

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

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

**YEARS ENDED
DECEMBER 31, 2017 AND 2016**

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, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Bay Society for the Prevention of Cruelty to Animals as of December 31, 2017 and 2016, 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 23, 2018

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

**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 755,108	\$ 1,023,608
Accounts receivable, net	25,244	24,761
Current portion of contributions receivable	522,595	594,481
Inventories	109,987	96,329
Prepaid expenses	89,121	157,992
Total current assets	1,502,055	1,897,171
INVESTMENTS	17,793,858	17,265,314
PROPERTY AND EQUIPMENT, Net	13,383,449	13,920,496
CONTRIBUTIONS RECEIVABLE, Net	477,656	183,166
SPLIT-INTEREST AGREEMENT ASSETS	1,152,066	1,404,043
TOTAL ASSETS	\$ 34,309,084	\$ 34,670,190
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 229,548	\$ 174,880
Accrued expenses and other liabilities	611,704	647,610
Current portion of debt	8,546,033	8,395,713
Total current liabilities	9,387,285	9,218,203
DEBT, Net	500,000	750,000
Total liabilities	9,887,285	9,968,203
NET ASSETS:		
Unrestricted	22,079,585	22,734,090
Temporarily restricted	1,046,259	371,382
Permanently restricted	1,295,955	1,596,515
Total net assets	24,421,799	24,701,987
TOTAL LIABILITIES AND NET ASSETS	\$ 34,309,084	\$ 34,670,190

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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Program revenues:		
Veterinary services	\$ 3,776,644	\$ 3,917,425
Less: Discounts for free and reduced fee veterinary services	<u>(702,593)</u>	<u>(804,741)</u>
Veterinary services, net	3,074,051	3,112,684
Shelter and adoption services	<u>702,475</u>	<u>574,570</u>
Total program revenue	<u>3,776,526</u>	<u>3,687,254</u>
Public support:		
Bequests	861,074	2,631,810
Contributions	2,679,812	2,426,909
Net assets released from restrictions	<u>7,744</u>	<u>330,184</u>
Total public support	<u>3,548,630</u>	<u>5,388,903</u>
Other income:		
Investment income	2,484,527	1,469,080
Rental income	73,740	73,740
Other income	<u>75</u>	<u></u>
Total other income	<u>2,558,342</u>	<u>1,542,820</u>
Total revenues and support	<u>9,883,498</u>	<u>10,618,977</u>
EXPENSES:		
Program services:		
Shelter and adoption services	4,644,138	4,379,402
Veterinary services	<u>4,282,092</u>	<u>4,576,693</u>
Total program services	<u>8,926,230</u>	<u>8,956,095</u>
Supporting services:		
General and administrative	898,657	809,040
Fundraising	<u>713,116</u>	<u>688,251</u>
Total supporting services	<u>1,611,773</u>	<u>1,497,291</u>
Total expenses	<u>10,538,003</u>	<u>10,453,386</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>(654,505)</u>	<u>165,591</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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	634,038	24,029
Change in value of split-interest agreement assets	48,583	(6,092)
Net assets released from restrictions	<u>(7,744)</u>	<u>(330,184)</u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>674,877</u>	<u>(312,247)</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Change in value of split-interest agreement assets	<u>(300,560)</u>	<u>(265,400)</u>
DECREASE IN NET ASSETS	(280,188)	(412,056)
NET ASSETS, Beginning of Year	<u>24,701,987</u>	<u>25,114,043</u>
NET ASSETS, End of Year	<u>\$ 24,421,799</u>	<u>\$ 24,701,987</u>

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

**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017**

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>
	<u>Shelter and adoption services</u>	<u>Veterinary services</u>	<u>General and administrative</u>	<u>Fundraising</u>	
Salaries	\$ 2,228,249	\$ 1,888,341	\$ 515,606	\$ 175,228	\$ 4,807,424
Payroll taxes and benefits	608,337	564,994	101,930	42,611	1,317,872
Supplies	217,849	853,605	17,537	1,357	1,090,348
Depreciation	511,621	116,143	6,328	6,063	640,155
Outside services	117,014	398,267	1,481	1,419	518,181
Occupancy	217,971	120,152	2,197	2,100	342,420
Printing and postage	6,786	3,734	22,037	262,810	295,367
Professional fees	42,466	26,756	161,707	57,859	288,788
Interest expense	186,656	46,664			233,320
Repair and maintenance	142,864	38,803	3,008	1,615	186,290
Bank charges	25,897	77,273	35,108	37,790	176,068
Non-depreciable equipment	47,571	39,975	5,050	37,177	129,773
Outreach services	115,350	19			115,369
Insurance	77,621	21,608	1,043	1,000	101,272
Events	15,229	6,771		36,348	58,348
Advertising	18,925	18,929			37,854
Miscellaneous expense	63,732	60,058	25,625	49,739	199,154
Total	<u>\$ 4,644,138</u>	<u>\$ 4,282,092</u>	<u>\$ 898,657</u>	<u>\$ 713,116</u>	<u>\$ 10,538,003</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, 2016**

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

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

**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$ (280,188)	\$ (412,056)
Reconciliation to net cash used by operating activities:		
Depreciation and amortization	640,155	630,411
Receipt of donated investments	(8,398)	
Net realized and unrealized gain on investments	(2,019,766)	(1,014,007)
Changes in:		
Accounts receivable	(483)	34,298
Inventories	(13,658)	(30,397)
Prepaid expenses	68,871	36,718
Contributions receivable	(222,604)	(202,718)
Split-interest agreement assets	251,977	580,361
Accounts payable	54,668	(65,480)
Accrued expenses and other liabilities	<u>(35,906)</u>	<u>(112,204)</u>
Net cash and cash equivalents used by operating activities	<u>(1,565,332)</u>	<u>(555,074)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(6,960,509)	(2,369,896)
Proceeds from sale of investments	8,460,129	3,415,720
Purchases of property and equipment	<u>(103,108)</u>	<u>(155,047)</u>
Net cash and cash equivalents provided by investing activities	<u>1,396,512</u>	<u>890,777</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	286,879	743,748
Payment on line of credit	<u>(386,559)</u>	<u>(957,810)</u>
Net cash and cash equivalents used by financing activities	<u>(99,680)</u>	<u>(214,062)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(268,500)	121,641
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>1,023,608</u>	<u>901,967</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 755,108</u>	<u>\$ 1,023,608</u>
SUPPLEMENTAL ACTIVITY:		
Cash paid for interest	<u>\$ 233,320</u>	<u>\$ 189,711</u>
NON-CASH ACTIVITY:		
Long-term debt converted into line of credit	<u>\$</u>	<u>\$ 250,000</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, 2017 AND 2016

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, 2017 AND 2016

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. |

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.

EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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 23, 2018, the date the financial statements were issued. Management concluded that no material subsequent events have occurred since December 31, 2017 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 long – term contributions receivable was 6.5% and 6% at December 31, 2017 and 2016, respectively. 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>2017</u>	<u>2016</u>
Gross contributions receivable	\$ 1,045,249	\$ 792,087
Less:		
Discount on contributions receivable	(41,498)	(10,940)
Allowance for uncollectible contributions	<u>(3,500)</u>	<u>(3,500)</u>
Contributions receivable, net	<u>\$ 1,000,251</u>	<u>\$ 777,647</u>

Contributions receivable are due to be collected as follows:

	<u>2017</u>	<u>2016</u>
Within one year	\$ 522,595	\$ 594,481
In one to five years	<u>477,656</u>	<u>183,166</u>
Contributions receivable, net	<u>\$ 1,000,251</u>	<u>\$ 777,647</u>

EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

4. INVESTMENTS

All 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>2017</u>	<u>2016</u>
Mutual funds:		
Bonds	\$ 6,191,258	\$ 6,506,151
Growth	4,531,637	4,087,230
Value	4,483,647	4,022,595
Large blend	2,263,094	1,950,869
Foreign large blend	149,160	83,850
Industrials	69,083	
Mid-cap blend	62,174	211,211
Consumer goods	3,115	
Utilities	1,093	7,043
Financial		181,668
Technology		<u>85,597</u>
Total mutual funds	<u>17,754,261</u>	<u>17,136,214</u>
Money market funds	<u>39,597</u>	<u>129,100</u>
Total	<u>\$ 17,793,858</u>	<u>\$ 17,265,314</u>

Investment income consists of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 464,761	\$ 455,073
Net unrealized and realized gain	<u>2,019,766</u>	<u>1,014,007</u>
Total	<u>\$ 2,484,527</u>	<u>\$ 1,469,080</u>

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2017</u>	<u>2016</u>
Building and improvements	\$ 18,554,087	\$ 18,486,645
Land	55,410	55,410
Equipment	1,234,522	1,198,440
Memorial gardens	<u>20,085</u>	<u>20,085</u>
Total	19,864,104	19,760,580
Less accumulated depreciation and amortization	<u>(6,480,655)</u>	<u>(5,840,084)</u>
Total	<u>\$ 13,383,449</u>	<u>\$ 13,920,496</u>

EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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 1.8% to 6.5% at December 31, 2017 and 2016. 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>2017</u>	<u>2016</u>
Beginning balance	\$ 1,404,043	\$ 1,984,404
Contribution		16,285
Payout received on matured agreement		(325,154)
Change in fair value of split-interest agreement assets	<u>(251,977)</u>	<u>(271,492)</u>
Ending balance	<u>\$ 1,152,066</u>	<u>\$ 1,404,043</u>

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%. (2.91% and 2.12% at December 31, 2017 and 2016, 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, 2017 and 2016 was \$8,296,003 and \$8,395,713, 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

EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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 2022. Expense under operating lease agreements totaled \$115,309 and \$126,220 in 2017 and 2016, respectively.

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>
2018	\$ 51,108	\$ 63,570	\$ 114,678
2019	51,108	56,532	107,640
2020	51,108	49,900	101,008
2021	51,108	46,584	97,692
2022	51,108	21,896	73,004
Thereafter	<u>408,864</u>	<u> </u>	<u>408,864</u>
Total	<u>\$ 664,404</u>	<u>\$ 238,482</u>	<u>\$ 902,886</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,	
2018	\$ 73,740
2019	73,740
2020	<u>9,218</u>
Total	<u>\$ 156,698</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, 2017 AND 2016

9. RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following:

	<u>2017</u>	<u>2016</u>
Time restricted:		
Split-interest agreement assets	\$ 412,221	\$ 363,638
Purpose restricted:		
Second Chance fund	552,500	
Sit Stay Home	61,389	
Miscellaneous programs	20,149	7,744
Total	\$ 1,046,259	\$ 371,382

Permanently restricted net assets are comprised of the following:

	<u>2017</u>	<u>2016</u>
Split-interest agreement asset – interest in a perpetual trust	\$ 739,845	\$ 1,040,405
Endowment fund	556,110	556,110
Total	\$ 1,295,955	\$ 1,596,515

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 2017 and 2016.

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

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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 \$218,353 and \$220,902 in 2017 and 2016, respectively. Funding for the contribution is accumulated in an interest-bearing cash account and is remitted to the plan annually.