

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

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

**YEARS ENDED JUNE 30, 2018 AND 2017**

**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, 2018 and 2017 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 audits. 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, 2018 and 2017, 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.



McGilloway, Ray, Brown & Kaufman  
Salinas, California  
January 28, 2019

THE SOCIETY FOR THE PREVENTION OF  
 CRUELTY TO ANIMALS FOR MONTEREY COUNTY  
 STATEMENTS OF FINANCIAL POSITION  
 JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,432,608	\$ 379,210
Accounts receivable	71,816	44,298
Estates receivable	1,122,308	1,454,250
Current portion of pledges receivable	5,000	71,775
Supply inventory	121,793	147,706
Benefit shop inventory	51,400	50,578
Short term investments	216,992	205,537
Prepaid expenses	138,562	120,734
Total current assets	3,160,479	2,474,088
Property and equipment, net	16,878,530	17,815,379
Other assets		
Pledges receivable, net	-	4,540
Trusts receivable, net	734,924	826,012
Long-term investments	11,404,966	10,949,261
Beneficial interest in assets held by Community Foundation	824,916	804,941
Total other assets	12,964,806	12,584,754
Total assets	\$33,003,815	\$32,874,221

See accompanying notes to financial statements.

THE SOCIETY FOR THE PREVENTION OF  
CRUELTY TO ANIMALS FOR MONTEREY COUNTY  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2018 AND 2017

	2018	2017
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 126,581	\$ 101,840
Accrued liabilities	89,121	91,201
Accrued compensated absences	169,912	134,266
Deferred revenue	63,812	64,450
Current portion of construction loan	127,220	368,920
Margin account loan	-	589,160
Total current liabilities	576,646	1,349,837
Deferred compensation plan payable	24,392	15,569
Construction loan	-	128,449
Total liabilities	601,038	1,493,855
<b>Net Assets</b>		
Unrestricted		
Undesignated	18,121,957	16,800,991
Board-designated for earnings in Community Foundation	168,881	148,906
Board-designated investments	7,388,803	6,999,985
Total unrestricted	25,679,641	23,949,882
Temporarily restricted	2,660,191	3,367,539
Permanently restricted	4,062,945	4,062,945
Total net assets	32,402,777	31,380,366
Total liabilities and net assets	\$33,003,815	\$32,874,221

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, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Bequests	\$ 2,588,843	\$ 109,251	\$ -	\$ 2,698,094
Grants	-	196,500	-	196,500
Contributions	1,315,234	450,144	-	1,765,378
Shelter and clinic fees	918,437	-	-	918,437
In-kind revenue	53,431	-	-	53,431
In-kind revenue - benefit shop	616,795	-	-	616,795
In-kind revenue - vehicles	26,749	-	-	26,749
Benefit shop sales	616,795	-	-	616,795
Special events	1,096,382	-	-	1,096,382
Behavior training	110,098	-	-	110,098
Education programs	80,647	-	-	80,647
SPCA stables at Indian Springs	313,269	-	-	313,269
Contract revenue	322,047	-	-	322,047
Investment income from:				
Board-designated assets	426,082	-	-	426,082
Other investments	27,055	233,433	-	260,488
Unrealized/realized gain:				
Board-designated investments	16,065	-	-	16,065
Other investments	44,349	48,289	-	92,638
Change in value - charitable remainder in trust	-	5,933	-	5,933
Gain on sale of assets	190,202	-	-	190,202
Other income	104,469	-	-	104,469
Net assets released from restrictions	1,750,898	(1,750,898)	-	-
Total support and revenue	<u>10,617,847</u>	<u>(707,348)</u>	<u>-</u>	<u>9,910,499</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, 2018  
(continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Program expenses				
Animal care	\$ 1,560,182	\$ -	\$ -	\$ 1,560,182
Clinic operations	1,007,806	-	-	1,007,806
Wildlife	880,027	-	-	880,027
Customer service	828,848	-	-	828,848
Humane investigations	400,542	-	-	400,542
Education	363,675	-	-	363,675
Volunteers	143,600	-	-	143,600
Barn	386,789	-	-	386,789
Community outreach	501,252	-	-	501,252
Ruff Start	87,713	-	-	87,713
SPCA Stables at Indian Springs	370,172	-	-	370,172
Total program expenses	<u>6,530,606</u>	<u>-</u>	<u>-</u>	<u>6,530,606</u>
Support services				
Administration	474,930	-	-	474,930
Development	675,206	-	-	675,206
Special events	266,931	-	-	266,931
Benefit shop	940,415	-	-	940,415
Total support services	<u>2,357,482</u>	<u>-</u>	<u>-</u>	<u>2,357,482</u>
Total expenses	<u>8,888,088</u>	<u>-</u>	<u>-</u>	<u>8,888,088</u>
Change in net assets	<u>1,729,759</u>	<u>(707,348)</u>	<u>-</u>	<u>1,022,411</u>
Net assets, beginning of year	<u>23,949,882</u>	<u>3,367,539</u>	<u>4,062,945</u>	<u>31,380,366</u>
Net assets, end of year	<u>\$ 25,679,641</u>	<u>\$2,660,191</u>	<u>\$4,062,945</u>	<u>\$ 32,402,777</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

	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 loss:				
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	7,990,101	831,433	72,620	8,894,154

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 FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2018

	PROGRAM EXPENSES											SUPPORT SERVICES EXPENSES								Total Expenses
	Animal Care	Clinic Operations	Wildlife	Customer Service	Humane Investigations	Behavior Training	Volunteers	Barn	Community Outreach	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	\$ 473,114	\$ 484,337	\$ 341,276	\$ 326,471	\$ 197,635	\$ 192,219	\$ 84,977	\$ 139,737	\$ 222,736	\$ 43,108	\$ 147,451	\$ 2,653,061	\$ 504,693	\$ 347,135	\$ 117,602	\$ 145,597	\$ 50,231	\$ 119,768	\$ 1,285,026	\$ 3,938,087
Payroll taxes and benefits	118,233	100,547	72,208	98,052	58,519	52,454	19,347	28,698	55,779	9,572	69,565	682,974	131,487	69,471	28,554	30,932	4,918	55,390	320,752	1,003,726
Product cost of sales	-	13,842	-	19,387	-	-	-	-	-	-	-	33,229	-	-	-	-	-	615,974	615,974	649,203
Depreciation	294,849	58,425	120,460	12,517	16,396	17,721	556	15,927	4,533	-	2,850	544,234	16,993	2,447	337,523	-	-	2,638	359,601	903,835
Operating and medical supplies	98,810	88,377	62,356	9,299	5,293	6,328	(1,640)	14,731	3,242	3,653	2,584	293,033	449	369	14,237	5,366	76	1,769	22,266	315,299
Rent	-	-	-	-	-	4,489	-	-	-	-	15,474	19,963	-	-	-	-	2,334	100,860	103,194	123,157
Newsletter and annual report	-	-	-	-	-	-	-	-	106,445	-	-	106,445	-	-	-	-	-	-	-	106,445
Repairs and maintenance	14,573	10,442	10,823	7,866	2,672	3,673	2,130	6,429	948	777	11,170	71,503	17,119	15,976	57,552	15,163	856	779	107,445	178,948
In-kind	15,911	298	5,589	44	109	193	-	5,904	1,136	-	-	29,184	5,309	8,537	5,024	-	3,673	-	22,543	51,727
Utilities	55,854	17,550	27,220	35,196	8,204	5,516	1,937	7,503	3,373	2,343	8,768	173,464	9,081	3,901	85,306	1,810	1,503	8,936	110,537	284,001
Events and programs	-	-	-	-	-	-	-	-	6,347	-	-	6,347	-	20,136	-	-	195,573	-	215,709	222,056
Direct mail	-	-	-	-	-	-	-	-	-	-	-	-	-	84,072	-	-	-	-	84,072	84,072
Outside services	8,606	3,259	-	318	1,694	1,279	-	300	4,482	44	-	19,982	23,890	6,272	26,359	-	-	2,661	59,182	79,164
Veterinarian expense	18,324	38,072	12,473	-	8,873	-	-	20,229	-	-	-	97,971	-	-	-	-	-	-	-	97,971
Animal food	31,393	-	36,655	(388)	-	-	-	28,406	-	-	60,068	156,134	-	-	-	-	-	-	-	156,134
Investment fees	-	-	-	-	-	-	-	-	-	-	-	-	52,689	-	-	-	-	-	52,689	52,689
Costs related to bequeathed property	-	-	-	-	-	-	-	-	-	-	-	-	35,823	-	-	-	-	-	35,823	35,823
Collaborations	-	-	-	-	-	-	-	-	16,250	-	-	16,250	-	-	-	-	-	-	-	16,250
Insurance	5,886	4,098	4,832	5,008	4,858	2,847	204	3,303	2,235	2,516	7,470	43,257	15,005	925	3,817	257	239	2,207	22,450	65,707
Vehicle expense	-	-	20,527	1,422	16,028	3,159	-	10,915	3,098	2,585	2,633	60,367	177	-	3,961	-	-	1,272	5,410	65,777
Office supplies and postage	390	2,672	1,543	6,873	2,542	455	1,349	346	1,374	77	324	17,945	5,494	9,361	721	1,043	1,568	1,288	19,475	37,420
Animal disposal	15,889	-	2,635	25,039	604	-	-	2,260	-	-	-	46,427	-	-	-	-	-	-	-	46,427
Bank charges	-	10,463	312	10,629	-	3,365	-	-	4,491	-	2,324	31,584	-	17,477	-	-	-	11,038	28,515	60,099
Printing and photography	134	507	146	640	349	937	1,044	17	1,000	77	-	4,851	308	9,855	49	359	131	505	11,207	16,058
Microchip expense	-	7,101	-	10,182	-	-	-	-	-	-	-	17,283	-	-	-	-	-	-	-	17,283
Training, travel and conferences	1,691	700	4,200	77	9,068	1,867	27	2,070	2,206	1,275	27	23,208	649	5,571	-	-	-	-	6,220	29,428
Accounting and legal	-	-	-	-	-	-	-	-	-	-	995	995	24,922	-	-	-	-	-	24,922	25,917
Landscaping fees	-	-	-	-	-	2,400	-	-	-	-	-	2,400	-	-	24,214	-	-	-	24,214	26,614
Donor development	-	-	-	-	-	-	-	-	-	-	-	-	-	33,708	-	-	-	-	33,708	33,708
Communications	1,254	703	8,763	999	2,390	1,852	900	576	1,657	464	589	20,147	597	300	754	900	-	600	3,151	23,298
Advertising	-	4,226	-	1,989	-	3,618	399	-	2,270	-	-	12,502	-	-	-	-	-	2,615	2,615	15,117
Planned giving	-	-	-	-	-	-	-	-	-	-	-	-	-	14,630	-	-	-	-	14,630	14,630
Dues and subscriptions	-	1,552	338	-	344	624	-	-	2,824	-	-	5,682	1,465	1,275	-	4,325	-	-	7,065	12,747
Uniforms	295	338	798	295	626	63	8,330	946	-	-	131	11,822	-	-	184	-	-	-	184	12,006
Miscellaneous	-	490	200	(3)	453	-	-	-	-	-	-	1,140	937	-	-	25	-	1,336	2,298	3,438
Farrier and trailering fees	-	-	-	-	-	-	-	5,160	-	-	-	5,160	-	-	-	-	-	-	-	5,160
Equipment rental	-	-	-	-	-	-	-	2,122	-	-	2,128	4,250	-	-	-	-	-	-	-	4,250
Interest expense	4,378	1,121	1,102	2,904	425	353	53	820	105	164	-	11,425	9,065	112	1,324	64	46	-	10,611	22,036
Service charges	18	-	-	-	10	-	-	7	15	-	-	50	374	3,138	46	-	-	-	3,558	3,608
Human resource services	1,935	663	265	1,868	230	-	5,164	423	84	-	303	10,935	118	795	931	211	103	-	2,158	13,093
Promotions	-	-	-	-	-	-	-	-	4,278	-	-	4,278	-	-	-	-	-	-	-	4,278
Permits	-	937	168	-	-	-	-	-	-	-	-	1,105	-	215	3,792	-	-	-	4,007	5,112
Internet services	-	-	-	-	-	-	-	-	-	-	600	600	-	-	-	-	-	1,632	1,632	2,232
Disaster response	-	-	-	-	124	-	-	-	-	-	-	124	-	-	-	-	-	-	-	124
Volunteer incentives	10	-	108	-	-	-	2,197	22	-	-	50	2,387	-	-	5	-	-	562	567	2,954
Recruitment	-	3,181	-	121	-	-	31	15	-	-	-	3,348	-	318	168	180	170	-	836	4,184
Consultant fees	-	-	555	-	-	-	-	-	-	-	-	555	899	-	-	-	-	-	899	1,454
Animal training fees	-	-	-	-	-	-	-	5,500	-	-	-	5,500	-	-	-	-	-	-	-	5,500
Taxes and licenses	-	1,122	-	-	-	-	-	-	-	-	-	1,122	6,491	-	-	-	-	227	6,718	7,840
Website expenses	-	-	-	-	-	-	-	-	2,002	-	-	2,002	-	-	-	-	-	-	-	2,002
<b>Total</b>	<b>1,161,547</b>	<b>855,023</b>	<b>735,552</b>	<b>576,805</b>	<b>337,446</b>	<b>305,412</b>	<b>127,005</b>	<b>302,366</b>	<b>452,910</b>	<b>66,655</b>	<b>335,504</b>	<b>5,256,225</b>	<b>864,034</b>	<b>655,996</b>	<b>712,123</b>	<b>206,232</b>	<b>261,421</b>	<b>932,057</b>	<b>3,631,863</b>	<b>8,888,088</b>
Allocation of support service expense	398,635	152,783	144,475	252,043	63,096	58,263	16,595	84,423	48,342	21,058	34,668	1,274,381	(389,104)	19,210	(712,123)	(206,232)	5,510	8,358	(1,274,381)	-
<b>Total program expenses after overhead allocation</b>	<b>\$ 1,560,182</b>	<b>\$ 1,007,806</b>	<b>\$ 880,027</b>	<b>\$ 828,848</b>	<b>\$ 400,542</b>	<b>\$ 363,675</b>	<b>\$ 143,600</b>	<b>\$ 386,789</b>	<b>\$ 501,252</b>	<b>\$ 87,713</b>	<b>\$ 370,172</b>	<b>\$ 6,530,606</b>	<b>\$ 474,930</b>	<b>\$ 675,206</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 266,931</b>	<b>\$ 940,415</b>	<b>\$ 2,357,482</b>	<b>\$ 8,888,088</b>

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
<b>Total</b>	<b>1,099,798</b>	<b>818,953</b>	<b>607,770</b>	<b>528,992</b>	<b>303,772</b>	<b>197,369</b>	<b>118,264</b>	<b>301,625</b>	<b>453,569</b>	<b>132,376</b>	<b>3,631</b>	<b>301,407</b>	<b>4,867,526</b>	<b>912,219</b>	<b>591,096</b>	<b>750,638</b>	<b>186,857</b>	<b>254,654</b>	<b>868,714</b>	<b>3,564,178</b>	<b>8,431,704</b>
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)	-
<b>Total program expenses after overhead allocation</b>	<b>\$ 1,516,442</b>	<b>\$ 979,926</b>	<b>\$ 757,177</b>	<b>\$ 790,627</b>	<b>\$ 367,560</b>	<b>\$ 241,959</b>	<b>\$ 136,367</b>	<b>\$ 388,702</b>	<b>\$ 509,204</b>	<b>\$ 161,835</b>	<b>\$ 3,912</b>	<b>\$ 332,784</b>	<b>\$ 6,186,495</b>	<b>\$ 500,908</b>	<b>\$ 608,096</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 260,017</b>	<b>\$ 876,188</b>	<b>\$ 2,245,209</b>	<b>\$ 8,431,704</b>

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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 1,022,411	\$ 462,450
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities		
Depreciation and amortization expense	903,835	906,947
Gain on sale of assets	(190,202)	-
Realized/unrealized (gain) loss on investments	(70,524)	(981,715)
Change in value of beneficial interest in Community Foundation	(65,234)	(92,913)
Change in value of split-interest agreements	(5,933)	(30,071)
Change in discount of pledge receivables	(460)	(3,304)
(Increase) decrease in operating assets		
Accounts receivable	(27,518)	(1,161)
Estates receivable	331,942	(298,250)
Pledges receivable	71,775	117,000
Trusts receivable	97,021	-
Supply inventory	25,913	(11,795)
Benefit shop inventory	(822)	(4,677)
Prepaid expenses	(17,828)	(23,428)
Distribution on beneficial interest in Community Foundation	45,259	45,029
Increase (decrease) in liabilities		
Accounts payable	24,741	(44,249)
Accrued liabilities	(2,080)	(108,915)
Accrued compensated absences	35,646	5,161
Deferred compensation plan payable	8,823	(403,109)
Deferred revenue	(638)	(3,690)
Net cash provided (used) by operating activities	<u>2,186,127</u>	<u>(470,690)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash paid for purchase of property and equipment	(316,944)	(632,567)
Cash proceeds from sale of investments	262,879	656,575
Cash proceeds from sale of assets	540,160	-
Cash paid for purchases of investments	<u>(659,515)</u>	<u>(432,200)</u>
Net cash provided (used) by investing activities	<u>(173,420)</u>	<u>(408,192)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowing on long-term debt	-	750,000
Principal payments on long-term debt	<u>(959,309)</u>	<u>(515,102)</u>
Net cash provided (used) by financing activities	<u>(959,309)</u>	<u>234,898</u>
Net increase (decrease) in cash and cash equivalents	1,053,398	(643,984)
Cash and cash equivalents, beginning of year	<u>379,210</u>	<u>1,023,194</u>
Cash and cash equivalents, end of year	<u>\$ 1,432,608</u>	<u>\$ 379,210</u>
<b>Supplemental disclosures</b>		
Interest paid	<u>\$ 22,036</u>	<u>\$ 45,415</u>

See accompanying notes to financial statements.

THE SOCIETY FOR THE PREVENTION OF  
CRUELTY TO ANIMALS FOR MONTEREY COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017

**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.

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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 \$616,795 and \$606,937 for the years ended June 30, 2018 and 2017, respectively, which were recorded as in-kind revenue - benefit shop.

The SPCA received donations of vehicles valued at \$26,749 and \$18,311 for the years ended June 30, 2018 and 2017, 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 \$53,431 and \$87,392 for the years ended June 30, 2018 and 2017, respectively. These amounts have also been charged to expense in the statement of activities. For the years ended June 30, 2018 and 2017, \$29,184 and \$39,503 of the donated services are related to program services and \$22,543 and \$16,019 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.

***Estates Receivable***

The SPCA records estates receivable when notification has been received that the SPCA has been named as a beneficiary in a will or a trust and the amount to be received is known as the value can be reasonably estimated and measurable or an estimate has been provided by the trustee or the executor of the estate. If the will or trust provides that the SPCA will receive a percentage, but the total realizable amounts are not presently determinable, no entries are recorded.

***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, 2018 and 2017, 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.

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***Investments***

Marketable debt and equity securities, which are listed on national securities exchanges, are stated at fair 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 value are recognized in the period in which they occur.

***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	Lesser 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, 2018 and 2017 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.



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***Advertising***

The SPCA expenses advertising costs as they are incurred. For the years ended June 30, 2018 and 2017, total advertising expense was \$15,117 and \$11,990, 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.

***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.

***Recently Adopted Accounting Pronouncements***

**ASU 2015-17**

In May 2015, the FASB issued ASU No. 2015-17, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The amendment applies to reporting entities that elect to measure the fair value of an investment using the net asset value (NAV) per share (or its equivalent) practical expedient. The amendment removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient, and removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. The amendment is effective for all years beginning after December 15, 2016. As the SPCA measures certain assets using the NAV practical expedient, upon adoption of ASU No. 2015-17, the fair value of these assets was removed from the fair value hierarchy in all periods presented in the financial statements. The SPCA will continue to disclose information on these investments for which fair value is measured at NAV as a practical expedient.

***Recently Issued Accounting Pronouncements***

**ASU 2016-14**

In August 2016, the FASB issued ASU No 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. The amendment applies to all not-for-profit entities, and reduces the classes of net assets to net assets with donor restrictions and net assets without donor restrictions; removes the reconciliation of cash flows to the indirect method if using the direct method; requires the reporting of investment returns, net of expenses, with no disclosure of netted expenses required; requires the use, in the absence of explicit donor stipulations, of the placed-in-service approach for reporting expirations or restrictions on cash or other asset donations; and requires disclosure of expenses by both their natural and functional classification on the face of the statement of activities, as a separate statement, or in the notes to the financial statements. In addition, the amendment provides enhanced disclosures on amounts and purposes of board designations and appropriations, composition of net assets with donor restrictions, discussion of liquidity for the year following year-end, discussion of liquidity of financial assets at year-end, methodology used to allocate costs between program and support functions, and underwater endowment funds. The amendment is effective for all fiscal years beginning after December 15, 2017, with early adoption allowed. The SPCA is currently evaluating the impact of the pending adoption of this new standard on its financial statements.

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ASU 2014-09

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which amended revenue recognition guidance to clarify the principles for recognizing revenues from contracts with customers. The guidance requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, disclosures are required about customer contracts, significant judgement and changes in judgements, and assets recognized from the costs to obtain or fulfill a contract. ASU No. 2014-09 is effective for annual reporting in fiscal years beginning after December 15, 2018. The SPCA has not evaluated the impact of this statement.

ASU 2016-02

In February 2016, FASB issued ASU 2016-02, *Leases* (Topic 842). The amendments in ASU 2016-02 created FASB ASC Topic 842, *Leases*, and supersedes the requirements in ASC Topic 840, *Leases*. ASU 2016-02 requires the recognition of leases assets and liabilities by lessees for those leases classified as operating leases under ASC Topic 840. Under the guidance of ASU 2016-02, a lessee should recognize in the balance sheet a liability to make lease payments (lease liability) and right-of-use asset representing its right to use the underlying asset for the lease term. The ASU is effective for fiscal years beginning after December 15, 2019. The SPCA is currently evaluating the impact of the pending adoption of this new standard on its financial statements and expects the impact to be de minimis.

***Reclassification***

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's financial statement presentation.

***Subsequent Events***

The organization has performed an evaluation of subsequent events through January 28, 2019, 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, 2018 and 2017, the total bank balances exceeded the FDIC limit by \$941,618 and \$102,951, 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.

THE SOCIETY FOR THE PREVENTION OF  
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**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.
- **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, 2018 and 2017:

	2018			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 211,766	\$ -	\$ -	\$ 211,766
Bond funds	2,834,140	-	-	2,834,140
Equity funds	7,071,345	-	-	7,071,345
Other investments	626,406	-	-	626,406
Beneficial interest in assets				
Held by Community Foundation	-	-	824,916	824,916
Trusts receivable	-	-	734,924	734,924
Total recurring fair value measurements	<u>\$ 10,743,657</u>	<u>\$ -</u>	<u>\$ 1,559,840</u>	12,303,497
Prana investment funds measured at NAV				<u>878,301</u>
Investment portfolio total				<u>\$ 13,181,798</u>

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	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
Other investments	799,113	-	-	799,113
Beneficial interest in assets				
Held by Community Foundation	-	-	804,941	804,941
Trusts receivable	-	-	826,012	826,012
Total recurring fair value measurements	\$ 10,293,200	\$ -	\$ 1,630,953	11,924,153
Prana investment funds measured at NAV				861,598
Investment portfolio total				\$ 12,785,751
Liabilities				
Margin account loan, at fair value				\$ 589,160

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

***Money Market, Bond, Equity, and Other (Exchange Traded) Funds***

Valued at the closing price as reported on the active market on which the individual securities or funded are traded.

***Community Foundation of Monterey County – Endowment Fund***

The SPCA has a beneficial interest in assets held at Community Foundation for Monterey County (CFMC) in the amount of \$824,916 and \$804,941 for the years ended June 30, 2018 and 2017, 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 therefrom 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. The unobservable inputs to the valuation are the underlying assets at the CFMC; therefore, these investments are classified as Level 3 assets within the fair value hierarchy.

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***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 2018, the SPCA had \$589,160 and \$0 outstanding on the margin loan, respectively.

***Trusts Receivable – Charitable Remainder Trusts***

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 3.32% at June 30, 2018 and 2.77% at June 30, 2017 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, net

	2018	2017
Balance, beginning of year	\$ 826,012	\$ 795,942
Change in value of split-interest agreements	5,933	30,070
Distribution of split-interest agreement	(97,021)	-
Balance, end of year	\$ 734,924	\$ 826,012

***Prana Investment Funds Measured at NAV***

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 Realty Partners I the “Partnership,” is engaged in the acquisition, operation, and eventual sale of real properties.

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, 2018 and 2017, the Company has valued each share at \$145,030 and \$145,030 per share, respectively.

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The SPCA uses net asset value to determine fair value of the investment in the Company as follows as of June 30:

	2018			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Prana Investments	\$ 878,301	\$ -	Semi-annually	95 days advance notice required
	2017			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Prana Investments	\$ 861,598	\$ -	Semi-annually	95 days advance notice required

**4. Estates Receivable**

The SPCA had been named as a beneficiary in several wills and trusts at June 30, 2018 and 2017. At June 30, 2018 and 2017, it is estimated the SPCA will receive \$1,122,308 and \$1,454,250, respectively, within the following year from wills and trust estates.

**5. Pledges Receivable, net**

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

	2018	2017
Receivable in less than one year	\$ 5,000	\$ 71,775
Receivable in one to five years	-	5,000
Total	5,000	76,775
Less discount to net present value at rates ranging from 2.1% to 2.4%	-	460
Total pledges receivable - net	\$ 5,000	\$ 76,315

No allowance for doubtful pledges has been recorded as of June 30, 2018 and 2017.

**6. Trusts Receivable – Charitable Remainder Trusts, net**

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 \$518,044 and \$508,910 as of June 30, 2018 and 2017, respectively.

***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 \$139 and \$86,042 as of June 30, 2018 and 2017, respectively.

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***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 \$94,780 and \$103,351 as of June 30, 2018 and 2017, 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 \$64,472 and \$67,078 as of June 30, 2018 and 2017, 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 \$57,489 and \$60,631 as of June 30, 2018 and 2017, 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:

	2018	2017
Balance, beginning of year	\$ 826,012	\$ 795,942
Change in value of split-interest agreements	5,933	30,070
Distribution of split-interest agreement	(97,021)	-
Balance, end of year	\$ 734,924	\$ 826,012

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 3.32% and 2.77% at June 30, 2018 and 2017, respectively.
- Life expectancies of life beneficiaries are assumed to be those in IRS Publication 590.

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**7. Property and Equipment, net**

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

	2018	2017
Land	\$ 765,452	\$ 765,452
Land improvements	5,378,547	5,317,278
Building and improvements	15,885,287	16,291,575
Computer software	3,835	4,423
Equipment	1,541,783	1,493,824
Vehicles	707,723	632,841
Total	24,282,627	24,505,393
Less accumulated depreciation	7,404,097	6,690,014
Property and equipment - net	\$ 16,878,530	\$ 17,815,379

Depreciation expense for the years ended June 30, 2018 and 2017 was \$903,835 and \$906,947, 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.

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

	2018				Total
	Unrestricted	Board Designated	Temporarily Restricted	Permanently Restricted	
Money market funds	\$ 501	\$ 179,210	\$ -	\$ 32,055	\$ 211,766
Bond funds	-	1,991,181	-	842,959	2,834,140
Equity funds	27,535	4,183,825	-	2,859,985	7,071,345
Prana investment funds	-	648,939	-	229,362	878,301
Other	-	385,648	-	240,758	626,406
Beneficial interest in assets held by Community Foundation	168,881	-	-	656,035	824,916
Reclassification of undistributed earnings	-	-	798,209	(798,209)	-
Total	\$ 196,917	\$ 7,388,803	\$ 798,209	\$ 4,062,945	\$ 12,446,874



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	2017				Total
	Unrestricted	Board Designated	Temporarily Restricted	Permanently Restricted	
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
Beneficial interest in assets held by Community Foundation	148,906	-	-	656,035	804,941
Reclassification of undistributed earnings	-	-	732,334	(732,334)	-
<b>Total</b>	<b>\$ 164,475</b>	<b>\$ 6,999,985</b>	<b>\$ 732,334</b>	<b>\$ 4,062,945</b>	<b>\$ 11,959,739</b>

Investment income is comprised of the following for the years ended June 30:

	2018			
	Unrestricted	Board Designated	Temporarily Restricted	Total
Interest/dividend income	\$ 27,055	\$ 426,082	\$ 233,433	\$ 686,570
Unrealized/realized gain on investments	44,349	16,065	48,289	108,703
<b>Total investment income</b>	<b>\$ 71,404</b>	<b>\$ 442,147</b>	<b>\$ 281,722</b>	<b>\$ 795,273</b>

	2017			
	Unrestricted	Board Designated	Temporarily Restricted	Total
Interest/dividend income	\$ 23,680	\$ 293,068	\$ 136,486	\$ 453,234
Unrealized/realized gain on investments	59,497	599,815	394,286	1,053,598
<b>Total investment income</b>	<b>\$ 83,177</b>	<b>\$ 892,883</b>	<b>\$ 530,772</b>	<b>\$ 1,506,832</b>

The SPCA classifies investment fees as support service expenses on the statement of functional expenses. As of June 30, 2018 and 2017, investment fees were \$52,689 and \$59,517, 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 \$824,916 and \$804,941 for the years ended June 30, 2018 and 2017, 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

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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.

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

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 804,941	\$ 757,057
Contributions	-	-
Investment income (dividends and interest)	27,055	21,030
Unrealized gain (loss)	36,144	68,811
Realized gain (loss)	2,035	3,072
Distributions	(35,611)	(35,961)
Investment fees	<u>(9,648)</u>	<u>(9,068)</u>
Total	<u>\$ 824,916</u>	<u>\$ 804,941</u>
Beneficial interest corpus	\$ 656,035	\$ 656,035
Beneficial interest earnings	<u>168,881</u>	<u>148,906</u>
	<u>\$ 824,916</u>	<u>\$ 804,941</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, 2018 and 2017, the SPCA has \$127,220 and \$497,369 outstanding on the loan, respectively.

Long-term debt at June 30, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Long-term debt with First Republic Bank	\$ 127,220	\$ 497,369
Less current portion	<u>(127,220)</u>	<u>(368,920)</u>
Long-term debt	<u>\$ -</u>	<u>\$ 128,449</u>

Maturities of long-term debt at June 30, 2018 is as follows:

2019	<u>\$ 127,220</u>
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**11. Temporarily Restricted Net Assets**

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

	<u>2018</u>	<u>2017</u>
Amounts restricted by donor for a specific purpose:		
Agility training	\$ -	\$ 37,320
Barn	13,980	-
Columbarium/Pet cemetery	-	71,085
Community outreach	29,571	-
Disaster emergency fund	6,607	39,322
Duffy Day Lifesaving Program	2,650	-
Feral cat fund	-	1,669
Forzani scholarship fund	5,935	5,935
Foster friends program	-	3,579
Hug-a-pet program	5,666	5,699
Paws for recycling	-	2,785
Pet food bank	940	940
Pet meals	112,715	116,819
Pets for the elderly	1,600	1,600
Rewards Humane Investigation	7,362	7,362
Ruff Start	-	18,725
Spay/Neuter	939,232	1,495,053
Somerhalder Grant	-	500
Translations	800	800
	<u>1,127,058</u>	<u>1,809,193</u>
Total restricted by donor		
Present value of remainder trusts:		
Armstrong trust	64,472	67,078
Auvil/Hall trust	518,044	508,910
Conderman trust	57,489	60,631
Nicholas trust	139	86,042
Sivertsen trust	94,780	103,351
	<u>734,924</u>	<u>826,012</u>
Total present value of remainder trusts		
Endowment earnings	<u>798,209</u>	<u>732,334</u>
Total temporarily restricted net assets		
	<u>\$ 2,660,191</u>	<u>\$ 3,367,539</u>

**12. Endowments**

At June 30, 2018 and 2017, 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, 2018 and 2017 was \$4,062,945 and \$4,062,945 respectively.

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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.

***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 as follows in order of importance:

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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:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	\$ -	\$ 798,209	\$ 3,406,910	\$ 4,205,119
Beneficial interest in				
Community Foundation	168,881	-	656,035	824,916
Quasi-endowments	7,388,803	-	-	7,388,803
	<u>\$ 7,557,684</u>	<u>\$ 798,209</u>	<u>\$ 4,062,945</u>	<u>\$ 12,418,838</u>
	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>

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***Changes in Endowment Net Assets***

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

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Balance at beginning of year	\$ 7,148,891	\$ 732,334	\$ 4,062,945	\$ 11,944,170
Investment return:				
Investment income	453,137	233,433	-	686,570
Realized/unrealized gain (loss)	60,414	48,289	-	108,703
Investment fees	(32,842)	(19,847)	-	(52,689)
Total investment return	480,709	261,875	-	742,584
Appropriation of endowment assets for expenditure	(71,916)	(196,000)	-	(267,916)
Balance at end of year	<u>\$ 7,557,684</u>	<u>\$ 798,209</u>	<u>\$ 4,062,945</u>	<u>\$ 12,418,838</u>
	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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
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>

**13. 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, 2018 and 2017, the SPCA made discretionary contributions totaling \$60,000 and \$60,000, respectively.

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**14. 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 the SPCA's Executive Director, 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 calls for discretionary nonelective deferred compensation to be contributed by the SPCA for any calendar year. Total nonelective deferred compensation contributed by the SPCA under this plan for the years ended June 30, 2018 and 2017 were \$7,500 and \$15,000 respectively.

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, 2018 and 2017 were \$24,392 and \$15,569, respectively.

**15. 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 \$100,860 and \$99,000 for the years ended June 30, 2018 and 2017, respectively. As of June 30, 2018, the SPCA's future minimum obligations under existing operating leases are as follows:

2019	\$ 93,600
2020	95,400
2021	<u>97,200</u>
Total future minimum lease payments	<u><u>\$ 286,200</u></u>