

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

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

**YEARS ENDED  
DECEMBER 31, 2014 AND 2013**

## **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, 2014 and 2013, 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  
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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, 2014 and 2013, 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.

*Gilbert Associates, Inc.*

**GILBERT ASSOCIATES, INC.**  
**Sacramento, California**

**June 9, 2015**

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

**STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,373,348	\$ 478,856
Accounts receivable, net	6,301	44,326
Current portion of contributions receivable	115,600	318,350
Inventories	69,907	51,551
Prepaid expenses	204,468	223,231
Total current assets	1,769,624	1,116,314
<b>INVESTMENTS</b>	18,951,189	19,464,933
<b>PROPERTY AND EQUIPMENT, Net</b>	14,948,425	13,983,565
<b>CONTRIBUTIONS RECEIVABLE, Net</b>	482,253	621,460
<b>SPLIT-INTEREST AGREEMENT ASSETS</b>	2,208,310	2,256,753
<b>TOTAL ASSETS</b>	\$ 38,359,801	\$ 37,443,025
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 200,398	\$ 389,084
Accrued expenses and other liabilities	979,569	1,381,217
Line of credit	8,754,472	8,056,949
Total current liabilities	9,934,439	9,827,250
<b>LONG-TERM DEBT</b>	1,000,000	1,000,000
Total liabilities	10,934,439	10,827,250
<b>NET ASSETS:</b>		
Unrestricted	24,429,175	23,387,105
Temporarily restricted	941,987	1,144,337
Permanently restricted	2,054,200	2,084,333
Total net assets	27,425,362	26,615,775
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 38,359,801	\$ 37,443,025

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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>UNRESTRICTED NET ASSETS:</b>		
<b>REVENUES AND SUPPORT:</b>		
Program revenues:		
Veterinary services	\$ 3,192,327	\$ 2,536,815
Less: Discounts for free and reduced fee veterinary services	<u>(639,118)</u>	<u>(504,221)</u>
Veterinary services, net	2,553,209	2,032,594
Shelter and adoption services	<u>500,901</u>	<u>397,587</u>
Total program revenue	<u>3,054,110</u>	<u>2,430,181</u>
Public support:		
Contributions	2,127,540	2,847,103
Bequests	3,119,099	1,032,413
Net assets released from restrictions	<u>415,807</u>	<u>330,852</u>
Total public support	<u>5,662,446</u>	<u>4,210,368</u>
Other income:		
Investment income	1,499,020	3,592,836
Rental income	67,728	69,338
Other income	<u>503</u>	<u>4,196</u>
Total other income	<u>1,567,251</u>	<u>3,666,370</u>
Total revenues and support	<u>10,283,807</u>	<u>10,306,919</u>
<b>EXPENSES:</b>		
Program services:		
Veterinary services	3,804,384	3,105,993
Shelter and adoption services	<u>3,733,668</u>	<u>3,101,648</u>
Total program services	<u>7,538,052</u>	<u>6,207,641</u>
Supporting services:		
Fundraising	942,336	755,028
General and administrative	<u>761,349</u>	<u>680,302</u>
Total supporting services	<u>1,703,685</u>	<u>1,435,330</u>
Total expenses	<u>9,241,737</u>	<u>7,642,971</u>
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	<u>1,042,070</u>	<u>2,663,948</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, 2014 AND 2013**

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	<u>2014</u>	<u>2013</u>
<b>TEMPORARILY RESTRICTED NET ASSETS:</b>		
Contributions	231,767	787,129
Change in value of split-interest agreement assets	(18,310)	45,933
Net assets released from restrictions	<u>(415,807)</u>	<u>(330,852)</u>
<b>INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS</b>	<u>(202,350)</u>	<u>502,210</u>
<b>PERMANENTLY RESTRICTED NET ASSETS:</b>		
Change in value of split-interest agreement assets	<u>(30,133)</u>	<u>(85,253)</u>
<b>INCREASE IN NET ASSETS</b>	809,587	3,080,905
<b>NET ASSETS, Beginning of Year</b>	<u>26,615,775</u>	<u>23,534,870</u>
<b>NET ASSETS, End of Year</b>	<u>\$ 27,425,362</u>	<u>\$ 26,615,775</u>

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

**STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2014**

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>
	<u>Veterinary services</u>	<u>Shelter and adoption services</u>	<u>Fundraising</u>	<u>General and administrative</u>	
Salaries	\$ 1,945,428	\$ 1,521,450	\$ 240,316	\$ 456,973	\$ 4,164,167
Payroll taxes and benefits	528,768	514,359	55,952	53,409	1,152,488
Supplies	665,703	215,215	62,582	7,180	950,680
Depreciation	91,417	464,471	8,114	8,468	572,470
Printing and postage	27,456	27,410	347,734	15,206	417,806
Outside services	159,086	163,656	2,689	2,807	328,238
Occupancy	78,956	216,381	3,780	18,531	317,648
Professional fees	48,136	39,436	90,132	106,512	284,216
Repair and maintenance	32,258	119,143	2,054	2,686	156,141
Bank charges	58,786	11,757	47,029	38,253	155,825
Outreach services	3,539	146,215			149,754
Non-depreciable equipment	39,289	32,331	26,814	4,876	103,310
Interest expense	19,737	78,950		35,586	134,273
Insurance	12,550	63,763	1,114	1,162	78,589
Events		34,291	19,595		53,886
Advertising	26,428	26,428	211		53,067
Miscellaneous expense	66,847	58,412	34,220	9,700	169,179
<b>Total</b>	<u>\$ 3,804,384</u>	<u>\$ 3,733,668</u>	<u>\$ 942,336</u>	<u>\$ 761,349</u>	<u>\$ 9,241,737</u>

**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>Veterinary services</u>	<u>Shelter and adoption services</u>	<u>Fundraising</u>	<u>General and administrative</u>	
Salaries	\$ 1,435,165	\$ 1,317,407	\$ 208,858	\$ 317,209	\$ 3,278,639
Payroll taxes and benefits	393,868	470,615	55,695	67,861	988,039
Supplies	528,073	211,297	6,116	74,974	820,460
Depreciation	100,066	266,812	1,197	3,709	371,784
Printing and postage	37,586	35,020	289,368	9,711	371,685
Outside services	221,580	78,262	461	944	301,247
Occupancy	113,582	146,808	706	1,447	262,543
Professional fees	54,517	93,567	131,080	36,740	315,904
Repair and maintenance	50,030	123,251	680	6,288	180,249
Bank charges	38,540	23,333	17,477	36,908	116,258
Outreach services	750	108,651			109,401
Non-depreciable equipment	32,207	47,958	28,195	4,007	112,367
Interest expense	8,979	35,914			44,893
Insurance	16,148	41,876	262	11,962	70,248
Events	11,002	36,014			47,016
Advertising	27,490	27,490			54,980
Miscellaneous expense	36,410	37,373	14,933	108,542	197,258
<b>Total</b>	<u>\$ 3,105,993</u>	<u>\$ 3,101,648</u>	<u>\$ 755,028</u>	<u>\$ 680,302</u>	<u>\$ 7,642,971</u>



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

**STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 809,587	\$ 3,080,905
Reconciliation to net cash provided (used) by operating activities:		
Depreciation and amortization	572,470	371,784
Net realized and unrealized gain on investments	(977,884)	(3,100,048)
Changes in:		
Accounts receivable	38,025	(36,466)
Inventories	(18,356)	52,451
Prepaid expenses	18,763	(143,080)
Contributions receivable	341,957	(931,874)
Split-interest agreement assets	48,443	(332,002)
Accounts payable	(188,686)	254,482
Accrued expenses and other liabilities	(401,648)	297,552
Net cash and cash equivalents provided (used) by operating activities	<u>242,671</u>	<u>(486,296)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(1,485,596)	(925,572)
Proceeds from sale of investments	2,977,224	3,524,556
Purchases of property and equipment	(1,537,330)	(5,871,960)
Net cash and cash equivalents used by investing activities	<u>(45,702)</u>	<u>(3,272,976)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from line of credit	2,066,193	4,947,689
Payment on line of credit	(1,368,670)	(1,484,124)
Net cash and cash equivalents provided by financing activities	<u>697,523</u>	<u>3,463,565</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	894,492	(295,707)
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	<u>478,856</u>	<u>774,563</u>
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	<u>\$ 1,373,348</u>	<u>\$ 478,856</u>
<b>SUPPLEMENTAL ACTIVITY:</b>		
Cash paid for interest	<u>\$ 154,524</u>	<u>\$ 127,508</u>
<b>NON-CASH ACTIVITY:</b>		
Accrual of retainage payable for construction in progress	<u>\$</u>	<u>\$ 573,999</u>
Line of credit converted into long-term debt	<u>\$</u>	<u>\$ 1,000,000</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, 2014 AND 2013

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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.

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, 2014 AND 2013

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**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 2010.

**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, 2014 AND 2013

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 June 9, 2015, the date the financial statements were issued. Management concluded that no material subsequent events have occurred since December 31, 2014 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 rate used in determining the net present value of contributions receivable was 6% at December 31, 2014. 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>2014</u>	<u>2013</u>
Gross contributions receivable	\$ 625,400	\$ 990,660
Less:		
Discount on contributions receivable	(24,047)	(50,850)
Allowance for uncollectible contributions	(3,500)	
Contributions receivable, net	\$ 597,853	\$ 939,810

Contributions receivable are due to be collected as follows:

	<u>2014</u>	<u>2013</u>
Within one year	\$ 115,600	\$ 318,350
In one to five years	482,253	621,460
Contributions receivable, net	\$ 597,853	\$ 939,810

# EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

### 4. INVESTMENTS

Corporate bonds are classified within Level 2 of the fair value hierarchy because they are valued using observable information inputs, such as current interest rates. All other investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

	<u>2014</u>	<u>2013</u>
Mutual funds:		
Bonds	\$ 5,264,267	\$ 3,805,421
Growth	5,206,105	5,340,168
Value	4,239,327	6,997,276
Large blend	1,322,098	788,421
Financial	713,708	
Technology	711,427	
Health	480,711	
Mid-cap blend	102,390	
Consumer cyclical	64,935	
Industrials	62,238	
Consumer defensive	33,943	
Natural resources	21,958	32,606
Diversified emerging markets	20,650	
Conservative allocation		1,135,887
Bank loan		452,292
Foreign large blend		134,190
Total mutual funds	<u>18,243,757</u>	<u>18,686,261</u>
Corporate bonds:		
AA+ credit rating	56,261	57,886
A credit rating		452,357
A- credit rating		47,002
BBB credit rating	68,650	71,853
BBB- credit rating		44,547
Total corporate bonds	<u>124,911</u>	<u>673,645</u>
Money market funds	<u>582,521</u>	<u>105,027</u>
Total	<u>\$ 18,951,189</u>	<u>\$ 19,464,933</u>

# EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Investment income consists of the following:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 521,136	\$ 492,788
Net unrealized and realized gain	<u>977,884</u>	<u>3,100,048</u>
Total	<u>\$ 1,499,020</u>	<u>\$ 3,592,836</u>

### 5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2014</u>	<u>2013</u>
Building and improvements	\$ 18,342,690	\$ 14,498,061
Land	55,410	55,410
Construction in process		2,517,627
Equipment	1,115,460	925,175
Memorial gardens	<u>20,085</u>	<u>20,085</u>
Total	19,533,645	18,016,358
Less accumulated depreciation and amortization	<u>(4,585,220)</u>	<u>(4,032,793)</u>
Total	<u>\$ 14,948,425</u>	<u>\$ 13,983,565</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 6.0% at December 31, 2014 and 2013. 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>2014</u>	<u>2013</u>
Beginning Balance	\$ 2,256,753	\$ 1,924,751
Contribution		371,322
Change in fair value of split-interest agreement assets	<u>(48,443)</u>	<u>(39,320)</u>
Ending Balance	<u>\$ 2,208,310</u>	<u>\$ 2,256,753</u>

# EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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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.

### 7. DEBT

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, 2014 and 2013) and is due on demand and has no established maturity date. There are no required payments under the line of credit; however, the Organization may repay any advance, in whole or part, at any time. The line of credit is secured by all of the Organization's assets. The outstanding balance of December 31, 2014 and 2013 was \$8,754,472 and \$8,056,949, 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 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 2020. Expense under operating lease agreements totaled \$117,439 and \$114,018 in 2014 and 2013, respectively.

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

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

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>
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
2019	49,560		49,560
Thereafter	<u>545,160</u>	<u>                    </u>	<u>545,160</u>
Total	<u>\$ 792,960</u>	<u>\$ 211,798</u>	<u>\$ 1,004,758</u>

The Organization has a long-term non-cancellable sublease agreement with an unrelated company that expires in February 2020. The minimum annual rental income to be received in the future is as follows:

<b>Year ending December 31,</b>	
2015	\$ 72,989
2016	73,740
2017	73,740
2018	73,740
2019	73,740
Thereafter	<u>9,218</u>
Total	<u>\$ 377,167</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.



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**9. RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following:

	<u>2014</u>	<u>2013</u>
Time restricted:		
Split-interest agreement assets	\$ 710,220	\$ 728,530
Purpose restricted:		
Second Chance fund	186,799	334,847
Pets and Love Shared program	40,000	
Maddie's fund	4,938	67,151
Capital campaign		2,500
Miscellaneous programs	<u>30</u>	<u>11,309</u>
Total	<u>\$ 941,987</u>	<u>\$ 1,144,337</u>

Permanently restricted net assets are comprised of the following:

	<u>2014</u>	<u>2013</u>
Split-interest agreement asset – interest in a perpetual trust	\$ 1,498,090	\$ 1,528,223
Endowment fund	<u>556,110</u>	<u>556,110</u>
Total	<u>\$ 2,054,200</u>	<u>\$ 2,084,333</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 2014 and 2013.

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**10. RETIREMENT PLANS**

The Organization has established a money purchase pension plan for its employees which allows for a 3% safe harbor non-elective contribution in addition to a non-elective profit sharing contribution. Eligible employees of the safe harbor contribution are required to have completed two months of service and be at least 18 years of age. Eligible employees of the profit sharing contribution are required to be employed by the Organization on the last day of the plan year. The required contributions under the plan were \$266,363 and \$256,154 in 2014 and 2013, respectively. Funding for the contribution is accumulated in an interest-bearing cash account and is remitted to the plan annually.