

BCSPCA

**British Columbia Society for the
Prevention of Cruelty to Animals**

FINANCIAL REPORT

Six months ended June 30, 2017

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

The information that follows includes a review of the Society's consolidated operations and unaudited interim consolidated financial statements for the six months ended June 30, 2017. The interim consolidated financial statements do not include all note disclosures required on an annual basis under Canadian accounting standards for not for profit organizations, and therefore should be read in conjunction with the Society's management's discussion and analysis and audited consolidated financial statements for the year ended December 31, 2016, which are available for review on the BC SPCA website at <http://www.sPCA.bc.ca/about-us/reports/>

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.

SUMMARY OF CONSOLIDATED OPERATING RESULTS

Our financial diligence is unchanged, we continue to work to a balanced operating budget in order to control our finances. Our operations are seasonal as operating expenditures are heavier in the spring through the fall months with a substantial portion of donations and fundraising revenues being received in the last few months of the year.

For the six months ended June 30, 2017, we have reported a deficit of \$376k, which is \$812k worse than the surplus reported in the first half of 2016 of \$436k. The results for the first half of 2017, while negative, are more indicative of normal operating activities of the Society in the first half of the year. The surplus reported in the first half of 2016 was mainly attributable to a high level of donations that we received to support two large cruelty investigations and seizure of a large number of animals, which occurred in early 2016.

We base our work plans on our Strategic Plan, which 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. Our plan is to significantly increase our investment in proactive, preventative animal welfare such as pet overpopulation programs, youth and adult education and advocacy initiatives.

We operate 42 facilities throughout the province of British Columbia, including the Burnaby Veterinary Hospital, which was acquired on September 30, 2016 as reported above. An internal review of our facilities undertaken in 2013 identified an urgent need to replace eight facilities and substantially renovate at least two others and resulted in the adoption of a Facility Development and Services Plan (FDSP). The FDSP is subject to availability of funding, including government

support. On March 10, 2017, we received a capital grant of \$5 million from the Government of British Columbia to partially fund new facilities in Vancouver and Prince George. Previously, on March 31, 2015, we had also received a \$5 million capital grant for new facilities or improvements to existing facilities in Kelowna, Surrey and Nanaimo, and in new facilities in Castlegar and Dawson Creek.

The Society's consolidated operating results for the six months ended June 30, 2017 together with comparative figures for 2016 (unconsolidated) are shown in the table that follows below:

| In \$000's | <u>2017</u> | <u>2016</u> |
|--|--------------------|--------------------|
| Revenues | 17,281 | 16,611 |
| Program expenses | 13,084 | 11,944 |
| General and other expenses (administration, program support, revenue development, interest and bank processing charges) | 4,146 | 3,912 |
| Operating surplus before amortization | 51 | 755 |
| Amortization of property, buildings and equipment and intangible assets, net of amortization of deferred capital contributions | 427 | 319 |
| Net operating surplus/(deficit) | (376) | 436 |

Revenues for the first half of 2017 totalled \$17,281k and were \$670k or 4.0% higher than the same period in 2016 due to:

- Sheltering, medical, clinical and social enterprise fees have increased by \$891k to \$4,322k due mainly to the acquisition of Burnaby Veterinary Hospital with revenues of \$748k in the six months to June 30, 2017. We are also seeing continued growth in social enterprise initiatives, specifically the BC Pet Registry.
- Donations and fundraising revenues amounted to \$6,062k in the first six months of 2017 and were \$332k lower than in the equivalent period in 2016. In 2016, major gifts, donations and direct marketing revenues had jumped, partly to assist with the costs of two large animal seizures that required the closure of our Vancouver shelter to the public for two months. In addition, the timing of major gift receipts varies from period to period.
- Legacy revenue increased by \$190k to \$4,061k. We have seen a significant growth in legacy revenues in recent years, however, legacy revenues in any year can be attributed to large legacies that may or may not be repeated in the following years.
- Investment income totalled \$747k in the first half of 2017 and was \$83k higher than in the prior period. Financial markets continue to be strong and we are seeing good returns on our conservative investment portfolio.
- Revenues were lower in most other areas, but only by small amounts.

Program expenses for the six months ended June 30, 2017 totalled \$13,084k and were \$1,140k, or 9.5% higher than in 2016. In 2017, the increase in program expenses is partly due to higher costs at our hospital and clinics as a direct result of the acquisition of BVH. In addition, each year we allocate additional funds to all program areas in line with our strategic plan. Basically, program

costs have grown in all areas except cruelty investigations, which fell by \$117k. Our cruelty investigations costs in the first half of 2016 were very high as a result of two large seizures and the sheer numbers of animals seized resulted in our Vancouver shelter being closed to the public for two months and the medical care and other costs related to the seizures were significant.

General and other expenses, including administration, program support, revenue development and financing costs, amounted to \$4,146k and were \$234k or 6.0% higher than in 2016. Administration and program support expenses totalled \$1,596k and were down slightly, by \$18k. Revenue development costs totalled \$2,357k and increased by \$239k or 11.3%.

After amortization of \$427k, net of deferred capital contributions, we have reported a deficit of \$376k for the first half of 2017, compared to a surplus of \$436k in the first half of 2016.

OTHER FINANCIAL INDICATORS

| (In \$000's) | <u>June 30,</u> <u>2017</u> | <u>Dec 31,</u> <u>2016</u> | <u>June 30,</u> <u>2016</u> |
|---|--------------------------------|-------------------------------|--------------------------------|
| Cash or (net bank indebtedness) | (55) | 435 | (248) |
| Working capital | 8,905 | 9,749 | 9,280 |
| Property, buildings and equipment and intangible assets | 20,440 | 19,480 | 16,682 |
| Total investments | 42,504 | 35,596 | 32,972 |
| Net assets | 18,860 | 18,740 | 17,739 |

Cash balances are managed on a daily basis and the net bank balance is kept close to zero, while minimizing transfers out of investments, in order to keep interest costs down on our operating line of credit.

Net working capital at June 30, 2017 totalled \$8,905k and was down by \$844k from the end of 2016, the reduction being due to the seasonality of our operations and the inclusion in the current portion mortgages payable of a balloon payment of \$500k that is due on a mortgage in the first quarter of 2018. In the past twelve months, working capital has decreased by \$375k, due to the aforementioned mortgage payment of \$500k and seasonality of operations offset partly by the acquisition of Burnaby Veterinary Hospital.

Capital expenditures for the six months to June 30, 2017 totalled \$1,192k compared to \$2,667k in the first half of 2016. Capital expenditures for the first six months of 2017 were on renovations to existing facilities (\$199k – mainly at our Victoria shelter), information technology (\$106k – mainly our new website), expenditures on new facilities of \$330k and on sustenance capital expenditures. In addition, we acquired fourteen new vehicles under capital lease at a cost of \$458k. Capital expenditures in the first half of 2016 included \$1,923k for the construction of our Nanaimo facility, which was opened to the public in June 2016, \$481k for the purchase of land in Kamloops, and ongoing sustenance capital expenditures at our facilities throughout the province.

Total investments have grown by \$6,908k to \$42,504k since the end of 2016, due to the \$5 million capital grant received from the Government of British Columbia that was received on March 10, 2017, new designated contributions offset partly by designated funds used in support of operations. In the past twelve months, total investments have grown by \$9,532k as a result of the \$5 million

capital grant from the Government of British Columbia and a high level of designated contributions, offset partially by designated funds being used in support of operations. Investments are comprised of restricted investments of \$31,239k and unrestricted investments totalling \$11,265k. Restricted investments are contributions in the form of endowments, designated legacies and other designated donations or grants, the funds for which are invested until such times as the terms of the designation can be complied with. Unrestricted investments are available for general operating purposes, although \$2,000k is required as security for the bank operating line of credit.

Net assets have increased by \$120k due to donated land with a fair market value of \$496k being recorded in our accounts offset partially by the deficit reported in the first half of 2017 of \$376k.

OUTLOOK FOR BALANCE OF 2017

While we are reporting a deficit in the first half of 2017, which is significantly below prior half year's results, we are ahead of budget and on course to meet our financial and operational targets for the year. As always, there is still much work to be done in the latter half of the year and we will continue to focus our efforts on the goals and initiatives in our Strategic Plan, the FDSP and directions given by our board of directors.

In July and August of 2017, the Society deployed staff to protect animals threatened by the wildfires in the interior and north of British Columbia. Costs will be higher in the second half of the year, as we had 17 special provincial constables and animal protection officers stationed in and around the Williams Lake area, in addition to an uncounted number of shelter and support staff that were mobilized to set up an emergency evacuation centre in Prince George and to assist operations at our shelters in the affected areas.

Work on the FDSP has intensified. We are currently working on three facilities in Castlegar, Dawson Creek and Kamloops and are also in the planning phase for a new Vancouver facility. Land for a new facility in Prince George has been leased and we will exercise an option to purchase this land in the near future.

As always, we continue to be dependent on the support and generosity of our donors.

On Behalf of the BC SPCA



Carol Richards, CA, CPA
Treasurer



John Andrew, CA, CPA
Chief Financial Officer

Vancouver, British Columbia
September 29, 2017

The British Columbia Society for the Prevention of Cruelty to Animals

**Consolidated Financial Statements for the six months ended June 30, 2017
(Unaudited)**

The British Columbia Society for the Prevention of Cruelty to Animals

Consolidated Statement of Financial Position

| (in thousands of dollars) | (Unaudited) June 30, 2017 | (Unaudited) December 31, 2016 | (Unaudited) June 30, 2016 |
|---|---------------------------------|-------------------------------------|---------------------------------|
| | \$ | \$ | \$ |
| ASSETS | | | |
| Current | | | |
| Cash and cash equivalents | 175 | 435 | 101 |
| Unrestricted investments | 11,265 | 10,793 | 10,936 |
| Accounts receivable | 339 | 950 | 531 |
| Prepaid expenses | 289 | 304 | 263 |
| Supplies | 476 | 464 | 353 |
| | 12,544 | 12,946 | 12,184 |
| Property, buildings and equipment and intangible assets | 20,440 | 19,480 | 16,682 |
| Charitable remainder trusts and life insurance policies | 738 | 738 | 764 |
| Restricted investments | 31,239 | 24,803 | 22,036 |
| | 64,961 | 57,967 | 51,666 |
| LIABILITIES | | | |
| Current | | | |
| Bank indebtedness | 230 | - | 349 |
| Accounts payable and accrued liabilities | 2,680 | 3,071 | 2,555 |
| Current portion of capital leases | 195 | 93 | - |
| Current portion of mortgage payable | 534 | 33 | - |
| | 3,639 | 3,197 | 2,904 |
| Capital leases | 670 | 367 | - |
| Mortgage payable | 1,022 | 1,538 | - |
| Deferred contributions | 30,538 | 23,929 | 21,280 |
| Deferred capital contributions | 9,739 | 9,676 | 9,117 |
| Post-employment benefits payable | 493 | 520 | 626 |
| | 46,101 | 39,227 | 33,927 |
| NET ASSETS | | | |
| Endowments | 1,612 | 1,612 | 1,520 |
| Operations | 17,248 | 17,128 | 16,219 |
| | 18,860 | 18,740 | 17,739 |
| | 64,961 | 57,967 | 51,666 |

The British Columbia Society for the Prevention of Cruelty to Animals

Consolidated Statement of Changes in Net Assets

Period Ended

| (in thousands of dollars) | Endowments | Operations | (Unaudited) June 30, 2017 | December 31, 2016 |
|--|--------------|---------------|---------------------------------|----------------------|
| | \$ | \$ | \$ | \$ |
| Balances – beginning of period | 1,612 | 17,128 | 18,740 | 17,303 |
| Operating surplus (deficit) for period | - | (376) | (376) | 1,256 |
| Actuarial gain and plan amendments on accrued employee future benefits | - | - | - | 89 |
| Donated land at appraised value | - | 496 | 496 | - |
| Endowment contributions received | - | - | - | 92 |
| Balances - end of period | 1,612 | 17,248 | 18,860 | 18,740 |

The British Columbia Society for the Prevention of Cruelty to Animals
Consolidated Statement of Operations
Periods Ended June 30,
(Unaudited)

| (in thousands of dollars) | Year to Date | |
|---|---------------|---------------|
| | 2017 | 2016 |
| REVENUES | | |
| Donations and fundraising | 6,062 | 6,394 |
| Legacy and life insurance | 4,061 | 3,871 |
| Kennelling and by-law enforcement services | 1,013 | 1,032 |
| Sheltering, medical, clinical and social enterprise services | 4,322 | 3,431 |
| Lottery and raffles | 740 | 767 |
| Other grants received | 336 | 452 |
| Investment income | 747 | 664 |
| Gain on disposal of building and equipment and intangible assets | - | - |
| | 17,281 | 16,611 |
| PROGRAM EXPENSES | | |
| Sheltering, kennelling, by-law enforcement and social enterprise services | 6,694 | 6,121 |
| Veterinary care and spay and neuter | 1,343 | 1,253 |
| Cruelty investigations | 1,714 | 1,831 |
| Humane education | 378 | 342 |
| Advocacy | 360 | 338 |
| Hospital and clinics | 2,238 | 1,725 |
| Animal health and welfare | 357 | 334 |
| | 13,084 | 11,944 |
| GENERAL EXPENSES | | |
| Administration and program support | 1,596 | 1,614 |
| Revenue development | 2,357 | 2,118 |
| | 3,953 | 3,732 |
| Operating surplus before the undernoted | 244 | 935 |
| Interest and bank charges | 151 | 180 |
| Interest on mortgage liabilities | 42 | - |
| Amortization of property, buildings and equipment and intangible assets | 728 | 539 |
| Amortization of deferred capital contributions | (301) | (220) |
| NET OPERATING SURPLUS (DEFICIT) FOR THE PERIOD | (376) | 436 |

The British Columbia Society for the Prevention of Cruelty to Animals
Consolidated Statement of Cash Flows
Six Months Ended June 30,
(Unaudited)

(in thousands of dollars)

| | 2017 | 2016 |
|--|----------------|----------------|
| GENERATED FROM (USED IN) OPERATIONS | | |
| | \$ | \$ |
| Net operating surplus (deficit) for the period | (376) | 436 |
| Add deduct items not affecting cash: | | |
| Amortization of deferred capital contributions | (301) | (220) |
| Amortization of property, buildings and equipment and intangible assets | 728 | 539 |
| (Gain) on disposition of equipment | - | - |
| (Gain) loss on sale of investments | (610) | (414) |
| Deferred contributions realized as revenue | (3,461) | (3,572) |
| Post-employment benefits expense | 17 | 18 |
| | (4,003) | (3,213) |
| Decreases (increases) in non-cash working capital items: | | |
| Accounts receivable | 611 | 652 |
| Prepaid expenses | 15 | (101) |
| Supplies | (12) | (18) |
| Accounts payable and accrued liabilities | (391) | (292) |
| Post-employment benefits paid | (44) | (1) |
| | (3,824) | (2,973) |
| INVESTING ACTIVITIES | | |
| Purchase of property, buildings and equipment and intangible assets | (1,192) | (2,667) |
| Proceeds on disposition of property, buildings and equipment and intangible assets | - | - |
| Purchase of investments | (26,775) | (9,509) |
| Proceeds on sale of investments | 20,477 | 11,691 |
| | (7,490) | (485) |
| FINANCING ACTIVITIES | | |
| Repayment of mortgage loan | (15) | - |
| Repayment of capital lease | (53) | - |
| Capital lease obtained | 458 | - |
| Endowment contributions received | - | - |
| Deferred contributions received | 10,434 | 3,256 |
| | 10,824 | 3,256 |
| NET CASH | (490) | (202) |
| Cash and short term deposits net of bank indebtedness - beginning of period | 435 | (46) |
| CASH AND SHORT TERM DEPOSITS NET OF BANK INDEBTEDNESS - end of period | (55) | (248) |

The British Columbia Society for Prevention of Cruelty to Animals

Notes to Consolidated Financial Statements

June 30, 2017
(in thousands of dollars)

1. Basis of presentation

These interim consolidated financial statements reflect the combined assets, liabilities, net assets, revenues and expenditures of the Society's provincial office, hospitals, clinics, education and adoption centers and community animal shelters. These statements have been prepared in accordance with Canadian accounting standards for not for profit organizations on a basis consistent with those followed in the most recent audited annual financial statements. These interim financial statements do not include all note disclosures for annual statements required under Canadian accounting standards for not for profit organizations, and therefore should be read in conjunction with the Society's audited financial statements for the year ended December 31, 2016.

2. Seasonality of operations

The Society's operations and cash flow are seasonal with cash payments on operating expenditures heaviest in the spring through fall months, and a substantial portion of revenues from donations and direct marketing being received in the last few months of the year.