

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, 2015. 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, four 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

We work to a balanced operating budget each year in order 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 ten of the past eleven 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 an average of 5.0% each year. Between 2012 and 2015, we have reported larger surpluses due in part to increased legacies and investment income, (although investment income in 2015 was disappointing). 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 2015, we have reported a surplus of \$1,784k on revenues of \$32,940k and program expenditures increased by \$1,536k or 7.0% to \$23,431k. In 2014, we reported a surplus of \$1,184k on revenues of \$30,854k. Program expenditures increased by \$1,369k or 6.7% to \$21,895k.

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During 2015, there were several items which have a significant impact on our operations, operating results and balance sheet: (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) we purchased a veterinary hospital in Penticton on July 6, 2015 at a discounted price, (complementing our existing veterinary hospital in Vancouver and spay/neuter clinics in Kamloops and Prince George), and (4) we commenced operation of a social enterprise project (BC Pet Registry) in the second quarter. The BC Pet Registry offers a centralized, secure database for guardians to register their pets (with an emphasis on microchipping), thereby ensuring that lost/stray animals will return home in greater numbers than before.

During 2014, we opened education and adoption centres 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 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 ten of our facilities have been identified as requiring replacement or needing to be substantially renovated over a 10-year period at an estimated cost of \$50 million. The FDSP will be funded primarily from designated contributions, including capital campaigns, and existing resources and provincial government grants, \$5 million of which was received on March 31, 2015.

The Society currently operates 41 facilities across the province of British Columbia. The majority of our facilities are old, at an average age of 28 years, with many requiring urgent replacement, especially our shelter and veterinary hospital in Vancouver, which are nearly sixty years old.

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Of the 41 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 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.

In addition, the Society holds title to two other properties in Nanaimo and West Kootenays, which were purchased for the purpose of constructing community animal centres specified in the FDSP.

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 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, 2015 together with comparative figures for the prior year, are shown below:

In \$000's	2015	2014
Revenues, including capital gains	32,940	30,854
Program expenses	23,431	21,895
General expenses (administration, program support and revenue development)	6,809	6,765
Other expenses (interest and processing/bank charges)	357	360
Operating surplus before amortization	2,343	1,834
Amortization of property, buildings and equipment and intangible assets ("PB&E")	559	650
Net operating surplus	1,784	1,184

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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. Both unrestricted legacy revenues and designated legacy receipts have increased substantially since 2012. Revenues in 2015 also include two new operations (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 new operations accounted for \$600k in new revenue. Donations and fundraising revenues increased by \$383k to \$13,957k. These increases were offset partially by a \$878k reduction in investment income of, 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.

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. Legacy revenue increased by \$1,043k and investment income was up by \$351k.

Program expenditures in 2015 totalled \$23,431k and increased by \$1,536k or 7.0%. While a portion of the increase in program expenses is attributable to the inclusion of the two new operations, (the veterinary hospital in Penticton and the BC Pet Registry), additional resources were also allocated to all programs through the budgetary process for 2015. (While on a comparative basis animal health and welfare appears to have decreased in 2015, this was actually due to a reclassification of certain resources in this area to sheltering and kennelling at the beginning of the year.)

Program expenditures in 2014 amounted to \$21,895k which is \$1,369k or 6.7% higher than 2013. Similar to 2015, additional resources were allocated to the various programs through the budgetary process. The main increases were in sheltering and kennelling costs which grew by \$459k, 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 number of special constables, seizures and care of large animals.

General expenses, including administration and program support and revenue development expenditures, increased marginally to \$6,809k in 2015 from \$6,765k in 2014. Administration and program support costs fell by \$60k and revenue development costs increased by \$104k in 2015. This increase is minor when compared a large increase in general expenses in 2014 of \$1,142k or 20.3%, which was a direct result of additional resources being allocated to fundraising, 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 \$357k in 2015 compared to \$360k in 2014.

Amortization of PB&E in 2015, net of amortization of deferred capital contributions, was \$559k, compared to \$650k in 2014. Net amortization fell in 2015, due to some assets coming to the end of their useful lives and newer capital expenditures being funded by designated contributions.

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For 2015, we have reported a surplus of \$1,784k compared to a surplus of \$1,184k in 2014 and a surplus of \$784k in 2013.

Revenues

A breakdown of revenues is shown in the following table:

Revenues in \$000's	2015	2014
Donations and fundraising	13,957	13,574
Legacy and life insurance	8,706	7,142
Kennelling and by-law enforcement services	1,922	1,806
Sheltering, medical, clinical and social enterprise services	6,338	5,645
Lottery and raffles	729	646
Other grants received	859	768
Investment income and capital gains	429	1,273
	32,940	30,854

Revenues totalled \$32,940k and increased by \$2,086k or 6.8%. Revenues in 2014 were \$30,854k and grew by \$2,789k, or 9.9%, from the previous year.

Donations and Fundraising

Revenues from donations and fundraising events grew to \$13,957k in 2015 compared to \$13,574k in 2014, which is an increase of \$383k or 2.8% over 2014.

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

Provincial fundraising initiatives are continually monitored and reassessed in order to develop new revenue sources and to grow existing revenue streams. For example, we have seen a move to online giving, which increased by \$200k in 2015, and major donors and foundation giving which increased due in large part to several extraordinary gifts from existing donors. We have also added newer initiatives such as National Cupcake Day. That said, the mainstay of our fundraising initiatives is the Society's monthly giving program. Monthly giving has grown every year since inception and, in 2015, increased by \$135k. Offsetting these increases was a reduction in revenues generated by our provincial "Paws for a Cause" walks which fell by \$126k to \$755k.

At our branches, branch fundraising revenues in 2015 grew by \$100k to \$2,243k and general donations were up slightly, by \$20k to \$1,748k.

Legacy and Life Insurance

The Society has an active 'Planned Giving' marketing program that encourages donors to

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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 added additional resources to Planned Giving in each of the past two years and will continually assess how to grow this area.

Legacy revenue in 2015 was \$8,706k, compared to \$7,142k in 2014. There has been a step change in legacy revenues since 2012 in both designated and unrestricted legacy receipts, which were very high in the four-year period. Both unrestricted and designated legacy receipts jumped in 2015 and were approximately 70% higher than the previous year.

Kennelling and By-law Enforcement Revenues

Kennelling and by-law enforcement revenues in 2015 amounted to \$1,922k, compared to \$1,806k in 2014, which is an increase of \$116k. The main reason for the increase was the renegotiation of certain contracts upon renewal and cost of living adjustments. In 2014, kennelling and by-law enforcement revenue increased by \$12k.

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 2015, sheltering, medical, clinical and social enterprise service revenues were \$6,338k and increased by \$693k from \$5,645k in 2014, due mainly to the inclusion of new revenues from the veterinary hospital in Penticton and the BC Pet Registry. In 2014, these revenues increased by \$237k.

Lottery and Raffles

In 2015, lottery and raffle revenue increased by \$83k to \$729k from \$646k in 2014. The increase is due to higher lottery ticket sales, which totalled \$657k compared to \$575k in 2014. The remaining revenue in this category are raffles and 50/50 draws that are held as part of fundraising events.

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Other Grants Received

Other grants received in 2015 totalled \$859k compared to \$768k in 2014. 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.

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 2015, investment income totalled \$409k and was \$878k lower than investment income of \$1,287k in 2014. The reduction in investment income was due to volatile financial markets in the second half of 2015. The investment returns were disappointing, especially when you take into account that invested assets grew by almost 50% in 2015.

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 2015, capital gains were \$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).

As our finances have allowed, we have been able to allocate additional resources in order to grow and increase the effectiveness of our activities. Consequently, total operating costs grew by \$1,486k or 5.0% to \$31,156k in 2015, compared to \$2,383k or 8.7% in 2014.

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

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Expenses in \$000's	2015	2014
Program Expenses		
Sheltering, kennelling, by-law enforcement and social enterprise	12,413	11,383
Veterinary care and spay and neuter	2,622	2,542
Cruelty investigations	3,020	2,972
Humane education	792	735
Advocacy	819	748
Hospital and clinics	2,996	2,668
Animal health and welfare	769	847
	<hr/>	<hr/>
	23,431	21,895
General Expenses		
Administration and program support	2,913	2,973
Revenue development	3,896	3,792
Other	357	360
Amortization	559	650
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	31,156	29,670

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 2015 increased by \$1,536k, or 7.0% compared to \$1,369k or 6.7% in 2014.

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 \$12,413k in 2015 compared to \$11,383k in 2014, which is an increase of \$1,030k or 9.0%. In 2015, we commenced operation of a social enterprise project, the BC Pet Registry, the costs of which have been included in this area. In addition, certain resources were reclassified from Animal Health and Welfare to this category. In 2014, we opened education and adoption centres in Surrey and in Campbell River, replacing

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facilities which were tied to animal control contracts that were situated on city owned properties which 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, and for several years we have increased the starting wage at our nonunionized shelters in order to reduce staff turnover. During 2015, we increased the starting wage by \$0.50 to \$13.50 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 2015 totalled \$2,622k compared to \$2,542k in 2014, which is an increase of \$80k or 3.1%.

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 \$1,452k in 2015 compared to \$1,504k in 2014. These figures include the cost of grants given to rescue groups and other organizations throughout the province for low cost cat spay or neuter. Spay and neuter costs grew by 15.1% during 2014 as a result of designated grants received from PetSmart Charities, the majority of work being carried out in that year. In 2015, spay and neuter costs decreased by \$52k as the combination of new grants in 2015 and the unspent portion of the PetSmart Charities grants carried over from 2014 were lower than the prior year.

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 \$2,089k in 2015, compared to \$2,152k in 2014.

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 2015, the Society's 28 full time and 3 part time Special Provincial Constables (SPCs) carried out 10,205 cruelty investigations, executed 148 warrants and submitted 53 charges to Crown Counsel, and removed 1,110 animals from dangerous or neglectful 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.

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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 \$3,020k in 2015, compared to \$2,972k in 2014.

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 over 1,400 children, school holiday workshops for 450 children, and 400 humane education presentations to schools and community groups on all aspects of animal welfare.

During 2015, the number of summer of camps increased as did the number of attendees, requiring additional camp counselors, materials etc. Hence humane education costs in 2015 grew to \$792k compared to \$735k in 2014.

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 2015, advocacy costs amounted to \$819k compared to \$748k in 2014, which is an increase of \$71k. Our Strategic Plan stresses the importance of Advocacy and, consequently, additional resources were added to this area in each of the past two years.

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. On July 6, 2015 the Society purchased a veterinary hospital in Penticton at a discounted price.

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 2015, the cost of the four facilities, including Penticton for six months, was \$2,996k, compared to \$2,668k in 2014 for the remaining three 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 works to protect the welfare of 100 million farm animals in BC.

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Total expenditures on animal health and welfare in 2015 amounted to \$769k compared to \$847k in 2014, which is a decrease of \$78k. The reduction in costs in this area in 2015 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 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 2015 were \$2,913k, compared to \$2,973k in 2014, which is a decrease of \$60k. There were no specific initiatives in 2015 to reduce or cut administration expenses. The reduction represents a flattening of expenses after two years of relatively large increases and expansion of services. In 2014, administration and program support costs increased by \$424k or 16.6% and followed a 12.6% increase in 2013. The increases in administration and program support costs in 2013 and 2014 were significant following years of negligible change and were due mainly to (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. The actual ratio of administration and program support costs to revenues in 2015 was 8.8% (2014 was 9.6% and 2013 - 9.1%), 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

Revenue development expenses in 2015 totalled \$3,896k, compared to \$3,792k in 2014, which is an increase of \$104k or 2.7%.

Fundraising costs were held relatively flat between 2010 and 2013, but were budgeted to increase in 2014 and 2015 in order to increase donations, legacies and other fundraising initiatives. Expressed as a percentage of revenues, revenue development costs in 2015

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were 11.8%, compared to 12.3% in 2014 and 11.0% in 2013.

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 have risen in recent years.

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 \$357k in 2015, compared to \$360k in 2014. The small reduction in 2015 is due to a reduction in usage of the line of credit at Scotiabank.

Amortization

The original or historical cost of our PB&E is amortized over the estimated useful economic life of the assets. In 2015, amortization expense was \$977k, compared to \$973k in 2014.

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 over a ten-year period. See the commentary on the FDSP on page 2.

As of December 31, 2015, we had a fleet of 77 vehicles of which 36 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 2015 totalled \$418k, compared to \$323k in 2014. 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 facilities in Surrey and

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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 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.

FINANCIAL POSITION

Our financial position has improved along with the larger surpluses reported in recent years. In 2015, working capital, invested assets and the net assets position all grew substantially as a result of the receipt of a \$5 million capital grant from the Government of British Columbia, a substantial increase in legacy receipts and the reported surplus.

(In \$000's)	2015	2014
Cash and bank (net borrowings)	(46)	194
Working capital	9,474	7,601
Total invested assets	34,741	23,190
Net assets	17,303	15,525
Capital expenditures	2,730	1,223

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, 2015, the Society had a net cash deficit of \$46k compared to a net cash balance of \$194k at the end of 2014.

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 significantly during 2015. As of December 31, 2015, total invested assets were \$34,741k, compared to \$23,190k at the end of 2014. The increase in invested assets during 2015 totaled \$11,551k and was due to the receipt of a \$5 million capital

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grant from the Government of British Columbia, a substantial increase in legacy receipts 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 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 \$24,054k at December 31, 2015 compared to \$14,379k at December 31, 2014. New designated contributions received totalled \$16,840k in 2015, compared to \$6,525k in 2014.

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 \$10,687k at December 31, 2015 compared to \$8,811k at the end of 2014. Unrestricted investments have grown dramatically since 2011. This is due to the larger surpluses in 2012-15 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 2015.

As of December 31, 2015, total accounts receivable amounted to \$1,183k compared to \$478k at December 31, 2014. The increase is due primarily to legacies or donations that were in the postal system at year-end and were accrued, as per our accounting policies.

Prepaid Expenses

Prepaid expenses consist of amounts paid in advance for service contracts, property taxes and insurance premiums, which totalled \$162k at December 31, 2015, compared to \$109k at December 31, 2014.

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, 2015 totalled \$335k compared to \$297k at the end of 2014.

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

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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, 2015 amounted to \$14,554k compared to \$12,868k at the end of 2014.

During 2015, we operated 41 facilities province wide including the Penticton Veterinary Hospital that was purchased on July 6, 2015. These facilities consist of 30 animal community centres, three education and adoption centres, a store front adoption facility, a wild animal rehabilitation centre on Vancouver Island, four veterinary 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 28 years and we have 10 facilities that are over 30 years old, including the Vancouver hospital and shelter which are nearly 60 years old. Several of our facilities need to be urgently replaced, especially the Vancouver shelter and veterinary hospital.

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 \$50 million. The FDSP is subject to availability of funding, including government support. The Government of British Columbia gave the Society a capital grant of \$5 million on March 31, 2015 to partially fund the FDSP.

During 2015, capital expenditures totalled \$2,730k, their highest level since consolidated results were first produced in 2003. Capital expenditures in 2015 consist of the following: (a) \$1,304k on the construction of a new animal community centre in Nanaimo, (b) \$380k on the construction of a cat seizure facility in Surrey, (c) \$257k on a large animal seizure 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.

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.

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 \$3,450k. 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 \$12+ 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 there were no realizations during 2015, so the book value of Charitable Remainder Trusts at December 31, 2015 remains unchanged at \$83k.

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, 2015 totalled \$681k, compared to \$619k at December 31, 2014. During 2015, tax receipts issued for life insurance premiums paid in 2015 were \$62k. The face value of the insurance policies is \$2,043k at December 31, 2015.

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 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, 2015 were \$2,847k compared to \$2,288k at December 31, 2014.

Unpaid supplier invoices at December 31, 2015 totalled \$1,187k compared to \$984k at the end of 2014. The increase in amounts owing to suppliers was \$203k, and is due mainly to outstanding invoices for the construction of our new facility in Nanaimo.

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, 2015 amounted to \$23,298k compared to \$13,586k at December 31, 2014, which is an increase of \$9,712k. New deferred contributions in 2015 were substantial and totalled \$16,840k, compared to \$6,525k being received in 2014. New deferred contributions in 2015 included a capital grant of \$5 million from the Government of British Columbia to fund part of our FDSP. Transfers to deferred capital contributions or to operations for expenditures made in accordance with the designations totalled \$7,190k in 2015 and \$5,917k in 2014.

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Deferred contributions for Charitable Remainder Trusts and life insurance policies totalled \$764k at December 31, 2015 and increased by a total of \$62k due to tax receipts being issued for premiums paid on life insurance policies owned by the Society. There were no changes in Charitable Remainder Trusts during 2015.

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, 2015 totalled \$7,636k compared to \$5,875k at the end of 2014.

During 2015, \$2,179k was transferred from deferred contributions to cover the costs of the capital expenditures funded by designated contributions, as compared to \$969k in 2014. Amortization of deferred capital contributions in 2015 of \$418k (2014 - \$323k) 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 2015 and post employment benefits payable at December 31, 2015 were valued at \$578k, compared to \$564k at the end of 2014. However, 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 as follows:

- 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.

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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. 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 \$25k (2014 - \$60k), bringing net assets invested for endowments at December 31, 2015 to \$1,520k from \$1,495k at December 31, 2014.

Invested in Operations

Our investment in Operations represents our net asset position with respect to assets that are not endowments. At December 31, 2015, the Society's net asset balance in the Operations fund was \$15,783k, compared to \$14,030k at December 31, 2014. The increase in net assets invested in the Operations fund during 2015 was due to the net operating surplus for the year of \$1,784k offset by \$31k of actuarial losses on future employee benefits.

Conclusion

Our focus 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.

Financially, the last few years have been very successful. Revenues grew by \$2,086k to \$32,940k in 2015 from \$30,854k in 2014. Revenues in 2013 were \$28,065k, so we have grown by \$4,875k or 17% in the past two years. The surplus in 2015 was \$1,784k, compared to 2014 of \$1,184k and \$778k in 2013. The main reason for the surpluses in past three years was unexpected but growing legacy receipts and a growth in investment income, (albeit investment income faltered in 2015 due to volatile financial markets).

The financial achievements of recent years have had a significant impact on our balance sheet. Total assets at the end of 2015 were \$51,913k and grew by 37% from \$37,838k at the end of 2014. Our balance sheet is robust. Invested assets grew by close to 50%, our working capital position is healthy and we have no debt, other than the normal seasonal usage of the operating line of credit.

Capital expenditures during 2015 were the highest ever recorded at \$2,730k, but are small relative to the budgeted capital expenditures of \$6 and \$7 million in 2016 and 2017 respectively.

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For 2016, our operating budget was balanced at \$32.9 million. Our activities in 2016 and beyond will continue to be guided by our strategic plan.

On Behalf of the BC SPCA:

Eric Stebner
Treasurer

John Andrew, CA
Chief Financial Officer

Vancouver, British Columbia
May 2, 2016