

ANIMAL EQUALITY
FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Animal Equality

Report on the Financial Statements

We have audited the accompanying financial statements of Animal Equality (the "Organization") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017 and 2016, and the related statements of activities, change in net assets, 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 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.

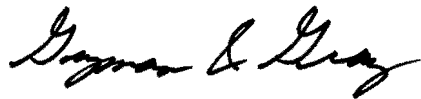
INDEPENDENT AUDITORS' REPORT (Continued)

Auditors' Responsibility (Continued)

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 the Organization as of December 31, 2017 and 2016, 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.

A handwritten signature in cursive script that reads "Guzman & Gray".

Guzman & Gray CPAs
Long Beach, CA
July 24, 2018

**ANIMAL EQUALITY
STATEMENT OF FINANCIAL POSITION**

DECEMBER 31, 2017

ASSETS

| | Unrestricted | Temporarily Restricted | Total |
|--|---------------------|-----------------------------------|--------------|
| Current Assets | | | |
| Cash and cash equivalents | \$ 600,569 | \$ 259,301 | \$ 859,870 |
| Receivables | 244,857 | | 244,857 |
| Prepaid expenses | 25,465 | | 25,465 |
| Other current assets | 14,727 | | 14,727 |
| | 885,618 | 259,301 | 1,144,919 |
| Property and Equipment, Net of Accumulated Depreciation | 163,411 | | 163,411 |
| Intangible Asset, Net | 2,982 | | 2,982 |
| TOTAL ASSETS | \$ 1,052,011 | \$ 259,301 | \$ 1,311,312 |

LIABILITIES AND NET ASSETS

| | | | |
|---|--------------|------------|--------------|
| Current Liabilities | | | |
| Accrued Expenses | \$ 30,577 | | \$ 30,577 |
| Accrued Vacation | 47,514 | | 47,514 |
| TOTAL LIABILITIES | 78,091 | | 78,091 |
| Net Assets | | | |
| Unrestricted | 973,920 | | 973,920 |
| Temporarily restricted | | \$ 259,301 | 259,301 |
| TOTAL NET ASSETS | 973,920 | 259,301 | 1,233,221 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 1,052,011 | \$ 259,301 | \$ 1,311,312 |

See Independent Auditors' Report and Accompanying Notes to Financial Statements

**ANIMAL EQUALITY
STATEMENT OF FINANCIAL POSITION**

DECEMBER 31, 2016

ASSETS

| | Unrestricted | Temporarily Restricted | Total |
|--|---------------------|-----------------------------------|-------------------|
| Current Assets | | | |
| Cash and cash equivalents | \$ 573,049 | \$ 150,336 | \$ 723,385 |
| Receivables | 190 | | 190 |
| Prepaid expenses | 11,067 | | 11,067 |
| | 584,306 | 150,336 | 734,642 |
| | | | |
| Property and Equipment, Net of Accumulated Depreciation | 148,172 | | 148,172 |
| | | | |
| Intangible Asset, Net | 3,727 | | 3,727 |
| | | | |
| TOTAL ASSETS | \$ 736,205 | \$ 150,336 | \$ 886,541 |

LIABILITIES AND NET ASSETS

| | | | |
|---|-------------------|-------------------|-------------------|
| Current Liabilities | | | |
| Accrued Expenses | \$ 13,730 | | \$ 13,730 |
| Accrued Vacation | 6,181 | | 6,181 |
| TOTAL LIABILITIES | 19,911 | | 19,911 |
| | | | |
| Net Assets | | | |
| Unrestricted | 716,294 | | 716,294 |
| Temporarily restricted | | \$ 150,336 | 150,336 |
| TOTAL NET ASSETS | 716,294 | 150,336 | 866,630 |
| | | | |
| TOTAL LIABILITIES AND NET ASSETS | \$ 736,205 | \$ 150,336 | \$ 886,541 |

See Independent Auditors' Report and Accompanying Notes to Financial Statements

**ANIMAL EQUALITY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

FOR THE YEAR ENDED DECEMBER 31, 2017

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|---------------------|
| SUPPORT AND REVENUE | | | |
| Support | | | |
| Contributions, individuals | \$ 292,983 | \$ 50,000 | \$ 342,983 |
| Special events, net of direct expenses of \$146,855 | 17,313 | | 17,313 |
| Contributions, business, foundations other organizations | 1,893,871 | 250,000 | 2,143,871 |
| Donated support | 5,844 | | 5,844 |
| Other Investment Revenue | 1,326 | | 1,326 |
| Miscellaneous income | 71 | | 71 |
| | <u>2,211,408</u> | <u>300,000</u> | <u>2,511,408</u> |
| NET ASSETS RELEASED FROM RESTRICTION | | | |
| | <u>191,035</u> | <u>(191,035)</u> | |
| TOTAL SUPPORT AND REVENUE | <u>2,402,443</u> | <u>108,965</u> | <u>2,511,408</u> |
| EXPENSES | | | |
| Program services | 1,520,465 | | 1,520,465 |
| Support services | 624,352 | | 624,352 |
| TOTAL EXPENSES | <u>2,144,817</u> | | <u>2,144,817</u> |
| CHANGE IN NET ASSETS | 257,626 | 108,965 | 366,591 |
| NET ASSETS, BEGINNING OF YEAR | <u>716,294</u> | <u>150,336</u> | <u>866,630</u> |
| NET ASSETS, END OF YEAR | <u>\$ 973,920</u> | <u>\$ 259,301</u> | <u>\$ 1,233,221</u> |

See Independent Auditors' Report and Accompanying Notes to Financial Statements

**ANIMAL EQUALITY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

FOR THE YEAR ENDED DECEMBER 31, 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-------------------|
| SUPPORT AND REVENUE | | | |
| Support | | | |
| Contributions, individuals | \$ 681,758 | | \$ 681,758 |
| Special events, net of direct expenses of \$46,752 | 16,209 | | 16,209 |
| Contributions, business, foundations other organizations | 943,104 | \$ 270,000 | 1,213,104 |
| Donated support | 2,848 | | 2,848 |
| Miscellaneous income | 7,961 | | 7,961 |
| | <u>1,651,880</u> | <u>270,000</u> | <u>1,921,880</u> |
| | | | |
| NET ASSETS RELEASED FROM RESTRICTION | <u>119,664</u> | <u>(119,664)</u> | |
| | | | |
| TOTAL SUPPORT AND REVENUE | <u>1,771,544</u> | <u>150,336</u> | <u>1,921,880</u> |
| | | | |
| EXPENSES | | | |
| Program services | 959,808 | | 959,808 |
| Support services | 237,551 | | 237,551 |
| TOTAL EXPENSES | <u>1,197,359</u> | | <u>1,197,359</u> |
| | | | |
| CHANGE IN NET ASSETS | 574,185 | 150,336 | 724,521 |
| | | | |
| NET ASSETS, BEGINNING OF YEAR | <u>142,109</u> | | <u>142,109</u> |
| | | | |
| NET ASSETS, END OF YEAR | <u>\$ 716,294</u> | <u>\$ 150,336</u> | <u>\$ 866,630</u> |

See Independent Auditors' Report and Accompanying Notes to Financial Statements

**ANIMAL EQUALITY
STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED DECEMBER 31

| | 2017 | 2016 |
|---|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 366,591 | \$ 724,521 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 26,752 | 9,334 |
| Amortization | 745 | |
| (Increase) decrease in: | | |
| Receivables | (244,667) | (190) |
| Prepaid expenses | (14,398) | (11,067) |
| Increase (decrease) in: | | |
| Accrued expenses | 16,847 | 13,730 |
| Accrued Vacation | 41,333 | 6,181 |
| | <u>193,203</u> | <u>742,509</u> |
| NET CASH FROM OPERATING ACTIVITIES | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (41,991) | (152,635) |
| Purchase of other current assets | (14,727) | |
| Purchase of intangible assets | | (3,727) |
| | <u>(56,718)</u> | <u>(156,362)</u> |
| NET CASH USED BY INVESTING ACTIVITIES | | |
| NET INCREASE IN CASH | 136,485 | 586,147 |
| CASH AT BEGINNING OF YEAR | <u>723,385</u> | <u>137,238</u> |
| CASH AT END OF YEAR | <u>\$ 859,870</u> | <u>\$ 723,385</u> |
| SUPPLEMENTAL DISCLOSURES | | |
| INTEREST PAID | <u>NONE</u> | <u>NONE</u> |
| INCOME TAXES PAID | <u>NONE</u> | <u>NONE</u> |

See Independent Auditors' Report and Accompanying Notes to Financial Statements.

ANIMAL EQUALITY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

| | Program Services | | | | | | Support Services | | | 2017 | |
|-------------------------|--------------------|-------------------|-------------------|-----------------|-------------------|------------------|---------------------|------------------------|-------------------|-------------------|---------------------|
| | Corporate Outreach | Education | iAnimal | Love Veg | Investigation | Legal Advocacy | Total Program | Management and General | Fund Raising | | Total Support |
| Wages | \$ 118,581 | \$ 187,569 | | | \$ 104,113 | \$ 15,703 | \$ 425,966 | \$ 70,393 | \$ 221,582 | \$ 291,975 | \$ 717,941 |
| Advertising | 9,330 | 98,712 | \$ 601 | | 3,003 | | 111,646 | 972 | 1,028 | 2,000 | 113,646 |
| Website design | 5,000 | 5,070 | | | 5,000 | | 15,070 | | 5,000 | 5,000 | 20,070 |
| Film expenses | | 242 | 850 | \$ 3,213 | 2,036 | | 6,341 | | | | 6,341 |
| Office supplies | 14 | 134 | 8 | | 66 | | 222 | 1,507 | 384 | 1,891 | 2,113 |
| Office expense | 150 | 472 | | | | | 622 | 1,921 | 25 | 1,946 | 2,568 |
| Rent | 20,090 | 54,225 | 359 | | 23,763 | | 98,437 | 6,415 | 10,209 | 16,624 | 115,061 |
| Telephone | 2,205 | 1,159 | | | 1,437 | | 4,801 | 1,333 | 1,749 | 3,082 | 7,883 |
| Printing | 129 | 18,700 | | | 752 | | 19,581 | 203 | 8,411 | 8,614 | 28,195 |
| Health insurance | 6,364 | 8,635 | | | 10,132 | | 25,131 | 2,521 | 9,141 | 11,662 | 36,793 |
| Donation expense | 1,183 | 2,712 | 4,139 | | 12,874 | 25,000 | 45,908 | | 1,087 | 1,087 | 46,995 |
| Payroll taxes | 9,713 | 15,111 | | | 8,690 | 1,395 | 34,909 | 4,202 | 16,302 | 20,504 | 55,413 |
| Payroll fees | 2,543 | 3,976 | | | 2,076 | 261 | 8,856 | 1,729 | 4,240 | 5,969 | 14,825 |
| Payroll state taxes | | 705 | | | | | 705 | 2,142 | | 2,142 | 2,847 |
| Professional services | 92,184 | 67,090 | 718 | | 39,149 | 8,756 | 207,897 | 68,066 | 18,949 | 87,015 | 294,912 |
| Investigations | | | | | 4,347 | | 4,347 | | | | 4,347 |
| Education expense | 50 | 3,688 | | 129 | 422 | | 4,289 | 354 | | 354 | 4,643 |
| Development | | | | | | | | | 2,959 | 2,959 | 2,959 |
| Corporate outreach | 8,413 | | | | | | 8,413 | | | | 8,413 |
| Computer and equipment | 110 | 390 | 20,256 | | 7,561 | | 28,317 | 450 | 185 | 635 | 28,952 |
| Supplies and materials | 509 | 2,210 | 12,529 | 1,586 | 3,025 | | 19,859 | 797 | 1,754 | 2,551 | 22,410 |
| Licenses | 1,350 | 1,719 | | | 2,096 | | 5,165 | 3,714 | 1,523 | 5,237 | 10,402 |
| Repairs and maintenance | | 42 | | | | | 42 | 152 | | 152 | 194 |
| Dues and subscriptions | 485 | 7,589 | 4,836 | 1,336 | 3,538 | | 17,784 | 1,666 | 4,018 | 5,684 | 23,468 |
| Postage | 2 | 20,358 | 4,484 | 300 | 573 | | 25,717 | 710 | 648 | 1,358 | 27,075 |
| Travel | 29,282 | 30,615 | 16,237 | 424 | 22,574 | 1,418 | 100,550 | 12,959 | 57,025 | 69,984 | 170,534 |
| Meals and entertainment | 3,199 | 11,135 | 10,838 | 152 | 2,591 | 2 | 27,917 | 3,987 | 7,702 | 11,689 | 39,606 |
| Bank fees | 196 | 711 | | | 561 | | 1,468 | 5,393 | 131 | 5,524 | 6,992 |
| Insurance | 1,741 | 1,741 | | | 1,741 | 2,734 | 7,957 | 3,205 | 1,741 | 4,946 | 12,903 |
| External events | | 5,495 | 8,273 | 31 | | | 13,799 | 375 | 14,551 | 14,926 | 28,725 |
| Internal events | 1,830 | 207 | | | 90 | | 2,127 | | 6,988 | 6,988 | 9,115 |
| Conferences | 1,524 | 4,450 | 25 | | 3,134 | | 9,133 | 2,148 | 5,354 | 7,502 | 16,635 |
| Grant | 63,676 | 147,013 | | | | | 210,689 | | 22,500 | 22,500 | 233,189 |
| Depreciation | | 1,008 | 17,923 | | 6,615 | 282 | 25,828 | | 924 | 924 | 26,752 |
| Foreign exchange fee | 108 | 756 | | | 108 | | 972 | 180 | 3 | 183 | 1,155 |
| Amortization | | | | | | | | 745 | | 745 | 745 |
| | <u>\$ 379,961</u> | <u>\$ 703,639</u> | <u>\$ 102,076</u> | <u>\$ 7,171</u> | <u>\$ 272,067</u> | <u>\$ 55,551</u> | <u>\$ 1,520,465</u> | <u>\$ 198,239</u> | <u>\$ 426,113</u> | <u>\$ 624,352</u> | <u>\$ 2,144,817</u> |

See Independent Auditors' Report and Accompanying Notes to Financial Statements.

ANIMAL EQUALITY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

| | Program Services | | | | Support Services | | | 2016 | |
|-------------------------|--------------------|-------------------|-------------------|-------------------|-------------------|------------------------|-------------------|-------------------|---------------------|
| | Corporate Outreach | Education | iAnimal | Investigation | Total Program | Management and General | Fund Raising | | Total Support |
| Wages | \$ 47,793 | \$ 149,821 | | \$ 32,777 | \$ 230,391 | \$ 37,926 | \$ 64,166 | \$ 102,092 | \$ 332,483 |
| Advertising | | 57,520 | \$ 3,860 | 6,000 | 67,380 | 1,702 | 3,418 | 5,120 | 72,500 |
| Office supplies | | 197 | 187 | 107 | 491 | 2,179 | 124 | 2,303 | 2,794 |
| Supplies and materials | 35 | 5,067 | 22,339 | 2,981 | 30,422 | 139 | 469 | 608 | 31,030 |
| Office expense | 300 | 756 | 28 | 1,976 | 3,060 | 3,433 | 791 | 4,224 | 7,284 |
| Rent | 6,042 | 28,156 | 58 | 13,768 | 48,024 | 4,929 | 5,079 | 10,008 | 58,032 |
| Telephone | 343 | 386 | | 18 | 747 | 439 | 220 | 659 | 1,406 |
| Printing | | 24,650 | 603 | 59 | 25,312 | 202 | 505 | 707 | 26,019 |
| Health insurance | 1,081 | 4,917 | | 3,333 | 9,331 | 1,004 | 1,286 | 2,290 | 11,621 |
| Donation expense | | 2,667 | 39,287 | 6,266 | 48,220 | 4,034 | 1,006 | 5,040 | 53,260 |
| Grant | 87,002 | 83,988 | 31,629 | 6,583 | 209,202 | | | | 209,202 |
| Payroll taxes | 4,297 | 13,625 | | 5,090 | 23,012 | 2,664 | 5,199 | 7,863 | 30,875 |
| Payroll state taxes | | | | | | 318 | | 318 | 318 |
| Payroll fees | 955 | 6,528 | | 2,298 | 9,781 | 1,153 | 1,754 | 2,907 | 12,688 |
| Professional services | 10,388 | 13,956 | 14,119 | | 38,463 | 14,483 | 5,300 | 19,783 | 58,246 |
| Bank fees | 194 | 645 | | 258 | 1,097 | 117 | 129 | 246 | 1,343 |
| Investigations | | | | 40,204 | 40,204 | | | | 40,204 |
| Education expense | | 7,070 | 659 | | 7,729 | | | | 7,729 |
| Development | | | | | | | 5,805 | 5,805 | 5,805 |
| Corporate outreach | 842 | | | | 842 | | | | 842 |
| Computer and equipment | | 283 | 15,724 | 6,872 | 22,879 | 755 | 137 | 892 | 23,771 |
| Licenses | 1,946 | 735 | 86 | 986 | 3,753 | 712 | 580 | 1,292 | 5,045 |
| Repairs and maintenance | | | | 125 | 125 | | 92 | 92 | 217 |
| Dues and subscriptions | 1,716 | 3,469 | 10 | 4,426 | 9,621 | 2,086 | 2,747 | 4,833 | 14,454 |
| Postage | | 10,638 | 2,016 | 1,205 | 13,859 | 1,923 | | 1,923 | 15,782 |
| Travel | 13,617 | 21,203 | 12,934 | 25,389 | 73,143 | | 33,532 | 33,532 | 106,675 |
| Meals and entertainment | 532 | 6,578 | 11,640 | 987 | 19,737 | 4,973 | 2,643 | 7,616 | 27,353 |
| Insurance | 83 | 1,653 | 9 | 1,401 | 3,146 | 3,120 | 892 | 4,012 | 7,158 |
| External events | | 85 | 2,633 | 95 | 2,813 | | 5,652 | 5,652 | 8,465 |
| Internal events | | | | | | | 3,531 | 3,531 | 3,531 |
| Conferences | 1,676 | 2,924 | 830 | 2,625 | 8,055 | 1,008 | 2,830 | 3,838 | 11,893 |
| Depreciation | | 428 | 6,277 | 2,264 | 8,969 | | 365 | 365 | 9,334 |
| | <u>\$ 178,842</u> | <u>\$ 447,945</u> | <u>\$ 164,928</u> | <u>\$ 168,093</u> | <u>\$ 959,808</u> | <u>\$ 89,299</u> | <u>\$ 148,252</u> | <u>\$ 237,551</u> | <u>\$ 1,197,359</u> |

See Independent Auditors' Report and Accompanying Notes to Financial Statements.

ANIMAL EQUALITY
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 and 2016

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Animal Equality, (the "Organization") a not for profit organization, was organized on November 25, 2014. Animal Equality's primary purpose is to prevent the death and suffering of animals and to create a more just world for animals, and to carry on other charitable activities associated with this purpose as allowed by law.

Basis of Accounting

The Organization uses the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting. Net assets categorized as unrestricted, temporarily restricted, or permanently restricted, a description of which is as follows:

Unrestricted net assets is utilized to record contributions, special events, fees and other forms of unrestricted revenue and expenditures related to the general operations and special events efforts of the organization that are not restricted by the donor through uses or time restrictions.

Temporarily restricted net assets are utilized to record resources received that are temporarily restricted as to use or expiration of time. Contributions whose restrictions are met in the same reporting period are recorded as unrestricted.

Use of Estimates and Assumptions

In preparing financial statements in conformity with generally accepted accounting principles (GAAP), management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period.

Cash and Cash Equivalents

The Organization considers cash on hand, demand deposits and highly-liquid investments with original maturities of three months or less.

ANIMAL EQUALITY
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 and 2016

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledge and Accounts Receivable

Pledges are recognized when legally enforceable and all conditions to the pledge have been met. Revenues earned, but not received are recorded as a receivable.

No allowance for uncollectible pledges has been established as management believes the total amount to be fully collectible within the next year.

Property and Equipment

All property and equipment are recorded at cost if purchased, and at fair market value, if donated. Depreciation is calculated on a straight-line basis. Additions and improvements that increase the capacity or lengthen the useful lives of the assets are capitalized. Repairs and maintenance are expensed as incurred. Expenses over \$50,000 must be approved by the Board of Directors per the Organization's capitalization policy.

Donated Service and Support

Donated services are reflected as donations at their estimated fair market value at the time the services are performed. Only those donated services that will otherwise be performed by salaried personnel, if donated services are not available for the organization to accomplish its purpose, are included in the financial statements. These items are reflected at their estimated fair market value at the time of receipt.

Functional Expenses

Operating expenses directly identified with a functional area are charged to that area. Expenses affecting more than one functional area are allocated to the respective areas on the basis of ratios estimated by management.

Contributions

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. All contributions are considered to be unrestricted unless specifically restricted by the donor. Any such contributions are recognized as an increase to the unrestricted restricted fund. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

ANIMAL EQUALITY
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 and 2016

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tax Status

The Organization has qualified for tax-exempt status under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d). The organization is involved in no activities that are subject to unrelated business tax. As a result, no provision for income taxes has been made. The Organization recognizes the financial statement benefit of tax positions, such as filing status of tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. The Organization is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for Federal and California state purposes is generally three and four years, respectively.

Reporting of Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through July 24, 2018, the date the financial statements were available to issue.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers.

The updated standard will replace most existing revenue recognition guidance in generally accepted accounting principles of the United States when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018.

The Organization has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

ANIMAL EQUALITY
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 and 2016

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (Continued)

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (ASU 2016-02). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months.

Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement.

The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

The Organization is currently evaluating the impact of the adoption of the new standard on the financial statements.

In August 2016, the FASB released ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958). The update amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes relate to: (a) presentation of classes of net assets, (b) the presentation of underwater endowment funds and related disclosures, (c) recognition of the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) statement of functional expense, (e) disclosure of quantitative and qualitative information regarding liquidity and availability of resources; and a few smaller items. The ASU is effective for fiscal years beginning after December 15, 2017.

The Organization is currently evaluating the impact of the adoption of the new standard on the financial statements.

ANIMAL EQUALITY
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 and 2016

NOTE 2 – PROPERTY AND EQUIPMENT, NET

Property and equipment, net, as of December 31, 2017 and 2016 is summarized as follows:

| | <u>2017</u> | <u>2016</u> |
|-------------------------------|-------------------|-------------------|
| Furniture & Fixtures | \$ 1,965 | |
| Machinery (Electronics) | 75,627 | \$ 58,117 |
| Software | 16,640 | 12,000 |
| Office Equipment | 1,261 | 2,204 |
| Films | 101,912 | 85,906 |
| Total | <u>197,405</u> | <u>158,227</u> |
| Less Accumulated Depreciation | <u>(33,994)</u> | <u>(10,055)</u> |
| Net | <u>\$ 163,411</u> | <u>\$ 148,172</u> |

Depreciation expense for the years ended December 31, 2017 and 2016, was \$26,752 and \$9,334, respectively.

NOTE 3 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets for the years ended December 31, 2017 and 2016, totaled \$259,301 and \$150,336, respectively. Temporarily restricted net assets released from restrictions during the years ended December 31, 2017 and 2016 were \$191,035 and \$119,664, respectively.

NOTE 4 – DONATED MATERIALS AND SERVICES

Donated materials and services for the years ended December 31, 2017 and 2016 is summarized as follows:

| | <u>2017</u> | <u>2016</u> |
|---------------------|-----------------|-----------------|
| Food, Gifts & Other | \$ 4,434 | |
| Services | 1,410 | \$ 2,848 |
| | <u>\$ 5,844</u> | <u>\$ 2,848</u> |

ANIMAL EQUALITY
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 and 2016

NOTE 5 – CONCENTRATION OF CREDIT RISK

The balances on deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2017 and 2016, the Center's uninsured cash balance total \$610,442 and \$473,456, respectively. Cash deposited in financial institutions differs from cash presented in the statement of financial position due to timing differences.

The Organization receives substantially all of its income from contributions. The Organization is reasonably assured that all future operations can and will be fully supported by current and future charitable contributions by individuals, businesses, and foundations.

NOTE 6 – INTANGIBLE ASSETS

Intangible assets for the years ended December 31, 2017 and 2016, relating to the iAnimal trademark is \$3,727. Amortization expense for the years ended December 31, 2017 and 2016 is \$745 and \$0, respectively. The amortizable life of the trademark is five years. The iAnimal project is a virtual reality simulation designed to give the user a unique immersive experience into the lives of farmed animals.

NOTE 7 – CONTINGENCIES

For the years ended December 31, 2017 and 2016, the Organization receives a material amount of funding from contributions in each year. The contributions have various objectives and compliance requirements. Management is satisfied that all objectives and requirements have been met.

NOTE 8 – ADVERTISING EXPENSES

Advertising expenses for the years ended December 31, 2017 and 2016 are \$113,646 and \$72,500, respectively. Expenditures for direct response advertising costs are expensed as incurred.

NOTE 9 – LEASE OBLIGATIONS

The Organization is not a party to any long-term lease commitments relating to office rental space. The Organization's headquarters are part of a shared office community wherein which the rental terms are essentially on a month-to-month basis. This shared office environment is designed to be flexible enough to allow startup organizations to expand or contract office size as needed with minimal interruption.