

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

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

**YEARS ENDED
DECEMBER 31, 2021 AND 2020**

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of the East Bay Society for the Prevention of Cruelty to Animals (Organization), which comprise the statement of financial position as of December 31, 2021 and 2020, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and

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

therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



GILBERT CPAs
Sacramento, California

July 27, 2022

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

**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,512,343	\$ 993,015
Accounts receivable	37,203	27,938
Contributions and bequests receivable	744,808	1,617,742
Inventories	69,493	87,968
Prepaid expenses	<u>148,241</u>	<u>103,726</u>
Total current assets	2,512,088	2,830,389
INVESTMENTS	25,569,888	19,317,775
PROPERTY AND EQUIPMENT, Net	11,578,218	11,950,156
SPLIT-INTEREST AGREEMENT ASSETS	<u>3,740,548</u>	<u>3,492,656</u>
TOTAL ASSETS	<u>\$ 43,400,742</u>	<u>\$ 37,590,976</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 127,172	\$ 58,706
Accrued expenses and other liabilities	648,355	579,355
Paycheck Protection Program loan		968,798
Current portion of debt	<u>7,859,653</u>	<u>8,459,653</u>
Total current liabilities	8,635,180	10,066,512
DEBT, Net	<u>250,000</u>	<u>250,000</u>
Total liabilities	<u>8,885,180</u>	<u>10,316,512</u>
NET ASSETS:		
Without donor restrictions	29,820,323	22,819,255
With donor restrictions	<u>4,695,239</u>	<u>4,455,209</u>
Total net assets	<u>34,515,562</u>	<u>27,274,464</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 43,400,742</u>	<u>\$ 37,590,976</u>

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

**STATEMENTS OF ACTIVITIES (Page 1 of 2)
YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUES AND SUPPORT:		
Program revenues:		
Veterinary services	\$ 2,150,296	\$ 2,939,424
Less: Discounts for free and reduced fee veterinary services	<u>(350,958)</u>	<u>(429,850)</u>
Veterinary services, net	1,799,338	2,509,574
Shelter and adoption services	<u>765,156</u>	<u>498,829</u>
Total program revenue	<u>2,564,494</u>	<u>3,008,403</u>
Public support:		
Contributions	2,901,480	3,128,778
Bequests	<u>4,659,758</u>	<u>2,344,523</u>
Net assets released from restrictions	<u>223,235</u>	<u>162,500</u>
Total public support	<u>7,784,473</u>	<u>5,635,801</u>
Other income:		
Investment income	3,621,741	1,966,536
Forgiveness of Paycheck Protection Program loan	<u>1,937,596</u>	
Rental income	60,124	69,250
Other income	<u>3,040</u>	<u>26,579</u>
Total other income	<u>5,622,501</u>	<u>2,062,365</u>
Total revenues and support	<u>15,971,468</u>	<u>10,706,569</u>
EXPENSES:		
Program services:		
Shelter and adoption services	4,271,063	3,824,062
Veterinary services	<u>3,046,150</u>	<u>3,601,801</u>
Total program services	<u>7,317,213</u>	<u>7,425,863</u>
Supporting services:		
General and administrative	842,202	864,210
Fundraising	<u>810,985</u>	<u>723,376</u>
Total supporting services	<u>1,653,187</u>	<u>1,587,586</u>
Total expenses	<u>8,970,400</u>	<u>9,013,449</u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
	<u>7,001,068</u>	<u>1,693,120</u>

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

**STATEMENTS OF ACTIVITIES (Page 2 of 2)
YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions and bequests	215,373	214,345
Change in value of split-interest agreement assets	247,892	2,153,104
Net assets released from restrictions	<u>(223,235)</u>	<u>(162,500)</u>
 INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	 <u>240,030</u>	 <u>2,204,949</u>
 INCREASE IN NET ASSETS	 7,241,098	 3,898,069
 NET ASSETS, Beginning of Year	 <u>27,274,464</u>	 <u>23,376,395</u>
 NET ASSETS, End of Year	 <u>\$ 34,515,562</u>	 <u>\$ 27,274,464</u>

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

**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021**

	Program services	Supporting services			
	Shelter and adoption services	Veterinary services	General and administrative	Fundraising	Total
Salaries	\$ 1,839,796	\$ 1,452,116	\$ 655,498	\$ 265,807	\$ 4,213,217
Payroll taxes and benefits	462,604	381,256	64,157	47,443	955,460
Supplies	185,353	465,349	7,765	596	659,063
Depreciation and amortization	476,116	116,712	5,161	4,945	602,934
Occupancy	254,667	135,174	2,065	2,924	394,830
Professional fees	197,246	29,885	63,329	63,839	354,299
Repair and maintenance	216,379	62,028	2,922	2,808	284,137
Printing and postage	18,763	17,968	384	238,884	275,999
Insurance	132,987	36,990	1,579	1,513	173,069
Outside services	67,299	102,215	889	852	171,255
Non-depreciable equipment	81,519	39,164	6,774	23,560	151,017
Bank charges	18,829	70,075		41,842	130,746
Interest expense	104,058	26,015			130,073
Advertising	46,890	23,445		23,445	93,780
Events	35,926			53,083	89,009
Outreach services	52,180				52,180
Miscellaneous expense	<u>80,451</u>	<u>87,758</u>	<u>31,679</u>	<u>39,444</u>	<u>239,332</u>
Total	\$ 4,271,063	\$ 3,046,150	\$ 842,202	\$ 810,985	\$ 8,970,400

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

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

	Program services	Supporting services			
	<u>Shelter and adoption services</u>	<u>Veterinary services</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>Total</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
Professional fees	23,378	10,472	55,346	31,528	120,724
Repair and maintenance	129,838	41,450	32,848	1,673	205,809
Printing and postage	18,964	20,914	887	233,141	273,906
Insurance	125,454	34,689	1,591	1,524	163,258
Outside services	73,499	155,823	1,009	967	231,298
Non-depreciable equipment	43,890	38,936	5,449	35,639	123,914
Bank charges	21,757	78,943		47,461	148,161
Interest expense	138,686	34,671			173,357
Advertising	28,872	28,872			57,744
Events	21,093			25,289	46,382
Outreach services	51,900				51,900
Miscellaneous expense	<u>59,764</u>	<u>98,924</u>	<u>20,400</u>	<u>26,211</u>	<u>205,299</u>
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**

**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 7,241,098	\$ 3,898,069
Reconciliation to net cash and cash equivalents provided (used) by operating activities:		
Depreciation and amortization	602,934	611,461
Receipt of donated investments	(573,758)	(146,251)
Net realized and unrealized gain on investments	(3,343,530)	(1,646,638)
Forgiveness of Paycheck Protection Program loan	(1,937,596)	
Changes in:		
Accounts receivable	(9,265)	18,292
Contributions and bequests receivable	872,934	(940,629)
Inventories	18,475	(33,859)
Prepaid expenses	(44,515)	43,992
Split-interest agreement assets	(247,892)	(2,153,104)
Accounts payable	68,466	(135,415)
Accrued expenses and other liabilities	<u>69,000</u>	<u>47,051</u>
Net cash and cash equivalents provided (used) by operating activities	<u>2,716,351</u>	<u>(437,031)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(3,012,231)	(2,035,946)
Proceeds from sale of investments	677,406	1,775,754
Purchases of property and equipment	<u>(230,996)</u>	<u>(230,041)</u>
Net cash and cash equivalents used by investing activities	<u>(2,565,821)</u>	<u>(490,233)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from debt	150,726	438,374
Proceeds from Paycheck Protection Program loan	968,798	968,798
Payment on debt	<u>(750,726)</u>	<u>(528,506)</u>
Net cash and cash equivalents provided by financing activities	<u>368,798</u>	<u>878,666</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	519,328	(48,598)
CASH AND CASH EQUIVALENTS, Beginning of Year	993,015	1,041,613
CASH AND CASH EQUIVALENTS, End of Year	\$ 1,512,343	\$ 993,015
SUPPLEMENTAL ACTIVITY:		
Cash paid for interest	<u>\$ 130,073</u>	<u>\$ 173,357</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, 2021 AND 2020

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.

Contract assets consist of receivables for services performed by the Organization that have not been paid by the customers. The balances of contract assets as of December 31, 2021, 2020, and 2019 were \$37,203, \$27,938, and \$46,230, respectively. Contract liabilities consist of customer deposits for space rental and services to be performed by the Organization at a future date. The balances of contract liabilities as of December 31, 2021, 2020, and 2019 were \$116,910, \$70,783, and \$69,893.

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.

EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

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 \$759,192 and \$257,759 for the years ending December 31, 2021 and 2020, 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.

Contributions and bequests receivable are estimated at 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 if the promise is to be received in a period more than one year from year-end. Contributions and bequests receivable at December 31, 2021 and 2020 are expected to be collected within 1 year.

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.

EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

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

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

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

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.

Recent 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 July 27, 2022, the date the financial statements were issued. Management concluded that, aside from the matter disclosed in Note 13, no material subsequent events have occurred since December 31, 2021 that require recognition or disclosure in such financial statements.

EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

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:

	2021	2020
Cash and cash equivalents	\$ 1,512,343	\$ 993,015
Investments	25,569,888	19,317,775
Accounts receivable	37,203	27,938
Contributions and bequests receivable	744,808	1,617,742
Split-interest agreement assets	<u>3,740,548</u>	<u>3,492,656</u>
Total financial assets	31,604,790	25,449,126
Less amounts unavailable for general expenditures within one year, due to:		
Purpose and time restrictions by donors (see Note 10)	(4,695,239)	(4,455,209)
Total financial assets available to management for general expenditure within one year	<u>\$ 26,909,551</u>	<u>\$ 20,993,917</u>

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 loans through the Paycheck Protection Program which supports operations by funding payroll and related benefit expenses in the short term. See Note 8.

4. INVESTMENTS

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

	2021	2020
Mutual funds:		
Bonds	\$ 6,796,608	\$ 7,425,387
Large blend	5,548,279	3,361,278
Growth	5,070,766	4,008,013
Value	4,386,766	2,765,870
Technology	1,937,433	1,006,753
Natural resources	666,629	113,789
Communications	651,378	311,436
Industrials	401,520	282,490
Utilities	17,074	10,978
Consumer goods		5,035
Total mutual funds	<u>25,476,453</u>	<u>19,291,029</u>
Money market funds	93,435	26,746
Total	<u>\$ 25,569,888</u>	<u>\$ 19,317,775</u>

EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Investment income consists of the following:

	<u>2021</u>	<u>2020</u>
Interest and dividends, net of fees	\$ 278,211	\$ 319,898
Net unrealized and realized gain	<u>3,343,530</u>	<u>1,646,638</u>
Total	<u>\$ 3,621,741</u>	<u>\$ 1,966,536</u>

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2021</u>	<u>2020</u>
Building and improvements	\$ 18,850,873	\$ 18,828,257
Land	55,410	55,410
Equipment	1,472,063	1,276,103
Memorial gardens	19,545	19,545
Website	14,563	13,256
Construction in progress	<u>11,113</u>	<u> </u>
Total	<u>20,423,567</u>	<u>20,192,571</u>
Less accumulated depreciation and amortization	<u>(8,845,349)</u>	<u>(8,242,415)</u>
Total	<u>\$ 11,578,218</u>	<u>\$ 11,950,156</u>

6. SPLIT-INTEREST AGREEMENT ASSETS

Split-interest agreement assets include the estimated fair value of the Organization's interest in various irrevocable charitable remainder trusts held by third-party trustees for which the Organization is the remainder beneficiary as well as a perpetual trust in which the Organization has the irrevocable right to receive income on trust assets in perpetuity. The estimated fair value of these assets was determined with present value techniques using projected investment returns consistent with the composition of the asset portfolios, life expectancies, estimated future cash disbursements and discount rates ranging from 0.6% to 5.7% at December 31, 2021 and 2020, 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>2021</u>	<u>2020</u>
Beginning balance	\$ 3,492,656	\$ 1,339,552
Change in fair value of split-interest agreement assets	<u>247,892</u>	<u>2,153,104</u>
Ending balance	<u>\$ 3,740,548</u>	<u>\$ 3,492,656</u>

EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

7. 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 SOFR (formerly LIBOR) rate (0.05% and 0.34% at December 31, 2021 and 2020, respectively) plus 1.75% and is due on demand with no established maturity date. Therefore the line of credit is classified as a current liability on the statements of financial position. 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, 2021 and 2020 was \$7,859,653 and \$8,459,653, 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.

8. 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. Additionally, in February 2021 the Organization secured additional funding through the PPP loan program totaling \$968,798. The terms and repayment conditions of PPP loans were modified through the subsequent Paycheck Protection Program Flexibility Act (PPPFA) 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 both loans were forgiven in February and October 2021, respectively, and therefore recognized the forgiveness of the loans as revenues in the year ended December 31, 2021.

9. 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 \$172,029 and \$134,299 in 2021 and 2020, respectively.

EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Future minimum lease payments under these agreements are as follows:

Year ending December 31,	Spay and neuter clinic	Equipment	Total
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
2026	57,624		57,624
Thereafter	<u>230,496</u>		<u>230,496</u>
Total	\$ 518,616	\$ 173,360	\$ 691,976

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,	
2022	\$ 80,188
2023	82,590
2024	85,072
2025	<u>10,686</u>
Total	<u>\$ 258,536</u>

East Alameda County Facility

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

EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

10. NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2021</u>	<u>2020</u>
Time restricted:		
Split-interest agreement assets	\$ 377,244	\$ 351,504
Purpose restricted:		
Veterinary assistance program	283,446	100,000
Senior cat assistance	111,927	111,927
Miscellaneous programs	3,208	5,626
Second Chance fund		170,000
Sit Stay Home		18,890
Restricted into perpetuity:		
Donor restricted endowment fund	556,110	556,110
Split-interest agreement asset – interest in a perpetual trust	<u>3,363,304</u>	<u>3,141,152</u>
Total	<u>\$ 4,695,239</u>	<u>\$ 4,455,209</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, 2021 and 2020.

11. 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 2021 or 2020. 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 \$132,924 and \$127,612 in December 31, 2021 and 2020, respectively. Funding for the contribution is accumulated in an interest-bearing cash account and is remitted to the plan annually.

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

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

12. 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.

13. SUBSEQUENT EVENTS

In January 2022, the Organization purchased the Hegenberger Spay & Neuter Surgery Center building. The cost of the building was \$510,230.