# Animal Equality
## (a Nonprofit Organization)
## Audited Financial Statements
***As of and for the Year Ended December 31, 2019***
***with Report of Independent Auditors***

An independently owned member
RSM US Alliance
RSM

Vasquez & Company LLP
Certified Public Accountants and Business Consultants

**Animal Equality**
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**(a Nonprofit Organization)**
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# Report of Independent Auditors

**To the Board of Directors**
**Animal Equality**
**(a Nonprofit Organization)**

## Report on the Financial Statements

We have audited the accompanying financial statements of Animal Equality (the Organization), which comprise the statement of financial position as of December 31, 2019, 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.

### *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.

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 Animal Equality as of December 31, 2019, 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.

Vasquez & Company LLP

**Glendale, California**
**December 9, 2020**

## ASSETS

| | | |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | $ | 1,101,274 |
| Accounts receivables | | 63,083 |
| Contributions receivable | | 109,729 |
| Inventory | | 6,971 |
| **Total current assets** | | 1,281,057 |
| **Noncurrent assets** | | |
| Property and equipment, net | | 36,397 |
| Intangible assets, net | | 63,157 |
| Security deposits | | 19,550 |
| **Total noncurrent assets** | | 119,104 |
| **Total assets** | $ | 1,400,161 |

## LIABILITIES AND NET ASSETS

| | | |
|---|---|---|
| **Current liabilities** | | |
| Accounts payable | $ | 21,748 |
| Accrued expenses | | 219,234 |
| **Total current liabilities** | | 240,982 |
| **Net assets** | | |
| Without donor restrictions | | 936,800 |
| With donor restrictions | | 222,379 |
| **Total net assets** | | 1,159,179 |
| **Total liabilities and net assets** | $ | 1,400,161 |

*See notes to financial statements.*

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **Revenues and other support** | | | |
| Foundation grants | $ 2,280,424 | $ 345,507 | $ 2,625,931 |
| Contributions | 861,336 | - | 861,336 |
| Other income | 53,860 | - | 53,860 |
| Net assets released from restrictions | 295,507 | (295,507) | - |
| **Total revenues and other support** | 3,491,127 | 50,000 | 3,541,127 |
| **Expenses** | | | |
| Program services | 2,469,048 | - | 2,469,048 |
| Management and general | 644,222 | - | 644,222 |
| Fundraising and development | 567,991 | - | 567,991 |
| **Total expenses** | 3,681,261 | - | 3,681,261 |
| **Change in net assets** | (190,134) | 50,000 | (140,134) |
| **Net assets** | | | |
| Beginning of year | 1,126,934 | 172,379 | 1,299,313 |
| End of year | $ 936,800 | $ 222,379 | $ 1,159,179 |

*See notes to financial statements.*

**Animal Equality**
**Statement of Functional Expenses**
**Year ended December 31, 2019**

| | Program Services | Management and General | Fundraising and Development | Total |
|---|---|---|---|---|
| Salary and wages | $ 685,231 | $ 316,513 | $ 305,077 | $ 1,306,821 |
| Grants | 843,994 | - | 21,960 | 865,954 |
| Occupancy | 88,574 | 57,257 | 40,048 | 185,879 |
| Travel | 134,594 | 16,915 | 33,405 | 184,914 |
| Professional services | 63,616 | 52,513 | 37,782 | 153,911 |
| Advertising | 106,103 | - | 10,491 | 116,594 |
| Software | 78,831 | 18,743 | 18,947 | 116,521 |
| Staff development | 103,699 | 8,931 | 2,749 | 115,379 |
| Payroll taxes | 56,986 | 25,573 | 25,094 | 107,653 |
| Insurance | 54,529 | 26,146 | 20,236 | 100,911 |
| Health insurance | 47,600 | 37,658 | 11,243 | 96,501 |
| Conferences | 42,763 | 2,809 | 14,955 | 60,527 |
| Legal | 15,441 | 11,573 | - | 27,014 |
| Meals and entertainment | 17,655 | 1,934 | 5,041 | 24,630 |
| Dues and subscriptions | 19,935 | 3,255 | 120 | 23,310 |
| Depreciation | 21,677 | 284 | 232 | 22,193 |
| Office supplies | 8,493 | 10,295 | 2,575 | 21,363 |
| Amortization | 21,127 | - | - | 21,127 |
| Supplies and materials | 12,258 | 26 | 5,638 | 17,922 |
| Telephone | 5,847 | 10,189 | 1,128 | 17,164 |
| Computer equipment | 11,298 | 3,799 | 465 | 15,562 |
| Payroll fees | - | 14,670 | - | 14,670 |
| Bank and processing fees | 3,412 | 1,674 | 7,867 | 12,953 |
| Rentals | 8,367 | 2,181 | 1,042 | 11,590 |
| Miscellaneous | 2,289 | 6,571 | 107 | 8,967 |
| Licenses and fees | 247 | 8,344 | -25 | 8,566 |
| Postage and delivery | 4,349 | 1,222 | 1,758 | 7,329 |
| Website | 5,712 | 758 | 56 | 6,526 |
| Repairs and maintenance | 15 | 4,012 | - | 4,027 |
| Donation | 3,627 | 72 | - | 3,699 |
| Loss on write-off of asset | 779 | - | - | 779 |
| Legislative initiatives | - | 305 | - | 305 |
| Total expenses | $ 2,469,048 | $ 644,222 | $ 567,991 | $ 3,681,261 |

*See notes to financial statements.*

| | | |
|---|---|---|
| **Cash flows from operating activities** | | |
| Change in net assets | $ | (140,134) |
| Adjustments to reconcile changes in net assets to net cash used in operating activities: | | |
| Loss on write-off of asset | | 779 |
| Depreciation and amortization | | 43,320 |
| Change in assets and liabilities: | | |
| Decrease in accounts receivables | | 58,886 |
| Increase in contributions receivables | | (109,154) |
| Increase in inventory | | (6,971) |
| Decrease in prepaid expenses and other assets | | 20,747 |
| Increase in accounts payable | | 14,186 |
| Increase in accrued expenses | | 65,248 |
| **Net cash used in operating activities** | | (53,093) |
| **Net change in cash and cash equivalents** | | (53,093) |
| **Cash and cash equivalents, beginning of year** | | 1,154,367 |
| **Cash and cash equivalents, end of year** | $ | 1,101,274 |

*See notes to financial statements.*

## NOTE 1 ORGANIZATION AND NATURE OF ACTIVITIES

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

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**
The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) which require the Organization to report information regarding its financial position an activities according to the following net asset classifications:

> *Net assets without donor restrictions:* This includes net assets not restricted by donors, even though its use may be limited in other respects, such as by contract or board designation. Net assets without donor restrictions generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.
>
> *Net assets with donor restrictions:* This includes net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. When restrictions expire, the net assets are reclassified to net assets without donor restrictions. See note 5 for net assets with donor restrictions.

**Cash and Cash Equivalents**
For purposes of the statements of cash flows, cash and cash equivalents include cash on hand and in financial institutions, and all highly liquid debt instruments with original maturities of three months or less.

**Receivables**
At December 31, 2019, the Organization's contribution receivable mostly consisted of receivables from individuals and public and private foundations and are expected to be collected within one year. Management believes that the receivables are fully collectible, accordingly, no allowance for doubtful accounts has been established.

At December 31, 2019, the Organization's accounts receivable mostly consisted of receivables from individuals and are expected to be collected within one year. Management believes that the receivables are fully collectible, accordingly, no allowance for doubtful accounts has been established.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Property and Equipment**
Property and equipment are recorded at cost at the date of purchase, or for donated assets, at fair value at the date of donation. The Organization capitalizes assets whose costs are in excess of $1,000. Depreciation is computed using the straight-line method over the asset's estimated useful lives as follows:

| | |
|---|---|
| Furniture and equipment | 5 to 15 years |

When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any resulting gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed as incurred.

**Impairment Assessment of Long-lived Assets**
The Organization reviews its long-lived assets, including property and equipment, which are held and used in its operations, for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If such an event or change in circumstances is present, the Organization will estimate the undiscounted future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the undiscounted future cash flows is less than the carrying amount of the related asset, the Organization will recognize an impairment loss and records the impairment loss in the statement of activities. At December 31, 2019, management is not aware of any events or circumstances that would impair the carrying value of its long-lived assets.

**Intangible Assets**
Intangible assets primarily represent the films developed for advertising. The intangible is measured at cost and amortized, to reflect the pattern of economic benefits consumed, on a straight-line basis over its useful life of 5 years. As of December 31, 2019, the amount of the intangible asset shown in the accompanying Statement of Financial Position is $63,157, net of accumulated amortization of $42,480.

**Revenue Recognition**

**Public Support and Revenue**
Contributions are generally available for unrestricted use in the related fiscal year unless specifically restricted by the donor. Unconditional promises to give are recorded as received. Unconditional promises to give that are due in the following year are reflected as current promises to give and are recorded at their net realizable value. Unconditional promises to give that are due in more than one year are reflected as long-term promises to give and are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts. An allowance for uncollectible promises is provided based on management's evaluation of potential uncollectible promises receivable at year end.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Revenue Recognition (Continued)**

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Certain grants require a service contract component whereby the Organization is generally not paid until services are rendered. These are considered conditional contributions and the revenue is recognized when the conditions are met, which is when the services are provided as required by the grant terms.

Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as contributions without donor restrictions.

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Conditional promises to give, that is those with a measurable performance or other barrier, and a right of return are not recognized until the conditions on which they depend have been substantially met. Conditional gifts received prior to the satisfaction of conditions are recorded as refundable deposits.

**Functional Allocation of Expenses**

The costs of program, rental and supporting 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.

The expenses that are allocated include depreciation of furniture and equipment, property liability insurance which are allocated on square footage basis as well as payroll, employee benefits, payroll taxes, interest, dues and subscriptions and other insurances, which are allocated on the basis of estimates of time and effort.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Fair Value Measurement**
Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Assets and liabilities are measured at fair value using a three-level fair value hierarchy that ranks the quality and reliability of the information used to measure fair value. The three levels of inputs used to measure fair value are as follows:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the reporting date.

Level 2: Pricing inputs are other than quoted prices in active markets included in level 1, which are either directly or indirectly observable as of the reporting date.

Level 3: Pricing inputs include significant inputs that are generally unobservable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. All assets and liabilities for which the fair value measurement is based on significant unobservable inputs or instruments which trade infrequently, and therefore, have little or no price transparency, are classified as Level 3.

The Organization's financial assets and liabilities include primarily cash and cash equivalents, receivables, accounts payable and accrued liabilities. Because of the short-term nature of the cash and cash equivalents, accounts receivable, contributions receivable, accounts payable and accrued expenses, the carrying amounts of these assets and liabilities approximate their fair value.

**Use of Estimates**
The preparation of financial statements in accordance 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.

**Income Tax Status**
The Organization was organized as a California nonprofit corporation and is recognized by the Internal Revenue Services as exempt from federal income taxes under Internal Revenue Code (IRC) Section 501(a). It is classified as an organization described in IRC Section 501(c)(3), and is not considered a private foundation.

The Organization is required to file annually a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, it is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Income Tax Status (Continued)

The Organization has evaluated its tax positions and the certainty as to whether those positions will be sustained in the event of an audit by taxing authorities at the federal and state levels. The primary tax positions evaluated relate to the Organization's continued qualification as a tax-exempt organization and whether there are unrelated business income activities that would be taxable. Management has determined that all income tax positions will more likely than not be sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required.

The Organization's income tax returns remain subject to examination for all tax years ended on or after December 31, 2016 with regard to all tax positions and results reported.

### New Accounting Pronouncement

In June 2018, FASB issued ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* ASU 2018-08 provides guidance to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this Update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or an exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This ASU was effective for fiscal years beginning after December 15, 2018. The Organization has adjusted the presentation and disclosure of the accompanying financial statements accordingly. The adoption of ASU 2018-08 did not have a significant impact on the Organization's financial statements.

## NOTE 3 FINANCIAL LIQUIDITY AND AVAILABILITY

As of December 31, 2019, the Organization's financial assets available for general expenditures consist of the following:

| | |
|---|---|
| **Financial assets** | |
| Cash and cash equivalents | $ 1,101,274 |
| Accounts receivable | 63,083 |
| Contributions receivable | 109,729 |
| | 1,274,086 |
| **Less amounts not to be used within one year:** | |
| Net assets with donor restrictions | 222,379 |
| Less: net assets with donor restrictions to be met in less than one year | (222,379) |
| | - |
| Financial assets available to meet general expenditures over the next twelve months | $ 1,274,086 |

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 operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Contributions and promises to give restricted by donors for programs that are ongoing, major, and central to the Organization's annual operations, are considered to be available to meet cash needs for general expenditures.

## NOTE 4 PROPERTY AND EQUIPMENT

At December 31, 2019, property and equipment consist of the following:

| | |
|---|---|
| Machinery | $ 99,047 |
| Computer | 18,705 |
| Furniture and Fixtures | 3,388 |
| | 121,140 |
| Less accumulated depreciation | (84,743) |
| | $ 36,397 |

Depreciation expense amounted to $22,193 for the year ended December 31, 2019.

## NOTE 5 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2019 consist of the following time restricted grants:

| | | |
|---|---|---|
| Open Philanthropy Project grant | $ | 172,379 |
| Greenbaum Foundation grant | | 50,000 |
| Total | $ | 222,379 |

## NOTE 6 RELATED PARTY TRANSACTIONS

The Organization's founders, Jose Valle and Sharon Nunez, have established entities abroad to further achieve the Organization's mission. Almost all of these entities abroad operate separately and are independent from Animal Equality based in the United States. The founders serves on the board of directors for Animal Equality Brasil, Animal Equality Germany, Animal Equality Italy, and Animal Equality United Kingdom.

The Organization sends grants to these related party entities on an annual basis as approved by the Organization's board of directors. The Organization incurred the following grant expenses during the year ended December 31, 2019.

| Entity | | Amount |
|---|---|---|
| Animal Equality Brasil | $ | 323,573 |
| Animal Equality United Kingdom | | 132,464 |
| Animal Equality Italy | | 108,849 |
| | $ | 564,886 |

## NOTE 7 CONCENTRATION OF CREDIT RISK

Financial instruments that subject the Organization to concentration of credit risk consist of cash held at various financial institutions, which from time to time, may exceed federally insured amounts of $250,000. The Organization has not experienced any losses in such accounts. As of December 31, 2019 the Organization has cash at financial institutions that exceeded the insured limit by $843,338.

## NOTE 8 SUBSEQUENT EVENTS

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies of many countries including the geographical area where the Organization operates. It is unknown how long this condition will last and what the complete financial effect will be to the Organization. Management believes that financial impact, if any, will not materially affect the December 31, 2019 financial statements.

Management has evaluated subsequent events through December 9, 2020, the date which the financial statements were available to be issued and concluded that no other material subsequent events require disclosure or adjustment to the financial statements.

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