



World Animal Protection

**Financial Statements
(Together with Independent Auditors' Report)**

Years Ended December 31, 2018 and 2017

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

WORLD ANIMAL PROTECTION
FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)
YEARS ENDED DECEMBER 31, 2018 AND 2017

CONTENTS

| | <u>Page</u> |
|---|--------------------|
| Independent Auditors' Report..... | 1 |
| Statements of Financial Position | 2 |
| Statements of Activities..... | 3 |
| Statements of Functional Expenses | 4-5 |
| Statements of Cash Flows | 6 |
| Notes to Financial Statements | 7-14 |

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
World Animal Protection

We have audited the accompanying financial statements of World Animal Protection, which comprise the statements of financial position as of December 31, 2018 and 2017, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of World Animal Protection as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended December 31, 2018, World Animal Protection adopted Accounting Standards Update 2016-14, "Not-for-Profit Entities Topic 958" *Presentation of Financials Statements of Non-for-Profit Entities*. Our opinion is not modified with respect to these matters.

Marks Paneth LLP

New York, NY
April 3, 2019

**WORLD ANIMAL PROTECTION
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018 AND 2017**

| | 2018 | 2017 |
|---|---------------------|---------------------|
| ASSETS | | |
| Cash and cash equivalents (Notes 2C and 12) | \$ 2,474,653 | \$ 2,733,378 |
| Contributions receivable (Note 2D) | - | 500,092 |
| Prepaid expenses and other assets | 270,040 | 155,662 |
| Investments (Notes 2G and 4) | 1,271,483 | 1,367,243 |
| Due from related parties (Note 10) | 197,151 | - |
| Property and equipment, net (Notes 2F and 5) | 36,173 | 75,557 |
| TOTAL ASSETS | \$ 4,249,500 | \$ 4,831,932 |
| LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 314,906 | \$ 183,188 |
| Due to related parties (Note 10) | - | 658,451 |
| Other liabilities (Note 2I) | 62,007 | 96,031 |
| TOTAL LIABILITIES | 376,913 | 937,670 |
| COMMITMENTS AND CONTINGENCIES (Note 6) | | |
| NET ASSETS (Notes 2B and 7) | | |
| Without donor restrictions | 2,751,012 | 2,195,007 |
| With donor restrictions (Notes 7 and 8) | 1,121,575 | 1,699,255 |
| TOTAL NET ASSETS | 3,872,587 | 3,894,262 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 4,249,500 | \$ 4,831,932 |

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

**WORLD ANIMAL PROTECTION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

| | <u>Year Ended December 31, 2018</u> | | | <u>Year Ended December 31, 2017</u> | | |
|--|---------------------------------------|------------------------------------|---------------------|---------------------------------------|------------------------------------|---------------------|
| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
| OPERATING SUPPORT AND REVENUE: | | | | | | |
| Contributions: | | | | | | |
| Contributions - general support | \$ 2,709,062 | \$ 120,437 | \$ 2,829,499 | \$ 2,768,914 | \$ 889,544 | \$ 3,658,458 |
| Contributions - bequests and trusts (Note 2E) | 416,015 | 1,260,178 | 1,676,193 | 943,231 | 1,350,000 | 2,293,231 |
| Contributions - donations in kind (Note 2H) | 236,630 | - | 236,630 | 1,123,124 | - | 1,123,124 |
| Contributions - donations in kind from Parent | 30,670 | - | 30,670 | 40,551 | - | 40,551 |
| Interests and dividends (Notes 2G and 4) | 50,428 | 1,011 | 51,439 | 31,834 | 927 | 32,761 |
| Other income, from Parent | - | 253,222 | 253,222 | 250,000 | - | 250,000 |
| Net assets released from restrictions (Notes 2B and 7) | <u>2,209,012</u> | <u>(2,209,012)</u> | <u>-</u> | <u>1,946,821</u> | <u>(1,946,821)</u> | <u>-</u> |
| TOTAL OPERATING SUPPORT AND REVENUE | <u>5,651,817</u> | <u>(574,164)</u> | <u>5,077,653</u> | <u>7,104,475</u> | <u>293,650</u> | <u>7,398,125</u> |
| OPERATING EXPENSES: (Note 2G) | | | | | | |
| Program services: | | | | | | |
| Animal protection and humane education | <u>3,901,947</u> | <u>-</u> | <u>3,901,947</u> | <u>5,129,878</u> | <u>-</u> | <u>5,129,878</u> |
| Total program services | <u>3,901,947</u> | <u>-</u> | <u>3,901,947</u> | <u>5,129,878</u> | <u>-</u> | <u>5,129,878</u> |
| Supporting services: | | | | | | |
| Management and general | 179,656 | - | 179,656 | 158,462 | - | 158,462 |
| Fundraising | <u>916,003</u> | <u>-</u> | <u>916,003</u> | <u>1,249,129</u> | <u>-</u> | <u>1,249,129</u> |
| Total supporting services | <u>1,095,659</u> | <u>-</u> | <u>1,095,659</u> | <u>1,407,591</u> | <u>-</u> | <u>1,407,591</u> |
| TOTAL OPERATING EXPENSES | <u>4,997,606</u> | <u>-</u> | <u>4,997,606</u> | <u>6,537,469</u> | <u>-</u> | <u>6,537,469</u> |
| CHANGE IN NET ASSETS FROM OPERATIONS | <u>654,211</u> | <u>(574,164)</u> | <u>80,047</u> | <u>567,006</u> | <u>293,650</u> | <u>860,656</u> |
| NON-OPERATING REVENUE: | | | | | | |
| Investment activity (Note 4) | (101,494) | (3,516) | (105,010) | 138,911 | 5,897 | 144,808 |
| Other | <u>3,288</u> | <u>-</u> | <u>3,288</u> | <u>5,061</u> | <u>-</u> | <u>5,061</u> |
| TOTAL NON-OPERATING REVENUE | <u>(98,206)</u> | <u>(3,516)</u> | <u>(101,722)</u> | <u>143,972</u> | <u>5,897</u> | <u>149,869</u> |
| CHANGE IN NET ASSETS | 556,005 | (577,680) | (21,675) | 710,978 | 299,547 | 1,010,525 |
| Net assets - beginning of year | <u>2,195,007</u> | <u>1,699,255</u> | <u>3,894,262</u> | <u>1,484,029</u> | <u>1,399,708</u> | <u>2,883,737</u> |
| NET ASSETS - END OF YEAR | <u>\$ 2,751,012</u> | <u>\$ 1,121,575</u> | <u>\$ 3,872,587</u> | <u>\$ 2,195,007</u> | <u>\$ 1,699,255</u> | <u>\$ 3,894,262</u> |

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

WORLD ANIMAL PROTECTION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018
(With Comparative Totals for the Year Ended December 31, 2017)

| | <u>Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total Supporting Services</u> | <u>2018 Total</u> | <u>2017 Total</u> |
|---|-----------------------------|-----------------------------------|--------------------|--|---------------------|---------------------|
| Salaries | \$ 941,131 | \$ 74,876 | \$ 246,385 | \$ 321,261 | \$ 1,262,392 | \$ 1,158,341 |
| Payroll taxes and employee benefits (Note 11) | <u>225,817</u> | <u>19,192</u> | <u>69,607</u> | <u>88,799</u> | <u>314,616</u> | <u>234,858</u> |
| Total Salaries and Related Costs | 1,166,948 | 94,068 | 315,992 | 410,060 | 1,577,008 | 1,393,199 |
| Grants (Notes 2M and 10) | 1,070,618 | - | - | - | 1,070,618 | 1,767,533 |
| Education and awareness | 798,706 | 224 | 283,346 | 283,570 | 1,082,276 | 2,122,814 |
| Occupancy | 206,900 | 20,115 | 56,685 | 76,800 | 283,700 | 284,906 |
| Professional services | 335,649 | 38,595 | 22,048 | 60,643 | 396,292 | 261,067 |
| Printing | 142,248 | 424 | 90,065 | 90,489 | 232,737 | 244,195 |
| Information and communications technologies | 59,832 | 2,776 | 41,655 | 44,431 | 104,263 | 142,344 |
| Travel | 43,789 | 9,021 | 6,586 | 15,607 | 59,396 | 103,235 |
| Depreciation (Note 5) | 34,011 | 3,261 | 9,318 | 12,579 | 46,590 | 43,979 |
| Other | <u>43,246</u> | <u>11,172</u> | <u>90,308</u> | <u>101,480</u> | <u>144,726</u> | <u>174,197</u> |
| TOTAL EXPENSES | <u>\$ 3,901,947</u> | <u>\$ 179,656</u> | <u>\$ 916,003</u> | <u>\$ 1,095,659</u> | <u>\$ 4,997,606</u> | <u>\$ 6,537,469</u> |

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

**WORLD ANIMAL PROTECTION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017**

| | <u>Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total Supporting Services</u> | <u>2017 Total</u> |
|---|-----------------------------|-----------------------------------|---------------------|--|---------------------|
| Salaries | \$ 747,613 | \$ 43,616 | \$ 367,112 | \$ 410,728 | \$ 1,158,341 |
| Payroll taxes and employee benefits (Note 11) | <u>152,776</u> | <u>6,965</u> | <u>75,117</u> | <u>82,082</u> | <u>234,858</u> |
| Total Salaries and Related Costs | 900,389 | 50,581 | 442,229 | 492,810 | 1,393,199 |
| Grants (Notes 2M and 10) | 1,767,533 | - | - | - | 1,767,533 |
| Education and awareness | 1,759,238 | 68 | 363,508 | 363,576 | 2,122,814 |
| Occupancy | 176,640 | 17,092 | 91,174 | 108,266 | 284,906 |
| Professional services | 135,576 | 71,865 | 53,626 | 125,491 | 261,067 |
| Printing | 140,212 | 371 | 103,612 | 103,983 | 244,195 |
| Information and communications technologies | 78,999 | 2,034 | 61,311 | 63,345 | 142,344 |
| Travel | 84,327 | 2,125 | 16,783 | 18,908 | 103,235 |
| Depreciation (Note 5) | 23,749 | 4,398 | 15,832 | 20,230 | 43,979 |
| Other | <u>63,215</u> | <u>9,928</u> | <u>101,054</u> | <u>110,982</u> | <u>174,197</u> |
| TOTAL EXPENSES | <u>\$ 5,129,878</u> | <u>\$ 158,462</u> | <u>\$ 1,249,129</u> | <u>\$ 1,407,591</u> | <u>\$ 6,537,469</u> |

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

**WORLD ANIMAL PROTECTION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ (21,675) | \$ 1,010,525 |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | |
| Depreciation | 46,590 | 43,979 |
| Net depreciation (appreciation) in investments | 102,955 | (146,733) |
| Change in operating assets and liabilities: | | |
| Decrease in contribution receivable | 500,092 | 438,879 |
| Increase in prepaid expenses and other assets | (114,378) | (2,029) |
| Increase in due from related party | (197,151) | - |
| Increase in accounts payable and accrued expenses | 131,718 | 32,193 |
| Decrease in due to related parties | (658,451) | (138,628) |
| Decrease in other liabilities | <u>(34,024)</u> | <u>(25,930)</u> |
| Net Cash (Used in) Provided by Operating Activities | <u>(244,324)</u> | <u>1,212,256</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of fixed assets | (7,206) | (17,538) |
| Purchase of investments | (34,906) | (75,795) |
| Proceeds from sales of investments | <u>27,711</u> | <u>73,253</u> |
| Net Cash Used in Investing Activities | <u>(14,401)</u> | <u>(20,080)</u> |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (258,725) | 1,192,176 |
| Cash and cash equivalents - beginning of year | <u>2,733,378</u> | <u>1,541,202</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 2,474,653</u> | <u>\$ 2,733,378</u> |

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

**WORLD ANIMAL PROTECTION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1—DESCRIPTION OF THE ORGANIZATION

World Animal Protection is a District of Columbia nonprofit corporation formed in 1980. World Animal Protection is classified as a public charity by Internal Revenue Services; therefore, it is exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code as well as state and local taxes. World Animal Protection is qualified to do business in several states.

World Animal Protection in the United States is a subsidiary of World Animal Protection in the United Kingdom (the “Parent”), and is affiliated with thirteen other World Animal Protection organizations located around the world (the “Global Organization”). The Parent is the sole member of the World Animal Protection and has the right to vote pursuant to the by-laws of the Corporation. The Global Organization is one of the largest animal protection organizations in the world. Its vision is a world where animals live free from cruelty and suffering by moving the world to protect animals in communities, farming, disasters and the wild through advocacy, campaigning, and public mobilization.

World Animal Protection’s mission is to promote and further the Global Organization’s vision in the United States by lobbying and advocating for change, educating and mobilizing the public and catalyzing sustainable solutions that improve the lives of animals in the United States and on a global scale.

World Animal Protection programs include Wildlife. Not Entertainers, which moves the wildlife tourism industry away from cruel forms of entertainment; Sea Change, which is a campaign to raise awareness of the how marine animals suffer and die due to ghost gear (lost and abandoned fishing gear); and the Better Lives for Dogs campaign to end the inhumane culling of stray dogs by establishing rabies vaccination programs.

World Animal Protection is the international leader in animal-focused disaster response and risk reduction and is one of the only global organizations dedicated to safeguarding animals – often forgotten victims – in disasters. Out of more than 250 disaster responses across 50 years, the organization has provided aid to over seven million animals.

World Animal Protection works to end the suffering of billions of animals suffering in factory farming systems, by calling on food businesses and producers to introduce more humane practices for farm animals like chickens and pigs and encourages consumers to make their voices heard by choosing higher-welfare or plant-based foods.

World Animal Protection works to end the suffering of billions of animals suffering in factory farming systems.

World Animal Protection collaborates with national governments and has formal relationships with leading international bodies, including the Food and Agriculture Organization of the United Nations, the United Nations Environment Program, the Council of Europe and the World Organization for Animal Health (OIE).

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. ***Basis of Presentation*** – World Animal Protection’s financial statements have been prepared on the accrual basis of accounting. World Animal Protection adheres to accounting principles generally accepted in the United States of America (“U.S. GAAP”).
- B. ***Net Asset Presentation*** – World Animal Protection’s net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of World Animal Protection and changes therein are classified and reported as follows:
- Without donor restrictions – Net assets that are not subject to donor-imposed stipulations.
 - With donor restrictions – Net assets subject to donor-imposed stipulations, including stipulations that will be met either by actions of World Animal Protection or the passage of time, stipulations that they be maintained permanently by World Animal Protection, and unappropriated endowment earning
- C. ***Cash and Cash Equivalents*** – World Animal Protection’s cash consists of cash on deposit with banks. Cash equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase, except for those amounts that are held in the investment portfolio which are considered to be invested for long-term purposes.

**WORLD ANIMAL PROTECTION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- D. **Contributions Receivable** – Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are met.
- E. **Bequests and Other** – Unconditional bequests (donations received under terms of a will) are reported as revenues when notification of the bequest is received and the amount is reasonably determinable and the probate court declares the will valid.
- F. **Property and Equipment** – Property and equipment is stated at cost less accumulated depreciation. These amounts do not purport to represent replacement or realizable values. Depreciation is calculated using the straight-line method over the lesser of the estimated useful lives of the assets or the lease term. World Animal Protection capitalizes property and equipment with a cost of \$5,000 or more and a useful life greater than one year. Management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recovered.
- G. **Fair Value Measurements** – Investments are measured and reported at fair value. Changes in fair value are reported as investment return in the statements of activities. Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the statements of activities in the period in which the securities are sold. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date.

Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels, as described in Note 3.

- H. **Donated Goods and Services** – World Animal Protection received donated public service announcements, other advertising services and donated legal services of approximately \$237,000 and \$1,123,000 for the years ended December 31, 2018 and 2017, respectively. Such amounts, which are based upon information provided by third-party service providers, are recorded at their estimated fair value determined on the date of contribution and are reported as contributions in-kind and public education program expense in the accompanying statements of activities and functional expenses. Several volunteers have made significant contributions of their time in furtherance of World Animal Protection's mission. These services were not reflected in the accompanying financial statements as they do not meet the necessary criteria for recognition under U.S. GAAP.
- I. **Split Interest Agreements** – World Animal Protection has entered into a number of charitable gift annuity ("CGA") agreements with its donors. Under the terms of these agreements, the donor contributes assets to World Animal Protection in exchange for a promise by World Animal Protection to pay a fixed amount for a specified period of time (usually the donor's lifetime) to the donor or to individuals or organizations designated by the donor.

At the inception of a CGA agreement, the excess of the fair value of assets received over the present value of annuity payments to be made to the donor or stated beneficiary is recognized as a charitable contribution. Subsequent changes to the present value of annuity payments are reported in the statements of activities.

The assets held for all charitable gift annuities are reported in investments on the statements of financial position and stated at fair value. Liabilities for the expected annuity payments are reported at the estimated present value of future cash outflows, based on appropriate discount rates and mortality tables, and are recorded in other liabilities in the statements of financial position. World Animal Protection invests the charitable gift annuities in accordance with their investment policy.

At December 31, 2018 and 2017, the CGA's are valued, using the 2000CM mortality table, at approximately \$38,000 and \$40,000, respectively, and are reported in other liabilities.

**WORLD ANIMAL PROTECTION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. **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. The expenses that are allocated include occupancy, depreciation, and amortization, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, insurance, and other, which are allocated based applying an average of estimated staff time and effort to the overall staff headcount.

K. **Use of Estimates** – The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

L. **Deferred Rent** – World Animal Protection records rent expense for operating leases with scheduled rent increases on a straight-line basis over the term of the lease with the difference between the expense and rental payments recorded as an increase or decrease to the deferred rent liability on the statements of financial position.

M. **Due to Related Parties** – Amounts reported as due to related parties, included in the accompanying statements of financial position, arise principally from the collaborative activities between World Animal Protection US, World Animal Protection International (its "Parent" located in the United Kingdom), and World Animal Protection Canada (its "Affiliate") to further the global mission of the organization.

N. **Recently Adopted Accounting Pronouncements** - Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-14, "Not-for-Profit Entities Topic 958" Presentation of *Financial Statements of Non-for-Profit Entities* was adopted for the year ended December 31, 2018. ASU 2016-14 provides for a number of changes, including the presentation of two classes of net assets and enhanced disclosure on liquid resources and expense allocation. This change had no impact on the change in net assets for the year ended December 31, 2018. Due to this change, World Animal Protection has reclassified certain amounts in prior periods and fully comparative financial statements are presented. Net assets as of December 31, 2017 were reclassified to conform to the new presentation.

NOTE 3 – LIQUIDITY AND AVAILABILITY

World Animal Protection regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. World Animal Protection has various sources of liquidity at its disposal, including cash and cash equivalents, investments and support of the Parent, as needed. World Animal Protection's financial position and financial activities are reviewed at formal, quarterly performance meetings attended by financial and senior staff of World Animal Protection and the Parent. In 2018 World Animal Protection formed a sub-committee of the Board entitled Audit Committee to also provide additional oversight of financial operations. Liquidity is addressed by both of these monitoring groups.

As of December 31, 2018, financial assets available to meet general expenditures over the next 12 months were as follows:

| | |
|--|---------------------|
| Cash and cash equivalents | \$ 2,474,653 |
| Investments not encumbered by donor restrictions | <u>229,908</u> |
| | <u>\$ 2,704,561</u> |

**WORLD ANIMAL PROTECTION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investment consisted of the following as of December 31:

| | <u>2018</u> | <u>2017</u> |
|---------------------|---------------------|---------------------|
| Cash equivalents | \$ 2,000 | \$ 85 |
| Equity Funds | 97,044 | 110,467 |
| Stock Indexed Funds | 719,653 | 786,779 |
| Bonds Funds | 48,891 | 54,422 |
| Bond Indexed Funds | <u>403,895</u> | <u>415,490</u> |
| | <u>\$ 1,271,483</u> | <u>\$ 1,367,243</u> |

Investment activities consisted of the following, for the years ended December 31:

| | <u>2018</u> | | |
|--------------------------------|---------------------------------------|------------------------------------|--------------------|
| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
| Interest and dividends | \$ 50,428 | \$ 1,011 | \$ 51,439 |
| Realized gain on investments | 947 | 4 | 951 |
| Unrealized loss on investments | <u>(102,441)</u> | <u>(3,520)</u> | <u>(105,961)</u> |
| Net investment loss | <u>\$ (51,066)</u> | <u>\$ (2,505)</u> | <u>\$ (53,571)</u> |
| | <u>2017</u> | | |
| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
| Interest and dividends | \$ 31,834 | \$ 927 | \$ 32,761 |
| Realized gain on investments | 864 | - | 864 |
| Unrealized gain on investments | <u>138,047</u> | <u>5,897</u> | <u>143,944</u> |
| Net investment income | <u>\$ 170,745</u> | <u>\$ 6,824</u> | <u>\$ 177,569</u> |

The fair value hierarchy defines three levels as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that World Animal Protection has the ability to access.

Level 2 - Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the assets or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Financial assets measured at fair value on a recurring basis were classified as Level 1 and consisted of the following as of December 31:

| | <u>2018</u> | <u>2017</u> |
|------------------|---------------------|---------------------|
| Cash equivalents | \$ 2,000 | \$ 85 |
| Equities | 816,697 | 897,246 |
| Fixed income | <u>452,786</u> | <u>469,912</u> |
| | <u>\$ 1,271,483</u> | <u>\$ 1,367,243</u> |

**WORLD ANIMAL PROTECTION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 5—PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at December 31:

| | 2018 | 2017 |
|--------------------------------|-------------|-------------|
| Property and equipment | \$ 374,558 | \$ 376,898 |
| Less: accumulated depreciation | (338,385) | (301,341) |
| Property and equipment, net | \$ 36,173 | \$ 75,557 |

For the years ended December 31, 2018 and 2017, depreciation expense totaled \$46,590 and \$43,979, respectively. During the year ended December 31, 2018, World Animal Protection disposed of fully depreciated items amounting to \$9,546.

NOTE 6—COMMITMENTS AND CONTINGENCIES

- A. World Animal Protection leases office space in which the lease agreement expires in August 2019. Total rent expense incurred under this operating lease totaled \$221,282 and \$225,672 for the years ended December 31, 2018 and 2017, respectively.

For year subsequent to 2018, minimum annual future rental commitments under the lease agreement, are as follows:

| | |
|------|------------|
| 2019 | \$ 215,364 |
|------|------------|

Deferred rent consists of the excess of the rental expenses on a straight-line basis over the payment required by the lease and is included in other liabilities in the statements of financial position. As of December 31, 2018 and 2017, the deferred rent liability amounted to \$23,880 and \$55,571 respectively.

- B. World Animal Protection believes it has no uncertain tax positions as of December 31, 2018 and 2017 in accordance with Accounting Standards Codification (“ASC”) Topic 740, “Income Taxes” which provides standards for establishing and classifying any tax provision for uncertain tax positions.

NOTE 7— NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the purposes listed below as of December 31:

| | 2018 | 2017 |
|--|---------------------|---------------------|
| Net assets restricted in perpetuity: | | |
| General Operations | \$ 995,005 | \$ 995,005 |
| Italy/Isle of Capri | 46,570 | 46,570 |
| Total subject to the spending policy and appropriation policy | 1,041,575 | 1,041,575 |
| Subject to expenditure for specified purpose and the passage of time: | | |
| Bequest for Animal Welfare Programs | - | 350,000 |
| Animals in Farming | - | 258,796 |
| Donor Challenge Matches | - | 42,060 |
| DRTV Advertising Grant | 80,000 | - |
| Unappropriated endowment earnings – Italy/Isle of Capri | - | 6,824 |
| Total subject to expenditure for specified purpose and passage of time | 80,000 | 657,680 |
| Total net assets with donor restrictions | \$ 1,121,575 | \$ 1,699,255 |

**WORLD ANIMAL PROTECTION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 7— NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Net assets released from donor restrictions by either passage of time or meeting the donors' restrictions were as follows:

| | <u>2018</u> | <u>2017</u> |
|--------------------------------------|---------------------|---------------------|
| Animals in Communities | \$ 17,372 | \$ 21,052 |
| Animals in Disasters | 83,847 | 168,389 |
| Animals in Farming | 258,794 | 532,294 |
| Animals in the Wild | 23,539 | 118,380 |
| Bequests for Animal Welfare Programs | 1,610,178 | 1,000,000 |
| DRTV Advertising | 173,222 | - |
| Donor Challenge Matches | <u>42,060</u> | <u>106,706</u> |
| Total | <u>\$ 2,209,012</u> | <u>\$ 1,946,821</u> |

NOTE 8—ENDOWMENT FUNDS

World Animal Protection views the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), passed by the District of Columbia, as requiring World Animal Protection to preserve the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result of this interpretation, World Animal Protection has classified as perpetual in nature (a) the original value of gifts donated to the endowment fund, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund (although no existing donor instruments have so directed). The remaining portion of the endowment fund that is not perpetual in nature is regarded as "net appreciation" is retained in perpetuity or for a donor specified period until those amounts are appropriated for expenditure by the Board in a manner consistent with World Animal Protection's spending policy, UPMIFA, other applicable laws, and donor-imposed restrictions, if any. If the fair value of assets associated with individual endowment funds falls below the original gift value plus accumulations, if applicable, the deficiency is recorded as a charge to net assets without donor restrictions with a corresponding increase to net assets with donor restrictions. In subsequent periods, the deficiency may be restored as a result of appreciation of the underlying endowment investments.

World Animal Protection has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include only those assets with donor restrictions that the organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of appropriate benchmarks without putting the assets at imprudent risk. Actual returns in any given year may vary.

To satisfy its long-term objectives, World Animal Protection relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). World Animal Protection targets a diverse asset allocation that places an equal emphasis on equity-based and fixed income investments to achieve its long-term return objectives within prudent risk constraints.

World Animal Protection considers the following factors in making a determination to appropriate or accumulate endowment funds: the duration and preservation of the funds; availability of other funding sources; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation/depreciation of investments; and the investment policy of World Animal Protection, as enforced by the Investment Committee of the Board of Directors.

World Animal Protection appropriates the actual investment income from those with donor restriction assets for use. In establishing this policy, World Animal Protection considered the long-term expected return on its endowment.

As of December 31, 2018 and 2017, the endowment assets were included in investments in the accompanying statements of financial position.

**WORLD ANIMAL PROTECTION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 8—ENDOWMENT FUNDS (CONTINUED)

The following table summarizes the changes in World Animal Protection endowment net assets for the years ended December 31, 2018 and 2017:

| | |
|--|---------------------|
| Endowment net assets, January 1, 2017 | \$ 1,045,177 |
| Appropriated for operations | (3,603) |
| Interest and dividends | 927 |
| Investment return | <u>5,897</u> |
| | 1,048,398 |
| Endowment net assets, December 31, 2017 | |
| Appropriated for operations | (4,318) |
| Interest and dividends | 1,011 |
| Investment return | <u>(3,516)</u> |
| Endowment net assets, December 31, 2018 | <u>\$ 1,041,575</u> |

NOTE 9—ALLOCATION OF JOINT COSTS

World Animal Protection conducts direct marketing campaigns that included requests for contributions, as well as program components. The costs associated with the development and dissemination of such activities are allocated amongst the functional expense categories benefited, particularly impacting areas and other programs, on a basis of the extent of content attributable to each respective function. The joint costs were allocated as follows for the years ended December 31:

| | <u>2018</u> | <u>2017</u> |
|------------------|-------------------|---------------------|
| Program services | \$ 489,610 | \$ 682,636 |
| Fundraising | <u>372,030</u> | <u>523,267</u> |
| Total | <u>\$ 861,640</u> | <u>\$ 1,205,903</u> |

NOTE 10—RELATED-PARTY TRANSACTIONS

World Animal Protection is a subsidiary of the Parent. As related organizations, they work collaboratively to support an efficient, effective and integrated global organization best able to realize our vision of a world where animal welfare matters and animal cruelty has ended. World Animal Protection had related party transactions (financial and non-financial) with the following:

World Animal Protection United Kingdom

The relationship with the Parent resulted in contributions and other income from Parent for the years ended December 31, 2018 and 2017, amounting to \$283,893 and \$290,551, respectively, and grants to Parent of \$1,058,794 and 1,743,930, respectively. Included in grants and other income from Parent are in-kind contributions from Parent and offsetting Program and Management expenses of \$30,671 and \$40,551, respectively. There was no effect on change in net asset from operations as the in-kind contribution revenue was offset by an expense. These donated services were recorded at the cost of the Parent, which approximates fair value. Such transactions are included in the accompanying statements of activities.

The net activity between World Animal Protection and the Parent resulted in a receivable balance of \$197,151 as of December 31, 2018, and a payable balance of \$658,451 as of December 31, 2017, both reported on separate line items on the statement of financial position.

**WORLD ANIMAL PROTECTION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 10—RELATED-PARTY TRANSACTIONS (CONTINUED)

Massachusetts Society For The Prevention of Cruelty To Animals (“MSPCA”)

World Animal Protection participates in the MSPCA SBERA Pension Plan (EIN #042103597 Plan 001) (the “Plan”). The CEO of the MSPCA is on the Board of Directors of World Animal Protection and World Animal Protection International. The Plan is a defined benefit plan, substantially funded (>80%) and was frozen to new participants as of January 1, 2006. World Animal Protection’s participation in the Plan is less than 2% and not considered significant.

During 2014, World Animal Protection and MSPCA began the process of spinning off the assets of World Animal Protection from the Plan with the intent of establishing a new defined benefit plan. World Animal Protection has elected to delay the vote on the spin off until the financial impact is evaluated. World Animal Protection estimates its allocation of projected benefit obligations to be \$872,000 and \$1,002,000 for the years ended December 31, 2018 and 2017, respectively.

NOTE 11—EMPLOYEE BENEFIT PLAN

Prior to December 31, 2009, World Animal Protection provided a defined benefit pension plan covering salaried permanent employees. Benefits were based on years of service and the employee’s compensation. Effective December 31, 2009, all benefits under the defined benefit pension plan were frozen. Following December 31, 2009, no employees have become eligible to participate in the defined benefit pension plan and vested employees in the plan are no longer accruing additional benefits. There were \$28,560 of expenses associated with this plan for the year ended December 31, 2018, which included a catch-up adjustment of \$16,912 for prior years.

Since 2010, World Animal Protection has provided a group tax-deferred 403(b) plan covering all permanent employees. The assets are held for each employee in an individual account maintained by an investment firm. Eligible employees may contribute to the plan up to allowable levels. World Animal Protection matches employee contributions to the plan up to 3% of each employee’s bi-weekly salary. Employees forfeit employer contributions if they terminate in the first three years of employment. Plan contributions incurred by World Animal Protection, before non-vested forfeitures, during the years ended December 31, 2018 and 2017 totaled \$28,653 and \$25,107, respectively. Non-vested forfeitures totaled \$13,027 and \$16,465 for the years ended December 31, 2018 and 2017, respectively.

NOTE 12 – CONCENTRATIONS

- A. Cash equivalents that potentially subject World Animal Protection to a concentration of credit risk include cash accounts with banks that exceed the Federal Deposit Insurance Corporation (“FDIC”) insurance limits. Interest-bearing accounts are insured up to \$250,000 per depositor. As of December 31, 2018 and 2017, there was approximately \$2,185,000 and \$2,430,000, respectively, of cash equivalents held by one banks that exceeded FDIC limits. Such excess includes outstanding checks.
- B. For the years ended December 31, 2018 and 2017, contributions from a single donor amounted to approximately 26% and 19% percent of total contributions, respectively.

NOTE 13—SUBSEQUENT EVENTS

World Animal Protection has evaluated subsequent events through April 3, 2019, which is the date the financial statements were available to be issued. World Animal Protection is not aware of any material subsequent events.