ANIMAL OUTLOOK

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

December 31, 2019

HAN GROUP
Certified Public Accountants and Consultants

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Animal Outlook

We have audited the accompanying financial statements of Animal Outlook (the Organization), which comprise of 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 auditors' 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 auditors consider 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 Outlook 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, Animal Outlook has adopted new accounting guidance, Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU 2018-08 *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to that matter.

HAN GROUP LLC

HAN GROUP LLC
Washington, DC
November 2, 2020

ANIMAL OUTLOOK
Statement of Financial Position
December 31, 2019

Assets		
Cash and cash equivalents	$	550,047
Contributions receivable		220,680
Inventory		8,725
Investments		317,826
Deposits and prepaid expenses		8,594
Property and equipment, net		17,636
Total assets	$	1,123,508
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$	109,119
Total liabilities		109,119
Net Assets		
Without donor restrictions		925,401
With donor restrictions		88,988
Total net assets		1,014,389
Total liabilities and net assets	$	1,123,508

See accompanying notes.

ANIMAL OUTLOOK
Statement of Activities
Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions	$ 2,226,733	$ 282,778	$ 2,509,511
Investment income	30,217	-	30,217
Other income	7,049	-	7,049
Net assets released from restrictions:			
Expiration of time restrictions	100,000	(100,000)	-
Satisfaction of purpose restrictions	542,603	(542,603)	-
Total revenue and support	2,906,602	(359,825)	2,546,777
Expenses			
Program services:			
Vegetarian Outreach	1,065,164	-	1,065,164
Investigation	449,551	-	449,551
Legal Advocacy	445,335	-	445,335
Total program services	1,960,050	-	1,960,050
Supporting services:			
Management and general	172,857	-	172,857
Membership development	95,279	-	95,279
Total supporting services	268,136	-	268,136
Total expenses	2,228,186	-	2,228,186
Change in Net Assets	678,416	(359,825)	318,591
Net Assets, beginning of year	246,985	448,813	695,798
Net Assets, end of year	$ 925,401	$ 88,988	$ 1,014,389

See accompanying notes.

	Program Services				Supporting Services			
	Vegetarian Outreach	Investigations	Legal Advocacy	Total Program Services	Management and General	Membership Development	Total Supporting Services	Total
Salaries and related expenses	$ 755,117	$ 287,346	$ 95,631	$ 1,138,094	$ 142,767	$ 60,279	$ 203,046	$ 1,341,140
Legal services	-	-	306,432	306,432	-	-	-	306,432
General operating expenses	145,324	17,333	5,998	168,655	6,496	10,278	16,774	185,429
Travel and transportation	25,302	77,991	6,776	110,069	2,047	2,423	4,470	114,539
Professional services and consultants	44,173	41,532	7,099	92,804	7,394	3,122	10,516	103,320
Occupancy	49,966	17,043	13,448	80,457	9,970	12,445	22,415	102,872
Insurance	21,787	5,940	9,333	37,060	2,950	1,246	4,196	41,256
Printing, copying, postage and shipping	16,397	1,523	393	18,313	848	5,169	6,017	24,330
Media and promotion	7,098	843	225	8,166	385	317	702	8,868
Total Expenses	$ 1,065,164	$ 449,551	$ 445,335	$ 1,960,050	$ 172,857	$ 95,279	$ 268,136	$ 2,228,186

See accompanying notes.

ANIMAL OUTLOOK
Statement of Cash Flows
Year Ended December 31, 2019

Cash Flows from Operating Activities		
Change in net assets	$	318,591
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		14,275
Donated investments		(318,280)
Net realized and unrealized loss on investments		(22,947)
Change in operating assets and liabilities:		
Contributions receivable		363,076
Accounts payable and accrued expenses		6,782
Net cash provided by operating activities		361,497
Cash Flows from Investing Activities		
Purchases of property and equipment		(14,854)
Proceeds from sale of investments		104,831
Net cash provided by investing activities		89,977
Net Increase in Cash and Cash Equivalents		451,474
Cash and Cash Equivalents, beginning of year		98,573
Cash and Cash Equivalents, end of year	$	550,047

See accompanying notes.

1. Nature of Operations

Animal Outlook (The “Organization”) was incorporated in Delaware on April 8, 1997. The Organization is a national animal protection organization working to end the abuse of farmed animals using a variety of strategies, including the following programs:

• Vegetarian Outreach: The Organization promotes vegan eating among the mainstream American public through various outreach activities both in local communities as well as nationally through the Beyond the Lies touring video pay-per-view outreach program, corporate campaigns that seek to put vegan options on menus and reduce the prevalence of animal-based ingredients, and short advocacy videos online. Each year, the Organization distributes thousands of free Vegetarian Starter Guide magazines and Easy Vegan Recipe booklets, works with restaurants and food manufacturing corporations to add vegetarian options, and coordinates the popular VegWeek pledge campaign to encourage participants to eat meat, egg, and dairy-free for at least one week. The Organization also organizes the free DC VegFest event in the nation’s capital with more than 20,000 attendees

• Investigation: The Organization investigators go undercover inside factory farms and slaughter plants to document the conditions inside these facilities. This regularly includes severe animal cruelty, some of which is considered standard practices within animal agribusiness. As a result of its investigations, the Organization has garnered favorable attention in major media outlets as well as local newspapers, television news programs, and others. The Organization has completed more than 20 investigations inside the meat, egg, and dairy industries.

• Legal Advocacy: The Organization’s Legal Advocacy program was created to proactively challenging the systemic harms of animal agribusiness through litigation, criminal enforcement, and other legal advocacy. The program has repeatedly secured criminal enforcement and civil accountability for the mistreatment of animals, documented in the Organization’s undercover investigations, including the first-ever conviction for a standard industry practice. The program also conducts strategic litigation, such as uncovering and developing the initial case theory for what ultimately became a class action against most of the dairy industry for price-fixing through a cow-killing scheme, resulting in a $52M award to consumers in 2016, and in 2019, a settlement and consent decree in federal False Claims Act litigation alleging mistreatment of animals at a lamb slaughterhouse.

2. Summary of Significant Accounting Policies

<u>Basis of Accounting</u>

The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Consequently, revenue is recognized when earned and expenses are recognized when the obligation is incurred.

<u>Cash and Cash Equivalents</u>

Cash and cash equivalents include demand deposits and all highly liquid investments with initial maturities of three months or less. Excluded from this definition are cash and money market funds that are held in the investment portfolios.

2. Summary of Significant Accounting Policies (continued)

Contributions Receivable

Contributions receivable represent amounts due from the Organization's various contributors and are recorded at their net present realizable value. If an amount becomes uncollectible, it is expensed when that determination is made. The balance of contributions receivable at December 31, 2019 is expected by management to be fully collectible within one year.

Property and Equipment

Property and equipment over $500 with a projected useful life exceeding one year are capitalized and recorded at cost or fair value at date of contribution. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the lesser of their useful lives or the life of the lease.

Classification of Net Assets

- *Net Assets Without Donor Restrictions* represent funds that are not subject to donor-imposed stipulations and are available for support of the Organization's general operations.

- *Net Assets With Donor Restrictions* represent funds that are subject to donor-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. The Organization did not have any donor-imposed restrictions which are perpetual in nature at December 31, 2019.

Revenue Recognition

Contributions

Contributions without conditions are recognized upon notification of the award and are reported as support with donor restrictions if they are received with donor stipulations that limit the use of donated assets. Contributions with donor-imposed restrictions are reclassified to net assets without donor restrictions when those restrictions are met, only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and for the expiration of donor-imposed time restrictions. These reclassifications are reported on the accompanying statement of activities as net assets released from restrictions.

Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are recognized in revenue once the conditions on which they depend have been met. Amounts received in advance of the conditions being met are recorded as deferred revenue. The Organization did not have any conditional contributions at December 31, 2019.

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair market values at the date of donation.

2. Summary of Significant Accounting Policies (continued)

In-Kind Contributions

The Organization received $306,432 of donated legal services and $21,453 in donated advertising services during the year ended December 31, 2019. The donated services were used in fulfillment of the Organization's programs and supporting service activities. In-kind contributions are reflected on the accompanying statement of activities.

Advertising Costs

The costs of advertising are expensed as incurred. The Organization incurred $8,868 in advertising expenses during the year ended December 31, 2019.

Functional Allocation of Expenses

The costs of providing program and supporting services have been summarized on a functional basis in the accompanying statement of activities. The statement of functional expenses presents expenses by function and natural classification. The Organization incurs expenses that directly relate to, and can be assigned to, a specific program or supporting activity. The Organization also conducts a number of activities which benefit both its program objectives as well as supporting services. These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting services benefited based on the distribution of labor. Expenses allocated include salaries and related expenses, general operating expenses, travel and transportation, professional services and consultants, rent and related expenses, insurance, utilities, printing and copying, media and promotion, and postage and shipping.

Changes in Accounting Principles

Effective January 1, 2019, the Organization adopted Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which requires that an entity evaluate whether transactions should be accounted for as contributions or as exchange transactions and determining whether a contribution is conditional. The Organization adopted ASU 2018-08 using a modified prospective approach. The implementation of ASU 2018-08 did not have a material effect on the Organization's financial positions, results of operations, or cash flows. There was no cumulative effect of a change in accounting principle recorded related to the adoption of ASU 2018-08 on January 1, 2019.

Effective January 1, 2019, the Organization adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended. The core principle of ASU 2014-09 requires the recognition of revenue for exchange and partial exchange transactions when, or as goods or services are delivered, in the amount that reflects the consideration to which the organization is entitled in exchange for what has been delivered. The ASU requires that the Organization use the following five step process: 1) Identify exchange agreements or partial exchange agreements that create a contract; 2) Identify their performance obligations; 3) Determine the transaction price; 4) Allocate the transaction price among the performance obligations; 5) Recognize revenue at the point in time when, or over the time period during which, a performance obligation is recognized. The adoption of the ASU did not impact the change in net assets. The presentation and disclosures of revenue have been enhanced in accordance with the standards.

2. Summary of Significant Accounting Policies (continued)

Pending Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* The core principles of ASU 2016-02 change the way organizations will account for their leases by recognizing lease assets and related liabilities on the statement of financial position and disclosing key information about leasing arrangements. ASU 2016-02 is effective for non-public entities for fiscal years beginning after December 15, 2021.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets.* The core principles of ASU 2020-07 address the measurement of nonfinancial contributions and increase the transparency of contributed nonfinancial assets through enhancements to presentation and disclosure. The amendments in the update are to be applied on a retrospective basis. ASU 2020-07 is effective for non-public entities for fiscal years beginning after June 15, 2021.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2019 financial statement presentation.

3. Concentrations

The Organization's cash and cash equivalents are held in accounts at certain commercial financial institutions, which aggregate balance, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) limit or the Securities Investor Protection Corporation (SPIC) limits per depositor, per institution. The Organization has not experienced any losses to date as it relates to FDIC or SIPC insurance limits, monitors the credit worthiness of these institutions and believes that the risk of any loss is minimal.

In addition, the Organization invests funds in a professionally managed portfolio of marketable securities. Such investments are exposed to market and credit risks. Therefore, the Organization's investments may be subject to significant fluctuations in fair value. As a result, the investment balances reported in the accompanying financial statements may not be reflective of the portfolio's value during subsequent periods.

Two grantors accounted for 47% of the Organization's total income for the year ended December 31, 2019. A change in the amount or continuation of funding from these sources could have significant effect on the Organization's operations. Additionally, 73% of the Organization's contributions receivable are due from one source.

4. Investments

Investments consist of the following at December 31, 2019:

Equity funds	$	284,625
Money market funds		33,201
Total investments	$	317,826

5. Fair Value

The three levels of the fair value hierarchy for recurring fair value measurements are prioritized based on the inputs to valuation techniques used to measure fair value and are as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

- Level 2: Inputs to the valuation methodology include (1) quoted prices for similar assets or liabilities in active markets; (2) quoted prices for identical or similar assets or liabilities in inactive markets; (3) inputs other than quoted prices that are observable for the asset or liability; and (4) inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following is a summary of input levels used to determine fair values, measured on a recurring basis, of investments at December 31, 2019:

	Level 1		Total	
Equity Funds	$	284,625	$	284,625
Money market funds		33,201		33,201
Total investments at fair value	$	317,826	$	317,826

6. Property and Equipment

The Organization held the following property and equipment at December 31, 2019:

Computer equipment	$	20,724
Camera equipment		19,812
Vehicle		14,410
		54,946
Less: accumulated depreciation and amortization		(37,310)
Property and equipment, net	$	17,636

7. Liquidity and Availability of Resources

The following schedule reflects the Organization's financial assets as of December 31, 2019, reduced by amounts not available for general use within one year. All financial assets listed below are considered to be convertible to cash within one year.

Financial Assets:		
Cash and cash equivalents	$	550,047
Investments		317,826
Contributions receivable		220,680
Total financial assets		1,088,553
Less: Donor-imposed restrictions on the financial assets		(88,988)
Financial assets available to meet cash needs for general expenditures within one year	$	999,565

The Organization's policy is to structure its financial assets to become available as general expenditures, liabilities and other obligations become due, operating within a prudent range of financial soundness and stability while maintaining and monitoring reserves to provide reasonable assurance that long-term program goals will continue to be met.

8. Net Assets With Donor Restrictions

Net assets with donor restrictions were restricted for the following at December 31, 2019:

Subject to expenditures for specific purposes:		
Web advertisement	$	88,988
Total net assets with donor restrictions	$	88,988

During the year ended December 31, 2019, releases from net assets with donor restrictions were for the following:

Expiration of time restrictions	$	100,000
Satisfaction of expenditures for specific purposes:		
Investigations		414,387
Vegetarian Outreach		126,463
Web advertisement		1,753
Total net assets released from donor restrictions	$	642,603

9. Commitments and Contingencies

Leases

The Organization leases office space in Maryland. The lease term extended through July 31, 2021. The Organization is responsible for its prorated share of real estate taxes and operating expenses. The base rent increases annually based on scheduled increases provided for in the lease. Under GAAP, all rental payments, including fixed rent increases, are recognized on a straight-line basis over the term of the lease. Rent expense was $70,911 for the year ended December 31, 2019 and presented in occupancy on the accompanying statement of functional expenses.

In April 2020, the Organization entered into a new lease, with the same landlord, terminating the lease described above. The lease term extends through March 31, 2021. The Organization is responsible for its prorated share of real estate taxes and operating expenses. The Organization will pay $1,850 per month through the end of the lease.

9. Commitments and Contingencies (Continued)

At December 31, 2019, future minimum lease payments were as follows for the years ending December 31:

2020	$ 31,379
2021	5,550
Total future minimum lease payments	$ 36,929

10. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, the Organization is a nonprofit organization and is exempt from federal taxes on income other than net unrelated business income. No provision for federal or state income taxes is required for the year ended December 31, 2019, as the Organization had no taxable net unrelated business income.

The Organization follows the authoritative guidance relating to accounting for uncertainty in income taxes included in Accounting Standards Codification Topic 740-10, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. It is the Organization's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expenses.

The Organization performed an evaluation of uncertain tax positions for the year ended December 31, 2019 and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. The statute of limitations generally remains open for three tax years with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Organization files tax returns.

11. Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 2, 2020, the date the financial statements were available to be issued. There were no subsequent events that require recognition of, or disclosure in, the financial statements, other than as noted in the paragraphs below.

The Organization entered into a new lease agreement in April 2020. This is more fully described in Note 9, Commitments and Contingencies.

11. Subsequent Events (Continued)

The COVID-19 outbreak has caused disruption for nonprofit organizations and other businesses and has resulted in significant volatility in the financial markets. There have been mandated and voluntary closings of businesses including cancellations of events and meetings. The Organization's office is opened with a liberal policy for telecommuting, and coordination among staff members for hours spent in the office to maintain proper social distancing. The Organization cancelled DC VegFest with all cancellation fees waived by the venue. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of restrictions on gatherings and potential economic impacts. At this time, the potential related financial impact cannot be reasonably estimated.

The Organization also received a Paycheck Protection Program (PPP) loan of $161,147. The loan carries an interest rate of 1% and a term of 2 years, with a deferment of up to 10 months. The total of the PPP loan less the $10,000 EIDL advance has the potential to be forgiven under the provisions of the Coronavirus Aid, Relief, and Economic Security Act.