

ANIMALS ASIA FOUNDATION LIMITED

FINANCIAL STATEMENTS

December 31, 2017 and 2016



ANIMALS ASIA FOUNDATION LIMITED

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Animals Asia Foundation Limited

We have audited the accompanying financial statements of Animals Asia Foundation Limited (a nonprofit organization) (the "Foundation"), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes 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 audits. We conducted our audits 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 Animals Asia Foundation Limited as of December 31, 2017 and 2016, and changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BPM LLP

San Francisco, California
November 5, 2018

ANIMALS ASIA FOUNDATION LIMITED

STATEMENTS OF FINANCIAL POSITION

As of December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Assets:		
Cash	\$ 691,712	\$ 423,899
Accounts receivable	6,417	5,119
Contributions receivable	59,949	71,047
Prepaid expenses and other assets	3,532	4,541
Property and equipment, net	<u>1,296</u>	<u>2,560</u>
Total assets	<u>\$ 762,906</u>	<u>\$ 507,166</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 25,000	\$ 20,000
Accrued vacation	<u>23,345</u>	<u>19,030</u>
Total liabilities	<u>48,345</u>	<u>39,030</u>
Net assets:		
Unrestricted	653,753	413,541
Temporarily restricted	<u>60,808</u>	<u>54,595</u>
Total net assets	<u>714,561</u>	<u>468,136</u>
Total liabilities and net assets	<u>\$ 762,906</u>	<u>\$ 507,166</u>

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

ANIMALS ASIA FOUNDATION LIMITED

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the years ended December 31, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
Contributions	\$ 1,665,161	\$ 398,700	\$ 2,063,861	\$ 1,509,369	\$ 136,197	\$ 1,645,566
Donated services - related party	286,075	-	286,075	139,071	-	139,071
Merchandise sales	15,759	-	15,759	20,023	-	20,023
Interest and other income	676	-	676	236	-	236
Net assets released from restriction	392,487	(392,487)	-	119,602	(119,602)	-
Total support and revenue	2,360,158	6,213	2,366,371	1,788,301	16,595	1,804,896
Expenses:						
Program services	1,217,011	-	1,217,011	1,096,355	-	1,096,355
Supporting services:						
Management and general	320,761	-	320,761	298,450	-	298,450
Fundraising	582,174	-	582,174	352,788	-	352,788
Total supporting services	902,935	-	902,935	651,238	-	651,238
Total expenses	2,119,946	-	2,119,946	1,747,593	-	1,747,593
Change in net assets	240,212	6,213	246,425	40,708	16,595	57,303
Net assets, beginning of year	413,541	54,595	468,136	372,833	38,000	410,833
Net assets, end of year	\$ 653,753	\$ 60,808	\$ 714,561	\$ 413,541	\$ 54,595	\$ 468,136

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

ANIMALS ASIA FOUNDATION LIMITED
STATEMENTS OF FUNCTIONAL EXPENSES
For the years ended December 31, 2017 and 2016

	2017				2016			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Expenses:								
Grant expense	\$ 1,059,000	\$ -	\$ -	\$ 1,059,000	\$ 917,510	\$ -	\$ -	\$ 917,510
Salaries and benefits	122,267	127,822	159,029	409,118	138,749	138,308	90,293	367,350
Legal and professional fees	7,990	31,222	18,644	57,856	14,342	17,500	33,463	65,305
Advertising and promotion	-	59,983	135,290	195,273	-	42,396	103,144	145,540
Office costs	11,587	9,012	11,587	32,186	13,111	10,196	13,111	36,418
Bank charges and interest	-	-	28,445	28,445	-	-	27,699	27,699
Travel	8,548	-	12,821	21,369	7,912	-	11,868	19,780
Office rent	4,320	3,360	4,320	12,000	4,320	3,360	4,320	12,000
Merchandise costs	-	-	5,978	5,978	-	-	10,411	10,411
Depreciation	-	1,264	-	1,264	-	921	-	921
Miscellaneous	3,299	205	7,795	11,299	411	4,249	961	5,621
(Gain) loss on foreign exchange	-	83	-	83	-	(33)	-	(33)
	<u>1,217,011</u>	<u>232,951</u>	<u>383,909</u>	<u>1,833,871</u>	<u>1,096,355</u>	<u>216,897</u>	<u>295,270</u>	<u>1,608,522</u>
Donated services expenses:								
Legal and professional fees	-	87,810	198,265	286,075	-	81,553	57,518	139,071
Total expenses	<u>\$ 1,217,011</u>	<u>\$ 320,761</u>	<u>\$ 582,174</u>	<u>\$ 2,119,946</u>	<u>\$ 1,096,355</u>	<u>\$ 298,450</u>	<u>\$ 352,788</u>	<u>\$ 1,747,593</u>

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

ANIMALS ASIA FOUNDATION LIMITED

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 246,425	\$ 57,303
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	1,264	921
Changes in assets and liabilities:		
Accounts receivable	(1,298)	735
Contributions receivable	11,098	(25,290)
Prepaid expenses and other assets	1,009	(2,560)
Accounts payable and accrued expenses	5,000	2,500
Accrued vacation	4,315	(414)
	<u>267,813</u>	<u>33,195</u>
Cash provided by operating activities	267,813	33,195
Cash flows from investing activities:		
Purchase of equipment	<u>-</u>	<u>(2,088)</u>
	267,813	31,107
Increase in cash	267,813	31,107
Cash, beginning of year	<u>423,899</u>	<u>392,792</u>
Cash, end of year	<u>\$ 691,712</u>	<u>\$ 423,899</u>

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

ANIMALS ASIA FOUNDATION LIMITED

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

1. Nature of Organization

Founded in 1998, Animals Asia Foundation Limited (Animals Asia Hong Kong), incorporated in Hong Kong, promotes compassion and respect for all animals and works to bring about long-term change. Animals Asia Hong Kong works to end the barbaric bear bile trade, which sees over 10,000 bears kept on bile farms in China, and, according to official figures, about 1,200 suffering the same fate in Vietnam. In 2001, Animals Asia Foundation Limited, a California Nonprofit Public Benefit Corporation, (“Animals Asia” or the “Foundation”) was founded with the same charitable mission and the general intent to support and fund activities in China and other Asian regions through grant making. In 2015, the Foundation was considered a controlled subsidiary of Animals Asia Hong Kong as the board of the Foundation consisted of directors and officers of Animals Asia Hong Kong. In 2016, the majority of the Foundation’s board comprised of members who were independent of Animals Asia Hong Kong and therefore the Foundation is no longer considered to be a controlled entity (see Note 7).

Animals Asia Hong Kong has rescued over 600 bears, caring for them at its award-winning bear sanctuaries in China and Vietnam.

Animals Asia Hong Kong also works to end the trade in dogs and cats for food in China and Vietnam, and lobbies to improve the welfare of companion animals, promote humane population management and prevent the cross border export of “meat dogs” in Asia.

In addition, Animals Asia Hong Kong campaigns for an end to abusive animal practices in zoos and safari parks in Asia, and works closely with governing authorities to improve animal management and increase awareness of the welfare needs of captive animals.

2. Summary of Significant Accounting Policies

Basis of Accounting and 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”).

The Foundation reports information regarding its net assets and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Description of Net Assets

Unrestricted Net Assets

Unrestricted net assets consist of all resources of the Foundation that have not been restricted by a donor.

Temporarily Restricted Net Assets

Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Continued

ANIMALS ASIA FOUNDATION LIMITED

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

2. Summary of Significant Accounting Policies, continued

Description of Net Assets, continued

Permanently Restricted Net Assets

Permanently restricted net assets are net assets subject to donor-imposed stipulations that they must be maintained permanently by the donor. The Foundation did not have any permanently restricted net assets at December 31, 2017 and 2016.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Foundation considers cash all highly liquid investments with original maturities of three months or less. Cash consists of bank deposits.

Accounts Receivable

Accounts receivable consists of trade and other receivables recorded at fair value. When necessary, the Foundation recognizes an allowance for doubtful accounts based on historical collections experience. As of December 31, 2017 and 2016, all accounts receivable were deemed collectible.

Contributions and Promises to Give

Contributions receivable are recognized when an unconditional promise to give is received. All donor-restricted contributions 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. Conditional promises to give are excluded from revenue and support until the conditions are substantially met. As of December 31, 2016, there was one conditional promise to give outstanding for an amount of \$32,500 contingent upon completion of a bear house project. As of December 31, 2017, the contingency for the bear house project was met and there are no conditional promises to give outstanding.

Contributions receivable that extend beyond one year are discounted to reflect their net present value at the date of contribution. Contributions receivable of \$59,949 and \$71,047 at December 31, 2017 and 2016, respectively, are expected to be collected within one year.

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair value at the date of donation. Acquisitions of property and equipment with a useful life of more than one year are capitalized. Depreciation of equipment is done over three years and is calculated using a straight-line method of depreciation.

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ANIMALS ASIA FOUNDATION LIMITED

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

2. Summary of Significant Accounting Policies, continued

Donated Assets and Services

Noncash donations are recorded as contributions at fair value at the date of donation. Donated services are only recognized as in-kind contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. Contributions of tangible assets are reflected as contributions at their estimated fair value at date of donation and are reported as unrestricted support unless explicit donor stipulations specify how donated assets must be used. During the years ended December 31, 2017 and 2016, the Foundation recognized \$286,075 and \$139,071, respectively, in professional services (see Note 7).

Promotions and Advertising

Costs of promotions and advertising are expensed as incurred. Total promotion and advertising expenses were \$195,273 and \$145,540 for the years ended December 31, 2017 and 2016, respectively.

Merchandise Sales

The Foundation derives revenue from the sale of mission related merchandise through its website and catalog. The Foundation records sales, net of sales discounts and allowances, when all of the following have occurred: an agreement of sale exists, product delivery and acceptance has occurred and collection is reasonably assured. Product delivery is deemed to have occurred when products are shipped (i.e. FOB shipping point). Based on historical trends and experience, no allowance for sales returns is recorded for the years ended December 31, 2017 and 2016.

Income Taxes

The Internal Revenue Service has determined that the Foundation is exempt from federal income tax under Section 501(c)(3) in the Internal Revenue Code. Additionally, the California Franchise Tax Board has determined that the Foundation is exempt from California franchise and/or income tax under California Revenue and Taxation Code, Section 23701(d). However, income from activities not related to its tax-exempt purpose may be subject to taxation as unrelated business income.

Functional Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Expenses applicable to more than one program or activity have been allocated among the programs and supporting services based on usage and management estimates.

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ANIMALS ASIA FOUNDATION LIMITED

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

3. Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Computers and technology equipment	\$ 5,599	\$ 5,599
Furniture and fixtures	4,675	4,675
	<hr/>	<hr/>
Total property and equipment	10,274	10,274
Less accumulated depreciation	<u>(8,978)</u>	<u>(7,714)</u>
Property and equipment, net	<u>\$ 1,296</u>	<u>\$ 2,560</u>

Depreciation expense was \$1,264 and \$921 for the years ended December 31, 2017 and 2016, respectively.

4. Temporarily Restricted Net Assets

Temporarily restricted net assets are held for the following purposes at December 31:

	<u>2017</u>	<u>2016</u>
Asia Animals Coalition	\$ -	\$ 901
Elephant Training and Enrichment Workshop	9,608	10,000
Nanning Bear Farm	-	10,497
VET Hospital Maintenance	1,200	-
The Pool at VBRC	50,000	-
Implied time restriction on bequest	-	33,197
	<hr/>	<hr/>
Total	<u>\$ 60,808</u>	<u>\$ 54,595</u>

Net assets were released from donor restrictions as follows for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Asia for Animals Coalition	\$ 4,401	\$ 3,099
Chinese Zoos and Safari Parks Investigations	-	10,000
Dog Management Symposium	-	43,000
Nanning Bear Farm	42,997	22,003
VBRC Vet Team	-	10,000
Vietnam Elephant Initiative	-	3,500
ZSP Campaign	-	28,000
China Cetacean Alliance	5,000	-
Elephant Training and Enrichment Workshop	392	-
Vet Hospital Maintenance	6,500	-
VBRC Sanctuary	300,000	-
Implied time restriction on bequest	33,197	-
	<hr/>	<hr/>
Total	<u>\$ 392,487</u>	<u>\$ 119,602</u>

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ANIMALS ASIA FOUNDATION LIMITED

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

5. Lease Commitments

The Foundation has entered into a lease agreement for 500 square feet of office space on a month-to-month basis that requires a 60 day notice be provided to the landlord of intention to vacate. Rent expense was \$12,000 for the years ended December 31, 2017 and 2016, respectively.

6. Concentration of Credit Risk

Financial instruments that potentially expose the Foundation to concentrations of credit risk consist primarily of cash, accounts receivable, and contributions receivable. The Foundation limits its exposure to credit loss by placing its cash with a financial institution that management believes is credit worthy. Balances may periodically exceed federal deposit insurance limits.

For the year ended December 31, 2017, one donor contributed 13% of total contributions and grants. As of December 31, 2017, no donor represented greater than 10% of contributions receivable. For the year ended December 31, 2016, no donor contributed greater than 10% of total contributions and grants. As of December 31, 2016, one donor represented 44% of contributions receivable.

7. Related Party Transactions

The Foundation donates to Animals Asia affiliates in China, Vietnam and Hong Kong in the form of grants to aid animals in the region.

Additionally, in April 2016 the Foundation entered into a non-reimbursable loan agreement that allows for the services of one of the Foundation's employees to be utilized by Animals Asia Hong Kong for a two year term, subject to a one year extension, in order to assist with global marketing and fundraising efforts. The agreement states that all salary, benefits, employer taxes, and other expenses related to this employee will not be reimbursed by Animals Asia Hong Kong, therefore the total expenses are considered a grant to Animals Asia Hong Kong. This agreement was terminated in 2017.

Total grant expense to Animals Asia affiliates for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Hong Kong	\$ 859,000	\$ -
China	200,000	457,899
Vietnam	-	400,000
Staff support	-	59,611
Total	<u>\$ 1,059,000</u>	<u>\$ 917,510</u>

Animals Asia Hong Kong provides the Foundation in-kind contributions for professional services, which include finance and accounting, communications, and marketing services. During the years ended December 31, 2017 and 2016, the Foundation recognized revenue and related expense of \$286,075 and \$139,071, respectively, for contributed services received from Animals Asia Hong Kong.

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ANIMALS ASIA FOUNDATION LIMITED

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

8. Subsequent Events

The Foundation evaluated subsequent events for recognition and disclosure through November 5, 2018, the date these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since December 31, 2017 that require recognition or disclosure in such financial statements.