

**Mercy for Animals, Inc.**

Financial Statements

December 31, 2017  
(With Comparative Totals for 2016)



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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Mercy for Animals, Inc.  
Los Angeles, California

We have audited the accompanying financial statements of Mercy for Animals, Inc. a nonprofit organization (the "Organization"), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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 Mercy for Animals, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Report on Summarized Comparative Information

We have previously audited Mercy for Animals, Inc.'s 2016 financial statements, and our report dated January 10, 2018 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino<sup>LLP</sup>  
San Francisco, California

August 7, 2018

Mercy for Animals, Inc.  
Statement of Financial Position  
December 31, 2017  
(With Comparative Totals for 2016)

	2017	2016
<b>ASSETS</b>		
Current assets		
Cash	\$ 3,781,878	\$ 7,969,375
Related party receivable	1,218,963	94,833
Contributions receivable	851,540	1,289,247
Grants receivable	365,000	1,500,000
Investments	9,225,048	3,030,149
Inventory	57,303	44,782
Prepaid expenses	20,791	22,336
Total current assets	15,520,523	13,950,722
Property and equipment, net	30,367	193,917
Total assets	\$ 15,550,890	\$ 14,144,639
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 594	\$ 14,079
Accrued expenses	251,096	145,106
Total current liabilities	251,690	159,185
Net assets		
Unrestricted	14,795,867	11,097,832
Temporarily restricted	503,333	2,887,622
Total net assets	15,299,200	13,985,454
Total liabilities and net assets	\$ 15,550,890	\$ 14,144,639

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

Mercy for Animals, Inc.  
Statement of Activities  
For the Year Ended December 31, 2017  
(With Comparative Totals for 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
Revenues				
Contributions	\$ 7,994,901	\$ 63,271	\$ 8,058,172	\$ 7,585,519
Grants	725,918	950,000	1,675,918	3,732,500
Fundraising events, net of direct benefit expenses of \$207,427	1,498,714	-	1,498,714	1,369,399
Sale of merchandise, net of cost of goods sold of \$74,920	87,735	-	87,735	48,018
Royalty revenue	-	-	-	57,500
Losses on disposal of assets	(151,426)	-	(151,426)	-
Interest and dividend income	159,939	-	159,939	48,261
Net unrealized gains (losses) on investments	335,155	-	335,155	(80,422)
Net assets released from restriction	<u>3,397,560</u>	<u>(3,397,560)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>14,048,496</u>	<u>(2,384,289)</u>	<u>11,664,207</u>	<u>12,760,775</u>
Functional expenses				
Program services	7,633,105	-	7,633,105	5,045,478
Management and general	901,573	-	901,573	257,450
Fundraising	<u>1,815,783</u>	<u>-</u>	<u>1,815,783</u>	<u>1,320,430</u>
Total functional expenses	<u>10,350,461</u>	<u>-</u>	<u>10,350,461</u>	<u>6,623,358</u>
Change in net assets	<u>3,698,035</u>	<u>(2,384,289)</u>	<u>1,313,746</u>	<u>6,137,417</u>
Net assets, beginning of year	<u>11,097,832</u>	<u>2,887,622</u>	<u>13,985,454</u>	<u>7,848,037</u>
Net assets, end of year	<u>\$ 14,795,867</u>	<u>\$ 503,333</u>	<u>\$ 15,299,200</u>	<u>\$ 13,985,454</u>

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

Mercy for Animals, Inc.  
Statement of Functional Expenses  
For the Year Ended December 31, 2017  
(With Comparative Totals for 2016)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2017 Total</u>	<u>2016 Total</u>
Salaries, benefits and payroll taxes	\$ 3,324,299	\$ 475,734	\$ 935,428	\$ 4,735,461	\$ 2,955,940
Contributions	1,872,013	-	2,094	1,874,107	568,660
Contract labor	618,151	83,992	390,058	1,092,201	764,566
Advertising	807,706	176	15,615	823,497	625,819
Travel	207,311	9,351	109,511	326,173	346,646
Supplies	253,951	7,447	19,926	281,324	112,667
Postage and shipping	166,032	5,880	78,869	250,781	177,137
Office expenses	103,293	85,727	35,954	224,974	206,030
Insurance	36,607	141,664	8,025	186,296	122,831
Information technology expenses	78,741	29,624	33,915	142,280	201,893
Development	21,934	10,016	70,296	102,246	59,956
Printing and copying	78,343	321	19,111	97,775	244,081
Telecommunications	41,640	7,026	14,940	63,606	37,098
Gifts in-kind	-	-	61,807	61,807	68,253
Organization expenses	1,776	34,711	14,237	50,724	34,777
Depreciation and amortization	21,308	3,049	5,997	30,354	56,945
Professional fees and dues	-	3,600	-	3,600	38,329
Taxes	-	3,255	-	3,255	1,730
	<u>\$ 7,633,105</u>	<u>\$ 901,573</u>	<u>\$ 1,815,783</u>	<u>\$ 10,350,461</u>	<u>\$ 6,623,358</u>

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

Mercy for Animals, Inc.  
Statement of Cash Flows  
For the Year Ended December 31, 2017  
(With Comparative Totals for 2016)

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 1,313,746	\$ 6,137,417
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	30,354	56,945
Stock donation	(199,263)	(951,016)
Loss on disposal of property and equipment	151,426	-
Net unrealized (gains) losses on investments	(335,155)	80,422
Changes in operating assets and liabilities		
Related party receivable	(1,124,130)	(94,833)
Contributions receivable	437,707	357,962
Grants receivable	1,135,000	(1,500,000)
Inventory	(12,521)	(12,237)
Prepaid expenses	1,545	14,838
Accounts payable	(13,485)	(14,270)
Accrued expenses	105,990	138,918
Deferred revenue	-	(57,500)
Net cash provided by operating activities	1,491,214	4,156,646
Cash flows from investing activities		
Purchase of property and equipment	(18,230)	(83,846)
Purchase of investments	(5,660,481)	(532,840)
Net cash used in investing activities	(5,678,711)	(616,686)
Net increase (decrease) in cash	(4,187,497)	3,539,960
Cash, beginning of year	7,969,375	4,429,415
Cash, end of year	\$ 3,781,878	\$ 7,969,375

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

Mercy for Animals, Inc.  
Notes to Financial Statements  
December 31, 2017

1. NATURE OF OPERATIONS

Mercy for Animals, Inc. (the "Organization") is a 501(c)(3) nonprofit animal protection organization which works to prevent cruelty to farmed animals and promote compassionate food choices and policies through investigations, legal advocacy, corporate engagement, and education. Mercy for Animals, Inc. focuses on farmed animal advocacy and promoting cruelty-free food choices.

In order to spread the Organization's mission domestically and globally, the Organization assisted in the establishment of the following affiliated nonprofit organizations: The Good Food Institute, Inc., Mercy For Animals Canada, Mercy For Animals Brazil, Mercy For Animals Asia Limited, Mercy For Animals Latino-America, and Mercy For Animals India Foundation. Each affiliated organization has a separate Board of Directors and its own management team. The Organization has representation on certain Board of Directors of the affiliated organizations, but does not have control over any of the Board of Directors. Management of the Organization has evaluated the consolidation requirements and determined that the Organization is not required to consolidate any of the affiliated organizations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The Organization used the accrual basis of accounting, which recognizes income in the period earned and expenses when incurred, in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent 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.

Cash and concentration of credit risk

Cash includes cash on hand, bank checking accounts, and savings accounts. While the Organization's cash, at times, may exceed federally insured limits, the Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on these accounts.

The Organization has one donor that represented approximately 19% of the Organization's grants and contributions revenue for the year ended December 31, 2017.

Mercy for Animals, Inc.  
Notes to Financial Statements  
December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions receivable

Contributions receivable are stated at the amount management expects to collect from outstanding balances. Contributions receivable represent unconditional promises to contribute specified amounts to the Organization in the future. Contributions to be received after fiscal year-end are recorded at the present value of their estimated future cash flows. The discount on these amounts is computed using risk adjusted market interest rates applicable to the years in which the promises are expected to be received. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

An allowance for doubtful accounts is established based upon management's judgment including such factors as prior collection history, aging statistics of contributions, and the nature of the receivable. Account balances are charged off against the allowance for doubtful accounts after all means of collection have been exhausted and the potential for recovery is considered remote. Management believes that all of its receivables are collectible; accordingly, no allowance for doubtful accounts is recorded at December 31, 2017.

Fair value measurements

Generally accepted accounting principles establish a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs, if any, reflects the Organization's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

- *Level 1* - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.
- *Level 2* - Valuations based on significant inputs that are observable, either directly or indirectly or quoted prices in the markets that are not active, that is, markets in which there are few transactions, the prices are not current or price quotations vary substantially either over time or among market participants.
- *Level 3* - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Mercy for Animals, Inc.  
Notes to Financial Statements  
December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost or market value. The cost is determined by the average cost method.

Property and equipment

Property and equipment are stated at cost and depreciated or amortized using the straight-line method over the estimated useful lives of 3-5 years or the lesser of the estimated useful life or lease term for leasehold improvements.

Expenditures for major renewals and betterments that extend the useful lives of the property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Net assets

The Organization reports information regarding its financial position and activities according to classes of net assets. Net assets and changes therein are classified as follows:

- *Unrestricted net assets* - Net assets not subject to donor-imposed stipulations. This category includes net assets designated by the board of trustees to require board approval prior to expenditure.
- *Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that will be met by actions of the Organization and/or the passage of time.
- *Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that they be held in perpetuity by the Organization. Income from these funds is available to support specific activities of the Organization. There were no permanently restricted net assets at December 31, 2017.

Revenue recognition

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Grants represent contributions if resource providers do not receive direct commensurate value in exchange for the assets transferred. Contributions are recorded at their fair value as unrestricted support, temporarily restricted support, or permanently restricted support, depending on the absence or existence of donor imposed restrictions as applicable. 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.

Mercy for Animals, Inc.  
Notes to Financial Statements  
December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

In-kind contributions are reflected as contributions at their fair value at date of donation and are reported as unrestricted support unless explicit donor stipulations specify how donated assets must be used. Contributed services are reflected in the financial statements at the fair value of the services received. The contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. In-kind contributions received for the year ended December 31, 2017 were \$61,807.

Functional expenses

The costs of providing program services and supporting services have been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. Accordingly, certain costs are allocated among program services and supporting services based on estimates of employees' time incurred and on usage of resources.

Income tax status

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under the related California code sections.

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Reclassifications

Certain 2016 amounts have been reclassified to conform to the 2017 financial statement presentation.

Summarized comparative financial information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements as of December 31, 2016, and for the year then ended, from which the summarized information was derived.

Subsequent events

Subsequent events have been evaluated through August 7, 2018, the date the financial statements were available to be issued. No subsequent events have occurred that would have a material impact on the presentation of the Organization's financial statements.

Mercy for Animals, Inc.  
Notes to Financial Statements  
December 31, 2017

3. CONTRIBUTIONS AND GRANTS RECEIVABLE

Contributions and grants receivable at December 31, 2017 amounted to \$851,540 and \$365,000, respectively, and are due in less than one year.

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Furniture and equipment	\$ 32,482
Leasehold improvements	134,284
Software	<u>5,600</u>
	172,366
Accumulated depreciation and amortization	<u>(141,999)</u>
	<u><u>\$ 30,367</u></u>

Depreciation and amortization expense for the year ended December 31, 2017 was \$30,354.

5. INVESTMENTS

Investments consist of the following:

Cash equivalents	\$ 141,091
Equity	2,941,110
Mutual funds	1,657,202
Fixed income	<u>4,485,645</u>
	<u><u>\$ 9,225,048</u></u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 141,091	\$ -	\$ -	\$ 141,091
Equity	2,941,110	-	-	2,941,110
Mutual funds	1,657,202	-	-	1,657,202
Fixed income	<u>-</u>	<u>4,485,645</u>	<u>-</u>	<u>4,485,645</u>
	<u><u>\$ 4,739,403</u></u>	<u><u>\$ 4,485,645</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 9,225,048</u></u>

Mercy for Animals, Inc.  
Notes to Financial Statements  
December 31, 2017

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31, 2017:

India Farmed Animal	\$ 500,000
The Good Food Institute	<u>3,333</u>
	<u>\$ 503,333</u>

Temporarily restricted net assets released from restriction during the year were as follows:

Broiler chicken	\$ 932,163
International cage free	844,575
Investigation	800,126
Corporate cage free	521,722
Legal advocacy	199,846
Other	<u>99,128</u>
	<u>\$ 3,397,560</u>

7. OPERATING LEASE COMMITMENTS

The Organization leases space in the following three locations: Chicago, Illinois, New York, New York and West Hollywood, California. The Chicago and New York leases are on a month-to-month basis and require monthly payments of \$570 and \$650, respectively. The West Hollywood lease extends through March 2019 and requires escalating monthly rent payments ranging from \$5,707 to \$5,992.

The scheduled minimum lease payments under the lease terms are as follows:

Year ending December 31,

2018	\$ 71,051
2019	<u>17,977</u>
	<u>\$ 89,028</u>

8. RELATED PARTY

The Organization paid for The Good Food Institute, Inc.'s ("GFI") expenses during 2017 with the understanding that GFI would reimburse the Organization for certain amounts. At December 31, 2017, the Organization had a related party receivable from GFI in the amount of \$1,218,963.