

Financial Statements of

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

Years ended December 31, 2012 and 2011



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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 statements of financial position as at December 31, 2012, December 31, 2011 and January 1, 2011, the statements of operations and changes in fund balances and cash flows for the years ended December 31, 2012 and December 31, 2011, 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 accounting standards for not-for-profit organizations, 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 audits. We conducted our audits 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 in our audits is sufficient and appropriate to provide a basis for our qualified audit opinion.



Page 2

Basis for Qualified Opinion

In common with many not-for-profit 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 December 31, 2012, December 31, 2011, and January 1, 2011, and for the years ended December 31, 2012 and December 31, 2011, any adjustments might be necessary to donations and fundraising and excess (deficiency) of revenue over expenses and distributions reported in the statements of operations, excess (deficiency) of revenue over expenses and distributions reported in the statements of cash flows and current assets and fund balances reported in the statements of financial position.

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, 2012, December 31, 2011 and January 1, 2011, and its results of operations and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

April 13, 2013
Toronto, Canada

ONTARIO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Statements of Financial Position

December 31, 2012, December 31, 2011 and January 1, 2011

	December 31, 2012	December 31, 2011	January 1, 2011
Assets			
Current assets:			
Cash and cash equivalents	\$ 6,914,097	\$ 5,888,316	\$ 6,787,570
Accounts receivable (note 2)	1,164,297	595,358	649,338
Inventory	102,526	68,142	32,271
Prepaid expenses	43,763	50,347	17,062
	<u>8,224,683</u>	<u>6,602,163</u>	<u>7,486,241</u>
Investments (note 3)	3,728,368	6,415,834	5,439,178
Capital assets (note 4)	13,081,045	13,467,328	12,099,493
	<u>\$ 25,034,096</u>	<u>\$ 26,485,325</u>	<u>\$ 25,024,912</u>
Liabilities and Fund Balances			
Current liabilities:			
Accounts payable and accrued liabilities (note 5)	\$ 1,628,024	\$ 1,662,747	\$ 1,697,002
Bank loan (note 6)	-	566,858	731,033
Deferred revenue	28,184	17,525	19,106
	<u>1,656,208</u>	<u>2,247,130</u>	<u>2,447,141</u>
Fund balances (note 7):			
Provincial	23,377,888	24,238,195	22,577,771
Commitments (note 8)			
Guarantees (note 11)			
Contingencies (note 12)			
	<u>\$ 25,034,096</u>	<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

Statements of Operations and Changes in Fund Balances

Years ended December 31, 2012 and 2011

2012	Provincial Fund	Regional Fund	Total
Revenue:			
Donations and fundraising	\$ 4,037,551	\$ 2,049,781	\$ 6,087,332
Provincial grants	603,000	26,061	629,061
Shelter and veterinary	1,006,812	1,432,769	2,439,581
Municipal contract fees	–	2,418,748	2,418,748
Other	119,970	346,953	466,923
Investment (note 3)	589,579	–	589,579
	6,356,912	6,274,312	12,631,224
Expenses:			
Animal care and protection	2,682,996	8,527,798	11,210,794
Fundraising	1,758,897	138,811	1,897,708
General	2,491,461	–	2,491,461
Communication and education services	633,625	36,001	669,626
Amortization	294,228	271,137	565,365
Interest and bank charges	179,747	8,517	188,264
	8,040,954	8,982,264	17,023,218
Distributions:			
Grants to Ontario Society for the Prevention of Cruelty to Animals affiliates and Humane Societies in other provinces (note 9)	68,005	–	68,005
Deficiency of revenue over expenses and distributions before legacies	(1,752,047)	(2,707,952)	(4,459,999)
Legacies	3,037,004	834,249	3,871,253
Excess (deficiency) of revenue over expenses and distributions	1,284,957	(1,873,703)	(588,746)
Fund balances, beginning of year	24,238,195	–	24,238,195
Transfer out of the branch capital assets	–	(271,561)	(271,561)
Transfer between funds (note 7)	(2,145,264)	2,145,264	–
Fund balances, end of year	\$ 23,377,888	\$ –	\$ 23,377,888

ONTARIO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Statements of Operations and Changes in Fund Balances (continued)

Years ended December 31, 2012 and 2011

2011	Provincial Fund	Regional Fund	Total
Revenue:			
Donations and fundraising	\$ 3,965,892	\$ 2,263,610	\$ 6,229,502
Provincial grants	616,970	12,204	629,174
Provincial grant - capital	–	796,165	796,165
Shelter and veterinary	982,614	1,496,232	2,478,846
Municipal contract fees	–	2,413,560	2,413,560
Other	172,495	250,972	423,467
Investment (note 3)	74,288	–	74,288
	5,812,259	7,232,743	13,045,002
Expenses:			
Animal care and protection	2,395,251	7,980,831	10,376,082
Fundraising	1,248,452	167,905	1,416,357
General	2,734,498	–	2,734,498
Communication and education services	547,481	62,255	609,736
Amortization	294,316	253,812	548,128
Interest and bank charges	197,111	9,924	207,035
	7,417,109	8,474,727	15,891,836
Distributions:			
Grants to Ontario Society for the Prevention of Cruelty to Animals affiliates and Humane Societies in other provinces (note 9)	95,046	–	95,046
Deficiency of revenue over expenses and distributions before legacies			
	(1,699,896)	(1,241,984)	(2,941,880)
Legacies			
	3,522,328	1,079,976	4,602,304
Excess (deficiency) of revenue over expenses and distributions			
	1,822,432	(162,008)	1,660,424
Fund balances, beginning of year			
	22,577,771	–	22,577,771
Transfer between funds (note 7)			
	(162,008)	162,008	–
Fund balances, end of year	\$ 24,238,195	\$ –	\$ 24,238,195

See accompanying notes to financial statements.

ONTARIO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Statements of Cash Flows

Years ended December 31, 2012 and 2011

	2012	2011
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses and distributions	\$ (588,746)	\$ 1,660,424
Items not involving cash:		
Amortization	565,365	548,128
Net realized gain on sale of investments	(221,166)	(68,753)
Unrealized loss (gain) on investments	(110,396)	256,856
Gain on sale of capital assets	(186)	(4,612)
Change in non-cash operating working capital:		
Accounts receivable	(568,939)	53,980
Inventory	(34,384)	(35,871)
Prepaid expenses	6,584	(33,285)
Accounts payable and accrued liabilities	(34,723)	(34,255)
Deferred revenue	10,659	(1,581)
	(975,932)	2,341,031
Financing activities:		
Decrease in bank loan	(566,858)	(164,175)
Investing activities:		
Change in investments	3,019,028	(1,164,759)
Additions to capital assets	(451,757)	(2,005,888)
Proceeds from sale of capital assets	1,300	94,537
	2,568,571	(3,076,110)
Increase (decrease) in cash and cash equivalents	1,025,781	(899,254)
Cash and cash equivalents, beginning of year	5,888,316	6,787,570
Cash and cash equivalents, end of year	\$ 6,914,097	\$ 5,888,316
Supplemental cash flow information:		
Transfer out of the branch capital assets	\$ (271,561)	\$ —

See accompanying notes to financial statements.

ONTARIO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements

Years ended December 31, 2012 and 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.

On January 1, 2012, Ontario SPCA adopted Canadian Accounting Standards for Not-For-Profit Organizations ("ASNPO") in Part III of The Canadian Institute of Chartered Accountants' ("CICA") Handbook. These are the first financial statements prepared in accordance with ASNPO.

In accordance with the transitional provisions in ASNPO, Ontario SPCA has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. All comparative information provided has been presented by applying ASNPO.

There were no adjustments to fund balances as at January 1, 2011 or excess of revenue (deficiency) over expenses and distributions for the year ended December 31, 2011 as a result of the transition to ASNPO.

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 9).

ONTARIO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements (continued)

Years ended December 31, 2012 and 2011

1. Significant accounting policies (continued):

The financial statements have been prepared by management in accordance with ASNPO in Part III of the CICA Handbook:

(a) Fund accounting:

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

(i) Provincial Fund:

The Provincial Fund accounts for provincial animal care and protection services, the provincial spay/neuter veterinary clinic(s), as well as provincial communication services (humane education, publication, etc.), provincial fundraising, human resources, finance and information technology.

(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.

ONTARIO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements (continued)

Years ended December 31, 2012 and 2011

1. Significant accounting policies (continued):

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.

Investment revenue 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.

(d) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. Ontario SPCA has elected to carry its pooled fund investments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

ONTARIO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements (continued)

Years ended December 31, 2012 and 2011

1. Significant accounting policies (continued):

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, Ontario SPCA determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount Ontario SPCA expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

The unrealized gain or loss on investments, being the difference between book value and carrying value, is included in investment revenue in the statements 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 ("GICs") maturing within a year are stated at amortized cost, which together with accrued interest income, approximate fair value given the short-term nature of these investments.

The fair values of other financial assets and liabilities, being cash and cash equivalents, accounts receivable, 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)

Years ended December 31, 2012 and 2011

1. Significant accounting policies (continued):

(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.

(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 dates of the financial statements and the reported amounts of revenue and expenses during the years. Significant items subject to such estimates and assumptions include allowance for doubtful accounts, the carrying amount of capital assets, accounts payable and accrued liabilities, and disclosure of contingencies. Actual results could differ from those estimates.

ONTARIO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements (continued)

Years ended December 31, 2012 and 2011

2. Accounts receivable:

	December 31, 2012	December 31, 2011	January 1, 2011
Accounts receivable	\$ 296,599	\$ 278,883	\$ 439,826
Harmonized sales tax	175,621	166,232	216,007
Other	729,936	166,309	–
	1,202,156	611,424	655,833
Less allowance for doubtful accounts	37,859	16,066	6,495
	\$ 1,164,297	\$ 595,358	\$ 649,338

3. Investments:

	December 31, 2012	December 31, 2011	January 1, 2011
GIC, measured at amortized cost	\$ 1,623,850	\$ 1,544,378	\$ 1,474,996
Pooled fund investments with the Toronto Community Foundation, measured at fair value	2,104,518	4,871,456	3,964,182
	\$ 3,728,368	\$ 6,415,834	\$ 5,439,178

The GIC produces a yield to maturity of 4.7% (December 31, 2011 - 4.7%; January 1, 2011 - 4.7%) and matures on June 11, 2013.

Included in investment revenue are net realized gains of \$221,166 (December 31, 2011 - \$68,753; January 1, 2011 - \$145,190) and net unrealized gains of \$110,396 (December 31, 2011 - losses of \$256,856; January 1, 2011 - gains of \$85,441).

ONTARIO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements (continued)

Years ended December 31, 2012 and 2011

4. Capital assets:

December 31, 2012	Cost	Accumulated amortization	Net book value
Land and improvements	\$ 1,641,566	\$ –	\$ 1,641,566
Buildings	12,673,625	2,268,517	10,405,108
Furniture and equipment	1,854,171	1,403,593	450,578
Automotive equipment	962,401	521,217	441,184
Computers	626,217	483,608	142,609
Leasehold improvements	144,689	144,689	–
	\$ 17,902,669	\$ 4,821,624	\$ 13,081,045

December 31, 2011	Cost	Accumulated amortization	Net book value
Land and improvements	\$ 1,672,669	\$ –	\$ 1,672,669
Buildings	12,927,503	2,132,884	10,794,619
Furniture and equipment	1,802,937	1,326,114	476,823
Automotive equipment	754,230	395,771	358,459
Computers	545,706	391,851	153,855
Leasehold improvements	148,257	137,354	10,903
	\$ 17,851,302	\$ 4,383,974	\$ 13,467,328

January 1, 2011	Cost	Accumulated amortization	Net book value
Land and improvements	\$ 1,682,736	\$ –	\$ 1,682,736
Buildings	11,477,890	1,961,958	9,515,932
Furniture and equipment	1,663,776	1,238,547	425,229
Automotive equipment	593,101	276,758	316,343
Computers	418,504	293,507	124,997
Leasehold improvements	139,520	105,264	34,256
	\$ 15,975,527	\$ 3,876,034	\$ 12,099,493

ONTARIO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements (continued)

Years ended December 31, 2012 and 2011

5. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of \$32,218 (December 31, 2011 - \$31,088, January 1, 2011 - \$32,137), which includes amounts payable for harmonized sales tax and payroll related taxes.

6. Bank loan:

The loan was retired in 2012 and bore an interest rate of 4.4%, and was due on demand and secured by a GIC.

7. Fund balances:

Fund balances comprise the following:

December 31, 2012	Invested in capital assets	Externally restricted	Endowment	Unrestricted	Total
Provincial	\$ 6,937,645	\$ 6,765	\$ 6,619	\$ 16,426,859	\$ 23,377,888
Regional	6,143,400	182,033	55,156	(6,380,589)	–
	<u>\$ 13,081,045</u>	<u>\$ 188,798</u>	<u>\$ 61,775</u>	<u>\$ 10,046,270</u>	<u>\$ 23,377,888</u>

December 31, 2011	Invested in capital assets	Externally restricted	Endowment	Unrestricted	Total
Provincial	\$ 6,962,089	\$ –	\$ 6,619	\$ 17,269,487	\$ 24,238,195
Regional	5,938,381	155,248	55,156	(6,148,785)	–
	<u>\$ 12,900,470</u>	<u>\$ 155,248</u>	<u>\$ 61,775</u>	<u>\$ 11,120,702</u>	<u>\$ 24,238,195</u>

January 1, 2011	Invested in capital assets	Externally restricted	Endowment	Unrestricted	Total
Provincial	\$ 7,500,095	\$ 33,800	\$ 6,619	\$ 15,037,257	\$ 22,577,771
Regional	3,868,365	50,314	55,156	(3,973,835)	–
	<u>\$ 11,368,460</u>	<u>\$ 84,114</u>	<u>\$ 61,775</u>	<u>\$ 11,063,422</u>	<u>\$ 22,577,771</u>

ONTARIO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements (continued)

Years ended December 31, 2012 and 2011

7. Fund balances (continued):

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

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

8. Commitments:

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

2013	\$ 90,656
2014	31,789
2015	8,607
	<hr/>
	\$ 131,052

Ontario SPCA has letters of credit outstanding in the amounts of nil (December 31, 2011 - \$24,025; January 1, 2011 - \$24,025) relating to hydro services provided to the provincial office and \$5,485 (December 31, 2011 - \$22,409; January 1, 2011 - \$22,409) relating to construction holdbacks to the City of Bracebridge.

9. 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, \$34,598 (December 31, 2011 - \$50,702; January 1, 2011 - \$1,173,417) in grants/disbursements of designated gifts to Ontario SPCA affiliates were recorded and paid in these financial statements. Ontario SPCA also paid \$40,106 (December 31, 2011 - \$27,680; January 1, 2011 - \$15,305) in legal fees on behalf of the affiliates.

ONTARIO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements (continued)

Years ended December 31, 2012 and 2011

9. Related organizations (continued):

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.

10. 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 \$70,937 (December 31, 2011 - \$80,236; January 1, 2011 - \$87,296).

11. Guarantees:

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

- (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.

ONTARIO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements (continued)

Years ended December 31, 2012 and 2011

12. Contingencies:

Ontario SPCA has been named as the defendant in certain legal actions, in which damages have been sought. The outcome of these actions are not determinable as at December 31, 2012 and, accordingly, no provision has been made in these financial statements for any liability which may result. In the event of a loss, all claims would be covered by Ontario SPCA insurance coverage.

Ontario SPCA is involved in various legal actions that are within the normal course of operations. In the opinion of management, any resulting liabilities are not expected to have a material adverse effect on the financial position or net operations.

13. Financial risks and concentration of credit risk:

Financial 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 liquidity, other price and interest rate risk. Ontario SPCA mitigates these risks with an investment policy designed to limit exposure and concentration while achieving optimal return within reasonable risk tolerances. There has been no change in risk exposure from the prior year.

(a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. Accounts receivable are subject to credit risk. Ontario SPCA assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. Cash and cash equivalents are held in creditworthy financial institutions.

(b) Liquidity risk:

Liquidity risk is the risk that Ontario SPCA will be unable to fulfill its obligations on a timely basis or at a reasonable cost. Ontario SPCA manages its liquidity risk by monitoring its operating requirements. Ontario SPCA prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

ONTARIO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements (continued)

Years ended December 31, 2012 and 2011

13. Financial risks and concentration of credit risk (continued):

(c) Other price 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.