

**ANIMAL EQUALITY
FINANCIAL STATEMENTS**

DECEMBER 31, 2018

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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, 2018, 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, 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Guzman & Gray CPAs
Long Beach, CA
June 4, 2019

**ANIMAL EQUALITY
STATEMENT OF FINANCIAL POSITION**

DECEMBER 31, 2018

ASSETS

Current Assets	
Cash and cash equivalents	\$ 1,153,917
Receivables	122,544
Prepaid expenses	12,780
Other current assets	27,517
Total Current Assets	<u>1,316,758</u>
Property and Equipment, Net of Accumulated Depreciation	<u>141,418</u>
Intangible Asset, Net	<u>2,237</u>
TOTAL ASSETS	<u><u>\$ 1,460,413</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts Payable	\$ 7,562
Accrued Expenses	43,560
Accrued Payroll	110,426
Total Current Liabilities	<u>161,548</u>
TOTAL LIABILITIES	<u>161,548</u>
Net Assets	
Without donor restrictions	
Undesignated	1,126,485
With donor restrictions	
Purpose restrictions	172,380
TOTAL NET ASSETS	<u>1,298,865</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,460,413</u></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, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Support			
Contributions, individuals	\$ 396,440		\$ 396,440
Special events, net of direct expenses of \$99,383	43,217		43,217
Contributions, business, foundations other organizations	2,739,361	\$ 295,507	3,034,868
Other Investment Revenue	(97)		(97)
Miscellaneous income	1,028		1,028
	<u>3,179,949</u>	<u>295,507</u>	<u>3,475,456</u>
NET ASSETS RELEASED FROM RESTRICTION	<u>382,428</u>	<u>(382,428)</u>	
TOTAL SUPPORT AND REVENUE	<u>3,562,377</u>	<u>(86,921)</u>	<u>3,475,456</u>
EXPENSES			
Program services	2,373,859		2,373,859
Support services	455,950		455,950
Fundraising	580,003		580,003
TOTAL EXPENSES	<u>3,409,812</u>		<u>3,409,812</u>
CHANGE IN NET ASSETS	152,565	(86,921)	65,644
NET ASSETS, BEGINNING OF YEAR	<u>973,920</u>	<u>259,301</u>	<u>1,233,221</u>
NET ASSETS, END OF YEAR	<u>\$ 1,126,485</u>	<u>\$ 172,380</u>	<u>\$ 1,298,865</u>

See Independent Auditors' Report and Accompanying Notes to Financial Statements

ANIMAL EQUALITY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program	Management and General	Fundraising and Development	Total
Wages	\$ 578,970	\$ 163,044	\$ 287,463	\$ 1,029,477
Payroll taxes	48,366	15,493	26,011	89,870
Payroll fees	764	13,492	192	14,448
Grants	823,464			823,464
Professional services	163,127	81,439	108,114	352,680
Travel	146,730	13,447	44,619	204,796
Occupancy	61,012	32,514	23,210	116,736
Advertising	99,753		8,335	108,088
Meals and entertainment	23,332	2,914	71,114	97,360
Software	74,707	4,878	5,564	85,149
Insurance	21,983	43,319	5,789	71,091
Legislative initiatives	65,000			65,000
Health insurance	38,560	685	13,549	52,794
Office supplies	2,976	43,026	479	46,481
Conferences	25,778	772	18,210	44,760
Supplies and materials	12,379	759	21,743	34,881
Rentals	8,623		24,209	32,832
Legal	30,098	714	525	31,337
Donations	27,228		52	27,280
Bank and processing fees	1,276	17,686	5,167	24,129
Computer equipment	15,798	4,737	2,975	23,510
Telephone	13,561	3,540	5,116	22,217
Website	19,829	1,100	552	21,481
Staff development	8,152	1,638	2,252	12,042
Dues and subscriptions	9,618	545	32	10,195
Miscellaneous	350	8,566	222	9,138
Postage	3,562	135	2,638	6,335
Repairs and maintenance		1,041		1,041
License and fees	378	280	78	736
Other loss		162		162
Depreciation	47,740	24	1,175	48,939
Amortization	745			745
Total expenses by function	<u>2,373,859</u>	<u>455,950</u>	<u>679,385</u>	<u>3,509,194</u>
Less expenses included with revenues on the statement of activities				
Cost of direct benefits to donors			<u>(99,382)</u>	<u>(99,382)</u>
Total expenses included in the expense section on the statement of activities	<u>\$ 2,373,859</u>	<u>\$ 455,950</u>	<u>\$ 580,003</u>	<u>\$ 3,409,812</u>

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

**ANIMAL EQUALITY
STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED DECEMBER 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$	65,644
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation		48,939
Amortization		745
(Increase) decrease in:		
Receivables		122,312
Prepaid expenses		12,685
Other current assets		(12,790)
Increase (decrease) in:		
Accounts payable		10,276
Accrued expenses		12,983
Accrued payroll		60,198

NET CASH FROM OPERATING ACTIVITIES 320,992

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment		(26,945)
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NET CASH USED BY INVESTING ACTIVITIES (26,945)

NET INCREASE IN CASH 294,047

CASH AT BEGINNING OF YEAR 859,870

CASH AT END OF YEAR \$ 1,153,917

SUPPLEMENTAL DISCLOSURES

INTEREST PAID		<u>NONE</u>
INCOME TAXES PAID		<u><u>NONE</u></u>

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

ANIMAL EQUALITY
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

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

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor – (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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, 2018

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, 2018

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 June 4, 2019, 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.

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. We have implemented ASU 2016-14 and have adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods with no change in net assets or reclassifications.

ANIMAL EQUALITY
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

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.

NOTE 2 – PROPERTY AND EQUIPMENT, NET

Property and equipment, net, as of December 31, 2018 is summarized as follows:

Films	\$ 101,912
Machinery (Electronics)	100,346
Software	16,501
Furniture and Fixtures	3,388
Office Equipment	<u>2,204</u>
Total	224,351
Less Accumulated Depreciation	<u>(82,933)</u>
Property and Equipment, Net	<u>\$ 141,418</u>

Depreciation expense for the years ended December 31, 2018 was \$48,939.

ANIMAL EQUALITY
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

NOTE 3 – CONCENTRATION OF CREDIT RISK

The balances on deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2018, the Center's uninsured cash balance totaled \$887,534. 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 4 – INTANGIBLE ASSETS

Intangible assets for the years ended December 31, 2018, relating to the iAnimal trademark is \$3,727. Amortization expense for the year ended December 31, 2018 is \$745. 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 5 – CONTINGENCIES

For the year ended December 31, 2018, 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 6 – ADVERTISING EXPENSES

Advertising expenses for the years ended December 31, 2018 is \$108,088. Expenditures for direct response advertising costs are expensed as incurred.

ANIMAL EQUALITY
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

NOTE 7 – LEASE OBLIGATIONS

The Organization leases office space for its operations

Minimum lease payments under the terms of the lease for the five years subsequent to December 31, 2018 are as follows:

2019	\$ 201,225
2020	207,197
2021	213,520
2022	219,914
2023	226,659
Thereafter	<u>57,970</u>
	<u>\$ 1,126,485</u>

NOTE 8 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash	\$ 1,153,917
Accounts receivable	<u>122,544</u>
	1,276,461
Less temporarily restricted cash	<u>(172,380)</u>
	<u>\$ 1,104,081</u>

The Organization's board of directors review and approve a yearly budget created by management and review the liquidity and operational budget of the Organization each month.

NOTE 9 – FUNDRAISING EVENTS

The Organization conducted fundraising events to assist in funding program operations. All revenues received in excess of expenses from the events are used for the current program operations. The costs related to fundraising are included in direct expenses

ANIMAL EQUALITY
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

NOTE 9 – FUNDRAISING EVENTS (Continued)

The fundraising revenues and expenses are as follows for the year ended December 31, 2018:

	Gross Revenue	Direct Expenses	Revenue Net of Direct Expenses
Gala	\$ 142,600	\$ (99,383)	\$ 43,217