

**Vesper Society**

Financial Statements

December 31, 2017 and 2016



## TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1
Statements of Financial Position	2
Statements of Activities	3 - 4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 16



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Vesper Society  
San Francisco, California

We have audited the accompanying financial statements of Vesper Society (a California nonprofit corporation) ("Vesper"), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities 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 audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vesper Society as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino<sup>LLP</sup>  
San Ramon, California

March 8, 2018

Vesper Society  
Statements of Financial Position  
December 31, 2017 and 2016

	2017	2016
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 34,103	\$ 56,486
Investments	33,309,721	30,134,011
Advances to project partners	1,042,595	951,691
Contributions and grants receivable, net	2,200	-
Prepaid expenses	29,634	12,098
Total current assets	34,418,253	31,154,286
Other assets		
Property and equipment, net	2,875	4,444
Deposits	3,119	3,119
Total other assets	5,994	7,563
Total assets	\$ 34,424,247	\$ 31,161,849
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 43,016	\$ 61,161
Accrued vacation	33,668	32,478
Short-term lease payable	1,596	1,114
Total current liabilities	78,280	94,753
Long-term liabilities		
Deferred excise taxes	56,274	60,454
Long-term lease payable	1,845	3,441
Total long-term liabilities	58,119	63,895
Total liabilities	136,399	158,648
Net assets		
Unrestricted		
Unrestricted	34,216,209	30,967,394
Unrestricted - Board-designated	71,639	35,807
Total unrestricted	34,287,848	31,003,201
Total net assets	34,287,848	31,003,201
Total liabilities and net assets	\$ 34,424,247	\$ 31,161,849

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

Vesper Society  
Statement of Activities  
For the Year Ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support, gains (losses) and revenue			
Interest and dividends	\$ 1,395,026	\$ -	\$ 1,395,026
Net investment gain	3,279,588	-	3,279,588
Contributions	35,832	-	35,832
Other loss	<u>(2,340)</u>	<u>-</u>	<u>(2,340)</u>
Total support, gains (losses) and revenue	<u>4,708,106</u>	<u>-</u>	<u>4,708,106</u>
Functional expenses			
Program services			
Health services to the underserved	697,052	-	697,052
Youth services	211,224	-	211,224
Service in the world	118,640	-	118,640
Partner capacity building	<u>96,438</u>	<u>-</u>	<u>96,438</u>
Total program services	<u>1,123,354</u>	<u>-</u>	<u>1,123,354</u>
Supporting services			
Administrative	<u>283,586</u>	<u>-</u>	<u>283,586</u>
Total supporting services	<u>283,586</u>	<u>-</u>	<u>283,586</u>
Total functional expenses	<u>1,406,940</u>	<u>-</u>	<u>1,406,940</u>
Change in net assets from operations	3,301,166	-	3,301,166
Excise tax expense	<u>(16,519)</u>	<u>-</u>	<u>(16,519)</u>
Change in net assets	3,284,647	-	3,284,647
Net assets, beginning of year	<u>31,003,201</u>	<u>-</u>	<u>31,003,201</u>
Net assets, end of year	<u>\$ 34,287,848</u>	<u>\$ -</u>	<u>\$ 34,287,848</u>

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

Vesper Society  
Statement of Activities  
For the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support, gains (losses) and revenue			
Interest and dividends	\$ 1,145,339	\$ -	\$ 1,145,339
Net investment gain	1,000,207	-	1,000,207
Contributions	19,155	15,000	34,155
Other income	155	-	155
Net assets released from restriction	<u>15,452</u>	<u>(15,452)</u>	<u>-</u>
Total support, gains (losses) and revenue	<u>2,180,308</u>	<u>(452)</u>	<u>2,179,856</u>
Functional expenses			
Program services			
Health services to the underserved	594,554	-	594,554
Youth services	317,751	-	317,751
Service in the world	102,204	-	102,204
Partner capacity building	<u>83,204</u>	<u>-</u>	<u>83,204</u>
Total program services	<u>1,097,713</u>	<u>-</u>	<u>1,097,713</u>
Supporting services			
Administrative	<u>303,676</u>	<u>-</u>	<u>303,676</u>
Total supporting services	<u>303,676</u>	<u>-</u>	<u>303,676</u>
Total functional expenses	<u>1,401,389</u>	<u>-</u>	<u>1,401,389</u>
Change in net assets from operations	778,919	(452)	778,467
Excise tax expense	<u>(42,911)</u>	<u>-</u>	<u>(42,911)</u>
Change in net assets	736,008	(452)	735,556
Net assets, beginning of year	<u>30,267,193</u>	<u>452</u>	<u>30,267,645</u>
Net assets, end of year	<u>\$ 31,003,201</u>	<u>\$ -</u>	<u>\$ 31,003,201</u>

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

Vesper Society  
 Statements of Cash Flows  
 For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 3,284,647	\$ 735,556
Adjustments to reconcile changes in net assets to net cash used in operating activities		
Depreciation	1,569	1,678
Realized and unrealized gain on investments	(3,421,533)	(1,135,098)
Deferred excise taxes	(4,180)	3,103
Changes in operating assets and liabilities		
Contributions and grant receivable, net	(2,200)	-
Prepaid expenses	(17,536)	(6,225)
Advances to project partners	(90,904)	(98,153)
Accounts payable and accrued expenses	(18,145)	6,825
Accrued vacation	1,190	9,112
Net cash used in operating activities	(267,092)	(483,202)
Cash flows from investing activities		
Purchase of investments	(2,120,556)	(4,752,222)
Proceeds from the sale of investments	2,366,379	5,257,785
Net cash provided by investing activities	245,823	505,563
Cash flows from financing activities		
Principal payments on lease obligations	(1,114)	(2,263)
Net cash used in financing activities	(1,114)	(2,263)
Net increase (decrease) in cash and cash equivalents	(22,383)	20,098
Cash and cash equivalents, beginning of year	56,486	36,388
Cash and cash equivalents, end of year	\$ 34,103	\$ 56,486

Supplemental disclosures of cash flow information

Cash paid during the year for		
Interest	\$ 1,553	\$ 388
Excise tax	\$ 16,000	\$ 28,000
Property and equipment acquired with capital lease financing	\$ -	\$ 4,705

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

Vesper Society  
Notes to Financial Statements  
December 31, 2017 and 2016

1. NATURE OF ORGANIZATION

Vesper Society ("Vesper") is a California not-for-profit corporation located in San Francisco, California. The mission of Vesper Society is to promote social justice locally and globally by addressing critical social issues including the provision of health services for the underserved. The purposes of Vesper Society are:

- 1) To provide care, treatment, diagnosis, hospitalization and other health services to injured, afflicted, sick, infirmed and aged persons.
- 2) To promote social justice by assisting individuals and organizations to address social and ethical issues from a faith-based moral and ethical perspective and by encouraging the laity to work from such a perspective, particularly for the benefit of the underserved.

Vesper invested funds received from the sale of two hospitals. Substantial revenue is generated from these investments, which subjects Vesper's income to market forces. The Attorney General of the State of California has required Vesper to spend at least 60% of its annual program expenditures, excluding expenses generated by grants, gifts and other donations received after January 1, 2003, for the provision of care, treatment, diagnosis, hospitalization and other health services to injured, afflicted, sick, infirmed and aged persons. Compliance with this requirement is determined on the basis of a three-year rolling average. Management believes that Vesper is in compliance with this requirement.

Program activities of Vesper Society include:

Health services to the underserved

Telehealth Behavioral Services - Vesper is working with Connecting to Care in Redding, California, to promote telehealth services in rural Northern California. The project designs and implements a comprehensive diabetes care program that includes the integration of existing telebehavioral health programs.

Chronic Disease Program - Vesper is working with Clinic by the Bay in San Francisco, California, to expand its chronic disease management program for working uninsured patients living in San Francisco and San Mateo Counties.

Behavioral Health Services - Vesper is working with La Clinica de La Raza in Oakley, California, to increase access to behavioral health Services in the community and address behavioral health problems by providing integrated services to patients at the clinic in Oakley.

Behavioral Health Services - Vesper is working with La Clinica de La Raza in Oakland, California, to expand its capacity to provide behavioral health services to students in East Oakland at the Havenscourt Health Center, a school-based health center serving students on the campus of two public middle and high schools.

Behavioral Health Services - Vesper Society is working with La Clinica de La Raza in Solano County, California, to increase access to behavioral health services to the underserved population by providing integrated services to patients in Solano County.



Vesper Society  
Notes to Financial Statements  
December 31, 2017 and 2016

1. NATURE OF ORGANIZATION (continued)

Health services to the underserved (continued)

Asthma Program - Vesper is working with Clinicas de Salud del Pueblo (CSDSP) in El Centro, California, on a comprehensive asthma program for their high-risk pediatric patients throughout Imperial and Riverside Counties, California.

Telehealth Program - Vesper is working with CSDSP in El Centro, California, to develop the capacity to deliver telemedicine services as part of the integrated behavior health approach and to implement integrated telebehavioral services.

Behavioral Health Services - Vesper Society is working with CSDSP in El Centro, California, to provide behavioral health services to those individuals with mild to moderate symptoms of depression or anxiety that cannot receive treatment elsewhere.

Diabetes Care Program - Vesper is working with Modoc Medical Center in Alturas, California, to develop comprehensive diabetes management services for its frontier residents to improve health outcomes of diabetic patients.

Reducing Health Disparities - Vesper is working with Modoc Medical Center in Alturas, California, to reduce health disparities related to socio-economic makeup and age-related chronic conditions of patients through ensuring more effective care coordination and through hiring of qualified staff.

Community Health Center - Vesper is contributing to the construction of a new procedure room at the Fortuna Community Health Center in Fortuna, California. The new community health center will provide increased access to quality primary care services for the residents of the Eel River Valley.

Dental Services - Vesper is working with United Indian Health Services in Arcata, California, to improve access to dental services to the Native American population of remote areas of rural Humboldt County by building a dental clinic in Weitchpec.

Dental Services - Vesper is working with United Indian Health Services in Arcata, California, to provide dental services for residents in Southern Humboldt County which is designated as a Health Professional Shortage Area for dental services. With this project, UIHS will expand dental services to the Eel River Valley with a dental clinic in Fortuna/Loleta.

Mental Health Services - Vesper is working with United Indian Health Services in Arcata, California, to provide mental and behavioral health services to Native American children of rural Humboldt County.

Mental Health Services - Vesper is working with Women's Community Clinic in San Francisco, California, to fully develop integrated women's health services that include mental health services for women and girls over the age of 12, most of whom live at or below the Federal poverty level and are uninsured.

Vesper Society  
Notes to Financial Statements  
December 31, 2017 and 2016

1. NATURE OF ORGANIZATION (continued)

Health services to the underserved (continued)

Mental Health Services - Vesper is working with Street Level Health Services in Oakland, California, to provide mental health services for low-income, uninsured and under-insured residents in Oakland.

Health Services - Vesper is working with St. Rose Hospital Foundation in Hayward, California, to provide quality medical care to students of the FACES for the Future Program at St. Rose Hospital and their families who are uninsured or under-insured.

Youth services

Developmental Assets Program - Vesper is working with Imperial Valley Regional Occupational Program (IVROP) in El Centro, California, to build and work with community networks to use Developmental Assets survey findings as a foundation for measuring and monitoring skills and resources that initiate efforts to improve youth's readiness for life after high school.

Building Community Capacity Among Youth - Vesper is working with Community Initiatives (Renaissance Journalism) in San Francisco, California, to develop a program to engage young people in storytelling in Imperial Valley, California, through new communications tools that can advance the causes that uplift their families and neighborhoods in the Imperial Valley.

Develop Youth Leadership - Vesper is working with the University of California Agriculture and Natural Resources to increase leadership opportunities for youth in the 4-H program in Imperial County, California.

Youth Development - Vesper is working with Multi-Generational Center in Fortuna, California, to develop a solid design proposal for a youth center that will create a shared creative space for youth to explore their future.

Service in the World

Interfaith Allies - Vesper is working with California Lutheran University (CLU) in Thousand Oaks, California, to provide opportunities for CLU students and Pacific Lutheran Theological Seminary students in Berkeley, California, to work on interfaith issues and service learning. The activities will enable us to build a base of knowledge that will contribute to the larger field of interfaith studies.

Social Justice Ministry - Vesper is working with First United Methodist Church in El Centro, California, to support the Olive Street Center that offers social services and the Garden Project that works to improve the health and well-being of children and families, addressing the serious issue of hunger in the Imperial Valley.

Vesper Society  
Notes to Financial Statements  
December 31, 2017 and 2016

1. NATURE OF ORGANIZATION (continued)

Service in the World (continued)

Youth Leadership - Vesper is working with Los Angeles United Methodist Urban Foundation to support their youth leadership program that helps students from low-income neighborhoods in South Los Angeles become engaged and caring citizens and ethical and responsible leaders.

Partner Capacity Building

The Partner Capacity Building program exists to respond to the organizational development needs of our project partners.

Addressing and Preventing Adverse Childhood Experiences - Vesper is working with California Children and Families Foundation to support the development of a community-wide collaborative which engages multiple sectors to address and prevent Adverse Childhood Experiences (ACES) in Humboldt County.

Expanding Community Health Clinic - Vesper is supporting the expansion of Clinic by the Bay as it prepares to move into a larger space. The clinic needs to expand its current staff capacity to serve more patients, work with more volunteers, and manage growth in the new space.

Engage in Communications Branding - Vesper is supporting Imperial Valley Regional Occupational Program in their engagement in communication branding work in order to increase their effectiveness in communicating their programs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements of Vesper have been prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP), whereby revenue and gains, except contribution revenue, are recognized when earned and expenses and losses when incurred.

Basis of presentation

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions on the basis of unrestricted, temporarily restricted, and permanently restricted net assets. The following describes Vesper's net asset classifications:

- *Unrestricted net assets* - The portion of net assets that is neither temporarily nor permanently restricted by donors. Unrestricted net assets at December 31, 2017 and 2016 have been designated for future use to be determined by the Board of Directors in the amount of \$71,639 and \$35,807, respectively.

Vesper Society  
Notes to Financial Statements  
December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of presentation (continued)

- *Temporarily restricted net assets* - The portion of net assets for which Vesper is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization. Vesper had no temporarily restricted net assets at December 31, 2017 and 2016.

Cash and cash equivalents

Vesper considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash on deposit occasionally exceeds federally insured limits. Vesper believes it mitigates this risk by maintaining deposits with major financial institutions.

Investments and fair value measurements

Investments in marketable debt and equity securities are reported at fair value based on their published market value. Investment income and realized and unrealized gains and losses are reported as increases or decreases in unrestricted net assets unless a donor temporarily or permanently restricts their use. Purchases and sales of securities are recorded on a trade-date basis.

Vesper's investment securities are exposed to various risks such as interest rate, market and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Vesper determines the fair values of its assets and liabilities based on a fair value hierarchy that includes three levels of inputs that may be used to measure fair value (Level 1, Level 2 and Level 3).

- *Level 1* - inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that Vesper has the ability to access at the measurement date. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- *Level 2* - inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.
- *Level 3* - unobservable inputs for the asset or liability.

Unobservable inputs reflect Vesper's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include Vesper Society's own data.

Vesper Society  
Notes to Financial Statements  
December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions, grants, and promises to give

Contributions received and promises to give are reported as unrestricted, temporarily restricted or permanently restricted, depending upon donor restrictions (if any).

Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions and grants receivable that are promised in one year but are not expected to be collected until after the end of that year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of any such discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for doubtful contributions receivable, if applicable, is provided based upon management's judgment including such factors as prior collection history, type of contribution and current aging of contributions receivable. As of December 31, 2017 and 2016 there was no allowance for doubtful contributions or grants receivables, respectively.

Property and equipment

Acquisitions of equipment with a cost, or fair value, of \$2,500 or more and significant leasehold improvements are capitalized. Property and equipment are stated at cost at date of acquisition or fair value at date of donation in the case of contributions. Depreciation is provided over the estimated useful lives of the assets, primarily three to seven years, using the straight-line method of depreciation. Leasehold improvements are amortized using the straight-line method over the remaining life of the lease or the estimated useful lives of the improvements, whichever is shorter.

Accounting for payments to partners

Vesper seeks project partners to collaborate with in conducting various projects that are in line with its mission and help accomplish Vesper's programmatic objectives. Payments to project partners are recorded as expenses when programmatic objectives have been met and/or tasks enumerated in the memorandum of understanding with the partner have been completed. Any funding provided but not expended before the end of the year is recorded as a project partner advance in the statements of financial position. Since Vesper receives a benefit and establishes specific deliverables from the participating partners, these activities are recorded as exchange transactions.

Income tax status

Vesper is exempt from Federal and State income tax under Section 501(c) (3) of the Internal Revenue Code (the "Code") and Section 23701(d) of the State Revenue and Taxation Code as a "Private Operating Foundation", whereby its net investment income is subject to excise taxes.

Vesper Society  
Notes to Financial Statements  
December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax status (continued)

In accordance with the applicable provisions of the Code, Vesper is subject to an excise tax of 1% (2% if minimum payout requirements prescribed by the Code are not met) on its net investment income, excluding unrealized gains. In addition, the Code requires that certain minimum distributions be made in accordance with a specified formula. Vesper estimates and records its excise taxes to include a provision for deferred taxes on unrealized gains and losses on its investments.

Vesper has evaluated its current tax positions and has concluded that as of 2017 and 2016, it does not have any significant uncertain tax positions for which a reserve would be necessary. Vesper's annual informational returns are subject to examination by the IRS, generally for three years after they are filed.

Functional expenses

Common costs, primarily related to the operation and maintenance of an office facility, are pooled in a cost center and allocated in total among program and supporting activities benefited. The basis for allocation was direct salaries in both 2017 and 2016. Salaries and related expenses are allocated to program and supporting activities based on time spent in each activity and reported by staff.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant accounting estimates reflected in Vesper's financial statements include the functional allocation of expenses. Actual results could differ from those estimates.

3. INVESTMENTS

Investments consist of the following:

	2017	2016
Money market funds	\$ 51,853	\$ 47,826
Fixed income	1,064	2,011
Bond funds	9,285,343	8,529,479
Equity funds	23,971,461	21,554,695
	\$ 33,309,721	\$ 30,134,011

Vesper Society  
Notes to Financial Statements  
December 31, 2017 and 2016

3. INVESTMENTS (continued)

Investment earnings consist of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 1,395,026	\$ 1,145,339
Realized gains	814,759	979,975
Unrealized gain	<u>2,606,774</u>	<u>155,123</u>
	<u>\$ 4,816,559</u>	<u>\$ 2,280,437</u>

Investment expenses, which primarily consist of custodial and management fees, were \$141,945 and \$134,891 during the years ended December 31, 2017 and 2016, respectively. These expenses are netted against investment gains and losses on the statements of activities.

4. FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, Vesper's assets at fair value as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Fair Value</u>
Equity funds	\$ 23,971,461	\$ -	\$ 23,971,461
Bond funds	9,285,343	-	9,285,343
Money market funds	51,853	-	51,853
Fixed income	<u>-</u>	<u>1,064</u>	<u>1,064</u>
	<u>\$ 33,308,657</u>	<u>\$ 1,064</u>	<u>\$ 33,309,721</u>

The following table sets forth by level, within the fair value hierarchy, Vesper's assets at fair value as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Fair Value</u>
Equity funds	\$ 21,554,695	\$ -	\$ 21,554,695
Bond funds	8,529,479	-	8,529,479
Money market funds	47,826	-	47,826
Fixed income	<u>-</u>	<u>2,011</u>	<u>2,011</u>
	<u>\$ 30,132,000</u>	<u>\$ 2,011</u>	<u>\$ 30,134,011</u>

Vesper Society  
Notes to Financial Statements  
December 31, 2017 and 2016

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2017	2016
Equipment	\$ 13,569	\$ 13,569
Accumulated depreciation	(10,694)	(9,125)
	\$ 2,875	\$ 4,444

Depreciation expense for the years ended December 31, 2017 and 2016 was \$1,569 and \$1,678, respectively.

6. CAPITAL LEASE OBLIGATIONS

Vesper leased office equipment under a capital lease requiring monthly payments of \$219 through October 2016. In November 2016, Vesper entered into a new office equipment capital lease requiring monthly payments of \$199 through October 2019.

Future maturities of capital lease obligations are as follows:

<u>Year ending December 31,</u>	
2018	\$ 1,596
2019	1,845
Present value of minimum lease payments	3,441
Current portion	(1,596)
	\$ 1,845

Interest expense related to the capital lease obligations amounted to \$1,553 and \$388 for the years ended December 31, 2017 and 2016, respectively.

7. PENSION PLAN

Vesper provides a defined contribution plan to all employees who normally work more than 20 hours per week after completion of six months of employment.

Vesper makes annual contributions to this plan equal to a certain percentage of each employee's compensation up to a ceiling that is adjusted in accordance with Internal Revenue Service determined amounts each year. Total contributions to this plan during the years ended December 31, 2017 and 2016 were \$17,228 and \$16,255, respectively.



Vesper Society  
Notes to Financial Statements  
December 31, 2017 and 2016

8. COMMITMENTS AND CONTINGENCIES

Vesper has a commitment under an operating lease for its office space which was extended through October 31, 2018. Rent expense was \$50,844 and \$49,360 during the years ended December 31, 2017 and 2016, respectively.

The scheduled minimum lease payments under the lease terms are as follows:

Year ending December 31,

2018	\$ <u>53,355</u>
	\$ <u><u>53,355</u></u>

Vesper began subleasing a part of its office on August 1, 2013 under a non-cancelable operating lease arrangement that expires October 31, 2018. Sublease income was \$12,841 and \$14,901 at December 31, 2017 and 2016, respectively, and was recorded net of operating lease expense of \$15,618 and \$15,163 on the statement of activities.

The future scheduled minimum rental income under the lease terms is as follows:

Year ending December 31,

2018	\$ <u>11,907</u>
	\$ <u><u>11,907</u></u>

9. FEDERAL EXCISE TAX

Excise tax expense differs from amounts currently payable because certain investment income is included in the statements of activities in periods that differ from those in which it is subject to taxation. The difference between tax expense and taxes currently payable is reflected as a deferred tax liability on the statements of financial position. Vesper was subject to a 1% excise tax for the years ended December 31, 2017 and 2016. Deferred excise tax liabilities at December 31, 2017 and 2016 were \$56,274 and \$60,454, respectively.

Federal excise tax expense is reported as follows:

	<u>2017</u>	<u>2016</u>
Current	\$ 20,699	\$ 39,808
Deferred tax expense (benefit)	<u>(4,180)</u>	<u>3,103</u>
	<u><u>\$ 16,519</u></u>	<u><u>\$ 42,911</u></u>

Vesper Society  
Notes to Financial Statements  
December 31, 2017 and 2016

10.     ADVANCES TO PROJECT PARTNERS

Vesper paid advances to its project partners in the amount of \$1,042,595 as of December 31, 2017 to meet certain commitments. These commitments will be fulfilled once project partners meet certain thresholds in accordance with their memorandum of understanding with Vesper.

11.     SUBSEQUENT EVENTS

Vesper has evaluated subsequent events through March 8, 2018, the date which the financial statements were available to be issued.

In March 2018, Vesper is in the process of extending the operating lease agreement for its office building. The lease extends through August 31, 2024. The lease calls for monthly payments escalating each year from \$8,528 to \$9,887.