

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

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

**YEARS ENDED
DECEMBER 31, 2019 AND 2018**

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, 2019 and 2018, 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, 2019 and 2018, 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 fluid and cursive, with "Gilbert" on top and "CPAs" on the bottom.

GILBERT CPAs
Sacramento, California

June 2, 2020

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

**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,041,613	\$ 707,278
Accounts receivable	46,230	30,357
Current portion of contributions receivable	461,448	1,175,466
Inventories	54,109	97,808
Prepaid expenses	<u>147,718</u>	<u>126,681</u>
Total current assets	1,751,118	2,137,590
INVESTMENTS	17,264,694	14,821,566
PROPERTY AND EQUIPMENT, Net	12,331,576	12,828,684
CONTRIBUTIONS RECEIVABLE, Net	215,665	305,894
SPLIT-INTEREST AGREEMENT ASSETS	<u>1,339,552</u>	<u>852,451</u>
TOTAL ASSETS	<u>\$ 32,902,605</u>	<u>\$ 30,946,185</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 194,121	\$ 132,384
Accrued expenses and other liabilities	532,304	653,123
Current portion of debt	<u>8,549,785</u>	<u>8,427,249</u>
Total current liabilities	9,276,210	9,212,756
DEBT, Net	<u>250,000</u>	<u>500,000</u>
Total liabilities	<u>9,526,210</u>	<u>9,712,756</u>
NET ASSETS:		
Without donor restrictions	21,126,135	19,306,604
With donor restrictions	<u>2,250,260</u>	<u>1,926,825</u>
Total net assets	<u>23,376,395</u>	<u>21,233,429</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 32,902,605</u>	<u>\$ 30,946,185</u>

**EAST BAY SOCIETY FOR THE PREVENTION
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**STATEMENTS OF ACTIVITIES (Page 1 of 2)
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUES AND SUPPORT:		
Program revenues:		
Veterinary services	\$ 3,479,242	\$ 3,715,544
Less: Discounts for free and reduced fee veterinary services	(612,291)	(699,269)
Veterinary services, net	2,866,951	3,016,275
Shelter and adoption services	760,190	764,642
Total program revenue	<u>3,627,141</u>	<u>3,780,917</u>
Public support:		
Contributions	2,927,551	2,538,896
Bequests	1,771,772	1,264,861
Net assets released from restrictions	163,666	183,075
Total public support	<u>4,862,989</u>	<u>3,986,832</u>
Other income:		
Investment income (loss)	3,112,430	(613,231)
Rental income	73,740	73,740
Other income	30,190	13,234
Total other income	<u>3,216,360</u>	<u>(526,257)</u>
Total revenues and support	<u>11,706,490</u>	<u>7,241,492</u>
EXPENSES:		
Program services:		
Shelter and adoption services	4,430,453	4,509,082
Veterinary services	3,955,198	4,013,209
Total program services	<u>8,385,651</u>	<u>8,522,291</u>
Supporting services:		
Fundraising	826,855	805,430
General and administrative	674,453	686,752
Total supporting services	<u>1,501,308</u>	<u>1,492,182</u>
Total expenses	<u>9,886,959</u>	<u>10,014,473</u>
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
	<u>1,819,531</u>	<u>(2,772,981)</u>

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**STATEMENTS OF ACTIVITIES (Page 2 of 2)
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions	1,225	
Change in value of split-interest agreement assets	487,101	(233,539)
Net assets released from restrictions	<u>(163,666)</u>	<u>(183,075)</u>
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	<u>323,435</u>	<u>(415,389)</u>
INCREASE (DECREASE) IN NET ASSETS	2,142,966	(3,188,370)
NET ASSETS, Beginning of Year	<u>21,233,429</u>	<u>24,421,799</u>
NET ASSETS, End of Year	<u>\$ 23,376,395</u>	<u>\$ 21,233,429</u>

**EAST BAY SOCIETY FOR THE PREVENTION
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**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019**

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

**EAST BAY SOCIETY FOR THE PREVENTION
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**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018**

	Program services		Supporting services			Total
	Shelter and adoption services	Veterinary services	Fundraising	General and administrative		
Salaries	\$ 1,959,172	\$ 1,992,636	\$ 214,387	\$ 484,873	\$ 4,651,068	
Payroll taxes and benefits	584,839	466,768	66,979	82,173	1,200,759	
Supplies	266,680	727,159	1,253	4,397	999,489	
Depreciation	506,873	119,999	5,601	5,846	638,319	
Occupancy	222,232	110,947	2,211	836	336,226	
Outside services	123,980	263,491	1,546	1,615	390,632	
Interest expense	249,034	62,258			311,292	
Printing and postage	15,794	13,249	288,504	586	318,133	
Repair and maintenance	170,836	49,695	1,838	10,406	232,775	
Bank charges	20,911	71,609	43,026		135,546	
Professional fees	66,626	13,391	47,429	53,180	180,626	
Insurance	88,159	24,455	1,142	1,192	114,948	
Events	24,916		56,504		81,420	
Non-depreciable equipment	44,446	26,677	34,045	6,427	111,595	
Outreach services	89,488	379			89,867	
Advertising	25,157	25,157			50,314	
Miscellaneous expense	49,939	45,339	40,965	35,221	171,464	
Total	\$ 4,509,082	\$ 4,013,209	\$ 805,430	\$ 686,752	\$ 10,014,473	

**EAST BAY SOCIETY FOR THE PREVENTION
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**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 2,142,966	\$ (3,188,370)
Reconciliation to net cash and cash equivalents used by operating activities:		
Depreciation	612,203	638,319
Receipt of donated investments	(719,799)	(64,050)
Net realized and unrealized (gain) loss on investments	(2,691,705)	1,019,126
Net loss on disposal of assets		146
Changes in:		
Accounts receivable	(15,873)	(5,113)
Inventories	43,699	12,179
Prepaid expenses	(21,037)	(37,560)
Contributions receivable	804,247	(481,109)
Split-interest agreement assets	(487,101)	299,615
Accounts payable	61,737	(97,164)
Accrued expenses and other liabilities	<u>(120,819)</u>	<u>41,419</u>
Net cash and cash equivalents used by operating activities	<u>(391,482)</u>	<u>(1,862,562)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(2,259,153)	(405,716)
Proceeds from sale of investments	3,227,529	2,422,932
Purchases of property and equipment	<u>(115,095)</u>	<u>(83,700)</u>
Net cash and cash equivalents provided by investing activities	<u>853,281</u>	<u>1,933,516</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	360,962	347,792
Payment on line of credit	<u>(488,426)</u>	<u>(466,576)</u>
Net cash and cash equivalents used by financing activities	<u>(127,464)</u>	<u>(118,784)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	334,335	(47,830)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>707,278</u>	<u>755,108</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 1,041,613</u>	<u>\$ 707,278</u>
SUPPLEMENTAL ACTIVITY:		
Cash paid for interest	<u>\$ 323,440</u>	<u>\$ 311,292</u>
NON-CASH ACTIVITY:		
Long-term debt converted into line of credit	<u>\$ _____</u>	<u>\$ 250,000</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, 2019 AND 2018

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 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, 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.

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 \$457,094 and \$53,921 for the years ending

EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

December 31, 2019 and 2018, 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.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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 May 2014, the Financial Accounting Standards Board (FASB) issued Topic 606, *Revenue from Contracts with Customers*. The new accounting standard develops a common standard that will remove inconsistencies in revenue requirements, improve comparability of revenue recognition practices, provide more useful information to users of financial statements and simplify the preparation of financial statements. The Organization has implemented Topic 606 effective January 1, 2019 with no effect on beginning net assets.

In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new accounting standard clarifies and improves the guidance for (1) evaluating whether transactions should be accounted for as contributions within the scope of Topic 958 or as exchange transactions subject to other guidance and (2) determining whether a contribution is conditional. The Organization has implemented this accounting standard in the accompanying financial statements effective January 1, 2019 under the modified prospective basis. Accordingly, there is no effect on beginning net assets in connection with the implementation of ASU 2018-08.

In February 2016, the FASB issued 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 June 2, 2020, the date the financial statements were issued. Management concluded that no material subsequent events have occurred since December 31, 2019 that require recognition or disclosure in such financial statements, except as noted in Footnote 12.

Reclassification – Certain 2018 amounts have been reclassified to conform to the 2019 financial statement presentation and recent accounting pronouncements.

EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 1,041,613	\$ 707,278
Investments	17,264,694	14,821,566
Accounts receivable	46,230	30,357
Contributions receivable, net	677,113	1,481,360
Split-interest agreement assets	<u>1,339,552</u>	<u>852,451</u>
Total financial assets	20,369,202	17,893,012
Less amounts unavailable for general expenditures within one year, due to:		
Purpose and time restrictions by donors (see Note 10)	<u>(2,250,260)</u>	<u>(1,926,825)</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 18,118,942</u>	<u>\$ 15,966,187</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 one line of credit to meet cash flow needs.

4. CONTRIBUTIONS 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% and 5.5% at December 31, 2019 and 2018, respectively.

Contributions receivable consist of the following:

	<u>2019</u>	<u>2018</u>
Gross contributions receivable	\$ 695,000	\$ 1,508,275
Less:		
Discount on contributions receivable	<u>(17,887)</u>	<u>(26,915)</u>
Contributions receivable, net	<u>\$ 677,113</u>	<u>\$ 1,481,360</u>

**EAST BAY SOCIETY FOR THE PREVENTION
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**NOTES TO FINANCIAL STATEMENTS
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Contributions receivable are due to be collected as follows:

	<u>2019</u>	<u>2018</u>
Within one year	\$ 461,448	\$ 1,175,466
In one to five years	<u>215,665</u>	<u>305,894</u>
Contributions receivable, net	<u><u>\$ 677,113</u></u>	<u><u>\$ 1,481,360</u></u>

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>2019</u>	<u>2018</u>
Mutual funds:		
Bonds	\$ 5,580,063	\$ 3,526,384
Growth	4,433,909	3,900,958
Value	4,098,196	3,572,757
Large blend	2,608,746	2,128,992
Industrials	87,794	69,307
Technology	10,007	
Mid-cap blend		54,481
Total mutual funds	<u>16,818,715</u>	<u>13,252,879</u>
Money market funds	<u>445,979</u>	<u>1,568,687</u>
Total	<u><u>\$ 17,264,694</u></u>	<u><u>\$ 14,821,566</u></u>

Investment income (loss) consists of the following:

	<u>2019</u>	<u>2018</u>
Interest and dividends, net of fees	\$ 420,725	\$ 405,895
Net unrealized and realized gain (loss)	<u>2,691,705</u>	<u>(1,019,126)</u>
Total	<u><u>\$ 3,112,430</u></u>	<u><u>\$ (613,231)</u></u>

EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2019</u>	<u>2018</u>
Building and improvements	\$ 18,660,152	\$ 18,589,953
Land	55,410	55,410
Equipment	1,214,167	1,182,527
Memorial gardens	19,545	19,545
Website	13,256	
Total	19,962,530	19,847,435
Less accumulated depreciation and amortization	(7,630,954)	(7,018,751)
Total	\$ 12,331,576	\$ 12,828,684

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 1.8% to 5.7% at December 31, 2019 and 2018, 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>2019</u>	<u>2018</u>
Beginning balance	\$ 852,451	\$ 1,152,066
Payout received on matured agreement	(66,077)	
Change in fair value of split-interest agreement assets	487,101	(233,538)
Ending balance	\$ 1,339,552	\$ 852,451

8. DEBT

The Organization has a \$14,500,000 revolving line of credit with UBS Bank which was 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% (1.97% and 3.08% at December 31, 2019 and 2018, 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, 2019 and 2018 was \$8,299,785 and \$8,427,249, respectively.

EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

The Organization has two \$250,000 fixed rate loans totaling \$500,000. Interest payments are due quarterly and principal is due in total upon maturity. The rate and maturity dates are as follows:

<u>Rate</u>	<u>Maturity Date</u>
3.348%	March 9, 2020
4.074%	March 8, 2023

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 2023. Expense under operating lease agreements totaled \$115,749 and \$115,551 in 2019 and 2018, respectively.

Future minimum lease payments under these agreements are as follows:

<u>Year ending December 31,</u>	<u>Spay and neuter clinic</u>	<u>Equipment</u>	<u>Total</u>
2020	\$ 55,812	\$ 75,547	\$ 131,359
2021	55,812	80,124	135,936
2022	55,812	55,829	111,641
2023	55,812	32,556	88,368
2024	55,812	31,572	87,384
Thereafter	334,872	7,893	342,765
Total	\$ 613,932	\$ 283,521	\$ 897,453

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:

<u>Year ending December 31,</u>	
2020	\$ 75,672
2021	77,848
2022	80,188
2023	82,590
2024	85,072
Thereafter	10,686
Total	\$ 412,056

EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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.

10. NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2019</u>	<u>2018</u>
Time restricted:		
Split-interest agreement assets	\$ 359,714	\$ 313,026
Purpose restricted:		
Second Chance fund	316,250	462,500
Sit Stay Home	35,140	51,389
Miscellaneous programs	3,208	4,375
Restricted into perpetuity:		
Donor restricted endowment fund	556,110	556,110
Split-interest agreement asset – interest in a perpetual trust	<u>979,838</u>	<u>539,425</u>
Total	<u>\$ 2,250,260</u>	<u>\$ 1,926,825</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, 2019 and 2018.

EAST BAY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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 2019. The Organization elected a 2% profit sharing contribution in 2018. 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 \$103,953 and \$212,748 in December 31, 2019 and 2018, respectively. Funding for the contribution is accumulated in an interest-bearing cash account and is remitted to the plan annually.

12. SUBSEQUENT EVENTS

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact the Organization's net income. However, the related financial impact cannot be reasonably estimated at this time.

In April 2020, the Organization obtained a business loan through California Bank of Commerce in connection with the Payroll Protection Program (PPP) for \$968,798. Beginning in November 2020, monthly principal and interest payments are due. The unsecured loan bears a fixed interest rate of 1.0% and matures in April 2022. The Organization plans to apply for forgiveness of the loan based on the outlined PPP requirements, however the extent and the amount of forgiveness cannot be determined at this time.