

Mercy For Animals, Inc.

Financial Statements

December 31, 2020
(With Comparative Totals for 2019)



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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, 2020, 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, 2020, 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.



An independent firm
associated with Moore
Global Network Limited

Report on Summarized Comparative Information

We have previously audited Mercy For Animals, Inc.'s 2019 financial statements, and our report dated July 22, 2020 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, 2019, 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^{LLP}
San Francisco, California

September 21, 2021

Mercy For Animals, Inc.
Statement of Financial Position
December 31, 2020
(With Comparative Totals for 2019)

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 10,708,418	\$ 7,222,339
Contributions and grants receivable	350,000	2,354,000
Investments - short-term	5,447,534	6,816,872
Inventory	29,886	34,969
Prepaid expenses	196,605	236,508
Total current assets	16,732,443	16,664,688
Noncurrent assets		
Investments - long-term	6,094,666	3,495,528
Property and equipment, net	32,412	33,746
Contributions and grants receivable, net of current portion	175,000	-
Total noncurrent assets	6,302,078	3,529,274
Total assets	\$ 23,034,521	\$ 20,193,962
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 172,636	\$ 72,803
Accrued expenses	311,270	242,957
Note payable	875,239	-
Total current liabilities	1,359,145	315,760
Net assets		
Without donor restrictions	18,241,593	15,883,308
With donor restrictions	3,433,783	3,994,894
Total net assets	21,675,376	19,878,202
Total liabilities and net assets	\$ 23,034,521	\$ 20,193,962

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

Mercy For Animals, Inc.
Statement of Activities
For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Revenues, gains (losses) and other support				
Contributions and grants	\$ 8,734,825	\$ 3,325,946	\$ 12,060,771	\$ 14,591,793
In-kind contributions	636,632	-	636,632	345,514
Fundraising events, net of direct benefit expenses	116,483	-	116,483	462,475
Sale of merchandise, net of cost of goods sold of \$47,375	67,391	-	67,391	48,017
Investment income, net of investment fees of \$33,977	179,746	-	179,746	310,380
Net realized and unrealized gains on investments	638,564	-	638,564	734,175
Net assets released from restriction	<u>3,887,057</u>	<u>(3,887,057)</u>	<u>-</u>	<u>-</u>
Total revenues, gains (losses) and other support	<u>14,260,698</u>	<u>(561,111)</u>	<u>13,699,587</u>	<u>16,492,354</u>
Functional expenses				
Program services	8,953,915	-	8,953,915	7,193,506
Management and general	1,484,461	-	1,484,461	1,487,645
Fundraising	<u>1,464,037</u>	<u>-</u>	<u>1,464,037</u>	<u>1,638,791</u>
Total functional expenses	<u>11,902,413</u>	<u>-</u>	<u>11,902,413</u>	<u>10,319,942</u>
Change in net assets	2,358,285	(561,111)	1,797,174	6,172,412
Net assets, beginning of year	<u>15,883,308</u>	<u>3,994,894</u>	<u>19,878,202</u>	<u>13,705,790</u>
Net assets, end of year	<u>\$ 18,241,593</u>	<u>\$ 3,433,783</u>	<u>\$ 21,675,376</u>	<u>\$ 19,878,202</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, 2020
(With Comparative Totals for 2019)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2020 Total</u>	<u>2019 Total</u>
Salaries, benefits and payroll taxes	\$ 4,331,045	\$ 875,375	\$ 880,408	\$ 6,086,828	\$ 5,743,358
Contributions	2,401,628	5,361	-	2,406,989	1,434,244
Contract labor	428,577	224,404	19,341	672,322	1,332,364
Development	337,608	101,890	187,853	627,351	917,939
Gifts in-kind	636,632	-	-	636,632	345,514
Travel	95,476	18,834	8,264	122,574	263,489
Advertising	34,208	1,290	14,890	50,388	169,725
Insurance	133,090	26,747	30,326	190,163	158,505
Postage and shipping	66,898	5,306	42,433	114,637	156,888
Office expense	71,391	50,955	9,624	131,970	111,599
Supplies	118,412	13,171	8,600	140,183	100,117
Bank fees	12	74,427	-	74,439	64,666
Inventory	47,375	-	-	47,375	64,178
Printing and copying	47,920	2,572	6,463	56,955	50,366
Telecommunications	22,146	5,880	6,771	34,797	45,131
Information technology expenses	8,568	20,057	6,295	34,920	37,396
Professional fees and dues	217,766	78,602	243,448	539,816	29,348
Depreciation and amortization	-	13,134	-	13,134	14,396
Sales taxes	2,538	433	-	2,971	1,430
	<u>9,001,290</u>	<u>1,518,438</u>	<u>1,464,716</u>	<u>11,984,444</u>	<u>11,040,653</u>
Less expenses included in revenues, gains and other support	<u>(47,375)</u>	<u>(33,977)</u>	<u>(679)</u>	<u>(82,031)</u>	<u>(720,711)</u>
 Total expenses included in expense section on the statement of activities	 <u>\$ 8,953,915</u>	 <u>\$ 1,484,461</u>	 <u>\$ 1,464,037</u>	 <u>\$ 11,902,413</u>	 <u>\$ 10,319,942</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, 2020
(With Comparative Totals for 2019)

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ 1,797,174	\$ 6,172,412
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	13,134	14,396
Stock donations	(177,859)	(385,693)
Net realized and unrealized gains on investments	(638,564)	(734,175)
Contributions and grants receivable	1,829,000	(2,296,265)
Inventory	5,083	20,697
Prepaid expenses	39,903	(214,867)
Accounts payable	99,833	55,352
Accrued expenses	68,313	(153,135)
Net cash provided by operating activities	3,036,017	2,478,722
Cash flows from investing activities		
Purchases of property and equipment	(11,800)	(7,573)
Proceeds from sales of investments	11,772,175	10,007,339
Purchases of investments	(12,185,552)	(10,624,760)
Net cash used in investing activities	(425,177)	(624,994)
Cash flows from financing activities		
Proceeds from note payable	875,239	-
Net cash provided by financing activities	875,239	-
Net increase in cash and cash equivalents	3,486,079	1,853,728
Cash and cash equivalents, beginning of year	7,222,339	5,368,611
Cash and cash equivalents, end of year	\$ 10,708,418	\$ 7,222,339

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

Mercy For Animals, Inc.
Notes to Financial Statements
December 31, 2020

1. NATURE OF OPERATIONS

Mercy For Animals, Inc. (the "Organization") is a 501(c)(3) nonprofit animal protection organization that works to construct a compassionate food system by reducing suffering and ending the exploitation of animals for food through investigations, legal advocacy, corporate engagement, and education. The Organization 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: Mercy For Animals Canada, Associação Mercy For Animals Brasil, Mercy For Animals Asia Limited, Mercy For Animals Latinoamérica, and Mercy For Animals India Foundation. All affiliated organizations maintain separate Boards of Directors, however, some Board membership and senior management are common to some of the affiliates. All affiliates operate as separate and independent entities to undertake activities that may or may not be consistent with all requirements of the Section 501(c)(3) of the Internal Revenue Code governing certain tax-exempt entities. While the Organization made grants to the affiliates totaling \$2,239,664 in 2020, the Organization does not enjoy the rights of ownership of the assets and revenues of these affiliates, nor is it subject to their liabilities. The Organization does not hold a majority ownership interest in its affiliates nor does the Organization have control of a majority of the Board appointments of the affiliated group. Accordingly, the financial statements of these affiliates have not been consolidated with those of the Organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

In accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

- *Net assets without donor restrictions* - represents resources which have not been specifically restricted by donor. Net assets without donor restrictions may be designated for specific purposes by the Board of Directors of the Organization.
- *Net assets with donor restrictions* - represents contributions whose use is limited by donor-imposed stipulations that expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations and those net assets to be held in perpetuity.

Mercy For Animals, Inc.
Notes to Financial Statements
December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments and investments with original maturities of three months or less, cash on hand, bank checking accounts and savings accounts. The Organization maintains its cash in bank deposit accounts which, 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.

Contributions and grants receivable

Contributions and grants receivable are stated at the amount management expects to collect from outstanding balances. Contributions and grants receivable represent unconditional promises to contribute specified amounts to the Organization in the future. Contributions and grants 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 contributions and grants revenue in accordance with donor-imposed restrictions, if any, on the contributions and grants.

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 and no allowance for doubtful accounts was recorded at December 31, 2020.

Inventory

Inventory is stated at the lower of cost or net realizable value. The cost is determined by the average cost method.

Property and equipment

Property and equipment are recorded at cost or estimated fair value for donated items. Equipment purchases over \$1,000 are capitalized. Depreciation and amortization is computed on the straight-line method based on the estimated useful lives of the assets, which range from 3 to 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.

Mercy For Animals, Inc.
Notes to Financial Statements
December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 support with or without donor restrictions, depending on the existence or absence of donor imposed stipulations on the use of funds as applicable. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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 during the year ended December 31, 2020 were \$636,632.

Revenue from the sales of merchandise are recognized at the point in time when the sales occur. Revenue from royalties are recognized when the performance obligation is met.

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. Accordingly, actual results could differ from those estimates.

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.

Mercy For Animals, Inc.
Notes to Financial Statements
December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

The fair value hierarchy is categorized into three levels based on the inputs as follows:

- *Level 1* - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
- *Level 2* - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.
- *Level 3* - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Expense allocations

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Direct identification of specific expenses is the Organization's preferable method of charging expenses to various functions. The Organization has a number of expenses which relate to more than one program or supporting activity, or to a combination of programs and supporting activities. Expenses are allocated among program services, management and general and fundraising classifications based on either an estimates of employees' time incurred by department or the relative square footage of the Organization's corporate headquarters by functional purpose depending on the nature of the expense.

Income tax status

The Internal Revenue Service and the California Franchise Tax Board have determined that the Organization is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and the California Revenue and Taxation Code Section 23701d. The Organization has evaluated its current tax positions as of December 31, 2020 and is not aware of any significant uncertain tax positions for which a reserve would be necessary. The Organization's tax returns are generally subject to examination by federal and state taxing authorities for three and four years, respectively after they are filed.

Mercy For Animals, Inc.
Notes to Financial Statements
December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising costs

The Organization expenses advertising costs as incurred. Advertising costs for the year ended December 31, 2020 totaled \$50,388.

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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2019, from which the summarized information was derived.

Subsequent events

Subsequent events have been evaluated through September 21, 2021, 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 as of December 31, 2020.

3. INVESTMENTS

Investments consisted of the following:

Fixed income securities	\$ 6,567,449
Equities	4,402,051
Other assets	<u>572,700</u>
	<u>\$ 11,542,200</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Fixed income securities	\$ -	\$ 6,567,449	\$ -	\$ 6,567,449
Equities	4,402,051	-	-	4,402,051
Other assets	<u>572,700</u>	<u>-</u>	<u>-</u>	<u>572,700</u>
	<u>\$ 4,974,751</u>	<u>\$ 6,567,449</u>	<u>\$ -</u>	<u>\$ 11,542,200</u>

Mercy For Animals, Inc.
Notes to Financial Statements
December 31, 2020

4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

Leasehold improvements	\$ 134,284
Furniture and equipment	60,712
Computer equipment	13,417
Software	6,524
Automobiles	<u>2,494</u>
	217,431
Accumulated depreciation and amortization	<u>(185,019)</u>
	<u><u>\$ 32,412</u></u>

Depreciation and amortization expense for the year ended December 31, 2020 was \$13,134.

5. PAYCHECK PROTECTION PROGRAM LOAN

On April 6, 2020, the Organization entered into a loan agreement in the amount of \$875,239 under the Paycheck Protection Program ("PPP"). The PPP was established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") and is administered by the U.S. Small Business Administration ("SBA"). The loan accrues interest at a rate of 0.98% and matures on April 2, 2022. Payments of the principal and interest are deferred for the first ten months of the loan. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loans granted under the PPP. Such forgiveness is determined based on the use of the loan proceeds for payroll costs, rent, and utility expenses, and the maintenance of workforce and compensation levels with certain limitations. The Organization accounts for the PPP loan using the debt model and has included the PPP loan balance of \$875,239 as a note payable on the statement of financial position as of December 31, 2020.

In July 2021, the SBA notified the Organization that the Organization's PPP loan was fully forgiven.

Mercy For Animals, Inc.
Notes to Financial Statements
December 31, 2020

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Restricted for a specific purpose:	
Corporate engagement	\$ 1,301,873
Capacity building	16,620
Public engagement	1,261,819
Organizing	700,000
Investigations	21,536
Research	4,805
Other	<u>127,130</u>
	<u>\$ 3,433,783</u>

Net assets with donor restrictions released from restriction during the year were as follows:

Corporate engagement	\$ 1,390,018
Public engagement	1,133,477
Capacity building	1,050,028
Investigations	259,564
Other	<u>53,970</u>
	<u>\$ 3,887,057</u>

7. CONCENTRATIONS

During the year ended December 31, 2020, four donors accounted for approximately 34% of grant and contribution revenue. As of December 31, 2020, one donor accounted for 100% of grant and contribution receivables.

8. OPERATING LEASE COMMITMENTS

The Organization leases office space in West Hollywood, California. The lease will expire in March 2022 and requires monthly lease payments of approximately \$4,500.

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

<u>Year ending December 31,</u>	
2021	\$ 54,069
2022	<u>13,517</u>
	<u>\$ 67,586</u>

Rent expense amounted to \$79,586 for the year ended December 31, 2019.

Mercy For Animals, Inc.
Notes to Financial Statements
December 31, 2020

9. RELATED PARTY

The Organization received approximately \$31,000 in grants and contributions from members of the Board of Directors during the year ended December 31, 2020.

10. RETIREMENT PLAN

The Organization offers a voluntary pre-tax retirement benefit plan to all employees immediately upon hire. Employees who elect to contribute to the benefit plan may self-direct the investment of their deferred compensation among specific investment options via automatic payroll deduction. As of December 31, 2020, there was \$14,808 payable accrued at year end.

11. LIQUIDITY AND FUNDS AVAILABLE

The Organization has a Finance and Investment Committee that oversees the financial and liquidity position of the Organization. The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Organization has a goal to maintain financial assets, which primarily consists of cash and short-term investments, on hand to meet 9 months of normal operating expenses, which based on 2020 operating expenses is approximately \$8.5 million. During the year ended December 31, 2020, the level of liquidity and reserves was managed within the policy requirements.

The following is a quantitative disclosure which describes assets that are available within one year as of December 31, 2020 to fund general expenditures and other obligations as they become due:

Financial assets	
Cash and cash equivalents	\$ 10,708,418
Short-term investments	5,447,534
Contributions and grants receivable	<u>350,000</u>
	<u>16,505,952</u>
Less: amounts unavailable for general expenditures within one year, due to:	
Restricted for a specific purpose	<u>(3,433,783)</u>
	<u>(3,433,783)</u>
	<u>\$ 13,072,169</u>

12. RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization characterized a novel strain of coronavirus ("COVID-19") as a pandemic. Several states in the U.S., including California where the Organization is headquartered, have declared a state of emergency.

Mercy For Animals, Inc.
Notes to Financial Statements
December 31, 2020

12. RISKS AND UNCERTAINTIES (continued)

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. As a result, equity markets have experienced significant volatility. While the economic disruption is currently expected to be temporary and markets typically recover, there is considerable uncertainty around the duration of the closings and shelter in place orders and the shorter-term market volatility. It is at least reasonably possible that this matter will negatively impact the Organization. However, the financial impact and duration cannot be reasonably estimated at this time.