

Organic Farming Research Foundation

Financial Statements

For the Year Ended December 31, 2014

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Organic Farming Research Foundation
Santa Cruz, California

We have reviewed the accompanying statement of financial position of Organic Farming Research Foundation (a nonprofit organization) as of December 31, 2014, and the related statements of activities and changes in net assets and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Organization management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

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

Armanino^{LLP}
Santa Cruz, California

September 18, 2015

ORGANIC FARMING RESEARCH FOUNDATION

Statement of Financial Position

December 31, 2014

(See Independent Accountant's Review Report)

	<u>ASSETS</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Current assets				
Cash and cash equivalents	\$ 599,505	\$ 102,364	\$ 105,728	\$ 807,597
Accounts receivable	-	-	-	-
Accounts receivable - promise to give	3,000	-	-	3,000
Total receivables	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>3,000</u>
Notes receivable - SIF investment	25,671	-	-	25,671
Prepaid expenses	2,992	-	-	2,992
Total current assets	<u>631,168</u>	<u>102,364</u>	<u>105,728</u>	<u>839,260</u>
Non-current assets				
Furniture and equipment, net	6,676	-	-	6,676
Other assets				
Security deposit	8,477	-	-	8,477
Total non-current assets	<u>15,153</u>	<u>-</u>	<u>-</u>	<u>15,153</u>
Total assets	<u>\$ 646,321</u>	<u>\$ 102,364</u>	<u>\$ 105,728</u>	<u>\$ 854,413</u>

LIABILITIES AND NET ASSETS

Current liabilities				
Line of credit - credit card payable	\$ 4,190	\$ -	\$ -	\$ 4,190
Accounts payable	4,400	-	-	4,400
Accounts payable - grants	52,873	-	-	52,873
Accrued vacation and employee benefits	6,506	-	-	6,506
Total current liabilities	<u>67,969</u>	<u>-</u>	<u>-</u>	<u>67,969</u>
Net assets				
Unrestricted/undesignated	578,352	-	-	578,352
Temporarily restricted	-	102,364	-	102,364
Permanently restricted	-	-	105,728	105,728
Total net assets	<u>578,352</u>	<u>102,364</u>	<u>105,728</u>	<u>786,444</u>
Total liabilities and net assets	<u>\$ 646,321</u>	<u>\$ 102,364</u>	<u>\$ 105,728</u>	<u>\$ 854,413</u>

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

ORGANIC FARMING RESEARCH FOUNDATION
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2014
(See Independent Accountant's Review Report)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Events	\$ 28,396	\$ -	\$ -	\$ 28,396
Corporate contributions	42,469	79,000	-	121,469
Foundation contributions	232,467	13,000	-	245,467
Contributions from individuals	26,282	565	350	27,197
Indirect public support	8,560	-	-	8,560
In-kind contributions	4,512	-	-	4,512
Investment/interest income	2,095	-	-	2,095
Settlement income	23,550	-	-	23,550
Miscellaneous revenue	-	-	-	-
Total revenues	<u>368,331</u>	<u>92,565</u>	<u>350</u>	<u>461,246</u>
Net assets released from restrictions	<u>8,973</u>	<u>(8,973)</u>	<u>-</u>	<u>-</u>
Expenses				
Program services -				
Research	230,416	-	-	230,416
Communication	278,430	-	-	278,430
Policy	87,245	-	-	87,245
Total program services	<u>596,091</u>	<u>-</u>	<u>-</u>	<u>596,091</u>
Supporting services -				
Administration	68,204	-	-	68,204
Development	101,146	-	-	101,146
Total supporting services	<u>169,350</u>	<u>-</u>	<u>-</u>	<u>169,350</u>
Total expenses	<u>765,441</u>	<u>-</u>	<u>-</u>	<u>765,441</u>
Changes in net assets	(388,137)	83,592	350	(304,195)
Net assets, beginning of year	<u>966,489</u>	<u>18,772</u>	<u>105,378</u>	<u>1,090,639</u>
Net assets, end of year	<u>\$ 578,352</u>	<u>\$ 102,364</u>	<u>\$ 105,728</u>	<u>\$ 786,444</u>

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

ORGANIC FARMING RESEARCH FOUNDATION
Statement of Functional Expenses
For the Year Ended December 31, 2014
(See Independent Accountant's Review Report)

	<u>Support Services</u>		<u>Program Services</u>			Total Expenses
	<u>Administration</u>	<u>Development</u>	<u>Research</u>	<u>Policy</u>	<u>Communications</u>	
Grant awards	\$ -	\$ -	\$108,022	\$ -	\$ -	\$ 108,022
Personnel	35,277	48,525	76,381	55,861	112,573	328,617
Professional services	7,957	30,734	34,015	16,426	52,543	141,675
Supplies	678	532	379	686	2,364	4,639
Telephone and internet	522	1,065	757	1,392	3,369	7,105
Postage and shipping	56	952	67	122	2,210	3,407
Occupancy	7,042	9,527	5,218	7,185	13,942	42,914
Equipment	14	29	21	38	2,028	2,130
Printing and publications	109	4,419	14	26	3,044	7,612
Travel	7,992	2,814	2,370	1,021	43,175	57,372
Conferences and meetings	1,797	37	675	1,213	12,516	16,238
Interest expense	1,290	-	-	-	-	1,290
Depreciation	993	-	-	-	-	993
Insurance	(42)	640	456	837	1,963	3,854
Advertising/promotion	-	-	-	-	13	13
Media services	212	407	290	533	6,971	8,413
Miscellaneous	10	-	50	-	-	60
Donated expenses	2,777	-	-	-	-	2,777
Fees	1,520	1,465	1,701	1,905	21,719	28,310
Total expenses	<u>\$ 68,204</u>	<u>\$ 101,146</u>	<u>\$230,416</u>	<u>\$ 87,245</u>	<u>\$ 278,430</u>	<u>\$ 765,441</u>

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

ORGANIC FARMING RESEARCH FOUNDATION

Statement of Cash Flows

For the Year Ended December 31, 2014

(See Independent Accountant's Review Report)

Cash flows from operating activities	
Change in net assets	\$ (304,195)
Adjustments to reconcile decrease in net assets to net cash used by operating activities	
Depreciation	993
Change in operating assets and liabilities	
Accounts receivable - promise to give	(3,000)
Notes receivable - SIF investment - interest income	(78)
Prepaid expenses	2,127
Other assets - security deposit	3,219
Line of credit - credit card payable	(11,827)
Accounts payable	(19,417)
Accounts payable - grants	12,373
Accrued vacation and employee benefits	(4,853)
Cash flows used in operating activities	<u>(324,658)</u>
Net decrease in cash	(324,658)
Cash and cash equivalents, beginning of year	<u>1,132,255</u>
Cash and cash equivalents, end of year	<u>\$ 807,597</u>

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

ORGANIC FARMING RESEARCH FOUNDATION

Notes to Financial Statements

December 31, 2014

1. General Purpose and Function

The Organic Farming Research Foundation (the "Foundation") is a California nonprofit corporation founded in April 1990. The Foundation sponsors research related to organic farming, disseminates research results to organic farmers and growers, and educates the public and decision makers about organic farming issues. The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

2. Summary of Significant Accounting Policies

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles of not-for-profit organizations.

Basis of presentation

The Foundation is required to report net assets based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets

Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets

Net assets subject to donor-imposed stipulations that may be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If the temporarily restricted contribution is received and released in the same year it is shown as unrestricted.

Permanently restricted net assets

Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes.

Cash and cash equivalents

The Foundation considers all highly liquid investments with a maturity of twelve months or less when purchased to be cash equivalents or certificates of deposits. Cash is held in demand accounts at banks and dollar-for-dollar money market accounts.

ORGANIC FARMING RESEARCH FOUNDATION
Notes to Financial Statements
December 31, 2014

2. Summary of Significant Accounting Policies (continued)

Cash and cash equivalents (continued)

Cash deposits at banks/credit unions are insured by the FDIC/NCUA for up to \$250,000. As of December 31, 2014, \$93,376 cash was held in excess of FDIC/NCUA insured limits.

Investments

In accordance with accounting principles generally accepted in the United States, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

As of December 31, 2014, \$25,671 was held in a RSF Social Investment Fund with a three-month renewable term. Upon maturity these notes are expected to renew for an additional three-month term unless SIF receives a request from the investors for repayment before the maturity date.

Accounts receivable - promises to give

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Recognition of donor restricted contributions

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires or the restrictions are met, temporarily restricted net assets are reclassified to unrestricted net assets.

Distributions

Disbursements made to grant award recipients are paid from unrestricted net assets.

Accounts payable – grants

The Foundation records grants made to others as an expense in the period the grant is awarded. The Foundation withholds 10% of grants awarded until a final report on the results of the project is received from the grantee and evaluated and approved by the staff.

ORGANIC FARMING RESEARCH FOUNDATION
Notes to Financial Statements
December 31, 2014

2. Summary of Significant Accounting Policies (continued)

Income taxes

The Foundation is a tax-exempt corporation under Internal Revenue Code Section 501(c)(3) and California state franchise tax under Section 23701(d) of the Revenue and Taxation Code. The Foundation is exempt from taxes on income other than unrelated business income. The Foundation expenses taxes on unrelated business income on the cash basis of accounting. For the year ended December 31, 2014, the Foundation paid no unrelated business income tax.

The Foundation's federal returns for years ended December 31, 2014, 2013, and 2012 could be subject to examination by federal taxing authorities, generally for three years after they are filed. The Foundation's state returns for years ended December 31, 2014, 2013, 2012, and 2011 could be subject to examination by state taxing authorities, generally for four years after they are filed.

Functional expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and Changes in Net Assets and the Statement of Functional Expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

The cost of providing the Foundation's programs has been summarized on a functional basis in these financial statements. Based on management's estimates, costs have been allocated between programs and supporting services as they relate to those functions.

3. Property and Equipment

Property and equipment or improvements costing more than \$1,000 are carried at cost. Donated property and equipment is recorded at fair market value. Depreciation of fixed assets is computed using the straight-line method over the estimated useful lives. Depreciation expense for the year ended December 31, 2014 was \$993. Property and equipment consisted of the following at December 31, 2014:

Furniture and equipment	\$ 62,664
Less: accumulated depreciation	<u>(55,988)</u>
	<u>\$ 6,676</u>

ORGANIC FARMING RESEARCH FOUNDATION
Notes to Financial Statements
December 31, 2014

4. Net Assets

Temporarily restricted net assets are available for the following as of December 31, 2014:

Nora	\$ 74,092
Stretch island	17,772
Expo west	5,500
General grant making	<u>5,000</u>
	<u>\$ 102,364</u>

5. Lines Of Credit – Credit Card Payable

The Foundation has an agreement with Wells Fargo Bank for a \$35,000, unsecured business line with an annual interest rate of 15.24% and 21.99% for purchases and cash advances, respectively. As of December 2014, the Wells Fargo Bank outstanding balance is zero.

The Foundation has an agreement with Lighthouse Bank for a \$50,000, unsecured business line with an annual interest rate of 14.24%. As of December 2014, the Lighthouse Bank outstanding balance is \$4,190.

6. Lease Commitments

On July 2013, a one year lease was signed, set to commence August 1, 2013 and end on July 31, 2014. The Foundation then operated on a month-to-month basis at a rental rate of \$2,619 per month until July 14, 2014 when a seventeen month lease amendment was signed, set to commence on August 1, 2014 and end on January 31, 2016. The following is a schedule by year of future minimum rental payments under the lease:

Year Ending	Minimum
<u>December 31</u>	<u>Lease</u>
	<u>Payment</u>
2015	<u>\$ 28,572</u>

7. Retirement Plan

The Foundation has a 403(b) Plan covering all eligible employees. The Foundation makes matching contributions equal to fifty percent of employee payroll deductions up to \$150 per month per employee. The Foundation contributed \$2,200 to the Plan for the year ended December 31, 2014.

ORGANIC FARMING RESEARCH FOUNDATION
Notes to Financial Statements
December 31, 2014

8. Fair Value Measurements

ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement, and applies whenever other standards require or permit assets or liabilities to be measured at fair value; however, it does not expand the use of fair value in any new circumstances.

In accordance with ASC 820 issued by the Accounting Standards Board, the Foundation applied the following fair value hierarchy to measure its assets and liabilities:

Level 1 - Assets and liabilities for which the identical item is traded on an active exchange, such as publicly-traded instruments or future contracts.

Level 2 - Assets and liabilities valued based on observable market data for similar instruments.

Level 3 - Assets and liabilities for which significant valuation assumptions are not readily observable in the market; instruments valued based on best available data some of which is internally developed, and considers risk premiums that a market participant would require.

The following is a description of calculation methodologies used for assets and liabilities recorded at fair value and the basis for estimating fair value. These are reflected as recurring or non-recurring in compliance with ASC 820 disclosures.

The following table presents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value as of December 31, 2014:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>Financial Assets:</u>				
RSF Social Investment Fund	\$25,671	\$ -	\$ -	\$25,671

ORGANIC FARMING RESEARCH FOUNDATION
Notes to Financial Statements
December 31, 2014

8. Fair Value Measurements (continued)

Changes in Level 3 Financial Assets for the year ended December 31, 2014, consisted of the following:

	<u>Level 3</u>	<u>Total</u>
RSF Social Investment Fund, beginning of year	\$ 25,593	\$ 25,593
Earnings	78	78
Contributions	-	-
Withdrawals	-	-
Release	<u>-</u>	<u>-</u>
RSF Social Investment Fund, end of year	<u>\$ 25,671</u>	<u>\$ 25,671</u>

9. Endowment Fund

The Foundation's endowment consists of funds established for a variety of purposes. Its endowment might include both donor restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

Interpretation of relevant law

The Board of Directors of the Foundation has interpreted the California version of the Uniform Prudent Management of Institutional Funds Acts (UPMIFA) as requiring the preservation of the fair value of the original gift 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 Foundation classifies as permanently restricted net assets (a) The original value of gifts donated to the permanent endowment, (b) The original value of subsequent gifts to the permanent endowment, and (c) 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.

ORGANIC FARMING RESEARCH FOUNDATION
Notes to Financial Statements
December 31, 2014

9. Endowment Fund (continued)

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) duration and preservation of the various funds, (2) purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) possible effect of inflation and deflation, (5) expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

Return objectives and risk parameters

The Foundation has adopted investment and spending policies approved by the Board of Directors. The Foundation has invested the endowment funds into a six month certificate of deposit, which is reviewed at maturity every six months.

Spending policy

The Foundation is able to spend the interest earned on the endowment funds. The Foundation is able to borrow principal funds from the endowment fund based on a super majority vote by the Board of Directors. If the principal fund is borrowed, the Foundation has a goal to repay the funds as soon as possible based on a development plan presented by Senior Management and approved by the Executive Committee.

Endowment net asset composition by type of fund as of December 31, 2014:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 105,728	\$ 105,728
Total funds	<u>\$ -</u>	<u>\$ 105,728</u>	<u>\$ 105,728</u>

ORGANIC FARMING RESEARCH FOUNDATION
Notes to Financial Statements
December 31, 2014

9. Endowment Fund (continued)

Changes in endowment net assets for the year ended December 31, 2014 consisted of the following:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 105,378	\$ 105,378
Contributions	-	350	350
Withdrawals	-	-	-
Release	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 105,728</u>	<u>\$ 105,728</u>

10. Subsequent Events

The Foundation's management has evaluated events and transactions subsequent to September 18, 2015 for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through September 18, 2015, the date the financial statements became available to be issued. The entity has not evaluated subsequent events after September 18, 2015. The Foundation does not have subsequent events that require recognition or disclosure in the financial statements for the year ended September 18, 2015.