

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

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

**YEARS ENDED
DECEMBER 31, 2015 AND 2014**

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, 2015 and 2014, 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
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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, 2015 and 2014, 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.".

GILBERT ASSOCIATES, INC.
Sacramento, California

May 24, 2016

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

**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 901,967	\$ 1,373,348
Accounts receivable, net	59,059	6,301
Current portion of contributions receivable	211,857	115,600
Inventories	65,932	69,907
Prepaid expenses	194,710	204,468
Total current assets	1,433,525	1,769,624
INVESTMENTS	17,297,131	18,951,189
PROPERTY AND EQUIPMENT, Net	14,395,860	14,948,425
CONTRIBUTIONS RECEIVABLE, Net	363,072	482,253
SPLIT-INTEREST AGREEMENT ASSETS	1,984,404	2,208,310
TOTAL ASSETS	\$ 35,473,992	\$ 38,359,801
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 240,360	\$ 200,398
Accrued expenses and other liabilities	759,814	979,569
Line of credit	8,359,775	8,754,472
Total current liabilities	9,359,949	9,934,439
LONG-TERM DEBT	1,000,000	1,000,000
Total liabilities	10,359,949	10,934,439
NET ASSETS:		
Unrestricted	22,568,499	24,429,175
Temporarily restricted	683,629	941,987
Permanently restricted	1,861,915	2,054,200
Total net assets	25,114,043	27,425,362
TOTAL LIABILITIES AND NET ASSETS	\$ 35,473,992	\$ 38,359,801

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, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Program revenues:		
Veterinary services	\$ 3,895,544	\$ 3,192,327
Less: Discounts for free and reduced fee veterinary services	<u>(783,713)</u>	<u>(639,118)</u>
Veterinary services, net	3,111,831	2,553,209
Shelter and adoption services	<u>499,723</u>	<u>500,901</u>
Total program revenue	<u>3,611,554</u>	<u>3,054,110</u>
Public support:		
Contributions	2,541,734	2,127,540
Bequests	1,626,314	3,119,099
Net assets released from restrictions	<u>231,767</u>	<u>415,807</u>
Total public support	<u>4,399,815</u>	<u>5,662,446</u>
Other income:		
Rental income	72,988	67,728
Investment income	2,799	1,499,020
Other income	<u>2,094</u>	<u>503</u>
Total other income	<u>77,881</u>	<u>1,567,251</u>
Total revenues and support	<u>8,089,250</u>	<u>10,283,807</u>
EXPENSES:		
Program services:		
Veterinary services	4,396,161	3,804,384
Shelter and adoption services	<u>4,058,400</u>	<u>3,733,668</u>
Total program services	<u>8,454,561</u>	<u>7,538,052</u>
Supporting services:		
Fundraising	724,692	942,336
General and administrative	<u>722,757</u>	<u>761,349</u>
Total supporting services	<u>1,447,449</u>	<u>1,703,685</u>
Total expenses	<u>9,902,010</u>	<u>9,241,737</u>
INCOME (LOSS) FROM OPERATIONS	(1,812,760)	1,042,070
Settlement loss	<u>(47,916)</u>	<u> </u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>(1,860,676)</u>	<u>1,042,070</u>

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

**EAST BAY SOCIETY FOR THE PREVENTION
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**STATEMENTS OF ACTIVITIES (Page 2 of 2)
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	51,758	231,767
Change in value of split-interest agreement assets	(78,349)	(18,310)
Net assets released from restrictions	<u>(231,767)</u>	<u>(415,807)</u>
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(258,358)</u>	<u>(202,350)</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Change in value of split-interest agreement assets	<u>(192,285)</u>	<u>(30,133)</u>
INCREASE (DECREASE) IN NET ASSETS	(2,311,319)	809,587
NET ASSETS, Beginning of Year	<u>27,425,362</u>	<u>26,615,775</u>
NET ASSETS, End of Year	<u>\$ 25,114,043</u>	<u>\$ 27,425,362</u>

**EAST BAY SOCIETY FOR THE PREVENTION
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**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015**

	<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	\$ 2,239,997	\$ 1,751,300	\$ 156,788	\$ 397,577	\$ 4,545,662
Payroll taxes and benefits	669,165	596,737	42,147	94,802	1,402,851
Supplies	808,993	230,761	2,016	5,668	1,047,438
Depreciation	108,620	504,147	5,718	5,968	624,453
Printing and postage	20,919	23,597	339,377	798	384,691
Occupancy	51,664	193,705	1,799	55,227	302,395
Outside services	192,849	105,635	1,326		299,810
Professional fees	25,216	37,569	69,006	95,094	226,885
Interest expense	33,073	132,291			165,364
Bank charges	64,441	20,150	26,729	36,865	148,185
Repair and maintenance	31,976	108,412	950		141,338
Outreach services	1,964	131,769			133,733
Non-depreciable equipment	42,361	40,084	36,045		118,490
Insurance	20,402	73,698	905	945	95,950
Events		23,007	30,552		53,559
Advertising	19,026	19,025			38,051
Miscellaneous expense	65,495	66,513	11,334	29,813	173,155
Total	<u>\$ 4,396,161</u>	<u>\$ 4,058,400</u>	<u>\$ 724,692</u>	<u>\$ 722,757</u>	<u>\$ 9,902,010</u>

**EAST BAY SOCIETY FOR THE PREVENTION
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**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
Occupancy	78,956	216,381	3,780	18,531	317,648
Outside services	159,086	163,656	2,689	2,807	328,238
Professional fees	48,136	39,436	90,132	106,512	284,216
Interest expense	19,737	78,950		35,586	134,273
Bank charges	58,786	11,757	47,029	38,253	155,825
Repair and maintenance	32,258	119,143	2,054	2,686	156,141
Outreach services	3,539	146,215			149,754
Non-depreciable equipment	39,289	32,331	26,814	4,876	103,310
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
Total	<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
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**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (2,311,319)	\$ 809,587
Reconciliation to net cash provided (used) by operating activities:		
Depreciation and amortization	624,453	572,470
Net realized and unrealized gain on investments	476,413	(977,884)
Changes in:		
Accounts receivable	(52,758)	38,025
Inventories	3,975	(18,356)
Prepaid expenses	9,758	18,763
Contributions receivable	22,924	341,957
Split-interest agreement assets	223,906	48,443
Accounts payable	39,962	(188,686)
Accrued expenses and other liabilities	<u>(219,755)</u>	<u>(401,648)</u>
Net cash and cash equivalents provided (used) by operating activities	<u>(1,182,441)</u>	<u>242,671</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,039,429)	(1,485,596)
Proceeds from sale of investments	2,217,074	2,977,224
Purchases of property and equipment	<u>(71,888)</u>	<u>(1,537,330)</u>
Net cash and cash equivalents provided (used) by investing activities	<u>1,105,757</u>	<u>(45,702)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	183,059	2,066,193
Payment on line of credit	<u>(577,756)</u>	<u>(1,368,670)</u>
Net cash and cash equivalents provided (used) by financing activities	<u>(394,697)</u>	<u>697,523</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(471,381)	894,492
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>1,373,348</u>	<u>478,856</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 901,967</u>	<u>\$ 1,373,348</u>
SUPPLEMENTAL ACTIVITY:		
Cash paid for interest	<u>\$ 165,364</u>	<u>\$ 154,524</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, 2015 AND 2014

1. ORGANIZATION AND OPERATIONS

Founded in 1874, East Bay Society for the Prevention of Cruelty to Animals (Organization) is a nonprofit organization committed to the welfare of cats and dogs in Alameda and Contra Costa Counties. The Organization strives to eliminate animal cruelty, neglect and overpopulation by providing programs, education and resources at three locations to support people and companion animals. The Organization offers pet adoptions, spay and neuter, a full-service public veterinary clinic, foster care, dog training, humane education programs, volunteer opportunities and a variety of other services.

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, 2015 AND 2014

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 2011.

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, 2015 AND 2014

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 May 24, 2016, the date the financial statements were issued. Management concluded that no material subsequent events have occurred since December 31, 2015 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, 2015. 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>2015</u>	<u>2014</u>
Gross contributions receivable	\$ 595,589	\$ 625,400
Less:		
Discount on contributions receivable	(17,160)	(24,047)
Allowance for uncollectible contributions	<u>(3,500)</u>	<u>(3,500)</u>
Contributions receivable, net	<u>\$ 574,929</u>	<u>\$ 597,853</u>

Contributions receivable are due to be collected as follows:

	<u>2015</u>	<u>2014</u>
Within one year	\$ 211,857	\$ 115,600
In one to five years	<u>363,072</u>	<u>482,253</u>
Contributions receivable, net	<u>\$ 574,929</u>	<u>\$ 597,853</u>

EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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>2015</u>	<u>2014</u>
Mutual funds:		
Growth	\$ 5,568,049	\$ 5,206,105
Value	3,497,698	4,239,327
Bonds	3,262,440	5,264,267
Large blend	1,028,111	1,322,098
Technology	422,304	711,427
Consumer cyclical	230,572	64,935
Industrials	116,622	62,238
Conservative allocation	92,352	
Health	72,030	480,711
Financial	71,490	713,708
Energy	15,080	
Consumer defensive	12,623	33,943
Utilities	4,328	
Mid-cap blend		102,390
Natural resources		21,958
Diversified emerging markets		20,650
Total mutual funds	<u>14,393,699</u>	<u>18,243,757</u>
Corporate bonds:		
AA+ credit rating		56,261
BBB+ credit rating	66,878	
BBB credit rating		68,650
Total corporate bonds	<u>66,878</u>	<u>124,911</u>
Money market funds	<u>2,836,554</u>	<u>582,521</u>
Total	<u>\$ 17,297,131</u>	<u>\$ 18,951,189</u>

**EAST BAY SOCIETY FOR THE PREVENTION
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**NOTES TO FINANCIAL STATEMENTS
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Investment income consists of the following:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 479,212	\$ 521,136
Net unrealized and realized gain	<u>(476,413)</u>	<u>977,884</u>
Total	<u>\$ 2,799</u>	<u>\$ 1,499,020</u>

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2015</u>	<u>2014</u>
Building and improvements	\$ 18,385,814	\$ 18,342,690
Land	55,410	55,410
Equipment	1,144,224	1,115,460
Memorial gardens	<u>20,085</u>	<u>20,085</u>
Total	19,605,533	19,533,645
Less accumulated depreciation and amortization	<u>(5,209,673)</u>	<u>(4,585,220)</u>
Total	<u>\$ 14,395,860</u>	<u>\$ 14,948,425</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, 2015 and 2014. 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>2015</u>	<u>2014</u>
Beginning Balance	\$ 2,208,310	\$ 2,256,753
Contribution	46,728	
Change in fair value of split-interest agreement assets	<u>(270,634)</u>	<u>(48,443)</u>
Ending Balance	<u>\$ 1,984,404</u>	<u>\$ 2,208,310</u>

EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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%. (1.71% and 1.52% at December 31, 2015 and 2014, respectively) 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, 2015 and 2014 was \$8,359,775 and \$8,754,472, 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 \$123,785 and \$117,439 in 2015 and 2014, respectively.

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

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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>
2016	\$ 50,496	\$ 73,764	\$ 124,260
2017	50,496	61,394	111,890
2018	50,496	36,570	87,066
2019	50,496	9,948	60,444
2020	50,496	3,316	53,812
Thereafter	<u>555,456</u>	<u> </u>	<u>555,456</u>
Total	<u>\$ 807,936</u>	<u>\$ 184,992</u>	<u>\$ 992,928</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:

Year ending December 31,	
2016	\$ 73,740
2017	73,740
2018	73,740
2019	73,740
2020	<u>9,218</u>
Total	<u>\$ 304,178</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, 2015 AND 2014

9. RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following:

	<u>2015</u>	<u>2014</u>
Time restricted:		
Split-interest agreement assets	\$ 678,599	\$ 710,220
Purpose restricted:		
Second Chance fund		186,799
Pets and Love Shared program		40,000
Maddie's fund		4,938
Miscellaneous programs	5,030	30
Total	\$ 683,629	\$ 941,987

Permanently restricted net assets are comprised of the following:

	<u>2015</u>	<u>2014</u>
Split-interest agreement asset – interest in a perpetual trust	\$ 1,305,805	\$ 1,498,090
Endowment fund	556,110	556,110
Total	\$ 1,861,915	\$ 2,054,200

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 2015 and 2014.

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

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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 an 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 \$403,926 and \$266,363 in 2015 and 2014, respectively. Funding for the contribution is accumulated in an interest-bearing cash account and is remitted to the plan annually.