



World Animal Protection

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

Years Ended December 31, 2019 and 2018

WORLD ANIMAL PROTECTION
FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)
YEARS ENDED DECEMBER 31, 2019 AND 2018

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	7-15

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, 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.

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, 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.

Marks Paneth LLP

New York, NY
June 16, 2020

**WORLD ANIMAL PROTECTION
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019 AND 2018**

	2019	2018
ASSETS		
Cash and cash equivalents (Notes 2C and 12)	\$ 2,439,744	\$ 2,474,653
Contributions receivable (Note 2D)	1,369,473	-
Prepaid expenses and other assets	342,285	270,040
Investments (Notes 2G and 4)	1,536,355	1,271,483
Due from related parties (Note 10)	-	197,151
Property and equipment, net (Notes 2F and 5)	10,702	36,173
TOTAL ASSETS	\$ 5,698,559	\$ 4,249,500
LIABILITIES		
Accounts payable and accrued expenses	\$ 283,826	\$ 314,906
Due to related parties (Note 10)	1,012,939	-
Other liabilities (Note 2I)	52,429	62,007
TOTAL LIABILITIES	1,349,194	376,913
COMMITMENTS AND CONTINGENCIES (Note 6)		
NET ASSETS (Notes 2B and 7)		
Without donor restrictions	3,295,935	2,751,012
With donor restrictions (Notes 7 and 8)	1,053,430	1,121,575
TOTAL NET ASSETS	4,349,365	3,872,587
TOTAL LIABILITIES AND NET ASSETS	\$ 5,698,559	\$ 4,249,500

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

**WORLD ANIMAL PROTECTION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>Year Ended December 31, 2019</u>			<u>Year Ended December 31, 2018</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	\$ 3,145,707	\$ 2,659,321	\$ 5,805,028	\$ 2,709,062	\$ 120,437	\$ 2,829,499
Contributions - bequests and trusts (Note 2E)	1,204,041	16,645	1,220,686	416,015	1,260,178	1,676,193
Contributions - donations in kind (Note 2H)	357,023	-	357,023	236,630	-	236,630
Contributions - donations in kind from Parent	31,767	-	31,767	30,670	-	30,670
Interests and dividends (Notes 2G and 4)	51,467	1,045	52,512	50,428	1,011	51,439
Other income	1,317	-	1,317	-	253,222	253,222
Net assets released from restrictions (Notes 2B and 7)	2,755,966	(2,755,966)	-	2,209,012	(2,209,012)	-
TOTAL OPERATING SUPPORT AND REVENUE	<u>7,547,288</u>	<u>(78,955)</u>	<u>7,468,333</u>	<u>5,651,817</u>	<u>(574,164)</u>	<u>5,077,653</u>
EXPENSES: (Note 2J)						
Program services:						
Animal protection and humane education	6,150,213	-	6,150,213	3,901,947	-	3,901,947
Total program services	6,150,213	-	6,150,213	3,901,947	-	3,901,947
Supporting services:						
Management and general	216,013	-	216,013	179,656	-	179,656
Fundraising	896,843	-	896,843	916,003	-	916,003
Total supporting services	1,112,856	-	1,112,856	1,095,659	-	1,095,659
TOTAL EXPENSES	<u>7,263,069</u>	<u>-</u>	<u>7,263,069</u>	<u>4,997,606</u>	<u>-</u>	<u>4,997,606</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>284,219</u>	<u>(78,955)</u>	<u>205,264</u>	<u>654,211</u>	<u>(574,164)</u>	<u>80,047</u>
NON-OPERATING REVENUE:						
Investment activity (Note 4)	251,397	10,810	262,207	(101,494)	(3,516)	(105,010)
Other	9,307	-	9,307	3,288	-	3,288
TOTAL NON-OPERATING REVENUE	<u>260,704</u>	<u>10,810</u>	<u>271,514</u>	<u>(98,206)</u>	<u>(3,516)</u>	<u>(101,722)</u>
CHANGE IN NET ASSETS	544,923	(68,145)	476,778	556,005	(577,680)	(21,675)
Net assets - beginning of year	2,751,012	1,121,575	3,872,587	2,195,007	1,699,255	3,894,262
NET ASSETS - END OF YEAR	<u>\$ 3,295,935</u>	<u>\$ 1,053,430</u>	<u>\$ 4,349,365</u>	<u>\$ 2,751,012</u>	<u>\$ 1,121,575</u>	<u>\$ 3,872,587</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, 2019
(With Comparative Totals for the Year Ended December 31, 2018)

	<u>Program</u>	<u>Supporting Services</u>			<u>2019 Total</u>	<u>2018 Total</u>
	<u>Animal Protection and Humane Education</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>		
Salaries	\$ 1,164,664	\$ 86,913	\$ 231,498	\$ 318,411	\$ 1,483,075	\$ 1,262,392
Payroll taxes and employee benefits (Note 11)	234,775	30,218	57,623	87,841	322,616	314,616
Total Salaries and Related Costs	1,399,439	117,131	289,121	406,252	1,805,691	1,577,008
Grants (Notes 2M and 10)	2,669,322	-	-	-	2,669,322	1,070,618
Education and awareness	1,027,714	435	256,385	256,820	1,284,534	1,082,276
Occupancy	237,699	24,869	56,729	81,598	319,297	283,700
Professional services	307,082	44,918	51,275	96,193	403,275	396,292
Printing	200,448	783	97,928	98,711	299,159	232,737
Information and communications technologies	135,921	3,452	47,623	51,075	186,996	104,263
Travel	95,681	4,773	8,586	13,359	109,040	59,396
Depreciation (Note 5)	22,575	2,345	5,388	7,733	30,308	46,590
Other	54,332	17,307	83,808	101,115	155,447	144,726
TOTAL EXPENSES	<u>\$ 6,150,213</u>	<u>\$ 216,013</u>	<u>\$ 896,843</u>	<u>\$ 1,112,856</u>	<u>\$ 7,263,069</u>	<u>\$ 4,997,606</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**

	<u>Program</u>	<u>Supporting Services</u>			<u>2018 Total</u>
	<u>Animal Protection and Humane Education</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>	
Salaries	\$ 941,131	\$ 74,876	\$ 246,385	\$ 321,261	\$ 1,262,392
Payroll taxes and employee benefits (Note 11)	225,817	19,192	69,607	88,799	314,616
Total Salaries and Related Costs	1,166,948	94,068	315,992	410,060	1,577,008
Grants (Notes 2M and 10)	1,070,618	-	-	-	1,070,618
Education and awareness	798,706	224	283,346	283,570	1,082,276
Occupancy	206,900	20,115	56,685	76,800	283,700
Professional services	335,649	38,595	22,048	60,643	396,292
Printing	142,248	424	90,065	90,489	232,737
Information and communications technologies	59,832	2,776	41,655	44,431	104,263
Travel	43,789	9,021	6,586	15,607	59,396
Depreciation (Note 5)	34,011	3,261	9,318	12,579	46,590
Other	43,246	11,172	90,308	101,480	144,726
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>

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

**WORLD ANIMAL PROTECTION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 476,778	\$ (21,675)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	30,308	46,590
Net (appreciation) depreciation in investments	(264,320)	102,955
Change in assets and liabilities:		
Contributions receivable	(1,369,473)	500,092
Prepaid expenses and other assets	(72,245)	(114,378)
Due from related party	197,151	(197,151)
Accounts payable and accrued expenses	(31,080)	131,718
Due to related parties	1,012,939	(658,451)
Other liabilities	(9,578)	(34,024)
	(29,520)	(244,324)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(4,837)	(7,206)
Purchase of investments	(30,081)	(34,906)
Proceeds from sales of investments	29,529	27,711
	(5,389)	(14,401)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(34,909)	(258,725)
Cash and cash equivalents - beginning of year	2,474,653	2,733,378
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,439,744	\$ 2,474,653

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

**WORLD ANIMAL PROTECTION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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 the 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 authorized 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 World Animal Protection and has the right to vote pursuant to the by-laws of World Animal Protection. 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 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.

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 earnings
- 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, 2019 AND 2018**

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- D. **Contribution 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. World Animal Protection bases its allowance for doubtful accounts on its historical loss experience considering the age of the receivables and other factors. Pledges and grants receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. World Animal Protection determined that no allowance was necessary as of December 31, 2019 and 2018 for contributions receivable.
- 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 of 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 4.

- H. **Donated Goods and Services** – World Animal Protection received donated public service announcements, other advertising services and donated legal services of approximately \$357,000 and \$237,000 for the years ended December 31, 2019 and 2018, 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, respectively. 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.

**WORLD ANIMAL PROTECTION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

As of December 31, 2019 and 2018, the CGA's are valued, using the 2000CM mortality table, at approximately \$33,000 and \$38,000, respectively, and are reported in other liabilities.

- 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 on 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 World Animal Protection 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, the Parent located in the United Kingdom, and World Animal Protection Canada (its "Affiliate") to further the global mission of the organization.
- N. **Changes in Accounting Principles** – FASB ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) was adopted by World Animal Protection as of January 1, 2019. The core guidance in ASU 2014-09 is to recognize revenue to depict the transfer of services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those services. The effects of applying ASU 2014-09 had no impact on the way World Animal Protection was recognizing revenue and therefore, no adjustment was made to the financial statements as previously reported.

FASB ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* (Topic 958) was also adopted by World Animal Protection for the year ended December 31, 2019. The core guidance is to assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determining whether a contribution is conditional. The adoption of ASU 2018-08 did not result in changes as the funding received from contributors are nonreciprocal transactions where the contributors did not receive direct benefit.

FASB ASU No. 2016-18, *Statement of Cash Flows* (Topic 230) – *Restricted Cash*, to address diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The ASU requires restricted cash or restricted cash equivalents to be included in the beginning-of-period and end-of-period total amounts on the statements of cash flows. World Animal Protection adopted the new guidance retrospectively as of January 1, 2018, as a result, no adjustment was made to the financial statements as previously reported. The adoption of this ASU did not affect net assets previously reported.

**WORLD ANIMAL PROTECTION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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, 2019, financial assets available to meet general expenditures over the next 12 months were as follows:

Cash and cash equivalents	\$ 2,439,744
Contributions receivable	1,369,473
Investments not encumbered by donor restrictions	<u>482,925</u>
	<u>\$ 4,292,142</u>

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments consisted of the following as of December 31:

	<u>2019</u>	<u>2018</u>
Cash equivalents	\$ 1,745	\$ 2,000
Equity Funds	118,122	97,044
Stock Indexed Funds	938,247	719,653
Bonds Funds	51,156	48,891
Bond Indexed Funds	<u>427,085</u>	<u>403,895</u>
	<u>\$ 1,536,355</u>	<u>\$ 1,271,483</u>

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

	<u>2019</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividends	\$ 51,467	\$ 1,045	\$ 52,512
Realized gain on investments	198	-	198
Unrealized gain on investments	253,322	10,810	264,122
Investment fees	<u>(2,113)</u>	<u>-</u>	<u>(2,113)</u>
Net investment income	<u>\$ 302,864</u>	<u>\$ 11,855</u>	<u>\$ 314,719</u>
	<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	(100,386)	(3,520)	(103,906)
Investment fees	<u>(2,055)</u>	<u>-</u>	<u>(2,055)</u>
Net investment loss	<u>\$ (51,066)</u>	<u>\$ (2,505)</u>	<u>\$ (53,571)</u>

**WORLD ANIMAL PROTECTION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Financial assets measured at fair value on a recurring basis were classified as Level 1.

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.

NOTE 5—PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at December 31:

	2019	2018
Property and equipment	\$ 379,395	\$ 374,558
Less: accumulated depreciation	(368,693)	(338,385)
Property and equipment, net	\$ 10,702	\$ 36,173

For the years ended December 31, 2019 and 2018, depreciation expense totaled \$30,308 and \$46,590, respectively.

NOTE 6—COMMITMENTS AND CONTINGENCIES

- A. World Animal Protection signed a new lease agreement for the rental of office space in New York City for a term of ten years that commenced on November 1, 2019. In connection with the lease, WAP has an irrevocable standby letter of credit with a bank amounting to approximately \$108,000 with an expiration date of October 31, 2020. Total rent expense incurred under the operating leases amounted to \$250,192 and \$221,282 for the years ended December 31, 2019 and 2018, respectively.

For years subsequent to 2019, minimum annual future rental commitments under the lease agreement, are as follows:

2020	\$ 257,318
2021	333,571
2022	342,744
2023	352,169
2024	361,854
Thereafter	1,893,477
	\$ 3,541,133

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, 2019 and 2018, the deferred rent liability amounted to \$19,297 and \$23,880 respectively.

- B. World Animal Protection believes it has no uncertain tax positions as of December 31, 2019 and 2018 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.

**WORLD ANIMAL PROTECTION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 7— NET ASSETS WITH DONOR RESTRICTIONS

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

	2019	2018
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:		
DRTV Advertising Grant	-	80,000
Unappropriated endowment earnings – Italy/Isle of Capri	11,855	-
Total subject to expenditure for specified purpose and passage of time	11,855	80,000
Total net assets with donor restrictions	\$ 1,053,430	\$ 1,121,575

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

	2019	2018
Animals in Communities	\$ 30,160	\$ 17,372
Animals in Disasters	90,217	83,847
Animals in Farming	1,200,000	258,794
Animals in the Wild	16,645	23,539
Bequests for Animal Welfare Programs	-	1,610,178
DRTV Advertising	80,000	173,222
Donor Challenge Matches	-	42,060
Chicken Campaigns in Asia	781,498	-
Global Change for Chicken	557,446	-
Total	\$ 2,755,966	\$ 2,209,012

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 with donor restrictions. In subsequent periods, the deficiency may be restored as a result of appreciation of the underlying endowment investments.

**WORLD ANIMAL PROTECTION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8—ENDOWMENT FUNDS (CONTINUED)

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, 2019 and 2018, the endowment assets were included in investments in the accompanying statements of financial position.

The following table summarizes the changes in World Animal Protection endowment net assets for the years ended December 31, 2019 and 2018:

Endowment net assets, December 31, 2017	\$ 1,048,398
Appropriated for operations	(4,318)
Interest and dividends	1,011
Investment return	<u>(3,516)</u>
Endowment net assets, January 1, 2018	\$ 1,041,575
Appropriated for operations	-
Interest and dividends	1,045
Investment return	<u>10,810</u>
	<u>1,053,430</u>
Endowment net assets, December 31, 2019	<u>\$ 1,053,430</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>2019</u>	<u>2018</u>
Program services	\$ 568,621	\$ 489,610
Fundraising	<u>428,960</u>	<u>372,030</u>
Total	<u>\$ 997,581</u>	<u>\$ 861,640</u>

**WORLD ANIMAL PROTECTION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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 their 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 the Parent for the years ended December 31, 2019 and 2018, amounting to \$31,767 and \$283,892, respectively, and grants to Parent of \$2,669,322 and \$1,070,618, respectively. Included in grants and other income from the Parent are in-kind contributions from Parent and offsetting Program and Management expenses of \$31,767 and \$30,671, respectively. There was no effect on change in net assets 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 payable balance of \$1,012,939 and \$0, and a receivable balance of \$0 and \$197,151 as of December 31, 2019 and 2018, respectively, both reported on separate line items on the statements of financial position.

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 \$930,000 and \$872,000 for the years ended December 31, 2019 and 2018, 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 \$17,154 of expenses associated with this plan for the year ended December 31, 2019.

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, 2019 and 2018 totaled \$20,038 and \$28,653, respectively. Non-vested forfeitures totaled \$15,401 and \$13,027 for the years ended December 31, 2019 and 2018, respectively.

**WORLD ANIMAL PROTECTION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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, 2019 and 2018, there was approximately \$2,062,000 and \$2,185,000, respectively, of cash equivalents held by one bank that exceeded FDIC limits. Such excess includes outstanding checks.
- B. For the years ended December 31, 2019 and 2018, contributions from a single donor amounted to approximately 36% and 26% percent of total contributions, respectively.

NOTE 13—SUBSEQUENT EVENTS

World Animal Protection has evaluated subsequent events through June 16, 2020, which is the date the financial statements were available to be issued.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (“COVID-19”) as a pandemic, which continues to spread throughout the United States. World Animal Protection could be materially and adversely affected by the risks, or the public perception of the risks, related to an epidemic, pandemic, outbreak, or other public health crisis, such as the recent outbreak of COVID-19. The ultimate extent of the impact of any epidemic, pandemic or other health crisis on World Animal Protection’s mission, programs, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of such epidemic, pandemic or other health crisis and actions taken to contain or prevent their further spread, among others. Accordingly, World Animal Protection cannot predict the extent to which its financial condition and results of operations will be affected.