

**THE NOVA SCOTIA SOCIETY FOR THE PREVENTION OF
CRUELTY**

NON-CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

Draft

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DECEMBER 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Members of:

The Nova Scotia Society for the Prevention of Cruelty

We have audited the accompanying non-consolidated financial statements of **The Nova Scotia Society for the Prevention of Cruelty**, which comprise the non-consolidated statement of financial position as at December 31, 2017 and the non-consolidated statements of operations, changes in net assets and cash flows for the year then ended and 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 non-consolidated 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 non-consolidated 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 non-consolidated 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 non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the non-consolidated 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 non-consolidated financial statements.

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

Basis for Qualified Opinion

In common with many non-profit organizations, the **The Nova Scotia Society for the Prevention of Cruelty** derives revenue from various sources including donations and fundraising, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the **The Nova Scotia Society for the Prevention of Cruelty** and we were not able to determine whether any adjustments might be necessary to revenues, excess of revenues over expenses, assets and net assets.

Qualified Opinion

In our opinion, except for the effects, if any, of the matter in the Basis for Qualified Opinion paragraph, the non-consolidated financial statements present fairly, in all material respects, the financial position of **The Nova Scotia Society for the Prevention of Cruelty** as at December 31, 2017 and December 31, 2016, and the results of its operations and its cash flows for the years then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Dartmouth, Nova Scotia
April XX, 2018

**Chartered Professional Accountants
Licensed Public Accountants**

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THE NOVA SCOTIA SOCIETY FOR THE PREVENTION OF CRUELTY
NON-CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2017 (Note 1)

	2017	2016
	\$	\$
REVENUES		
Donations and fundraising (Note 13)	1,374,215	1,096,027
Shelter operations (Note 13)	988,860	803,289
Service (Note 13)	966,427	684,403
Bequests	862,777	629,681
Government grant	<u>240,000</u>	<u>240,000</u>
	<u>4,432,279</u>	<u>3,453,400</u>
EXPENSES		
Administration	458,690	481,154
Amortization	67,335	47,728
Fund development and outreach	345,051	270,944
Investigations	695,588	553,370
Shelter operations	1,842,938	1,295,493
Veterinary services and medication	<u>909,285</u>	<u>906,192</u>
	<u>4,318,887</u>	<u>3,554,881</u>
EARNINGS FROM OPERATIONS	<u>113,392</u>	(101,481)
OTHER INCOME		
Investment income	5,379	15,317
Gain on marketable securities	40,516	23,342
Loss on disposal of capital assets	(5,712)	(454)
Net earnings from controlled profit oriented enterprises (Note 6)	<u>5,370</u>	<u>2,574</u>
	<u>45,553</u>	<u>40,779</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>158,945</u>	(60,702)

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THE NOVA SCOTIA SOCIETY FOR THE PREVENTION OF CRUELTY
NON-CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
AS AT DECEMBER 31, 2017 (Note 1)

	Restricted	Invested in Capital Assets	Unrestricted	Total 2017
	\$	\$	\$	\$
Balance, beginning of year	20,000	997,193	2,497,538	3,514,731
Excess of revenues over expenses	-	-	158,945	158,945
Amortization	-	(67,335)	67,335	-
Acquisition of capital assets	-	221,822	(221,822)	-
Loss on disposal of capital assets	-	(5,712)	5,712	-
Balance, end of year	<u>20,000</u>	<u>1,145,968</u>	<u>2,507,708</u>	<u>3,673,676</u>

	Restricted	Invested in Capital Assets	Unrestricted	Total 2016
	\$	\$	\$	\$
Balance, beginning of year	20,000	182,457	1,163,836	1,366,293
Deficiency of revenues over expenses	-	-	(60,702)	(60,702)
Amortization	-	(47,728)	47,728	-
Net assets contributed on amalgamation of branches	-	768,218	1,440,922	2,209,140
Acquisition of capital assets	-	94,246	(94,246)	-
Balance, end of year	<u>20,000</u>	<u>997,193</u>	<u>2,497,538</u>	<u>3,514,731</u>

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NON-CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017

	2017	2016
	\$	\$
ASSETS		
CURRENT		
Cash	651,712	211,034
Accounts receivable (Note 3)	384,675	225,964
Inventory	1,000	1,000
Prepays	<u>47,634</u>	<u>25,380</u>
	1,085,021	463,378
MARKETABLE SECURITIES (Note 4)	1,631,992	2,035,691
DUE FROM RELATED PARTIES (Note 5)	157,287	138,474
INVESTMENTS IN CONTROLLED PROFIT ORIENTED ENTERPRISES (Note 6)	14,320	8,950
CAPITAL ASSETS (Note 7)	<u>1,145,968</u>	<u>997,193</u>
	<u>4,034,588</u>	<u>3,643,686</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	209,646	117,113
Deferred revenue (Note 8)	<u>151,266</u>	<u>11,842</u>
	<u>360,912</u>	<u>128,955</u>
NET ASSETS		
RESTRICTED	20,000	20,000
INVESTED IN CAPITAL ASSETS	1,145,968	997,193
UNRESTRICTED	<u>2,507,708</u>	<u>2,497,538</u>
	<u>3,673,676</u>	<u>3,514,731</u>
	<u>4,034,588</u>	<u>3,643,686</u>
SUBSEQUENT EVENT (Note 10)		
COMMITMENTS (Note 11)		

Approved by the Board

Director

THE NOVA SCOTIA SOCIETY FOR THE PREVENTION OF CRUELTY 6
NON-CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
	\$	\$
CASH PROVIDED BY (USED FOR)		
OPERATING		
Excess (deficiency) of revenues over expenses	158,945	(60,702)
Items not affecting cash		
Amortization	67,335	47,728
Gain on marketable securities	(40,516)	(23,342)
Loss on disposal of capital assets	5,712	454
Net earnings from controlled profit oriented enterprises	(5,370)	(2,574)
	186,106	(38,436)
Changes in non-cash working capital items		
Accounts receivable	(158,711)	(34,541)
Prepays	(22,254)	(1,646)
Accounts payable and accrued liabilities	92,533	(120,338)
Deferred revenue	139,424	11,842
	237,098	(183,119)
INVESTING		
Proceeds on disposition of marketable securities	2,405,058	818,146
Acquisition of marketable securities	(1,960,843)	(1,104,637)
Cash receipts from related parties	739,219	503,792
Cash advances to related parties	(758,032)	(565,699)
Acquisition of capital assets	(221,822)	(94,246)
	203,580	(442,644)
CASH TRANSFERRED IN FROM BRANCHES	-	680,377
CHANGE IN CASH	440,678	54,614
CASH - beginning of year	211,034	156,420
CASH - end of year	651,712	211,034

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THE NOVA SCOTIA SOCIETY FOR THE PREVENTION OF CRUELTY
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

1. OPERATIONS

The The Nova Scotia Society for the Prevention of Cruelty ("the Society") was incorporated in 1877 by an Act of the Nova Scotia Legislature and, in accordance with its constitution and by-laws, was established to provide effective means for the prevention of cruelty throughout the Province of Nova Scotia.

As of May 1, 2016, the provincial branches of the The Nova Scotia Society for the Prevention of Cruelty were officially amalgamated with the provincial body. Prior to the merge, the provincial branches were independent corporate entities. There is now one legal entity operating in Nova Scotia as the Nova Scotia Society for the Prevention of Cruelty. The Society continues to operate in all regions where the branches used to operate independently. All of the restructuring occurred under the Animal Protection Act, which created the Society and which the branches were previously incorporated under.

As a result of the amalgamation, the comparative figures represent the operations for the provincial body for the year ended December 31, 2016, plus the operations of the provincial branches for the period of May 1, 2016 to December 31, 2016.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The non-consolidated financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies:

Cash

Cash consists of cash on hand and bank balances held with a financial institution.

Investments in controlled profit oriented enterprises

The non-consolidated financial statements have not been consolidated as the Board of Directors of the Society has access to all pertinent information concerning the resources and operations of the controlled profit-oriented enterprises, SPCA HRM Animal Hospital Limited ("HRM Hospital") and SPCA Cape Breton Hospital Limited ("CB Hospital"). The Society accounts for its investments in its controlled profit oriented enterprises using the equity method, whereby the amount of the investments are adjusted annually for the Society's pro-rata share of the net earnings of its investments and reduced by the amount of any dividends received. If the pro-rata share of net earnings from investments accounted for under the equity method would reduce the cost of the investment below zero, there must be evidence provided to indicate that the profit-controlled entity will imminently return to profitability.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets

Capital assets are recorded at cost. Amortization is provided for using the following rates and methods over the estimated useful lives as follows:

Buildings	4%	Diminishing balance
Computer equipment	30%	Diminishing balance
Computer software	15%	Diminishing balance
Equipment	20%	Diminishing balance
Fences	10%	Diminishing balance
Leaseholds	Term of lease	Straight-line
Office equipment	20%	Diminishing balance
Paving and walkways	8%	Diminishing balance
Vehicles	30%	Diminishing balance

One half year's amortization is taken in the year of acquisition.

Impairment of long-lived assets

Long-lived assets are tested for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the long-lived asset exceeds its fair value.

Revenue recognition

Revenue from donations and fundraising, bequests and government grants are recognized when amounts are received or receivable, when the amount is fixed or determinable and collection is reasonably assured.

Revenues from shelter operations and service revenue are recognized when services have been performed and collection is reasonably assured.

Investment income, which includes dividend and interest income, is recognized when the amount is fixed or determinable and collection is reasonably assured.

Government assistance

Government fundraising and grants for general operations are recorded as revenue when received. Government grants for the purchase of capital assets are applied against the cost of the related asset in the year acquired.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed goods and services

Contributed materials and services, except related to volunteer time, are recognized in the non-consolidated financial statements when their fair value can be reasonably determined and they are used in the normal course of the Society's operations and would otherwise have been purchased.

The Society benefits from donated services in the form of volunteer time for various programs and objectives of the Society, donated supplies to the animal shelter and donated clothing and items for the thrift stores. Due to the difficulty of determining the fair value of these contributed services and supplies, they are not recognized in these non-consolidated financial statements.

The Society accounts for in-kind donations at their fair market value as they are received, when the amounts are readily determinable.

Income taxes

The Society is a registered charity under section 149 (1) of the Income Tax Act, and, as such, is exempt from income taxes. Accordingly, no provision has been made in the accounts for income taxes.

Use of estimates

The preparation of non-consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the non-consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates are used when accounting for items such as the allowance for doubtful accounts, the useful lives of capital assets, certain accrued liabilities and in-kind donations. Actual results could differ from these estimates.

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THE NOVA SCOTIA SOCIETY FOR THE PREVENTION OF CRUELTY
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Measurement of financial instruments

The Society initially measures its financial assets and financial liabilities at fair value.

The Society subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in the non-consolidated statement of operations.

Financial assets measured at amortized cost include cash, accounts receivable and amounts due from related parties.

Financial assets measured at fair value include marketable securities.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities.

Impairment

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of any write down is recognized in the non-consolidated statement of operations. Any previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of any reversal is recognized in the non-consolidated statement of operations.

3. ACCOUNTS RECEIVABLE	2017	2016
	\$	\$
Trade receivables	296,086	103,339
HST recoverable	<u>88,589</u>	<u>122,625</u>
	<u>384,675</u>	<u>225,964</u>

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NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

4. MARKETABLE SECURITIES	2017	2016
	\$	\$
Cash held with investment brokers	154,665	51,929
Caisse Populaire de Clare term deposits	78,029	85,634
Scotia Wealth exchange traded funds	513,851	-
Scotia Wealth equities	983	238,615
Scotia Wealth fixed income	805,018	-
Scotia Wealth mutual funds	79,446	-
Scotiabank GIC's	-	1,407,424
Assante Financial Management mutual funds	-	124,439
Raymond James GIC	-	55,650
Manulife Investments GIC's	-	72,000
	<u>1,631,992</u>	<u>2,035,691</u>

5. RELATED PARTY BALANCES	2017	2016
	\$	\$
Due from HRM Hospital	54,633	61,806
Due from CB Hospital	<u>102,654</u>	<u>76,668</u>
	<u>157,287</u>	<u>138,474</u>

The amounts due from related parties, which are wholly owned subsidiaries, have no set terms of repayment, are non-interest bearing and have no set terms of repayment.

6. INVESTMENTS IN CONTROLLED PROFIT-ORIENTED ENTERPRISES

	2017	2016
	\$	\$
HRM Hospital	14,320	8,950
CB Hospital	<u>-</u>	<u>-</u>
	<u>14,320</u>	<u>8,950</u>

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NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

6. INVESTMENTS IN CONTROLLED PROFIT-ORIENTED ENTERPRISES
(Continued)

HRM HOSPITAL

This investments represents a 100% interest in the common shares of HRM Hospital and as follows:

	2017 \$	2016 \$
Shares, at cost	5	5
Equity in cumulative earnings since acquisition	<u>14,315</u>	<u>8,945</u>
	<u>14,320</u>	<u>8,950</u>

Selected financial information of the controlled profit-oriented enterprise as at December 31, 2017, is as follows:

	2017 \$	2016 \$
Total assets	<u>133,408</u>	<u>148,141</u>
Total liabilities	119,088	139,191
Shareholders' equity	<u>14,320</u>	<u>8,950</u>
	<u>133,408</u>	<u>148,141</u>
Total revenues	487,624	424,668
Total expenses	<u>482,254</u>	<u>425,834</u>
Net earnings	<u>5,370</u>	(1,166)
Cash flows provided by operating activities	<u>33,856</u>	<u>81,836</u>
Cash flows provided by (used in) financing activities	(9,449)	<u>56,199</u>
Cash flows used in investing activities	(31,293)	(156,868)

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NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

6. INVESTMENTS IN CONTROLLED PROFIT-ORIENTED ENTERPRISES
(Continued)

CB HOSPITAL

This investment represents a 100% interest in the common shares of CB Hospital as follows:

	2017 \$	2016 \$
Shares, at cost	5	5
Equity in cumulative earnings since acquisition	(5)	(5)
	<u>-</u>	<u>-</u>

Selected financial information of the controlled profit-oriented enterprise as at December 31, 2017, is as follows:

	2017 \$	2016 \$
Total assets	<u>81,431</u>	<u>81,715</u>
Total liabilities	115,773	86,047
Shareholders' equity	(34,342)	(4,332)
	<u>81,431</u>	<u>81,715</u>
Total revenues	180,480	216,967
Total expenses	<u>210,490</u>	<u>214,180</u>
Net earnings	<u>(30,010)</u>	<u>2,787</u>
Cash flows provided by (used in) operating activities	(33,860)	15,698
Cash flows provided by (used in) financing activities	<u>25,986</u>	(42,713)
Cash flows provided by investing activities	<u>-</u>	<u>-</u>

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NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

7. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net 2017	Net 2016
	\$	\$	\$	\$
Land	81,205	-	81,205	81,205
Buildings	1,847,068	923,132	923,936	767,771
Computer equipment	93,850	84,075	9,775	7,662
Computer software	10,756	6,612	4,144	5,920
Equipment	286,679	224,743	61,936	72,735
Fences	46,530	16,315	30,215	33,572
Leaseholds	12,128	11,440	688	1,027
Office equipment	86,548	83,135	3,413	4,266
Paving and walkways	16,441	9,194	7,247	7,877
Vehicles	<u>42,178</u>	<u>18,769</u>	<u>23,409</u>	<u>15,158</u>
	<u>2,523,383</u>	<u>1,377,415</u>	<u>1,145,968</u>	<u>997,193</u>

8. DEFERRED REVENUE

The deferred revenue of \$151,266 represents amounts received from PetSmart Charities of Canada to fund spay and neuter services in 2018.

9. BANK INDEBTEDNESS

A demand operating loan has been authorized by ScotiaBank to a maximum of \$100,000 and bears interest at a rate of prime plus 0.75% per annum. At December 31, 2017, the balance on the operating loan was \$NIL (2016 - \$NIL).

10. SUBSEQUENT EVENT

Subsequent to year end, the Society signed a conditional purchase agreement to acquire land and a building with the purchase price not to exceed \$1,400,000. The down payment and closing costs are anticipated to be funded through bequests with the balance of the commitment financed through a mortgage of \$1,000,000.

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THE NOVA SCOTIA SOCIETY FOR THE PREVENTION OF CRUELTY
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

11. COMMITMENTS

The Society leases various automobiles under operating lease arrangements. Future minimum lease payments for the next four years are as follows:

	\$
2018	46,421
2019	42,748
2020	31,763
2021	26,553

In addition, the Society has commitments in the amount of \$2,560 per month for its head office lease. The provider of the office lease has agreed, but is not committed, to donate the full amount of payments back to the Society on a quarterly basis, as such there are no cash consequences to this commitment.

12. RELATED PARTY TRANSACTIONS

During the year, the Society entered into transactions (recorded at exchange values) with related parties, which are wholly owned subsidiaries, as follows.

- a) The Society purchased veterinary services from the HRM Hospital and the CB Hospital in the amount of \$446,388 (2016 - \$430,973);
- b) The Society received management fees from the HRM Hospital and the CB Hospital in the amount of \$24,900 (2016 - \$14,400) which is included in service revenue;
- c) The Society received rent revenue from the HRM Hospital in the amount of \$20,348 (2016 - \$20,594) which is included in service revenue.

13. GOVERNMENT FUNDING

During the year, the Society received government funding of \$55,600 (2016 - \$64,850); \$50,000 of which is included in donations and fundraising revenues (2016 - \$50,000), \$600 (2016 - \$NIL) of which is included in service revenues and \$5,000 (2016 - \$14,850) of which is included in shelter operations revenues.

14. FINANCIAL INSTRUMENTS

The Society is exposed to various risks through its financial instruments. The following analysis provides a measure of the Society's risk exposure and concentrations at December 31, 2017.

14. FINANCIAL INSTRUMENTS (Continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial instruments that potentially subject the Society to concentrations of credit risk consist of cash, accounts receivable, marketable securities and amounts due from related parties. The Society deposits its cash and marketable securities in reputable financial institutions and therefore believes the risk of loss to be remote. The Society is exposed to credit risk from accounts receivable. A provision for impairment of accounts receivable is established when there is objective evidence that the Society will not be able to collect all amounts due.

Liquidity risk

Liquidity risk is the risk that the Society will encounter difficulty in meeting obligations associated with financial liabilities. The Society is exposed to this risk mainly in respect of its accounts payable and accrued liabilities. Sufficient financing facilities and marketable securities are in place should cash requirements exceed cash generated from operations.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

The Society is mainly exposed to other price risk.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

15. COMPARATIVE FIGURES

Certain figures presented for comparative purposes have been reclassified to conform with the non-consolidated financial statement presentation adopted for the current year.