

**Farm Sanctuary, Inc. and Subsidiary**

Consolidated Financial Statements

December 31, 2017 and 2016



## TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1
Consolidated Statements of Financial Position	2 - 3
Consolidated Statements of Activities	4 - 5
Consolidated Statements of Functional Expenses	6 - 7
Consolidated Statements of Cash Flows	8 - 9
Notes to Consolidated Financial Statements	10 - 26
Supplementary Information	
Consolidating Statement of Financial Position	29 - 30
Consolidating Statement of Activities	31



## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Farm Sanctuary, Inc. and Subsidiary  
Watkins Glen, New York

We have audited the accompanying consolidated financial statements of Farm Sanctuary, Inc. and Subsidiary (the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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, based on our audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Farm Sanctuary, Inc. and Subsidiary as of December 31, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Prior Period Financial Statements**

The consolidated financial statements of Farm Sanctuary, Inc. and Subsidiary as of December 31, 2016, were audited by other auditors whose report dated June 7, 2017, expressed an unmodified opinion on those statements.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino<sup>LLP</sup>  
Los Angeles, California

June 14, 2018

Farm Sanctuary, Inc. and Subsidiary  
Consolidated Statements of Financial Position  
December 31, 2017 and 2016

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,497,848	\$ 2,466,958
Credit card receivables	561,335	390,420
Investments	2,020,151	1,653,278
Other receivables	34,270	114,441
Unconditional promises to give	1,661,875	2,017,139
Merchandise inventory	171,135	89,018
Prepaid expenses and other current assets	196,012	139,859
Property held for sale	-	2,390,000
Total current assets	7,142,626	9,261,113
Non current assets		
Investments	17,688,560	14,156,535
Unconditional promises to give	494,350	-
Cash restricted for noncurrent purposes	18,075	16,852
Deposits	29,495	7,457
Property and equipment, net	6,651,339	5,283,823
Total non current assets	24,881,819	19,464,667
Total assets	\$ 32,024,445	\$ 28,725,780

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

Farm Sanctuary, Inc. and Subsidiary  
Consolidated Statements of Financial Position  
December 31, 2017 and 2016

	2017	2016
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 212,711	\$ 225,381
Accrued expenses and other current liabilities	675,170	581,546
Charitable gift annuity gift obligations	7,751	6,611
Deferred revenue	27,404	29,042
Total current liabilities	923,036	842,580
Charitable gift annuity obligations	34,755	25,020
Total liabilities	957,791	867,600
Commitments (Notes 12 and 14)		
Net assets		
Unrestricted		
Undesignated	11,025,252	10,909,274
Board-designated	18,342,838	15,259,031
Total unrestricted	29,368,090	26,168,305
Temporarily restricted	1,698,564	1,689,875
Total net assets	31,066,654	27,858,180
Total liabilities and net assets	\$ 32,024,445	\$ 28,725,780

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

Farm Sanctuary, Inc. and Subsidiary  
Consolidated Statement of Activities  
For the Year Ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support, revenue, and other changes in net assets			
Public support			
Grants and contributions	\$ 7,795,803	\$ 962,610	\$ 8,758,413
Bequests	1,688,736	-	1,688,736
Charitable gift annuities	-	9,304	9,304
Special events net of \$46,901 of direct costs	106,396	-	106,396
Capital campaign	-	1,921,171	1,921,171
Net assets released from restrictions	<u>2,884,396</u>	<u>(2,884,396)</u>	<u>-</u>
Total public support	<u>12,475,331</u>	<u>8,689</u>	<u>12,484,020</u>
Revenue and investment returns			
Merchandise sales, net of cost of goods sold of \$259,305	227,746	-	227,746
Visitor programs and events	446,960	-	446,960
Interest and dividends	565,614	-	565,614
Net gain on fair value of investments	1,834,040	-	1,834,040
Change in value of charitable gift annuity obligations	(9,389)	-	(9,389)
Other revenue	<u>76,336</u>	<u>-</u>	<u>76,336</u>
Total revenue and investment returns	<u>3,141,307</u>	<u>-</u>	<u>3,141,307</u>
Realized loss on property held for sale (Note 6)	<u>(776,922)</u>	<u>-</u>	<u>(776,922)</u>
Total public support, revenue, and other changes in net assets	<u>14,839,716</u>	<u>8,689</u>	<u>14,848,405</u>
Functional expenses			
Program services	8,355,225	-	8,355,225
Management and general	1,329,425	-	1,329,425
Fundraising	<u>1,955,281</u>	<u>-</u>	<u>1,955,281</u>
Total functional expenses	<u>11,639,931</u>	<u>-</u>	<u>11,639,931</u>
Change in net assets	3,199,785	8,689	3,208,474
Net assets, beginning of year	<u>26,168,305</u>	<u>1,689,875</u>	<u>27,858,180</u>
Net assets, end of year	<u>\$ 29,368,090</u>	<u>\$ 1,698,564</u>	<u>\$ 31,066,654</u>

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

Farm Sanctuary, Inc. and Subsidiary  
Consolidated Statement of Activities  
For the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support, revenue, and other changes in net assets			
Public support			
Grants and contributions	\$ 8,184,589	\$ 959,850	\$ 9,144,439
Bequests	3,584,898	1,380,125	4,965,023
Charitable gift annuities	-	53,323	53,323
Special events, net of \$223,039 of direct costs	622,483	-	622,483
Net assets released from restrictions	<u>1,153,126</u>	<u>(1,153,126)</u>	<u>-</u>
Total public support	<u>13,545,096</u>	<u>1,240,172</u>	<u>14,785,268</u>
Revenue and investment returns			
Merchandise sales, net of cost of good sold of \$264,546	222,398	-	222,398
Visitor programs and events	314,459	-	314,459
Interest and dividends	344,886	-	344,886
Net gain on fair value of investments	434,032	-	434,032
Change in value of charitable gift annuity obligations	(432)	-	(432)
Other revenue	<u>62,337</u>	<u>-</u>	<u>62,337</u>
Total revenue and investment returns	<u>1,377,680</u>	<u>-</u>	<u>1,377,680</u>
Impairment loss on property held for sale (Note 6)	<u>(923,422)</u>	<u>-</u>	<u>(923,422)</u>
Total public support, revenue, and other changes in net assets	<u>13,999,354</u>	<u>1,240,172</u>	<u>15,239,526</u>
Functional expenses			
Program services	7,904,997	-	7,904,997
Management and general	1,188,483	-	1,188,483
Fundraising	<u>1,831,019</u>	<u>-</u>	<u>1,831,019</u>
Total functional expenses	<u>10,924,499</u>	<u>-</u>	<u>10,924,499</u>
Change in net assets	3,074,855	1,240,172	4,315,027
Net assets, beginning of year	<u>23,093,450</u>	<u>449,703</u>	<u>23,543,153</u>
Net assets, end of year	<u>\$ 26,168,305</u>	<u>\$ 1,689,875</u>	<u>\$ 27,858,180</u>

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

Farm Sanctuary, Inc. and Subsidiary  
Consolidated Statement of Functional Expenses  
For the Year Ended December 31, 2017

	Program Services			Support Services			
	Rescue, Shelter and Adoption	Education and Outreach	Advocacy and Action	Total Program Services	Management and General	Fundraising	Total
Salaries and related expenses							
Salaries and wages	\$ 1,661,907	\$ 1,435,430	\$ 297,063	\$ 3,394,400	\$ 641,587	\$ 567,378	\$ 4,603,365
Payroll taxes	138,540	113,934	22,923	275,397	48,338	44,860	368,595
Employee benefits	233,073	173,498	33,654	440,225	77,281	67,086	584,592
Workers' compensation insurance	<u>186,881</u>	<u>53,988</u>	<u>4,669</u>	<u>245,538</u>	<u>10,395</u>	<u>6,310</u>	<u>262,243</u>
Total salaries and related expenses	2,220,401	1,776,850	358,309	4,355,560	777,601	685,634	5,818,795
Advertising and public engagement	939	111,635	33,130	145,704	-	10,350	156,054
Animal care and rehabilitation	1,042,576	-	-	1,042,576	-	-	1,042,576
Bank charges and other fees	-	-	-	-	178,011	-	178,011
Depreciation	307,495	67,649	7,687	382,831	1,153	384	384,368
Dues and subscriptions	2,445	3,446	497	6,388	3,896	3,580	13,864
Employee recruiting, retention, and training	13,657	11,098	1,933	26,688	5,830	3,087	35,605
Equipment and supplies	87,450	38,603	2,540	128,593	5,732	15,134	149,459
Grants	5,000	3,040	-	8,040	50	-	8,090
Insurance	91,299	44,537	5,938	141,774	5,196	1,485	148,455
Miscellaneous	-	2,524	-	2,524	225	16,982	19,731
Postage and processing	9,146	68,501	291,294	368,941	61,103	598,273	1,028,317
Printing	942	103,883	102,917	207,742	27,257	231,095	466,094
Professional and other outside services	58,340	136,172	101,178	295,690	118,367	252,401	666,458
Rent	13,841	33,662	8,790	56,293	18,096	15,036	89,425
Repairs and maintenance	211,001	29,638	793	241,432	5,712	1,126	248,270
Taxes and licenses	63,320	17,311	661	81,292	18,158	1,647	101,097
Technology and communications	36,825	210,429	55,748	303,002	68,318	86,140	457,460
Travel and meals	112,127	93,782	23,998	229,907	29,651	31,369	290,927
Utilities	154,035	31,765	1,257	187,057	5,069	1,558	193,684
Visitor programs and events	<u>-</u>	<u>126,239</u>	<u>16,952</u>	<u>143,191</u>	<u>-</u>	<u>-</u>	<u>143,191</u>
	<u>\$ 4,430,839</u>	<u>\$ 2,910,764</u>	<u>\$ 1,013,622</u>	<u>\$ 8,355,225</u>	<u>\$ 1,329,425</u>	<u>\$ 1,955,281</u>	<u>\$ 11,639,931</u>

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



Farm Sanctuary, Inc. and Subsidiary  
Consolidated Statement of Functional Expenses  
For the Year Ended December 31, 2016

	Program Services			Support Services			
	Rescue, Shelter and Adoption	Education and Outreach	Advocacy and Action	Total Program Services	Management and General	Fundraising	Total
Salaries and related expenses							
Salaries and wages	\$ 1,537,127	\$ 1,427,291	\$ 207,463	\$ 3,171,881	\$ 489,672	\$ 471,345	\$ 4,132,898
Payroll taxes	131,781	112,320	15,526	259,627	32,164	36,527	328,318
Employee benefits	217,004	153,191	22,319	392,514	51,023	49,084	492,621
Workers' compensation insurance	<u>159,182</u>	<u>43,107</u>	<u>2,124</u>	<u>204,413</u>	<u>6,658</u>	<u>3,842</u>	<u>214,913</u>
Total salaries and related expenses	2,045,094	1,735,909	247,432	4,028,435	579,517	560,798	5,168,750
Advertising and public engagement	-	69,673	31,351	101,024	-	-	101,024
Animal care and rehabilitation	892,297	-	-	892,297	-	-	892,297
Bank charges and other fees	-	-	-	-	201,611	-	201,611
Depreciation	263,716	145,815	4,166	413,697	2,500	417	416,614
Dues and subscriptions	1,733	2,691	335	4,759	2,982	447	8,188
Employee recruiting, retention, and training	8,063	7,227	1,116	16,406	2,399	2,593	21,398
Equipment and supplies	64,141	76,743	8,198	149,082	9,986	14,808	173,876
Insurance	76,142	42,101	1,203	119,446	722	120	120,288
Miscellaneous	-	4,372	588	4,960	2,157	6,001	13,118
Postage and processing	6,110	397,149	44,470	447,729	17,241	484,823	949,793
Printing	1,051	200,188	21,793	223,032	9,021	201,288	433,341
Professional and other outside services	123,385	272,612	128,211	524,208	248,617	418,280	1,191,105
Rent	13,692	34,774	6,789	55,255	12,559	17,821	85,635
Repairs and maintenance	142,432	47,923	1,114	191,469	11,234	2,302	205,005
Taxes and licenses	50,743	7,808	74	58,625	12,036	6,516	77,177
Technology and communications	77,934	164,184	25,182	267,300	46,176	83,418	396,894
Travel and meals	85,738	83,526	21,807	191,071	23,525	29,504	244,100
Utilities	109,216	30,376	670	140,262	6,200	1,883	148,345
Visitor programs and events	<u>-</u>	<u>70,670</u>	<u>5,270</u>	<u>75,940</u>	<u>-</u>	<u>-</u>	<u>75,940</u>
	<u>\$ 3,961,487</u>	<u>\$ 3,393,741</u>	<u>\$ 549,769</u>	<u>\$ 7,904,997</u>	<u>\$ 1,188,483</u>	<u>\$ 1,831,019</u>	<u>\$ 10,924,499</u>

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

Farm Sanctuary, Inc. and Subsidiary  
Consolidated Statements of Cash Flows  
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Cash received from contributions	\$ 11,525,908	\$ 12,954,059
Cash received from sale of goods and services	983,260	842,140
Cash received from investment income	563,224	341,079
Cash received from other income	13,449	23,925
Cash paid to suppliers and employees	(11,595,927)	(11,089,084)
Cash paid to grantees	(8,090)	-
Cash paid for interest	(107)	(7,765)
Net cash provided by operating activities	1,481,717	3,064,354
Cash flows from investing activities		
Proceeds from sale of investments	4,012,275	5,859,195
Purchases of investments	(5,794,426)	(7,724,848)
Proceeds from sale of property and equipment	1,625,078	676,469
Purchases of property and equipment	(1,594,672)	(1,511,462)
Proceeds from use of cash restricted for noncurrent purposes	300,918	87,972
Purchases of cash restricted for noncurrent purposes	(302,141)	(80,207)
Net cash used in investing activities	(1,752,968)	(2,692,881)
Cash flows from financing activities		
Contributions restricted for noncurrent purposes	302,141	80,207
Payments to revolving line of credit	-	(870,994)
Net cash provided by (used in) financing activities	302,141	(790,787)
Net increase (decrease) in cash and cash equivalents	30,890	(419,314)
Cash and cash equivalents, beginning of year	2,466,958	2,886,272
Cash and cash equivalents, end of year	\$ 2,497,848	\$ 2,466,958

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

Farm Sanctuary, Inc. and Subsidiary  
Consolidated 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	\$ 3,208,474	\$ 4,315,027
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Amortization of discount on unconditional promises to give	(22,938)	-
Depreciation	384,368	416,614
Loss (gain) on sale of property and equipment	764,922	(2,871)
Impairment loss on property held for sale	-	923,422
Gain on change in fair value of investments	(1,975,111)	(522,124)
Change in value of charitable gift annuity liabilities	9,389	432
Contributions restricted for noncurrent purposes	(302,141)	(80,207)
Donations of investments	(141,636)	(152,244)
Donations of property and equipment	-	(31,065)
Changes in operating assets and liabilities		
Credit card receivables	(170,915)	(390,419)
Other receivables	80,171	(90,197)
Unconditional promises to give	(116,148)	(1,392,998)
Merchandise inventory	(82,117)	(24,624)
Prepaid expenses and other current assets	(56,153)	(22,699)
Deposits	(22,038)	13,743
Accounts payable	(35,103)	(85,499)
Accrued expenses and other current liabilities	(41,155)	162,148
Charitable gift annuity obligations	1,486	31,199
Deferred revenue	(1,638)	(3,284)
Net cash provided by operating activities	<u>1,481,717</u>	<u>3,064,354</u>

Supplemental schedule of noncash investing and financing activities

Donations of investments	\$ 141,636	\$ 152,244
Donation of property and equipment	\$ -	\$ 31,065

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

Farm Sanctuary, Inc. and Subsidiary  
Notes to Consolidated Financial Statements  
December 31, 2017 and 2016

1. NATURE OF OPERATIONS

Farm Sanctuary, Inc ("Farm Sanctuary" or "Organization") was organized in Delaware in 1986 as a not-for-profit, non-stock corporation. Farm Sanctuary provides rescue and care for abused and neglected farm animals and provides adoption service and information on farm and animal care, educates and disseminates information on farm and animal issues, assists authorities in farm animal cruelty cases, and monitors legislative action, working with legislators on federal and state bills. Farm Sanctuary is supported primarily through donor contributions and grants.

The mission of Farm Sanctuary is to protect farm animals from cruelty, inspire change in the way society views and treats farm animals, and promote compassionate vegan living.

As of December 31, 2017, Farm Sanctuary has operations in Watkins Glen, New York; Orland, California; Acton, California; and Colts Neck, New Jersey. The Organization's corporate headquarters is located at its Watkins Glen, New York sanctuary. In addition, the Organization leases offices in Los Angeles, California, which are used by program, administrative, and fundraising staff.

In 2011 Farm Sanctuary, LLC ("Limited Liability Corporation" or "LLC") was formed for the purposes of holding title to property that was transferred to Farm Sanctuary. Farm Sanctuary, LLC is a single member LLC and Farm Sanctuary being its single member.

The following programs promote the Organization's mission:

*Rescue, Shelter and Adoption*

Farm Sanctuary provides rescue, rehabilitation, and care for abused and neglected farm animals, as well as offers services involving adoptions, animal placement assistance, and animal care information.

*Education and Outreach*

Farm Sanctuary conducts programs and disseminates literature and information to educate the public about farm animal issues. These programs include farm tours, education centers, conferences, speaking events, volunteer and internship programs for hands-on experience, community outreach events, and the *Cultivating Compassion* in-classroom Humane Education program. The Organization has also increased its use of social media channels and the use of virtual experiences to allow supporters and prospective supporters to experience the sanctuaries, hear the message, and hopefully be inspired to assist us in carrying out its mission.

*Advocacy and Action*

Farm Sanctuary reaches out to consumers, businesses, and communities to encourage them to consider farm animal issues in their decision-making processes. In addition, the Organization monitors federal and state legislation, informs the public on legislation and issues involving farm animals, and works through legislative and other political and grassroots processes to provide a voice for farm animals and advance our mission.

Farm Sanctuary, Inc. and Subsidiary  
Notes to Consolidated Financial Statements  
December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Organization's consolidated financial statements include the accounts of Farm Sanctuary and the LLC. There were no material intercompany transactions to be eliminated in the consolidation.

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- *Unrestricted net assets* - Net assets that are not subject to donor-imposed restrictions, or donor-restricted contributions whose restrictions are met within the same reporting period.
- *Temporarily restricted net assets* - Net assets that are subject to donor-imposed time or use restrictions that have not been met as of yearend. Temporarily restricted net assets are restricted for time (e.g. multi-year unconditional promises to give) or specific purposes.
- *Permanently restricted net assets* - Net assets subject to donor-imposed restrictions that are maintained in perpetuity. There were no permanently restricted net assets as of December 31, 2017 and 2016.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand or in demand deposit accounts and highly liquid investments purchased with an original maturity date of three months or less. Cash and cash equivalents managed by the Organization's investment advisors are included in noncurrent investments except those which are available to support current operating needs. Cash and cash equivalents do not include cash restricted by donors for noncurrent purposes.

Credit card receivables

Credit card receivables consist of amounts due from merchant account providers ("Providers") during the period in which the Providers process credit card payments made by the Organization's donors and customers. Generally, credit card receivables are remitted to Farm Sanctuary within two to fifteen days after a credit card sale or donation is made. Substantially all credit card receivables at December 31, 2017 and 2016 were attributable to donations. Chargebacks related to credit card receivables were inconsequential as of December 31, 2017 and 2016; accordingly, no allowance for credit card receivable chargebacks has been established.

Farm Sanctuary, Inc. and Subsidiary  
Notes to Consolidated Financial Statements  
December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments consist of certificates of deposit with original maturities greater than three months, U.S. Treasury notes, U.S. savings bonds, corporate bonds, mutual funds, and equities and are carried at fair value. The Organization reports its investments as both current and non-current classifications on the consolidated statement of financial position. The Organization reports those investments as current which management intends to liquidate during the current year to assist in funding the current year's operations.

Merchandise inventory

Inventory, consisting of goods available for resale in Farm Sanctuary's retail and online stores, is stated at the lower of cost (first-in, first-out) or market. Management does not believe that any inventory is impaired to the extent that its resale value is below cost; accordingly, an inventory reserve was not recorded at December 31, 2017 and 2016.

Property and equipment

All acquisitions of property and equipment and all expenditures for betterments and improvements costing \$2,000 or more that materially prolong (one year or greater) the useful lives of assets are capitalized. Property and equipment are recorded at historical cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the asset's economic useful life which ranges from three to thirty-nine years.

Upon disposition, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in the consolidated statement of activities for the year.

Expenditures for maintenance, repairs, and renewals of minor items are charged to expense as incurred.

Contributions and unconditional promises to give

The Organization accounts for contributions in accordance with U.S. GAAP. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Farm Sanctuary, Inc. and Subsidiary  
Notes to Consolidated Financial Statements  
December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated assets

Donated marketable securities and other noncash donations are recorded as contributions at estimated fair value at the date of donation. During the years ended December 31, 2017 and 2016, the Organization received donated marketable securities valued at \$141,636 and \$152,244, respectively. In addition, the Organization received donations of goods - including animal feed and supplies and certain property and equipment - valued at \$84,156 and \$131,457 during the years ended December 31, 2017 and 2016, respectively.

Donated services

A substantial number of volunteers have donated significant amounts of time, services, and materials on the Organization's behalf. The value of this contributed time and services has not been reflected in the financial statements, in as much as they do not meet the criteria for recognition under U.S. GAAP.

Donated services are recorded as contributions and various functional expense categories in accordance with U.S. GAAP if the services (a) create or enhance non-financial assets or (b) required specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. In 2017 and 2016, \$147,642 and \$166,734 in donated services were reported, respectively.

Functional expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services in reasonable ratios determined by management.

Advertising costs

Advertising costs are charged to operations when incurred and are included in the consolidated statements of functional expenses.

Income tax status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(a) and has been classified as an Organization other than a private foundation under Section 590(a)(2). The LLC is subject to an annual revenue fee based on gross receipts ("LLC Fee") payable to the California Franchise Tax Board.

Farm Sanctuary, Inc. and Subsidiary  
Notes to Consolidated Financial Statements  
December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax status (continued)

The Organization accounts for any uncertainties in income taxes recognized in accordance with FASB Accounting Standards Codification 740-10 "Income Taxes." ASC 740-10 prescribes that the Organization recognize the impact of tax positions that are more likely than not (>50%) to be sustained upon examination based on the technical merits of the position. In accordance with ASC 740-10, the Organization adopted a policy to recognize penalties and interest resulting from those uncertainties in the period in which they are incurred as operating expenses.

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 are related to the Organization's continued qualification as a tax-exempt Organization and whether there is unrelated business income activities conducted that would be taxable. Management has determined that all income tax positions are more likely than not (>50%) of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required.

The Organization files a federal information tax return as well as information tax returns in various State jurisdictions. With few exceptions, the Organization is no longer subject to U.S. Federal and State examinations by tax authorities for years before 2014 and 2013, respectively.

The Organization has been notified by the State of California ("California") that the LLC is not in good standing with the state due to the non-filing of LLC tax returns. The Organization is working with the State of California to obtain exempt status for the LLC and is requesting a waiver of any fees, interest, and/or penalties that may be due to California. At this time, the amount of fees, interest, and/or penalties that may be due to California cannot be determined.

Subsequent events

The Organization has evaluated events subsequent to December 31, 2017, to assess the need for potential recognition or disclosure in the consolidated financial statements. Such events were evaluated through June 14, 2018, the date the consolidated financial statements were available to be issued. Based upon this evaluation, it was determined no subsequent events occurred that require recognition or additional disclosure in the consolidated financial statements.

3. CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances at several financial institutions. From time to time, the Organization may have bank deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits.



Farm Sanctuary, Inc. and Subsidiary  
Notes to Consolidated Financial Statements  
December 31, 2017 and 2016

4. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of funds committed by various donors during the year. These funds are expected to be received as follows:

	2017	2016
Receivable in one year or less	\$ 1,661,875	\$ 2,017,139
Receivable greater than one year	<u>523,000</u>	<u>-</u>
	2,184,875	2,017,139
Discount on unconditional promises	<u>(28,650)</u>	<u>-</u>
	<u><u>\$ 2,156,225</u></u>	<u><u>\$ 2,017,139</u></u>

Unconditional promises to give receivable in more than one year are discounted at 2.5%.

Included within unconditional promises to give at December 31, 2017 and 2016 is \$606,867 and \$587,264 of unrestricted contributions that were collected shortly after the subsequent year-end and were intended to be used in 2017 and 2016, respectively. Accordingly, the Organization has not included these amounts of unconditional promises to give within temporarily restricted net assets.

5. FAIR VALUE MEASUREMENTS

Accounting principles generally accepted in the United States establishes a framework for measuring fair value. That framework establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GAAP 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:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs derived principally from or corroborated 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.

Farm Sanctuary, Inc. and Subsidiary  
Notes to Consolidated Financial Statements  
December 31, 2017 and 2016

5. FAIR VALUE MEASUREMENTS (continued)

*Level 3* - The Organization's own assumptions about market participation, including assumptions about risk, developed based on the best information available in the circumstances.

The fair value measurement Level 3 within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the Organization's investments from its investment portfolio and properties held for sale, at fair value as of December 31:

	2017			
	Level 1	Level 2	Level 3	Fair Value
<b>Investments</b>				
Cash held for reinvestment	\$ 990,933	\$ -	\$ -	\$ 990,933
Government and agency securities	1,688,918	13,648	-	1,702,566
Corporate bonds and notes	-	882,200	-	882,200
Exchange-traded and mutual funds - fixed income	4,663,360	-	-	4,663,360
Exchange-traded and mutual funds - equities	7,267,347	-	-	7,267,347
Common / preferred equities	4,202,305	-	-	4,202,305
	<u>\$ 18,812,863</u>	<u>\$ 895,848</u>	<u>\$ -</u>	<u>\$ 19,708,711</u>
	2016			
	Level 1	Level 2	Level 3	Fair Value
<b>Investments</b>				
Cash held for reinvestment	\$ 552,149	\$ -	\$ -	\$ 552,149
Government and agency securities	1,565,244	13,648	-	1,578,892
Corporate bonds and notes	-	749,207	-	749,207
Exchange-traded and mutual funds - fixed income	3,900,741	-	-	3,900,741
Exchange-traded and mutual funds - equities	6,039,365	-	-	6,039,365
Common / preferred equities	2,989,459	-	-	2,989,459
	15,046,958	762,855	-	15,809,813
<b>Property held for sale</b>				
Bouquet Canyon, California	-	2,390,000	-	2,390,000
	<u>\$ 15,046,958</u>	<u>\$ 3,152,855</u>	<u>\$ -</u>	<u>\$ 18,199,813</u>

Farm Sanctuary, Inc. and Subsidiary  
Notes to Consolidated Financial Statements  
December 31, 2017 and 2016

6. PROPERTY AND EQUIPMENT (INCLUDING PROPERTY HELD FOR SALE)

Property and equipment consisted of the following at December 31:

Assets	2017		
	Cost	Accumulated Depreciation	Book Value
Land	\$ 1,028,011	\$ -	\$ 1,028,011
Land improvements	449,326	158,795	290,531
Fencing	435,847	291,378	144,469
Buildings and improvements	5,958,518	2,078,791	3,879,727
Leasehold improvements	472,739	2,608	470,131
Furniture, fixtures, and equipment	1,344,743	970,782	373,961
Vehicles	624,862	469,244	155,618
Software	92,718	92,718	-
Construction in progress	308,891	-	308,891
	<u>\$ 10,715,655</u>	<u>\$ 4,064,316</u>	<u>\$ 6,651,339</u>
Assets	2016		
	Cost	Accumulated Depreciation	Book Value
Land	\$ 619,926	\$ -	\$ 619,926
Land improvements	389,709	137,060	252,649
Fencing	335,888	264,619	71,269
Buildings and improvements	5,593,708	1,901,847	3,691,861
Furniture, fixtures, and equipment	1,240,361	916,234	324,127
Vehicles	569,575	392,370	177,205
Software	92,718	92,718	-
Construction in progress	146,786	-	146,786
	<u>\$ 8,988,671</u>	<u>\$ 3,704,848</u>	<u>\$ 5,283,823</u>

Depreciation expense for the years ended December 31, 2017 and 2016 amounted to \$384,368 and \$416,614, respectively.

During the year ended December 31, 2015, the Board of Directors approved a vote to dispose of the Bouquet Canyon land and building ("Bouquet Property" or "Bouquet") acquired via sale. The Bouquet Property was acquired at the end of 2013, and had an original cost basis of \$3,168,311.

This property is reported as a "Property held for sale", a current asset, in the consolidated statements of financial position at December 31, 2016.

Farm Sanctuary, Inc. and Subsidiary  
Notes to Consolidated Financial Statements  
December 31, 2017 and 2016

6. PROPERTY AND EQUIPMENT (INCLUDING PROPERTY HELD FOR SALE) (continued)

During the year ended December 31, 2015, the Organization reviewed the carrying amount of the Bouquet Property. Management determined that there had been a permanent impairment in the property's cost, as determined by its current sales price. The Organization reported a \$278,311 impairment loss, to adjust the Bouquet Property to its estimated fair market value at December 31, 2015. During the year ended December 31, 2016, Management again reviewed the carrying amount of the Bouquet property and determined that there had been an additional permanent impairment based on a reduction in the selling price. The Organization reported a \$483,422 impairment loss, to adjust the Bouquet property to its estimated fair market value of \$2,390,000 at December 31, 2016. This property is reported as a "Property held for sale", a current asset, in the consolidated statements of financial position at December 31, 2016. The property was sold on November 2, 2017 in the amount of \$1,613,078, with a realized loss of \$776,922.

During the year ended December 31, 2016, the Organization reviewed the carrying amount of property located adjacent to its Watkins Glen, New York sanctuary. Management determined that there had been a permanent impairment in the carrying value of this property, as determined by the assessed value of the property by the local tax authority. Accordingly, the Organization reported a \$440,000 impairment charge to adjust the property's carrying value to its estimated fair value of \$133,000. This amount is apportioned between land and buildings and improvements as part of property and equipment.

7. CHARITABLE GIFT ANNUITIES

The Organization operates a Charitable Gift Annuity program (the "CGA Program") in which donors make irrevocable gifts to Farm Sanctuary and in return receive fixed periodic annuity payments for the duration of the donor's lifetime and/or survivor's lifetime. The Organization evaluates each potential annuity gift prior to acceptance with consideration of the age of the donor, terms of the annuity payments, required payment terms, and the Organization's Gift Acceptance Policy. Farm Sanctuary is the designated fiscal agent and operates the program with the assistance of an outside third-party administrator.

Assets received are invested into segregated accounts in accordance with the requirements of the various states in which Farm Sanctuary is authorized to enter into CGA Program contracts with donors. Estimated liabilities for annuity payments over the lifetime of the annuitants are recorded as general obligations of the Organization. The estimated liability for each annuity is the present value of future payments to the annuitant and is measured using a discount rate ranging between 5.25% and 5.50% and life expectancy estimates from tables published by the United States Department of Health and Human Services. The difference between assets contributed by a donor and the estimated liability for future annuity payments is recorded as a contribution. Under the CGA Program agreement with each donor, the amount of the original contribution is not released for Farm Sanctuary's use until the death of the donor. Accordingly, all CGA contributions are recorded as temporarily restricted (by time) contributions. In addition, certain donors may place temporary purpose restrictions on a contribution as well.

Farm Sanctuary, Inc. and Subsidiary  
Notes to Consolidated Financial Statements  
December 31, 2017 and 2016

7. CHARITABLE GIFT ANNUITIES (continued)

Earnings and gains from invested CGA assets are considered to be unrestricted. However, Farm Sanctuary has elected at this time to keep the entire original CGA Program contribution and related earnings invested in the segregated CGA accounts until the death of the donor and any survivors entitled to income distributions. At such time, the remaining assets would become available for unrestricted use (absent any purpose restrictions) and any related liabilities would be extinguished.

On a periodic basis, the Organization re-values estimated liabilities for each CGA Program contract by amortizing the original discount and adjusting the liability for any potential changes in estimated life expectancy of the donor and/or survivors. The change in estimated liability for CGA Program contracts is recorded in the consolidated statements of activities.

Substantially all states that Farm Sanctuary operates the CGA Program in require that the Organization maintain adequate reserves, as defined by state statutes, to pay contractually required annuity payments. In addition, many states have set forth requirements for invested reserves. Farm Sanctuary has determined that it is in compliance with reserve and investment mix requirements in all states in which it operates the CGA Program.

Assets and estimated liabilities related to the CGA program were as follows:

	<u>2017</u>	<u>2016</u>
Assets held in segregated CGA accounts	\$ 212,265	\$ 183,440
Estimated liability of all CGA Program contracts	<u>(42,506)</u>	<u>(31,631)</u>
Excess funds held in reserve to fund future annuity payments	<u>\$ 169,759</u>	<u>\$ 151,809</u>

Of the assets shown above, \$100,000 was contributed by Farm Sanctuary to be held as additional reserves.

A reconciliation of the change in CGA liabilities is as follows:

	<u>2017</u>	<u>2016</u>
Charitable gift annuity obligations, beginning of year	\$ 31,631	\$ -
Liability recorded upon initial donation of CGA assets	10,697	31,723
Payments made to annuitants	(9,211)	(524)
Change in CGA liabilities due to discount amortization and changes in estimated life expectancy	<u>9,389</u>	<u>432</u>
Charitable gift annuity obligations, end of year	42,506	31,631
Less: current portion	<u>(7,751)</u>	<u>(6,611)</u>
Charitable gift annuity obligations, end of year - noncurrent	<u>\$ 34,755</u>	<u>\$ 25,020</u>

Farm Sanctuary, Inc. and Subsidiary  
Notes to Consolidated Financial Statements  
December 31, 2017 and 2016

7. CHARITABLE GIFT ANNUITIES (continued)

During the years ended December 31, 2017 and 2016, Farm Sanctuary recognized \$9,304 and \$53,323, respectively, of contributions related to the CGA Program.

8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following:

	2017	2016
Administrative and other	\$ 10,000	\$ -
Advocacy efforts	34,416	124,994
Engagement, education, and outreach	20,823	31,448
Melrose Small Animal Hospital	-	6,220
Other farm property and equipment	15,251	17,569
Shelter maintenance	2,500	2,500
Shelter operations and rescue	3,589	30,994
Total purpose restricted	86,579	213,725
 Time restricted - unconditional promises to give	 1,549,358	 1,429,875
 Time restricted - charitable gift annuities	 62,627	 46,275
	\$ 1,698,564	\$ 1,689,875

9. BOARD-DESIGNATED NET ASSETS

Board designated net assets consisted of the following:

	2017	2016
Board-designated endowment	\$ 10,957,788	\$ 8,319,354
Board-designated reserves	6,728,095	5,994,748
Capital campaign	406,955	694,929
Special projects	250,000	250,000
	\$ 18,342,838	\$ 15,259,031

Investments related to the board-designated endowment, the board-designated reserves, and the capital campaign are classified as part of noncurrent assets in the statement of financial position. The amount designated for special projects is considered to be available for current projects; accordingly, these investments are classified as part of current investments in the consolidated statement of financial position.

Farm Sanctuary, Inc. and Subsidiary  
Notes to Consolidated Financial Statements  
December 31, 2017 and 2016

9. BOARD-DESIGNATED NET ASSETS (continued)

Board-designated endowment

The Organization's endowment consists of an investment account designated by the Board to function as an endowment and was established during the year ended December 31, 2014. As required by U.S. GAAP, net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions. As of December 31, 2017 and 2016, the Organization does not have an endowment fund that contains donor-imposed restrictions.

Board-designated reserves

Additions to the board-designated reserves in accordance with the standing Board policy requires that the board-designated reserves balance be brought up to an amount that equals 50% of the current year operating budget.

Relation to relevant law and accounting standards

Since the Organization's endowment fund is not subject to donor-imposed restrictions, the requirements of the State of California's version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") do not apply. Instead, the Organization's policies governing the endowment fund are contained within their Policy Concerning Operating Cash, Operating Reserves, and Quasi-Endowed Funds (the "Funds Policy") and the Board's approved Investment Policy Statement (the "Investment Policy"). In addition, the Organization accounts for its endowment fund in accordance with U.S. GAAP.

Strategies employed for achieving objectives

The Organization's endowment is to be funded by unrestricted gifts received by the Organization from decedent estates and trusts ("Bequests") that are in excess of the amount budgeted as income by the Board of Directors from Bequests. In addition, the Board may designate unrestricted funds from time to time to be added to the endowment fund.

Farm Sanctuary manages its endowment on a total rate-of-return basis consisting of dividends, interest, and any net increase / decrease in the market value of investments for the fiscal year – not favoring returns from one source over another. Performance objectives are to be met on a net-of-fees basis and will be measured against targets set by the Finance Committee and against index objectives for individual portfolio components as set forth in the Investment Policy.

Farm Sanctuary, Inc. and Subsidiary  
Notes to Consolidated Financial Statements  
December 31, 2017 and 2016

9. BOARD-DESIGNATED NET ASSETS (continued)

Strategies employed for achieving objectives (continued)

The Organization has determined that the following types of investments (and the target ranges of these investment types as a percentage of the entire portfolio) can be used by its investment advisors:

Asset Class	Minimum / Maximum Allowable Range	Target Range
Equities	55% - 80%	60% - 70%
Domestic Large Cap	25% - 55%	30% - 40%
Domestic Small / Mid Cap	0% - 25%	10% - 20%
International	0% - 25%	10% - 20%
Fixed Income	15% - 40%	25% - 35%
Cash Equivalents	2% - 10%	5%

Wherever possible, values-based investment screens are applied to the investment portfolio to prohibit investments in companies that are known to manufacture animal-tested products, companies that have not yet adopted a permanent “no animal-testing” policy, and/or companies that are on the U.S. Department of Agriculture list of facilities that conduct animal testing.

Screens are also applied, wherever possible, to avoid investment in companies with negative environmental rankings. In addition, the Organization provides a list to the investment managers of specific securities that may not be purchased to avoid investments in securities issued by certain companies that engage in behavior that is harmful to animals.

Spending policy and how the investment objectives relate to spending policy

As the purpose of the endowment fund is to produce earnings to add to the Organization's annual budget, between 3% and 5% of the endowment fund may be used annually to support the Organization's annual operational needs. The computation of the base value used to compute the potential appropriation of between 3% and 5% varies by year as described below. In each case, the 3% to 5% calculation (the “Calculation”) shall be made by the Chief Executive Officer and Chief Financial Officer with a recommendation to the Organization's Finance Committee, which will make the final decision as to the amount of the appropriation.

For the years ended December 31, 2017 and 2016, the Calculation was based on the total value of the endowment fund as of September 30th of the prior year.

For all years beginning on or after January 1, 2018, the Calculation will be based on a three-year quarterly rolling average for the value of the endowment fund.



Farm Sanctuary, Inc. and Subsidiary  
Notes to Consolidated Financial Statements  
December 31, 2017 and 2016

9. BOARD-DESIGNATED NET ASSETS (continued)

Spending policy and how the investment objectives relate to spending policy (continued)

The Organization believes that the spending policy allows the remaining unappropriated endowment fund to – over the long-term – appreciate with the objective of maintaining purchasing power when considering inflation and reasonable rates of return.

Summary of endowment balances and activity

Endowment net assets as of December 31, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-designated endowment	<u>\$ 10,957,788</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,957,788</u>

Changes in endowment net assets for the year ended December 31, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, beginning of year	\$ 8,319,354	\$ -	\$ -	\$ 8,319,354
Investment return				
Interest and dividends	259,638	-	-	259,638
Gain on fair value of investments	1,389,584	-	-	1,389,584
Investment fees	<u>(92,288)</u>	<u>-</u>	<u>-</u>	<u>(92,288)</u>
	1,556,934	-	-	1,556,934
Additional amount designated and added to the fund	1,464,940	-	-	1,464,940
Appropriation of endowment assets for expenditures	<u>(383,440)</u>	<u>-</u>	<u>-</u>	<u>(383,440)</u>
Balance, end of year	<u>\$ 10,957,788</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,957,788</u>

Farm Sanctuary, Inc. and Subsidiary  
Notes to Consolidated Financial Statements  
December 31, 2017 and 2016

9. BOARD-DESIGNATED NET ASSETS (continued)

Summary of endowment balances and activity (continued)

Endowment net assets as of December 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-designated endowment	\$ 8,319,354	\$ -	\$ -	\$ 8,319,354

Changes in endowment net assets for the year ended December 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, beginning of year	\$ 5,895,502	\$ -	\$ -	\$ 5,895,502
Investment return				
Interest and dividends	154,462	-	-	154,462
Gain on fair value of investments	328,603	-	-	328,603
Investment fees	<u>(51,613)</u>	<u>-</u>	<u>-</u>	<u>(51,613)</u>
	431,452	-	-	431,452
Additional amount designated and added to the fund	2,277,381	-	-	2,277,381
Appropriation of endowment assets for expenditure	<u>(284,981)</u>	<u>-</u>	<u>-</u>	<u>(284,981)</u>
Balance, end of year	<u>\$ 8,319,354</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,319,354</u>

10. REVOLVING LINE OF CREDIT

The Organization opened a Revolving Line of Credit with a bank in the amount of \$2.5 million with interest rates at LIBOR plus 2.25%, collateralized by certain eligible assets held at an affiliate of the lender. Bank advances on the credit line are payable on demand; however, if no demand is made, interest only payments are required monthly.

At December 31, 2017 and December 31, 2016, there were no balances outstanding.

Farm Sanctuary, Inc. and Subsidiary  
Notes to Consolidated Financial Statements  
December 31, 2017 and 2016

11. EMPLOYEE RETIREMENT PLAN

The Organization sponsors the Farm Sanctuary 403(b) Plan (the "Plan"), which is a defined contribution plan. All employees with the exception of non-resident aliens, employees covered under a collective bargaining agreement, or employees who are part of a substitute workforce are eligible to participate. Employees are eligible to participate in the Plan as of their date of hire. Participants may elect to contribute a percentage of their pre-tax compensation or a fixed amount per pay period, as defined in the Plan. Participants may also contribute amounts representing distributions (rollovers) from other qualified benefit plans. Management will determine annually, what matching contribution will be made, if any, and will be allocated to participants using a specific formula based on either compensation or years of service. During the years ended December 31, 2017 and 2016, the Organization contributed \$66,211 and \$61,188 to the Plan, respectively.

12. RELATED PARTY TRANSACTIONS

During 2017 and 2016, the Organization contracted with a company owned by an individual related to a member of management to provide certain information technology services. Total expenses for the year ended December 31, 2017 and 2016 amounted to \$49,980 and \$23,190, respectively.

The above contractual relationship has been approved by the Organization's Board of Directors and the contract and related work is overseen by an unrelated member of management.

During the year ended December 31, 2017 and 2016 the Organization entered into an agreement with a company to rent pasture land for certain animals. A member of the Board of Directors has an interest in this company. Total rent expenses for the year ended December 31, 2017 and 2016 amounted to \$2,750 and \$2,400 respectively.

The Organization entered into a lease agreement (the "Lease") with a company to rent a portion of a farm in Colts Neck, New Jersey for the purpose of creating an educational center and farm animal sanctuary. A member of the Board of Directors has an interest in the farm property. The initial term of the Lease is from December 1, 2017 through May 31, 2028 with an option - subject to lessor approval - to extend the Lease for an additional ten years. The Lease requires Farm Sanctuary to expend a minimum of \$4,000,000 to construct tenant improvements (including the cost of professional design and engineering fees) and to purchase other furniture, fixtures, and equipment for use on the property. No monthly base rent is due. Additional rent is due in an amount necessary to cover Farm Sanctuary's share of the real estate taxes and other taxes and expenses incurred.

Farm Sanctuary, Inc. and Subsidiary  
Notes to Consolidated Financial Statements  
December 31, 2017 and 2016

13. ALLOCATION OF JOINT COSTS

Farm Sanctuary communicates with its supporters, donors, prospective donors, and others through campaigns conducted via direct mail, telemarketing, e-mail, and member / supporter groups such as Hilda Club and Legacy Society. These outreach campaigns include requests for contributions, education about issues and programs conducted by the Organization, and calls to action in order to advance our mission to protect farm animals from cruelty, inspire change in the way society views and treats farm animals, and promote compassionate vegan living.

During the years ended December 31, 2017 and 2016, the costs of conducting these campaigns were \$1,075,638 and \$1,485,169, respectively. Costs were allocated by function as follows:

	2017	2016
Program services	\$ 450,161	\$ 618,069
Management and general	154	-
Fundraising	625,323	867,100
	\$ 1,075,638	\$ 1,485,169

14. COMMITMENTS

The Organization is obligated under various noncancelable operating leases for a building and equipment. In February 2016, the Organization entered into a three-year lease for offices located in Los Angeles, California. Base monthly rent payments for the Los Angeles office are \$5,615 in the first year of the lease with three percent annual increases in each of the next two years.

Total rent expense under all operating leases for the Los Angeles office and various equipment during the years ended December 31, 2017 and 2016 was \$89,425 and \$77,338, respectively.

Future minimum lease payments are as follows:

<u>Year ending December 31,</u>	
2018	\$ 80,318
2019	10,085
2020	1,068
2021	1,068
2022	1,375
	\$ 93,914

SUPPLEMENTARY INFORMATION

Board of Directors  
Farm Sanctuary, Inc. and Subsidiary  
Watkins Glen, New York

We have audited the consolidated financial statements of Farm Sanctuary, Inc. and Subsidiary as of and for the years ended December 31, 2017 and our report thereon dated June 14, 2018, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information on pages 29 - 31 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Armanino<sup>LLP</sup>  
Los Angeles, California

June 14, 2018

Farm Sanctuary, Inc. and Subsidiary  
Consolidating Statement of Financial Position  
For the Year Ended December 31, 2017

	<u>Farm Sanctuary, Inc.</u>	<u>Farm Sanctuary, LLC</u>	<u>Subtotal</u>	<u>Eliminations</u>	<u>Consolidated</u>
ASSETS					
Current assets					
Cash and cash equivalents	\$ 2,497,848	\$ -	\$ 2,497,848	\$ -	\$ 2,497,848
Credit card receivables	561,335	-	561,335	-	561,335
Investments	2,020,151	-	2,020,151	-	2,020,151
Other receivables	34,270	-	34,270	-	34,270
Unconditional promises to give	1,661,875	-	1,661,875	-	1,661,875
Merchandise inventory	171,135	-	171,135	-	171,135
Prepaid expenses and other current assets	<u>196,012</u>	<u>-</u>	<u>196,012</u>	<u>-</u>	<u>196,012</u>
Total current assets	<u>7,142,626</u>	<u>-</u>	<u>7,142,626</u>	<u>-</u>	<u>7,142,626</u>
Noncurrent assets					
Investments	17,688,560	-	17,688,560	-	17,688,560
Investment in subsidiary	472,376	-	472,376	(472,376)	-
Unconditional promises to give	494,350	-	494,350	-	494,350
Cash restricted for noncurrent purposes	18,075	-	18,075	-	18,075
Deposits	29,495	-	29,495	-	29,495
Property and equipment, net	<u>6,178,963</u>	<u>472,376</u>	<u>6,651,339</u>	<u>-</u>	<u>6,651,339</u>
Total noncurrent assets	<u>24,881,819</u>	<u>472,376</u>	<u>25,354,195</u>	<u>(472,376)</u>	<u>24,881,819</u>
 Total assets	 <u>\$ 32,024,445</u>	 <u>\$ 472,376</u>	 <u>\$ 32,496,821</u>	 <u>\$ (472,376)</u>	 <u>\$ 32,024,445</u>

See accompanying independent auditor's report.

Farm Sanctuary, Inc. and Subsidiary  
Consolidating Statement of Financial Position  
For the Year Ended December 31, 2017

	Farm Sanctuary, Inc.	Farm Sanctuary, LLC	Subtotal	Eliminations	Consolidated
<b>LIABILITIES AND NET ASSETS</b>					
Current liabilities					
Accounts payable	\$ 212,711	\$ -	\$ 212,711	\$ -	\$ 212,711
Accrued expenses and other current liabilities	675,170	-	675,170	-	675,170
Charitable gift annuity obligations	7,751	-	7,751	-	7,751
Deferred revenue	<u>27,404</u>	-	<u>27,404</u>	-	<u>27,404</u>
Total current liabilities	923,036	-	923,036	-	923,036
Charitable gift annuity obligations	<u>34,755</u>	-	<u>34,755</u>	-	<u>34,755</u>
Total current liabilities	<u>957,791</u>	<u>-</u>	<u>957,791</u>	<u>-</u>	<u>957,791</u>
Net assets					
Unrestricted					
Undesignated	11,025,252	472,376	11,497,628	(472,376)	11,025,252
Board designated	<u>18,342,838</u>	<u>-</u>	<u>18,342,838</u>	<u>-</u>	<u>18,342,838</u>
Total unrestricted net assets	29,368,090	472,376	29,840,466	(472,376)	29,368,090
Temporarily restricted	<u>1,698,564</u>	<u>-</u>	<u>1,698,564</u>	<u>-</u>	<u>1,698,564</u>
Total net assets	<u>31,066,654</u>	<u>472,376</u>	<u>31,539,030</u>	<u>(472,376)</u>	<u>31,066,654</u>
Total liabilities and net assets	<u>\$ 32,024,445</u>	<u>\$ 472,376</u>	<u>\$ 32,496,821</u>	<u>\$ (472,376)</u>	<u>\$ 32,024,445</u>

See accompanying independent auditor's report.



Farm Sanctuary, Inc. and Subsidiary  
Consolidating Statement of Activities  
For the Year Ended December 31, 2017

	Farm Sanctuary, Inc., <u>Unrestricted</u>	Farm Sanctuary, LLC <u>Unrestricted</u>	<u>Subtotal</u>	<u>Eliminations</u>	Consolidated <u>Unrestricted</u>	Consolidated Temporarily <u>Restricted</u>	<u>Total</u>
Public support, revenue, and other changes in net assets							
Public support							
Grants and contributions	\$ 7,795,803	\$ -	\$ 7,795,803	\$ -	\$ 7,795,803	\$ 962,610	\$ 8,758,413
Bequests	1,688,736	-	1,688,736	-	1,688,736	-	1,688,736
Charitable gift annuities	-	-	-	-	-	9,304	9,304
Special events net of \$46,901 of direct costs	106,396	-	106,396	-	106,396	-	106,396
Capital campaign	-	-	-	-	-	1,921,171	1,921,171
Net assets released from restrictions	<u>2,884,396</u>	<u>-</u>	<u>2,884,396</u>	<u>-</u>	<u>2,884,396</u>	<u>(2,884,396)</u>	<u>-</u>
Total public support	12,475,331	-	12,475,331	-	12,475,331	8,689	12,484,020
Revenue and investment returns							
Merchandise sales, net of cost of goods sold of \$259,305	227,746	-	227,746	-	227,746	-	227,746
Visitor programs and events	446,960	-	446,960	-	446,960	-	446,960
Interest and dividends	565,614	-	565,614	-	565,614	-	565,614
Net gain on fair value of investments	1,834,040	-	1,834,040	-	1,834,040	-	1,834,040
Change in value of charitable gift annuity obligations	(9,389)	-	(9,389)	-	(9,389)	-	(9,389)
Share of subsidiary loss	(14,603)	-	(14,603)	14,603	-	-	-
Other revenue	<u>76,336</u>	<u>-</u>	<u>76,336</u>	<u>-</u>	<u>76,336</u>	<u>-</u>	<u>76,336</u>
Total revenue and investment returns	<u>3,126,704</u>	<u>-</u>	<u>3,126,704</u>	<u>14,603</u>	<u>3,141,307</u>	<u>-</u>	<u>3,141,307</u>
Realized loss on property held for sale (Note 6)	<u>(776,922)</u>	<u>-</u>	<u>(776,922)</u>	<u>-</u>	<u>(776,922)</u>	<u>-</u>	<u>(776,922)</u>
Total public support, revenue, and other changes in net assets	<u>14,825,113</u>	<u>-</u>	<u>14,825,113</u>	<u>14,603</u>	<u>14,839,716</u>	<u>8,689</u>	<u>14,848,405</u>
Expenses							
Program services	8,340,622	14,603	8,355,225	-	8,355,225	-	8,355,225
Management and general	1,329,425	-	1,329,425	-	1,329,425	-	1,329,425
Fundraising	<u>1,955,281</u>	<u>-</u>	<u>1,955,281</u>	<u>-</u>	<u>1,955,281</u>	<u>-</u>	<u>1,955,281</u>
Total expenses	<u>11,625,328</u>	<u>14,603</u>	<u>11,639,931</u>	<u>-</u>	<u>11,639,931</u>	<u>-</u>	<u>11,639,931</u>
Changes in net assets	3,199,785	(14,603)	3,185,182	14,603	3,199,785	8,689	3,208,474
Net assets, beginning of year	<u>26,168,305</u>	<u>486,979</u>	<u>26,655,284</u>	<u>(486,979)</u>	<u>26,168,305</u>	<u>1,689,875</u>	<u>27,858,180</u>
Net assets, end of year	<u>\$29,368,090</u>	<u>\$ 472,376</u>	<u>\$29,840,466</u>	<u>\$ (472,376)</u>	<u>\$29,368,090</u>	<u>\$ 1,698,564</u>	<u>\$31,066,654</u>

See accompanying independent auditor's report.