

Farm Sanctuary, Inc. and Subsidiary

Consolidated Financial Statements
and Supplementary Information

December 31, 2022 and 2021



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4 - 5
Consolidated Statements of Functional Expenses	6 - 7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9 - 27
Supplementary Information	
Independent Auditor's Report on Supplementary Information	29
Consolidating Statement of Financial Position	30 - 31
Consolidating Statement of Activities	32

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2022 and 2021, 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.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Farm Sanctuary, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As described in Note 2 to the consolidated financial statements, the Organization has adopted Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 842, *Leases* and FASB Accounting Standards Update ("ASU") 2020-07 *Presentation and Disclosures for Not-for-Profit Entities for Contributed Nonfinancial Assets* as of January 1, 2022. Our opinion is not modified with respect to that matter.

Responsibilities of Management 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, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Farm Sanctuary, Inc.'s ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Farm Sanctuary, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Farm Sanctuary, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Armanino^{LLP}
Los Angeles, California

August 2, 2023

Farm Sanctuary, Inc. and Subsidiary
Consolidated Statements of Financial Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,016,022	\$ 568,067
Credit card receivables	727,720	708,524
Investments	600,000	850,000
Other receivables	64,656	35,727
Unconditional promises to give, current	865,793	1,149,215
Merchandise inventory	164,479	198,308
Prepaid expenses and other current assets	273,834	361,948
Total current assets	<u>3,712,504</u>	<u>3,871,789</u>
Non-current assets		
Investments	7,699,867	8,408,427
Investments held for endowment	10,492,517	15,171,489
Unconditional promises to give, noncurrent, net of discount	58,339	173,968
Restricted cash	7,141	111,809
Deposits	2,500	51,751
Property and equipment, net	7,511,866	7,549,521
Total non-current assets	<u>25,772,230</u>	<u>31,466,965</u>
Total assets	<u>\$ 29,484,734</u>	<u>\$ 35,338,754</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 404,565	\$ 291,964
Accrued expenses and other current liabilities	647,230	652,745
Charitable gift annuity obligations, current	12,995	10,905
Deferred revenue	22,566	80,447
Revolving line of credit	1,500,000	-
Total current liabilities	<u>2,587,356</u>	<u>1,036,061</u>
Charitable gift annuity obligations, noncurrent	<u>116,268</u>	<u>96,800</u>
Total liabilities	<u>2,703,624</u>	<u>1,132,861</u>
Net assets		
Without donor restrictions		
Undesignated	7,354,684	9,169,095
Board-designated	<u>18,807,575</u>	<u>24,091,226</u>
Total without donor restrictions	26,162,259	33,260,321
With donor restrictions	<u>618,851</u>	<u>945,572</u>
Total net assets	<u>26,781,110</u>	<u>34,205,893</u>
Total liabilities and net assets	<u>\$ 29,484,734</u>	<u>\$ 35,338,754</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, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Public support, revenue, investment returns, and other revenues			
Public support			
Grants and contributions	\$ 8,739,345	\$ 935,994	\$ 9,675,339
Bequests	2,126,634	-	2,126,634
In-kind contributions	530,763	-	530,763
Charitable gift annuities	13,400	15,132	28,532
Net assets released from restrictions	<u>1,277,847</u>	<u>(1,277,847)</u>	<u>-</u>
Total public support	<u>12,687,989</u>	<u>(326,721)</u>	<u>12,361,268</u>
Investment returns and other revenues			
Merchandise sales, net	75,310	-	75,310
Educational programs and events	415,210	-	415,210
Net investment return (loss)	(3,522,171)	-	(3,522,171)
Change in value of charitable gift annuity obligations	(12,008)	-	(12,008)
Other revenue	<u>99,823</u>	<u>-</u>	<u>99,823</u>
Total investment returns and other revenues	<u>(2,943,836)</u>	<u>-</u>	<u>(2,943,836)</u>
Total public support, revenue, investment returns, and other revenues	<u>9,744,153</u>	<u>(326,721)</u>	<u>9,417,432</u>
Functional expenses			
Program services			
Rescue Shelter and Adoption	5,724,319	-	5,724,319
Education and Outreach	3,020,979	-	3,020,979
Advocacy and Action	<u>1,858,987</u>	<u>-</u>	<u>1,858,987</u>
Total program services	<u>10,604,285</u>	<u>-</u>	<u>10,604,285</u>
Support services			
Management and general	2,760,851	-	2,760,851
Fundraising	<u>3,477,079</u>	<u>-</u>	<u>3,477,079</u>
Total support services	<u>6,237,930</u>	<u>-</u>	<u>6,237,930</u>
Total functional expenses	<u>16,842,215</u>	<u>-</u>	<u>16,842,215</u>
Change in net assets	(7,098,062)	(326,721)	(7,424,783)
Net assets, beginning of year	<u>33,260,321</u>	<u>945,572</u>	<u>34,205,893</u>
Net assets, end of year	<u>\$ 26,162,259</u>	<u>\$ 618,851</u>	<u>\$ 26,781,110</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, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Public support, revenue, investment returns, and other revenues			
Public support			
Grants and contributions	\$ 8,938,062	\$ 2,000,237	\$ 10,938,299
Bequests	2,276,758	-	2,276,758
In-kind contributions	660,577	-	660,577
Charitable gift annuities	-	28,242	28,242
Net assets released from restrictions	<u>1,822,688</u>	<u>(1,822,688)</u>	<u>-</u>
Total public support	<u>13,698,085</u>	<u>205,791</u>	<u>13,903,876</u>
Investment returns and other revenues			
Merchandise sales, net	75,770	-	75,770
Educational programs and events	45,515	-	45,515
Net investment return (loss)	3,071,199	-	3,071,199
Change in value of charitable gift annuity obligations	(9,513)	-	(9,513)
Other revenue	<u>78,939</u>	<u>-</u>	<u>78,939</u>
Total investment returns and other revenues	<u>3,261,910</u>	<u>-</u>	<u>3,261,910</u>
Total public support, revenue, investment returns, and other revenues	<u>16,959,995</u>	<u>205,791</u>	<u>17,165,786</u>
Functional expenses			
Program services			
Rescue Shelter and Adoption	5,564,491	-	5,564,491
Education and Outreach	4,346,826	-	4,346,826
Advocacy and Action	<u>1,209,829</u>	<u>-</u>	<u>1,209,829</u>
Total program services	<u>11,121,146</u>	<u>-</u>	<u>11,121,146</u>
Support services			
Management and general	2,600,351	-	2,600,351
Fundraising	<u>2,485,450</u>	<u>-</u>	<u>2,485,450</u>
Total support services	<u>5,085,801</u>	<u>-</u>	<u>5,085,801</u>
Total functional expenses	<u>16,206,947</u>	<u>-</u>	<u>16,206,947</u>
Change in net assets	753,048	205,791	958,839
Net assets, beginning of year	<u>32,507,273</u>	<u>739,781</u>	<u>33,247,054</u>
Net assets, end of year	<u>\$ 33,260,321</u>	<u>\$ 945,572</u>	<u>\$ 34,205,893</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, 2022

	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	\$ 2,454,214	\$ 1,812,867	\$ 508,784	\$ 4,775,865	\$ 943,951	\$ 1,186,320	\$ 6,906,136
Payroll taxes	203,947	143,382	40,399	387,728	79,975	93,590	561,293
Employee benefits	360,758	231,882	56,688	649,328	190,014	116,206	955,548
Workers' compensation insurance	54,542	30,305	7,698	92,545	16,990	19,266	128,801
Total salaries and related expenses	3,073,461	2,218,436	613,569	5,905,466	1,230,930	1,415,382	8,551,778
Advertising and public engagement	-	65,782	14,048	79,830	20,169	29	100,028
Animal care and rehabilitation	825,514	194	-	825,708	21	-	825,729
Bank charges and other fees	-	4,714	-	4,714	190,795	644	196,153
Depreciation	566,981	42,815	-	609,796	1,223	611	611,630
Dues and subscriptions	675	1,501	1,704	3,880	10,866	3,759	18,505
Education programs and events	-	130,217	86	130,303	3,403	141	133,847
Employee recruiting, retention, and training	13,362	5,706	505	19,573	138,231	782	158,586
Equipment and supplies	60,695	60,444	389	121,528	15,425	2,312	139,264
Grants	12,800	1,500	1,453	15,753	-	-	15,753
Insurance	366,903	-	-	366,903	2,569	15,449	384,921
Miscellaneous	-	65	-	65	355	4,001	4,421
Postage and processing	302	18,689	323,016	342,007	-	1,306,290	1,648,297
Printing	-	9,733	165,818	175,551	428	294,026	470,005
Professional and other outside services	23,936	174,952	673,629	872,517	701,682	286,700	1,860,900
Rent	10	-	-	10	162,326	-	162,336
Repairs and maintenance	268,551	311	-	268,862	-	-	268,862
Taxes and licenses	54,097	3,697	-	57,794	43,943	-	101,737
Technology and communications	276,961	197,781	53,918	528,660	157,559	123,851	810,070
Travel and meals	49,969	49,225	3,740	102,934	62,015	16,214	181,163
Utilities	130,102	35,217	7,112	172,431	18,911	6,888	198,230
	<u>\$ 5,724,319</u>	<u>\$ 3,020,979</u>	<u>\$ 1,858,987</u>	<u>\$ 10,604,285</u>	<u>\$ 2,760,851</u>	<u>\$ 3,477,079</u>	<u>\$ 16,842,215</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, 2021

	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	\$ 2,486,885	\$ 2,082,652	\$ 449,636	\$ 5,019,173	\$ 917,846	\$ 839,164	\$ 6,776,183
Payroll taxes	216,356	161,654	34,790	412,800	73,711	63,904	550,415
Employee benefits	345,660	263,582	44,742	653,984	110,840	79,902	844,726
Workers' compensation insurance	132,817	31,391	4,513	168,721	7,654	6,508	182,883
Total salaries and related expenses	3,181,718	2,539,279	533,681	6,254,678	1,110,051	989,478	8,354,207
Advertising and public engagement	14,096	103,903	25,598	143,597	-	-	143,597
Animal care and rehabilitation	826,083	-	-	826,083	-	-	826,083
Bank charges and other fees	-	-	-	-	161,749	-	161,749
Depreciation	512,054	38,666	-	550,720	1,105	552	552,377
Dues and subscriptions	14,683	1,585	403	16,671	802	2,832	20,305
Education programs and events	-	193,784	20,344	214,128	-	-	214,128
Employee recruiting, retention, and training	66,655	69,248	23,214	159,117	28,214	17,517	204,848
Equipment and supplies	37,776	44,023	1,987	83,786	3,479	5,648	92,913
Insurance	184,559	67,852	5,428	257,839	10,856	2,714	271,409
Miscellaneous	-	297	-	297	-	672	969
Postage and processing	5,506	172,346	367,135	544,987	96,816	958,097	1,599,900
Printing	340	19,389	88,225	107,954	54,020	236,588	398,562
Professional and other outside services	75,529	391,752	89,211	556,492	952,291	206,292	1,715,075
Rent	168	4,920	31	5,119	91,600	1,967	98,686
Repairs and maintenance	250,251	50,284	359	300,894	1,230	768	302,892
Taxes and licenses	75,932	20,964	-	96,896	5,971	333	103,200
Technology and communications	125,571	573,303	48,505	747,379	65,236	49,451	862,066
Travel and meals	73,092	31,964	5,708	110,764	12,157	11,923	134,844
Utilities	120,478	23,267	-	143,745	4,774	618	149,137
	<u>\$ 5,564,491</u>	<u>\$ 4,346,826</u>	<u>\$ 1,209,829</u>	<u>\$ 11,121,146</u>	<u>\$ 2,600,351</u>	<u>\$ 2,485,450</u>	<u>\$ 16,206,947</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Change in net assets	\$ (7,424,783)	\$ 958,839
Adjustments to reconcile change in net assets to net cash used in operating activities		
Amortization of discount on unconditional promises to give	(1,371)	(4,345)
Depreciation	611,630	552,377
Loss on disposal of property and equipment	60,428	312
Net realized and unrealized (gains) losses on investments	3,945,690	(2,355,322)
Change in value of charitable gift annuity liabilities	12,008	9,513
Donated securities	(52,800)	(378,217)
Changes in operating assets and liabilities		
Credit card receivables	(19,196)	(230,917)
Other receivables	(28,929)	6,579
Unconditional promises to give	400,422	(633,277)
Merchandise inventory	33,829	55,067
Prepaid and other current assets	88,114	(387)
Deposits	49,251	(7,348)
Accounts payable	112,601	(22,008)
Accrued expenses and other current liabilities	(5,515)	97,077
Charitable gift annuity obligations	9,550	12,311
Deferred revenue	(57,881)	28,842
Net cash used in operating activities	<u>(2,266,952)</u>	<u>(1,910,904)</u>
Cash flows from investing activities		
Purchase of investments	(7,074,160)	(5,518,743)
Proceeds from sale of investments	8,818,802	8,440,317
Purchases of property and equipment	(634,403)	(986,139)
Proceeds from revolving line of credit	1,500,000	-
Net cash provided by investing activities	<u>2,610,239</u>	<u>1,935,435</u>
Net increase in cash and restricted cash	343,287	24,531
Cash and restricted cash, beginning of year	<u>679,876</u>	<u>655,345</u>
Cash and restricted cash, end of year	<u><u>\$ 1,023,163</u></u>	<u><u>\$ 679,876</u></u>
Cash and restricted cash consisted of the following:		
Cash and cash equivalents	\$ 1,016,022	\$ 568,067
Restricted cash	<u>7,141</u>	<u>111,809</u>
	<u><u>\$ 1,023,163</u></u>	<u><u>\$ 679,876</u></u>

Supplemental schedule of noncash investing and financing activities

Donations of investments	\$ 359,434	\$ 378,217
--------------------------	------------	------------

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

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

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. The mission of Farm Sanctuary is to pursue bold solutions to end animal agriculture and foster just and compassionate vegan living. Farm Sanctuary provides rescue and care for abused and neglected farm animals; provides adoption services and information on farm and animal care; educates and disseminates information on farm animal issues; assists authorities in farm animal cruelty cases; and monitors legislative action by working with legislators on federal and state bills. Farm Sanctuary is supported primarily through donor contributions and grants.

As of December 31, 2022, Farm Sanctuary operates two sanctuaries, one in Watkins Glen, New York and one in Acton, California. The Organization's corporate headquarters is located at its Watkins Glen, New York sanctuary.

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 with Farm Sanctuary being its single member.

The following programs promote the Organization's mission:

Rescue, Shelter and Adoption

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

Education and Outreach

The Education and Outreach programs include in-person activities, such as guided tours, hospitality programs, stakeholder events, volunteer and internship programs, research, community relations and engagement events, and virtual (formerly in-classroom) humane education programs. The Organization also provides virtual programming via its social media channels, virtual events and sanctuary experiences, and humane education classes and resources. Each program aims to provide audiences with the opportunity to experience the sanctuaries, to learn about issues related to animal welfare and the food system, and to take action in support of Farm Sanctuary's mission.

Advocacy and Action

Farm Sanctuary focuses on building community with and engaging consumers, communities, organizations, and businesses to encourage them to consider farm animal issues in their decision-making processes. The Organization also monitors federal and state legislation, informs the public on legislation and issues involving farm animals, and engages in legislative and other political and grassroots processes to provide a voice for farm animals and advance the Organization's mission.

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") applicable to nonprofit organizations. The Organization's accompanying 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 based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *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. These are included within net assets without donor restrictions in the accompanying consolidated statements of financial position (see Note 8).

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, and expenses as of the date and for the period presented. Accordingly, actual events and results could differ from those assumptions and 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. During the years ended December 31, 2022 and 2021, cash and cash equivalents totaled \$1,016,022 and \$568,067, respectively.

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted cash

Restricted cash amounted to \$7,141 and \$111,809 at December 31, 2022 and 2021 and consists of cash restricted for long-term purposes due to net assets restricted for capital purchases. This amount is included in noncurrent restricted cash in the accompanying consolidated statements of financial position.

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, 2022 and 2021 were attributable to donations. Chargebacks related to credit card receivables were inconsequential as of December 31, 2022 and 2021; accordingly, no allowance for credit card receivable chargebacks has been established.

Investments

Investments consist of U.S. government securities, 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, 2022 and 2021.

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 accompanying consolidated statement of activities for the year.

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

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.

In-kind contributions

Contributions of donated non-cash assets are recorded at their estimated fair market values at the date the contribution is made. Donated services are recognized as contribution revenue at the fair value of those services, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. During the years ended December 31, 2022 and 2021, the Organization recognized \$530,763 and \$660,577 in contributed services and donated materials, respectively.

Contributions of 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, 2022 and 2021, the Organization received donated marketable securities valued at \$359,434 and \$378,217 of which \$306,634 and \$0 were liquidated immediately and have been excluded from operating activities in the accompanying consolidated statements of cash flows, respectively.

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 accompanying consolidated statement of activities as net assets released from restrictions.

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 accompanying consolidated statements of functional expenses.

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 payable to the California Franchise Tax Board.

The Organization accounts for any uncertainties in income taxes recognized in accordance with the Financial Accounting Standards Board ASC Topic ("ASC 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.

Concentrations

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.

Change in accounting principle

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2016-02, *Leases*, Accounting Standards Codification ("ASC") Topic 842 ("ASC 842"). ASC 842 is the comprehensive lease standard that supersedes the previous authoritative lease accounting guidance contained in ASC 840. ASC 842 requires a lessee to recognize assets and liabilities related to long-term leases that were classified in its balance sheet as operating leases under previous guidance. A leased asset, referred to as a right-of-use asset, is to be recognized related to the right to use the underlying asset and a lease related liability is to be recognized related to the lease payment obligations over the term of the lease, and includes options to extend that management reasonably expects to exercise. ASC 842 also requires expanded disclosures surrounding leases.

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

The Organization had one lease which expired in 2022. There were no other leases that qualified for treatment under ASC 842, as such adoption of ASC 842 did not have a material impact to the accompanying consolidated financial statements.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. Under this ASU, a not-for-profit entity is required to present contributed nonfinancial assets as a separate line-item in the statement of activities, apart from contributions of cash and other financial assets as well as include enhanced disclosures surrounding the nature and valuation techniques of the contributed nonfinancial assets. The Organization adopted ASU 2020-07 with a date of the initial application of January 1, 2022. The adoption of ASU 2020-07 did not have a significant impact on the Organization's financial position, results of operations, or cash flows.

Subsequent events

The Organization has evaluated events subsequent to December 31, 2022, to assess the need for potential recognition or disclosure in the accompanying consolidated financial statements. Such events were evaluated through August 2, 2023, the date the accompanying consolidated financial statements were available to be issued. Based upon this evaluation, no subsequent events occurred that require recognition or additional disclosure in the accompanying consolidated financial statements, except as disclosed in Notes 9 and 15.

3. 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>2022</u>	<u>2021</u>
Receivable in one year or less	\$ 865,793	\$ 1,149,215
Receivable greater than one year	<u>58,339</u>	<u>173,968</u>
	924,132	1,323,183
Discount on unconditional promises	<u>-</u>	<u>(1,365)</u>
	<u><u>\$ 924,132</u></u>	<u><u>\$ 1,321,818</u></u>

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

Included within unconditional promises to give at December 31, 2022 and 2021 is \$754,471 and \$526,531 of unrestricted contributions that were collected shortly after the subsequent year-end and were intended to be used in 2022 and 2021, respectively. Accordingly, the Organization has not included these amounts of unconditional promises to give within net assets with donor restrictions.

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

4. 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 U.S. 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.

Total investments consist of the following:

	<u>2022</u>	<u>2021</u>
Investments	\$ 600,000	\$ 850,000
Investments - non-current	<u>18,192,384</u>	<u>23,579,916</u>
	<u><u>\$ 18,792,384</u></u>	<u><u>\$ 24,429,916</u></u>

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

4. FAIR VALUE MEASUREMENTS (continued)

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

2022				
	Level 1	Level 2	Level 3	Fair Value
Investments				
Cash held for reinvestment	\$ 1,448,122	\$ -	\$ -	\$ 1,448,122
Government and agency securities	2,195,484	13,648	-	2,209,132
Corporate bonds and notes	676,824	-	-	676,824
Exchange-traded and mutual funds				
- fixed income	4,037,690	-	-	4,037,690
Exchange-traded and mutual funds				
- equities	5,702,274	-	-	5,702,274
Common / preferred equities	4,718,342	-	-	4,718,342
	<u>\$ 18,778,736</u>	<u>\$ 13,648</u>	<u>\$ -</u>	<u>\$ 18,792,384</u>
2021				
	Level 1	Level 2	Level 3	Fair Value
Investments				
Cash held for reinvestment	\$ 1,151,205	\$ -	\$ -	\$ 1,151,205
Government and agency securities	2,544,581	13,648	-	2,558,229
Exchange-traded and mutual funds				
- fixed income	5,253,633	-	-	5,253,633
Exchange-traded and mutual funds				
- equities	8,232,771	-	-	8,232,771
Common / preferred equities	7,234,078	-	-	7,234,078
	<u>\$ 24,416,268</u>	<u>\$ 13,648</u>	<u>\$ -</u>	<u>\$ 24,429,916</u>

The following table shows the components of net investment return as of December 31:

	2022	2021
Net realized and unrealized gains (losses) on investments	\$ (3,945,690)	\$ 2,355,322
Reinvested interest and dividends	591,600	914,326
Investment fees	(168,081)	(198,449)
	<u>\$ (3,522,171)</u>	<u>\$ 3,071,199</u>

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

Assets	2022		
	Cost	Accumulated Depreciation	Book Value
Land	\$ 1,739,572	\$ -	\$ 1,739,572
Land improvements	844,285	367,096	477,189
Fencing	1,051,428	564,248	487,180
Buildings and improvements	7,202,288	3,139,923	4,062,365
Furniture, fixtures, and equipment	1,351,193	1,153,871	197,322
Vehicles	1,121,561	813,008	308,553
Software	111,076	82,181	28,895
Construction in progress	210,790	-	210,790
	<u>\$ 13,632,193</u>	<u>\$ 6,120,327</u>	<u>\$ 7,511,866</u>

Assets	2021		
	Cost	Accumulated Depreciation	Book Value
Land	\$ 1,739,572	\$ -	\$ 1,739,572
Land improvements	844,285	319,009	525,276
Fencing	985,967	426,375	559,592
Buildings and improvements	7,152,522	2,973,998	4,178,524
Leasehold improvements	5,000	2,031	2,969
Furniture, fixtures, and equipment	1,354,247	1,071,825	282,422
Vehicles	881,952	721,316	160,636
Software	111,076	66,062	45,014
Construction in progress	55,516	-	55,516
	<u>\$ 13,130,137</u>	<u>\$ 5,580,616</u>	<u>\$ 7,549,521</u>

Depreciation expense for the years ended December 31, 2022 and 2021 amounted to \$611,630 and \$552,377, respectively.

6. 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.

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

6. CHARITABLE GIFT ANNUITIES (continued)

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.

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>2022</u>	<u>2021</u>
Assets held in segregated CGA accounts and are included		
within investments on the statements of financial position	\$ 156,399	\$ 531,655
Estimated liability of all CGA Program contracts	<u>(129,263)</u>	<u>(107,705)</u>
Excess funds held in reserve to fund future annuity payments	<u>\$ 27,136</u>	<u>\$ 423,950</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 \$116,289 and \$101,157 as of December 31, 2022 and 2021, respectively (see Note 7).

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

6. CHARITABLE GIFT ANNUITIES (continued)

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

	<u>2022</u>	<u>2021</u>
Charitable gift annuity obligations, beginning of year	\$ 107,705	\$ 85,881
Liability recorded upon initial donation of CGA assets	19,791	21,758
Payments made to annuitants	(10,241)	(9,447)
Change in CGA liabilities due to discount amortization and changes in estimated life expectancy	<u>12,008</u>	<u>9,513</u>
Charitable gift annuity obligations, end of year	129,263	107,705
Less: current portion	<u>(12,995)</u>	<u>(10,905)</u>
Charitable gift annuity obligations, end of year - noncurrent	<u><u>\$ 116,268</u></u>	<u><u>\$ 96,800</u></u>

During the years ended December 31, 2022 and 2021, Farm Sanctuary recognized \$28,532 and \$28,242, respectively, of contributions related to the CGA Program.

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following:

	<u>2022</u>	<u>2021</u>
Purpose restricted		
Administrative and other	\$ 33,327	\$ 31,258
Advocacy efforts	132,262	34,416
Engagement, education, and outreach	122,692	237,065
Farm property and equipment	7,141	116,985
Shelter operations and rescue	<u>100,000</u>	<u>12,730</u>
	395,422	432,454
Time restricted - unconditional promise to give	107,140	411,961
Time restricted - charitable gift annuities	<u>116,289</u>	<u>101,157</u>
	<u><u>\$ 618,851</u></u>	<u><u>\$ 945,572</u></u>

Of the net assets with purpose restrictions, \$100,000 at December 31, 2022 and \$285,160 at December 31, 2021 were also time-restricted.

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

8. BOARD-DESIGNATED NET ASSETS

Board-designated net assets consist of the following:

	<u>2022</u>	<u>2021</u>
Board-designated endowment	\$ 10,492,517	\$ 15,171,488
Board-designated reserves	8,065,058	8,669,738
Special projects	<u>250,000</u>	<u>250,000</u>
	<u>\$ 18,807,575</u>	<u>\$ 24,091,226</u>

Investments related to the board-designated endowment and the board-designated reserves are classified as part of noncurrent assets in the accompanying consolidated statement of financial position. The amount designated for special projects is considered to be available for current projects. Additionally, the Board has appropriated \$600,000 of the board-designated endowment for expenditure in 2023 and 2022. Accordingly, amounts designated for special projects and appropriated for expenditure in 2023 are classified as part of current investments in the accompanying 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, 2022 and 2021, 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, 2022 and 2021

8. BOARD-DESIGNATED NET ASSETS (continued)

Strategies employed for achieving objectives

The Board may designate unrestricted funds from time to time to be added to the Organization's endowment. Additional funding from 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 from Bequests are reviewed annually and may be allocated to the Organization's endowment by the Board.

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	35% - 80%	45% - 70%
Domestic Large Cap	25% - 55%	30% - 40%
Domestic Small / Mid Cap	0% - 25%	5% - 20%
International	0% - 25%	5% - 20%
Fixed Income	15% - 55%	25% - 45%
Cash Equivalents	2% - 15%	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, 2022 and 2021

8. 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.

The Calculation is based on a three-year quarterly rolling average for the value of the endowment fund.

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, 2022 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment	<u>\$ 10,492,517</u>	<u>\$ -</u>	<u>\$ 10,492,517</u>

Endowment net assets as of December 31, 2021 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment	<u>\$ 15,171,488</u>	<u>\$ -</u>	<u>\$ 15,171,488</u>

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

8. BOARD-DESIGNATED NET ASSETS (continued)

Summary of endowment balances and activity (continued)

Changes in endowment net assets for the year ended December 31, 2022 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, December 31, 2021	\$ 15,171,488	\$ -	\$ 15,171,488
Investment return			
Interest and dividends	320,866	-	320,866
(Loss) on fair value of investments	(2,317,733)	-	(2,317,733)
Investment fees	(97,104)	-	(97,104)
Total investment return	(2,093,971)	-	(2,093,971)
Appropriation of endowment assets for expenditures	(2,585,000)	-	(2,585,000)
	(4,678,971)	-	(4,678,971)
Balance, December 31, 2022	<u>\$ 10,492,517</u>	<u>\$ -</u>	<u>\$ 10,492,517</u>

Changes in endowment net assets for the year ended December 31, 2021 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, December 31, 2020	\$ 15,952,540	\$ -	\$ 15,952,540
Investment return			
Interest and dividends	361,546	-	361,546
Gain on fair value of investments	2,020,244	-	2,020,244
Investment fees	(125,870)	-	(125,870)
Total investment return	2,255,920	-	2,255,920
Appropriation of endowment assets for expenditures	(3,036,972)	-	(3,036,972)
	(781,052)	-	(781,052)
Balance, December 31, 2021	<u>\$ 15,171,488</u>	<u>\$ -</u>	<u>\$ 15,171,488</u>

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

9. REVOLVING LINE OF CREDIT

The Organization opened a Revolving Line of Credit ("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.

The Organization had an outstanding balance of \$1,500,000 on the Line of Credit as of December 31, 2022. There was no outstanding balance on the Line of Credit as of December 31, 2021. Subsequent to year end in May 2023, the Organization drew down an additional \$380,000 from the Line of Credit.

10. IN-KIND CONTRIBUTIONS

In-kind contributions during the years ended December 31, 2022 and 2021 were comprised of contributed marketable securities, goods, and services with an estimated fair value of \$359,434, \$34,744, \$496,019 and \$378,217, \$1,736, \$658,841, respectively.

In-kind contributions valuation techniques

Contributed animal feed, supplies and certain property and equipment are valued at the fair value based on estimated values that would be received for selling similar or identical products in the United States.

Donor restrictions and in-kind contribution use

The in-kind contributions received during the year ended December 31, 2022 included no donor restrictions. Contributed feed, supplies and certain property and equipment were fully utilized by the Organization for program services and management and general activities and not monetized.

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, 2022 and 2021, the Organization contributed \$136,810 and \$135,679 to the Plan, respectively.

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

12. 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, 2022 and 2021, the costs of conducting these campaigns were \$1,570,496 and \$1,475,330, respectively. Costs were allocated by function as follows:

	<u>2022</u>	<u>2021</u>
Program services	\$ 588,936	\$ 522,905
Fundraising	<u>981,560</u>	<u>952,425</u>
	<u>\$ 1,570,496</u>	<u>\$ 1,475,330</u>

13. COMMITMENTS

The Organization is obligated under various noncancelable operating leases for a building and equipment. In September 2019, the Organization entered into a 65-month lease for office space in Los Angeles, California. The lease period was October 2019 through February 2025. The Organization terminated the lease effective September 30, 2022 and paid termination fees of \$41,576. In February 2016, the Organization entered into a 36-month lease for an office copier to be used in their Los Angeles, California space. The lease period was February 2016 through February 2019 and continued as month-to-month. The Organization terminated the lease in September 2022.

Total rent expense under all operating leases for the Los Angeles office and various equipment during the years ended December 31, 2022 and 2021 was \$162,336 and \$98,686, respectively. The leases were appropriately recognized under ASC 840 for the year ended December 31, 2021. Adoption of ASC 842 did not have a material impact to the accompanying consolidated financial statements as described in Note 2.

14. LIQUIDITY AND AVAILABILITY

The following financial assets reported in the accompanying consolidated statement of financial position as of December 31, 2022 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 7) as of December 31, 2022.

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

14. LIQUIDITY AND AVAILABILITY (continued)

Liquidity of financial assets as of December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 1,016,022	\$ 568,067
Credit card receivables	727,720	708,524
Investments	600,000	850,000
Other receivables	64,656	35,727
Unconditional promises to give, current	<u>865,793</u>	<u>1,149,215</u>
	<u>3,274,191</u>	<u>3,311,533</u>
Donor restricted charitable gift annuities with liquidity horizons greater than one year (Note 6)	<u>(116,268)</u>	<u>(96,800)</u>
	<u>(116,268)</u>	<u>(96,800)</u>
	<u>\$ 3,157,923</u>	<u>\$ 3,214,733</u>

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 deposit, 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 \$10,942,517 at December 31, 2022. As explained in Note 8, 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, 2023 is \$600,000 and is included in the accompanying consolidated statement of financial position at December 31, 2022. The unappropriated amount of the board-designated endowment is included as part of investments – noncurrent in the accompanying consolidated statement of financial position as of December 31, 2022.

The Organization also maintains board-designated reserves which had a fair market value of \$8,065,058 at December 31, 2022; this amount is included as part of investments – noncurrent in the accompanying consolidated statement of financial position as of December 31, 2022. 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.

Farm Sanctuary, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

14. LIQUIDITY AND AVAILABILITY (continued)

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.

15. LITIGATION

On April 14, 2019, Tamerlaine Farm Animal Sanctuary amended a complaint it had filed against several of its former employees in January 2018, to add Farm Sanctuary and its former National Shelter Director Susie Coston as defendants in the lawsuit which alleged a conspiracy to shut down Tamerlaine. Farm Sanctuary denies all claims against the Organization and has vigorously defended the lawsuit. Subsequent to year end in April 2023, the litigation was settled for approximately \$70,000 which was covered by insurance and all claims against Farm Sanctuary were withdrawn.

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, 2022 and 2021 and our report thereon dated August 2, 2023, which expressed an unmodified opinion on those financial statements, appears on pages 1 - 2. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information on pages 30 - 32 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 black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
Los Angeles, California

August 2, 2023

Farm Sanctuary, Inc. and Subsidiary
Consolidating Statement of Financial Position
December 31, 2022

	Farm Sanctuary, Inc.	Farm Sanctuary, LLC	Subtotal	Eliminations	Consolidated
ASSETS					
Current assets					
Cash and cash equivalents	\$ 1,016,022	\$ -	\$ 1,016,022	\$ -	\$ 1,016,022
Credit card receivables	727,720	-	727,720	-	727,720
Investments	600,000	-	600,000	-	600,000
Other receivables	64,656	-	64,656	-	64,656
Unconditional promises to give, current	865,793	-	865,793	-	865,793
Merchandise inventory	164,479	-	164,479	-	164,479
Prepaid expenses and other current assets	273,834	-	273,834	-	273,834
Total current assets	<u>3,712,504</u>	<u>-</u>	<u>3,712,504</u>	<u>-</u>	<u>3,712,504</u>
Non-current assets					
Investments	18,192,384	-	18,192,384	-	18,192,384
Investment in subsidiary	399,353	-	399,353	(399,353)	-
Unconditional promises to give, noncurrent	58,339	-	58,339	-	58,339
Restricted cash	7,141	-	7,141	-	7,141
Deposits	2,500	-	2,500	-	2,500
Property and equipment, net	7,112,513	399,353	7,511,866	-	7,511,866
Total non-current assets	<u>25,772,230</u>	<u>399,353</u>	<u>26,171,583</u>	<u>(399,353)</u>	<u>25,772,230</u>
Total assets	<u>\$ 29,484,734</u>	<u>\$ 399,353</u>	<u>\$ 29,884,087</u>	<u>\$ (399,353)</u>	<u>\$ 29,484,734</u>

Farm Sanctuary, Inc. and Subsidiary
Consolidating Statement of Financial Position
December 31, 2022

	<u>Farm Sanctuary, Inc.</u>	<u>Farm Sanctuary, LLC</u>	<u>Subtotal</u>	<u>Eliminations</u>	<u>Consolidated</u>
LIABILITIES AND NET ASSETS					
Current liabilities					
Accounts payable	\$ 404,565	\$ -	\$ 404,565	\$ -	\$ 404,565
Accrued expenses and other current liabilities	647,230	-	647,230	-	647,230
Charitable gift annuity obligations, current	12,995	-	12,995	-	12,995
Deferred revenue	22,566	-	22,566	-	22,566
Revolving line of credit	<u>1,500,000</u>	<u>-</u>	<u>1,500,000</u>	<u>-</u>	<u>1,500,000</u>
Total current liabilities	2,587,356	-	2,587,356	-	2,587,356
Charitable gift annuity obligations, noncurrent	<u>116,268</u>	<u>-</u>	<u>116,268</u>	<u>-</u>	<u>116,268</u>
Total liabilities	<u>2,703,624</u>	<u>-</u>	<u>2,703,624</u>	<u>-</u>	<u>2,703,624</u>
Net assets					
Without donor restrictions					
Undesignated	7,354,684	399,353	7,754,037	(399,353)	7,354,684
Board-designated	<u>18,807,575</u>	<u>-</u>	<u>18,807,575</u>	<u>-</u>	<u>18,807,575</u>
Total without donor restrictions	26,162,259	399,353	26,561,612	(399,353)	26,162,259
With donor restrictions	<u>618,851</u>	<u>-</u>	<u>618,851</u>	<u>-</u>	<u>618,851</u>
Total net assets	<u>26,781,110</u>	<u>399,353</u>	<u>27,180,463</u>	<u>(399,353)</u>	<u>26,781,110</u>
Total liabilities and net assets	<u>\$ 29,484,734</u>	<u>\$ 399,353</u>	<u>\$ 29,884,087</u>	<u>\$ (399,353)</u>	<u>\$ 29,484,734</u>

Farm Sanctuary, Inc. and Subsidiary
Consolidating Statement of Activities
For The Year Ended December 31, 2022

	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	\$ 9,270,108	\$ -	\$ 9,270,108	\$ -	\$ 9,270,108	\$ 935,994	\$ 10,206,102
Bequests	2,126,634	-	2,126,634	-	2,126,634	-	2,126,634
Charitable gift annuities	13,400	-	13,400	-	13,400	15,132	28,532
Net assets released from restrictions	<u>1,277,847</u>	<u>-</u>	<u>1,277,847</u>	<u>-</u>	<u>1,277,847</u>	<u>(1,277,847)</u>	<u>-</u>
Total public support	<u>12,687,989</u>	<u>-</u>	<u>12,687,989</u>	<u>-</u>	<u>12,687,989</u>	<u>(326,721)</u>	<u>12,361,268</u>
Revenue and investment returns							
Merchandise sales, net	75,310	-	75,310	-	75,310	-	75,310
Educational programs and events	415,210	-	415,210	-	415,210	-	415,210
Net investment return	(3,522,171)	-	(3,522,171)	-	(3,522,171)	-	(3,522,171)
Change in value of charitable gift annuity obligations	(12,008)	-	(12,008)	-	(12,008)	-	(12,008)
Other revenue	<u>99,823</u>	<u>-</u>	<u>99,823</u>	<u>-</u>	<u>99,823</u>	<u>-</u>	<u>99,823</u>
Total revenue and investment returns	<u>(2,943,836)</u>	<u>-</u>	<u>(2,943,836)</u>	<u>-</u>	<u>(2,943,836)</u>	<u>-</u>	<u>(2,943,836)</u>
Total public support, revenue, and investment return	<u>9,744,153</u>	<u>-</u>	<u>9,744,153</u>	<u>-</u>	<u>9,744,153</u>	<u>(326,721)</u>	<u>9,417,432</u>
Expenses							
Program services							
Rescue, Shelter, and adoption	5,724,318	-	5,724,318	-	5,724,318	-	5,724,318
Education and outreach	3,020,979	-	3,020,979	-	3,020,979	-	3,020,979
Advocacy and action	<u>1,858,987</u>	<u>-</u>	<u>1,858,987</u>	<u>-</u>	<u>1,858,987</u>	<u>-</u>	<u>1,858,987</u>
	<u>10,604,284</u>	<u>-</u>	<u>10,604,284</u>	<u>-</u>	<u>10,604,284</u>	<u>-</u>	<u>10,604,284</u>
Supporting services							
Management and general	2,760,852	-	2,760,852	-	2,760,852	-	2,760,852
Fundraising	<u>3,477,079</u>	<u>-</u>	<u>3,477,079</u>	<u>-</u>	<u>3,477,079</u>	<u>-</u>	<u>3,477,079</u>
	<u>6,237,931</u>	<u>-</u>	<u>6,237,931</u>	<u>-</u>	<u>6,237,931</u>	<u>-</u>	<u>6,237,931</u>
Total expenses	<u>16,842,215</u>	<u>-</u>	<u>16,842,215</u>	<u>-</u>	<u>16,842,215</u>	<u>-</u>	<u>16,842,215</u>
Change in net assets from ongoing activities	(7,098,062)	-	(7,098,062)	-	(7,098,062)	(326,721)	(7,424,783)
Net assets, beginning of year	<u>33,260,321</u>	<u>-</u>	<u>33,260,321</u>	<u>-</u>	<u>33,260,321</u>	<u>945,572</u>	<u>34,205,893</u>
Net assets, end of year	<u>\$ 26,162,259</u>	<u>\$ -</u>	<u>\$ 26,162,259</u>	<u>\$ -</u>	<u>\$ 26,162,259</u>	<u>\$ 618,851</u>	<u>\$ 26,781,110</u>