

**THE SOCIETY FOR THE PREVENTION
OF CRUELTY TO ANIMALS FOR
MONTEREY COUNTY**

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

YEARS ENDED JUNE 30, 2017 AND 2016

**McGILLOWAY, RAY, BROWN & KAUFMAN
ACCOUNTANTS & CONSULTANTS**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Society for the Prevention of Cruelty
to Animals for Monterey County
Monterey, California

We have audited the accompanying financial statements of The Society for the Prevention of Cruelty to Animals for Monterey County (SPCA), which comprise the statement of financial position as of June 30, 2017 and 2016 and the related statement of activities, functional expense and cash flows for the years then ended, and the related notes to the financial statements.

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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes 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 entity'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 unmodified opinion.

Opinion

In our opinion, the financial statements referred above present fairly, in all material respects, the financial position of the SPCA as of June 30, 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.

A handwritten signature in black ink that reads "McGilloway, Ray, Brown & Kaufman". The signature is written in a cursive, flowing style.

McGilloway, Ray, Brown & Kaufman
Salinas, California
November 28, 2017

THE SOCIETY FOR THE PREVENTION OF
CRUELTY TO ANIMALS FOR MONTEREY COUNTY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 379,210	\$ 1,023,194
Accounts receivable	44,298	43,137
Estates receivable	1,454,250	1,156,000
Current portion of pledges receivable	71,775	111,200
Supply inventory	147,706	135,911
Benefit shop inventory	50,578	45,901
Short term investments	205,537	1,164,842
Prepaid expenses	120,734	97,306
Total current assets	<u>2,474,088</u>	<u>3,777,491</u>
Property and equipment, net	<u>17,815,379</u>	<u>18,089,759</u>
Other assets		
Pledges receivable, net	4,540	78,811
Trusts receivable, net	826,012	795,941
Long-term investments	10,949,261	9,232,616
Beneficial interest in Community Foundation	804,941	757,057
Total other assets	<u>12,584,754</u>	<u>10,864,425</u>
Total assets	<u>\$ 32,874,221</u>	<u>\$ 32,731,675</u>

See accompanying notes to financial statements.

THE SOCIETY FOR THE PREVENTION OF
CRUELTY TO ANIMALS FOR MONTEREY COUNTY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	2017	2016
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 101,840	\$ 146,089
Accrued liabilities	91,201	200,116
Accrued compensated absences	134,266	129,105
Deferred compensation plan payable	-	418,678
Deferred revenue	64,450	68,140
Current portion of construction loan	368,920	318,809
Margin account loan	589,160	-
Total current liabilities	1,349,837	1,280,937
Deferred compensation plan payable	15,569	-
Construction loan	128,449	532,822
Total liabilities	1,493,855	1,813,759
Net Assets		
Unrestricted		
Undesignated	16,800,991	17,661,621
Board-designated for earnings in Community Foundation	148,906	101,022
Board-designated investments	6,999,985	6,628,842
Total unrestricted	23,949,882	24,391,485
Temporarily restricted	3,367,539	2,536,106
Permanently restricted	4,062,945	3,990,325
Total net assets	31,380,366	30,917,916
Total liabilities and net assets	\$32,874,221	\$32,731,675

See accompanying notes to financial statements.

THE SOCIETY FOR THE PREVENTION OF
CRUELTY TO ANIMALS FOR MONTEREY COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Bequests	\$ 382,119	\$ 1,101,500	\$ 72,620	\$ 1,556,239
Grants	-	44,030	-	44,030
Contributions	1,633,795	296,812	-	1,930,607
Shelter and clinic fees	725,872	-	-	725,872
In-kind revenue	87,392	-	-	87,392
In-kind revenue - benefit shop	606,937	-	-	606,937
In-kind revenue - vehicles	18,311	-	-	18,311
Benefit shop sales	606,882	-	-	606,882
Special events	857,288	-	-	857,288
Behavior training	96,161	-	-	96,161
Education programs	71,130	-	-	71,130
SPCA stables at Indian Springs	308,856	-	-	308,856
Contract revenue	298,427	-	-	298,427
Investment income from:				
Board-designated assets	293,068	-	-	293,068
Other investments	23,680	136,486	-	160,166
Unrealized/realized gain:				
Board-designated investments	599,815	-	-	599,815
Other investments	59,497	394,286	-	453,783
Change in value - charitable remainder in trust	-	30,071	-	30,071
Other income	149,119	-	-	149,119
Net assets released from restrictions	1,171,752	(1,171,752)	-	-
Total support and revenue	<u>7,990,101</u>	<u>831,433</u>	<u>72,620</u>	<u>8,894,154</u>

See accompanying notes to financial statements.

THE SOCIETY FOR THE PREVENTION OF
CRUELTY TO ANIMALS FOR MONTEREY COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
(continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Program expenses				
Animal care	\$ 1,516,442	\$ -	\$ -	\$ 1,516,442
Clinic operations	979,926	-	-	979,926
Wildlife	757,177	-	-	757,177
Customer service	790,627	-	-	790,627
Humane investigations	367,560	-	-	367,560
Education	241,959	-	-	241,959
Volunteers	136,367	-	-	136,367
Barn	388,702	-	-	388,702
Community outreach	509,204	-	-	509,204
Take the lead	161,835	-	-	161,835
Ruff Start	3,912	-	-	3,912
SPCA Stables at Indian Springs	332,784	-	-	332,784
Total program expenses	<u>6,186,495</u>	<u>-</u>	<u>-</u>	<u>6,186,495</u>
Support services				
Administration	500,908	-	-	500,908
Development	608,096	-	-	608,096
Special events	260,017	-	-	260,017
Benefit shop	876,188	-	-	876,188
Total support services	<u>2,245,209</u>	<u>-</u>	<u>-</u>	<u>2,245,209</u>
Total expenses	<u>8,431,704</u>	<u>-</u>	<u>-</u>	<u>8,431,704</u>
Change in net assets	<u>(441,603)</u>	<u>831,433</u>	<u>72,620</u>	<u>462,450</u>
Net assets, beginning of year	<u>24,391,485</u>	<u>2,536,106</u>	<u>3,990,325</u>	<u>30,917,916</u>
Net assets, end of year	<u>\$ 23,949,882</u>	<u>\$ 3,367,539</u>	<u>\$ 4,062,945</u>	<u>\$ 31,380,366</u>

See accompanying notes to financial statements.

THE SOCIETY FOR THE PREVENTION OF
CRUELTY TO ANIMALS FOR MONTEREY COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Bequests	\$ 496,310	\$ 973,520	\$ 1,153,128	\$ 2,622,958
Grants	-	-	-	-
Contributions	1,244,527	432,959	-	1,677,486
Shelter and clinic fees	919,447	-	-	919,447
In-kind revenue	30,326	-	-	30,326
In-kind revenue - benefit shop	550,860	-	-	550,860
In-kind revenue - vehicles	41,275	-	-	41,275
Benefit shop sales	550,810	-	-	550,810
Special events	725,864	-	-	725,864
Behavior training	86,762	-	-	86,762
Education programs	78,065	-	-	78,065
SPCA stables at Indian Springs	261,745	-	-	261,745
Contract revenue	381,945	-	-	381,945
Investment income from:				
Board-designated assets	362,495	-	-	362,495
Other investments	36,598	76,109	-	112,707
Unrealized/realized loss:				
Board-designated investments	(523,958)	-	-	(523,958)
Other investments	(27,322)	(72,723)	-	(100,045)
Change in value - charitable remainder in trust	-	(28,721)	-	(28,721)
Other income	147,879	-	-	147,879
Net assets released from restrictions	526,524	(526,524)	-	-
Total support and revenue	<u>5,890,152</u>	<u>854,620</u>	<u>1,153,128</u>	<u>7,897,900</u>

See accompanying notes to financial statements.

THE SOCIETY FOR THE PREVENTION OF
CRUELTY TO ANIMALS FOR MONTEREY COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
(continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Program expenses				
Animal care	\$ 1,477,037	\$ -	\$ -	\$ 1,477,037
Clinic operations	727,499	-	-	727,499
Wildlife	760,225	-	-	760,225
Customer service	649,401	-	-	649,401
Humane investigations	370,464	-	-	370,464
Education	184,354	-	-	184,354
Volunteers	126,888	-	-	126,888
Barn	320,685	-	-	320,685
Community outreach	482,342	-	-	482,342
Take the lead	141,997	-	-	141,997
Ruff Start	-	-	-	-
SPCA Stables at Indian Springs	308,834	-	-	308,834
Total program expenses	<u>5,549,726</u>	<u>-</u>	<u>-</u>	<u>5,549,726</u>
Support services				
Administration	743,314	-	-	743,314
Development	586,320	-	-	586,320
Special events	259,831	-	-	259,831
Benefit shop	791,467	-	-	791,467
Total support services	<u>2,380,932</u>	<u>-</u>	<u>-</u>	<u>2,380,932</u>
Total expenses	<u>7,930,658</u>	<u>-</u>	<u>-</u>	<u>7,930,658</u>
Change in net assets	<u>(2,040,506)</u>	<u>854,620</u>	<u>1,153,128</u>	<u>(32,758)</u>
Net assets, beginning of year	27,931,991	1,681,486	1,337,197	30,950,674
Reclassification of net assets	<u>(1,500,000)</u>	<u>-</u>	<u>1,500,000</u>	<u>-</u>
Net assets, beginning of year, restated	<u>26,431,991</u>	<u>1,681,486</u>	<u>2,837,197</u>	<u>30,950,674</u>
Net assets, end of year	<u>\$24,391,485</u>	<u>\$2,536,106</u>	<u>\$3,990,325</u>	<u>\$ 30,917,916</u>

See accompanying notes to financial statements.

THE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS FOR MONTEREY COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	PROGRAM EXPENSES												SUPPORT SERVICES EXPENSES							Total Expenses	
	Animal Care	Clinic Operations	Wildlife	Customer Service	Humane Investigations	Behavior Training	Volunteers	Barn	Community Outreach	Take the Lead	Ruff Start	SPCA Stables at Indian Springs	Total Program Expenses	Admin-istration	Development	Maintenance	Human Resources	Special Events	Benefit Shop		Total Support Services
Expenses:																					
Salaries and wages	\$ 389,462	\$ 411,747	\$ 313,344	\$ 295,406	\$ 174,034	\$ 117,859	\$ 75,792	\$ 125,209	\$ 216,373	\$ 88,750	\$ -	\$ 122,649	\$ 2,330,625	\$ 536,061	\$ 279,259	\$ 101,356	\$ 131,971	\$ 44,633	\$ 95,170	\$ 1,188,450	\$ 3,519,075
Payroll taxes and benefits	114,027	94,512	66,398	95,110	44,551	26,960	20,015	30,680	55,082	21,618	-	60,448	629,401	139,848	51,111	37,097	28,018	8,508	35,478	300,060	929,461
Product cost of sales	-	8,420	-	263	-	-	-	-	-	-	-	-	8,683	-	-	-	-	-	602,260	602,260	610,943
Depreciation	293,306	64,817	94,993	14,122	11,141	7,693	687	29,894	3,499	7,943	-	2,564	530,659	31,298	4,248	340,101	-	-	641	376,288	906,947
Operating and medical supplies	85,693	97,021	7,537	7,981	2,812	7,198	2,537	18,877	3,164	1,757	3,025	5,270	242,872	315	235	17,934	2,382	59	1,794	22,719	265,591
Rent	-	-	-	-	-	3,047	-	-	-	-	-	15,227	18,274	-	-	-	-	1,567	99,000	100,567	118,841
Newsletter and annual report	-	-	-	-	-	-	-	-	108,662	-	-	-	108,662	-	-	-	-	-	-	-	108,662
Repairs and maintenance	18,471	9,677	12,286	11,438	3,049	4,240	2,160	3,856	813	863	-	9,495	76,348	15,617	10,824	57,948	14,668	696	1,002	100,755	177,103
In-kind	27,301	5,577	343	-	1,635	337	-	3,072	966	272	-	-	39,503	1,371	7,794	896	-	5,958	-	16,019	55,522
Utilities	54,697	17,539	27,745	34,166	6,990	4,765	1,392	7,540	2,736	1,758	58	7,693	167,079	7,239	3,044	122,174	1,281	962	9,224	143,924	311,003
Events and programs	-	-	-	-	-	-	-	-	6,952	-	-	-	6,952	-	20,370	-	-	191,427	-	211,797	218,749
Direct mail	-	-	-	-	-	-	-	-	-	-	-	-	-	-	112,858	-	-	-	-	112,858	112,858
Outside services	5,030	10,881	-	675	3,358	727	-	3,713	4,406	-	-	-	28,790	21,964	6,598	25,147	-	-	4,423	58,132	86,922
Veterinarian expense	44,014	67,570	10,062	-	15,354	1,567	-	28,250	-	87	-	-	166,904	-	-	-	-	-	-	-	166,904
Animal food	27,553	-	30,001	-	165	101	-	26,254	-	-	190	61,622	145,886	-	-	-	-	-	-	-	145,886
Investment fees	-	-	-	-	-	-	-	-	-	-	-	-	-	59,517	-	-	-	-	-	59,517	59,517
Costs related to bequeathed property	-	-	-	-	-	-	-	-	-	-	-	-	-	11,599	150	-	-	-	-	11,749	11,749
Collaborations	-	-	-	-	-	-	-	-	16,411	-	-	-	16,411	-	-	-	-	-	-	-	16,411
Insurance	6,875	4,987	5,016	5,462	4,731	3,427	311	3,999	2,897	1,875	358	7,204	47,142	13,213	1,299	4,261	364	222	2,345	21,704	68,846
Vehicle expense	1,034	11	17,260	2,436	12,966	3,209	-	4,693	5,608	3,833	-	1,914	52,964	766	248	4,929	-	-	1,882	7,825	60,789
Office supplies and postage	730	2,125	1,435	9,721	1,834	590	724	349	2,190	43	-	100	19,841	6,133	10,250	84	421	157	544	17,589	37,430
Animal disposal	17,333	-	2,635	21,976	-	-	-	950	-	-	-	-	42,894	-	-	-	-	-	-	-	42,894
Bank charges	-	6,486	199	10,002	-	3,176	-	11	1,947	-	-	1,971	23,792	-	12,293	-	-	-	10,573	22,866	46,658
Printing and photography	125	287	461	313	501	1,017	861	60	760	88	-	178	4,651	492	10,490	48	352	55	46	11,483	16,134
Microchip expense	(35)	3,040	158	9,882	-	-	-	127	-	-	-	-	13,172	-	-	-	-	-	-	-	13,172
Training, travel and conferences	618	5,545	3,798	914	8,275	2,763	-	3,252	3,565	1,384	-	-	30,114	1,350	5,009	-	-	-	-	6,359	36,473
Accounting and legal	-	-	-	-	-	-	-	-	98	-	-	950	1,048	34,724	-	-	-	-	-	34,724	35,772
Landscaping fees	-	-	-	-	-	2,350	-	-	-	-	-	-	2,350	-	-	30,214	-	-	-	30,214	32,564
Donor development	-	-	-	-	-	-	-	-	-	-	-	-	-	-	39,211	-	-	-	-	39,211	39,211
Communications	1,156	797	8,429	688	3,214	835	934	934	1,722	1,544	-	808	21,061	1,180	-	834	900	-	611	3,525	24,586
Advertising	-	1,749	-	-	-	4,263	336	56	3,014	-	-	306	9,724	-	-	-	-	-	2,266	2,266	11,990
Planned giving	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13,971	-	-	-	-	13,971	13,971
Dues and subscriptions	-	901	288	-	434	240	-	-	2,011	-	-	-	3,874	2,518	839	-	4,305	-	-	7,662	11,536
Uniforms	500	745	477	500	2,852	121	2,478	386	-	93	-	97	8,249	132	-	-	-	-	-	132	8,381
Miscellaneous	1,515	(55)	190	(212)	453	-	-	-	-	-	-	-	1,891	412	35	-	-	-	161	608	2,499
Farrier and trailering fees	-	-	-	-	-	-	-	4,500	-	-	-	-	4,500	-	-	-	-	-	-	-	4,500
Equipment rental	-	-	-	-	-	-	-	1,844	-	-	-	164	2,008	-	-	359	-	-	-	359	2,367
Interest expense	9,228	2,363	2,324	6,121	896	743	111	1,728	221	347	-	-	24,082	18,076	235	2,791	135	96	-	21,333	45,415
Service charges	7	-	-	-	-	-	-	163	-	-	-	-	170	602	20	-	-	-	-	622	792
Human resource services	621	748	2,010	2,028	4,226	60	7,207	1,165	93	121	-	2,081	20,360	91	291	-	1,880	-	-	2,262	22,622
Promotions	-	-	-	-	-	-	-	-	4,848	-	-	-	4,848	-	-	-	-	-	-	-	4,848
Permits	-	200	278	-	-	-	-	-	-	-	-	-	478	350	215	4,151	-	-	-	4,716	5,194
Internet services	-	-	-	-	-	-	-	-	-	-	-	600	600	-	-	-	-	-	417	417	1,017
Disaster response	485	-	-	-	301	-	-	-	3,712	-	-	-	4,498	-	-	-	-	-	-	-	4,498
Volunteer incentives	22	-	103	-	-	-	2,719	33	-	-	-	66	2,943	-	-	-	-	-	626	626	3,569
Recruitment	30	492	-	-	-	-	-	30	-	-	-	-	552	15	199	314	180	314	-	1,022	1,574
Taxes and licenses	-	771	-	-	-	-	-	-	-	-	-	-	771	7,336	-	-	-	-	251	7,587	8,358
Website expenses	-	-	-	-	-	81	-	-	1,819	-	-	-	1,900	-	-	-	-	-	-	-	1,900
Total	1,099,798	818,953	607,770	528,992	303,772	197,369	118,264	301,625	453,569	132,376	3,631	301,407	4,867,526	912,219	591,096	750,638	186,857	254,654	868,714	3,564,178	8,431,704
Allocation of support service expense	416,644	160,973	149,407	261,635	63,788	44,590	18,103	87,077	55,635	29,459	281	31,377	1,318,969	(411,311)	17,000	(750,638)	(186,857)	5,363	7,474	(1,318,969)	-
Total program expenses after overhead allocation	\$ 1,516,442	\$ 979,926	\$ 757,177	\$ 790,627	\$ 367,560	\$ 241,959	\$ 136,367	\$ 388,702	\$ 509,204	\$ 161,835	\$ 3,912	\$ 332,784	\$ 6,186,495	\$ 500,908	\$ 608,096	\$ -	\$ -	\$ 260,017	\$ 876,188	\$ 2,245,209	\$ 8,431,704

See accompanying notes to financial statements.

THE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS FOR MONTEREY COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	PROGRAM EXPENSES											SUPPORT SERVICES EXPENSES								Total Expenses
	Animal Care	Clinic Operations	Wildlife	Customer Service	Humane Investigations	Behavior Training	Volunteers	Barn	Community Outreach	Take the Lead	SPCA Stables at Indian Springs	Total Program Expenses	Admin-istration	Development	Maintenance	Human Resources	Special Events	Benefit Shop	Total Support Services	
Expenses:																				
Salaries and wages	\$ 425,084	\$ 313,862	\$ 320,497	\$ 232,647	\$ 165,091	\$ 74,314	\$ 71,030	\$ 99,304	\$ 186,622	\$ 69,223	\$ 100,383	\$ 2,058,057	\$ 734,269	\$ 266,953	\$ 108,376	\$ 106,159	\$ 67,702	\$ 83,175	\$ 1,366,634	\$ 3,424,691
Payroll taxes and benefits	121,642	64,634	72,701	84,924	39,479	16,545	14,195	14,448	45,506	16,935	49,699	540,708	145,565	53,508	29,844	21,214	6,828	27,970	284,929	825,637
Product cost of sales	-	14,767	-	8,838	-	-	-	-	-	-	-	23,605	-	-	-	-	-	545,999	545,999	569,604
Depreciation	293,192	64,436	85,202	15,614	10,919	21,982	1,122	32,208	4,043	7,943	2,449	539,110	302,782	2,813	32,300	-	-	279	338,174	877,284
Operating and medical supplies	121,143	60,966	12,023	3,967	10,559	5,865	(1,535)	14,152	3,835	4,669	10,464	246,108	793	315	16,659	1,599	61	1,586	21,013	267,121
Rent	-	-	-	-	-	860	-	-	-	-	12,981	13,841	-	-	-	-	-	93,794	93,794	107,635
Newsletter and annual report	-	-	-	-	-	-	-	-	113,325	-	-	113,325	-	-	-	-	-	-	-	113,325
Repairs and maintenance	17,736	8,008	6,992	6,581	2,733	998	2,184	14,077	1,239	2,380	6,328	69,256	11,916	7,703	45,233	12,525	760	760	78,897	148,153
In-kind	6,651	-	590	669	109	44	-	2,390	2,519	44	44	13,060	5,748	5,595	84	-	4,344	44	15,815	28,875
Utilities	52,972	16,990	27,902	33,148	7,855	4,625	1,682	8,048	3,187	2,135	7,820	166,364	7,652	3,601	89,711	1,523	1,091	9,316	112,894	279,258
Events and programs	-	-	-	-	-	-	-	-	3,626	-	-	3,626	-	16,930	-	-	171,740	-	188,670	192,296
Direct mail	-	-	-	-	-	-	-	-	-	-	-	-	-	121,293	-	-	-	-	121,293	121,293
Outside services	3,717	269	-	165	8,114	217	-	5,289	3,669	825	3,332	25,597	27,493	6,198	20,707	-	-	5,297	59,695	85,292
Veterinarian expense	9,397	8,003	7,641	-	16,755	250	-	8,130	-	529	-	50,705	-	-	-	-	-	-	-	50,705
Animal food	25,410	-	27,922	-	3,609	-	-	20,228	-	-	58,536	135,705	-	-	-	-	-	-	-	135,705
Investment fees	-	-	-	-	-	-	-	-	-	-	-	-	56,673	-	-	-	-	-	56,673	56,673
Costs related to bequeathed property	-	-	-	-	-	-	-	-	-	-	-	-	5,383	-	-	-	-	-	5,383	5,383
Collaborations	-	-	-	-	-	-	-	-	19,691	-	-	19,691	-	-	-	-	-	-	-	19,691
Insurance	6,295	4,351	4,395	5,075	4,205	3,030	256	3,398	1,765	1,815	6,996	41,581	12,729	1,673	4,029	291	186	2,292	21,200	62,781
Vehicle expense	3,089	-	21,669	4,833	15,584	1,559	-	11,331	2,557	3,517	2,629	66,768	-	80	5,846	-	-	1,534	7,460	74,228
Office supplies and postage	673	2,857	991	8,903	1,935	1,960	870	793	3,060	35	196	22,273	7,731	11,651	125	2,074	110	673	22,364	44,637
Animal disposal	17,303	-	2,665	21,095	120	-	-	480	-	-	-	41,663	-	-	-	-	-	-	-	41,663
Bank charges	-	10,687	254	9,766	-	2,383	-	-	2,170	-	1,410	26,670	-	9,941	-	-	-	8,687	18,628	45,298
Printing and photography	55	410	333	371	313	145	554	23	895	22	-	3,121	741	7,280	99	413	67	679	9,279	12,400
Microchip expense	1,011	4,044	81	8,008	-	-	-	-	-	-	-	13,144	-	-	-	-	-	-	-	13,144
Training, travel and conferences	30	-	3,331	-	1,558	3,546	50	2,618	3,046	466	-	14,645	7,657	4,635	-	69	2,906	-	15,267	29,912
Accounting and legal	-	-	-	-	234	-	-	-	-	-	-	234	42,893	-	-	-	-	-	42,893	43,127
Landscaping fees	-	-	80	30	-	845	-	140	-	-	-	1,095	-	-	31,888	-	-	-	31,888	32,983
Donor development	-	-	-	-	-	-	-	-	-	-	-	-	-	39,949	-	-	-	-	39,949	39,949
Communications	991	30	9,334	657	4,026	575	568	1,467	1,129	740	651	20,168	341	-	722	302	-	290	1,655	21,823
Advertising	-	4,427	-	-	-	3,827	-	-	3,007	-	511	11,772	-	350	-	-	-	1,946	2,296	14,068
Planned giving	-	-	-	-	-	-	-	-	-	-	-	-	-	11,352	-	-	-	-	11,352	11,352
Dues and subscriptions	-	270	233	-	540	355	-	-	1,343	-	-	2,741	1,860	571	-	4,469	-	-	6,900	9,641
Uniforms	618	750	454	454	3,018	124	4,531	1,111	-	-	32	11,092	-	-	372	19	-	-	391	11,483
Miscellaneous	-	(134)	304	(153)	260	-	-	-	-	-	-	277	646	-	-	-	-	366	1,012	1,289
Farrier and trailering fees	-	-	-	-	1,720	-	-	3,430	-	-	-	5,150	-	-	-	-	-	-	-	5,150
Equipment rental	-	2	25	2	150	-	1	1,150	1	-	1	1,332	316	20	-	1	21	-	358	1,690
Interest expense	17,469	4,473	4,399	11,587	1,696	1,407	211	3,272	418	656	-	45,588	1,303	445	5,283	256	182	-	7,469	53,057
Service charges	-	-	-	-	-	-	-	-	-	-	-	-	40	20	-	-	-	-	60	60
Human resource services	1,704	433	2,430	676	226	70	8,423	329	127	73	126	14,617	417	149	-	4,378	-	84	5,028	19,645
Promotions	-	-	-	-	-	-	-	-	4,784	-	-	4,784	-	-	-	-	-	-	-	4,784
Permits	-	404	90	-	-	-	-	-	-	-	-	494	-	225	3,517	-	-	-	3,742	4,236
Internet services	-	-	-	-	-	-	-	-	-	-	601	601	-	-	-	-	-	402	402	1,003
Disaster response	-	-	-	-	998	-	-	-	-	-	-	998	-	-	-	-	-	-	-	998
Volunteer incentives	2	-	65	-	-	-	2,442	-	-	-	-	2,509	-	-	-	-	-	204	204	2,713
Recruitment	15	200	1,116	15	207	-	-	15	-	-	-	1,568	153	80	-	4,869	-	-	5,102	6,670
Consultant fees	-	-	-	-	1,050	-	-	-	-	1,865	-	2,915	-	-	-	-	-	-	-	2,915
Taxes and licenses	-	1,096	-	-	-	-	-	-	-	-	-	1,096	4,933	-	555	-	-	287	5,775	6,871
Website expenses	-	-	-	-	-	581	-	-	1,886	-	-	2,467	-	-	-	-	-	-	-	2,467
Total	1,126,199	586,235	613,719	457,872	303,063	146,107	106,584	247,831	413,450	113,872	265,189	4,380,121	1,380,034	573,330	395,350	160,161	255,998	785,664	3,550,537	7,930,658
Allocation of support service expense	350,838	141,264	146,506	191,529	67,401	38,247	20,304	72,854	68,892	28,125	43,645	1,169,605	(636,720)	12,990	(395,350)	(160,161)	3,833	5,803	(1,169,605)	-
Total program expenses after overhead allocation	\$1,477,037	\$ 727,499	\$760,225	\$ 649,401	\$ 370,464	\$ 184,354	\$ 126,888	\$320,685	\$ 482,342	\$ 141,997	\$ 308,834	\$ 5,549,726	\$ 743,314	\$ 586,320	\$ -	\$ -	\$ 259,831	\$ 791,467	\$ 2,380,932	\$ 7,930,658

See accompanying notes to financial statements.

THE SOCIETY FOR THE PREVENTION OF
CRUELTY TO ANIMALS FOR MONTEREY COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 462,450	\$ (32,758)
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities		
Depreciation and amortization expense	906,947	877,284
Loss on disposal of property and equipment	-	905
Realized/Unrealized (gain) loss on investments	(981,715)	610,086
Change in value of beneficial interest in Community Foundation	(92,913)	16,401
Change in value of split-interest agreements	(30,071)	28,721
Change in discount of pledge receivables	(3,304)	(10,969)
(Increase) decrease in operating assets		
Accounts receivable	(1,161)	15,716
Estates receivable	(298,250)	797,413
Pledges receivable	117,000	163,000
Supply inventory	(11,795)	(16,843)
Benefit shop inventory	(4,677)	(4,817)
Prepaid expenses	(23,428)	(7,716)
Distribution on beneficial interest in Community Foundation	45,029	36,794
Increase (decrease) in liabilities		
Accounts payable	(44,249)	19,684
Accrued liabilities	(108,915)	70,432
Accrued compensated absences	5,161	2,196
Deferred compensation plan payable	(403,109)	218,678
Deferred revenue	(3,690)	38,340
Net cash provided (used) by operating activities	(470,690)	2,822,547
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for purchase of property and equipment	(632,567)	(498,998)
Cash proceeds from sale of investments	656,575	1,344,710
Cash paid for purchases of investments	(432,200)	(3,632,885)
Net cash provided (used) by investing activities	(408,192)	(2,787,173)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing on long-term debt	750,000	-
Principal payments on long-term debt	(515,102)	(929,241)
Net cash provided (used) by financing activities	234,898	(929,241)
Net increase (decrease) in cash and cash equivalents	(643,984)	(893,867)
Cash and cash equivalents, beginning of year	1,023,194	1,917,061
Cash and cash equivalents, end of year	\$ 379,210	\$ 1,023,194
Supplemental disclosures		
Interest paid	\$ 45,415	\$ 53,057

See accompanying notes to financial statements.

THE SOCIETY FOR THE PREVENTION OF
CRUELTY TO ANIMALS FOR MONTEREY COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

1. Summary of Significant Accounting Policies

Description of the Reporting Entity

The Society for the Prevention of Cruelty to Animals of Monterey County (SPCA) was formed January 28, 1905 as a California non-profit organization. The SPCA (Organization) was formed to prevent cruelty to animals, protect them from suffering and fear and to promote their welfare. Effective September 5, 2008, the entity changed its name to the SPCA for Monterey County.

Basis of Presentation

The accompanying financial statements are presented using the accrual basis of accounting in accordance with generally accepted accounting principles. The net assets, revenues, gains and losses, other support and expenses, and other changes in the accompanying financial statements are classified based on the existence or absence of donor-imposed restrictions. Accordingly, for reporting purposes, net assets of the SPCA and changes therein are classified as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions. This includes certain amounts designated by the Board for quasi-endowments and other purposes.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that may be met either by actions of the SPCA and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed restrictions that they be maintained permanently by the SPCA. Generally, the donors of these assets permit the SPCA to use all or a part of the income earned on related investments for general or specific purposes.

Recognition of Donor Restriction

Support that is restricted by the donor is reported as an increase in unrestricted net assets in the reporting period during which the restriction expires. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Gifts of land, buildings, and equipment are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Revenue Recognition

Contributions, which include unconditional promises to give, are recognized as revenues in the period received or promised. Conditional contributions are recorded when the conditions have been substantially met. Contributions are considered to be unrestricted unless specifically restricted by the donor.

Contract and program service revenue is recognized as services are rendered and recorded when earned.

Gains and losses on investments and other assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

THE SOCIETY FOR THE PREVENTION OF
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Deferred Revenue

Deferred revenue consists of payments received in advance for a children's camp and future special events.

Donated Goods and Services

The SPCA received donations of clothing and household goods for their benefit shop valued at 606,937 and \$550,860 for the years ended June 30, 2017 and 2016, respectively, which were recorded as in-kind revenue - benefit shop.

The SPCA received donations of vehicles valued at \$18,311 and \$41,275 for the years ended June 30, 2017 and 2016, respectively, which were recorded as in-kind – vehicles.

Donations of services that create or enhance physical assets and essential services that require and are donated by persons with specialized skills are measured at their fair value and reported as in-kind revenue in the amount of \$87,392 and \$30,326 for the years ended June 30, 2017 and 2016, respectively. These amounts have also been charged to expense in the statement of activities. For the years ended June 30, 2017 and 2016, \$39,503 and \$13,060 of the donated services are related to program services and \$16,019 and \$15,815 are related to support services.

Cash and Cash Equivalent

For purposes of the statement of cash flows, the SPCA considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash or cash equivalents.

Accounts Receivable

The majority of accounts receivable derive from agreements with local agencies to provide animal services. Accounts receivable is stated at amounts due from these agencies. Management has determined that all accounts receivable are fully collectible; accordingly, there is no allowance for doubtful accounts.

Pledges Receivable

Pledges receivable represent amounts to be received from pledges. Pledges are recorded when the SPCA has obtained a signed pledge form which details payment terms and imposes no restrictions considered other than "remote" as to the likelihood of occurrence. Pledges are assessed periodically and an allowance is provided when, in the opinion of management, amounts recorded may not be collectible. As of June 30, 2017 and 2016, no allowance has been recorded. Multi-year pledges receivable are discounted to their net present value using a discount rate assessed by management.

Inventory

Supply inventory consists of items used in the operation of the SPCA. Cost is determined by the first-in, first-out method (FIFO). Benefit shop inventory consists of donated items to be sold in the SPCA's benefit shop. Benefit shop inventory value is determined using the fair market value of the item.

Investments

Marketable debt and equity securities, which are listed on national securities exchanges, are stated at fair market value. Prana investments are valued at the amounts reported to the SPCA by Prana and the SPCA's investment advisors. These amounts are generally reported at face value, which the SPCA believes is a reasonable approximation of fair value. Increases or decreases in fair market value are recognized in the period in which they occur.

THE SOCIETY FOR THE PREVENTION OF
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Property and Equipment

All property and equipment acquired by purchase is stated at cost. Donated property and equipment is stated at fair market value at the date of gift. Major improvements are charged to the property and equipment accounts, while maintenance and repairs which do not extend the life of the respective assets are expensed in the period incurred.

It is the SPCA's policy to capitalize assets with a useful life greater than one year and cost over \$1,000.

Depreciation

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	39 Years
Land and building improvements	15-50 Years
Equipment	5-7 Years
Computer software	3-5 Years
Vehicles	5 Years
Leasehold improvements	Lessor of useful life or lease term

Accrued Compensated Absences

All regular full-time and qualified temporary full-time employees accrue vacation and sick leave. The rate of accrual is based on seniority. Any unused vacation accrual is paid upon termination.

Margin Account Loan

The SPCA's margin account loan represents short-term monies borrowed from Charles Schwab. The margin account loan is collateralized by the investments held with the investment broker.

Taxes on Income

As a tax-exempt not-for-profit organization, the Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and from state franchise tax under California Revenue and Taxation Code Section 23701(d), but is subject to taxes on unrelated business income when earned. The Organization is subject to unrelated business income from their boarding services, but has paid no unrelated business income tax for years ended June 30, 2017 and 2016 due to losses from this service.

Management has considered its tax positions and believes that all of the positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's returns are subject to examination by federal and state taxing authorities, generally for three year and four years, respectively, after they are filed.

Advertising

The SPCA expenses advertising costs as they are incurred. For the years ended June 30, 2017 and 2016, total advertising expense was \$11,990 and \$14,068, respectively.

Functional Allocation of Expenses

The costs of providing program services and other activities have been presented on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

THE SOCIETY FOR THE PREVENTION OF
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Use of Estimates

The presentation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying amount of financial instruments including cash equivalents, receivables, accounts payable and accrued expenses approximate their fair values because of their relatively short maturities.

Subsequent Events

The organization has performed an evaluation of subsequent events through November 28, 2017, which is the date the financial statements were available to be issued, and has considered any relevant matters in the preparation of the financial statements and footnotes. This review and evaluation revealed no new material event or transaction which would require an additional adjustment to or disclosure in the accompanying financial statements.

2. Concentration of Credit Risk

Cash and cash equivalents include accounts insured by the Federal Depository Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). As of June 30, 2017 and 2016, the total bank balances exceeded the FDIC limit by \$102,951 and \$1,893,409, respectively.

Investments include accounts insured by Securities Investor Protection Corporation (SIPC). The SIPC insures securities and cash in the event of broker-dealer failure. The SIPC provides up to \$500,000 for protection for brokerage accounts held in each separate capacity, with a limit of \$250,000 for claims of un-invested cash balances. At times, such amounts may exceed SIPC limits.

3. Fair Value Measurements

The SPCA measures its assets and liabilities at fair value in accordance with the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification. This guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value.

The guidance establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The guidance expands disclosures about instruments measured at fair value. The guidance applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, the guidance does not require any new fair value measurements.

The guidance establishes a three-level valuation hierarchy for disclosure of fair value measurements. The three levels are defined as follows:

- **Level 1** - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- **Level 2** - inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial statement.

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- **Level 3** - inputs to the valuation methodology are unobservable and significant to the fair value measurements.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Assets measured at fair value on a recurring basis have been categorized into a hierarchy based on the observable and unobservable inputs used to determine fair value as of June 30, 2017 and 2016:

	2017			Total
	Level 1	Level 2	Level 3	
Money market funds	\$ 206,037	\$ -	\$ -	\$ 206,037
Bond funds	3,178,043	-	-	3,178,043
Equity funds	6,110,007	-	-	6,110,007
Mutual funds	-	-	-	-
Prana investment funds	-	-	861,598	861,598
Other investments	799,113	-	-	799,113
Endowment fund at				
Community Foundation	-	804,941	-	804,941
Trusts receivable	-	-	826,012	826,012
Total	<u>\$ 10,293,200</u>	<u>\$ 804,941</u>	<u>\$ 1,687,610</u>	<u>\$ 12,785,751</u>

	2016			Total
	Level 1	Level 2	Level 3	
Money market funds	\$ 1,164,845	\$ -	\$ -	\$ 1,164,845
Bond funds	2,678,463	-	-	2,678,463
Equity funds	4,848,790	-	-	4,848,790
Mutual funds	93,734	-	-	93,734
Prana investment funds	-	-	861,598	861,598
Other investments	750,028	-	-	750,028
Endowment fund at				
Community Foundation	-	757,057	-	757,057
Trusts receivable	-	-	795,941	795,941
Total	<u>\$ 9,535,860</u>	<u>\$ 757,057</u>	<u>\$ 1,657,539</u>	<u>\$ 11,950,456</u>

The following is a description of the SPCA's valuation methodologies for assets measured at fair value:

Fair value for level 1 is based upon quoted market price. Inputs are obtained from various sources including market participants, dealers, brokers, and financial institutions.

Fair value for level 2 is based upon observable measurement criteria, such as quoted prices for similar assets in active markets, or from identical or similar items in markets that are not active. The fair value of the endowment held at the Community Foundation is based upon investment strategies of the Community Foundation, and therefore considered level 2.

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Fair value for level 3 trusts receivable utilizes the key input of a discount rate to convert the expected future cash flows from the trusts to a single present amount. The SPCA utilized a discount rate of 2.77% at June 30, 2017 and 2.35% at June 30, 2016 and developed measurement criteria based on the best information possible. The net present value of the split-interest agreements in which the SPCA does not serve as trustee utilizes significant unobservable inputs in estimating fair value.

The following is a summary of activity of the assets measured at fair value based on Level 3 inputs for the years ended June 30:

Trusts Receivable

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 795,941	\$ 824,662
Change in value of split-interest agreements	30,071	(28,721)
Contribution of split-interest agreement	-	-
Distribution of split-interest agreement	-	-
Balance, end of year	<u>\$ 826,012</u>	<u>\$ 795,941</u>

The real estate investment funds in Prana Investments are level 3, because pricing inputs are unobservable and there is little market activity for these investments. They are carried on the statement of financial position at their original cost for the investments less maturities.

	<u>2017</u>		
	<u>Prana Income Fund - Ten</u>	<u>Prana Realty Company I</u>	<u>Total</u>
Balance, beginning	\$ -	\$ 861,598	\$ 861,598
Additional investments	-	-	-
Unrealized gain(loss)	-	-	-
Maturities	-	-	-
Balance, end of year	<u>\$ -</u>	<u>\$ 861,598</u>	<u>\$ 861,598</u>
	<u>2016</u>		
	<u>Prana Income Fund - Ten</u>	<u>Prana Realty Company I</u>	<u>Total</u>
Balance, beginning of year	\$ 218,178	\$ 636,598	\$ 854,776
Additional investments	-	225,000	225,000
Unrealized gain(loss)	-	-	-
Maturities	(218,178)	-	(218,178)
Balance, end of year	<u>\$ -</u>	<u>\$ 861,598</u>	<u>\$ 861,598</u>

The SPCA purchased the common stock of Prana Realty Company I, “the Company,” during the fiscal year ended June 30, 2013 and purchased additional stock during the fiscal year ended June 30, 2016. The Company, through City Reality Partners I the “Partnership,” is engaged in the acquisition, operation, and eventual sale of real properties. The Company presently owns 18 properties divided between New York City and Los Angeles with an undepreciated cost basis of \$53.6 million. The Company also makes mortgage loans to borrowers, all of which are

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affiliates of the Company. The mortgage notes receivables from affiliates are generally secured on a subordinated basis by real estate. The Company has issued mortgage loans totaling \$10 million with interest rates of 9% per annum that mature in less than one year.

The valuation of the Class A common stock is determined by the management of the Company based upon the value of the real estate owned by the controlled Partnership of which the Company is the 99% owner and general partner. The Company generally intends to value its portfolio semi-annually. Each rental property is formally appraised bi-annually, with the initial appraisal generally within 36 months of the property's purchase. Such appraisals are performed by independent real estate appraisers.

The periodic valuation of the Company's total portfolio serves as the basis for determining the Company's net asset value, which the Company uses in determining the market value per share for purposes of issuing additional shares or buying back outstanding shares. The market value per share is determined by dividing the Company's net asset value by the number of shares outstanding. At June 30, 2017 and 2016, the Company has valued each share at \$145,030 and \$142,272 per share, respectively. The investment is not readily marketable, in part due to withdrawal restrictions placed by the Company.

4. Estates Receivable

The SPCA had been named as a beneficiary in several wills and trusts at June 30, 2017 and 2016. At June 30, 2017 and 2016, it is estimated the SPCA will receive \$1,454,250 and \$1,156,000, respectively, within the following year from wills and trust estates.

5. Pledges Receivable

Pledges receivable at June 30 consisted of amounts to be received during the years as follows:

	2017	2016
Receivable in less than one year	\$ 71,775	\$ 111,200
Receivable in one to five years	5,000	82,575
Total	76,775	193,775
Less discount to net present value at rates ranging from 2.1% to 2.4%	460	3,764
Total pledges receivable - net	\$ 76,315	\$ 190,011

No allowance for doubtful pledges has been recorded as of June 30, 2017 and 2016.

6. Trusts Receivable – Charitable Remainder Trusts

The SPCA is a remainder beneficiary of several charitable remainder trusts:

Remainder Interest in Auvil/Hall Trusts - Assets Held in Trust

The SPCA is the remainderman beneficiary under the terms of the Auvil/Hall Charitable Remainder Unitrust. The trust assets are held in trust by Wells Fargo Bank, National Association, as Trustee. The assets of the trust are in no way subject to the control of the SPCA at this time. The net present value of the trust assets was approximately \$508,910 and \$484,954 as of June 30, 2017 and 2016, respectively.

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Remainder Interest in Nicholas Trust - Assets Held in Trust

The SPCA is a one-fourth remainderman beneficiary under the terms of the Harold M.M. Nicholas Trust. The trust assets are held in trust by Well Fargo Bank, National Association, as Trustee. The assets of the trust are in no way subject to the control of the SPCA at this time. The net present value of the trust assets the SPCA is the beneficiary of was approximately \$86,042 and \$75,893 as of June 30, 2017 and 2016, respectively.

Remainder Trust in Sivertsen Estate - Assets Held in Trust

The SPCA is a five percent remainderman beneficiary under the terms of the Vail Benz Sivertsen Trust. The trust assets are held in trust by Clarence L. Finger, as Trustee. The assets of the trust are in no way subject to the control of the SPCA at this time. The net present value of the trust assets the SPCA is a beneficiary of was approximately \$103,351 and \$107,086 as of June 30, 2017 and 2016, respectively.

Remainder Trust in Armstrong Trust - Assets Held in Trust

The SPCA is a twenty-five percent remainderman beneficiary under the terms of the Elizabeth S. Armstrong Charitable Remainder Unitrust. The trust assets are held in trust by Morgan Stanley Private Bank, as Trustee. The assets of the trust are in no way subject to the control of the SPCA at this time. The net present value of the trust assets the SPCA is a beneficiary of was approximately \$67,078 and \$67,877 as of June 30, 2017 and 2016, respectively.

Remainder Interest in Conderman Trust – Assets Held in Trust

The SPCA is a 16.67% remainderman beneficiary under the terms of the Penelope G. Bridge Conderman Living Trust. The trust assets are held in trust by Rabobank, National Association, as Trustee. The assets of the trust are in no way subject to the control of the SPCA at this time. The net present value of the trust assets was approximately \$60,631 and \$60,131 as of June 30, 2017 and 2016, respectively.

The value of the assets to be received from these trusts is recorded at the estimated net present value of the assets to be received. The amount is calculated based on estimates of future earnings and payouts during the estimated remaining life expectancy of the beneficiaries and discounted back using discounted interest rates to determine the future amount expected to be received.

The balances of trusts receivable for the years ended June 30 are as follows:

	2017	2016
Balance, beginning of year	\$ 795,941	\$ 824,662
Change in value of split-interest agreements	30,071	(28,721)
Contribution of split-interest agreement	-	-
Distribution of split-interest agreement	-	-
Balance, end of year	\$ 826,012	\$ 795,941

The primary assumptions used in these calculations are as follows:

- The discount interest rate used (the cost of the time value of money to the SPCA) is 2.77% and 2.35% at June 30, 2017 and 2016, respectively.
- Life expectancies of life beneficiaries are assumed to be those in IRS Publication 590.

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7. Property and Equipment

Property and equipment was composed of the following at June 30:

	2017	2016
Land	\$ 765,452	\$ 765,452
Land improvements	5,317,278	5,266,699
Building and improvements	16,291,575	15,731,838
Computer software	4,423	4,423
Equipment	1,567,509	1,576,715
Vehicles	559,156	558,453
Construction-in-process	-	-
Total	24,505,393	23,903,580
Less accumulated depreciation	6,690,014	5,813,821
Property and equipment - net	\$ 17,815,379	\$ 18,089,759

Depreciation expense for the years ended June 30, 2017 and 2016 was \$906,947 and \$877,284, respectively.

8. Investments

The SPCA classifies its investments as follows:

Unrestricted Investments - Unrestricted investments account for those funds invested debt, equity or other investments that have not otherwise been designated or restricted.

Board Designated Investments - Board Designated Investments account for those funds which are not restricted and will be expended for specific purposes as designated by the Board of Directors.

Temporarily Restricted Investments - Temporarily restricted investments account for those funds, which are restricted by the donor for a specific purpose.

Permanently Restricted Investments - Permanently restricted investments account for funds donated to the SPCA in which the principal is to be invested and only the related income and appreciation in the value of the endowment investments can be expended.

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Investments are stated at fair market value and included the following at June 30:

	2017				
	Unrestricted	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Money market funds	\$ 500	\$ 103,939	\$ -	\$ 101,598	\$ 206,037
Bond funds	-	2,249,068	-	928,975	3,178,043
Equity funds	15,069	3,717,973	-	2,376,965	6,110,007
Prana investment funds	-	636,598	-	225,000	861,598
Other	-	292,407	-	506,706	799,113
Endowment Fund at Community Foundation	148,906	-	-	656,035	804,941
Reclassification of undistributed earnings	-	-	732,334	(732,334)	-
Total	\$ 164,475	\$ 6,999,985	\$ 732,334	\$ 4,062,945	\$ 11,959,739

	2016				
	Unrestricted	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Money market funds	\$ 19,602	\$ 143,024	\$ -	\$ 1,002,219	\$ 1,164,845
Bond funds	59,571	2,026,386	-	592,506	2,678,463
Equity funds	37,239	3,239,584	-	1,571,967	4,848,790
Mutual funds	93,734	-	-	-	93,734
Prana investment funds	-	636,598	-	225,000	861,598
Other	-	583,250	-	166,778	750,028
Endowment Fund at Community Foundation	101,022	-	-	656,035	757,057
Reclassification of undistributed earnings	-	-	224,180	(224,180)	-
Total	\$ 311,168	\$ 6,628,842	\$ 224,180	\$ 3,990,325	\$ 11,154,515

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Investment income (loss) is comprised of the following at June 30:

	2017			Total
	Unrestricted	Board Designated	Temporarily Restricted	
Interest/dividend income	\$ 23,680	\$ 293,068	\$ 136,486	\$ 453,234
Unrealized/realized gain (loss) on investments	59,497	599,815	394,286	1,053,598
Total investment income (loss)	<u>\$ 83,177</u>	<u>\$ 892,883</u>	<u>\$ 530,772</u>	<u>\$ 1,506,832</u>
	2016			
	Unrestricted	Board Designated	Temporarily Restricted	Total
Interest/dividend income	\$ 36,598	\$ 362,495	\$ 76,109	\$ 475,202
Unrealized/realized gain (loss) on investments	(27,322)	(523,958)	(72,723)	(624,003)
Total investment income (loss)	<u>\$ 9,276</u>	<u>\$ (161,463)</u>	<u>\$ 3,386</u>	<u>\$ (148,801)</u>

The SPCA classifies investment fees as support service expenses on the statement of functional expenses. As of June 30, 2017 and 2016, investment fees were \$59,517 and \$56,673, respectively.

9. Beneficial Interest in Assets Held at Community Foundation

The SPCA has a beneficial interest in assets held at Community Foundation for Monterey County (CFMC) in the amount of \$804,941 and \$757,057 for the years ended June 30, 2017 and 2016, respectively, which consists of funds contributed by the SPCA and includes earnings thereon, net of distributions received. Distributions of income earned from beneficial interests are received at various times throughout the year based on the spending policy adopted by the board of CFMC. The SPCA has granted variance power to CFMC. In the event of the dissolution of the SPCA or in the event it shall no longer be an organization described in Section 501(c)(3) of the Internal Revenue Code, as amended, CFMC shall continue to hold the funds and shall distribute the income there from to such organizations as in their opinion most nearly serve the purposes and objectives of the SPCA. All funds held are subject to the power of CFMC and to modify any restrictions or conditions on the distribution of funds for any specified charitable purpose or to specified organizations, if in their sole judgment such restriction becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the area served by them.

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The following table presents a roll forward of activity for assets held by Community Foundation:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 757,057	\$ 810,252
Contributions	-	-
Investment income (dividends and interest)	21,030	22,395
Unrealized gain (loss)	68,811	(19,301)
Realized gain (loss)	3,072	(10,884)
Distributions	(35,961)	(36,794)
Investment fees	<u>(9,068)</u>	<u>(8,611)</u>
Total	<u>\$ 804,941</u>	<u>\$ 757,057</u>
Beneficial interest corpus	\$ 656,035	\$ 656,035
Beneficial interest earnings	<u>148,906</u>	<u>101,022</u>
	<u>\$ 804,941</u>	<u>\$ 757,057</u>

10. Long-Term Debt

In December 2010, the SPCA entered into a \$5,000,000 line of credit with First Republic Bank to help finance the construction costs of its facility renovation. This line of credit was amended to \$6,000,000 in December 2011. The line of credit bears interest at a fixed rate of 4% per annum. There is no prepayment penalty and interest-only payments were due monthly for the first two years, with principal and interest payments due over the following ten years computed using a twenty-five year amortization schedule. All unamortized principal and any remaining interest owed under the loan are due December 1, 2021. However, the SPCA has the option to request from the lender, if approved, an extension of the loan repayment terms through February 1, 2038. The SPCA is required to meet certain financial covenants with respect to debt coverage and liquidity. The line of credit is secured by a negative pledge on all owned real property and a security agreement covering all personal property of the SPCA, including receipts, pledges receivable, and all related proceeds.

At June 30, 2017 and 2016, the SPCA has \$497,369 and \$851,631 outstanding on the loan, respectively.

Long-term debt at June 30, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
Long-term debt with First Republic Bank	\$ 497,369	\$ 851,631
Less current portion	<u>(368,920)</u>	<u>(318,809)</u>
Long-term debt	<u>\$ 128,449</u>	<u>\$ 532,822</u>

Maturities of long-term debt at June 30, 2017 are as follows:

2018	\$ 368,920
2019	<u>128,449</u>
Total	<u>\$ 497,369</u>

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11. Margin Account Loan

The SPCA borrowed \$250,000 in August 2016 and \$500,000 in September 2016 on margin from Charles Schwab institutional to help finance operating costs. At June 30, 2017 the margin loan had a variable interest rate of 3.50%. The margin loan is collateralized by the investments held with Charles Schwab Institutional. There is no prepayment penalty, and principal and interest payments are due monthly. At June 30, 2017 and 2016, the SPCA had \$589,160 and \$0 outstanding on the margin loan, respectively

12. Temporarily Restricted Net Assets

At June 30, temporarily restricted net assets are comprised of the following:

	2017	2016
Amounts restricted by donor for a specific purpose:		
Agility training	\$ 37,320	\$ 16,707
Coalition	-	8,842
Columbarium/Pet cemetery	71,085	71,085
Disaster emergency fund	39,322	43,820
Duffy Day Lifesaving Program	-	10,193
Feral cat fund	1,669	2,939
Forzani scholarship fund	5,935	5,935
Foster friends program	3,579	3,579
Hug-a-pet program	5,699	5,699
Paws for recycling	2,785	3,653
Pet food bank	940	420
Pet meals	116,819	129,210
Pets for the elderly	1,600	1,600
Rewards Humane Investigation	7,362	7,362
Ruff Start	18,725	-
Spay/Neuter	1,495,053	1,135,696
Somerhalder Grant	500	500
Take the Lead	-	67,943
Translations	800	800
	1,809,193	1,515,983
Present value of remainder trusts:		
Armstrong trust	67,078	67,877
Auvil/Hall trust	508,910	484,954
Conderman trust	60,631	60,132
Nicholas trust	86,042	75,893
Sivertsen trust	103,351	107,087
	826,012	795,943
Endowment earnings	732,334	224,180
	\$ 3,367,539	\$ 2,536,106

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13. Endowments

At June 30, 2017 and 2016, permanently restricted net assets are composed of various donor restricted contributions to the SPCA's endowment funds. Under the terms of these contributions, the original donation must be kept in perpetuity and depending on the donors' wishes, the earnings are available for unrestricted use and the care of animals. The total of these permanently restricted contributions at June 30, 2017 and 2016 was \$4,062,945 and \$3,990,325 respectively.

The SPCA's endowment consists of two funds established for general operating purposes. The donor-restricted endowment fund was established in 2012. The quasi-endowment fund was established in 2007 as the Tookie Benning Fund. It originally was designated to function as an endowment, however, upon the commencement of the Capital Campaign, \$2.5 million was undesignated for the renovation project. An additional \$1 million was undesignated in the 2013/2014 fiscal year. Going forward, the intention of the Board of Directors is to preserve the amount invested. As required by Generally Accepted Accounting Principles, 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.

Interpretation of Relevant Law

The SPCA's Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the SPCA classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) 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. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the SPCA in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the SPCA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the SPCA and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the SPCA
- (7) The investment policies of the SPCA

Spending Policy

Each year at least five percent (5%) of the adjusted market value of the endowment funds can be appropriated for expenditure. Annual returns in excess of 5% will become part of the investment base unless the Board approves their use for operations. The payout requirements will be reviewed by the Board annually during the budget cycle and adjusted, if necessary.

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Investment Policy

Investment Objective: The Fund is a balanced portfolio composed of equity, fixed income, and cash equivalent securities and, as such, is intended to be more aggressive than fixed income-oriented portfolios and less aggressive than equity-oriented portfolios. In this context "aggressive" relates to such issues as investment vehicles, diversification among economic and industry sectors and individual securities, and expected long-term rates of return and return volatility. Within this framework, the investment objectives for the Fund are stated below in order of importance:

A. *Preservation of Purchasing Power* - Asset growth, exclusive of contributions and withdrawals, should, exceed the rate of inflation in order to preserve purchasing power of the Foundation's assets.

B. *Growth of Capital* - Asset growth is expected to be consistent with the Investment Consultant's stated style characteristics over a complete market cycle (generally three to five years).

C. *Preservation of Capital* - Over the investment time horizon, capital gains are to be protected. A positive return must be experienced over the investment time horizon.

Asset Allocation Limitations: Equity 75%; and Fixed Income Assets 25%.

Risk Tolerance: The Board recognizes that risk (i.e., the uncertainty of future events), volatility (i.e., the potential for variability of asset values), and the possibility of loss in purchasing power (due to inflation) are present to some degree in all types of investment vehicles. While high levels of risk are to be avoided, as measured and evidenced by high volatility and/or low quality rated securities, the assumption of risk is warranted and encouraged in order to allow the Investment consultant the opportunity to achieve satisfactory long-term results consistent with the objectives and fiduciary character of the SPCA.

Endowment Net Asset Composition

Endowment net asset composition as of June 30:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	\$ -	\$ 732,334	\$ 3,406,910	\$ 4,139,244
Beneficial interest in				
Community Foundation	148,906	-	656,035	804,941
Quasi-endowments	6,999,985	-	-	6,999,985
	<u>\$ 7,148,891</u>	<u>\$ 732,334</u>	<u>\$ 4,062,945</u>	<u>\$ 11,944,170</u>
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	\$ -	\$ 224,180	\$ 3,334,290	\$ 3,558,470
Beneficial interest in				
Community Foundation	101,022	-	656,035	757,057
Quasi-endowments	6,628,842	-	-	6,628,842
	<u>\$ 6,729,864</u>	<u>\$ 224,180</u>	<u>\$ 3,990,325</u>	<u>\$ 10,944,369</u>

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Changes in Endowment Net Assets

Changes in endowment net assets for the years ended June 30:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Balance at beginning of year	\$ 6,729,864	\$ 224,180	\$ 3,990,325	\$ 10,944,369
Investment return:				
Investment income	316,748	136,486	-	453,234
Realized/unrealized gain (loss)	659,312	394,286	-	1,053,598
Investment fees	(36,899)	(22,618)	-	(59,517)
Total investment return	939,161	508,154	-	1,447,315
Contributions	-	-	72,620	72,620
Reclassification	-	-	-	-
Appropriation of endowment assets for expenditure	(520,134)	-	-	(520,134)
Balance at end of year	<u>\$ 7,148,891</u>	<u>\$ 732,334</u>	<u>\$ 4,062,945</u>	<u>\$ 11,944,170</u>
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at beginning of year	\$ 7,573,078	\$ 249,532	\$ 1,337,197	\$ 9,159,807
Investment return:				
Investment income	384,890	76,109	-	460,999
Realized/unrealized gain (loss)	(554,143)	(72,722)	-	(626,865)
Investment fees	(37,167)	(28,739)	-	(65,906)
Total investment return	(206,420)	(25,352)	-	(231,772)
Contributions	-	-	1,153,128	1,153,128
Reclassification	-	-	1,500,000	1,500,000
Appropriation of endowment assets for expenditure	(636,794)	-	-	(636,794)
Balance at end of year	<u>\$ 6,729,864</u>	<u>\$ 224,180</u>	<u>\$ 3,990,325</u>	<u>\$ 10,944,369</u>

14. Retirement Plan

The SPCA established a salary deferral retirement plan designated to qualify under Section 403(b) of the Internal Revenue Code as of July 1, 1998. The plan covers all employees who are at least 18 years of age. Employees may begin contributing to the plan upon hire, and become eligible for discretionary employer contributions after one year of service. The SPCA's contribution is discretionary as determined annually by the Board of Directors. In the years ended June 30, 2017 and 2016, the SPCA made discretionary contributions totaling \$31,652 and \$52,335, respectively.

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15. Deferred Compensation Plan

On July 11, 2016, the SPCA established an eligible deferred compensation plan under Section 457(b) which provides deferred compensation benefits for a select group of management or highly compensated employees, as membership in such group is determined in accordance with sections 201(2), 301(a)(3) and 401(a)(1) of ERISA. The amounts payable to the participants under this plan are strictly from the general assets of the SPCA and available to general creditors of the SPCA and are included in the Statement of Financial Position.

The 457(b) plan enables participants to defer income on a pre-tax basis and is not matched with contributions from the SPCA. For the years ended June 30, 2017 and 2016, \$15,569 and \$0, respectively, has been deferred based on elections made by the participants to the 457(b) plan.

The total market value of the 457(b) plan's investments and related deferred compensation plan payable to employees included in the Statement of Financial Position at June 30, 2017 and 2016 were \$15,569 and \$0, respectively.

16. Rental Obligations

The SPCA has entered into a non-cancelable operating leases with fixed terms for their Benefit Shop. Rental expenses under this lease were \$99,000 and \$93,794 for the years ended June 30, 2017 and 2016, respectively. As of June 30, 2017, the SPCA's future minimum obligations under existing operating leases are as follows:

2018	\$ 91,800
2019	93,600
2020	95,400
2021	<u>97,200</u>
Total future minimum lease payments	<u><u>\$ 378,000</u></u>