

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

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

**YEARS ENDED  
DECEMBER 31, 2012 AND 2011**

## **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, 2012 and 2011, 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.

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Board of Directors  
East Bay Society for the Prevention  
of Cruelty to Animals  
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*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, 2012 and 2011, 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." The signature is written in black ink and is positioned above the printed name of the company.

GILBERT ASSOCIATES, INC.  
Sacramento, California

June 5, 2013

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

**STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 774,563	\$ 875,716
Accounts receivable, net	7,860	3,371
Bequests receivable	7,936	705,500
Inventories	104,002	127,412
Prepaid expenses	<u>80,151</u>	<u>215,383</u>
Total current assets	974,512	1,927,382
<b>INVESTMENTS</b>	18,963,869	17,189,808
<b>PROPERTY AND EQUIPMENT, Net</b>	7,909,390	6,963,564
<b>BOND ISSUANCE COSTS, Net</b>		207,833
<b>SPLIT-INTEREST AGREEMENT ASSETS</b>	<u>1,924,751</u>	<u>1,660,887</u>
<b>TOTAL ASSETS</b>	<u>\$ 29,772,522</u>	<u>\$ 27,949,474</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 134,602	\$ 167,898
Accrued expenses	509,666	366,061
Line of credit	<u>5,593,384</u>	
Total current liabilities	6,237,652	533,959
<b>TAX EXEMPT BOND PAYABLE</b>		<u>5,600,000</u>
Total liabilities	<u>6,237,652</u>	<u>6,133,959</u>
<b>NET ASSETS:</b>		
Unrestricted	20,723,157	19,452,826
Temporarily restricted	642,127	519,284
Permanently restricted	<u>2,169,586</u>	<u>1,843,405</u>
Total net assets	<u>23,534,870</u>	<u>21,815,515</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 29,772,522</u>	<u>\$ 27,949,474</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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>UNRESTRICTED NET ASSETS:</b>		
<b>REVENUES AND SUPPORT:</b>		
Program revenues:		
Veterinary services	\$ 2,418,175	\$ 2,263,771
Less: Discounts for free and reduced fee veterinary services	<u>(362,854)</u>	<u>(316,091)</u>
Veterinary services, net	2,055,321	1,947,680
Shelter and adoption services	<u>494,458</u>	<u>395,919</u>
Total program revenue	<u>2,549,779</u>	<u>2,343,599</u>
Public support:		
Contributions	1,575,039	1,643,154
Bequests	1,230,429	1,523,632
Net assets released from restrictions	<u>52,849</u>	<u>47,394</u>
Total public support	<u>2,858,317</u>	<u>3,214,180</u>
Other income:		
Investment income	2,503,102	270,853
Rental income	67,737	67,728
Other income	<u>101,273</u>	<u>101,578</u>
Total other income	<u>2,672,112</u>	<u>440,159</u>
Total revenues and support	<u>8,080,208</u>	<u>5,997,938</u>
<b>EXPENSES:</b>		
Program services:		
Shelter and adoption services	2,956,675	2,384,356
Veterinary services	<u>2,741,765</u>	<u>2,326,949</u>
Total program services	<u>5,698,440</u>	<u>4,711,305</u>
Supporting services:		
Fundraising	558,941	526,135
General and administrative	<u>552,496</u>	<u>458,847</u>
Total supporting services	<u>1,111,437</u>	<u>984,982</u>
Total expenses	<u>6,809,877</u>	<u>5,696,287</u>
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	<u>1,270,331</u>	<u>301,651</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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>TEMPORARILY RESTRICTED NET ASSETS:</b>		
Contributions	238,009	174,517
Change in value of split-interest agreement assets	(62,317)	(27,703)
Net assets released from restrictions	<u>(52,849)</u>	<u>(47,394)</u>
<b>INCREASE IN TEMPORARILY RESTRICTED NET ASSETS</b>	<u>122,843</u>	<u>99,420</u>
<b>PERMANENTLY RESTRICTED NET ASSETS:</b>		
Contributions		4,933
Change in value of split-interest agreement assets	<u>326,181</u>	<u>260,442</u>
<b>INCREASE IN PERMANENTLY RESTRICTED NET ASSETS</b>	<u>326,181</u>	<u>265,375</u>
<b>INCREASE IN NET ASSETS</b>	1,719,355	666,446
<b>NET ASSETS, Beginning of Year</b>	<u>21,815,515</u>	<u>21,149,069</u>
<b>NET ASSETS, End of Year</b>	<u>\$ 23,534,870</u>	<u>\$ 21,815,515</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>Fundraising</u>	<u>General and administrative</u>	
Salaries	\$ 1,242,373	\$ 1,290,616	\$ 56,013	\$ 249,017	\$ 2,838,019
Payroll taxes and benefits	444,570	392,237	18,676	59,151	914,634
Supplies	263,191	475,839	7,789	7,974	754,793
Depreciation and amortization	395,203	123,611	1,428	2,922	523,164
Printing and postage	24,810	22,605	389,475	15,017	451,907
Outside services	76,076	161,227	778		238,081
Occupancy	127,350	101,706	1,494		230,550
Professional fees	34,260	10,138	73,191	57,379	174,968
Repair and maintenance	44,150	27,114	273	66,930	138,467
Interest expense	82,368	20,592			102,960
Bank charges	13,185	27,055	7,362	36,684	84,286
Insurance	40,734	7,546	456	18,599	67,335
Non-depreciable equipment	46,449	13,760	110	3,713	64,032
Advertising	28,157	28,157			56,314
Outreach services	23,148	8,607		3,333	35,088
Events	23,689	10,544			34,233
Miscellaneous expense	<u>46,962</u>	<u>20,411</u>	<u>1,896</u>	<u>31,777</u>	<u>101,046</u>
<b>Total</b>	<u>\$ 2,956,675</u>	<u>\$ 2,741,765</u>	<u>\$ 558,941</u>	<u>\$ 552,496</u>	<u>\$ 6,809,877</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, 2011**

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>
	<u>Shelter and adoption services</u>	<u>Veterinary services</u>	<u>Fundraising</u>	<u>General and administrative</u>	
Salaries	\$ 1,078,660	\$ 1,142,745	\$ 96,144	\$ 195,553	\$ 2,513,102
Payroll taxes and benefits	309,200	280,682	23,042	63,872	676,796
Supplies	213,712	419,144	3,806	8,773	645,435
Depreciation and amortization	226,377	78,981	1,308	2,678	309,344
Printing and postage	25,404	25,941	312,944	480	364,769
Outside services	30,375	112,923	255	16,333	159,886
Occupancy	113,006	101,663	1,291		215,960
Professional fees	70,756	11,251	30,829	49,713	162,549
Repair and maintenance	63,416	20,140	73	26,228	109,857
Interest expense	86,497	21,624		150	108,271
Bank charges	9,894	32,068	16,612	31,235	89,809
Insurance	39,180	13,970	438	11,353	64,941
Non-depreciable equipment	17,414	8,127	26,933	5,925	58,399
Advertising	17,017	17,017	10,044		44,078
Outreach services	11,504	9,589		28,172	49,265
Events	25,634	9,284			34,918
Miscellaneous expense	46,310	21,800	2,416	18,382	88,908
<b>Total</b>	<u>\$ 2,384,356</u>	<u>\$ 2,326,949</u>	<u>\$ 526,135</u>	<u>\$ 458,847</u>	<u>\$ 5,696,287</u>

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



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

**STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 1,719,355	\$ 666,446
Reconciliation to net cash provided (used) by operating activities:		
Depreciation and amortization	523,164	309,344
Net realized and unrealized (gain) loss on investments	(1,870,383)	342,792
Change in value of split-interest agreement assets	(263,864)	(232,740)
Changes in:		
Accounts receivable	(4,489)	3,797
Bequests receivable	697,564	345,600
Inventories	23,410	(50,971)
Prepaid expenses	135,232	(36,729)
Accounts payable	(33,296)	52,569
Accrued expenses	<u>100,413</u>	<u>172,129</u>
Net cash and cash equivalents provided by operating activities	<u>1,027,106</u>	<u>1,572,237</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(1,283,082)	(3,036,371)
Proceeds from sale of investments	1,379,404	2,036,001
Purchases of property and equipment	<u>(1,217,965)</u>	<u>(27,818)</u>
Net cash and cash equivalents used by investing activities	<u>(1,121,643)</u>	<u>(1,028,188)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from line of credit	5,600,000	
Repayment of bond payable	(5,600,000)	
Payment on line of credit	<u>(6,616)</u>	
Net cash and cash equivalents used by financing activities	<u>(6,616)</u>	
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(101,153)	544,049
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	<u>875,716</u>	<u>331,667</u>
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	<u>\$ 774,563</u>	<u>\$ 875,716</u>
<b>SUPPLEMENTAL ACTIVITY:</b>		
Cash paid for interest	<u>\$ 102,961</u>	<u>\$ 108,271</u>
<b>NON-CASH ACTIVITY:</b>		
Accrual of retainage payable	<u>\$ 43,192</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, 2012 AND 2011

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### 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.

**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.

# EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

---

**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.

**Bond issuance costs** – Certain costs related to the bond issue were capitalized and amortized using the straight-line method over the life of the bond. As the bond was paid in full during 2012 (see note 5) the bond issuance costs were fully amortized.

**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.

**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 June 5, 2013, the date the financial statements were issued.

**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, 2012 AND 2011

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.

### 3. 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>2012</u>	<u>2011</u>
Mutual funds:		
Bonds	\$ 6,028,493	\$ 4,786,823
Growth	5,445,634	5,751,423
Value	4,689,683	2,914,497
Conservative allocation	1,087,317	980,241
Large blend	461,408	313,750
Foreign large blend	228,520	281,330
Diversified emerging markets	105,997	152,329
Commodities broad basket	56,860	65,566
Natural resources	56,594	61,550
Fixed income funds		<u>855,475</u>
Total mutual funds	<u>18,160,506</u>	<u>16,162,984</u>
Corporate bonds:		
AA+ credit rating	59,846	162,740
A+ credit rating	47,760	
A credit rating	117,995	59,709
A- credit rating	100,730	369,482
AA- credit rating		46,402
BB+ credit rating		41,247
BBB+ credit rating	104,388	56,038
BBB credit rating	134,824	118,078
BBB- credit rating	<u>104,721</u>	<u>59,415</u>
Total corporate bonds	<u>670,264</u>	<u>913,111</u>
Money market funds	<u>133,099</u>	<u>113,713</u>
Total	<u>\$ 18,963,869</u>	<u>\$ 17,189,808</u>

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

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

Investment income consists of the following:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 632,719	\$ 613,645
Unrealized and realized gain (loss)	<u>1,870,383</u>	<u>(342,792)</u>
Total	<u>\$ 2,503,102</u>	<u>\$ 270,853</u>

**4. PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

	<u>2012</u>	<u>2011</u>
Land	\$ 55,410	\$ 55,410
Building and improvements	10,100,999	10,065,184
Construction in process	1,134,684	
Equipment	742,327	671,798
Memorial gardens	<u>62,201</u>	<u>62,201</u>
Total	12,095,621	10,854,593
Less accumulated depreciation and amortization	<u>(4,186,231)</u>	<u>(3,891,029)</u>
Total	<u>\$ 7,909,390</u>	<u>\$ 6,963,564</u>

**5. SPLIT-INTEREST AGREEMENT ASSETS**

Split-interest agreement assets include the estimated fair value of the Organization's remainder 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 a discount rates ranging from 1.2% to 4.33% and 1.6% to 3.5% at December 31, 2012 and 2011, 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>2012</u>	<u>2011</u>
Beginning Balance	\$ 1,660,887	\$ 1,428,148
Net increase in fair value of split-interest agreement assets	<u>263,864</u>	<u>232,739</u>
Ending Balance	<u>\$ 1,924,751</u>	<u>\$ 1,660,887</u>

The Organization has a remainder interest in three split-interest agreements 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, 2012 AND 2011

### 6. TAX-EXEMPT BOND PAYABLE

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.

### 7. LINE OF CREDIT

During 2012, the Organization obtained 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%. (1.56% at December 31, 2012) 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, 2012 was \$5,593,384.

In March 2013, the Organization converted \$1,000,000 of the outstanding line of credit balance into four fixed rate loans totaling \$250,000 each. 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. RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following:

	<u>2012</u>	<u>2011</u>
Time restricted:		
Split-interest agreement assets	\$ 311,275	\$ 373,592
Purpose restricted:		
Second Chance fund	128,790	27,347
Capital campaign	105,000	
Foundation grants	94,170	115,930
Miscellaneous programs	2,892	2,415
Total	\$ 642,127	\$ 519,284

# EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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Permanently restricted net assets are comprised of the following:

	<u>2012</u>	<u>2011</u>
Split-interest agreement asset – interest in a perpetual trust	\$ 1,613,476	\$ 1,287,295
Endowment fund	<u>556,110</u>	<u>556,110</u>
Total	<u>\$ 2,169,586</u>	<u>\$ 1,843,405</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 2012. During 2011, a contribution of \$4,933 was made to the endowment.

### 9. 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 \$104,825 and \$105,026 in 2012 and 2011, respectively.

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Future minimum lease payments under these agreements are as follows:

<b>Year ending December 31,</b>	<b><u>Spay and neuter clinic</u></b>	<b><u>Equipment</u></b>	<b><u>Total</u></b>
2013	\$ 49,500	\$ 43,254	\$ 92,754
2014	49,500	43,254	92,754
2015	49,500	43,254	92,754
2016	49,500	38,342	87,842
2017	49,500	21,950	71,450
Thereafter	<u>643,500</u>	<u>7,038</u>	<u>650,538</u>
Total	<u>\$ 891,000</u>	<u>\$ 197,092</u>	<u>\$ 1,088,092</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:

<b>Year ending December 31,</b>	
2013	\$ 67,728
2014	67,728
2015	<u>8,466</u>
Total	<u>\$ 143,922</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.

**10. IN-KIND DONATIONS**

Donated materials, equipment, and services were recognized as follows:

	<b><u>2012</u></b>	<b><u>2011</u></b>
Occupancy	\$ 30,802	\$ 28,563
Miscellaneous	<u>14,745</u>	<u>30,936</u>
Total	<u>\$ 45,547</u>	<u>\$ 59,499</u>



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### **11. RETIREMENT PLANS**

The Organization has established a money purchase pension plan for its employees. Prior to November 1, 2012, under the plan, the Organization contributed an amount equal to 10% of eligible employee salaries. Eligible employees were required to have completed one year of service, be at least twenty-one years of age and have worked 1,000 hours during the plan year. 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 \$216,127 and \$115,966 in 2012 and 2011, respectively. Funding for the contribution is accumulated in an interest-bearing cash account and is remitted to the plan annually.

### **12. CONCENTRATIONS OF CREDIT RISK**

The Organization maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Organization has not experience any losses in such accounts. Management believes the Organization is not exposed to any significant credit risk related to cash.