

ORGANIC FARMING RESEARCH FOUNDATION
(A California Nonprofit Corporation)

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FINANCIAL STATEMENTS

December 31, 2013

ORGANIC FARMING RESEARCH FOUNDATION
(A California Nonprofit Corporation)

December 31, 2013

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Frank A. Minuti, Jr.
Robert W. Smiley
Thomas C. Bondi
Lawrence S. Kuechler

FOUNDERS

Alexander W. Berger (1916-2005)
Griffith R. Lewis (1930-2012)

BERGER LEWIS
ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

Roberto M. Maragoni
Daniel C. Moors
Randy G. Peterson
Todd W. Robinson
David R. Sheets

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Organic Farming Research Foundation, a nonprofit organization, which comprise the statement of financial position as of December 31, 2013, and the related statement of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

To the Board of Directors
Organic Farming Research Foundation
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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 financial statements referred to above present fairly, in all material respects, the financial position of Organic Farming Research Foundation as of December 31, 2013, and the change in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Berger Lewis Accountancy Corporation

BERGER LEWIS ACCOUNTANCY CORPORATION
Santa Cruz, California
November 5, 2014

ORGANIC FARMING RESEARCH FOUNDATION
(A California Nonprofit Corporation)

STATEMENT OF FINANCIAL POSITION

December 31, 2013

ASSETS				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CURRENT ASSETS:				
Cash and Cash Equivalents (Note 2)	\$ 1,008,105	\$ 18,772	\$ 105,378	\$ 1,132,255
Accounts Receivable				-
Accounts Receivable - Promise to Give				-
Total Receivables	-	-		-
Notes Receivable - SIF Investment	25,593			25,593
Prepaid Expenses	5,118			5,118
Total Current Assets	1,038,816	18,772	105,378	1,162,966
NON-CURRENT ASSETS:				
Furniture and Equipment, Net (Note 3)	7,668			7,668
Other Assets:				
Security Deposit	11,696			11,696
Total Non-Current Assets	19,364	-		19,364
Total Assets	\$ 1,058,180	\$ 18,772	\$ 105,378	\$ 1,182,330

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:				
Line of Credit	\$ 16,018			\$ 16,018
Accounts Payable	23,813			23,813
Accounts Payable - Grants	40,500			40,500
Accrued Vacation and Employee Benefits	11,360			11,360
Total Current Liabilities	91,691			91,691
NET ASSETS:				
Unrestricted/Undesignated	\$ 966,489			\$ 966,489
Temporarily Restricted		\$ 18,772		18,772
Permanently Restricted			\$ 105,378	105,378
Total Net Assets	966,489	18,772	105,378	1,090,639
Total Liabilities and Net Assets	\$ 1,058,180	\$ 18,772	\$ 105,378	\$ 1,182,330

See Independent Auditor's Report and Accompanying Notes to Financial Statements

ORGANIC FARMING RESEARCH FOUNDATION
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STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES:				
Events	\$ 20,885			\$ 20,885
Corporate Contributions	72,080			72,080
Foundation Contributions	405,347			405,347
Contributions From Individuals	73,043		\$ 300	73,343
Indirect Public Support	56,825			56,825
In - Kind Contributions	1,923			1,923
Investment/Interest Income	1,439			1,439
Settlement Income	1,187,372			1,187,372
Miscellaneous Revenue	28			28
TOTAL REVENUES	1,818,942		300	1,819,242
NET ASSETS RELEASED FROM RESTRICTIONS	50,482	\$ (50,482)		
EXPENSES:				
Program Services -				
Research	140,676			140,676
Communication	347,034			347,034
Policy	64,014			64,014
Total Program Services	551,724			551,724
Supporting Services -				
Administration	73,306			73,306
Development	101,984			101,984
Total Supporting Services	175,290			175,290
TOTAL EXPENSES	727,014			727,014
CHANGES IN NET ASSETS	1,142,410	(50,482)	300	1,092,228
NET ASSETS:	(175,921)	69,254	105,078	(1,589)
NET ASSETS, End of Year	\$ 966,489	\$ 18,772	\$ 105,378	\$1,090,639

See Independent Auditor's Report and Accompanying Notes to Financial Statements

ORGANIC FARMING RESEARCH FOUNDATION
(A California Nonprofit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2013

	Support Services			Program Services			Total Expenses
	Administration	Development	Research	Policy	Communications		
Grant Awards	\$ 39,465	\$ 11,485	\$ 94,950	\$ 10,286	\$ 122,089	\$ 94,950	
Personnel	8,378	56,556	8,647	34,218	110,912	191,972	
Professional Services	1,644	814	28,353	1,123	6,269	238,417	
Supplies	590	764	543	1,074	2,223	10,424	
Telephone & Internet	1,004	7,952	148	254	3,993	5,194	
Postage & Shipping	4,268	8,715	6,201	11,377	25,364	13,351	
Occupancy	124	257	183	337	749	55,925	
Equipment	54	6,119	80	148	1,473	1,650	
Printing & Publications	3,098	2,223	162	1,520	34,507	7,874	
Travel	11	4,478	17	2,076	14,571	41,510	
Conferences & Meetings	6,667					21,153	
Interest Expense	1,052					6,667	
Depreciation						1,052	
Insurance		909	717	1,318	2,933	5,877	
Advertising/Promotion	2,486				1,975	4,461	
Media Services	45	94	67	122	13,625	13,953	
Miscellaneous	619					619	
Donated Expenses	1,878	1,618	34	161	6,351	10,042	
Fees	1,923					1,923	
Total Expenses	\$ 73,306	\$ 101,984	\$ 140,676	\$ 64,014	\$ 347,034	\$ 727,014	

See Independent Auditor's Report and Accompanying Notes to Financial Statements

ORGANIC FARMING RESEARCH FOUNDATION
(A California Nonprofit Corporation)

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in Net Assets	\$ 1,092,228
Adjustments to Reconcile Decrease in Net Assets to Net Cash Used by Operating Activities:	
Depreciation	1,052
(Increase) Decrease in Accounts Receivable - Promise to Give	30,000
(Increase) Decrease in Notes Receivable - SIF Investment	(20,017)
(Increase) Decrease in Prepaid Expenses	(78)
(Decrease) Increase in Line of Credit	(134,430)
(Decrease) Increase in Accounts Payable	(5,338)
(Decrease) Increase in Accounts Payable - Grants	16,978
(Decrease) Increase in Accrued Employee Benefits	(3,776)
	<hr/>
Net Cash Provided by Operating Activities	976,619
	<hr/>
NET INCREASE IN CASH	976,619
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CASH AND CASH EQUIVALENTS, Beginning of Year	155,636
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CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 1,132,255</u>

See Independent Auditor's Report and Accompanying Notes to Financial Statements

ORGANIC FARMING RESEARCH FOUNDATION
(A California Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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.

Cash deposits at banks/credit unions are insured by the FDIC/NCUA for up to \$250,000. As of December 31, 2013 \$846,434 cash was held in excess of FDIC/NCUA insured limits.

ORGANIC FARMING RESEARCH FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
(Continued)

December 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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, 2013, \$25,593 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.

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, 2013, the Foundation paid no unrelated business income tax.

ORGANIC FARMING RESEARCH FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
(Continued)

December 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Income Taxes (Continued) - The Foundation's federal returns for years ended December 31, 2013, 2012, and 2011 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, 2013, 2012, 2011, and 2010 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, 2013 was \$1,052. Property and Equipment consisted of the following at December 31, 2013:

	<u>2013</u>
Furniture and Equipment	\$ 62,664
Less: Accumulated Depreciation	<u>(54,996)</u>
	<u>\$ 7,668</u>

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NOTES TO FINANCIAL STATEMENTS
(Continued)

December 31, 2013

4. NET ASSETS:

Temporarily restricted net assets are available for the following as of December 31, 2013:

Fruit Research Grants	\$ 17,772
General Grantmaking	<u>1,000</u>
	<u>\$ 18,772</u>

5. LINE OF CREDIT:

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 2013, the Wells Fargo Bank outstanding balance is \$13,200.

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 2013, the Lighthouse Bank outstanding balance is \$2,818. Therefore, the total outstanding balance held on a line of credit by the Foundation as of December 31, 2013 is \$16,018.

6. LEASE COMMITMENTS:

In November 2011, a one year lease was signed, set to commence January 1, 2012 and end December 31, 2012. The Foundation then operated on a month-to-month bases until July 9, 2013 when a one year lease amendment was signed, set to commence on August 1, 2013 and end on July 31, 2014. The following is a schedule by year of future minimum rental payments under the leases:

Year Ending	Minimum
<u>December 31</u>	<u>Lease</u>
	<u>Payment</u>
2014	<u>\$ 30,266</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 \$2,215 to the Plan for the year ended December 31, 2013.

ORGANIC FARMING RESEARCH FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
(Continued)

December 31, 2013

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, 2013:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>Financial Assets:</u>				
Mutual Funds	\$ 659	\$ 659		
RSF Social Investment Fund	25,593			\$ 25,593

ORGANIC FARMING RESEARCH FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
(Continued)

December 31, 2013

8. FAIR VALUE MEASUREMENTS (Continued):

Changes in Level 3 Financial Assets for the year ended December 31, 2013, consisted of the following:

	<u>Level 3</u>	<u>Total</u>
RSF Social Investment Fund, Beginning of Year	\$ 5,576	\$ 5,576
Earnings	17	17
Contributions	20,000	20,000
Withdrawals		
Release		
RSF Social Investment Fund, End of Year	<u>\$ 25,593</u>	<u>\$ 25,593</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.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

December 31, 2013

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) The duration and preservation of the various funds, (2) The purposes of the donor-restricted endowment funds, (3) General economic conditions, (4) The possible effect of inflation and deflation, (5) The expected total return from income and the appreciation of investments, (6) The 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, 2013:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor Restricted Endowment Funds	\$ -0-	\$ 105,378	\$ 105,378
Total Funds	\$ -0-	\$ 105,378	\$ 105,378

ORGANIC FARMING RESEARCH FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
(Continued)

December 31, 2013

9. ENDOWMENT FUND (Continued):

Changes in endowment net assets for the year ended December 31, 2013 consisted of the following:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ - 0-	\$ 105,078	\$ 105,078
Contributions		300	300
Withdrawals			
Release			
Endowment Net Assets, End of Year	<u>\$ -0-</u>	<u>\$ 105,378</u>	<u>\$ 105,378</u>

10. SUBSEQUENT EVENTS:

The Foundation's management has evaluated events and transactions subsequent to November 5, 2014 for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through November 5, 2014, the date the financial statements became available to be issued. The entity has not evaluated subsequent events after November 5, 2014. The Foundation does not have subsequent events that require recognition or disclosure in the financial statements for the year ended November 5, 2014.