

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

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

**YEARS ENDED  
DECEMBER 31, 2020 AND 2019**

## **INDEPENDENT AUDITOR'S REPORT**

**Board of Directors  
East Bay Society for the Prevention  
of Cruelty to Animals  
Oakland, California**

We have audited the accompanying statements of financial position of East Bay Society for the Prevention of Cruelty to Animals (Organization) as of December 31, 2020 and 2019, and the related statements of activities, functional expenses, 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Board of Directors  
East Bay Society for the Prevention  
of Cruelty to Animals  
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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Bay Society for the Prevention of Cruelty to Animals as of December 31, 2020 and 2019, 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 "Gilbert CPAs". The signature is written in a cursive, flowing style.

**GILBERT CPAs**  
**Sacramento, California**

**May 12, 2021**

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

**STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 993,015	\$ 1,041,613
Accounts receivable	27,938	46,230
Current portion of contributions and bequests receivable	1,617,742	461,448
Inventories	87,968	54,109
Prepaid expenses	<u>103,726</u>	<u>147,718</u>
Total current assets	2,830,389	1,751,118
<b>INVESTMENTS</b>	19,317,775	17,264,694
<b>PROPERTY AND EQUIPMENT, Net</b>	11,950,156	12,331,576
<b>CONTRIBUTIONS RECEIVABLE, Net</b>		215,665
<b>SPLIT-INTEREST AGREEMENT ASSETS</b>	<u>3,492,656</u>	<u>1,339,552</u>
<b>TOTAL ASSETS</b>	<u>\$ 37,590,976</u>	<u>\$ 32,902,605</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 58,706	\$ 194,121
Accrued expenses and other liabilities	579,355	532,304
Paycheck Protection Program loan	968,798	
Current portion of debt	<u>8,459,653</u>	<u>8,549,785</u>
Total current liabilities	10,066,512	9,276,210
<b>DEBT, Net</b>	<u>250,000</u>	<u>250,000</u>
Total liabilities	<u>10,316,512</u>	<u>9,526,210</u>
<b>NET ASSETS:</b>		
Without donor restrictions	22,819,255	21,126,135
With donor restrictions	<u>4,455,209</u>	<u>2,250,260</u>
Total net assets	<u>27,274,464</u>	<u>23,376,395</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 37,590,976</u>	<u>\$ 32,902,605</u>

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

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

**STATEMENTS OF ACTIVITIES (Page 1 of 2)  
YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS:</b>		
<b>REVENUES AND SUPPORT:</b>		
Program revenues:		
Veterinary services	\$ 2,939,424	\$ 3,479,242
Less: Discounts for free and reduced fee veterinary services	<u>(429,850)</u>	<u>(612,291)</u>
Veterinary services, net	2,509,574	2,866,951
Shelter and adoption services	<u>498,829</u>	<u>760,190</u>
Total program revenue	<u>3,008,403</u>	<u>3,627,141</u>
Public support:		
Contributions	3,128,778	2,927,551
Bequests	2,344,523	1,771,772
Net assets released from restrictions	<u>162,500</u>	<u>163,666</u>
Total public support	<u>5,635,801</u>	<u>4,862,989</u>
Other income:		
Investment income	1,966,536	3,112,430
Rental income	69,250	73,740
Other income	<u>26,579</u>	<u>30,190</u>
Total other income	<u>2,062,365</u>	<u>3,216,360</u>
Total revenues and support	<u>10,706,569</u>	<u>11,706,490</u>
<b>EXPENSES:</b>		
Program services:		
Shelter and adoption services	3,824,062	4,430,453
Veterinary services	<u>3,601,801</u>	<u>3,955,198</u>
Total program services	<u>7,425,863</u>	<u>8,385,651</u>
Supporting services:		
General and administrative	864,210	674,453
Fundraising	<u>723,376</u>	<u>826,855</u>
Total supporting services	<u>1,587,586</u>	<u>1,501,308</u>
Total expenses	<u>9,013,449</u>	<u>9,886,959</u>
<b>INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<u>1,693,120</u>	<u>1,819,531</u>

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

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

**STATEMENTS OF ACTIVITIES (Page 2 of 2)  
YEARS ENDED DECEMBER 31, 2020 AND 2019**

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	<u>2020</u>	<u>2019</u>
<b>NET ASSETS WITH DONOR RESTRICTIONS:</b>		
Contributions and bequests	214,345	
Change in value of split-interest agreement assets	2,153,104	487,101
Net assets released from restrictions	<u>(162,500)</u>	<u>(163,666)</u>
<b>INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS</b>	<u>2,204,949</u>	<u>323,435</u>
<b>INCREASE IN NET ASSETS</b>	3,898,069	2,142,966
<b>NET ASSETS, Beginning of Year</b>	<u>23,376,395</u>	<u>21,233,429</u>
<b>NET ASSETS, End of Year</b>	<u>\$ 27,274,464</u>	<u>\$ 23,376,395</u>

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

**STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2020**

	<u>Program services</u>		<u>Supporting services</u>		<u>Total</u>
	<u>Shelter and adoption services</u>	<u>Veterinary services</u>	<u>General and administrative</u>	<u>Fundraising</u>	
Salaries	\$ 1,696,791	\$ 1,833,057	\$ 606,501	\$ 260,860	\$ 4,397,209
Payroll taxes and benefits	476,444	425,996	125,852	49,761	1,078,053
Supplies	203,385	562,813	5,642	1,780	773,620
Depreciation and amortization	484,652	114,736	6,943	5,130	611,461
Occupancy	225,695	121,505	1,742	2,412	351,354
Printing and postage	18,964	20,914	887	233,141	273,906
Outside services	73,499	155,823	1,009	967	231,298
Repair and maintenance	129,838	41,450	32,848	1,673	205,809
Interest expense	138,686	34,671			173,357
Insurance	125,454	34,689	1,591	1,524	163,258
Bank charges	21,757	78,943		47,461	148,161
Non-depreciable equipment	43,890	38,936	5,449	35,639	123,914
Professional fees	23,378	10,472	55,346	31,528	120,724
Advertising	28,872	28,872			57,744
Outreach services	51,900				51,900
Events	21,093			25,289	46,382
Miscellaneous expense	59,764	98,924	20,400	26,211	205,299
Total	<u>\$ 3,824,062</u>	<u>\$ 3,601,801</u>	<u>\$ 864,210</u>	<u>\$ 723,376</u>	<u>\$ 9,013,449</u>

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

**STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2019**

	<u>Program services</u>		<u>Supporting services</u>		<u>Total</u>
	<u>Shelter and adoption services</u>	<u>Veterinary services</u>	<u>General and administrative</u>	<u>Fundraising</u>	
Salaries	\$ 1,952,763	\$ 1,935,192	\$ 475,045	\$ 221,435	\$ 4,584,435
Payroll taxes and benefits	518,516	434,231	91,645	52,317	1,096,709
Supplies	295,024	778,895	2,810	1,171	1,077,900
Depreciation and amortization	481,012	116,199	9,862	5,130	612,203
Occupancy	219,185	129,179		1,197	349,561
Printing and postage	13,783	9,615	1,082	294,219	318,699
Outside services	125,380	203,702	1,615	1,547	332,244
Repair and maintenance	177,556	50,881	3,726	2,299	234,462
Interest expense	258,752	64,688			323,440
Insurance	96,060	26,418	1,311	1,255	125,044
Bank charges	20,744	73,933		44,279	138,956
Non-depreciable equipment	38,442	28,117	5,934	40,541	113,034
Professional fees	28,848	12,116	63,304	34,637	138,905
Advertising	28,464	28,464			56,928
Outreach services	83,725				83,725
Events	25,386			94,580	119,966
Miscellaneous expense	66,813	63,568	18,119	32,248	180,748
<b>Total</b>	<b><u>\$ 4,430,453</u></b>	<b><u>\$ 3,955,198</u></b>	<b><u>\$ 674,453</u></b>	<b><u>\$ 826,855</u></b>	<b><u>\$ 9,886,959</u></b>



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

**STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 3,898,069	\$ 2,142,966
Reconciliation to net cash and cash equivalents used by operating activities:		
Depreciation	611,461	612,203
Receipt of donated investments	(146,251)	(719,799)
Net realized and unrealized gain on investments	(1,646,638)	(2,691,705)
Changes in:		
Accounts receivable	18,292	(15,873)
Inventories	(33,859)	43,699
Prepaid expenses	43,992	(21,037)
Contributions and bequests receivable	(940,629)	804,247
Split-interest agreement assets	(2,153,104)	(487,101)
Accounts payable	(135,415)	61,737
Accrued expenses and other liabilities	<u>47,051</u>	<u>(120,819)</u>
Net cash and cash equivalents used by operating activities	<u>(437,031)</u>	<u>(391,482)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(2,035,946)	(2,259,153)
Proceeds from sale of investments	1,775,754	3,227,529
Purchases of property and equipment	<u>(230,041)</u>	<u>(115,095)</u>
Net cash and cash equivalents provided (used) by investing activities	<u>(490,233)</u>	<u>853,281</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from debt	438,374	360,962
Proceeds from Paycheck Protection Program loan	968,798	
Payment on debt	<u>(528,506)</u>	<u>(488,426)</u>
Net cash and cash equivalents provided (used) by financing activities	<u>878,666</u>	<u>(127,464)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(48,598)	334,335
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	<u>1,041,613</u>	<u>707,278</u>
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	<u>\$ 993,015</u>	<u>\$ 1,041,613</u>
<b>SUPPLEMENTAL ACTIVITY:</b>		
Cash paid for interest	<u>\$ 173,357</u>	<u>\$ 323,440</u>

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

# EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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### 1. ORGANIZATION AND OPERATIONS

Founded in 1874, East Bay Society for the Prevention of Cruelty to Animals (Organization) is a nonprofit organization committed to the welfare of cats and dogs in Alameda and Contra Costa Counties. The Organization strives to eliminate animal cruelty, neglect and overpopulation by providing programs, education and resources at three locations to support people and companion animals. The Organization offers pet adoptions, spay and neuter, a full-service public veterinary clinic, foster care, dog training, humane education programs, volunteer opportunities and a variety of other services.

### 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of accounting and financial statement presentation** – The financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities. The Organization reports information regarding its financial position and activities according to two classes of net assets: *without donor restrictions* and *with donor restrictions*.

**Revenue recognition** – The Organization's revenue from contracts with customers consists of revenue from veterinary, shelter, and adoption services which are recognized when the related services occur.

Private grants and contributions are recognized in full when received or unconditionally promised, in accordance with professional standards. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in net assets with donor restrictions. Net assets with donor restrictions become unrestricted and are reported in the statements of activities as net assets released from restrictions when the time restrictions expire or the contributions are used for the restricted purpose. Contributions with donor restrictions whose restrictions are met in the same reporting period are shown as unrestricted. Net assets with donor restrictions also includes those whose use by the Organization is restricted by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled and removed by the actions of the Organization.

Bequests are recognized when estates are settled and the amounts can be reasonably estimated. Bequests on unsettled estates are considered conditional promises to give and therefore are not recognized, because the amounts cannot be reasonably estimated and the dates of distribution are unknown. Bequests receivable represent those amounts for which both amount and timing of payment is known. Bequests receivable were \$1,446,080 and \$335,732 as of December 31, 2020 and 2019, respectively.

**Cash and cash equivalents** – For financial statement purposes, the Organization considers investments with an initial maturity of three months or less to be cash equivalents, unless held for long-term purposes.

The Organization minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institutions. The balance at times may exceed federally insured limits. Balances exceeded federally insured limits by \$257,759 and \$457,094 for the years ending

# EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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December 31, 2020 and 2019, respectively. The Organization has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk related to cash.

**Inventories** consist of medications and medical supplies, and are stated at the lower of cost (first-in, first-out) or market.

**Investments** are stated at fair value and include money market funds that are held for long-term purposes.

**Property and equipment** is stated at cost or, if donated, at fair market value as of the date of donation. The Organization capitalizes all expenditures for property and equipment in excess of \$1,000. Depreciation is computed using the straight-line method over estimated useful lives of individual assets ranging from 5 to 50 years.

**Split-interest agreement assets** are stated at fair value.

**Functional allocation of expenses** – The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Shelter, adoption, and veterinary service expenses, repair and maintenance, utilities and outside services have been allocated based on square footage. Personnel expenses are allocated based on employees' time incurred. All other expenses are allocated based on usage of resources.

**Income taxes** – The Organization is publicly supported and exempt from income taxes under Internal Revenue Code Section 501(c)(3) and corresponding California state codes.

**Fair value measurements** – Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same – to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

- |                |   |
|----------------|---|
| Level 1 Inputs | Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. |
| Level 2 Inputs | Inputs other than quoted prices in active markets that are observable either directly or indirectly.                        |
| Level 3 Inputs | Unobservable inputs for the asset or liability.   |

# EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

When a price for an identical asset or liability is not observable, a reporting entity measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, a reporting entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value.

**Use of estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**New accounting pronouncements** – In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). The new accounting standard requires lessees to recognize a lease liability measured on a discounted basis and a right-of-use asset for all leases with terms longer than 12 months. Application of this statement is effective for the year ending December 31, 2022. The Organization is currently evaluating the impact this pronouncement will have on the financial statements.

**Subsequent events** have been evaluated through May 12, 2021, the date the financial statements were issued. Management concluded that no material subsequent events have occurred since December 31, 2020 that require recognition or disclosure in such financial statements, except as noted in Note 9.

### 3. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization's financial assets available within one year of the statement of financial position date for general expenditure are as follows for:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 993,015	\$ 1,041,613
Investments	19,317,775	17,264,694
Accounts receivable	27,938	46,230
Contributions and bequests receivable	1,617,742	677,113
Split-interest agreement assets	<u>3,492,656</u>	<u>1,339,552</u>
Total financial assets	25,449,126	20,369,202
Less amounts unavailable for general expenditures within one year, due to:		
Purpose and time restrictions by donors (see Note 11)	<u>(4,455,209)</u>	<u>(2,250,260)</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 20,993,917</u>	<u>\$ 18,118,942</u>

# EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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As part of the Organization's liquidity management, cash in excess of daily requirements is invested in short-term investments and money market funds. Cash needs are met primarily from service revenue streams daily, with any shortfalls being met by drawings on savings and short-term investments. The Organization also has a line of credit to meet cash flow needs. Additionally, the organization secured a loan through the Paycheck Protection Program which supports operations by funding payroll and related benefit expenses in the short term. See Note 9.

#### 4. CONTRIBUTIONS AND BEQUESTS RECEIVABLE

The Organization recognizes contributions at their estimated fair value, on a nonrecurring basis, at the time the promise is made. Fair value is determined by calculating the present value of the estimated future cash flows. The discount rate used in determining the net present value of long-term contributions receivable was 5.7% at both December 31, 2020 and 2019, respectively.

Contributions and bequests receivable consist of the following:

	<u>2020</u>	<u>2019</u>
Gross contributions and bequests receivable	\$ 1,617,742	\$ 695,000
Less:		
Discount on contributions and bequests receivable	<u>                    </u>	<u>(17,887)</u>
Contributions and bequests receivable, net	<u>\$ 1,617,742</u>	<u>\$ 677,113</u>

Contributions and bequests receivable are due to be collected as follows:

	<u>2020</u>	<u>2019</u>
Within one year	\$ 1,617,742	\$ 461,448
In one to five years	<u>                    </u>	<u>215,665</u>
Contributions and bequests receivable, net	<u>\$ 1,617,742</u>	<u>\$ 677,113</u>

# EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

### 5. INVESTMENTS

All investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

	<u>2020</u>	<u>2019</u>
Mutual funds:		
Bonds	\$ 7,425,387	\$ 5,580,063
Growth	4,008,013	4,433,909
Large blend	3,361,278	2,608,746
Value	2,765,870	4,098,196
Technology	1,006,753	10,007
Communications	311,436	
Industrials	282,490	87,794
Natural resources	113,789	
Utilities	10,978	
Consumer goods	5,035	
Total mutual funds	19,291,029	16,818,715
Money market funds	26,746	445,979
Total	\$ 19,317,775	\$ 17,264,694

Investment income consists of the following:

	<u>2020</u>	<u>2019</u>
Interest and dividends, net of fees	\$ 319,898	\$ 420,725
Net unrealized and realized gain	1,646,638	2,691,705
Total	\$ 1,966,536	\$ 3,112,430

### 6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2020</u>	<u>2019</u>
Building and improvements	\$ 18,828,257	\$ 18,660,152
Land	55,410	55,410
Equipment	1,276,103	1,214,167
Memorial gardens	19,545	19,545
Website	13,256	13,256
Total	20,192,571	19,962,530
Less accumulated depreciation and amortization	(8,242,415)	(7,630,954)
Total	\$ 11,950,156	\$ 12,331,576

# EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

### 7. SPLIT-INTEREST AGREEMENT ASSETS

Split-interest agreement assets include the estimated fair value of the Organization's interest in various irrevocable charitable remainder trusts held by third-party trustees for which the Organization is the remainder beneficiary as well as a perpetual trust in which the Organization has the irrevocable right to receive income on trust assets in perpetuity. The estimated fair value of these assets was determined with present value techniques using projected investment returns consistent with the composition of the asset portfolios, life expectancies, estimated future cash disbursements and discount rates ranging from 0.6% to 5.7% at December 31, 2020 and 2019, respectively. The Organization's charitable remainder trusts are classified within Level 3 of the fair value hierarchy because determination of the present value of future cash flows is based on little or no market data and requires management to develop their own assumptions.

	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 1,339,552	\$ 852,451
Change in fair value of split-interest agreement assets	<u>2,153,104</u>	<u>487,101</u>
Ending balance	<u>\$ 3,492,656</u>	<u>\$ 1,339,552</u>

### 8. DEBT

The Organization has a \$14,500,000 revolving line of credit with UBS Bank which was initially obtained to fund the redemption of the Organization's Bond and to renovate their Baldwin Street facility. The line of credit has a variable interest rate equal to the Bank's LIBOR rate plus 1.35% (0.34% and 1.97% at December 31, 2020 and 2019, respectively) and is due on demand with no established maturity date. There are no required payments under the line of credit; however, the Organization may repay any advance, in whole or part, at any time. The line of credit is secured by all of the Organization's assets. The outstanding balance of December 31, 2020 and 2019 was \$8,459,653 and \$8,299,785, respectively.

The Organization has a fixed rate loan totaling \$250,000. Interest payments are due quarterly and principal is due in total upon maturity. The loan has a rate of 4.074% and is scheduled to mature March 8, 2023.

### 9. PAYCHECK PROTECTION PROGRAM

In April 2020, the Organization received a Paycheck Protection Program (PPP) loan under the Federal Coronavirus Aid, Relief, and Economic Security (CARES) Act totaling \$968,798. The terms and repayment conditions of PPP loans were modified through the subsequent Paycheck Protection Program Flexibility Act (PPPPFA) signed into law in June 2020. Under the CARES Act, as modified by PPPFA, a portion or all of the loan and accrued interest may be forgiven provided the funds are spent on qualifying payroll and other expenditures.

The Organization received notification that its loan was forgiven in February 2021 and will therefore recognize the forgiveness of the loan as revenue in the year ending December 31, 2021. There was no interest expense related to this loan for the year ended December 31, 2020.

# EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

In February 2021, the Organization secured additional funding through the PPP loan program totaling \$968,798. The portion of the loans that do not qualify for forgiveness or any additional amount that is chosen to maintain as a loan, is required to be repaid within 5 years at 1% interest. The Organization anticipates applying for forgiveness of the loan based on the outlined PPP requirements; however, the application for loan forgiveness is subject to approval by the lender and could be subject to audit at a future date. It is possible that the entire loan could be required to be repaid. The timing of possible repayments, if any, is expected to begin 10 months after the end of the loan forgiveness covered period. The extent and the amount of forgiveness cannot be determined at this time.

### 10. LEASE COMMITMENTS

#### Spay and Neuter Clinic

The Organization has an agreement that extends through 2030 to lease a facility for a spay and neuter clinic located in Oakland, California. The terms of the agreement provide for a monthly base rent of \$1,000 plus real estate taxes. The lease contains an option to purchase the property for \$500,000 which is exercisable during the period beginning each August 1 and ending each December 31 of every third year during the term of the lease. The Organization also leases equipment under non-cancelable operating leases expiring at various dates through 2025. Expense under operating lease agreements totaled \$134,299 and \$115,749 in 2020 and 2019, respectively.

Future minimum lease payments under these agreements are as follows:

Year ending December 31,	<u>Spay and neuter clinic</u>	<u>Equipment</u>	<u>Total</u>
2021	\$ 57,624	\$ 80,040	\$ 137,664
2022	57,624	67,795	125,419
2023	57,624	46,932	104,556
2024	57,624	45,948	103,572
2025	57,624	12,685	70,309
Thereafter	<u>288,120</u>	<u>          </u>	<u>288,120</u>
Total	<u>\$ 576,240</u>	<u>\$ 253,400</u>	<u>\$ 829,640</u>

The Organization has a long-term non-cancellable sublease agreement with an unrelated company that expires in February 2025. The minimum annual rental income to be received in the future is as follows:

Year ending December 31,	
2021	\$ 77,848
2022	80,188
2023	82,590
2024	85,072
2025	<u>10,686</u>
Total	<u>\$ 336,384</u>



# EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

### East Alameda County Facility

The Organization has a 99-year agreement to lease property from the Alameda County Surplus Property Authority (landlord) on which a second facility providing animal adoption and spay and neuter services for the Eastern Alameda County area was constructed. The terms of the lease provide for annual rent of \$1 plus property taxes and utilities. Although the lease may be terminated at any time by the Organization after giving a 180-day notice, the landlord has the option to require the Organization to return the property to its original condition at the beginning of the lease. The landlord may only terminate the lease after 50 years.

### 11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of unexpended contributions restricted for the following:

	<u>2020</u>	<u>2019</u>
Time restricted:		
Split-interest agreement assets	\$ 351,504	\$ 359,714
Purpose restricted:		
Second Chance fund	170,000	316,250
Senior cat assistance	111,927	
Veterinary assistance program	100,000	
Sit Stay Home	18,890	35,140
Miscellaneous programs	5,626	3,208
Restricted into perpetuity:		
Donor restricted endowment fund	556,110	556,110
Split-interest agreement asset – interest in a perpetual trust	<u>3,141,152</u>	<u>979,838</u>
Total	<u>\$ 4,455,209</u>	<u>\$ 2,250,260</u>

The Organization has a donor-restricted endowment fund. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) accumulated unrealized appreciation and depreciation of endowment investments if directed by the donor gift instrument, (c) the original value of subsequent gifts to the permanent endowments, and (d) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Under the investment policy as approved by the Board of Directors, the primary investment objectives are to generate sufficient long term growth of capital, without undue exposure to risk, to enhance the Organization's ability to meet its present and future financial needs, as well as increase the real (adjusted for inflation) purchasing power of the investments.

There were no changes to the endowment fund during December 31, 2020 and 2019.

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

## **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019**

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### **12. RETIREMENT PLAN**

The Organization has established a money purchase pension plan for its employees which allows for a 3% safe harbor non-elective contribution in addition to an elective profit sharing contribution. There was no profit sharing contribution for 2020 or 2019. Eligible employees of the safe harbor contribution are required to have completed two months of service and be at least 18 years of age. Eligible employees of the profit sharing contribution are required to be employed by the Organization on the last day of the plan year. The required contributions under the plan were \$127,612 and \$103,953 in December 31, 2020 and 2019, respectively. Funding for the contribution is accumulated in an interest-bearing cash account and is remitted to the plan annually.

### **13. RISKS AND UNCERTAINTIES**

As a result of the ongoing COVID-19 pandemic, economic uncertainties have arisen which may have a negative impact on the Organization through business disruption, investment losses, or other decreases in revenue. Additionally, the Organization has experienced some disruption to its business due to government mandated closures. Although the disruption is expected to be temporary, the Organization anticipates some revenue losses and cash flow delays due to the impact of the pandemic. However, the related financial impact and duration cannot be reasonably estimated at this time.