

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

**Financial Statements
December 31, 2020**

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Independent Auditor's Report

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

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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 Organization"), which comprise the statement of financial position as at December 31, 2020, 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 Organization as at December 31, 2020, 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 Organization 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.

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 Organization'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 Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization'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 Organization'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 Organization'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 Organization 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 Cholet Grant Thornton LLP¹

Montréal
March 30, 2021

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, 2020

	<u>2020</u>	<u>2019</u>
	\$	\$
Revenues		
Contributions		
Donations and other contributions (Note 4)	3,041,135	2,252,446
Fundraising campaigns (Note 4)	1,182,664	1,673,236
Legacies	656,875	959,269
Revenue from operations	2,792,577	3,103,252
Unrestricted net investment income	23,961	75,166
	<u>7,697,212</u>	<u>8,063,369</u>
Expenses		
Salaries and employee benefits	4,673,402	4,897,876
Operating expenses	1,193,738	1,677,656
Publications, promotions and special event expenses	146,054	186,602
Fundraising campaign costs and legacy fees	622,907	906,373
Professional fees	98,564	170,728
Interest and bank charges	105,242	95,397
Interest on long-term debt	32,316	42,027
Amortization of tangible capital assets	119,950	118,227
Amortization of transaction costs related to long-term debt	5,486	5,486
	<u>6,997,659</u>	<u>8,100,372</u>
Excess (deficiency) of revenues over expenses	<u>699,553</u>	<u>(37,003)</u>

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, 2020

	<u>2020</u>	<u>2019</u>
	\$	\$
Balance, beginning of year	6,140,354	6,177,357
Excess (deficiency) of revenues over expenses	699,553	(37,003)
Balance, end of year	<u>6,839,907</u>	<u>6,140,354</u>

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, 2020

	<u>2020</u>	<u>2019</u>
	\$	\$
OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	699,553	(37,003)
Non-cash items		
Net change in fair value of investments	(7,529)	(41,654)
Amortization of tangible capital assets	119,950	118,227
Amortization of transaction costs relating to long-term debt	5,486	5,486
Amortization of deferred contribution related to tangible capital assets	(1,393)	(1,335)
	816,067	43,721
Net change in working capital items (Note 5)	651,549	(155,178)
Cash flows from operating activities	1,467,616	(111,457)
INVESTING ACTIVITIES		
Acquisition of tangible capital assets and cash flows from investing activities	(310,963)	(143,421)
FINANCING ACTIVITIES		
Repayment of long-term debt and cash flows from financing activities	(168,000)	(198,000)
Net increase (decrease) in cash	988,653	(452,878)
Cash, beginning of year	2,969,673	3,422,551
Cash, end of year	3,958,326	2,969,673

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, 2020

	<u>2020</u>	<u>2019</u>
	\$	\$
ASSETS		
Current		
Cash	3,958,326	2,969,673
Trade, legacies and other receivables (Note 6)	608,378	1,454,030
Inventories	72,102	28,181
Prepaid expenses	70,888	39,974
Land held for resale	12,000	
	<u>4,721,694</u>	<u>4,491,858</u>
Long-term		
Land held for resale		12,000
Tangible capital assets (Note 7)	3,241,984	3,050,971
Investments	107,405	99,876
Restricted investments (Note 8)	922,435	825,445
	<u>8,993,518</u>	<u>8,480,150</u>
LIABILITIES		
Current		
Trade payables and other operating liabilities (Note 10)	650,985	770,253
Deferred contribution related to land held for resale	12,000	
Current portion of long-term debt	198,000	198,000
	<u>860,985</u>	<u>968,253</u>
Long-term		
Long-term debt (Note 11)	345,068	507,582
Deferred contributions related to restricted investments (Note 8)	922,435	825,445
Deferred contribution related to tangible capital assets (Note 12)	25,123	26,516
Deferred contribution related to land held for resale		12,000
	<u>2,153,611</u>	<u>2,339,796</u>
NET ASSETS		
Unrestricted		
	<u>6,839,907</u>	<u>6,140,354</u>
	<u>8,993,518</u>	<u>8,480,150</u>

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

On behalf of the Board,

Director



Director

Mark-André S. Nadeau

**The Canadian Organization for the Prevention of Cruelty to Animals
(Serving the Province of Quebec)
Notes to Financial Statements
December 31, 2020**

1 - GOVERNING STATUTES AND PURPOSE OF THE ORGANIZATION

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

2 - IMPACTS RESULTING FROM THE COVID-19 PANDEMIC

In March 2020, the decree of a COVID-19 state of pandemic and the numerous measures put in place by the federal, provincial and municipal governments to protect the public had impacts on the Organization's operations. This crisis is likely to cause significant changes to the assets or liabilities in the coming year or have a significant impact on future operations. Following these events, the Organization has taken and will continue to take action to minimize the impact. However, it is impossible to determine the financial implications of these events for the moment.

3 - SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Organization'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 Organization may undertake in the future. Actual results may differ from these estimates.

Revenue recognition

Contributions

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

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

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

Furthermore, companies that produce and sell pet food and various other pet products supplied the Organization with free pet food and supplies during the year ended December 31, 2020. The Organization received a contribution of supplies with a fair value of \$174,677 in 2020 (\$91,163 in 2019).

**The Canadian Organization for the Prevention of Cruelty to Animals
(Serving the Province of Quebec)
Notes to Financial Statements
December 31, 2020**

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 Organization. Changes in fair value are recognized when they occur.

With respect to investments measured at fair value, the Organization 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 Organization'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 Organization 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 on long-term debt.

**The Canadian Organization for the Prevention of Cruelty to Animals
(Serving the Province of Quebec)
Notes to Financial Statements
December 31, 2020**

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

With respect to financial assets measured at amortized cost, the Organization assesses whether there are any indications of impairment. When there is an indication of impairment, and if the Organization 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.

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.

The 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 Organization 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 diminishing balance basis over their estimated useful lives at the following annual rates:

	<u>Rates</u>
Building	5%
Furniture and equipment	20%
Automobile	30%

Impairment

Tangible capital assets subject to amortization are tested for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable when it exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposal. In such a case, an impairment loss must be recognized and is equivalent to the excess of the carrying amount of a long-lived asset over its fair value.

**The Canadian Organization for the Prevention of Cruelty to Animals
(Serving the Province of Quebec)
Notes to Financial Statements
December 31, 2020**

4 - CONTRIBUTIONS

	<u>2020</u>	<u>2019</u>
	\$	\$
Donations and other contributions		
Individuals	2,742,476	1,777,911
Businesses	155,707	154,670
Related not-for-profit organization (Note 13)		200,000
Other not-for-profit organizations	142,952	119,865
	<u>3,041,135</u>	<u>2,252,446</u>
Fundraising campaigns		
Individuals	1,177,434	1,643,485
Businesses	4,230	19,451
Other not-for-profit organizations	1,000	10,300
	<u>1,182,664</u>	<u>1,673,236</u>

5 - INFORMATION INCLUDED IN CASH FLOWS

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

	<u>2020</u>	<u>2019</u>
	\$	\$
Trade, legacies and other receivables	845,652	(240,079)
Inventories	(43,921)	(11,422)
Prepaid expenses	(30,914)	27,026
Trade payables and other operating liabilities	(119,268)	69,297
	<u>651,549</u>	<u>(155,178)</u>

6 - TRADE, LEGACIES AND OTHER RECEIVABLES

	<u>2020</u>	<u>2019</u>
	\$	\$
Trade accounts receivable		
Montréal SPCA Foundation	6,036	208,858
Other (a)	350,305	510,582
Sales taxes receivable	44,037	113,084
Legacies receivable	208,000	621,506
	<u>608,378</u>	<u>1,454,030</u>

- (a) The other trade accounts receivable are presented in the financial statements net of an allowance for doubtful accounts of nil (\$1,412 as at December 31, 2019). There was no impairment loss related to the trade accounts receivable recorded for the year (none in 2019) and a reversal of \$1,412 is previously recognized on the trade accounts receivable (none in 2019).

The Canadian Organization for the Prevention of Cruelty to Animals
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Notes to Financial Statements
December 31, 2020

7 - TANGIBLE CAPITAL ASSETS

	2020		2019
	Cost	Accumulated amortization	Net carrying amount
	\$	\$	\$
Land	1,510,000		1,510,000
Building (a)	1,973,284	573,545	1,399,739
Furniture and equipment	1,271,816	950,620	321,196
Automobile	11,306	257	11,049
	4,766,406	1,524,422	3,241,984
			3,050,971

(a) During the previous year, renovations were conducted to improve the reception area and Organization's store. The fair value of the renovations was \$42,351; however, the Organization only disbursed \$14,500. The difference between the fair value of the renovations and the amount disbursed of \$27,851 was paid by a company selling various animal products. The unamortized portion was presented as a deferred contribution related to tangible capital assets (Note 12).

8 - RESTRICTED INVESTMENTS AND DEFERRED CONTRIBUTIONS RELATED TO RESTRICTED INVESTMENTS

	2020	2019
	\$	\$
Balance, beginning of year	825,445	723,284
Net change in fair value of restricted investments	96,990	102,161
Balance, end of year	922,435	825,445

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

The investment income, net of changes in fair value, management fees and income taxes that are generated by these restricted investments, is paid quarterly to the Organization and recognized in the legacy contributions. In 2020, legacy contributions from this legacy totalled \$10,300 (\$12,333 in 2019).

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

9 - BANK LOAN

The Organization has a line of credit, of a maximum authorized amount of \$250,000, which bears interest at the financial institution's prime rate plus 3% (5.45%; 6.95% as at December 31, 2019) and which is subject to renewal in June 2020. However, the maximum authorized 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, 2020, no amount is used.

The Canadian Organization for the Prevention of Cruelty to Animals
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Notes to Financial Statements
December 31, 2020

10 - TRADE PAYABLES AND OTHER OPERATING LIABILITIES

	<u>2020</u>	<u>2019</u>
	\$	\$
Trade payables and accrued liabilities	143,957	340,683
Salaries and vacations payable	403,547	340,425
Benefits payable	71,190	54,879
Other	32,291	34,266
	<u>650,985</u>	<u>770,253</u>

11 - LONG-TERM DEBT

	<u>2020</u>	<u>2019</u>
	\$	\$
Term loan, with a carrying amount of \$780,000, secured by a hypothec of \$936,000 on the building and a hypothec of \$936,000 on the universality of the Organization's present and future assets, 4.95% (4.95% as at December 31, 2019), repayable over 10 years in monthly instalments of \$6,500 plus interest, maturing in 2023 (a)	227,500	305,500
Term loan, with a carrying amount of \$780,000, secured by a hypothec of \$780,000 on the building and a hypothec of \$780,000 on the universality of the Organization's present and future assets, 4.95% (4.95% as at December 31, 2019), repayable over 10 years in monthly instalments of \$6,500 plus interest, maturing in 2024 (b) (c)	247,000	305,500
Term loan, with a carrying amount of \$325,000, secured by a hypothec of \$504,000 on the building and a hypothec of \$504,000 on the universality of the Organization's present and future assets, 4.48% (4.48% as at December 31, 2019), repayable in monthly instalments of \$3,500 plus interest, maturing on January 2023 (b) (c)	87,000	118,500
Transaction costs (d)	(18,432)	(23,918)
	<u>543,068</u>	<u>705,582</u>
Current portion	<u>198,000</u>	<u>198,000</u>
	<u>345,068</u>	<u>507,582</u>

- (a) Under the loan agreement, the Organization is required to comply with certain covenants. The Organization is committed to maintain a service coverage ratio of 1.15. As at December 31, 2020, the Organization is in compliance with this ratio.
- (b) In accordance with the loan agreements, the Organization is required to comply with certain covenants. As at December 31, 2020, the ratios are respected.
- (c) During the year, due to the COVID-19 global pandemic, the Organization's lender granted a three-month moratorium on capital repayments of the term loans.
- (d) The financing fees for long-term debt total \$57,292 and are amortized on a straight-line basis over the term of the debt.

**The Canadian Organization for the Prevention of Cruelty to Animals
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11 - LONG-TERM DEBT (Continued)

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

	\$
2021	198,000
2022	198,000
2023	152,500
2024	13,000
	<u>561,500</u>

12 - DEFERRED CONTRIBUTION RELATED TO TANGIBLE CAPITAL ASSETS

	<u>2020</u>	<u>2019</u>
	\$	\$
Building (Note 7 (a))	27,851	27,851
Accumulated amortization	<u>(2,728)</u>	<u>(1,335)</u>
	<u>25,123</u>	<u>26,516</u>

13 - RELATED PARTY TRANSACTIONS

During the year, the Organization obtained professional services from a law firm of which one of the partners is a director of the Organization. The services received during the year represent \$2,107 (\$11,604 in 2019) and no amount is included in the trade payables and other operating liabilities (nil as at December 31, 2019).

During the previous year, the Organization received a \$200,000 donation from the Montreal SPCA Foundation.

These transactions were concluded in the normal course of operations and are measured at the exchange amount.

14 - FINANCIAL RISKS

Credit risk

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

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(Serving the Province of Quebec)
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14 - FINANCIAL RISKS (Continued)

Market risk

The Organization'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.

Interest rate risk

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

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

Other price risk

The Organization 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 Organization's liquidity risk represents the risk that the Organization could encounter difficulty in meeting obligations associated with its financial liabilities. The Organization 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 Organization has entered into long-term lease agreements expiring in 2025 which call for lease payments of \$131,819 for the rental of vehicles, equipment, telecommunication services, cleaning services and maintenance. Minimum lease payments for the next five years are as follows:

	<u>\$</u>
2021	64,844
2022	33,060
2023	24,877
2024	8,828
2025	210

**The Canadian Organization for the Prevention of Cruelty to Animals
(Serving the Province of Quebec)
Notes to Financial Statements
December 31, 2020**

16 - SUBSEQUENT EVENTS

In accordance with the Court order and instructions for seized property dated February 26, 2021, the Montreal SPCA deposited \$300,000 in a trust account with the Ministère de la Justice du Québec on March 5, 2021. This amount is deposited in substitution of the animals seized in the file R. v. Normand Trahan, 400-26-011069-199, and will be held in trust until a court orders its disposition.