The Canadian Society for the Prevention of Cruelty to Animals (Serving the Province of Quebec)

Financial Statements December 31, 2018

Raymond Chabot
Grant Thornton

Independent Auditor's Report

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To the Directors of
The Canadian Society for the Prevention
of Cruelty to Animals
(Serving the Province of Quebec)

Opinion

We have audited the financial statements of The Canadian Society for the Prevention of Cruelty to Animals (Serving the Province of Quebec) (hereafter "the Society"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Society as at December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter – Unaudited comparative information

The financial statements of the Society for the year ended December 31, 2017 were not audited.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Society or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Society's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit 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 Society's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Society's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Society to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Raymond Chabot Grant Thornton LLP[1]

Montréal
May 10, 2019

[1] CPA auditor, CA public accountancy permit no. A117472

The Canadian Society for the Prevention of Cruelty to Animals (Serving the Province of Quebec)
Operations
Year ended December 31, 2018

	2018	Unaudited 2017
	$	$
Revenues		
Contributions		
Donations and other contributions (Note 3)	**1,345,422**	1,650,552
Fundraising campaigns (Note 3)	**2,098,340**	2,247,652
Legacies	**1,753,665**	2,185,455
Revenue from operations	**2,828,728**	2,747,426
Net investment income (Note 4)	**34,045**	19,639
	8,060,200	8,850,724
Expenses		
Salaries and employee benefits	**4,245,703**	4,007,044
Operating expenses	**1,302,464**	1,286,389
Publications, promotion and special event expenses	**179,207**	344,274
Fundraising campaign costs	**938,491**	1,022,645
Professional fees	**119,138**	186,638
Communications	**44,943**	50,018
Interest and bank charges	**104,109**	110,632
Interest on obligation under a capital lease		317
Interest on long-term debt	**71,295**	101,404
Amortization of tangible capital assets	**103,411**	93,516
Amortization of the transaction costs related to long-term debt	**5,486**	5,486
	7,114,247	7,208,363
Excess of revenues over expenses	**945,953**	1,642,361

The accompanying notes are an integral part of the financial statements.

The Canadian Society for the Prevention of Cruelty to Animals
(Serving the Province of Quebec)
Changes in Net Assets
Year ended December 31, 2018

	2018	Unaudited 2017
	$	$
Balance, beginning of year	**5,231,404**	3,589,043
Excess of revenues over expenses	**945,953**	1,642,361
Balance, end of year	**6,177,357**	5,231,404

The accompanying notes are an integral part of the financial statements.

The Canadian Society for the Prevention of Cruelty to Animals
(Serving the Province of Quebec)
Cash Flows
Year ended December 31, 2018

	2018	Unaudited 2017
	$	$
OPERATING ACTIVITIES		
Excess of revenues over expenses	**945,953**	1,642,361
Non-cash items		
Net change in fair value of investments		(2,876)
Amortization of tangible capital assets	**103,411**	93,516
Amortization of transaction costs relating to long-term debt	**5,486**	5,486
	1,054,850	1,738,487
Net change in working capital items (Note 5)	**(361,124)**	1,113,720
Cash flows from operating activities	**693,726**	2,852,207
INVESTING ACTIVITIES		
Acquisition of tangible capital assets	**(341,491)**	(91,427)
Acquisition of investments from donations		(2,949)
Cash flows from investing activities	**(341,491)**	(94,376)
FINANCING ACTIVITIES		
Repayment of long-term debt	**(573,000)**	(198,000)
Repayment of obligation under a capital lease		(5,970)
Cash flows from financing activities	**(573,000)**	(203,970)
Net increase (decrease) in cash	**(220,765)**	2,553,861
Cash, beginning of year	**3,643,316**	1,089,455
Cash, end of year	**3,422,551**	3,643,316

The accompanying notes are an integral part of the financial statements.

The Canadian Society for the Prevention of Cruelty to Animals
(Serving the Province of Quebec)
Financial Position
December 31, 2018

	2018	Unaudited 2017
	$	$
ASSETS		
Current		
Cash	**3,422,551**	3,643,316
Trade, legacies and other receivables (Note 6)	**1,213,951**	879,703
Inventories	**16,759**	30,428
Prepaid expenses	**67,000**	60,172
	4,720,261	4,613,619
Long-term		
Investments	**58,222**	58,222
Land held for resale	**12,000**	12,000
Tangible capital assets (Note 7)	**2,997,926**	2,759,846
Restricted investments (Note 8)	**723,284**	772,955
	8,511,693	8,216,642
LIABILITIES		
Current		
Trade payables and other operating liabilities (Note 10)	**700,956**	734,673
Current portion of long-term debt – other	**42,000**	198,000
Current portion of long-term debt – subject to renewal	**767,000**	923,000
	1,509,956	1,855,673
Long-term		
Long-term debt (Note 11)	**89,096**	344,610
Deferred contributions (Note 8)	**723,284**	772,955
Deferred contribution related to land held for resale (Note 12)	**12,000**	12,000
	2,334,336	2,985,238
NET ASSETS		
Unrestricted	**6,177,357**	5,231,404
	8,511,693	8,216,642

The accompanying notes are an integral part of the financial statements.

On behalf of the Board,

Director

Director

The Canadian Society for the Prevention of Cruelty to Animals (Serving the Province of Quebec)
Notes to Financial Statements
December 31, 2018

1 - GOVERNING STATUTES AND PURPOSE OF THE ORGANIZATION

The Society was incorporated on April 5, 1869 under the 32 Victoria Law, chapter 81, which was amended on June 6, 1962 by the 10-11 Elizabeth, chapter 97, and is a registered charity under the Income Tax Act. The Society is engaged in the prevention of cruelty to animals.

2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Society's financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations.

Accounting estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. These estimates are based on management's knowledge of current events and actions that the Society may undertake in the future. Actual results may differ from these estimates.

Revenue recognition

Contributions

The Society follows the deferral method of accounting for contributions. Under this method, contributions restricted for future period expenses are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Moreover, the Society has chosen to not recognize contributed supplies and services.

Volunteers contribute an important number of hours to assist the Society in carrying out its services.

A company that produces pet food supplied the Society for free during the year ended December 31, 2017. No contribution in supplies was received in 2018 (contributions in supplies received with a fair value of $66,673 in 2017). Another company which sells different kind of animals products supplies the Society with free cat litter. The fair value of the contributions received in supplies is $300 ($8,738 in 2017), for which a tax receipt was issued.

Revenue from operations

Revenue from operations is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collection is reasonably assured.

The Canadian Society for the Prevention of Cruelty to Animals (Serving the Province of Quebec)
Notes to Financial Statements
December 31, 2018

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net investment income

Investment transactions are recorded on the transaction date and resulting revenues are recognized using the accrual method of accounting.

Net investment income includes interest income, dividend income and changes in fair value.

Interest income is recognized on a time apportionment basis. Dividend income is recorded when dividends are acquired by the Society. Changes in fair value are recognized when they occur.

With respect to investments measured at fair value, the Society has elected to include investment income in the net change in fair value.

Net investment income that is not subject to externally imposed restrictions is recognized in the statement of operations under Net investment income.

Net investment income subject to externally imposed restrictions is recognized as deferred contributions.

Financial assets and liabilities

Initial measurement

Upon initial measurement, the Society's financial assets and liabilities are measured at fair value, which, in the case of financial assets or financial liabilities that will be measured subsequently at amortized cost, is increased or decreased by the amount of the related financing fees and transaction costs. Transaction costs relating to financial assets and liabilities that will be measured subsequently at fair value are recognized in operations in the year they are incurred.

Subsequent measurement

At each reporting date, the Society measures its financial assets and liabilities at amortized cost (including any impairment in the case of financial assets), except for restricted investments which are measured at fair value.

Transaction costs relating to financial assets and liabilities that are measured at amortized cost are amortized on a straight-line basis over the term of the related financial instrument. Amortization of transaction costs related to long-term debt is recognized in earnings as interest expense.

With respect to financial assets measured at amortized cost, the Society assesses whether there are any indications of impairment. When there is an indication of impairment, and if the Society determines that, during the year, there was a significant adverse change in the expected timing or amount of future cash flows from a financial asset, it will then recognize a reduction as an impairment loss in operations. The reversal of a previously recognized impairment loss on a financial asset measured at amortized cost is recognized in operations in the year the reversal occurs.

The Canadian Society for the Prevention of Cruelty to Animals
(Serving the Province of Quebec)
Notes to Financial Statements
December 31, 2018

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory valuation

Inventories are valued at the lower of cost and net realizable value.

Cost is determined using the first in, first out method.

Land held for resale

Land held for resale is valued at the lower of cost and net realizable value.

Cost of the land corresponds to the fair value as at the date of receipt.

Tangible capital assets

Tangible capital assets acquired are recorded at cost. When the Society receives contributions of tangible capital assets, their cost is equal to their fair value at the contribution date.

Amortization

Tangible capital assets are amortized on a declining balance basis over their estimated useful lives at the following annual rates:

	Rates
Building	5%
Furniture and equipment	20%

Write-down

When the Society recognizes that a tangible capital asset no longer has any long-term service potential, the excess of the net carrying amount of the tangible capital asset over its residual value is recognized as an expense in the statement of operations.

3 - CONTRIBUTIONS

	2018	Unaudited 2017
	$	$
Donations and other contributions		
Individuals	**1,299,845**	1,176,759
Businesses	**20,683**	13,980
Related not-for-profit organization (Note 13)		275,413
Other not-for-profit organizations	**24,894**	184,400
	1,345,422	1,650,552
Fundraising campaigns		
Individuals	**2,076,759**	2,221,573
Other not-for-profit organizations	**21,581**	26,079
	2,098,340	2,247,652

The Canadian Society for the Prevention of Cruelty to Animals (Serving the Province of Quebec)
Notes to Financial Statements
December 31, 2018

4 - NET INVESTMENT INCOME

	2018	Unaudited 2017
	$	$
Unrestricted	**34,045**	19,639

5 - INFORMATION INCLUDED IN CASH FLOWS

The net change in working capital items is detailed as follows:

	2018	Unaudited 2017
	$	$
Trade, legacies and other receivables	**(334,248)**	1,123,647
Inventories	**13,669**	(9,564)
Prepaid expenses	**(6,828)**	(6,246)
Security deposits		12,895
Trade payables and other operating liabilities	**(33,717)**	(7,012)
	(361,124)	1,113,720

6 - TRADE, LEGACIES AND OTHER RECEIVABLES

	2018	Unaudited 2017
	$	$
Trade accounts receivable (a)	**410,737**	445,119
Sales taxes receivable	**35,214**	28,584
Legacies receivable	**768,000**	406,000
	1,213,951	879,703

(a) The trade accounts receivable are presented in the financial statements net of an allowance for doubtful accounts of $1,412 (none as at December 31, 2017). The amount of the impairment loss related to the trade accounts receivable is $1,412 for the year (nil in 2017).

7 - TANGIBLE CAPITAL ASSETS

	2018			Unaudited 2017
	Cost	Accumulated amortization	Net carrying amount	Net carrying amount
	$	$	$	$
Land	**1,510,000**		**1,510,000**	1,510,000
Building	**1,645,502**	**448,578**	**1,196,924**	1,081,859
Furniture and equipment	**1,128,669**	**837,667**	**291,002**	167,987
	4,284,171	**1,286,245**	**2,997,926**	2,759,846

The Canadian Society for the Prevention of Cruelty to Animals
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Notes to Financial Statements
December 31, 2018

8 - RESTRICTED INVESTMENTS AND DEFERRED CONTRIBUTIONS

	2018	Unaudited 2017
	$	$
Balance, beginning of year	**772,955**	715,910
Net change in fair value of restricted investments	**(49,671)**	57,045
Balance, end of year	**723,284**	772,955

In 1991, the Society received a legacy that is not possible to use before 99 years. Throughout this period, the legacy will be invested by a broker in funds of reputable managers. The Society accounts for these restricted investments at fair value and the consideration as a deferred contribution.

The revenue, net of changes in fair value, management fees and income taxes that are generated by these restricted investments is paid quarterly to the Society and recognized in the legacies revenue. In 2018, legacies revenue from this legacy totalled $9,500 ($8,000 in 2017).

In 2090, these investments will have no restriction and the deferred contribution will be recognized in the legacies revenue of that year.

9 - BANK LOAN

The Society has a $250,000 line of credit, which bears interest at the financial institution's prime rate plus 3% (6.95%; 6.20% as at December 31, 2017), is subject to renewal in June 2019. However, the borrowing amount is limited to 75% of eligible Canadian accounts receivable less the amount of preferential creditors to this line of credit, including payroll deductions and sales taxes payable. As at December 31, 2018, no amount is used.

10 - TRADE PAYABLES AND OTHER OPERATING LIABILITIES

	2018	Unaudited 2017
	$	$
Trade payables and accrued liabilities	**310,459**	331,773
Salaries and vacations payable	**308,594**	325,630
Benefits payable	**36,201**	29,766
Other	**45,702**	47,504
	700,956	734,673

Government remittances total $36,201 as at December 31, 2018 ($29,766 as at December 31, 2017).

The Canadian Society for the Prevention of Cruelty to Animals (Serving the Province of Quebec)
Notes to Financial Statements
December 31, 2018

11 - LONG-TERM DEBT

	2018	Unaudited 2017
	$	$
Term loan of $780,000, bearing interest at a fixed rate of 5.5%, repayable over 10 years in monthly instalments of $6,500 plus interest, renewable in March 2019, secured by a hypothec of $936,000 on the building of the Society and a hypothec of $936,000 on the universality of the Society's assets, present and future (a)	**383,500**	461,500
Term loan of $780,000, bearing interest at a fixed rate of 5.5%, repayable over 10 years in monthly instalments of $6,500 plus interest, renewable in March 2019, secured by a hypothec of $780,000 on the building of the Society and a hypothec of $780,000 on the universality of the Society's assets, present and future (a)	**383,500**	461,500
Term loan of an authorized amount of $487,000, bearing interest at a fixed rate of 7.37% (b)		375,000
Term loan of $325,000, bearing interest at a fixed rate of 6.5%, repayable in monthly instalments of $3,500 plus interest, renewable in January 2020, secured by a hypothec of $504,000 on the building of the Society and a hypothec of $504,000 on the universality of the Society's assets, present and future (a)	**160,500**	202,500
Transaction costs (c)	**(29,404)**	(34,890)
	898,096	1,465,610
Current portion – other	**42,000**	198,000
Current portion – subject to renewal	**767,000**	923,000
	809,000	1,121,000
	89,096	344,610

(a) In accordance with the loan agreements, the Society must respect certain ratios. As at December 31, 2018, the ratios are respected.

(b) In April 2018, the Society reimbursed the $375,000 debt in totality.

(c) The financing fees for long-term debt totalled $57,292 and are amortized on a straight-line basis over the term of the debt.

The estimated instalments on the long-term debt for the next years are as follows:

	$
2019	809,000
2020	118,500
	927,500

The Canadian Society for the Prevention of Cruelty to Animals (Serving the Province of Quebec)
Notes to Financial Statements
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12 - DEFERRED CONTRIBUTION RELATED TO LAND HELD FOR RESALE

The deferred contribution related to land held for resale represents a contributed land. There were no changes in the deferred contribution balance for the year.

	2018	Unaudited 2017
	$	$
Contribution received		
Land	**12,000**	12,000

13 - RELATED PARTY TRANSACTIONS

During the year, the Society obtained professional services from a law firm of which one of the partners is a Board member of the Society. The services received during the year represent $7,546 ($55,814 in 2017), and no amount is included in the trade payables and accrued liabilities ($7,143 as at December 31, 2017) .

The Society also obtained information technology services from a company owned by one of a Board family's member. No service was received during the year ($6,987 received in services in 2017).

During the year, the Society did not receive donations from the Montreal SPCA Foundation (donations totalling $275,413 were received in 2017).

These transactions are measured at the exchange amount, which is the amount established and accepted by the parties.

14 - FINANCIAL RISKS

Credit risk

The Society is exposed to credit risk regarding the financial assets recognized in the statement of financial position, other than the investments. The Society has determined that the financial assets with more credit risk exposure are trade accounts receivable and legacies receivable since failure of any of these parties to fulfil their obligations could result in significant financial losses for the Society.

Market risk

The Society's financial instruments expose it to market risk, in particular, to interest rate risk and other price risk, resulting from both its investing and financing activities.

The Canadian Society for the Prevention of Cruelty to Animals
(Serving the Province of Quebec)
Notes to Financial Statements
December 31, 2018

14 - FINANCIAL RISKS (Continued)

Interest rate risk

The Society is exposed to interest rate risk with respect to financial assets and liabilities bearing fixed interest rates.

The investments bear interest and the long-term debt bears interest at a fixed rate and the Society is, therefore, exposed to the risk of changes in fair value resulting from interest rate fluctuations.

Other price risk

The Society is exposed to other price risk due to investments since changes in market prices could result in changes in fair value of these instruments.

Liquidity risk

The Society's liquidity risk represents the risk that the Society could encounter difficulty in meeting obligations associated with its financial liabilities. The Society is, therefore, exposed to the liquidity risk with respect to all of the financial liabilities recognized in the statement of financial position.

15 - COMMITMENTS

The Society has entered into long-term lease agreements expiring between August, 2020 and September, 2024 and which call for lease payments of $109,196 for the rental of vehicles and equipment. Minimum lease payments for the next five years are as follows:

	$
2019	35,385
2020	31,411
2021	19,592
2022	11,850
2023	7,760