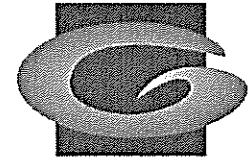


**EAST BAY SOCIETY
FOR THE PREVENTION OF
CRUELTY TO ANIMALS**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED
DECEMBER 31, 2013 AND 2012**



Gilbert Associates, Inc.
CPAs and Advisors

Relax. We got this.

INDEPENDENT AUDITOR'S REPORT

**Board of Directors
East Bay Society for the Prevention
of Cruelty to Animals
Oakland, California**

We have audited the accompanying statements of financial position of East Bay Society for the Prevention of Cruelty to Animals (Organization) as of December 31, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 the auditor's 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, the auditor considers internal control relevant to the Organization'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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Directors
East Bay Society for the Prevention
of Cruelty to Animals
Page two

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Bay Society for the Prevention of Cruelty to Animals as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Gilbert Associates, Inc." with a period at the end.

GILBERT ASSOCIATES, INC.
Sacramento, California

July 16, 2014

**EAST BAY SOCIETY FOR THE PREVENTION
OF CRUELTY TO ANIMALS**

**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 478,856	\$ 774,563
Accounts receivable, net	44,326	7,860
Current portion of contributions receivable	318,350	7,936
Inventories	51,551	104,002
Prepaid expenses	<u>223,231</u>	<u>80,151</u>
Total current assets	1,116,314	974,512
INVESTMENTS	19,464,933	18,963,869
PROPERTY AND EQUIPMENT, Net	13,983,565	7,909,390
CONTRIBUTIONS RECEIVABLE, Net	621,460	
SPLIT-INTEREST AGREEMENT ASSETS	<u>2,256,753</u>	<u>1,924,751</u>
TOTAL ASSETS	<u>\$ 37,443,025</u>	<u>\$ 29,772,522</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 389,084	\$ 134,602
Accrued expenses and other liabilities	1,381,217	509,666
Line of credit	<u>8,056,949</u>	<u>5,593,384</u>
Total current liabilities	9,827,250	6,237,652
LONG-TERM DEBT	<u>1,000,000</u>	
Total liabilities	<u>10,827,250</u>	<u>6,237,652</u>
NET ASSETS:		
Unrestricted	23,387,105	20,723,157
Temporarily restricted	1,144,337	642,127
Permanently restricted	<u>2,084,333</u>	<u>2,169,586</u>
Total net assets	<u>26,615,775</u>	<u>23,534,870</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 37,443,025</u>	<u>\$ 29,772,522</u>

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

**EAST BAY SOCIETY FOR THE PREVENTION
OF CRUELTY TO ANIMALS**

STATEMENTS OF ACTIVITIES (Page 1 of 2)
YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Program revenues:		
Veterinary services	\$ 2,536,815	\$ 2,418,175
Less: Discounts for free and reduced fee veterinary services	<u>(504,221)</u>	<u>(362,854)</u>
Veterinary services, net	2,032,594	2,055,321
Shelter and adoption services	<u>397,587</u>	<u>494,458</u>
Total program revenue	<u>2,430,181</u>	<u>2,549,779</u>
Public support:		
Contributions	2,847,103	1,575,039
Bequests	1,032,413	1,230,429
Net assets released from restrictions	<u>330,852</u>	<u>52,849</u>
Total public support	<u>4,210,368</u>	<u>2,858,317</u>
Other income:		
Investment income	3,592,836	2,503,102
Rental income	69,338	67,737
Other income	<u>4,196</u>	<u>101,273</u>
Total other income	<u>3,666,370</u>	<u>2,672,112</u>
Total revenues and support	<u>10,306,919</u>	<u>8,080,208</u>
EXPENSES:		
Program services:		
Shelter and adoption services	3,101,648	2,956,675
Veterinary services	<u>3,105,993</u>	<u>2,741,765</u>
Total program services	<u>6,207,641</u>	<u>5,698,440</u>
Supporting services:		
General and administrative	680,302	552,496
Fundraising	<u>755,028</u>	<u>558,941</u>
Total supporting services	<u>1,435,330</u>	<u>1,111,437</u>
Total expenses	<u>7,642,971</u>	<u>6,809,877</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>2,663,948</u>	<u>1,270,331</u>

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

**EAST BAY SOCIETY FOR THE PREVENTION
OF CRUELTY TO ANIMALS**

**STATEMENTS OF ACTIVITIES (Page 2 of 2)
YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	787,129	238,009
Bequests		
Change in value of split-interest agreement assets	45,933	(62,317)
Net assets released from restrictions	<u>(330,852)</u>	<u>(52,849)</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>502,210</u>	<u>122,843</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Change in value of split-interest agreement assets	<u>(85,253)</u>	<u>326,181</u>
INCREASE IN NET ASSETS	3,080,905	1,719,355
NET ASSETS, Beginning of Year	<u>23,534,870</u>	<u>21,815,515</u>
NET ASSETS, End of Year	<u>\$ 26,615,775</u>	<u>\$ 23,534,870</u>

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

**EAST BAY SOCIETY FOR THE PREVENTION
OF CRUELTY TO ANIMALS**

**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2013**

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>
	<u>Shelter and adoption services</u>	<u>Veterinary services</u>	<u>General and administrative</u>	<u>Fundraising</u>	
Salaries	\$ 1,317,407	\$ 1,435,165	\$ 317,209	\$ 208,858	\$ 3,278,639
Payroll taxes and benefits	470,615	393,868	67,861	55,695	988,039
Supplies	211,297	528,073	74,975	6,116	820,461
Depreciation and amortization	266,812	100,066	3,708	1,197	371,783
Printing and postage	35,020	37,586	9,711	289,368	371,685
Professional fees	93,567	54,517	36,740	131,080	315,904
Outside services	78,262	221,580	944	461	301,247
Occupancy	146,808	113,582	1,447	706	262,543
Repair and maintenance	123,251	50,030	6,288	680	180,249
Bank charges	23,333	38,540	36,908	17,477	116,258
Non-depreciable equipment	47,958	32,207	4,007	28,195	112,367
Outreach services	108,651	750			109,401
Insurance	41,876	16,148	11,962	262	70,248
Advertising	27,490	27,490			54,980
Events	36,014	11,002			47,016
Interest expense	35,914	8,979			44,893
Miscellaneous expense	37,373	36,410	108,542	14,933	197,258
Total	<u>\$ 3,101,648</u>	<u>\$ 3,105,993</u>	<u>\$ 680,302</u>	<u>\$ 755,028</u>	<u>\$ 7,642,971</u>

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

**EAST BAY SOCIETY FOR THE PREVENTION
OF CRUELTY TO ANIMALS**

**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2012**

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>
	<u>Shelter and adoption services</u>	<u>Veterinary services</u>	<u>General and administrative</u>	<u>Fundraising</u>	
Salaries	\$ 1,242,373	\$ 1,290,616	\$ 249,017	\$ 56,013	\$ 2,838,019
Payroll taxes and benefits	444,570	392,237	59,150	18,676	914,633
Supplies	263,191	475,839	7,973	7,789	754,792
Depreciation and amortization	395,203	123,611	2,923	1,428	523,165
Printing and postage	24,810	22,605	15,017	389,475	451,907
Professional fees	34,260	10,138	57,381	73,191	174,970
Outside services	76,076	161,227		778	238,081
Occupancy	127,350	101,706		1,494	230,550
Repair and maintenance	44,150	27,114	66,930	273	138,467
Bank charges	13,185	27,055	36,684	7,362	84,286
Non-depreciable equipment	46,449	13,760	3,713	110	64,032
Outreach services	23,148	8,607	3,333		35,088
Insurance	40,734	7,546	18,599	456	67,335
Advertising	28,157	28,157			56,314
Events	23,689	10,544			34,233
Interest expense	82,368	20,592			102,960
Miscellaneous expense	46,962	20,411	31,776	1,896	101,045
Total	<u>\$ 2,956,675</u>	<u>\$ 2,741,765</u>	<u>\$ 552,496</u>	<u>\$ 558,941</u>	<u>\$ 6,809,877</u>

**EAST BAY SOCIETY FOR THE PREVENTION
OF CRUELTY TO ANIMALS**

**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 3,080,905	\$ 1,719,355
Reconciliation to net cash provided (used) by operating activities:		
Depreciation and amortization	371,632	523,165
Net realized and unrealized gain on investments	(3,100,048)	(1,870,383)
Changes in:		
Accounts receivable	(36,466)	(4,489)
Inventories	52,451	23,410
Prepaid expenses	(143,080)	135,232
Contributions receivable	(931,874)	697,564
Split-interest agreement assets	(332,002)	(263,865)
Accounts payable	254,482	(33,296)
Accrued expenses and other liabilities	<u>297,552</u>	<u>100,413</u>
Net cash and cash equivalents provided (used) by operating activities	<u>(486,448)</u>	<u>1,027,106</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(925,572)	(1,283,082)
Proceeds from sale of investments	3,524,556	1,379,404
Purchases of property and equipment	<u>(5,871,808)</u>	<u>(1,217,965)</u>
Net cash and cash equivalents used by investing activities	<u>(3,272,824)</u>	<u>(1,121,643)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	4,947,689	5,600,000
Repayment of bond payable		(5,600,000)
Payment on line of credit	<u>(1,484,124)</u>	<u>(6,616)</u>
Net cash and cash equivalents provided (used) by financing activities	<u>3,463,565</u>	<u>(6,616)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(295,707)	(101,153)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>774,563</u>	<u>875,716</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 478,856</u>	<u>\$ 774,563</u>
SUPPLEMENTAL ACTIVITY:		
Cash paid for interest	<u>\$ 127,508</u>	<u>\$ 102,961</u>
NON-CASH ACTIVITY:		
Accrual of retainage payable for construction in progress	<u>\$ 573,999</u>	<u>\$ 43,192</u>
Line of credit converted into long-term debt	<u>\$ 1,000,000</u>	<u>\$</u>

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

EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

1. ORGANIZATION AND OPERATIONS

The East Bay Society for the Prevention of Cruelty to Animals (Organization) is a nonprofit corporation serving Alameda and Contra Costa counties. The Organization provides full service veterinary care for both its shelter animals and public clients at its Baldwin Street facility in Oakland. Discounted and free Spay and Neuter services are provided at both the 410 Hegenberger site and at the Dublin Tri-Valley location. Both shelters offer cats and dogs for adoption, and a variety of services ranging from dog training to tours to public assistance with feral cat trap and release.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation – The financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Revenue recognition – Private grants and contributions are recognized in full when received or unconditionally promised, in accordance with professional standards. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in temporarily or permanently restricted net assets. Temporarily restricted net assets become unrestricted and are reported in the statements of activities as net assets released from restrictions when the time restrictions expire or the contributions are used for the restricted purpose. Temporarily restricted contributions whose restrictions are met in the same reporting period are shown as unrestricted. Permanently restricted net assets are those net assets whose use by the Organization is restricted by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled and removed by the actions of the Organization.

Bequests are recognized when estates are settled and the amounts can be reasonably estimated. Bequests on unsettled estates are considered conditional promises to give, because the amounts cannot be reasonably estimated and the dates of distribution are unknown. Bequests receivable represent those amounts for which both amount and timing of payment is known.

Veterinary, shelter and adoption services are recognized when the services occur.

Cash and cash equivalents – For financial statement purposes, the Organization considers investments with an initial maturity of three months or less to be cash equivalents, unless held for long-term purposes.

The Organization minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institutions. The balance at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk related to cash.

EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

Inventories consist of medications and medical supplies, and are stated at the lower of cost (first-in, first-out) or market.

Investments are stated at fair value and include money market funds that are held for long-term purposes.

Property and equipment is stated at cost or, if donated, at fair market value as of the date of donation. The Organization capitalizes all expenditures for property and equipment in excess of \$1,000. Depreciation is computed using the straight-line method over estimated useful lives of individual assets ranging from 5 to 50 years.

Split-interest agreement assets are stated at fair value.

Functional allocation of expenses – The costs of providing the program and supporting services have been summarized on a functional basis in the statements of activities and of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services based on estimates of employee time incurred and usage of resources.

Income taxes – The Organization is publicly supported and exempt from income taxes under Internal Revenue Code Section 501(c)(3) and corresponding California state codes. The Organization has implemented the amended accounting principles related to the accounting for uncertainty in income taxes and has determined that there is no material impact on the financial statements. With some exceptions, the Organization is no longer subject to U.S. federal and state income tax examinations by tax authorities for years prior to 2009.

Fair value measurements – Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same—to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

- | | |
|----------------|---|
| Level 1 Inputs | Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. |
| Level 2 Inputs | Inputs other than quoted prices in active markets that are observable either directly or indirectly. |
| Level 3 Inputs | Unobservable inputs for the asset or liability. |

**EAST BAY SOCIETY FOR THE PREVENTION
OF CRUELTY TO ANIMALS**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

When a price for an identical asset or liability is not observable, a reporting entity measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, a reporting entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent events have been evaluated through July 16, 2014, the date the financial statements were issued. Management concluded that no material subsequent events have occurred since December 31, 2013 that require recognition or disclosure in such financial statements.

3. CONTRIBUTIONS RECEIVABLE

The Organization recognizes contributions at their estimated fair value, on a nonrecurring basis, at the time the promise is made. Fair value is determined by calculating the present value of the estimated future cash flows. The discount rates used in determining the net present value of contributions receivable was 6% at December 31, 2013. The estimated fair value of contributions are included within Level 3 of the fair value hierarchy because determination of the net present value of future cash flows is based on little or no market data and requires management to develop their own assumptions.

Contributions receivable consist of the following:

	<u>2013</u>	<u>2012</u>
Gross contributions receivable	\$ 990,660	
Less: Discount on contributions receivable	<u>(50,850)</u>	<u> </u>
Contributions receivable, net	<u>\$ 939,810</u>	<u>\$ </u>

Contributions receivable are due to be collected as follows:

	<u>2013</u>	<u>2012</u>
Within one year	\$ 318,350	
In one to five years	<u>621,460</u>	<u> </u>
Contributions receivable, net	<u>\$ 939,810</u>	<u>\$ </u>

**EAST BAY SOCIETY FOR THE PREVENTION
OF CRUELTY TO ANIMALS**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

4. INVESTMENTS

Investments are classified within Level 1 of the fair value hierarchy because they are measured by pricing on publicly traded markets with reasonable levels of price transparency. Investments consist of the following:

	<u>2013</u>	<u>2012</u>
Mutual funds:		
Value	\$ 6,997,276	\$ 4,689,683
Growth	5,340,168	5,445,634
Bonds	3,805,421	6,028,493
Conservative allocation	1,135,887	1,087,317
Large blend	788,421	461,408
Bank loan	452,292	
Foreign large blend	134,190	228,520
Natural resources	32,606	56,594
Diversified emerging markets		105,997
Commodities broad basket		<u>56,860</u>
Total mutual funds	<u>18,686,261</u>	<u>18,160,506</u>
Corporate bonds:		
AA+ credit rating	57,886	59,846
A+ credit rating		47,760
A credit rating	452,357	117,995
A- credit rating	47,002	100,730
BBB+ credit rating		104,388
BBB credit rating	71,853	134,824
BBB- credit rating	<u>44,547</u>	<u>104,721</u>
Total corporate bonds	<u>673,645</u>	<u>670,264</u>
Money market funds	<u>105,027</u>	<u>133,099</u>
Total	<u>\$ 19,464,933</u>	<u>\$ 18,963,869</u>

Investment income consists of the following:

	<u>2013</u>	<u>2012</u>
Interest and dividends	\$ 492,788	\$ 632,719
Unrealized and realized gain	<u>3,100,048</u>	<u>1,870,383</u>
Total	<u>\$ 3,592,836</u>	<u>\$ 2,503,102</u>

**EAST BAY SOCIETY FOR THE PREVENTION
OF CRUELTY TO ANIMALS**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2013</u>	<u>2012</u>
Land	\$ 55,410	\$ 55,410
Building and improvements	14,498,061	10,100,999
Construction in process	2,517,627	1,134,684
Equipment	925,175	742,327
Memorial gardens	<u>20,085</u>	<u>62,201</u>
Total	18,016,358	12,095,621
Less accumulated depreciation and amortization	<u>(4,032,793)</u>	<u>(4,186,231)</u>
Total	<u>\$ 13,983,565</u>	<u>\$ 7,909,390</u>

6. SPLIT-INTEREST AGREEMENT ASSETS

Split-interest agreement assets include the estimated fair value of the Organization's interest in various irrevocable charitable remainder trusts held by third-party trustees for which the Organization is the remainder beneficiary as well as a perpetual trust in which the Organization has the irrevocable right to receive income on trust assets in perpetuity. The estimated fair value of these assets was determined with present value techniques using projected investment returns consistent with the composition of the asset portfolios, life expectancies, estimated future cash disbursements and discount rates ranging from 1.2% to 6% and 1.2% to 4.33% at December 31, 2013 and 2012, respectively. The Organization's charitable remainder trusts are classified within Level 3 of the fair value hierarchy because determination of the present value of future cash flows is based on little or no market data and requires management to develop their own assumptions.

	<u>2013</u>	<u>2012</u>
Beginning Balance	\$ 1,924,751	\$ 1,660,887
Contribution	371,322	
Change in fair value of split-interest agreement assets	<u>(39,320)</u>	<u>263,864</u>
Ending Balance	<u>\$ 2,256,753</u>	<u>\$ 1,924,751</u>

The Organization has a remainder interest in one split-interest agreement for which they have been unable to obtain valuation information. The value of these assets is not reasonably determinable and is not reflected in the financial statements.

**EAST BAY SOCIETY FOR THE PREVENTION
OF CRUELTY TO ANIMALS**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

7. DEBT

The construction of the Tri-Valley Facility was financed by the Organization through the issuance of tax-exempt California Infrastructure and Economic Development Plan Variable Rate Demand Revenue Bonds, Series 2001 (Bond), in the aggregate principal amount of \$6,200,000. The Organization paid the Bond in full on November 30, 2012.

U.S. Bank was the trustee of the Bond proceeds. The trustee was paid interest at an annual rate of .35% of the outstanding bond proceeds. This interest was funded from the unrestricted resources of the Organization and was paid on a quarterly basis.

The Organization has a \$14,500,000 revolving line of credit with UBS Bank which was obtained to fund the redemption of the Organization's Bond and to renovate their Baldwin Street facility. The line of credit has a variable interest rate equal to the Bank's LIBOR rate plus 1.35%. (1.52% at December 31, 2013) and is due on demand and has no established maturity date. The line of credit is secured by all of the Organization's assets. The outstanding balance of December 31, 2013 and 2012 was \$8,056,949 and \$5,593,384, respectively.

The Organization has four \$250,000 fixed rate loans totaling \$1,000,000. Interest payments are due quarterly and principal is due in total upon maturity. The rate and maturity dates are as follows:

<u>Rate</u>	<u>Maturity Date</u>
2.382%	March 8, 2016
2.736%	March 8, 2018
3.348%	March 9, 2020
4.074%	March 8, 2023

8. LEASE COMMITMENTS

Spay and Neuter Clinic

The Organization has an agreement that extends through 2030 to lease a facility for a new spay and neuter clinic located in Oakland, California. The terms of the agreement provide for a monthly base rent of \$1,000 plus real estate taxes. The lease contains an option to purchase the property for \$500,000 which is exercisable during the period beginning each August 1 and ending each December 31 of every third year during the term of the lease. The Organization also leases equipment under non-cancelable operating leases expiring at various dates through 2018. Expense under operating lease agreements totaled \$114,018 and \$104,825 in 2013 and 2012, respectively.

**EAST BAY SOCIETY FOR THE PREVENTION
OF CRUELTY TO ANIMALS**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

Future minimum lease payments under these agreements are as follows:

Year ending December 31,	<u>Spay and neuter clinic</u>	<u>Equipment</u>	<u>Total</u>
2014	\$ 49,560	\$ 66,486	\$ 116,046
2015	49,560	66,486	116,046
2016	49,560	64,706	114,266
2017	49,560	51,446	101,006
2018	49,560	29,160	78,720
Thereafter	<u>594,720</u>	<u> </u>	<u>594,720</u>
Total	<u>\$ 842,520</u>	<u>\$ 278,284</u>	<u>\$ 1,120,804</u>

The Organization has a long-term non-cancellable sublease agreement with an unrelated company that expires in February 2015. The minimum annual rental income to be received in the future is as follows:

Year ending December 31,	
2014	\$ 67,728
2015	<u>8,466</u>
Total	<u>\$ 76,194</u>

East Alameda County Facility

The Organization has a 99-year agreement to lease property from the Alameda County Surplus Property Authority (landlord) on which a second facility providing animal adoption and spay and neuter services for the Eastern Alameda County area was constructed. The terms of the lease provide for annual rent of \$1 plus property taxes and utilities. Although the lease may be terminated at any time by the Organization after giving a 180-day notice, the landlord has the option to require the Organization to return the property to its original condition at the beginning of the lease. The landlord may only terminate the lease after 50 years.

**EAST BAY SOCIETY FOR THE PREVENTION
OF CRUELTY TO ANIMALS**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

9. RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following:

	<u>2013</u>	<u>2012</u>
Time restricted:		
Split-interest agreement assets	\$ 728,530	\$ 311,275
Purpose restricted:		
Second Chance fund	334,847	128,790
Maddie's fund	67,151	
Capital campaign	2,500	105,000
Foundation grants		94,170
Miscellaneous programs	<u>11,309</u>	<u>2,892</u>
Total	<u>\$ 1,144,337</u>	<u>\$ 642,127</u>

Permanently restricted net assets are comprised of the following:

	<u>2013</u>	<u>2012</u>
Split-interest agreement asset – interest in a perpetual trust	\$ 1,528,223	\$ 1,613,476
Endowment fund	<u>556,110</u>	<u>556,110</u>
Total	<u>\$ 2,084,333</u>	<u>\$ 2,169,586</u>

The Organization has a donor-restricted endowment fund. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) accumulated unrealized appreciation and depreciation of endowment investments if directed by the donor gift instrument, (c) the original value of subsequent gifts to the permanent endowments, and (d) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Under the investment policy as approved by the Board of Directors, the primary investment objectives are to generate sufficient long term growth of capital, without undue exposure to risk, to enhance the Organization's ability to meet its present and future financial needs, as well as increase the real (adjusted for inflation) purchasing power of the investments.

There were no changes to the endowment fund during 2013 and 2012.

**EAST BAY SOCIETY FOR THE PREVENTION
OF CRUELTY TO ANIMALS**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

10. RETIREMENT PLANS

The Organization has established a money purchase pension plan for its employees. Effective November 1, 2012, the Organization's plan was amended to allow for a 3% safe harbor non-elective contribution in addition to a non-elective profit sharing contribution. Eligible employees of the safe harbor contribution were required to have completed two months of service and be at least 18 years of age. Eligible employees of the profit sharing contribution were required to be employed by the Organization on the last day of the plan year. The required contributions under the plan were \$256,154 and \$216,127 in 2013 and 2012, respectively. Funding for the contribution is accumulated in an interest-bearing cash account and is remitted to the plan annually.