

Financial Statements Together with
Report of Independent Certified Public Accountants

WORLD ANIMAL PROTECTION

December 31, 2016 and 2015

WORLD ANIMAL PROTECTION

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
World Animal Protection:

We have audited the accompanying financial position of World Animal Protection as of December 31, 2016 and 2015, 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 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 World Animal Protection'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 World Animal Protection'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, 2016 and 2015, 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.

Grant Thornton LLP

New York, New York
April 27, 2017

WORLD ANIMAL PROTECTION
Statements of Financial Position
As of December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 1,541,202	\$ 1,739,671
Contributions receivable	938,971	243,513
Prepaid expenses and other assets	153,633	169,876
Investments	1,217,968	1,158,217
Property and equipment, net	<u>101,998</u>	<u>151,462</u>
Total assets	<u>\$ 3,953,772</u>	<u>\$ 3,462,739</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 150,995	\$ 372,496
Due to related parties	797,079	303,291
Other liabilities	<u>121,961</u>	<u>143,172</u>
Total liabilities	<u>1,070,035</u>	<u>818,959</u>
NET ASSETS		
Unrestricted	1,484,029	1,454,384
Unrestricted - Board Designated	-	144,988
Temporarily restricted	358,133	2,833
Permanently restricted	<u>1,041,575</u>	<u>1,041,575</u>
Total net assets	<u>2,883,737</u>	<u>2,643,780</u>
Total liabilities and net assets	<u>\$ 3,953,772</u>	<u>\$ 3,462,739</u>

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

WORLD ANIMAL PROTECTION
Statement of Activities
For the year ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT				
Contributions	\$ 2,876,718	\$ 797,128	\$ -	\$ 3,673,846
Contributions - bequests and trusts	697,004	590,084	-	1,287,088
Contributions - from Parent	614,354	-	-	614,354
Contributions - donation in kind	846,656	-	-	846,656
Interest and dividends	27,627	891	-	28,518
Net assets released from restrictions:	<u>1,035,515</u>	<u>(1,035,515)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>6,097,874</u>	<u>352,588</u>	<u>-</u>	<u>6,450,462</u>
EXPENSES				
Program services:				
Animal protection and humane education	<u>4,739,873</u>	<u>-</u>	<u>-</u>	<u>4,739,873</u>
Total program services	<u>4,739,873</u>	<u>-</u>	<u>-</u>	<u>4,739,873</u>
Support services:				
Management and general	268,596	-	-	268,596
Fundraising	<u>1,271,377</u>	<u>-</u>	<u>-</u>	<u>1,271,377</u>
Total support services	<u>1,539,973</u>	<u>-</u>	<u>-</u>	<u>1,539,973</u>
Total expenses	<u>6,279,846</u>	<u>-</u>	<u>-</u>	<u>6,279,846</u>
Change in net assets from operations	<u>(181,972)</u>	<u>352,588</u>	<u>-</u>	<u>170,616</u>
Nonoperating activities:				
Investment return (net of fees)	55,948	2,712	-	58,660
Other	<u>10,681</u>	<u>-</u>	<u>-</u>	<u>10,681</u>
Total nonoperating activities	<u>66,629</u>	<u>2,712</u>	<u>-</u>	<u>69,341</u>
Change in net assets	(115,343)	355,300	-	239,957
Net assets, beginning of year	<u>1,599,372</u>	<u>2,833</u>	<u>1,041,575</u>	<u>2,643,780</u>
Net assets, end of year	<u>\$ 1,484,029</u>	<u>\$ 358,133</u>	<u>\$ 1,041,575</u>	<u>\$ 2,883,737</u>

The accompanying notes are an integral part of this financial statement.

WORLD ANIMAL PROTECTION
Statement of Activities
For the year ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT				
Contributions	\$ 3,081,087	\$ 515,423	\$ -	\$ 3,596,510
Contributions - bequests and trusts	1,539,835	-	-	1,539,835
Contributions - from Parent	755,238	-	-	755,238
Contributions - donation in kind	367,604	-	-	367,604
Interest and dividends	27,583	726	-	28,309
Net assets released from restrictions:	<u>662,031</u>	<u>(662,031)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>6,433,378</u>	<u>(145,882)</u>	<u>-</u>	<u>6,287,496</u>
EXPENSES				
Program services:				
Animal protection and humane education	<u>4,284,457</u>	<u>-</u>	<u>-</u>	<u>4,284,457</u>
Total program services	<u>4,284,457</u>	<u>-</u>	<u>-</u>	<u>4,284,457</u>
Support services:				
Management and general	283,460	-	-	283,460
Fundraising	<u>1,139,453</u>	<u>-</u>	<u>-</u>	<u>1,139,453</u>
Total support services	<u>1,422,913</u>	<u>-</u>	<u>-</u>	<u>1,422,913</u>
Total expenses	<u>5,707,370</u>	<u>-</u>	<u>-</u>	<u>5,707,370</u>
Change in net assets from operations	<u>726,008</u>	<u>(145,882)</u>	<u>-</u>	<u>580,126</u>
Nonoperating activities:				
Investment return (net of fees)	<u>(40,799)</u>	<u>(1,366)</u>	<u>-</u>	<u>(42,165)</u>
Total nonoperating activities	<u>(40,799)</u>	<u>(1,366)</u>	<u>-</u>	<u>(42,165)</u>
Change in net assets	685,209	(147,248)	-	537,961
Net assets, beginning of year, as restated	<u>914,163</u>	<u>150,081</u>	<u>1,041,575</u>	<u>2,105,819</u>
Net assets, end of year	<u>\$ 1,599,372</u>	<u>\$ 2,833</u>	<u>\$ 1,041,575</u>	<u>\$ 2,643,780</u>

The accompanying notes are an integral part of this financial statement.

WORLD ANIMAL PROTECTION
Statements of Functional Expense
For the years ended December 31, 2016 and 2015

	2016			
	Program Services	Management and General	Fundraising	Total
Grant Expense	\$ 1,611,515	\$ -	\$ -	\$ 1,611,515
Salaries and benefits	988,444	163,438	488,625	1,640,507
Education and Awareness	1,507,085	183	352,721	1,859,989
Occupancy	155,859	28,863	103,906	288,628
Professional services	76,855	48,215	45,029	170,099
Printing	140,677	683	93,607	234,967
Information and Communications Technologies	63,661	4,805	31,931	100,397
Travel	70,267	2,881	10,683	83,831
Depreciation	26,711	4,946	17,807	49,464
Other	98,799	14,582	127,068	240,449
	<u>\$ 4,739,873</u>	<u>\$ 268,596</u>	<u>\$ 1,271,377</u>	<u>\$ 6,279,846</u>
	2015			
	Program Services	Management and General	Fundraising	Total
Grant Expense	\$ 1,722,356	\$ -	\$ -	\$ 1,722,356
Salaries and benefits	1,126,188	175,292	534,196	1,835,676
Education and Awareness	760,161	246	244,550	1,004,957
Occupancy	203,393	30,470	71,651	305,514
Professional Services	120,192	47,510	44,711	212,413
Printing	136,782	736	73,547	211,065
Information and Communication Technologies	15,104	3,895	34,654	53,653
Travel	79,141	1,087	7,549	87,777
Depreciation	40,955	6,301	15,752	63,008
Other	80,185	17,923	112,843	210,951
	<u>\$ 4,284,457</u>	<u>\$ 283,460</u>	<u>\$ 1,139,453</u>	<u>\$ 5,707,370</u>

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

WORLD ANIMAL PROTECTION
Statements of Cash Flows
For the year ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 239,957	\$ 537,961
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	49,464	63,008
Donated securities	(27,647)	(67,409)
Net (Appreciation) depreciation on investments	(60,748)	42,165
(Increase) decrease in contribution receivable	(695,458)	165,059
Decrease (increase) in prepaid expenses and other assets	16,243	(1,063)
(Decrease) increase in accounts payable and accrued expenses	(221,501)	154,826
Increase in due to related parties	493,788	393,230
(Decrease) increase in other liabilities	<u>(21,211)</u>	<u>(3,935)</u>
Net cash (used in) provided by operating activities	<u>(227,113)</u>	<u>1,283,842</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	-	(7,312)
Purchase of investments	(8,575)	(1,293,101)
Proceeds from sales of investments	<u>37,219</u>	<u>836,686</u>
Net cash provided by (used in) investing activities	<u>28,644</u>	<u>(463,727)</u>
Net (decrease) increase in cash	(198,469)	820,115
Cash, beginning of year	<u>1,739,671</u>	<u>919,556</u>
Cash, end of year	<u>\$ 1,541,202</u>	<u>\$ 1,739,671</u>

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

WORLD ANIMAL PROTECTION

Notes to Financial Statements

December 31, 2016 and 2015

1. DESCRIPTION OF THE ORGANIZATION

World Animal Protection has a vision of a world where animals live free from suffering.

World Animal Protection is affiliated with World Animal Protection International which brings together fourteen offices around the world who work collaboratively towards a shared mission. Collectively, World Animal Protection is one of the largest animal protection organizations in the world pioneering sustainable, large-scale solutions to end animal suffering. World Animal Protection acts for animals on the ground and at a global level demonstrating how animal welfare impacts and is affected by climate change, food security, development and poverty issues. Through its General Status at the United Nations and formal recognition by the World Organization for Animal Health (the “OIE”) and other intergovernmental organizations, World Animal Protection is uniquely placed to improve animal health and welfare worldwide.

World Animal Protection seeks to improve the lives of animals in communities, farming, disasters, and the wild, with specific campaigns ranging from stopping the mass suffering of industrially farmed animals to ending the inhumane culling of stray dogs. World Animal Protection is the international leader in animal-focused disaster response and risk reduction and is one of the only organizations dedicated to safeguarding animals – often forgotten victims – in disasters.

With two-thirds of the world’s animals in human care in farming alone, World Animal Protection is in a position to reduce the scale and intensity of animal suffering; World Animal Protection aims to achieve this through action and education. World Animal Protection works in partnership with governments, businesses, local communities and individuals to move the world to protect animals.

In 2013, the Board of Directors for World Animal Protection approved that World Animal Protection International become the Sole Member of the Corporation on January 1, 2014. As the Sole Member, World Animal Protection International has the right to vote and shall exercise its membership rights and obligations by appointing authorized individuals to act on its behalf. During 2014, the Board of Directors approved an amendment to its articles of incorporation to officially change the name of the organization from World Society for the Protection of Animals to World Animal Protection. The IRS has classified World Animal Protection as a public charity; therefore, World Animal Protection is exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code (the “Code”), as well as state and local taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The classification of World Animal Protection’s net assets are based on the existence or absence of donor imposed restrictions. Amounts for each of the three classes of net assets (unrestricted, temporarily restricted and permanently restricted) are displayed in the accompanying statement of financial position and changes in each of those classes of net assets are displayed in the accompanying statement of activities. The financial statements of World Animal Protection have been prepared in accordance with U.S. generally

WORLD ANIMAL PROTECTION

Notes to Financial Statements

December 31, 2016 and 2015

accepted accounting principles (“US GAAP”), which require World Animal Protection to report information regarding its financial position and activities according to the following net asset classifications:

Unrestricted net assets

Net assets that are not subject to donor imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. The unrestricted net assets may be used at the discretion of World Animal Protection’s management and the Board of Directors.

Temporarily restricted net assets

Net assets subject to donor and grantor imposed stipulations that will be met by actions of World Animal Protection and/or the passage of time. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. At December 31, 2016 and 2015, temporarily restricted net assets totaled \$358,133 and \$2,833, respectively.

Permanently restricted net assets

Net assets which consist of endowment funds that have been restricted by donors to be maintained in perpetuity. Income earned on such funds is unrestricted or temporarily restricted based on donor stipulations. At December 31, 2016 and 2015, permanently restricted net assets totaled \$1,041,575.

Measure of Operations

The statement of activities reports all changes in net assets, including changes in unrestricted net assets from operations and non-operating activities. Operating activities consist of those items attributable to World Animal Protection’s ongoing animal conservation and protection efforts and interest and dividends earned on investments. Non-operating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

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.

Concentrations of Credit Risk

Financial instruments that potentially subject World Animal Protection to concentrations of credit risk consist principally of cash and cash equivalents and investments. World Animal Protection maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. World Animal Protection’s cash and cash equivalent accounts have been placed with high credit quality financial institutions. World Animal Protection has not experienced, nor does it anticipate, any losses with respect to such accounts.

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Notes to Financial Statements

December 31, 2016 and 2015

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.

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. Contributions to be received after one year are discounted to present value of future cash flows at a risk adjusted rate.

As of December 31, 2016, World Animal Protection's contributions receivable consisted of unconditional bequests to give in the form of two irrevocable Charitable Remainder Trusts for a total of \$590,084, unconditional promises to give in the amount of \$272,300, and receivables from third party processors in the amount of \$76,587. All of these receivables are expected to be collected within one year. These contributions represent 31%, 32% and 29%, respectively, of contributions receivable as of December 31, 2016.

As of December 31, 2015, contributions receivable consisted of unconditional promises to give in the amount of \$150,000, and receivables from third party processors in the amount of \$93,513, all of which were collected within one year. A pledge from one donor represent 62% of contributions receivable as of December 31, 2015.

Property and Equipment, net

Property and equipment are stated at cost or fair market value at the date of donation, less accumulated depreciation. Depreciation is calculated using the straight-line method over the lesser of the estimated useful lives of the assets or the lease term. The useful lives range from three to seven years. World Animal Protection's policy is to capitalize renewals and betterments acquired for greater than \$5,000 and expense normal repairs and maintenance as incurred. World Animal Protection's management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recovered.

Investments

Investments are measured and reported at fair value. Changes in fair value are reported as investment return in the statement 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 statement 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.

Contributions and Bequests

Contributions and bequests received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in

WORLD ANIMAL PROTECTION

Notes to Financial Statements

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the reporting period in which the contribution is recognized. All other donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently but may permit World Animal Protection to use or expend part or all of the economic benefits derived from the assets.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as restricted support; otherwise, the contributions are recorded as unrestricted support.

In-Kind Donations

World Animal Protection received donated public service announcements and other advertising services of approximately \$847,000 and \$368,000 for the year ended December 31, 2016 and 2015, 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 on the accompanying consolidated 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 statement of activities because they do not meet the necessary criteria for recognition under US GAAP.

Charitable Gift Annuities

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 statement of activities. The CGA's are valued using the 2000CM mortality table.

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 statement of financial position. World Animal Protection invests the charitable gift annuities in accordance with their investment policy.

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

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Notes to Financial Statements

December 31, 2016 and 2015

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Due from Related Parties

Amounts reported as due from related parties, included in the accompanying statement of financial position, arise principally from the collaborative activities between World Animal Protection, World Animal Protection International, and World Animal Protection Canada to further the mission of the World Animal Protection.

Fair Value Measurements

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset or liability and a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). World Animal Protection groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 - Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2 - Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 - Unobservable inputs that cannot be corroborated by observable market data.

At December 31, 2016 and 2015, the carrying value of financial instruments such as cash equivalents, contributions and bequests receivable, and accounts payable approximated their fair value.

Income Taxes

World Animal Protection follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position

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December 31, 2016 and 2015

were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

World Animal Protection is exempt from income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. World Animal Protection has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. World Animal Protection has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

3. INVESTMENTS

The following is a summary of investments at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 72	\$ 124
Equities Funds	91,765	91,298
Stock Indexed Funds	658,725	598,440
Bonds Funds	55,782	57,117
Bond Indexed Funds	411,624	411,238
	<u>\$ 1,217,968</u>	<u>\$ 1,158,217</u>

Investment activities consisted of the following, for the years ended December 31, 2016 and 2015:

	<u>2016</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 27,627	\$ 891	\$ 28,518
Realized gain on investments	430	-	430
Unrealized gain on investments	57,606	2,712	60,318
Investment fees	(2,088)	-	(2,088)
Net investment income	<u>\$ 83,575</u>	<u>\$ 3,603</u>	<u>\$ 87,178</u>
	<u>2015</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 27,583	\$ 726	\$ 28,309
Realized gain on investments	3,775	-	3,775
Unrealized loss on investments	(43,112)	(1,366)	(44,478)
Investment fees	(1,462)	-	(1,462)
Net investment income	<u>\$ (13,216)</u>	<u>\$ (640)</u>	<u>\$ (13,856)</u>

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Notes to Financial Statements
December 31, 2016 and 2015

The following tables summarize World Animal Protection's investments that were accounted for at fair value within the fair value hierarchy of ASC 820, *Fair Value Measurements and Disclosures*, as of December 31, 2016 and 2015:

2016				Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents				\$ 72
Equities	\$ 750,489	\$ -	\$ -	750,489
Fixed income	467,407	-	-	467,407
	<u>\$ 1,217,896</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,217,968</u>
2015				Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents				\$ 124
Equities	\$ 689,738	\$ -	\$ -	689,738
Fixed income	468,355	-	-	468,355
	<u>\$ 1,158,093</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,158,217</u>

4. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at December 31, 2016 and 2015:

	2016	2015
Property and equipment	\$ 364,297	\$ 364,297
Less: accumulated depreciation	<u>(262,299)</u>	<u>(212,835)</u>
Property and equipment, net	<u>\$ 101,998</u>	<u>\$ 151,462</u>

For the years ended December 31, 2016 and 2015, depreciation expense totaled \$49,464 and \$63,008, respectively.

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5. LEASE COMMITMENTS

World Animal Protection leases office space in which the lease agreement expires in August 2019. Total rent expense incurred under this operating lease totaled \$227,331 and \$231,488 for the years ended December 31, 2016 and 2015, respectively.

For years subsequent to 2016, minimum annual future rental commitments under the lease agreements, are as follows:

Years Ending December 31,	<u>Rental Expense</u>
2017	310,042
2018	317,793
2019	<u>215,364</u>
Total	<u>\$ 843,199</u>

Deferred rent consists of the excess of the rental expenses on a straight-line basis over the payments required by the lease and is included in other liabilities in the statement of financial position. As of December 31, 2016 and 2015, the deferred rent liability balance was \$79,062 and \$94,990, respectively.

6. RESTRICTED NET ASSETS

Permanently restricted net assets are available for the purposes listed below. Income from permanently restricted net assets is expendable to support the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
General Operations	\$ 995,005	\$ 995,005
Italy/Isle of Capri	<u>46,570</u>	<u>46,570</u>
Total	<u>\$ 1,041,575</u>	<u>\$ 1,041,575</u>

Temporarily restricted net assets consisted of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Animals in Farming - China	\$ 272,300	\$ -
Donor Challenge Matches	82,230	-
Animals in Communities - Italy/Isle of Capri	<u>3,603</u>	<u>2,833</u>
Total	<u>\$ 358,133</u>	<u>\$ 2,833</u>

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Net assets released from temporary donor restrictions are as follows:

	<u>2016</u>	<u>2015</u>
Animals in Communities	\$ 9,276	\$ 27,780
Animals in Disasters	51,151	314,030
Animals in Farming	273,359	24,217
Animals in the Wild	87,645	206,329
Bequests for Animal Welfare Programs	590,084	-
Donor Challenge Matches	24,000	89,675
Total	<u>\$ 1,035,515</u>	<u>\$ 662,031</u>

7. ENDOWMENT FUNDS

Interpretation of Relevant Law

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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment fund, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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 (although no existing donor instruments have so directed). The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets and is regarded as “net appreciation” is classified as temporarily restricted net assets 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 donor-restricted endowment funds falls below the original gift value plus accumulations, if applicable, the deficiency is recorded as a charge to unrestricted net assets with a corresponding increase to temporarily restricted net assets. In subsequent periods, the deficiency may be restored as a result of appreciation of the underlying endowment investments.

Endowment Investment Policy

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 of donor-restricted funds 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.

Strategies Employed for Achieving Objectives

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

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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 donor-restricted 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 the restricted assets for use. In establishing this policy, World Animal Protection considered the long-term expected return on its endowment.

Endowment Fund Activity

The following summarizes World Animal Protection's donor-restricted endowment net asset composition as of December 31, 2016 and 2015:

	2016		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 3,603	\$ 1,041,575	\$ 1,045,178
	2015		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 2,833	\$ 1,041,575	\$ 1,044,408

As of December 31, 2016 and 2015, the endowment assets were included in cash and investments in the statement of financial position.

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The following table summarizes the changes in World Animal Protection endowment net assets for the fiscal years ended December 31, 2016 and 2015:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2015	\$ 3,473	\$ 1,041,575	\$ 1,045,048
Interest and dividends	726	-	726
Investment return	<u>(1,366)</u>	<u>-</u>	<u>(1,366)</u>
Endowment net assets, December 31, 2015	<u>2,833</u>	<u>1,041,575</u>	<u>1,044,408</u>
Released from Retrictions	(2,833)		(2,833)
Interest and dividends	891	-	891
Investment return	<u>2,712</u>	<u>-</u>	<u>2,712</u>
Endowment net assets, December 31, 2016	<u>\$ 3,603</u>	<u>\$ 1,041,575</u>	<u>\$ 1,045,178</u>

8. 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. For the years ended December 31, 2016 and 2015, these joint costs were allocated as follows:

	2016	2015
Program services	\$ 675,840	\$ 359,740
Fundraising	<u>517,042</u>	<u>359,740</u>
Total	<u>\$ 1,192,882</u>	<u>\$ 719,480</u>

9. RELATED PARTY TRANSACTIONS

World Animal Protection and World Animal Protection International are related organizations and have entered into an agreement to reflect the collaborative nature of the relationship between the two organizations. This agreement reflects the “One World Animal Protection” approach through which all World Animal Protection organizations around the globe work together and which supports 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 International

The role of World Animal Protection International is to develop the global strategy and brand, co-ordinate activities of the fourteen separate offices, set global standards and provide central services such as programs delivery, communications and finance.

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For the years ended December 31, 2016 and December 31, 2015 this resulted in Contributions - from Parent revenues and offsetting Program and Management expenses of \$614,354 and \$755,238, respectively. There was no effect on change in net asset from operations as the contribution revenue was offset by an expense. These donated services were recorded at the cost of the Parent, which approximates fair value.

The net activity between World Animal Protection US and affiliates for the years ended December 31, 2016 and 2015 resulted in a payable balance of \$797,079 and 303,291, stated respectively. The aforementioned net activity is recorded as Due to/from related parties in the statement of financial position.

MSPCA

World Animal Protection participates in the Massachusetts Society for the Protection of Cruelty to Animals' ("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 which is substantially funded (>80%) which was frozen to new participants as of January 1, 2006. World Animal Protection's participation in the Plan is less than 5% 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 present value of accrued benefits ("PVAB") to be approximately \$718,119 at December 31, 2016.

10. 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 are no expenses associated with this plan for years ended December 31, 2016 and 2015.

In addition to the defined benefit pension plan, World Animal Protection has a group tax-deferred 403(b) plan covering all employees. The assets are held for each employee in an individual account maintained by an investment firm. World Animal Protection's match is 3% of each qualified employee's basic contribution. Plan contribution before non-vesting forfeiture, incurred by World Animal Protection during the years ended December 31, 2016 and 2015 totaled \$24,212 and \$22,174, respectively.

11. SUBSEQUENT EVENTS

World Animal Protection has evaluated subsequent events through April 27, 2017, which is the date the financial statements were available to be issued. World Animal Protection is not aware of any material subsequent events.