

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

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

**YEARS ENDED  
DECEMBER 31, 2016 AND 2015**

## **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, 2016 and 2015, 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, 2016 and 2015, 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**

**May 16, 2017**

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

**STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,023,608	\$ 901,967
Accounts receivable, net	24,761	59,059
Current portion of contributions receivable	594,481	211,857
Inventories	96,329	65,932
Prepaid expenses	157,992	194,710
Total current assets	1,897,171	1,433,525
<b>INVESTMENTS</b>	17,265,314	17,297,131
<b>PROPERTY AND EQUIPMENT, Net</b>	13,920,496	14,395,860
<b>CONTRIBUTIONS RECEIVABLE, Net</b>	183,166	363,072
<b>SPLIT-INTEREST AGREEMENT ASSETS</b>	1,404,043	1,984,404
<b>TOTAL ASSETS</b>	\$ 34,670,190	\$ 35,473,992
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 174,880	\$ 240,360
Accrued expenses and other liabilities	647,610	759,814
Line of credit	8,395,713	8,359,775
Total current liabilities	9,218,203	9,359,949
<b>LONG-TERM DEBT</b>	750,000	1,000,000
Total liabilities	9,968,203	10,359,949
<b>NET ASSETS:</b>		
Unrestricted	22,734,090	22,568,499
Temporarily restricted	371,382	683,629
Permanently restricted	1,596,515	1,861,915
Total net assets	24,701,987	25,114,043
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 34,670,190	\$ 35,473,992

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, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>UNRESTRICTED NET ASSETS:</b>		
<b>REVENUES AND SUPPORT:</b>		
Program revenues:		
Veterinary services	\$ 3,917,425	\$ 3,895,544
Less: Discounts for free and reduced fee veterinary services	<u>(804,741)</u>	<u>(783,713)</u>
Veterinary services, net	3,112,684	3,111,831
Shelter and adoption services	<u>574,570</u>	<u>499,723</u>
Total program revenue	<u>3,687,254</u>	<u>3,611,554</u>
Public support:		
Bequests	2,631,810	1,626,314
Contributions	2,426,909	2,541,734
Net assets released from restrictions	<u>330,184</u>	<u>231,767</u>
Total public support	<u>5,388,903</u>	<u>4,399,815</u>
Other income:		
Investment income	1,469,080	2,799
Rental income	73,740	72,988
Other income	<u>2,094</u>	<u>2,094</u>
Total other income	<u>1,542,820</u>	<u>77,881</u>
Total revenues and support	<u>10,618,977</u>	<u>8,089,250</u>
<b>EXPENSES:</b>		
Program services:		
Veterinary services	4,576,693	4,396,161
Shelter and adoption services	<u>4,379,402</u>	<u>4,058,400</u>
Total program services	<u>8,956,095</u>	<u>8,454,561</u>
Supporting services:		
General and administrative	809,040	722,757
Fundraising	<u>688,251</u>	<u>724,692</u>
Total supporting services	<u>1,497,291</u>	<u>1,447,449</u>
Total expenses	<u>10,453,386</u>	<u>9,902,010</u>
<b>INCOME (LOSS) FROM OPERATIONS</b>	165,591	(1,812,760)
Settlement loss	<u>                    </u>	<u>(47,916)</u>
<b>INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS</b>	<u>165,591</u>	<u>(1,860,676)</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, 2016 AND 2015**

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	<u>2016</u>	<u>2015</u>
<b>TEMPORARILY RESTRICTED NET ASSETS:</b>		
Contributions	24,029	51,758
Change in value of split-interest agreement assets	(6,092)	(78,349)
Net assets released from restrictions	<u>(330,184)</u>	<u>(231,767)</u>
<b>DECREASE IN TEMPORARILY RESTRICTED NET ASSETS</b>	<u>(312,247)</u>	<u>(258,358)</u>
<b>PERMANENTLY RESTRICTED NET ASSETS:</b>		
Change in value of split-interest agreement assets	<u>(265,400)</u>	<u>(192,285)</u>
<b>DECREASE IN NET ASSETS</b>	(412,056)	(2,311,319)
<b>NET ASSETS, Beginning of Year</b>	<u>25,114,043</u>	<u>27,425,362</u>
<b>NET ASSETS, End of Year</b>	<u>\$ 24,701,987</u>	<u>\$ 25,114,043</u>

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

**STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2016**

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>
	<u>Veterinary services</u>	<u>Shelter and adoption services</u>	<u>General and administrative</u>	<u>Fundraising</u>	
Salaries	\$ 2,313,190	\$ 2,120,974	\$ 488,928	\$ 186,787	\$ 5,109,879
Payroll taxes and benefits	609,635	570,967	68,292	30,407	1,279,301
Supplies	860,703	239,825	3,284	2,394	1,106,206
Depreciation	134,722	479,389	8,325	7,975	630,411
Occupancy	114,250	216,783	2,113	2,025	335,171
Printing and postage	5,358	9,110	38,247	281,184	333,899
Outside services	198,719	125,942	1,610	1,542	327,813
Professional fees	21,331	33,923	140,348	49,859	245,461
Interest expense	37,942	151,769			189,711
Repair and maintenance	56,773	106,498	1,582	835	165,688
Bank charges	70,475	22,317	34,881	28,188	155,861
Non-depreciable equipment	38,142	42,368	1,535	40,174	122,219
Outreach services	295	95,937			96,232
Insurance	17,841	62,842	776	743	82,202
Events	8,452	14,212		35,751	58,415
Advertising	26,433	26,432			52,865
Miscellaneous expense	62,432	60,114	19,119	20,387	162,052
<b>Total</b>	<u>\$ 4,576,693</u>	<u>\$ 4,379,402</u>	<u>\$ 809,040</u>	<u>\$ 688,251</u>	<u>\$ 10,453,386</u>

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

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



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

**STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Decrease in net assets	\$ (412,056)	\$ (2,311,319)
Reconciliation to net cash used by operating activities:		
Depreciation and amortization	630,411	624,453
Net realized and unrealized (gain) loss on investments	(1,014,007)	476,413
Changes in:		
Accounts receivable	34,298	(52,758)
Inventories	(30,397)	3,975
Prepaid expenses	36,718	9,758
Contributions receivable	(202,718)	22,924
Split-interest agreement assets	580,361	223,906
Accounts payable	(65,480)	39,962
Accrued expenses and other liabilities	<u>(112,204)</u>	<u>(219,755)</u>
Net cash and cash equivalents used by operating activities	<u>(555,074)</u>	<u>(1,182,441)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(2,369,896)	(1,039,429)
Proceeds from sale of investments	3,415,720	2,217,074
Purchases of property and equipment	<u>(155,047)</u>	<u>(71,888)</u>
Net cash and cash equivalents provided by investing activities	<u>890,777</u>	<u>1,105,757</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from line of credit	743,748	183,059
Payment on line of credit	<u>(957,810)</u>	<u>(577,756)</u>
Net cash and cash equivalents used by financing activities	<u>(214,062)</u>	<u>(394,697)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	121,641	(471,381)
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	<u>901,967</u>	<u>1,373,348</u>
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	<u>\$ 1,023,608</u>	<u>\$ 901,967</u>
<b>SUPPLEMENTAL ACTIVITY:</b>		
Cash paid for interest	<u>\$ 189,711</u>	<u>\$ 165,364</u>
<b>NON-CASH ACTIVITY:</b>		
Long-term debt converted into line of credit	<u>\$ 250,000</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, 2016 AND 2015

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### 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, 2016 AND 2015

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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.

**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, 2016 AND 2015

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 16, 2017, the date the financial statements were issued. Management concluded that no material subsequent events have occurred since December 31, 2016 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, 2016 and 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>2016</u>	<u>2015</u>
Gross contributions receivable	\$ 792,087	\$ 595,589
Less:		
Discount on contributions receivable	(10,940)	(17,160)
Allowance for uncollectible contributions	<u>(3,500)</u>	<u>(3,500)</u>
Contributions receivable, net	<u>\$ 777,647</u>	<u>\$ 574,929</u>

Contributions receivable are due to be collected as follows:

	<u>2016</u>	<u>2015</u>
Within one year	\$ 594,481	\$ 211,857
In one to five years	<u>183,166</u>	<u>363,072</u>
Contributions receivable, net	<u>\$ 777,647</u>	<u>\$ 574,929</u>

# EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

### 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>2016</u>	<u>2015</u>
Mutual funds:		
Bonds	\$ 6,506,151	\$ 3,262,440
Growth	4,087,230	5,568,049
Value	4,022,595	3,497,698
Large blend	1,950,869	1,028,111
Mid-cap blend	211,211	
Financial	181,668	71,490
Technology	85,597	422,304
Consumer defensive	83,850	12,623
Utilities	7,043	4,328
Consumer cyclical		230,572
Industrials		116,622
Conservative allocation		92,352
Health		72,030
Energy		15,080
Total mutual funds	<u>17,136,214</u>	<u>14,393,699</u>
Corporate bonds:		
BBB+ credit rating	<u>                    </u>	<u>66,878</u>
Money market funds	<u>129,100</u>	<u>2,836,554</u>
Total	<u>\$ 17,265,314</u>	<u>\$ 17,297,131</u>

Investment income consists of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 455,073	\$ 479,212
Net unrealized and realized gain (loss)	<u>1,014,007</u>	<u>(476,413)</u>
Total	<u>\$ 1,469,080</u>	<u>\$ 2,799</u>

# EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

### 5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2016</u>	<u>2015</u>
Building and improvements	\$ 18,486,645	\$ 18,385,814
Land	55,410	55,410
Equipment	1,198,440	1,144,224
Memorial gardens	20,085	20,085
Total	19,760,580	19,605,533
Less accumulated depreciation and amortization	(5,840,084)	(5,209,673)
Total	<u>\$ 13,920,496</u>	<u>\$ 14,395,860</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 1.5% to 4.5% at December 31, 2016 and 2015. 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>2016</u>	<u>2015</u>
Beginning balance	\$ 1,984,404	\$ 2,208,310
Contribution	16,285	46,728
Payout received on matured agreement	(325,154)	
Change in fair value of split-interest agreement assets	(271,492)	(270,634)
Ending balance	<u>\$ 1,404,043</u>	<u>\$ 1,984,404</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, 2016 AND 2015

### 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%. (2.12% and 1.71% at December 31, 2016 and 2015, 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, 2016 and 2015 was \$8,395,713 and \$8,359,775, respectively.

The Organization has three \$250,000 fixed rate loans totaling \$750,000. 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>
2.736%	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 \$126,220 and \$116,499 in 2016 and 2015, respectively.

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>
2017	\$ 50,700	\$ 59,343	\$ 110,043
2018	50,700	41,269	91,969
2019	50,700	14,647	65,347
2020	50,700	8,015	58,715
2021	50,700	4,699	55,399
Thereafter	<u>456,300</u>	<u>2,350</u>	<u>458,650</u>
<b>Total</b>	<b><u>\$ 709,800</u></b>	<b><u>\$ 130,323</u></b>	<b><u>\$ 840,123</u></b>

# EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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,**

2017	\$ 73,740
2018	73,740
2019	73,740
2020	<u>9,218</u>
Total	<u>\$ 230,438</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.

**9. RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following:

	<u>2016</u>	<u>2015</u>
Time restricted:		
Split-interest agreement assets	\$ 363,638	\$ 678,599
Purpose restricted:		
Miscellaneous programs	<u>7,744</u>	<u>5,030</u>
Total	<u>\$ 371,382</u>	<u>\$ 683,629</u>

Permanently restricted net assets are comprised of the following:

	<u>2016</u>	<u>2015</u>
Split-interest agreement asset – interest in a perpetual trust	\$ 1,040,405	\$ 1,305,805
Endowment fund	<u>556,110</u>	<u>556,110</u>
Total	<u>\$ 1,596,515</u>	<u>\$ 1,861,915</u>



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

## **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015**

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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 2016 and 2015.

### **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 \$220,902 and \$403,926 in 2016 and 2015, respectively. Funding for the contribution is accumulated in an interest-bearing cash account and is remitted to the plan annually.