

Farm Sanctuary, Inc. and Subsidiary

Consolidated Financial Statements
and Supplementary Information

December 31, 2018 and 2017



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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, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years 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 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 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, 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, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Organization has adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* and ASU 2016-18, *Restricted Cash*. Our opinion is not modified with respect to these matters.

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

Armanino^{LLP}
Los Angeles, California

September 19, 2019

Farm Sanctuary, Inc. and Subsidiary
Consolidated Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,327,475	\$ 2,497,848
Credit card receivables	386,084	561,335
Investments	1,965,468	2,020,151
Other receivables	38,847	34,270
Unconditional promises to give	631,471	1,661,875
Merchandise inventory	270,023	171,135
Prepaid expenses and other current assets	317,843	196,012
Total current assets	4,937,211	7,142,626
Non-current assets		
Investments	16,764,856	17,688,560
Unconditional promises to give, net of current portion	-	494,350
Cash restricted for noncurrent purposes	19,741	18,075
Deposits	14,245	29,495
Property and equipment, net	7,396,268	6,651,339
Total non-current assets	24,195,110	24,881,819
Total assets	\$ 29,132,321	\$ 32,024,445

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

Farm Sanctuary, Inc. and Subsidiary
Consolidated Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 406,486	\$ 212,711
Accrued expenses and other current liabilities	1,312,046	675,170
Charitable gift annuity obligations	12,211	7,751
Deferred revenue	32,942	27,404
Total current liabilities	1,763,685	923,036
Charitable gift annuity obligations, net of current portion	78,081	34,755
Total liabilities	1,841,766	957,791
Commitments (Note 16)		
Net assets		
Without donor restrictions		
Undesignated	9,322,293	11,025,252
Board-designated	17,429,847	18,342,838
Total without donor restrictions	26,752,140	29,368,090
With donor restrictions	538,415	1,698,564
Total net assets	27,290,555	31,066,654
Total liabilities and net assets	\$ 29,132,321	\$ 32,024,445

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, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public support, revenue, and investment returns			
Public support			
Grants and contributions	\$ 7,525,249	\$ 1,975,414	\$ 9,500,663
Bequests	1,244,490	-	1,244,490
Charitable gift annuities	-	48,562	48,562
Special events, net of \$274,312 of direct costs	358,255	161,860	520,115
Net assets released from restrictions	<u>2,120,597</u>	<u>(2,120,597)</u>	<u>-</u>
Total public support	<u>11,248,591</u>	<u>65,239</u>	<u>11,313,830</u>
Revenue and investment returns			
Merchandise sales, net of cost of goods sold of \$278,314	200,829	-	200,829
Visitor programs and events	451,010	-	451,010
Investment return	(917,266)	-	(917,266)
Change in value of charitable gift annuity obligations	(7,515)	-	(7,515)
Other revenue	<u>66,340</u>	<u>-</u>	<u>66,340</u>
Total revenue and investment returns	<u>(206,602)</u>	<u>-</u>	<u>(206,602)</u>
Total public support, revenue, and investment returns	<u>11,041,989</u>	<u>65,239</u>	<u>11,107,228</u>
Functional expenses			
Program services			
Rescue Shelter and Adoption	4,777,148	-	4,777,148
Education and Outreach	2,945,921	-	2,945,921
Advocacy and Action	<u>981,117</u>	<u>-</u>	<u>981,117</u>
Total program services	<u>8,704,186</u>	<u>-</u>	<u>8,704,186</u>
Support services			
Management and general	1,571,613	-	1,571,613
Fundraising	<u>2,245,785</u>	<u>-</u>	<u>2,245,785</u>
Total support services	<u>3,817,398</u>	<u>-</u>	<u>3,817,398</u>
Total functional expenses	<u>12,521,584</u>	<u>-</u>	<u>12,521,584</u>
Change in net assets from ongoing activities	<u>(1,479,595)</u>	<u>65,239</u>	<u>(1,414,356)</u>
Other changes in net assets			
Return of contributions (Note 4)	(250,000)	(1,225,388)	(1,475,388)
Loss on leasehold improvements and equipment related to abandoned lease (Note 4)	(822,488)	-	(822,488)
Other loss on capital projects	<u>(63,867)</u>	<u>-</u>	<u>(63,867)</u>
Total other changes in net assets	<u>(1,136,355)</u>	<u>(1,225,388)</u>	<u>(2,361,743)</u>
Change in net assets	(2,615,950)	(1,160,149)	(3,776,099)
Net assets, beginning of year	<u>29,368,090</u>	<u>1,698,564</u>	<u>31,066,654</u>
Net assets, end of year	<u>\$ 26,752,140</u>	<u>\$ 538,415</u>	<u>\$ 27,290,555</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, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Public support, revenue, and investment returns			
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 \$278,314	227,746	-	227,746
Visitor programs and events	446,960	-	446,960
Investment return	2,399,654	-	2,399,654
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>
Total public support, revenue, and investment returns	<u>15,616,638</u>	<u>8,689</u>	<u>15,625,327</u>
Functional expenses			
Program services			
Rescue Shelter and Adoption	4,430,839	-	4,430,839
Education and Outreach	2,910,764	-	2,910,764
Advocacy and Action	<u>1,013,622</u>	<u>-</u>	<u>1,013,622</u>
Total program services	<u>8,355,225</u>	<u>-</u>	<u>8,355,225</u>
Support services			
Management and general	1,329,425	-	1,329,425
Fundraising	<u>1,955,281</u>	<u>-</u>	<u>1,955,281</u>
Total support services	<u>3,284,706</u>	<u>-</u>	<u>3,284,706</u>
Total functional expenses	<u>11,639,931</u>	<u>-</u>	<u>11,639,931</u>
Change in net assets from ongoing activities	<u>3,976,707</u>	<u>8,689</u>	<u>3,985,396</u>
Other changes in net assets			
Realized loss on property held for sale (Note 7)	<u>(776,922)</u>	<u>-</u>	<u>(776,922)</u>
Total other changes in net assets	<u>(776,922)</u>	<u>-</u>	<u>(776,922)</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 Functional Expenses
For the Year Ended December 31, 2018

	Program Services				Support Services		Total
	Rescue Shelter and Adoption	Education and Outreach	Advocacy and Action	Total Program Services	Management and General	Fundraising	
Salaries and related expenses							
Salaries and wages	\$ 1,853,299	\$ 1,498,692	\$ 256,576	\$ 3,608,567	\$ 782,856	\$ 645,059	\$ 5,036,482
Payroll taxes	152,606	114,106	18,563	285,275	60,487	49,658	395,420
Employee benefits	279,063	186,161	28,380	493,604	109,498	85,884	688,986
Workers' compensation insurance	<u>167,776</u>	<u>47,009</u>	<u>3,650</u>	<u>218,435</u>	<u>9,711</u>	<u>4,373</u>	<u>232,519</u>
Total salaries and related expenses	2,452,744	1,845,968	307,169	4,605,881	962,552	784,974	6,353,407
Advertising and public engagement	463	92,652	40,366	133,481	-	9,507	142,988
Animal care and rehabilitation	975,593	-	-	975,593	-	-	975,593
Bank charges and other fees	-	-	-	-	222,686	-	222,686
Depreciation	366,622	67,140	6,626	440,388	883	442	441,713
Dues and subscriptions	1,564	3,371	207	5,142	5,975	3,182	14,299
Employee recruiting, retention, and training	14,653	8,823	2,209	25,685	19,731	7,975	53,391
Equipment and supplies	66,513	35,097	1,230	102,840	7,816	36,719	147,375
Insurance	126,125	50,065	7,702	183,892	5,777	2,888	192,557
Miscellaneous	5	2,043	196	2,244	11,258	23,305	36,807
Postage and processing	6,497	81,607	308,480	396,584	69,068	675,055	1,140,707
Printing	1,105	150,998	115,676	267,779	27,697	248,220	543,696
Professional and other outside services	7,959	85,709	89,509	183,177	93,500	271,032	547,709
Rent	20,190	23,935	9,641	53,766	23,952	18,012	95,730
Repairs and maintenance	285,061	36,168	437	321,666	5,053	912	327,631
Taxes and licenses	66,383	2,361	-	68,744	9,440	959	79,143
Technology and communications	47,993	243,707	61,323	353,023	76,377	112,375	541,775
Travel and meals	157,836	76,069	14,673	248,578	23,757	47,384	319,719
Utilities	179,842	47,247	2,122	229,211	6,091	2,844	238,146
Visitor programs and events	-	92,961	13,551	106,512	-	-	106,512
	<u>\$ 4,777,148</u>	<u>\$ 2,945,921</u>	<u>\$ 981,117</u>	<u>\$ 8,704,186</u>	<u>\$ 1,571,613</u>	<u>\$ 2,245,785</u>	<u>\$ 12,521,584</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		Total
	Rescue Shelter and Adoption	Education and Outreach	Advocacy and Action	Total Program Services	Management and General	Fundraising	
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	-	126,239	16,952	143,191	-	-	143,191
	<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 Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Cash received from contributions	\$ 11,638,853	\$ 11,525,908
Cash received from sale of goods and services	1,002,428	983,260
Cash received from investment income	807,311	565,614
Cash received from other income	16,792	13,449
Cash paid to suppliers and employees	(12,593,088)	(11,454,856)
Cash paid to investment managers	(148,585)	(143,461)
Cash paid to grantees	-	(8,090)
Cash paid for interest	(77)	(107)
Cash paid for income taxes	(412)	-
Net cash provided by operating activities	723,222	1,481,717
Cash flows from investing activities		
Proceeds from sale of investments	3,836,028	4,012,275
Purchases of investments	(4,313,245)	(5,794,426)
Proceeds from sale of property and equipment	-	1,625,078
Purchases of property and equipment	(2,150,606)	(1,594,672)
Net cash used in investing activities	(2,627,823)	(1,751,745)
Cash flows from financing activities		
Contributions restricted for noncurrent purposes	735,894	302,141
Net cash provided by financing activities	735,894	302,141
Net increase (decrease) in cash	(1,168,707)	32,113
Cash, cash equivalents and restricted cash, beginning of year	2,515,923	2,483,810
Cash, cash equivalents and restricted cash, end of year	\$ 1,347,216	\$ 2,515,923
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	\$ 1,327,475	\$ 2,497,848
Cash restricted for noncurrent purposes	19,741	18,075
	\$ 1,347,216	\$ 2,515,923

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, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ (3,776,099)	\$ 3,208,474
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Amortization of discount on unconditional promises to give	(811)	(22,938)
Write-off of unconditional promises to give	725,388	-
Depreciation	441,713	384,368
Property exchanged for services	6,500	-
Loss on disposal and sale of property and equipment	886,355	764,922
Loss (gain) on change in fair value of investments	1,577,188	(1,975,111)
Change in value of charitable gift annuity liabilities	7,515	9,389
Contributions restricted for noncurrent purposes	(735,894)	(302,141)
Donations of investments	(121,583)	(141,636)
Changes in operating assets and liabilities		
Credit card receivables	175,251	(170,915)
Other receivables	(4,577)	80,171
Unconditional promises to give	800,177	(116,148)
Merchandise inventory	(98,888)	(82,117)
Prepaid expenses and other current assets	(121,831)	(56,153)
Deposits	15,250	(22,038)
Accounts payable	130,104	(35,103)
Accrued expenses and other current liabilities	770,459	(43,545)
Accrued interest on investments	1,196	2,390
Charitable gift annuity obligations	-	1,486
Deferred revenue	40,271	(1,638)
	<u>\$ 717,684</u>	<u>\$ 1,481,717</u>
Net cash provided by operating activities	<u>\$ 717,684</u>	<u>\$ 1,481,717</u>
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	\$ 1,327,475	\$ 2,497,848
Cash restricted for noncurrent purposes	19,741	18,075
	<u>\$ 1,347,216</u>	<u>\$ 2,515,923</u>

Supplemental schedule of noncash investing and financing activities

Donations of investments	\$ 121,583	\$ 141,636
Property exchanged for services	\$ 6,500	\$ -

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

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

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, 2018, Farm Sanctuary operates two sanctuaries in Watkins Glen, New York and Acton, California. During the year ended December 31, 2018, Farm Sanctuary moved substantially all animals and operations from its sanctuary in Orland, California to a new campus in Watkins Glen, New York, though a small number of animals continue to reside in Orland. The Organization's corporate headquarters is located at its Watkins Glen, New York sanctuary. In addition, the Organization leases an office in Los Angeles, California, which is 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, and 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 Farm Sanctuary in carrying out its mission.

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

1. NATURE OF OPERATIONS (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Change in accounting principle

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 makes certain improvements to current reporting requirements, including (1) Reducing the classes of net assets from three (unrestricted, temporarily restricted, and permanently restricted) to two (with donor restrictions and without donor restrictions); (2) Enhancing disclosures about (a) Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions, (b) Composition of net assets with donor restrictions and how the restrictions affect the use of resources, (c) Qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the statement of financial position date, (d) Amounts of expenses by both their natural classification and their functional classification in one location as a separate statement or in the notes to the financial statements, (e) Methods used to allocate costs among program and support functions, (f) Underwater endowment funds; (3) Reporting investment return net of external and direct internal investment expenses; and (4) Use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

The Organization has early adopted the Financial Accounting Standards Board Accounting Standards Update ("ASU") 2016-18, *Restricted Cash*. The standard requires (1) that an entity should include in its cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and cash equivalents (2) A reconciliation between the statement of financial position and the statement of cash flows must be disclosed when the statement of financial position includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents. (3) Changes in restricted cash and restricted cash equivalents that result from transfers between cash, cash equivalents, and restricted cash and restricted cash equivalents should not be presented as cash flow activities in the statement of cash flows. (4) An entity with a material balance of amounts generally described as restricted cash and restricted cash equivalents must disclose information about the nature of the restrictions.

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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

- *Net assets without donor restrictions* - Net assets that are not subject to donor-imposed restrictions, or donor-restricted contributions whose restrictions are met within the same reporting period.
- *Net assets with donor restrictions* - Net assets that are subject to donor-imposed time or use restrictions that have not been met as of year-end. Donor restricted net assets are restricted for time (e.g. multi-year unconditional promises to give) or specific purposes.

The Organization also reserves net assets for specific board-designated purposes. (See Note 11)

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.

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2018 and 2017 were attributable to donations. Chargebacks related to credit card receivables were inconsequential as of December 31, 2018 and 2017; accordingly, no allowance for credit card receivable chargebacks has been established.

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 has available to liquidate 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, 2018 and 2017.

Property and equipment

All acquisitions of property and equipment and all expenditures for betterments and improvements costing \$5,000 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.

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

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 with or without donor restriction depending on the existence or nature of any donor restrictions.

Donor-restricted contributions are reported as increases in donor 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), donor restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

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, 2018 and 2017, the Organization received donated marketable securities valued at \$121,585 and \$141,636, respectively. In addition, the Organization received donations of goods - including animal feed and supplies and certain property and equipment - valued at \$90,246 and \$84,256 during the years ended December 31, 2018 and 2017, respectively that have been included within contributions.

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 2018 and 2017, \$8,581 and \$147,542 in donated services were reported, respectively.

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 2015 and 2014, respectively.

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events

The Organization has evaluated events subsequent to December 31, 2018, to assess the need for potential recognition or disclosure in the consolidated financial statements. Such events were evaluated through September 19, 2019, the date the consolidated financial statements were available to be issued. Except as disclosed in Notes 5, 7, and 16, 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.

4. LEASE ABANDONMENT

During 2018, the Organization agreed to terminate a lease for a portion of a farm in Colts Neck, New Jersey owned by a company associated with a member of the board of directors. The lease had been negotiated to expand the Organization's program activities. As a result of the termination, the Organization abandoned all leasehold improvements, construction in process (including engineering and other capitalized professional fees), and certain other equipment with an undepreciated value of \$822,488. Also, as a result of this lease abandonment, the Organization returned \$250,000 of contributions without donor restrictions and \$1,225,388 of contributions with donor restrictions related to the capital campaign during the year since they could not be used for their intended purpose. The returned contributions without donor restrictions relate to contributions received during 2017 that were for the related capital campaign. Due to the funds being released for their intended purpose in 2017 and then subsequently returned in 2018, the returned contributions come from net assets without donor restrictions.

5. 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:

	<u>2018</u>	<u>2017</u>
Receivable in one year or less	\$ 631,698	\$ 1,661,875
Receivable greater than one year	-	523,000
	<u>631,698</u>	<u>2,184,875</u>
Discount on unconditional promises	<u>(227)</u>	<u>(28,650)</u>
	<u>\$ 631,471</u>	<u>\$ 2,156,225</u>

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

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

5. UNCONDITIONAL PROMISES TO GIVE (continued)

Included within unconditional promises to give at December 31, 2018 and 2017 is \$336,866 and \$606,867 of unrestricted contributions that were collected shortly after the subsequent year-end and were intended to be used in 2018 and 2017, respectively. Accordingly, the Organization has not included these amounts of unconditional promises to give within net assets with donor restrictions.

6. 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.

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.

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

6. FAIR VALUE MEASUREMENTS (continued)

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:

	2018			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Investments				
Cash held for reinvestment	\$ 891,998	\$ -	\$ -	\$ 891,998
Government and agency securities	1,534,884	13,648	-	1,548,532
Corporate bonds and notes	-	805,420	-	805,420
Exchange-traded and mutual funds				
- fixed income	5,418,231	-	-	5,418,231
Exchange-traded and mutual funds				
- equities	5,977,133	-	-	5,977,133
Common / preferred equities	<u>4,089,010</u>	<u>-</u>	<u>-</u>	<u>4,089,010</u>
	<u>\$ 17,911,256</u>	<u>\$ 819,068</u>	<u>\$ -</u>	<u>\$ 18,730,324</u>
	2017			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Investments				
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	<u>4,202,305</u>	<u>-</u>	<u>-</u>	<u>4,202,305</u>
	<u>\$ 18,812,863</u>	<u>\$ 895,848</u>	<u>\$ -</u>	<u>\$ 19,708,711</u>

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
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7. PROPERTY AND EQUIPMENT (INCLUDING PROPERTY HELD FOR SALE)

Property and equipment consisted of the following at December 31:

Assets	2018		
	Cost	Accumulated Depreciation	Book Value
Land	\$ 1,028,011	\$ -	\$ 1,028,011
Land improvements	765,434	190,117	575,317
Fencing	694,795	224,710	470,085
Buildings and improvements	7,008,837	2,276,291	4,732,546
Furniture, fixtures, and equipment	1,286,611	894,712	391,899
Vehicles	719,119	520,709	198,410
Software	92,718	92,718	-
	<u>\$ 11,595,525</u>	<u>\$ 4,199,257</u>	<u>\$ 7,396,268</u>

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>

Depreciation expense for the years ended December 31, 2018 and 2017 amounted to \$441,713 and \$384,368, 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.

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

7. 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. The property was sold on November 2, 2017 in the amount of \$1,613,078, with a realized loss of \$776,922.

In April 2019, the Organization purchased a parcel of land adjacent to its existing property in Acton, California for \$151,326.

8. 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 6.00% 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 donor restricted (by time) contributions. In addition, certain donors may place donor purpose restrictions on a contribution as well.

Earnings and gains from invested CGA assets are considered to be without donor restrictions. 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 without donor restrictions (absent any purpose restrictions) and any related liabilities would be extinguished.

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
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8. CHARITABLE GIFT ANNUITIES (continued)

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>2018</u>	<u>2017</u>
Assets held in segregated CGA accounts and are included within investments on the statements of financial position	\$ 286,600	\$ 212,265
Estimated liability of all CGA Program contracts	<u>(90,292)</u>	<u>(42,506)</u>
Excess funds held in reserve to fund future annuity payments	<u>\$ 196,308</u>	<u>\$ 169,759</u>

Of the assets shown above, \$100,000 was contributed by Farm Sanctuary to be held as additional reserves. Charitable gift annuities have been included within net assets with donor restrictions in an amount equal to the original donations received which were \$111,188 and \$62,627 as of December 31, 2018 and 2017, respectively (see Note 10).

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

	<u>2018</u>	<u>2017</u>
Charitable gift annuity obligations, beginning of year	\$ 42,506	\$ 31,631
Liability recorded upon initial donation of CGA assets	51,438	10,697
Payments made to annuitants	(11,167)	(9,211)
Change in CGA liabilities due to discount amortization and changes in estimated life expectancy	<u>7,515</u>	<u>9,389</u>
Charitable gift annuity obligations, end of year	90,292	42,506
Less: current portion	<u>(12,211)</u>	<u>(7,751)</u>
Charitable gift annuity obligations, end of year - noncurrent	<u>\$ 78,081</u>	<u>\$ 34,755</u>

During the years ended December 31, 2018 and 2017, Farm Sanctuary recognized \$48,562 and \$9,304, respectively, of contributions related to the CGA Program.

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
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9. EFFECTS OF IMPLEMENTATION OF ASU 2016-14

The following table shows the effects of accounting changes in adopting ASU 2016-14 of the Organization's net assets as of December 31, 2017

	Unrestricted - Without Donor Restrictions	Temporarily Restricted	With Donor Restrictions	Total
Net assets as previously reported, December 31, 2017	\$ 29,368,090	\$ 1,698,564	\$ -	\$ 31,066,654
Reclassification resulting from ASU 2016-14	<u>-</u>	<u>(1,698,564)</u>	<u>1,698,564</u>	<u>-</u>
	<u>\$ 29,368,090</u>	<u>\$ -</u>	<u>\$ 1,698,564</u>	<u>\$ 31,066,654</u>

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following:

	<u>2018</u>	<u>2017</u>
Purpose restricted		
Administrative and other	\$ 10,000	\$ 10,000
Advocacy efforts	34,416	34,416
Capital campaign	-	1,393,350
Engagement, education, and outreach	47,063	20,823
Other farm property and equipment	94,015	15,252
Shelter maintenance	-	2,500
Shelter operations and rescue	<u>71,860</u>	<u>43,588</u>
	257,354	1,519,929
Time restricted - unconditional promise to give	169,873	116,008
Time restricted - charitable gift annuities	<u>111,188</u>	<u>62,627</u>
	<u>\$ 538,415</u>	<u>\$ 1,698,564</u>

Of the net assets with purpose restrictions, \$124,732 at December 31, 2018 and \$1,433,350 at December 31, 2017 were also time-restricted.

Farm Sanctuary, Inc. and Subsidiary
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11. BOARD-DESIGNATED NET ASSETS

Board-designated net assets consist of the following:

	2018	2017
Board-designated endowment	\$ 10,449,865	\$ 10,957,788
Board-designated reserves	6,461,042	6,728,095
Capital campaign	268,940	406,955
Special projects	250,000	250,000
	\$ 17,429,847	\$ 18,342,838

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.

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, 2018 and 2017, 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.

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

11. BOARD-DESIGNATED NET ASSETS (continued)

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.

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.

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

11. BOARD-DESIGNATED NET ASSETS (continued)

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 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.

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

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, 2018 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated endowment	<u>\$ 10,449,865</u>	<u>\$ -</u>	<u>\$ 10,449,865</u>

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated endowment funds	<u>\$ 10,957,788</u>	<u>\$ -</u>	<u>\$ 10,957,788</u>

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
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11. BOARD-DESIGNATED NET ASSETS (continued)

Summary of endowment balances and activity (continued)

Changes in endowment net assets for the year ended December 31, 2018 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, December 31, 2017	\$ 10,957,788	\$ -	\$ 10,957,788
Investment return			
Interest and dividends	382,306	-	382,306
Loss on fair value of investments	(916,531)	-	(916,531)
Investment fees	<u>(92,762)</u>	<u>-</u>	<u>(92,762)</u>
Total investment return	(626,987)	-	(626,987)
Additional amount designated and added to the fund	488,736	-	488,736
Appropriation of endowment assets for expenditures	<u>(369,672)</u>	<u>-</u>	<u>(369,672)</u>
	<u>(507,923)</u>	<u>-</u>	<u>(507,923)</u>
Balance, December 31, 2018	<u>\$ 10,449,865</u>	<u>\$ -</u>	<u>\$ 10,449,865</u>

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, December 31, 2016	\$ 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>(92,288)</u>
Total investment return	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>(383,440)</u>
	<u>2,638,434</u>	<u>-</u>	<u>2,638,434</u>
Balance, December 31, 2017	<u>\$ 10,957,788</u>	<u>\$ -</u>	<u>\$ 10,957,788</u>

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

12. 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. The line of credit has no set expiration date as long as the Organization does not close its accounts related to the eligible assets held at the 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, 2018 and 2017, there were no balances outstanding.

13. 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, 2018 and 2017, the Organization contributed \$64,943 and \$66,211 to the Plan, respectively.

14. RELATED PARTY TRANSACTIONS

During 2018 and 2017, the Organization contracted with a company owned by an individual related to a member of management to provide certain information technology services. Total fees paid to this company for the year ended December 31, 2018 and 2017 amounted to \$97,907 and \$49,980, respectively.

This contractual arrangement was approved by the Organization's Board of Directors and the contract and related work was overseen by an unrelated member of management. This contractual arrangement was ended on or around September 30, 2018 and all amounts due under the contract were paid in full.

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

14. RELATED PARTY TRANSACTIONS (continued)

During the year ended December 31, 2017, 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 and the aforementioned company. The term of the lease was from December 1, 2017 through May 31, 2028. The Lease required 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 was due but additional rent would be payable in an amount necessary to cover Farm Sanctuary's share of the real estate taxes and other taxes and expenses incurred. During October 2018, the Organization and a company mutually agreed to terminate this lease, which resulted in the Organization being released from its \$4,000,000 commitment to construct tenant improvements on the farm. (See also Note 4.)

15. 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, 2018 and 2017, the costs of conducting these campaigns were \$1,172,822 and \$1,075,638, respectively. Costs were allocated by function as follows:

	2018	2017
Program services	\$ 463,188	\$ 450,161
Management and general	3,195	154
Fundraising	706,439	625,323
	\$ 1,172,822	\$ 1,075,638

16. COMMITMENTS

The Organization is obligated under various noncancelable operating leases for buildings and equipment. In February 2016, the Organization entered into a three-year lease for offices located in Los Angeles, California. This lease was extended for an additional six months.

Total rent expense under all operating leases for the Los Angeles office and various equipment during the years ended December 31, 2018 and 2017 was \$95,730 and \$89,425, respectively.

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

16. COMMITMENTS (continued)

Future minimum lease payments are as follows:

<u>Year ending December 31,</u>	
2019	\$ <u>9,604</u>
	<u>\$ 9,604</u>

Subsequent to the year ended December 31, 2018, the Organization entered into a lease for replacement offices in Los Angeles, California. This new lease runs for 65 months, from October 2019 through February 2025. This lease calls for base monthly rent payments of \$8,392 during the first year of the lease with three percent annual increases in each of the next five years.

17. LIQUIDITY AND AVAILABILITY

The following financial assets reported in the accompanying consolidated statement of financial position as of December 31, 2018 are available for general expenditures within one year. Substantially all of the Organization's net assets with donor restrictions are expected to be satisfied by the passage of time and/or the fulfillment of purpose restrictions during the next twelve months. Consequently, the amounts available are not reduced by net assets with donor restrictions (see Note 10) as of December 31, 2018.

Liquidity of financial assets as of December 31, 2018 is as follows:

Cash and cash equivalents	\$ 1,327,475
Credit card receivables	386,084
Investments	18,730,324
Other receivables	38,847
Unconditional promises to give	<u>631,471</u>
	<u>21,114,201</u>
Donor restricted charitable gift annuities with liquidity horizons greater than one year (Note 10)	(111,188)
Unappropriated board designated net assets	<u>(16,971,567)</u>
	<u>(17,082,755)</u>
	 <u>\$ 4,031,446</u>

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

17. LIQUIDITY AND AVAILABILITY (continued)

As part of Farm Sanctuary's liquidity management, financial assets are structured to be available to meet its general expenditures, liabilities, and other obligations as they come due. In addition, the Organization invests cash in excess of daily requirements in money market funds, certificates of deposits, and other short-term investments. In addition, in order to meet significant unanticipated liquidity needs, the Organization maintains a committed line of credit in the amount of \$2,500,000, which it could draw upon.

Farm Sanctuary maintains a board-designated endowment investment account which had a fair market value of \$10,449,865 at December 31, 2018; this amount is included as part of investments – noncurrent in the accompanying consolidated statement of financial position as of December 31, 2018. As explained in Note 11, the Board of Directors annually approves an amount for expenditure in the following year as part of the Organization's operating budget. The amount approved for expenditure under this policy for the year ended December 31, 2019 is \$458,280 and is included as a component of the \$1,965,468 of investments – current in the accompanying consolidated statement of financial position at December 31, 2018.

The Organization also maintains board-designated reserves which had a fair market value of \$6,461,042 at December 31, 2018; this amount is included as part of investments – noncurrent in the accompanying consolidated statement of financial position as of December 31, 2018. The Organization's policy requires that reserves be held in an amount not less than fifty percent of the current year's operating budget. Use of these funds requires approval by the Organization's Board of Directors.

Although Farm Sanctuary does not intend to spend amounts from the board-designated endowment in an amount exceeding the amount approved for expenditure during the following year and does not intend to spend any amounts from the board-designated reserves, amounts from these accounts could be made available if necessary.

SUPPLEMENTARY INFORMATION



INDEPENDENT AUDITOR'S REPORT ON 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, 2018 and 2017 and our report thereon dated September 19, 2019, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information on pages 34 - 36 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.

A handwritten signature in cursive script that reads "Armanino LLP".

Armanino^{LLP}
Los Angeles, California

September 19, 2019

Farm Sanctuary, Inc. and Subsidiary
Consolidating Statement of Financial Position
December 31, 2018

	Farm Sanctuary, Inc.	Farm Sanctuary, LLC	Subtotal	Eliminations	Consolidated
ASSETS					
Current assets					
Cash and cash equivalents	\$ 1,327,475	\$ -	\$ 1,327,475	\$ -	\$ 1,327,475
Credit card receivables	386,084	-	386,084	-	386,084
Investments	1,965,468	-	1,965,468	-	1,965,468
Other receivables	38,847	-	38,847	-	38,847
Unconditional promises to give	631,471	-	631,471	-	631,471
Merchandise inventory	270,023	-	270,023	-	270,023
Prepaid expenses and other current assets	317,843	-	317,843	-	317,843
Total current assets	<u>4,937,211</u>	<u>-</u>	<u>4,937,211</u>	<u>-</u>	<u>4,937,211</u>
Noncurrent assets					
Investments	16,764,856	-	16,764,856	-	16,764,856
Investment in subsidiary	457,770	-	457,770	(457,770)	-
Cash restricted for noncurrent purposes	19,741	-	19,741	-	19,741
Deposits	14,245	-	14,245	-	14,245
Property and equipment, net	6,938,498	457,770	7,396,268	-	7,396,268
Total noncurrent assets	<u>24,195,110</u>	<u>457,770</u>	<u>24,652,880</u>	<u>(457,770)</u>	<u>24,195,110</u>
 Total assets	 <u>\$ 29,132,321</u>	 <u>\$ 457,770</u>	 <u>\$ 29,590,091</u>	 <u>\$ (457,770)</u>	 <u>\$ 29,132,321</u>

Farm Sanctuary, Inc. and Subsidiary
Consolidating Statement of Financial Position
December 31, 2018

	Farm Sanctuary, Inc.	Farm Sanctuary, LLC	Subtotal	Eliminations	Consolidated
LIABILITIES AND NET ASSETS					
Current liabilities					
Accounts payable	\$ 406,486	\$ -	\$ 406,486	\$ -	\$ 406,486
Accrued expenses and other current liabilities	1,312,046	-	1,312,046	-	1,312,046
Charitable gift annuity obligations	12,211	-	12,211	-	12,211
Deferred revenue	<u>32,942</u>	-	<u>32,942</u>	-	<u>32,942</u>
Total current liabilities	1,763,685	-	1,763,685	-	1,763,685
Charitable gift annuity obligations, net of current portion	<u>78,081</u>	-	<u>78,081</u>	-	<u>78,081</u>
Total liabilities	<u>1,841,766</u>	<u>-</u>	<u>1,841,766</u>	<u>-</u>	<u>1,841,766</u>
Net assets					
Without donor restrictions					
Undesignated	9,322,293	457,770	9,780,063	(457,770)	9,322,293
Board designated	<u>17,429,847</u>	-	<u>17,429,847</u>	-	<u>17,429,847</u>
Total without donor restrictions	26,752,140	457,770	27,209,910	(457,770)	26,752,140
With donor restrictions	<u>538,415</u>	-	<u>538,415</u>	-	<u>538,415</u>
Total net assets	<u>27,290,555</u>	<u>457,770</u>	<u>27,748,325</u>	<u>(457,770)</u>	<u>27,290,555</u>
 Total liabilities and net assets	 <u>\$ 29,132,321</u>	 <u>\$ 457,770</u>	 <u>\$ 29,590,091</u>	 <u>\$ (457,770)</u>	 <u>\$ 29,132,321</u>

Farm Sanctuary, Inc. and Subsidiary
Consolidating Statement of Activities
For The Year Ended December 31, 2018

	Farm Sanctuary, Inc., Without Donor Restrictions	Farm Sanctuary, LLC Without Donor Restrictions	Subtotal	Eliminations	Consolidated Without Donor Restrictions	Consolidated With Donor Restrictions	Total
Public support, revenue, and investment return							
Public support							
Grants and contributions	\$ 7,525,249	\$ -	\$ 7,525,249	\$ -	\$ 7,525,249	\$ 1,975,414	\$ 9,500,663
Bequests	1,244,490	-	1,244,490	-	1,244,490	-	1,244,490
Charitable gift annuities	-	-	-	-	-	48,562	48,562
Special events, net of \$274,312 of direct costs	358,255	-	358,255	-	358,255	161,860	520,115
Net assets released from restrictions	<u>2,120,597</u>	<u>-</u>	<u>2,120,597</u>	<u>-</u>	<u>2,120,597</u>	<u>(2,120,597)</u>	<u>-</u>
Total public support	11,248,591	-	11,248,591	-	11,248,591	65,239	11,313,830
Revenue and investment returns							
Merchandise sales, net of cost of goods sold of \$278,314	200,829	-	200,829	-	200,829	-	200,829
Visitor programs and events	451,010	-	451,010	-	451,010	-	451,010
Investment return	(917,266)	-	(917,266)	-	(917,266)	-	(917,266)
Change in value of charitable gift annuity obligations	(7,515)	-	(7,515)	-	(7,515)	-	(7,515)
Share of subsidiary loss	(14,606)	-	(14,606)	14,606	-	-	-
Other revenue	<u>66,340</u>	<u>-</u>	<u>66,340</u>	<u>-</u>	<u>66,340</u>	<u>-</u>	<u>66,340</u>
Total revenue and investment returns	<u>(221,208)</u>	<u>-</u>	<u>(221,208)</u>	<u>14,606</u>	<u>(206,602)</u>	<u>-</u>	<u>(206,602)</u>
Total public support, revenue, and investment return	<u>11,027,383</u>	<u>-</u>	<u>11,027,383</u>	<u>14,606</u>	<u>11,041,989</u>	<u>65,239</u>	<u>11,107,228</u>
Expenses							
Program services	8,689,580	14,606	8,704,186	-	8,704,186	-	8,704,186
Management and general	1,571,613	-	1,571,613	-	1,571,613	-	1,571,613
Fundraising	<u>2,245,785</u>	<u>-</u>	<u>2,245,785</u>	<u>-</u>	<u>2,245,785</u>	<u>-</u>	<u>2,245,785</u>
Total expenses	<u>12,506,978</u>	<u>14,606</u>	<u>12,521,584</u>	<u>-</u>	<u>12,521,584</u>	<u>-</u>	<u>12,521,584</u>
Change in net assets from ongoing activities	(1,479,595)	(14,606)	(1,494,201)	14,606	(1,479,595)	65,239	(1,414,356)
Other changes in net assets							
Return of contributions (Note 4)	(250,000)	-	(250,000)	-	(250,000)	(1,225,388)	(1,475,388)
Loss on leasehold improvements and equipment (Note 4)	(822,488)	-	(822,488)	-	(822,488)	-	(822,488)
Other loss on capital projects	<u>(63,867)</u>	<u>-</u>	<u>(63,867)</u>	<u>-</u>	<u>(63,867)</u>	<u>-</u>	<u>(63,867)</u>
Total other changes in net assets	<u>(1,136,355)</u>	<u>-</u>	<u>(1,136,355)</u>	<u>-</u>	<u>(1,136,355)</u>	<u>(1,225,388)</u>	<u>(2,361,743)</u>
Change in net assets	(2,615,950)	(14,606)	(2,630,556)	14,606	(2,615,950)	(1,160,149)	(3,776,099)
Net assets, beginning of year	<u>28,895,714</u>	<u>472,376</u>	<u>29,368,090</u>	<u>(472,376)</u>	<u>29,368,090</u>	<u>1,698,564</u>	<u>31,066,654</u>
Net assets, end of year	<u>\$ 26,279,764</u>	<u>\$ 457,770</u>	<u>\$ 26,737,534</u>	<u>\$ (457,770)</u>	<u>\$ 26,752,140</u>	<u>\$ 538,415</u>	<u>\$ 27,290,555</u>