

BC SPCA

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

The following discussion should be read in conjunction with the financial statements of the Society for the year ended December 31, 2014. 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, three veterinary clinics 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.

Overview

Our financial diligence is unchanged. For many years, we have planned to grow program expenditures within the confines of a balanced operating budget and have reported surpluses of varying sizes in nine of the past ten years.

There has, however, been a step change in our operations since 2011 when we incurred a deficit of \$149k due to two unplanned 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 surpluses while growing program expenditures by 27%. Between 2012 and 2014, we have reported unexpectedly large increases in both legacies and investment income, which has resulted in larger surpluses in these years. The additional funds generated by these surpluses have been earmarked to fund future capital expenditures identified in our Facilities Development and Services Plan.

In 2014, we have reported a surplus of \$1,184k on revenues of \$30,854k, which is a milestone as this is the first year that revenues have exceeded \$30 million. Program expenditures increased by \$1,369k or 6.7% to \$21,895k.

In 2013, we reported a surplus of \$778k on revenues of \$28,065k and program expenditures increased by \$686k or 3.5% to \$20,526k.

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During 2014, education and adoption centres were opened in Surrey and in Campbell River. We had previously operated in both cities, but the facilities that we occupied were subject to the continuation of animal control contracts, which were lost to low bidders, and we had to vacate the properties; Surrey on April 30, 2012 and Campbell River on March 31, 2013.

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, which was approved by the Board of Directors on December 4, 2013, 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)

The Society currently operates 40 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.

Of the 40 facilities, the BC SPCA has title to the land and buildings of 19 facilities. In twelve facilities, the BC SPCA has title to the building, but no title to land. The remaining nine facilities are leased on various terms or are subject to the continuation of an animal control contract. Of these nine leasehold facilities, four are operated as adoption centres; one as a spay/neuter clinic; one as a call centre and three as an integral part of animal control contracts.

In addition, the Society holds title to two other properties in Nanaimo and Trail, which were purchased for the purpose of constructing community animal centres at some point in the future.

The Board of Directors approved a Facilities Development and Services Plan (FDSP), whereby ten of our facilities have been identified as requiring replacement or needing to be substantially renovated over the next 8-10 years at an estimated cost of \$50 million.

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The FDSP will be funded from designated contributions, including capital campaigns, and existing resources, but is subject to provincial government funding. In February 2015, the government of British Columbia awarded the Society a capital grant of \$5 million, the funds for which were received on March 31, 2015.

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 direct marketing 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 Scotiabank.

We also have a second line of credit of \$1 million to fund future capital expenditures on a short term basis. The second line of credit has not been accessed as recent capital expenditures were funded from deferred contributions or funds held for designated purposes and unrestricted investments.

Summary operating results

Operating results for the year ended December 31, 2014 together with comparative figures for the prior year, are shown below:

In \$000's	2014	2013 restated
Revenues, including capital gains	30,854	28,065
Program expenses	21,895	20,526
General expenses (administration, program support and revenue development)	6,765	5,623
Other expenses (interest and processing/bank charges)	360	342
Operating surplus before amortization	1,834	1,574
Amortization of property, buildings and equipment ("PB&E")	650	796
Net operating surplus	1,184	778

Revenues in 2014 totalled \$30,854k and were \$2,789k or 9.9% higher than the previous year. Donations and fundraising revenues increased by \$1,109k in 2014. We are dependent on the generosity of our donors, who continue to support our work each year. Legacy revenue increased by \$1,043k and investment income was up by \$351k.

Revenues in 2013 fell by \$343k and were 1.2% lower than in 2012. Legacy revenue was down by \$429k from the then record high set in 2012 of \$6,528k. Kenneling and by-law enforcement services were lower by \$357k and sheltering, medical and clinical services

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were down by \$254k due in part to the closure of the Surrey and the Campbell River shelters in 2012 and 2013 respectively. Offsetting these decreases were higher donations and fundraising of \$379k. Grants and investment income were also higher.

Program expenditures in 2014 amounted to \$21,895k which is \$1,369k or 6.7% higher than 2013. Additional resources were allocated to all programs through the budgetary process in 2014. The main increases were in sheltering, kennelling and by-law enforcement which grew by \$457k, and veterinary care and spay and neuter, which increased by \$286k. Cruelty investigation costs were higher by \$248k as a result of an increase in the numbers of seizures and care of large animals.

Program expenditures in 2013 amounted to \$20,526k and increased by \$686k or 3.5% over 2012 levels. The main areas of expenditure growth in 2013 were in cruelty investigations of \$564k. This increase was primarily due to the opening of the new call centre in Victoria and increased vehicle and equipment costs. In addition, there was increased activity and costs at our veterinary medical facilities. These increases were offset partially by lower sheltering and kenneling/by-law enforcement costs due to the closure of both the Surrey and Campbell River facilities.

General expenses, including administration and program support and revenue development expenditures, grew to \$6,765k in 2014 and were up by \$1,142k or 20.3% compared to an increase of \$395k or 7.6% during 2013. Revenue development costs grew by \$718k in 2014 and by \$116k in 2013 after having been relatively flat in the previous three years. In the fourth quarter of 2014, we invested in additional direct marketing activities in order to further increase revenues in future years. Administration and program support costs were \$424k higher in 2014 and \$279k higher in 2013. Administration and program support spending between 2007 and 2012 was constrained but have grown in recent years due to the allocation of additional resources to training, safety, information technology and the reclassification of certain volunteer development costs as administration and program support.

Other expenses, which consist of bank and credit card processing charges and interest expense on borrowings, were \$360k, compared to \$342k in 2013.

Amortization of PB&E in 2014, net of amortization of deferred capital contributions, was \$650k, compared to \$796k in 2013. Net amortization fell in 2014, due to some assets coming to the end of their useful lives and newer capital expenditures being funded by designated contributions.

For 2014, we have reported a surplus of \$1,184k compared to a surplus of \$778k in 2013 and \$2,181k in 2012.

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Revenues

A breakdown of revenues is shown in the following table:

Revenues in \$000's	2014	2013
Donations and fundraising	13,574	12,465
Legacy and life insurance	7,142	6,099
Kennelling and by-law enforcement services	1,806	1,794
Sheltering, medical and clinical services	5,645	5,408
Lottery and raffles	646	644
Other grants received	768	720
Investment income net of capital losses	1,273	935
	30,854	28,065

Revenues totalled \$30,854k and increased by \$2,789k or 9.9% surpassing the \$30 million mark for the first time. Revenues in 2013 were \$28,065k and were down by \$343k, or 1.2%, from the previous year. This was the only time in the past ten years that revenues have declined year over year.

Donations and Fundraising

Revenues from donations and fundraising events grew to \$13,574k in 2014 compared to \$12,465k in 2013, which is an increase of \$1,109k or 8.9% over 2013.

Donations and fundraising are our largest revenue source. We are, and will continue to be, dependent on the generosity of our donors.

The Society's direct mail program has changed its focus in the recent years, and is now intended to appeal to potential PAW Plan donors (monthly giving) rather than single gift donations. While direct mail revenues from single gifts have decreased, monthly giving has grown every year since inception. Direct marketing revenues totalled \$7,076k in 2014, compared to \$6,681k in 2013. Other provincial office marketing initiatives grew to \$1,738k from \$1,366k due to increases in major gifts, foundations, online giving and newer initiatives such as National Cupcake Day.

Branch fundraising revenues in 2014 grew by \$347k to \$2,143k from \$1,796k in 2013. We have added extra resources to this area during 2013 and 2014. General donations were slightly higher at \$1,728k compared to \$1,671k in 2013. Our provincial "Paws for a Cause" walks generated revenues of \$881k compared to \$945k in 2013.

Legacy and Life Insurance

The Society has an active 'Planned Giving' marketing program that encourages donors to remember the Society in their wills. However, growth of legacy revenues in any year

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can, in part, be attributed to large legacies that may or may not be repeated in the following years. 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 the legacy monies are to be applied to. Designated legacies are not necessarily directed to the priority initiatives specified in the strategic plan and can therefore place a strain on current funding requirements identified as our area of greatest need.

Legacy revenue in 2014 was \$7,142k, compared to \$6,099k in 2013. There has been a step change in legacy revenues in the past three years in both designated and unrestricted legacy receipts, which were very high in the three year period. Prior to 2012, legacy revenues have historically fluctuated between \$4.5 to \$5.4 million range, so the increase to over \$6-7 million was unexpected.

Kennelling and By-law Enforcement Revenues

Kennelling and by-law enforcement revenues in 2014 amounted to \$1,806k, compared to \$1,794k in 2013, which is an increase of \$12k. The main reason for the increase was cost of living and other changes to contract prices totalling \$53k offset, in part, by the closure of the Campbell River shelter at the end of March 2013. There was \$41k of by-law enforcement revenue in Campbell River in the first quarter of 2013.

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 and Clinical Services

Sheltering, medical and clinical 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 2014, these revenues increased by \$237k to \$5,645k, compared to \$5,408k in 2013, due mainly to an increase in recoveries of investigation costs, and increase in adoption and service fees.

Lottery and Raffles

In 2014, lottery and raffle revenue increased by \$2k to \$646k from \$644k in 2013. Lottery ticket sales in 2014 were \$575k compared to \$589k in 2013. 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 received in 2014 totalled \$768k, compared to \$720k in 2013. Other grants consist mainly of grants to cover employment costs of summer students from the Government of Canada, grants in aid from municipalities and grants from charitable foundations in support of branch or strategic initiatives, as well as spay/neuter grants from PetSmart Charities. The increase in grants in 2014 was mainly from foundations and from spay/neuter grants.

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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.

In 2014, investment income totalled \$1,287k and was \$351k or 37.5% higher than in 2013. The increase in investment income was due to a higher level of invested assets, which totaled \$23,190k at the end of 2014 and to improved returns on investments.

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 2014, capital losses were \$14k.

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).

As a result of the financial successes in 2012 and 2013, we allocated additional resources to all areas of the organization during the budget cycle for 2014 in order to grow and increase the effectiveness of our activities. We also allocated extra resources in the fourth quarter of 2014 to several areas, mainly veterinary care and spay neuter, revenue development activities and program support. Consequently, total operating costs grew by \$2,383k or 8.7% to \$29,670k in 2014.

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

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Expenses in \$000's	2014	2013 (restated)
Program Expenses		
Sheltering, kennelling and by-law enforcement	11,383	10,924
Veterinary care and spay and neuter	2,542	2,256
Cruelty investigations	2,972	2,724
Humane education	735	664
Advocacy	748	578
Hospital and clinics	2,668	2,611
Animal health and welfare	847	769
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	21,895	20,526
General Expenses		
Administration and program support	2,973	2,549
Revenue development	3,792	3,074
Other	360	342
Amortization	650	796
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	29,670	27,287

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 2014 increased by \$1,369k, or 6.7% compared to \$686k or 3.5% in 2013.

Sheltering, Kennelling and By-Law Enforcement

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 running our shelters include payroll, animal transport, utilities, communications and building and equipment maintenance.

Total sheltering, kennelling and by-law enforcement expenses amounted to \$11,383k compared to \$10,924k in 2013, which is an increase of \$459k. We opened education and adoption centres in Surrey and in Campbell River during 2014, replacing facilities which were tied to animal control contracts and were situated on city owned properties that had to be vacated when the contracts were lost to low bidders.

The largest cost at our shelters is payroll. Our starting wage is lower than we would like,

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and for several years we have increased the starting wage at our nonunionized shelters in order to reduce staff turnover. During 2014, we increased the starting wage by \$0.50 to \$13.00 per hour and are committed to increasing the starting wage in future years. 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 2014 totalled \$2,542k compared to \$2,256k in 2013, which is an increase of \$286k or 12.7%.

A key component of our strategy on preventing pet overpopulation is 100% spay and neuter, so that all dogs, cats and rabbits are altered prior to adoption, except for very young animals or when medical reasons take precedent. Within the figures shown above, expenditures on veterinary spay and neuter were \$1,504k in 2014 compared to \$1,306k in 2013. 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 is combined with hospital and clinic expenses relating to spay/neuter efforts, total spay and neuter expenses of the Society were \$2,152k in 2014, compared to \$1,946k in 2013.

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 2014, the Society's 28 full time and 6 part time Special Provincial Constables (SPCs) carried out 8,849 cruelty investigations, executed 160 warrants and submitted 53 charges to Crown Counsel, and removed 1,276 animals from dangerous or neglectful situations. SPCA constables also rescued more than 1,000 injured animals in other emergency situations.

Costs in this area also include the call centre which was opened in Victoria in 2013 to receive and route cruelty complaints received from around the province.

The costs of employing the SPCs, their equipment and vehicles, sheltering and pound expense of seized or surrendered animals, medical costs, legal costs in prosecuting individuals accused of animal cruelty and the cost of the call centre totalled \$2,972k in 2014, compared to \$2,724k in 2013. This \$248k increase in cruelty investigation costs in 2014 related to seizure of large animals, costs of new equipment (vehicles, armoured vests and uniforms) and inflation.

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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 6,600 youth, summer day camps for over 1,200 children, and 200+ humane education presentations to schools and community groups on all aspects of animal welfare.

Humane education costs in 2014 were \$735k compared to \$664k in 2013.

Advocacy

Community relations and external communications are integral components of the Society’s operations. In addition, a government relations program was established in 2013 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 2014, advocacy costs amounted to \$748k compared to \$578k in 2013, which is an increase of \$170k. Additional resources were added in 2014 to both government relations and in communications to handle social media initiatives.

Hospital and Clinics

The Society operates a veterinary hospital in Vancouver, which provides spay/neuter, general and emergency veterinary care for thousands of injured homeless animals. We also 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.

The cost of operating these three facilities totalled \$2,668k in 2014, compared to \$2,611k in 2013, but these costs also include the costs of the mission work of the Vancouver hospital, such as providing charitable services to pets of low-income residents.

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 works to protect the welfare of 100 million farm animals in BC.

Total expenditures on animal health and welfare in 2014 amounted to \$847k compared to \$769k in 2013, which is an increase of \$78k.

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

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operating plans, set policy and priorities, monitor performance and provide support services to the program departments 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 4,000 volunteers who work at our shelters and in a variety of fundraising, advocacy, education and governance roles.

Administration and program support costs in 2014 were \$2,973k, compared to \$2,549k (restated) in 2013, which is an increase of \$424k, or 16.6%. In 2013 the increase was \$285k or 12.6%. While these increases are significant, they followed several years of negligible change in these costs. The increased costs in 2013 and 2014 are mainly (1) increased training costs as new training programs for shelter and other staff were developed (2) implementation of safety programs for all areas of the society (3) additional resources added in the information technology area, and (4) volunteer development activities being rolled into Human Resources during 2012, effectively reclassifying them from advocacy or program costs to administration and program support costs.

We continue to target administration and program support expenses to be approximately 10% of revenues. Despite the increase in administration and program support costs in the past few years, the actual ratio of administration and program support costs to revenues in 2014 was 9.6% (2013 - 9.1% and 2012 – 8.0%), which is below national norms.

We will continue to be vigilant in monitoring administration and program support costs to ensure that they do not grow out of proportion to program and other expenses.

Revenue Development

Given the uncertain economic conditions between 2009 and 2013, we were cautious in allocating funds to revenue development activities and, as a result, revenue development costs were almost flat until 2012. We did, however, increase expenditures by a relatively small amount of \$116k, or 3.9%, in 2013 bringing revenue development costs to \$3,074k in order to continue to grow revenues. During the 2014 budget cycle, we increased the fundraising budget and, given the success we had seen in the first half of 2014, allocated extra funds to fundraising activities in the fourth quarter increasing revenue development costs to \$3,792k. Expressed as a percentage of revenues, revenue development costs in 2014 were 12.3%, compared to 11.0% in 2013, 10.4% in 2012 and 11.2% in 2011.

Expenditures on revenue development initiatives are sometimes critically scrutinized in charitable organizations. Without these initiatives, we would not be able to effectively manage and grow our donor base and achieve the revenue growth necessary to fund program expenses and sustain our operations. We are conscious of this scrutiny and continually monitor the effectiveness of donor development initiatives, looking for new and more economical methods to attract donor interest.

Other Expenses

Bank Charges and Interest

Donations and fundraising receipts are transacted mainly by debit or credit cards, with actual “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 has risen.

The net cost of bank charges for the processing of credit card donations and receipts and interest on our bank line of credit amounted to \$360k in 2014, compared to \$342k in 2013.

Amortization

The original or historical cost of our PB&E is amortized over the estimated useful economic life of the assets. In 2014, amortization expense decreased to \$973k, compared to \$1,103k in 2013 as some assets became fully amortized.

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.

With many of our assets fully amortized and at the end of their useful lives, the Society has implemented a Facilities Development and Services Plan, whereby ten facilities will be replaced or renovated in the next 8-10 years. See commentary on the FDSP on page 2.

As of December 31, 2014, we had a fleet of 84 vehicles of which 54 are leased and reported as operating leases, whereby the lease payments are directly expensed for accounting purposes.

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 2014 totalled \$323k, compared to \$307k in 2013. Facilities which were wholly or partly funded by designated contributions and on which deferred capital amortization is calculated include the following: the education and adoption centre and seizure barn 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 shelter (2010), leasehold improvements for the low cost spay/neuter clinic in Kamloops (2009), leasehold improvements for the Port Coquitlam education and adoption centre (2008), renovations of our Victoria shelter (2007) and the Penticton Community Animal Centre (2006).

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

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FINANCIAL POSITION

Our financial position has improved along with past reported surpluses and has strengthened greatly. Working capital, invested assets and the net assets position all grew during 2014.

(In \$000's)	2014	2013 (restated)
Cash and bank (net borrowings)	194	(441)
Working capital	7,601	5,969
Total invested assets	23,190	21,293
Net assets	15,525	14,114
Capital expenditures	1,223	1,304

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 so as to minimize borrowings and maximize the capital invested in financial markets. As at December 31, 2014, the Society had a net cash balance of \$194k compared to a net cash deficit of \$441k at the end of 2013.

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

We have seen a significant growth in invested assets, which have more than doubled in the past five years. As of December 31, 2014, total invested assets were \$23,190k, compared to \$21,293k at the end of 2013. The increase in invested assets during 2014 totaled \$1,897k and was due to new designated legacy receipts of \$6,525k and the surplus in the year. Funds are transferred from investments to the operating bank accounts at Scotiabank on a regular basis to support of ongoing operations or to fund capital expenditures.

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 \$14,379k at December 31, 2014 compared to \$13,716k at December 31, 2013. New designated contributions received totalled \$6,525k in 2014, compared to \$8,498k in 2013.

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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 \$8,811k at December 31, 2014 compared to \$7,577k at the end of 2013. Unrestricted investments have grown dramatically since 2011. This is due to the relatively large surpluses in 2012-14 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. Scotia Asset Management reports to the Society's Finance and Audit Committee twice a year.

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 2014.

As of December 31, 2014, total accounts receivable amounted to \$478k compared to \$584k at December 31, 2013.

Prepaid Expenses

Prepaid expenses consist of amounts paid in advance for service contracts, property taxes and insurance premiums, which totalled \$109k at December 31, 2014, compared to \$116k at December 31, 2013.

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, 2014 totalled \$297k compared to \$258k at the end of 2013.

Property, Buildings and Equipment (PB&E)

PB&E is reported in the Society's accounts at net book value, which is the historical cost of the assets less accumulated amortization. PB&E at December 31, 2014 amounted to \$12,868k compared to \$12,631k at the end of 2013.

During 2014, we operated 40 facilities province wide including 30 animal community centres, three education and adoption centres, a store front adoption facility, a wild animal rehabilitation centre on Vancouver Island, three medical facilities, a call centre in Victoria and the provincial office in Vancouver. While several of our facilities can be considered to be in good or excellent condition, the average age of our properties is 27 years and we have 10 facilities that range between 30 years and 57 years old. Several of these facilities need to be urgently replaced.

During 2013, the board of directors approved a Facility Development and Services Plan, which identifies several facilities that need to be replaced at an estimated cost of approximately \$50 million. The facilities development plan is subject to availability of funding, including government support. The Government of British Columbia awarded

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the Society a capital grant of \$5 million in February 2015, the funds being received on March 31, 2015.

During 2014, total capital expenditures were \$1,223k and consisted of renovations to our property in Surrey, initial planning and permit costs of our new facility in Nanaimo, the cost of leasehold improvements at our new education and adoption centre in Campbell River, improvements to our Kelowna property and sustenance capital expenditures at our shelters and in our information technology area. In addition, the City of Fort St John awarded a generous land grant to the Society, whereby the land on which the North Peace shelter is situated in Fort St John was granted to the Society.

During 2013, total capital expenditures were \$1,304k and included the final costs and holdbacks on new construction in Powell River and Kelowna during 2012, construction of avian and mammal pens at Wild ARC, which is our wild animal rehabilitation centre on Vancouver Island, renovations of our properties in Surrey and the Provincial Office in Vancouver and sustenance capital expenditures at our shelters.

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 with the result that land values are shown at very low historical costs, and several properties are recorded at nominal amounts. Consequently the fair market value of the Society's owned land is significantly higher than the book value of \$3,517k. 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, the total of the property tax assessment values of the land is approximately \$9 million greater than the historical cost.

Charitable Remainder Trusts and Life Insurance Policies

There have been no new living trusts added in recent years. However, one trust was realized in 2014 for \$6k reducing the book value of charitable remainder trusts to \$83k at December 31, 2014.

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, 2014 totalled \$619k, compared to \$574k at December 31, 2013. During 2014, tax receipts issued for life insurance premiums paid in 2014 were \$80k, but a few policies lapsed and the policies were written off. The face value of the insurance policies is \$1,943k at December 31, 2014.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of unpaid supplier invoices, accruals or provisions for costs to be billed subsequent to the end of the year and payroll accruals for

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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, 2014 were \$2,288k compared to \$2,125k at December 31, 2013.

Unpaid supplier invoices at December 31, 2014 totalled \$984k compared to \$939k at the end of 2013. The increase in amounts owing to suppliers was \$45k, which is a small increase given the size of our operations.

Deferred Contributions

Grants, donations or legacies are received for designated purposes, such as building funds, animal welfare funds including spay neuter initiatives, or funds restricted for individual branches and 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, 2014 amounted to \$13,586k compared to \$12,944 at December 31, 2013. New deferred contributions in 2014 totalled \$6,525k, compared to \$8,498k being received in 2013. Transfers to deferred capital contributions or to operations for expenditures made in accordance with the designations totalled \$5,917k in 2014 and \$6,030k in 2013.

Deferred contributions for Charitable Remainder Trusts and life insurance policies totalled \$702k at December 31, 2014 and increased by a total of \$39k due to tax receipts being issued for premiums paid on life insurance policies owned by the Society (\$80k) offset partly by policies lapsing (\$35k) and the realization of a living trust of \$6k.

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 fixed asset.

Deferred capital contributions at December 31, 2014 totalled \$5,875k compared to \$5,229k at the end of 2013.

During 2014, \$969k was transferred from deferred contributions to cover the costs of the capital expenditures funded by designated contributions, as compared to \$863k in 2014. Amortization of deferred capital contributions in 2014 of \$323k (2013 - \$307k) 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

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recorded in our accounts based on an actuarial valuation. During 2014 there were two changes that reduced the actuarial valuation by \$440k and the financial impact of the changes were posted directly to net assets and not through the statement of operations. The two adjustments were:

- A change in accounting policy and transition to section 3463 of the Chartered Professional Accountants Canada Handbook which realizes all actuarial gains and losses immediately. This reduced the post employment benefits payable by \$273k and, because this is a change in accounting policy, resulted in a restatement of prior years' figures.
- A re measurement of the defined liability as a result of an increased service requirement negotiated in the collective agreement from five to 20 years to be eligible for the post employment benefits, which reduced the post employment benefits payable by \$167k.

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. While investment returns on equities are generally expected to provide a greater return over an extended period of time, fluctuations in the stock market increase the relative volatility of these investments. The Society uses fair market value accounting to calculate investment income, or losses.

We received new endowments totalling \$60k (2013 - \$112k), bringing net assets invested for endowments at December 31, 2014 to \$1,495k from \$1,435k at December 31, 2013.

Invested in Operations

Our investment in Operations represents our net asset position with respect to assets that are not endowments. At December 31, 2014, the Society's net asset balance in the Operations fund was \$14,030k, compared to \$12,679k (restated) at December 31, 2013. The increase in net assets invested in the Operations fund during 2014 was due to the net operating surplus for the year of \$1,184k and a net actuarial gain of \$167k on post employment benefits resulting from a plan amendment that was posted directly to net assets.

Conclusion

Our financial diligence has not changed for many years. We 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.

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The past three years have been very successful in financial terms. We reported revenues of \$30,854k. Revenues passed the \$30 million mark for the first time and were \$2,789k higher than in 2013. Revenues in 2013 were \$28,065k and were down \$343k from 2012, which is the first time in ten years that revenue has fallen when compared to the prior year. In 2012 we reported very high revenues of \$28,408k because of unexpectedly high legacies.

The surplus in 2014 was \$1,184k, compared to 2013 of \$778k (after restatement) and \$2,181k in 2012. The main reason for the surpluses in past three years was unexpectedly high level of legacy receipts and a growth in investment income.

The financial achievements of recent years have had a significant impact on our balance sheet. Total assets at the end of 2014 were \$37,838k and were up \$2,172k from \$35,666k at the end of 2013. Our working capital and invested asset positions are healthy and we have no debt, other than the normal seasonal usage of the operating line of credit.

For 2015, our operating budget was balanced at \$30.2 million.

Our activities in 2015 and beyond will be guided by our strategic plan but we remain committed to achieving a balanced budget.

On Behalf of the BC SPCA:

Eric Stebner
Treasurer



John Andrew, CA
Chief Financial Officer



Vancouver, British Columbia
April 9, 2015