

THE ELEPHANT SANCTUARY IN
TENNESSEE AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2018 AND 2017

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TABLE OF CONTENTS

	<u>PAGE</u>
<u>INDEPENDENT AUDITOR'S REPORT</u>	1 - 2
 <u>CONSOLIDATED FINANCIAL STATEMENTS</u>	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Cash Flows.....	5
Consolidated Statements of Functional Expenses	6
Notes to Consolidated Financial Statements	7 - 23

INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Elephant Sanctuary in Tennessee and Subsidiary
Hohenwald, Tennessee

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of The Elephant Sanctuary in Tennessee, a nonprofit organization, and Subsidiary (collectively, the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, cash flows and functional expenses 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 of 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 The Elephant Sanctuary in Tennessee and Subsidiary as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Knight CPA's PLLC

Nashville, Tennessee
June 6, 2019

THE ELEPHANT SANCTUARY IN TENNESSEE AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 7,952,631	\$ 2,395,237
Contributions receivable, net	1,841,603	2,262,293
Prepaid expenses	99,801	113,749
Inventory	22,885	13,301
Investments	26,050,189	27,195,385
Property and equipment, net	10,967,193	11,397,327
Beneficial interest in charitable remainder trust	158,930	163,321
Beneficial interest in trusts	2,017,856	2,298,047
TOTAL ASSETS	<u>\$ 49,111,088</u>	<u>\$ 45,838,660</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 3,923	\$ 73,813
Accrued expenses	3,419	4,238
TOTAL LIABILITIES	<u>7,342</u>	<u>78,051</u>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Without donor restrictions:		
Undesignated	4,381,764	2,809,989
Board designated	39,533,035	38,348,313
Total without donor restrictions	43,914,799	41,158,302
Total with donor restrictions	5,188,947	4,602,307
TOTAL NET ASSETS	<u>49,103,746</u>	<u>45,760,609</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 49,111,088</u>	<u>\$ 45,838,660</u>

See accompanying notes to consolidated financial statements.

THE ELEPHANT SANCTUARY IN TENNESSEE AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Public support:						
Contributions and grants	\$ 8,481,006	\$ 1,365,874	\$ 9,846,880	\$ 6,854,490	\$ 678,684	\$ 7,533,174
Change in value of beneficial interest agreements	-	(158,818)	(158,818)	-	259,503	259,503
In-kind revenue	53,044	-	53,044	51,903	-	51,903
Merchandise sales	102,279	-	102,279	115,279	-	115,279
Less: cost of merchandise sales	(38,524)	-	(38,524)	(41,969)	-	(41,969)
Investment income (loss)	(1,012,998)	(225,894)	(1,238,892)	2,455,529	50,051	2,505,580
Miscellaneous income	500	-	500	10,916	-	10,916
Loss on restricted contributions receivable	-	(30,507)	(30,507)	-	(147,532)	(147,532)
Net assets released from restrictions	364,015	(364,015)	-	679,462	(679,462)	-
TOTAL SUPPORT AND REVENUE	7,949,322	586,640	8,535,962	10,125,610	161,244	10,286,854
EXPENSES						
Program	4,538,958	-	4,538,958	4,352,447	-	4,352,447
Management and general	370,133	-	370,133	280,378	-	280,378
Fundraising	283,734	-	283,734	201,254	-	201,254
TOTAL EXPENSES	5,192,825	-	5,192,825	4,834,079	-	4,834,079
CHANGE IN NET ASSETS	2,756,497	586,640	3,343,137	5,291,531	161,244	5,452,775
NET ASSETS - BEGINNING OF YEAR	41,158,302	4,602,307	45,760,609	35,866,771	4,441,063	40,307,834
NET ASSETS - END OF YEAR	\$ 43,914,799	\$ 5,188,947	\$ 49,103,746	\$ 41,158,302	\$ 4,602,307	\$ 45,760,609

See accompanying notes to consolidated financial statements.

THE ELEPHANT SANCTUARY IN TENNESSEE AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,343,137	\$ 5,452,775
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,096,576	1,031,868
Loss on restricted contributions receivable	30,507	147,532
Realized and unrealized (gain) loss on investments	1,930,110	(1,988,828)
Change in value of beneficial interest agreements	158,818	(487,752)
Noncash contributions of investments	(45,415)	(48,700)
(Increase) decrease in:		
Contributions receivable	390,183	(1,159,590)
Prepaid expenses	13,948	(12,662)
Inventory	(9,584)	4,100
Increase (decrease) in:		
Accounts payable	(69,890)	22,948
Accrued expenses	(819)	1,110
TOTAL ADJUSTMENTS	<u>3,494,434</u>	<u>(2,489,974)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>6,837,571</u>	<u>2,962,801</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(666,442)	(2,044,126)
Distributions received from beneficial interest agreements	125,764	124,022
Purchases of investments	(6,577,116)	(20,428,659)
Sales of investments	<u>5,837,617</u>	<u>16,913,246</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,280,177)</u>	<u>(5,435,517)</u>
NET INCREASE (DECREASE) IN CASH	5,557,394	(2,472,716)
CASH - BEGINNING OF YEAR	<u>2,395,237</u>	<u>4,867,953</u>
CASH - END OF YEAR	<u>\$ 7,952,631</u>	<u>\$ 2,395,237</u>

See accompanying notes to consolidated financial statements.

THE ELEPHANT SANCTUARY IN TENNESSEE AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

2018

	PROGRAM SERVICES					MANAGEMENT AND FUNDRAISING		
	ELEPHANT CARE	VET CARE	FACILITIES	EDUCATION	TOTAL	GENERAL	FUNDRAISING	TOTAL
	Salaries and wages	\$ 644,060	\$ 124,866	\$ 431,840	\$ 317,508	\$ 1,518,274	\$ 165,847	\$ 93,254
Payroll taxes	51,637	10,343	33,602	25,467	121,049	11,423	7,184	139,656
Employee benefit - insurance	107,053	14,233	66,786	36,068	224,140	19,194	11,023	254,357
Employee benefit - retirement	15,491	3,003	10,387	7,637	36,518	3,937	2,295	42,750
Other payroll expenses	3,807	738	2,552	1,877	8,974	1,031	500	10,505
SALARIES AND RELATED EXPENSES	822,048	153,183	545,167	388,557	1,908,955	201,432	114,256	2,224,643
Advertising	50	-	236	4,917	5,203	-	1,003	6,206
Bank service charges	-	-	13	25,522	25,535	1,500	23,000	50,035
Conferences and meetings	3,905	645	-	1,229	5,779	4,714	-	10,493
Depreciation	-	-	1,025,305	48,947	1,074,252	22,324	-	1,096,576
Donated materials and supplies	-	-	-	-	-	-	7,628	7,628
Donations	-	-	-	-	-	1,723	-	1,723
Dues and subscriptions	565	1,341	-	364	2,270	2,698	-	4,968
Education	-	-	-	-	-	1,954	-	1,954
Employee assistance program	439	49	244	171	903	98	49	1,050
Employee relocation	3,750	-	-	572	4,322	-	-	4,322
Employee recruitment and testing	1,095	125	1,070	265	2,555	115	-	2,670
Feed and supplements	142,252	-	-	-	142,252	-	-	142,252
Insurance - liability	35,441	14,177	23,627	12,699	85,944	5,161	1,772	92,877
Insurance - workers' compensation	22,041	4,898	8,326	4,751	40,016	2,449	686	43,151
International elephant habitat and care programs	79,300	-	-	-	79,300	-	-	79,300
Licenses	1,448	759	2,439	397	5,043	1,274	9,436	15,753
Meals	1,821	390	817	1,050	4,078	821	1,448	6,347
Merchandise	-	-	-	38,524	38,524	-	-	38,524
Mileage reimbursement	948	630	598	651	2,827	371	133	3,331
Miscellaneous	-	-	-	753	753	-	3,276	4,029
Newsletter	-	-	-	70,118	70,118	-	72,260	142,378
Office supplies and small equipment	88,249	34,201	32,035	17,291	171,776	3,101	5,194	180,071
Printing	180	23	50	14,148	14,401	72	7,365	21,838
Postage and delivery	29	3,519	153	39,116	42,817	13	4,420	47,250
Professional development	2,275	-	1,887	1,835	5,997	-	296	6,293
Professional fees	223,032	72,209	8,193	16,097	319,531	102,048	9,977	431,556
Repairs and maintenance	28,186	343	9,371	6,017	43,917	170	175	44,262
Security	1,393	75	631	914	3,013	75	-	3,088
Taxes	-	-	18,415	-	18,415	-	-	18,415
Technology	12,714	9,545	6,469	38,243	66,971	6,571	17,109	90,651
Telephone and internet	5,292	1,439	4,595	789	12,115	2,333	145	14,593
Travel	12,664	1,744	406	2,397	17,211	4,563	3,051	24,825
Utilities	71,982	4,501	13,463	11,294	101,240	2,223	500	103,963
Vehicle	15,786	2,227	43,777	-	61,790	2,330	555	64,675
Veterinary services and medicines	-	199,659	-	-	199,659	-	-	199,659
TOTAL EXPENSES	1,576,885	505,682	1,747,287	747,628	4,577,482	370,133	283,734	5,231,349
Less: expenses included with revenues on the consolidated statements of activities	-	-	-	(38,524)	(38,524)	-	-	(38,524)
TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF THE STATEMENTS OF ACTIVITIES	\$ 1,576,885	\$ 505,682	\$ 1,747,287	\$ 709,104	\$ 4,538,958	\$ 370,133	\$ 283,734	\$ 5,192,825

See accompanying notes to consolidated financial statements.

2017

PROGRAM SERVICES					MANAGEMENT AND		
ELEPHANT					GENERAL	FUNDRAISING	TOTAL
CARE	VET CARE	FACILITIES	EDUCATION	TOTAL			
\$ 561,691	\$ 120,061	\$ 422,617	\$ 255,973	\$ 1,360,342	\$ 131,565	\$ 88,355	\$ 1,580,262
47,759	9,504	33,241	20,847	111,351	10,287	7,124	128,762
103,711	8,287	56,857	27,924	196,779	15,347	5,045	217,171
13,181	2,956	9,960	6,103	32,200	2,248	2,134	36,582
3,284	577	2,431	1,411	7,703	1,520	462	9,685
729,626	141,385	525,106	312,258	1,708,375	160,967	103,120	1,972,462
325	-	316	5,107	5,748	238	4,387	10,373
-	-	7	36,280	36,287	1,500	20,000	57,787
7,102	-	-	525	7,627	885	-	8,512
-	-	982,728	32,760	1,015,488	16,380	-	1,031,868
-	-	-	-	-	-	3,203	3,203
-	-	-	-	-	600	-	600
510	4,907	-	527	5,944	5,116	-	11,060
-	-	-	770	770	-	-	770
500	50	300	100	950	75	25	1,050
3,000	1,000	-	-	4,000	-	-	4,000
1,566	439	852	180	3,037	30	30	3,097
168,195	-	-	-	168,195	-	-	168,195
26,248	10,298	17,164	10,298	64,008	3,433	1,373	68,814
24,676	10,911	14,973	8,342	58,902	2,995	1,198	63,095
251,731	-	-	-	251,731	-	-	251,731
1,554	297	2,087	6,784	10,722	2,638	8,539	21,899
1,344	491	521	1,243	3,599	1,825	1,670	7,094
-	-	-	41,969	41,969	-	-	41,969
900	354	1,842	131	3,227	418	-	3,645
-	-	-	1,045	1,045	-	-	1,045
-	-	-	118,584	118,584	-	28,417	147,001
94,496	37,619	45,009	15,996	193,120	6,033	4,120	203,273
-	186	55	11,701	11,942	40	5,752	17,734
15	3,786	198	48,575	52,574	117	4,805	57,496
305	-	1,418	400	2,123	2,595	-	4,718
27,586	73,429	2,610	16,803	120,428	56,624	8,637	185,689
17,576	227	12,466	7,793	38,062	188	312	38,562
1,536	49	1,315	293	3,193	49	7	3,249
-	-	18,836	3,171	22,007	-	-	22,007
19,142	4,341	5,786	38,750	68,019	7,865	3,412	79,296
4,389	1,208	4,559	1,388	11,544	2,844	179	14,567
4,145	2,551	-	1,126	7,822	1,947	760	10,529
66,875	3,838	13,655	5,650	90,018	2,216	458	92,692
17,491	1,592	49,636	75	68,794	2,760	850	72,404
-	194,562	-	-	194,562	-	-	194,562
1,470,833	493,520	1,701,439	728,624	4,394,416	280,378	201,254	4,876,048
-	-	-	(41,969)	(41,969)	-	-	(41,969)
<u>\$ 1,470,833</u>	<u>\$ 493,520</u>	<u>\$ 1,701,439</u>	<u>\$ 686,655</u>	<u>\$ 4,352,447</u>	<u>\$ 280,378</u>	<u>\$ 201,254</u>	<u>\$ 4,834,079</u>

THE ELEPHANT SANCTUARY IN
TENNESSEE AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 1 - ORGANIZATION AND GENERAL

The Elephant Sanctuary in Tennessee is a nonprofit organization which was organized on December 30, 1994, primarily to provide captive elephants with individualized care, companionship of a herd and the opportunity to live out their lives in a safe haven dedicated to their well-being. Other goals related to the captive elephants include conducting noninvasive research, practicing progressive management and care techniques, and sharing knowledge through education, consultation and collaboration. The majority of the Organization's revenues for the years ended December 31, 2018 and 2017 represent support from the general public, primarily from citizens of or entities located in the United States.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of The Elephant Sanctuary in Tennessee and its wholly-owned for-profit subsidiary, Highland Lake Properties, Inc. (collectively, the "Organization"). All significant intercompany accounts and transactions have been eliminated in consolidation. Highland Lake Properties, Inc.'s assets consist of 701 acres of real estate adjacent to other real estate owned by The Elephant Sanctuary in Tennessee and used as part of the natural habitat refuge for elephants.

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the Consolidated Statements of Activities.

THE ELEPHANT SANCTUARY IN
TENNESSEE AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Support

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions.

Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Cash

Cash consists principally of checking and savings account balances. Cash and other short-term investments held in brokerage accounts are classified as investments.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on these amounts is computed using a risk-free interest rate applicable to the year in which the promise is received (2.63% and 1.55% for promises made in 2018 and 2017, respectively). Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

The allowance for uncollectible contributions is provided based on management's estimate of uncollectible pledges and historical trends.

THE ELEPHANT SANCTUARY IN
TENNESSEE AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions Receivable (Continued)

The Organization is required to make significant estimates and exercise judgment in determining the net contributions receivable. The Organization reviewed all documentation received to determine the estimated amount to be received in future periods and recognized the related estimated revenues in the Consolidated Statements of Activities for the years ended December 31, 2018 and 2017. Annually, the Organization evaluates its assumptions, judgments and estimates that can have a significant impact on its reported contributions receivable based on the most recent information available, and when necessary, adjusts the balance accordingly. It is at least reasonably possible, that this estimate will change within one year of the date of the financial statements due to one or more confirming events and the effect of that change could be material.

Inventory

Inventory is stated at the lower of cost or net realizable value. Inventory primarily consists of general merchandise and educational materials such as caps, artwork, publications and other merchandise promoting the Organization. Cost of sales, including shipping and handling, is classified as program services and fundraising expenses in the Consolidated Statements of Functional Expenses.

Investments

Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 12 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income (loss) is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Changes in unrealized gains and losses are recognized currently in the Consolidated Statements of Activities.

Property and Equipment

Property and equipment are reported at cost at the date of purchase or at estimated fair value at the date of gift to the Organization. The Organization's policy is to capitalize purchases with a cost of \$1,000 or more and an estimated useful life greater than one year. Costs of maintenance and repairs are charged to expense. When depreciable assets are disposed, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is included in the operations for the period. Depreciation is calculated by the straight-line method or over the asset's estimated useful lives.

THE ELEPHANT SANCTUARY IN
TENNESSEE AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Sales Taxes Collected

Sales tax collected and remitted to governmental authorities are excluded from sales and costs and presented on a net basis in the consolidated financial statements.

Advertising

Advertising costs are expensed as incurred. Advertising expenses amounted to \$6,206 and \$10,373 for the years ended December 31, 2018 and 2017, respectively.

Income Taxes

The Elephant Sanctuary in Tennessee qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income taxes are not provided. The Elephant Sanctuary in Tennessee files a U.S. Federal Form 990 for organizations exempt from income tax.

Highland Lake Properties, Inc. ("HLPI") is classified as a C corporation under the Internal Revenue Code. HLPI has no operating activities and incurs no income tax. In the event HLPI sells or distributes its assets, any realized gain would be subject to federal and state corporate income taxes. Highland Lake Properties, Inc. files income tax returns in the U.S. federal jurisdiction and the state of Tennessee.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Organization's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying consolidated financial statements.

Donated Goods and Services

Donated goods are recorded as support and either an asset or expense in the period received at fair value, if there is an objective and measurable basis for determining such value.

Donated services are recognized if they create or enhance non-financial assets or the donated service requires specialized skills, was performed by the donor who possesses such skills, and would have been purchased by the Organization if not provided by the donor. Such services are recognized at fair value as support and expense in the period the services are performed. Donated goods and services recognized amounted to \$53,043 and \$51,903 in 2018 and 2017, respectively.

THE ELEPHANT SANCTUARY IN
TENNESSEE AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Goods and Services (Continued)

In addition, during 2018 and 2017, many unpaid volunteers contributed their time to the Organization's program and supporting services. The value of this contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation.

Program and Supporting Services

The following program and supporting services classifications are included in the accompanying financial statements:

Program Services:

Elephant Care, Vet Care and Facilities - provides captive elephants a natural habitat, individualized care and the opportunity to live out their lives in safe haven dedicated to their well-being.

Education – raise public awareness by providing educational opportunities for the public relating to elephant care and habitat; this includes providing materials and other programs to those who have an interest.

Supporting Services:

Management and General - relates to the overall direction of the Organization. These expenses are not identifiable with a particular program or with fundraising, but are indispensable to the conduct of those activities and are essential to the Organization. Specific activities include agency oversight, business management, recordkeeping, budgeting, financing and other administrative activities.

Fundraising - includes costs of activities directed toward appeals for financial support primarily for expansion of physical facilities, the purchase of additional land, hiring additional trained keepers and establishing endowments for the care of elephants. Other activities include the cost of solicitations and creation and distribution of fundraising materials.

Allocation of Functional Expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one service based on objectively evaluated and non-financial data or reasonable subjective methods determined by management. The expenses that are allocated include salaries and related benefits, which are allocated on the basis of estimates of time expended on those resources, and depreciation and occupancy expenses, which are allocated on the basis of estimates of the related use of the property.

THE ELEPHANT SANCTUARY IN
TENNESSEE AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncement

On August 18, 2016, Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Recent Authoritative Accounting Guidance

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The adoption of this guidance is not expected to have a material impact on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The adoption of this guidance is not expected to have a material impact on the consolidated financial statements.

THE ELEPHANT SANCTUARY IN
TENNESSEE AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the current year presentation. Such reclassifications had no effect on the change in net assets or net assets as previously reported.

Events Occurring after Reporting Date

The Organization has evaluated events and transactions that occurred between December 31, 2018 and June 6, 2019, the date the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

NOTE 3 - LIQUIDITY

The following represents the Organization's financial assets at December 31, 2018:

Financial assets at year end:

Cash	\$ 7,952,631
Contributions receivable - due within one year	1,983,580
Investments	26,050,189
Anticipated distribution from beneficial interest agreements	<u>125,000</u>
	<u>36,111,400</u>

Less amounts not available to be used within one year:

Testamentary bequests	1,555,176
Donor restricted endowment funds	1,722,361
Donor restricted for a specific purpose	1,011,900
Board designated endowment funds	242,434
Board designated operating reserves	25,153,408
Board designated capital reserves	2,000,000
Board designated for Elephant Healthcare Center	620,000
Board designated for education	<u>550,000</u>
	<u>32,855,279</u>

Financial assets available to meet general expenditures over the next twelve months	<u>\$ 3,256,121</u>
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THE ELEPHANT SANCTUARY IN
TENNESSEE AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 3 - LIQUIDITY (CONTINUED)

The Organization has set aside unrestricted financial operational reserves of five times its budgeted expenses to ensure the lifetime care and safe haven for an undetermined number of elephants. Elephants have an expected lifespan of 50-70 years and the Organization is committed to providing food, shelter, veterinary care, medicine, caregivers, property maintenance and security. Along with the public's continued support, these funds are needed to provide for the elephants currently in our care and for those that will come to the Organization.

All categories of board designated amounts included in the liquidity calculation could be made available if necessary.

Due to the nature of the testamentary bequests, timing of collection is uncertain and thus not included in financial assets available to meet general expenditures over the next twelve months. Amounts will be available when received.

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Due within one year	\$ 1,983,580	\$ 2,326,171
Due in two to five years	<u>198,824</u>	<u>244,155</u>
	2,182,404	2,570,326
Less: discount to net present value	(7,043)	(4,782)
Less: allowance for uncollectible accounts	<u>(333,758)</u>	<u>(303,251)</u>
Total contributions receivable, net	<u>\$ 1,841,603</u>	<u>\$ 2,262,293</u>

Contributions receivable due within one year include approximately \$1,560,000 and \$1,820,000 in testamentary bequests at December 31, 2018 and 2017, respectively.

THE ELEPHANT SANCTUARY IN
TENNESSEE AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 5 - INVESTMENTS

Investments consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Money market funds	\$ 967,396	\$ 1,859,025
U.S. treasury obligations	1,205,737	1,286,726
Equities	3,648,964	3,126,978
Mutual funds	12,643,050	13,293,467
Corporate bonds	7,389,414	7,349,418
Real estate investment trusts	<u>195,628</u>	<u>279,771</u>
Total investments	<u>\$ 26,050,189</u>	<u>\$ 27,195,385</u>

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Land and improvements	\$ 3,753,591	\$ 3,746,871
Buildings and improvements	9,655,057	9,133,257
Fencing	6,468,480	6,465,035
Furniture and equipment	1,592,249	1,457,772
Vehicles	<u>656,700</u>	<u>656,700</u>
	22,126,077	21,459,635
Less: accumulated depreciation	<u>(11,158,884)</u>	<u>(10,062,308)</u>
	<u>\$ 10,967,193</u>	<u>\$ 11,397,327</u>

Fully depreciated property and equipment amounted to approximately \$4,440,000 and \$3,880,000 as of December 31, 2018 and 2017, respectively.

THE ELEPHANT SANCTUARY IN
TENNESSEE AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 7 - BENEFICIAL INTEREST AGREEMENTS

The Organization and its donors have established two types of split-interest agreements. Under these agreements, the Organization receives benefits that are shared with other beneficiaries designated by the donors.

Beneficial Interest in Charitable Remainder Trust

The Organization is a twenty-five percent remainder beneficiary in an irrevocable charitable remainder trust. Under the terms of the trust, income payments are made to family members of the donor. Following the death of the last surviving family member, twenty-five percent of the trust's assets will be distributed to the Organization. At December 31, 2018 and 2017, the Organization's beneficial interest in the charitable remainder trust was \$158,930 and \$163,321, respectively.

The beneficial interest in charitable remainder trust is valued by using an income approach based on calculating the present value of the future distribution expected to be received and the quoted market prices of the investments held by a third-party trustee. This approach takes into account the Organization's determination of an appropriate risk-adjusted discount rate, equal to 2.87% and 2.58% at December 31, 2018 and 2017, respectively, and expected cash flows. The Organization remeasures the fair value of its beneficial interest in charitable remainder trust annually and adjusts the measurement inputs based on market conditions and other relevant data.

Beneficial Interest in Trusts

A donor has established an irrevocable trust naming the Organization as a forty percent beneficiary. The beneficial interest in trust value is based on the quoted market prices of the investments held by the third-party trustee. Under the terms of the trust, the third-party trustee must pay the Organization an annual distribution and has the discretion to pay the Organization, upon request, distributions from both the corpus and the income earned by the trust. During 2018 and 2017, the trustee distributed \$125,764 and \$124,022, respectively, to the Organization. The trust terminates in 2047, at which time forty percent of any undistributed corpus or income from the trust will be distributed to the Organization. At December 31, 2018 and 2017, the Organization's beneficial interest in the trust was \$1,782,545 and \$2,063,103, respectively.

A donor has established an irrevocable trust naming the Organization as a 10.5% percent beneficiary. In 2017, the Organization recognized contribution revenue of approximately \$228,000 for their beneficial interest. The beneficial interest in trust value is based on the quoted market prices of the investments held by the third-party trustee. The trust terminates in 2029, at which time 10.5% of any undistributed corpus or income from the trust will be distributed to the Organization. At December 31, 2018 and 2017, the Organization's beneficial interest in the trust was \$235,311 and \$234,944, respectively.

THE ELEPHANT SANCTUARY IN
TENNESSEE AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 8 - NET ASSETS

Net assets consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Undesignated	\$ 4,381,764	\$ 2,809,989
Board designated		
Operating reserves	25,153,408	23,420,552
Property and equipment	10,967,193	11,397,327
Capital reserves	2,000,000	2,000,000
Elephant Healthcare Center	620,000	-
Endowment	242,434	242,434
Education	550,000	1,288,000
	<u>39,533,035</u>	<u>38,348,313</u>
Total net assets without donor restrictions	<u>43,914,799</u>	<u>41,158,302</u>
Specific Purpose		
Storer Grant - Education Center	56,747	56,747
Barbara J. Mapp Foundation - Curriculum	16,000	-
International conservation and welfare	200,000	-
Elephant Healthcare Center	739,153	-
	<u>1,011,900</u>	<u>56,747</u>
Passage of Time		
Contributions receivable	277,900	322,819
Beneficial interest in charitable remainder trust	158,930	163,321
Beneficial interest in trusts	2,017,856	2,298,047
	<u>2,454,686</u>	<u>2,784,187</u>
Endowments		
Subject to endowment spending policy and appropriation:		
Education endowment	45,199	-
Elephant endowment	1,677,162	1,761,373
	<u>1,722,361</u>	<u>1,761,373</u>
Total net assets with donor restrictions	<u>5,188,947</u>	<u>4,602,307</u>
Total net assets	<u>\$ 49,103,746</u>	<u>\$ 45,760,609</u>

THE ELEPHANT SANCTUARY IN
TENNESSEE AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 9 - ENDOWMENT FUNDS

The Organization's endowment consists of funds established by donors to be held in perpetuity, including gifts requiring that the principal be invested, and the income or specific portions thereof be used for perpetual care of the elephants. The Organization's donor-restricted endowment funds are based on the spending policies described below which follow the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") and the State of Tennessee's State Uniform Prudent Management of Institutional Funds Act ("SUPMIFA").

Interpretation of applicable law - The Board of Directors has interpreted UPMIFA as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Spending policy - The Board of Directors has formally adopted an endowment spending policy. The policy allows an annual distribution from the endowment fund based on the lesser of 5% of the prior year's investable funds or the actual interest and dividend income earned in the prior year, unless stated otherwise in the donor specified agreement. If the maximum allowable distribution is not made in a particular year, the balance remains in the corpus of the endowment fund.

Investment policy - The purpose and objectives of the investment policy is preservation of capital and real (inflation adjusted) growth, without undue investment risk. The policy allows substantial discretion in the asset allocation and diversification of the assets for the purposes of increasing investment return and/or reducing risk exposure. The policy includes a definition of certain prohibited investments. The target investment allocation follows:

Cash and cash equivalents	0% - 10%
Equity	30% - 60%
Fixed income	20% - 50%
Alternative investments	0% - 5%

THE ELEPHANT SANCTUARY IN
TENNESSEE AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 9 - ENDOWMENT FUNDS (CONTINUED)

A summary of changes in endowments follows for the years ended December 31:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2018	\$ 242,434	\$ 1,761,373	\$2,003,807
Contributions	-	186,882	186,882
Investment loss	-	(225,894)	(225,894)
Appropriation of endowment assets	-	-	-
Endowment net assets, December 31, 2018	\$ 242,434	\$ 1,722,361	\$1,964,795
	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2017	\$ 192,383	\$ 1,627,323	\$1,819,706
Contributions	-	134,050	134,050
Investment income	-	50,051	50,051
Appropriation of endowment assets	50,051	(50,051)	-
Endowment net assets, December 31, 2017	\$ 242,434	\$ 1,761,373	\$2,003,807

Donor restricted endowment funds include \$1,948,255 and \$1,791,373 at December 31, 2018 and 2017, respectively, that are required by the donor to be maintained in perpetuity.

THE ELEPHANT SANCTUARY IN
TENNESSEE AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 10 - CONCENTRATIONS OF CREDIT RISK

The Organization maintains cash balances at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to statutory limits. The Organization’s cash balance may, at times, exceed statutory limits. The Organization has not experienced any losses in such accounts and management considers this to be a normal business risk.

The Organization also maintains investment balances at various brokerage and investment companies. Generally, these investments are not insured by the FDIC or any other government agency and are subject to investment risk, including the risk of loss of principal. Investors are provided limited protection by the Securities Investor Protection Corporation (“SIPC”), which provides protection to investors in certain circumstances such as fraud or failure of the institution. Coverage is limited to \$500,000, including up to \$250,000 in cash. The SIPC does not insure against market risk.

Contributions receivable consist of individual and corporate contribution pledges. Contributions receivable from two donors and one donor amounted to \$471,000 (24%) and \$266,000 (11%) of total contributions receivable (before the present value discount) at December 31, 2018 and 2017, respectively. No single donor contribution exceeded 10% of total support and revenues in 2018 or 2017.

NOTE 11 - RETIREMENT PLAN

The Organization adopted a 401(k) plan that allows eligible employees to make voluntary contributions, subject to limitations under the Internal Revenue Code.

Effective in 2017, the plan allows for discretionary employer matching contributions. The amount is to be determined annually. For 2017 and 2018, the matching contribution equaled 100% of the first 3% of compensation that is deferred by the employee. The plan also allows for discretionary employer non-elective contributions. Employer contributions fully vest after 3 years of service.

During 2018 and 2017, the Organization contributed \$42,750 and \$36,582 to the plan, respectively.

THE ELEPHANT SANCTUARY IN
TENNESSEE AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 12 - FAIR VALUE MEASUREMENTS

The Organization classifies its investments based on a hierarchy consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (not traded on an active market but for which observable market inputs are readily available) and Level 3 (valued based on significant unobservable inputs).

An asset's or liability's fair value measurement level 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 maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis:

Real estate investment trusts and equities are valued at the closing price reported on the active market on which the individual funds are traded.

Mutual funds are valued using the net asset value per unit as quoted in active markets at the valuation date.

Fixed income investments, including corporate bonds and U.S. treasury obligations, for which quotations are readily available in active markets are valued at the most recent quote in the principal market in which such securities are normally traded. These investments also include securities valued on the basis of information provided by pricing services that employ valuation matrices that may incorporate both broker/dealer-supplied valuations as well as valuation models reflecting such factors as benchmark yields, reported trades, broker/dealer quotes, bid/offer data and other relevant elements.

There have been no changes in the valuation methodologies used at December 31, 2018 and 2017.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methodologies are appropriate and consistent with that of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

THE ELEPHANT SANCTUARY IN
TENNESSEE AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 12 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth the Organization's major categories of assets measured at fair value on a recurring basis, by level within the fair value hierarchy, as of December 31, 2018:

	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Investments measured at fair value:				
U.S. treasury obligations	\$ 1,205,737	\$ -	\$ 1,205,737	\$ -
Equities:				
Call options	(73,918)	-	(73,918)	-
Conglomerates	245,016	245,016	-	-
Consumer goods	989,413	989,413	-	-
Energy	295,616	295,616	-	-
Financial	651,931	651,931	-	-
Healthcare	181,671	181,671	-	-
Industrial	277,186	277,186	-	-
Services	126,921	126,921	-	-
Technology	858,504	858,504	-	-
Utilities	96,624	96,624	-	-
Mutual funds:				
Commodities	234,535	234,535	-	-
Convertible bonds	95,940	95,940	-	-
Emerging markets	419,493	419,493	-	-
Equity - income	23,762	23,762	-	-
Futures	214,278	214,278	-	-
Growth	772,398	772,398	-	-
High yield bond	46,961	46,961	-	-
International	2,392,397	2,392,397	-	-
Large value/blend	5,538,417	5,538,417	-	-
Mid-cap blend	345,450	345,450	-	-
Multialternative	477,858	477,858	-	-
Short term bonds	306,928	306,928	-	-
Small blend	456,781	456,781	-	-
Specialty - financial	955,329	955,329	-	-
Ultrashort bond	362,523	362,523	-	-
Corporate bonds	7,389,414	-	7,389,414	-
Real estate investment trusts	195,628	195,628	-	-
	<u>\$ 25,082,793</u>	<u>\$ 16,561,560</u>	<u>\$ 8,521,233</u>	<u>\$ -</u>

THE ELEPHANT SANCTUARY IN
TENNESSEE AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 12 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth the Organization's major categories of assets measured at fair value on a recurring basis, by level within the fair value hierarchy, as of December 31, 2017:

	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Investments measured at fair value:				
U.S. treasury obligations	\$ 1,286,726	\$ -	\$ 1,286,726	\$ -
Equities:				
Basic materials	154,705	154,705	-	-
Call options	(187,484)	-	(187,484)	-
Conglomerates	257,686	257,686	-	-
Consumer goods	594,198	594,198	-	-
Energy	292,394	292,394	-	-
Financial	693,853	693,853	-	-
Healthcare	383,573	383,573	-	-
Industrial	10,470	10,470	-	-
Services	215,704	215,704	-	-
Technology	542,949	542,949	-	-
Transportation	63,132	63,132	-	-
Utilities	105,798	105,798	-	-
Mutual funds:				
Commodities	116,231	116,231	-	-
Convertible bonds	106,939	106,939	-	-
Emerging markets	221,638	221,638	-	-
Futures	235,171	235,171	-	-
Growth	808,738	808,738	-	-
High yield bond	104,560	104,560	-	-
International	3,072,515	3,072,515	-	-
Large value/blend	5,522,736	5,522,736	-	-
Long/short equity	386,823	386,823	-	-
Mid-cap blend	386,950	386,950	-	-
Multialternative	30,729	30,729	-	-
Short term bonds	303,995	303,995	-	-
Small blend	364,404	364,404	-	-
Specialty - financial	1,331,318	1,331,318	-	-
Ultrashort bond	300,720	300,720	-	-
Corporate bonds	7,349,418	-	7,349,418	-
Real estate investment trusts	279,771	279,771	-	-
	<u>\$ 25,336,360</u>	<u>\$ 16,887,700</u>	<u>\$ 8,448,660</u>	<u>\$ -</u>