you-can” basis and can vary widely through different regions of the province.

In 2016, sheltering, medical, clinical and social enterprise service revenues were \$7,329k and increased by \$991k, or 15.6%, from \$6,338k in 2015. The increase is due to the acquisition of Burnaby Veterinary Hospital and a full year of operations of the Penticton Veterinary Hospital and the BC Pet Registry. In 2015, these revenues increased by \$693k due to the acquisition of Penticton Veterinary Hospital on July 6, 2015 and the commencement of the BC Pet Registry in the second quarter.

Lottery and Raffles

In 2016, lottery and raffle revenue increased by \$86k to \$815k from \$729k in 2015. The increase is due to higher lottery ticket sales, which totalled \$740k, compared to \$657k in 2015. The remaining revenue in this category are raffles and 50/50 draws that are held as part of fundraising events.

Other Grants Received

Other grants consist mainly of grants to cover employment costs of summer students from the Government of Canada, grants in aide from municipalities and grants from charitable foundations in support of branch or strategic initiatives, as well as spay/neuter grants from PetSmart Charities.

Other grants received in 2016 totalled \$1,229k compared to \$859k in 2015. The increase in grants was primarily from foundations, low cost spay neuter grants and grants for summer employment of students.

Investment Income

The Society’s portfolio of investments is managed by professional advisors, in accordance with the Society’s conservative investment policy. Our advisors, Scotia Asset Management, report to the Society’s Finance and Audit Committee twice a year. The Society records its investments at fair market value.

Investment income fluctuates from year to year. Conventional wisdom states that returns on investments in equities over an extended period of time will result in higher overall returns, compared to investing in bonds and interest bearing investments. However,

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equity prices can be volatile and drop unexpectedly. Given this volatility, our three investment accounts hold equities at varying levels depending on the term of the investment. Our unrestricted account, or the shortest term to liquidity, carries 30% equities. The longer term accounts, restricted and endowment, hold 40% and 55% in equities respectively.

In 2016, investment income totalled \$1,597k and was \$1,188k higher than in 2015. Investment income in 2015 was \$409k, compared to \$1,287k in 2014 and \$934k in 2013. Invested assets have grown substantially since 2013, so that investment income in the past four years was equal to that of the previous ten years.

Gain/loss on Disposal of Buildings and Equipment

The Society replaces aging assets on an ongoing basis and incurs capital gains or losses in the process. In 2016, a small number of assets were disposed of resulting in a capital loss of \$3k. In 2015, capital gains totalled \$20k.

Operating Expenses

The Society's operating expenses are broken into different groupings:

- ***Program Expenses***, or the direct costs of our work associated with animals,
- ***General Expenses***, consisting of administration, program support and revenue development,
- ***Other Charges***, mainly financial costs, interest expense and bank and credit card processing charges, and
- ***Amortization*** of the Society's property, buildings and equipment (PB&E).

We budget annually and allocate additional resources in order to grow and increase the effectiveness of our activities. Consequently, total operating costs grew by \$2,355k or 7.6% to \$33,511k in 2016, compared to \$1,486k or 5.0% in 2015.

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Details of the various expenditures are shown in the table that follows:

Expenses in \$000's	2016	2015
Program Expenses		
Sheltering, kennelling, by-law enforcement and social enterprise	12,810	12,413
Veterinary care and spay and neuter	2,898	2,622
Cruelty investigations	3,558	3,020
Humane education	829	792
Advocacy	711	819
Hospital and clinics	3,698	2,996
Animal health and welfare	725	769
	<u>25,229</u>	<u>23,431</u>
General Expenses		
Administration and program support	3,141	2,913
Revenue development	4,060	3,896
Other	360	357
Amortization	<u>721</u>	<u>559</u>
	33,511	31,156

Program Expenses

Program expenses include the direct costs of our work but do not include amortization of property, building and equipment (PB&E) at our branches, although a good portion of our PB&E is invested in branch operations.

Program expenditures in 2016 increased by \$1,798k, or 7.7% compared to \$1,536k or 7.0% in 2015.

Sheltering, Kennelling, By-Law Enforcement and Social Enterprise

The Society operates 30 animal shelters located around British Columbia, three education and adoption centres, a store front adoption facility, a wild animal rehabilitation centre, as well as two volunteer branches without facilities that provide emergency rescue, sheltering, rehabilitation and adoptions for domestic, farm and wild animals. In addition, kennelling and by-law enforcement services are supplied under contract. The costs of operating the BC Registry are also included. The costs of running our shelters include payroll, animal transport, utilities, communications and building and equipment maintenance.

Total sheltering, kennelling, by-law enforcement and social enterprise expenses amounted to \$12,810k in 2016 compared to \$12,413k in 2015, which is an increase of \$397k or 3.2%. In 2016, we completed construction of a new 7,500 square foot community animal centre in Nanaimo. In 2015, we commenced operation of a social

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enterprise project, the BC Pet Registry. In addition, certain resources were reclassified from Animal Health and Welfare to this category.

The largest cost at our shelters is payroll. Our starting wage is lower than we would like, and for several years we have increased the starting wage at our non-unionized shelters in order to reduce staff turnover. During 2016, we increased the starting wage by \$0.50 to \$14.00 per hour and are committed to increasing the starting wage in future years. As of April 2017, the starting rate was further increased to \$14.25 per hour. Other costs of running our shelters increased due to the general rate of inflation.

Veterinary Care and Spay and Neuter

Each year, the Society provides emergency medical and veterinary care for thousands of homeless and abused animals and provides a wide range of programs to reduce pet overpopulation. Preventing or ending pet overpopulation through spay/neuter and education programs is one of the top priorities for the BC SPCA. The Society also offers limited charitable medical and spay and neuter services for pets of low-income residents of BC.

Expenditures on veterinary care and spay and neuter in 2016 totalled \$2,898k compared to \$2,622k in 2015, which is an increase of \$276k or 10.5%.

A key component of our strategy on preventing pet overpopulation is 100% spay and neuter, so that -except for very young animals or when medical reasons take precedent- all dogs, cats and rabbits are altered prior to adoption. Within the figures shown above, expenditures on veterinary spay and neuter were \$1,505k in 2016 compared to \$1,452k in 2015. These figures include the cost of grants given to rescue groups and other organizations throughout the province for low cost cat spay or neuter.

In addition, the mission work of the hospital in Vancouver and the clinics in Prince George and Kamloops also includes spay and neuter initiatives. When the costs of veterinary spay neuter are combined with hospital and clinic expenses relating to spay neuter efforts, total spay and neuter expenses of the Society were \$2,192k in 2016, compared to \$2,089k in 2015.

Cruelty Investigations

The BC SPCA is the only animal welfare organization in British Columbia with the authority to investigate complaints of animal cruelty and enforce provincial and federal laws that protect animals from abuse, suffering and neglect. In 2016, the Society's 30 full time, one part time and four auxiliary Special Provincial Constables (SPCs) carried out 9,788 cruelty investigations, executed 140 warrants and submitted 26 charges to Crown Counsel, and removed 1,515 animals from dangerous or neglectful situations.

Costs in this area also include the provincial call centre in Victoria that receives and routes cruelty complaints from around the province.

The costs of employing the SPCs, their equipment and vehicles, sheltering and pound expense of seized or surrendered animals, such as medical costs, legal costs in prosecuting individuals accused of animal cruelty and the cost of the call centre totalled \$3,558k in 2016, compared to \$3,020k in 2015, which is an increase of \$538k or 17.8%.

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2016 was a difficult year for our Cruelty Investigators and branch staff. Three large seizures were carried out and resulted in a large number of animals being taken into our care and forced the closure of our largest shelter to the public for a month.

Humane Education

The BC SPCA provides a wide range of educational programs for children, youth and adults to promote the humane treatment of animals. Specific initiatives include the “Kids Club” for youths aged 8 to 13 years which reaches out to more than 6,000 youth, summer day camps for nearly 1,600 children, school holiday workshops for 500 children, and 400 humane education presentations to schools and community groups on all aspects of animal welfare.

This program continues to grow each year. During 2016, the number of summer of camps increased as did the number of attendees, requiring additional camp counselors, materials etc. In 2016, humane education costs grew to \$829k compared to \$792k in 2015.

Advocacy

Community relations and external communications are integral components of the Society’s operations. In addition, a government relations program was established in recent years and has grown to support our activities, including the FDSP. The Society advocates on animal related issues, such as campaigning against puppy mills, stronger anti-cruelty laws, and improved transport conditions for farm animals. The cost of the bi-annual “AnimalSense” magazine is also included in this area.

In 2016, advocacy costs amounted to \$711k compared to \$819k in 2015, which is a decrease of \$108k. In the prior year, advocacy costs grew by close to 10% as our Strategic Plan stresses the importance of advocacy initiatives. Part of the increased costs in 2015 were one-time and were incurred to jump start the government relations and other programs and were not repeated in 2016. In 2016, however, there were temporary staffing shortages in this area that resulted in costs being lower than expected and lower than the prior year.

Hospital and Clinics

The Society operates five veterinary facilities including a veterinary hospital in Vancouver, which provides spay/neuter, general and emergency veterinary care for thousands of injured and homeless animals. We operate two spay/neuter clinics, one in Prince George, which has been operating since 2005, and another clinic in Kamloops which was opened in April 2009. The two spay/neuter clinics are an integral component of the Society’s efforts to prevent pet overpopulation. In 2015, the Society purchased a veterinary practice in Penticton at a discounted price and on September 30, 2016, the Society was gifted a veterinary hospital in Burnaby, the details of which are shown on the first page.

The cost of operating these facilities also include the costs of the mission work of the Vancouver hospital, such as providing charitable services to pets of low-income residents. In 2016, the cost of the five facilities, including Burnaby Veterinary Hospital

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for three months, was \$3,698k, compared to \$2,996k in 2015 for the remaining four facilities.

Animal Health and Welfare

Animal health and welfare consists predominantly of shelter welfare and farm programs. Shelter welfare includes cat management and dog assessment programs and training of staff in animal welfare. The BC SPCA farm program, which includes SPCA Certified, works to protect the welfare of 100 million farm animals in BC.

Total expenditures on animal health and welfare in 2016 amounted to \$725k compared to \$769k in 2015, which is a decrease of \$44k. The reduction in costs in this area is due to a reclassification of resources to sheltering and medical.

General Expenses

General expenses consist of administration and program support and revenue development costs. General expenses are incurred by the Society to develop strategy and operating plans, set policy and priorities, monitor performance and provide support services to the program areas that are integral and vital to their operations.

Administration and Program Support

Administration and program support costs cover finance and accounting, information technology, payroll processing, human resources including both staff and volunteers, training costs, legal expenses and the costs incurred by the Board of Directors and Chief Executive Officer in the conduct of their work. The Society operates with the assistance of approximately 5,000 volunteers who work at our shelters and in a variety of fundraising, advocacy, education and governance roles.

Administration and program support costs in 2016 were \$3,141k, compared to \$2,913k in 2015, which is an increase of \$228k. Increased costs in the area were due to several factors; (a) some costs grow along with the size of the organization such as insurance, investment management fees etc. (b) we continue investment in both training and information technology (c) one-time costs associated with the acquisition of Burnaby Veterinary Hospital, including legal and appraisal costs, and (d) costs of maintaining an aging Provincial Office. In 2015, administration and program support costs fell by \$60k.

We continue to target administration and program support expenses to be approximately 10% of revenues. The actual ratio of administration and program support costs to revenues in 2016 was 9.0% (2015 was 8.8% and 2014 - 9.6%), which is below national norms.

Revenue Development

Revenue development expenses in 2016 totalled \$4,060k, compared to \$3,896k in 2015, which is an increase of \$164k or 4.2%.

Fundraising programs are continuously monitored to ensure the effectiveness of donor development initiatives as we look for new and more efficient methods to attract donor

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interest in order that we can continue to take care of the animals.

Expressed as a percentage of revenues, revenue development costs in 2016 were 11.7%, compared to 11.8% in 2015 and 12.3% in 2014.

Other Expenses

Bank Charges and Interest

Donations and fundraising receipts are transacted mainly by debit or credit cards, with physical “cash” receipts being minor, except for large fundraising events. Revenues from donations and fundraising have grown steadily in the past few years, and consequently the cost of processing these transactions have risen in recent years. In addition, interest expense is incurred when we utilize the line of credit to fund operations.

The net cost of the processing credit and debit card transactions and interest on the line of credit amounted to \$360k in 2016, compared to \$357k in 2015.

Amortization

The original or historical cost of our PB&E is amortized over the estimated useful economic life of the assets. In 2016, amortization expense was \$1,264k, compared to \$977k in 2015. Amortization grew by \$287k or 29.4% in 2016 due mainly to the new Nanaimo community animal centre being completed and to the purchase of the Penticton Veterinary Hospital land and building. Amortization is expected to continue to grow as new facilities identified in the FDSP are constructed.

The Society has a large and diverse asset base on which amortization is calculated. The largest component of amortization is on buildings and leasehold improvements.

As of December 31, 2016, we had a fleet of 101 vehicles of which 10 were capitalized and reported as capital leases, 46 are reported as operating leases, whereby the lease payments are directly expensed for accounting purposes and the balance are fully amortized.

Amortization of Deferred Capital Contributions

Designated contributions received for capital projects are only recognized in our operating results in the year the related asset is amortized, effectively providing an offset to that amortization. Amortization of deferred capital contributions in 2016 totalled \$543k, compared to \$418k in 2015. Facilities which were wholly or partly funded by designated contributions and on which deferred capital amortization is calculated include the following: the new community animal centre in Nanaimo that opened to the public in 2016, the large animal recovery and adoption barn in Kelowna (2015), the education and adoption centre and seizure facilities in Surrey and leasehold improvements for our Campbell River education and adoption centre both of which opened in 2014, the Powell River Community Animal Centre and the education building in Kelowna (2013), the Maple Ridge Community Animal Centre (2011), renovations to the Williams Lake

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shelter (2010), renovations of our Victoria shelter (2007) and the Penticton Community Animal Centre (2006).

In future years, these assets will continue to be amortized over their estimated useful lives and the related deferred capital contributions will be amortized and reflected in our operating results.

CONSOLIDATED FINANCIAL POSITION

Our consolidated financial position has improved along with the surpluses reported in recent years. In 2016, working capital, invested assets and the net assets position all grew as a result of the operating surplus, a high level of capital expenditures and designated legacy receipts. The assets and liabilities of Burnaby Veterinary Hospital, which was gifted to us on September 30, 2016, are included in the 2016 figures reported below.

(In \$000's)	2016	2015
Cash and bank (net borrowings)	435	(46)
Working capital	9,749	9,474
Total invested assets	35,596	34,741
Net assets	18,740	17,303
Capital expenditures	5,983	2,730

Cash and Bank (net borrowings)

The Society's net cash position consists of cash, less the sum of all bank borrowings, if any. Cash is monitored on a daily basis and is maintained as close to zero as possible in order to minimize borrowings and maximize the capital invested in financial markets. As at December 31, 2016, the Society had a net cash position of \$435k compared to a net cash deficit of \$46k at the end of 2015.

The Society has had an operating line of credit of \$2 million with Scotiabank for many years, which is used to fund seasonal cash requirements and is secured by unrestricted investments. In addition, there is a second line of credit for short-term capital needs of \$1 million, which is secured by a charge on the property at 1205 East 7th Avenue, Vancouver.

Unrestricted and Restricted Investments

Invested assets grew to \$35,596k at December 31, 2016, compared to \$34,741k at the end of 2015. The increase in invested assets during 2016 totaled \$855k and was due to new designated contributions, including legacies, and the surplus in the year. Funds are transferred from investments to the operating bank accounts at Scotiabank on a regular basis to support ongoing operations and to fund capital expenditures.

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Restricted investments consist of designated contributions, such as grants, donations or legacies, the funds for which cannot be realized until the terms of the designation are complied with. These include building funds, animal welfare funds, and operating funds restricted for individual branches. Endowment funds are invested in perpetuity and, accordingly, are classified as restricted investments. Restricted investments totalled \$24,803k at December 31, 2016 compared to \$24,054k at December 31, 2015. New designated contributions received totalled \$9,473k in 2016, compared to \$16,840k in 2015.

Unrestricted investments are available for general use by the Society. However, up to \$2 million of these investments are used as security for the Society's operating line of credit with its banker, Scotiabank. Unrestricted investments totalled \$10,793k at December 31, 2016 compared to \$10,687k at the end of 2015. Unrestricted investments have grown substantially since 2011. This is due to the larger surpluses in 2012-16 and because of funds transferred from restricted investment accounts when designations are complied with (partially offset by funds drawn down to support operations or fund major capital expenditures).

The Society's portfolio of investments is managed by professional advisors, Scotia Asset Management, in accordance with the Society's conservative investment policy.

Accounts Receivable

Accounts receivable consist of unpaid revenue from kennelling and by-law enforcement contracts, GST rebate entitlements, other unpaid billings and accrued cash receipts for deposits to the bank after the end of the year but postmarked as being mailed in 2016.

As of December 31, 2016, total accounts receivable amounted to \$950k compared to \$1,183k at December 31, 2015. The reduction is due primarily to the different amount of accrued receipts for legacies or donations that were in the postal system at end of both 2015 and 2016.

Prepaid Expenses

Prepaid expenses consist of amounts paid in advance for service contracts, property taxes and insurance premiums, which totalled \$304k at December 31, 2016, compared to \$162k at December 31, 2015.

Supplies

Based on physical counts performed at year-end, hospital and shelter supplies are valued at the lower of cost and market. Supplies on hand at December 31, 2016 totalled \$464k compared to \$335k at the end of 2015.

Property, Buildings and Equipment and Intangible Assets (PB&E)

PB&E is reported in our accounts at net book value, which is the historical cost of the assets less accumulated amortization. PB&E at December 31, 2016 amounted to \$19,480k compared to \$14,554k at the end of 2015.

During 2016, we operated 42 facilities province wide including Burnaby Veterinary Hospital that was acquired on September 30, 2016 and the new animal community centre

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in Nanaimo that was opened to the public in June 2016. In addition, we purchased the land and building for the Penticton Veterinary Hospital on August 16, 2016 in order to solidify the long term future of the veterinary practice that was purchased in the previous year. Our facilities consist of 30 community animal centres, three education and adoption centres, a store front adoption facility, a wild animal rehabilitation centre on Vancouver Island, five veterinary facilities, a provincial call centre in Victoria and the provincial office in Vancouver. We have several newer facilities that are in good or excellent condition, but the average age of our properties is 27 years and we have 13 facilities that are over 30 years old, including the Vancouver hospital and shelter which are nearly 60 years old, which need to be urgently replaced.

A Facility Development and Services Plan (FDSP), was approved by our Board of Directors during 2013 and identifies several facilities that need to be replaced at an estimated cost of approximately \$54 million. The FDSP is subject to availability of funding, including government support. The Government of British Columbia has given the Society two capital grants totalling \$10 million to partially fund the FDSP, \$5 million on March 31, 2015 and \$5 million on March 10, 2017.

Capital expenditures in 2016 amounted to \$5,983k and consisted of (a) completion of the construction of a new animal community centre in Nanaimo with expenditures of \$1,953k (b) purchase of the land and building of the Penticton Veterinary Hospital at a cost of \$2,217k (c) purchase of land in Kamloops at a cost of \$502k (d) capitalization of certain new vehicles leased in 2016 of \$438k (e) investments in IT of \$201k, and (f) ongoing sustenance expenditures at our shelters and veterinary facilities. In addition, land was granted to the Society in 2016 for the construction of new animal community centres. The City of Castlegar donated a 1.05 acre parcel of land with a fair market value of \$85k and, in Dawson Creek, the City donated an approximately 5 acre parcel of land with a fair market value of \$411k.

During 2015, capital expenditures totalled \$2,730k and consisted of the following: (a) \$1,304k on the construction of a new community animal centre in Nanaimo, (b) \$380k on the construction of a cat seizure facility in Surrey, (c) \$257k on a large animal recovery and adoption barn in Kelowna, (d) \$245k on the purchase of a veterinary practice in Penticton (\$200k discounted purchase price reported as an intangible asset and \$45k on new equipment), (e) new cat cages that are ASV (Association of Shelter Veterinarians) compliant, (f) improvements to our shelters in Quesnel, West Vancouver, Abbotsford and Wild ARC (Wild Animal Rehabilitation Centre on Vancouver Island) and (g) ongoing sustenance capital expenditures at other facilities and in Information Technology.

Some of the Society's assets were purchased many years ago prior to our first audit in 2003. The original documents to substantiate the historical cost of these assets could not be traced, and consequently, the auditors' report contains a qualification with respect to the accuracy of the book value and amortization expense of PB&E acquired prior to 2003. This qualification will likely continue in the Society's audit reports in future years.

Land is shown in the financial statements at historical cost. Several of the Society's properties have been owned for a considerable number of years. Consequently, certain of the land values are shown at very low historical costs and several properties are recorded

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at nominal amounts. As a result, the fair market value of the Society's owned land is significantly higher than the book value of \$4,616k. If land were to be valued at fair market value, the investment in Operations would also increase significantly. To determine the fair market value of the land, we would have to incur significant expense in having appraisals prepared for each property. However, we do know that the total of the property tax assessment values of the owned land is approximately \$18+ million greater than the historical cost.

Charitable Remainder Trusts and Life Insurance Policies

There have been no new living trusts added for many years and the last remaining trust was realized during 2016, so the book value of Charitable Remainder Trusts at December 31, 2016 was NIL compared to \$83k at December 31, 2015.

On life insurance policies for which we are the owner, tax receipts are issued for premiums paid annually. The book or tax receipt value of life insurance policies at December 31, 2016 totalled \$738k, compared to \$681k at December 31, 2015. Tax receipts issued for life insurance premiums paid in 2016 were \$56k. The face value of the insurance policies is \$2,043k at December 31, 2016.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of unpaid supplier invoices, accruals or provisions for costs to be billed or paid out subsequent to the end of the year and for payroll accruals of unpaid wages and vacation. The Society's payroll is processed on a bi-weekly basis which does not align with accounting cut-offs and, therefore, necessitates an accrual for unpaid wages each accounting period.

Accounts payable and accrued liabilities as of December 31, 2016 were \$3,071k compared to \$2,847k at December 31, 2015.

Unpaid supplier invoices at December 31, 2016 totalled \$1,447k compared to \$1,187k at the end of 2015, which is an increase of \$260k. There is no single reason for the increase in outstanding supplier invoices year over year, but (a) the Society is growing as will the incidence of unpaid supplier invoices (b) unpaid supplier invoices of Burnaby Veterinary Hospital amounted to \$48k at December 31, 2016 and (c) the timing of unpaid invoices for capital items varies from period to period.

Capital leases

During 2016, we began capitalizing the cost of vehicles in the Society's fleet. Prior thereto, vehicle leases were reported as operating leases. In addition, the Burnaby Veterinary Hospital leases x-ray equipment. The total book value of capital leases for vehicles and BVH at December 31, 2016 was \$409k.

Mortgages payable

The Society exercised a right of first refusal contained in the lease of the Penticton Veterinary Hospital property and on August 15, 2016 purchased the land and building. A deposit of \$500k was paid and the balance of the cost was funded by a vendor take back mortgage of \$1,583k. The mortgage bears interest at 3% and is repayable in monthly instalments of \$7k. A lump sum payment of \$500k is due on February 14, 2018 and the

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mortgage matures on August 15, 2018.

Deferred Contributions

Grants, donations or legacies received for designated purposes, such as building funds, animal welfare funds including spay neuter initiatives, or funds restricted for individual branches are referred to as deferred contributions. These funds are held in restricted investment accounts earning investment income until the monies can be expended in accordance with the donors' wishes. Also included in deferred contributions are the book values of Charitable Remainder Trusts and life insurance policies.

Deferred contributions at December 31, 2016 amounted to \$23,929k compared to \$23,298k at December 31, 2015. New deferred contributions in 2016 were \$9,473k compared to \$16,840k in 2015. Transfers to deferred capital contributions or to operations for expenditures made in accordance with the designations totalled \$8,815k in 2016 and \$7,190k in 2015.

Deferred contributions for Charitable Remainder Trusts and life insurance policies totalled \$738k at December 31, 2016 and were lower by \$26k due the receipt of the last Charitable Remainder Trust, offset partially by the issuance of tax receipts for premiums paid on life insurance policies owned by the Society.

Deferred Capital Contributions

Donations or legacies that are received for capital purposes are held as deferred contributions until such times as the qualifying capital expenditure has been undertaken. After the capital expenditure has been recorded, the designated contribution is transferred to deferred capital contributions and subsequently amortized over the estimated useful life of the asset, thereby offsetting amortization of the capital item.

Deferred capital contributions at December 31, 2016 totalled \$9,676k compared to \$7,636k at the end of 2015.

During 2016, \$2,583k was transferred from deferred contributions to cover the costs of the capital expenditures funded by designated contributions, as compared to \$2,179k in 2015. Amortization of deferred capital contributions in 2016 of \$543k (2015 - \$418k) was booked to offset amortization expense of the assets to which the contributions are related.

Post Employment Benefits Payable

Post employment benefits payable are essentially retirement benefits payable in the event of termination or retirement of certain unionized employees under their collective agreements and certain management employees prior to 2001. These benefits are recorded in our accounts based on an actuarial valuation. There were no changes in the basis of the actuarial valuation during 2016 and post employment benefits payable at December 31, 2016 were valued at \$520k, compared to \$609k at the end of 2015.

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Net Assets

Invested in Endowments

The Society is entitled only to the investment income from endowments and must retain the original contributions in perpetuity. Consequently, endowment contributions are held in restricted investment accounts. Given that the investments are held for the long term, they are invested with a heavier weighting in equities, and to a lesser extent fixed income and short term securities.

We received new endowments totalling \$92k (2015 - \$25k), bringing net assets invested for endowments at December 31, 2016 to \$1,612k from \$1,520k at December 31, 2015.

Invested in Operations

Our investment in Operations represents our net asset position with respect to assets that are not endowments. At December 31, 2016, the Society's net asset balance in the Operations fund was \$17,128k, compared to \$15,783k at December 31, 2015. The increase in net assets invested in the Operations fund during 2016 was due to the net operating surplus for the year of \$1,256k and \$89k of actuarial gains on future employee benefits.

Conclusion

Our financial diligence is unchanged. We continue to work within a balanced operating budget while working to expand our programs in accordance with our strategic plan and for the benefit of the animals.

In recent years we have seen a significant improvement in our balance sheet. Total assets at the end of 2016 were \$57,967k and grew by 11.7% over 2015 and have doubled in size in the past 5 years. Both our balance sheet and working capital position are healthy and invested assets have grown substantially. Normally, we do not carry debt on our balance sheet, but the opportunity to purchase the land and building for the Penticton Veterinary Hospital in 2016 resulted in a vendor take back mortgage being taken on the property.

Capital expenditures during 2016 were the highest ever recorded at \$5,983k. Capital expenditures in future years will continue at high levels as we construct new facilities in Castlegar, Dawson Creek and Kamloops in 2017 and 2018. We are also planning for a new facility in Prince George and a new flagship in Vancouver, the costs of which will be substantial. We are grateful to the Government of British Columbia for a second grant of \$5 million that was received on March 10, 2017 and will partially fund the construction of new facilities in Prince George and Vancouver.

Since 2012, we have reported substantial surpluses due mainly to higher levels of legacies and investment income. However, both revenue streams fluctuate and are unpredictable. We will continue to manage both revenues conservatively.

For 2017, our operating budget was balanced at \$36.1 million. Our activities in 2017 and beyond will continue to be guided by our strategic plan.

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On Behalf of the BC SPCA:

Carol Richards
Treasurer



John Andrew, CA
Chief Financial Officer



Vancouver, British Columbia
April 28, 2017