

Financial Statements of

**ONTARIO SOCIETY FOR THE
PREVENTION OF CRUELTY
TO ANIMALS**

Year ended December 31, 2011



KPMG LLP
Chartered Accountants
Yonge Corporate Centre
4100 Yonge Street Suite 200
Toronto ON M2P 2H3
Canada

Telephone (416) 228-7000
Fax (416) 228-7123
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Members of Ontario Society for the Prevention
of Cruelty to Animals

We have audited the accompanying financial statements of Ontario Society for the Prevention of Cruelty to Animals, which comprise the statement of financial position as at December 31, 2011, the statements of operations and changes in fund balances and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.



Page 2

Basis for Qualified Opinion

In common with many charitable organizations, Ontario Society for the Prevention of Cruelty to Animals derives revenue from donations and fundraising, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of Ontario Society for the Prevention of Cruelty to Animals. Therefore, we were not able to determine whether, as at and for the years ended December 31, 2011 and December 31, 2010, any adjustments might be necessary to donations and fundraising, excess (deficiency) of revenue over expenses and distributions, total assets and fund balances. This caused us to qualify our audit opinion on the financial statements as at and for the year ended December 31, 2010.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Ontario Society for the Prevention of Cruelty to Animals as at December 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

April 5, 2012
Toronto, Canada

ONTARIO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Statement of Financial Position

December 31, 2011, with comparative figures for 2010

	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,888,316	\$ 6,787,570
Accounts receivable	595,358	649,338
Inventory	68,142	32,271
Prepaid expenses	50,347	17,062
	<u>6,602,163</u>	<u>7,486,241</u>
Long-term investments (note 2)	6,415,834	5,439,178
Capital assets (note 3)	13,467,328	12,099,493
	<u>\$ 26,485,325</u>	<u>\$ 25,024,912</u>

Liabilities and Fund Balances

Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,662,747	\$ 1,697,002
Bank loan (note 4)	566,858	731,033
Deferred revenue	17,525	19,106
	<u>2,247,130</u>	<u>2,447,141</u>
Fund balances (note 5):		
Provincial	24,238,195	22,577,771
Regional	-	-
	<u>24,238,195</u>	<u>22,577,771</u>
Commitments (note 6)		
Guarantees (note 9)		
	<u>\$ 26,485,325</u>	<u>\$ 25,024,912</u>

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

ONTARIO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Statement of Operations and Changes in Fund Balances

Year ended December 31, 2011, with comparative figures for 2010

			2011	2010
	Provincial Fund	Regional Fund	Total	Total
Revenue:				
Donations and fundraising	\$ 3,965,892	\$ 2,263,610	\$ 6,229,502	\$ 6,454,954
Provincial grants	616,970	12,204	629,174	525,694
Provincial grant - capital	–	796,165	796,165	397,216
Shelter and veterinary	982,614	1,496,232	2,478,846	2,035,148
Municipal contract fees	–	2,413,560	2,413,560	2,720,751
Other	172,495	250,972	423,467	433,351
Interest and investment income gain (note 2)	74,288	–	74,288	456,443
	5,812,259	7,232,743	13,045,002	13,023,557
Expenses:				
Animal care and protection	2,395,251	7,980,831	10,376,082	13,758,320
Fundraising	1,248,452	167,905	1,416,357	1,621,778
General	2,734,498	–	2,734,498	2,507,472
Communication and education services	547,481	62,255	609,736	482,927
Amortization	294,316	253,812	548,128	541,946
Interest and bank charges	197,111	9,924	207,035	191,451
	7,417,109	8,474,727	15,891,836	19,103,894
Distributions:				
Grants to Ontario Society for the Prevention of Cruelty to Animals affiliates	95,046	–	95,046	1,174,040
Deficiency of revenue over expenses and distributions before legacies	(1,699,896)	(1,241,984)	(2,941,880)	(7,254,377)
Legacies	3,522,328	1,079,976	4,602,304	3,667,108
Excess (deficiency) of revenue over expenses and distributions	1,822,432	(162,008)	1,660,424	(3,587,269)
Fund balances, beginning of year	22,577,771	–	22,577,771	26,040,112
Transfer out of the Brant branch capital assets	–	–	–	(125,072)
Donation of land	–	–	–	250,000
Transfer between funds (note 5)	(162,008)	162,008	–	–
Fund balances, end of year	\$ 24,238,195	\$ –	\$ 24,238,195	\$ 22,577,771

See accompanying notes to financial statements.

ONTARIO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Statement of Cash Flows

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses and distributions	\$ 1,660,424	\$ (3,587,269)
Items not involving cash:		
Amortization	548,128	541,946
Net realized gain on sale of long-term investments	(68,753)	(145,190)
Unrealized loss (gain) on investments	256,856	(85,441)
Gain on sale of capital assets	(4,612)	(7,325)
Change in non-cash operating working capital:		
Accounts receivable	53,980	(128,946)
Inventory	(35,871)	(3,937)
Prepaid expenses	(33,285)	67,045
Accounts payable and accrued liabilities	(34,255)	(398,273)
Deferred revenue	(1,581)	17,106
	2,341,031	(3,730,284)
Financing activities:		
Decrease in bank loan	(164,175)	(157,212)
Investing activities:		
Change in long-term investments	(1,164,759)	(133,899)
Additions to capital assets	(2,005,888)	(953,377)
Proceeds from sale of capital assets	94,537	23,360
	(3,076,110)	(1,063,916)
Decrease in cash and cash equivalents	(899,254)	(4,951,412)
Cash and cash equivalents, beginning of year	6,787,570	11,738,982
Cash and cash equivalents, end of year	\$ 5,888,316	\$ 6,787,570
Subsequent cash flow information:		
Transfer out of the Brant branch capital assets	\$ -	\$ (125,072)
Donation of land	-	250,000

See accompanying notes to financial statements.

ONTARIO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements

Year ended December 31, 2011

Ontario Society for the Prevention of Cruelty to Animals ("Ontario SPCA") was founded in 1873 and was incorporated under special legislation in 1919 within the OSPCA Act and as later amended.

The purpose of Ontario SPCA is to promote the prevention of cruelty to animals, based upon the principle that no one has the right to cause unnecessary pain or suffering to any animal, and to work within the law and in cooperation with the government and public, in order to improve conditions for animals, while maintaining a balanced sensitivity towards both animal and human needs.

Ontario SPCA is registered as a charitable organization under the Income Tax Act (Canada) (the "Act"). As such, Ontario SPCA is exempt from income taxes and is able to issue donation receipts for income tax purposes. In order to maintain its status as a registered charity under the Act, Ontario SPCA must meet certain requirements within the Act. In the opinion of management, these requirements have been met.

1. Significant accounting policies:

These financial statements include the accounts of the provincial office of Ontario SPCA and its regional branches. The financial statements do not include the accounts of affiliated societies (note 7).

The financial statements have been prepared in accordance with generally accepted accounting principles applied within the framework of the significant Canadian accounting policies summarized below:

(a) Fund accounting:

Ontario SPCA follows the restricted fund method of accounting for contributions.

(i) Provincial Fund:

The Provincial Fund accounts for provincial animal protection services, provincial wildlife services, the provincial animal centre, the provincial veterinary clinic(s), as well as provincial communication services (humane education, publication, etc.), provincial fundraising, administration and finance.

ONTARIO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(ii) Regional Fund:

The Regional Fund accounts for Ontario SPCA branch fundraising activities (including thrift shops), regional animal protection services, regional humane education initiatives and regional animal facilities.

(b) Revenue recognition:

Ontario SPCA recognizes revenue from fundraising efforts, donations, legacies and from shelter and veterinary operations when funds are received.

Cash legacies are recorded when received. Legacies received in the form of marketable securities are recorded at their fair market value at the time of receipt. Residual legacies are not recorded until the life tenancies expire.

Revenue from various municipal contracts is recorded as amounts are earned through the provision of service.

Endowment contributions are recognized as revenue of the applicable fund in the year in which they are received.

Grants received for specific purposes, for which there is no restricted fund established, are recognized when the grant specifications have been met.

Interest and investment income gain (loss) includes interest income, realized gains (losses) and the net change in unrealized gains (losses) for the year.

(c) Cash and cash equivalents:

Ontario SPCA considers deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less as cash and cash equivalents.

ONTARIO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(d) Financial instruments:

Cash and cash equivalents and investments are classified as held-for-trading and stated at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and the bank loan are classified as other financial liabilities, which are measured at amortized cost.

In determining fair values for investments, adjustments have not been made for transaction costs as they are not considered significant. The unrealized gain or loss on investments, being the difference between book value and fair value, is included in interest and investment income gain in the statement of operations and changes in fund balances.

Fair values of investments are determined as follows:

- (i) Pooled fund investments represent Ontario SPCA's proportionate share of the underlying net assets of the Toronto Community Foundation Fund, at fair values determined using closing market prices.
- (ii) Guaranteed investment certificates maturing within a year are stated at cost, which together with accrued interest income, approximate fair value given the short-term nature of these investments.

The fair values of investments are equal to the quoted market value, as disclosed in note 2. The fair values of other financial assets and liabilities, being cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities and bank loan, approximate their carrying values due to the relatively short-term nature of these financial instruments.

ONTARIO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

Ontario SPCA has adopted The Canadian Institute of Chartered Accountants' Handbook Section 3861, Financial Instruments - Disclosure and Presentation. In accordance with the Accounting Standards Board's decision to exempt not-for-profit organizations from the disclosure requirements with respect to financial instruments contained within Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation, Ontario SPCA has elected not to adopt these standards in its financial statements.

(e) Capital assets:

Purchased capital assets are stated at acquisition cost and are amortized over their useful lives. Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Buildings	Declining balance	2%
Furniture and equipment	Declining balance	20%
Automotive equipment	Declining balance	30%
Computers	Straight line	33%
Leasehold improvements	Straight line	Over term of lease

Capital purchases under \$1,000 are expensed when incurred.

(f) Donations in kind:

Donated materials, services and capital assets are recorded at fair value in the period received when a fair value can be reasonably estimated and when the materials, services and capital assets would be paid for if not donated. A substantial number of volunteers have made significant contributions of their time to Ontario SPCA. Since these services are not normally purchased by Ontario SPCA and because of the difficulty of determining their fair value, donated services for volunteer activities are not recognized in the financial statements.

ONTARIO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(g) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

2. Long-term investments:

	2011		2010	
	Book value	Fair value	Book value	Fair value
Guaranteed investment certificate ("GIC")	\$ 1,544,378	\$ 1,544,378	\$ 1,474,996	\$ 1,474,996
Pooled fund investments with The Toronto Community Foundation	5,203,693	4,871,456	4,039,563	3,964,182
	<u>\$ 6,748,071</u>	<u>\$ 6,415,834</u>	<u>\$ 5,514,559</u>	<u>\$ 5,439,178</u>

The GIC produces a yield to maturity of 4.7% (2010 - 4.7%) and matures on June 11, 2013.

Included in interest and investment income gain are net realized gains of \$68,753 (2010 - \$145,190) and net unrealized losses of (\$256,856) (2010 - gains of \$85,441).

ONTARIO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements (continued)

Year ended December 31, 2011

3. Capital assets:

			2011	2010
	Cost	Accumulated amortization	Net book value	Net book value
Land and improvements	\$ 1,672,669	\$ –	\$ 1,672,669	\$ 1,682,736
Buildings	12,927,503	2,132,884	10,794,619	9,515,932
Furniture and equipment	1,802,937	1,326,114	476,823	425,229
Automotive equipment	754,230	395,771	358,459	316,343
Computers	545,706	391,851	153,855	124,997
Leasehold improvements	148,257	137,354	10,903	34,256
	\$ 17,851,302	\$ 4,383,974	\$ 13,467,328	\$ 12,099,493

4. Bank loan:

The loan bears interest at 4.4%, is due on demand and is secured by a GIC. Annual repayments, including principal and interest, amount to \$193,068.

5. Fund balances:

Fund balances comprise the following:

					2011	2010
	Invested in capital assets	Externally restricted	Endowment	Unrestricted	Total	Total
Provincial	\$ 6,962,089	\$ –	\$ 6,619	\$ 17,269,487	\$ 24,238,195	\$ 22,577,771
Regional	5,938,381	155,248	55,156	(6,148,785)	–	–
	\$ 12,900,470	\$ 155,248	\$ 61,775	\$ 11,120,702	\$ 24,238,195	\$ 22,577,771

These endowment funds are included as part of the long-term investment balance.

On an annual basis, any deficiency in the Regional Fund will be funded from the Provincial Fund.

ONTARIO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements (continued)

Year ended December 31, 2011

6. Commitments:

Ontario SPCA has lease commitments for buildings, office equipment and vehicles which expire at various dates. Future minimum lease commitments are as follows:

2012	\$ 141,000
2013	49,000
2014	29,000
2015	9,000
	<hr/>
	\$ 228,000

Ontario SPCA has letters of credit outstanding in the amount of \$24,025 (2010 - \$24,025) relating to hydro services provided to the provincial office.

7. Related organizations:

Class A members, which are local societies in various communities across Ontario, are affiliated with Ontario SPCA. Each affiliate operates autonomously and is independently incorporated. Representatives from some affiliates are members of Ontario SPCA provincial Board of Directors.

During the year, \$95,406 (2010 - \$1,174,040) in grants/disbursements of designated gifts to Ontario SPCA affiliates were recorded and paid in these financial statements. Ontario SPCA also paid \$27,680 (2010 - \$15,305) in legal fees on behalf of the affiliates.

Ontario SPCA provides safety equipment and investigations training to their affiliates free of charge. As such, no amounts are recorded in the financial statements for providing these services.

8. Other information:

The Regional Fund's revenue and expenses include animal food and supplies, as well as fundraising supplies/materials, computer equipment and miscellaneous furniture and supplies, which are donated and have a fair market value of \$80,236 (2010 - \$87,296).

ONTARIO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements (continued)

Year ended December 31, 2011

9. Guarantees:

In the normal course of business, Ontario SPCA enters into agreements that meet the definition of guarantee.

- (a) Ontario SPCA has provided indemnities under lease agreements for the use of various operating facilities. Under the terms of these agreements, Ontario SPCA agrees to indemnify the counterparties for various items, including, but not limited to, all liabilities, loss, suits and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.
- (b) Ontario SPCA indemnifies all directors for various items, including, but not limited to, all costs to settle suits or actions due to services provided to Ontario SPCA, subject to certain restrictions. Ontario SPCA has purchased liability insurance to mitigate the cost of any potential future suits or actions. The amount of any potential future payment cannot be reasonably estimated.

The nature of these indemnification agreements prevents Ontario SPCA from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, Ontario SPCA has not made any significant payments under such or similar indemnification agreements and, therefore, no amount has been accrued with respect to these agreements.

10. Management of capital:

Ontario SPCA defines its capital as the amounts included in its fund balances. Ontario SPCA's objective when managing its capital is to safeguard Ontario SPCA's ability to continue as a going concern so that it can continue to provide the appropriate level of benefits and services to the public.

A portion of Ontario SPCA's capital is restricted in that Ontario SPCA is required to meet certain requirements in order to utilize its externally restricted funds, as described in note 5. Ontario SPCA has internal control processes to ensure that the restrictions are met prior to the utilization of these resources and has been in compliance with these restrictions throughout the year.

ONTARIO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements (continued)

Year ended December 31, 2011

11. Financial instruments:

(a) Investment risk management:

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to interest rate and market risk.

Ontario SPCA mitigates these risks with an investment policy designed to limit exposure and concentration while achieving optimal return within reasonable risk tolerances.

(b) Credit risk:

Accounts receivable are subject to credit risk. Cash and cash equivalents are held in creditworthy financial institutions.

(c) Market and interest rate risk:

The risks associated with the investments are the risks associated with the securities in which the funds are invested. The value of securities will vary with developments within the specific companies or governments which issue the securities. The value of fixed income securities will generally rise if interest rates fall and fall if interest rates rise. The value of securities denominated in a currency other than the Canadian dollar will be affected by changes in the value of the Canadian dollar in relation to the value of the currency in which the security is denominated.

12. Comparative figures:

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