

Organic Farming Research Foundation
(A California Nonprofit Organization)

Audited Financial Statements & Reports
December 31, 2016



Chavan & Associates, LLP
Certified Public Accounts
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San Jose, CA 95129

ORGANIC FARMING RESEARCH FOUNDATION
(A California Nonprofit Organization)

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Financial Section



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Organic Farming Research Foundation
Santa Cruz, California

Report on the Financial Statements

We have audited the accompanying financial statements of Organic Farming Research Foundation (the Foundation) (a California Nonprofit Organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses 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 *and* the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. 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.

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, 2016, and the changes



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.

C & A LLP

March 20, 2017
San Jose, California

Financial Statements

ORGANIC FARMING RESEARCH FOUNDATION

(A California Nonprofit Organization)

Statement of Financial Position

December 31, 2016

ASSETS

Current assets:

Cash and cash equivalents	\$ 559,495
Accounts receivable	50,500
Short-term investments	27,441
Total current assets	<u>637,436</u>

Non-current assets:

Other non-current assets	8,477
Property and equipment:	
Furniture and equipment	62,664
Less accumulated depreciation	<u>(58,824)</u>
Net property and equipment	<u>3,840</u>
Total non-current assets	<u>12,317</u>

Total Assets \$ 649,753

LIABILITIES

Current liabilities:

Accounts payable	\$ 4,139
Grants payable	15,164
Credit cards payable	3,859
Accrued vacation and employee benefits	12,504
Total Liabilities	<u>35,666</u>

NET ASSETS

Temporarily restricted net assets	99,484
Permanently restricted net assets	105,728
Unrestricted net assets	408,875
Total Net Assets	<u>614,087</u>

Total Liabilities and Net Assets \$ 649,753

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

ORGANIC FARMING RESEARCH FOUNDATION

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Statement of Activities and Changes in Net Assets

For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Government grants and contributions	\$ -	\$ 52,036	\$ -	\$ 52,036
Events	84,182	-	-	84,182
Corporate contributions	110,750	121,087	-	231,837
Foundation contributions	312,149	78,560	-	390,709
Contributions from individuals	31,586	-	-	31,586
Indirect public Support	2,084	-	-	2,084
In-kind contributions	41,552	-	-	41,552
Investment/interest income	806	-	-	806
Miscellaneous revenue	23,555	-	-	23,555
Net assets released from restrictions	239,393	(239,393)	-	-
Total Revenue and Support	<u>846,057</u>	<u>12,290</u>	<u>-</u>	<u>858,347</u>
OPERATING EXPENSES				
Program services	706,220	-	-	706,220
Support services	224,478	-	-	224,478
Total Expenses	<u>930,698</u>	<u>-</u>	<u>-</u>	<u>930,698</u>
Change in Net Assets	(84,641)	12,290	-	(72,351)
Beginning Net Assets	<u>493,516</u>	<u>87,194</u>	<u>105,728</u>	<u>686,438</u>
Ending Net Assets	<u>\$ 408,875</u>	<u>\$ 99,484</u>	<u>\$ 105,728</u>	<u>\$ 614,087</u>

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

ORGANIC FARMING RESEARCH FOUNDATION

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Statement of Functional Expenses

For the Year Ended December 31, 2016

	Support Services			Program Services			Total Program Services	Total Expenses
	Administration	Development	Total Support Services	Research	Policy	Communications		
OPERATING EXPENSES:								
Personnel	\$ 15,539	\$ 117,041	\$ 132,580	\$ 223,650	\$ 91,144	\$ 114,825	\$ 429,619	\$ 562,199
Professional services	4,002	10,006	14,008	43,796	6,947	15,188	65,931	79,939
Office expenses	316	3,381	3,697	494	291	725	1,510	5,207
Telephone and internet	423	880	1,303	626	1,190	2,560	4,376	5,679
Postage and shipping	41	1,982	2,023	373	354	249	976	2,999
Occupancy	3,864	5,814	9,678	11,593	6,722	7,729	26,044	35,722
Equipment and furniture	18	37	55	27	49	108	184	239
Printing and publications	188	1,518	1,706	5,723	525	1,916	8,164	9,870
Travel	1,179	6,944	8,123	21,271	8,850	6,717	36,838	44,961
Conferences and meetings	732	1,885	2,617	13,091	3,386	4,615	21,092	23,709
Interest	106	-	106	-	-	-	-	106
Depreciation	2,022	-	2,022	-	-	-	-	2,022
Insurance	129	663	792	472	867	1,930	3,269	4,061
Media and data services	(61)	1,773	1,712	208	136	1,959	2,303	4,015
License and fees	877	3,409	4,286	468	1,846	1,570	3,884	8,170
Donated expenses	6,225	33,545	39,770	-	-	-	-	39,770
Grant awards	-	-	-	102,030	-	-	102,030	102,030
							-	
Total Expenses	\$ 35,600	\$ 188,878	\$ 224,478	\$ 423,822	\$ 122,307	\$ 160,091	\$ 706,220	\$ 930,698

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

ORGANIC FARMING RESEARCH FOUNDATION

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Statement of Cash Flows

For the Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (72,351)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:	
Depreciation expense	2,022
Changes in operating assets and liabilities:	
Decrease (increase) in accounts receivable	(23,500)
Decrease (increase) in prepaid expenses and other current assets	2,881
Increase (decrease) in accounts payable	981
Increase (decrease) in grants payable	(6,738)
Increase (decrease) in credit cards payable	1,491
Increase (decrease) in accrued vacation and employee benefits	426
Net cash provided by (used for) operating activities	<u>(94,788)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from (purchases of) investments - net	<u>(1,770)</u>
Net cash provided by (used for) investing activities	<u>(1,770)</u>
Net increase (decrease) in cash and cash equivalents	(96,558)
Cash and cash equivalents - beginning of year	<u>656,053</u>
Cash and cash equivalents - end of year	<u>\$ 559,495</u>

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

Notes to Financial Statements

ORGANIC FARMING RESEARCH FOUNDATION

(A California Nonprofit Organization)

Notes to Financial Statements

For the Year Ended December 31, 2016

NOTE 1 – ORGANIZATION

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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements are presented in conformity with Financial Accounting Standards Board Accounting Standards Codification 958 (FASB ASC 958) of Not-For-Profit Organizations. Under FASB ASC 958, the Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Permanently Restricted Net Assets - Net assets subject to third party or legal stipulations that they be maintained permanently.

Temporarily Restricted Net Assets - Net assets whose use is limited by third party or legal stipulations that either expire by passage of time or can be fulfilled and released by actions pursuant to those donor-imposed or legal stipulations.

Unrestricted Net Assets - Net assets whose use is not subject to third party or legal restrictions.

Revenues are reported as increases in unrestricted net assets unless their use is limited by third party restrictions. Expenses are reported as decreases in unrestricted net assets. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions in the statement of activities.

Accounting Principles

The accounting policies of the Foundation conform to accounting principles generally accepted in the United States of America, as prescribed by the American Institute of Certified Public Accountants, which require the use of the accrual method of accounting. Under the accrual method of accounting, revenue is recognized when earned and expenses are recognized in the period incurred.

Contribution Revenue Recognition

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Restricted contributions for which the restrictions are met in the year received are considered unrestricted for financial statement purposes. When a donor restriction expires because a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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Notes to Financial Statements

For the Year Ended December 31, 2016

Grant Revenue

Grant revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants or contracts or when a unit of service is provided for performance grants. Grant revenue from federal agencies is subject to independent audit and review by grantor agencies. The review could result in the disallowance of expenditure under the terms of the grant or reductions of future grant funds. Based on prior experience, the Foundation's management believes that costs ultimately disallowed, if any, would not materially affect the financial position of the Foundation.

Donated Assets

Noncash donations are recorded as contributions at their estimated fair values at the date of donation.

Donated Services and Items

A substantial number of individuals have donated significant amounts of time to the Foundation's programs and supporting functions.

Concentrations of Credit Risk

Financial instruments which potentially subject the Foundation to concentrations of credit risk include cash and investments. The Foundation maintains its cash in interest and non-interest bearing bank deposit accounts. At times, bank accounts may exceed federally insured limits as guaranteed by the Federal Depository Insurance Corporation (FDIC).

Cash and Cash Equivalents

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to changes in interest rates is negligible. For financial statement purposes, the Foundation considers cash in banks, demand accounts, money market accounts, petty cash and investments with maturities of twelve months or less to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short term nature of these accounts.

Investments

Investments held by a broker in customer accounts are protected against physical loss by the Securities Investor Protection Corporation (SIPC). All investments held by the Foundation at December 31, 2016 were highly liquid.

The following methods and significant assumptions were used to estimate the fair values of financial assets and financial liabilities:

1. Assets for which carrying amounts approximate fair values include cash and cash equivalents and certain other assets that mature within 90 days.

ORGANIC FARMING RESEARCH FOUNDATION

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Notes to Financial Statements

For the Year Ended December 31, 2016

2. For investment securities for which it was practicable to determine fair value, fair value is based either on exchange-traded prices or broker-dealer quotations for the same or similar securities.
3. For accounts payable and accrued expenses, fair value approximates carrying value due to the relatively short period of time between their origination and expected realization.

Accounts Receivable

Accounts receivable mostly consist of 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.

Property and Equipment

Expenditures for property and equipment of \$1,000 or more are capitalized at cost and depreciated over their estimated useful lives using the straight-line method.

Grants Payable

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 Tax Status

The Foundation is publicly supported and has applied for, and received, tax-exempt status under Internal Revenue Code Section 501(c)(3) and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements.

Functional Allocation of Expenses

The cost of providing various programs and other activities has been summarized on a functional basis in the Statement of Activities and Changes in Net Assets and the Statement of Functional Expenses. Accordingly, certain costs that could not be directly charged to programs and supporting services have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

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Notes to Financial Statements

For the Year Ended December 31, 2016

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

NOTE 3 – CASH AND CASH EQUIVALENTS

As of December 31, 2016, the carrying amount (book balance) of the Foundation's total cash was \$559,495 and the balances held in banks, before reconciling items, were fully covered by Federal Depository Insurance (FDIC).

NOTE 4 – INVESTMENTS

As of December 31, 2016, \$27,441 was held in a RSF Social Investment Fund (SIF) 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. Investments in SIF are classified as Level 3 assets, as noted below, for valuation purposes.

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.

NOTE 5 – LINE OF CREDIT AND CREDIT CARDS PAYABLE

The Foundation had an agreement with Wells Fargo Bank for a \$35,000 unsecured business line of credit with an annual interest rate of 15.49% and 24.24% for purchases and cash advances, respectively. As of December 2016, the outstanding balance was zero.

The Foundation has three credit cards from Lighthouse Bank totaling \$50,000 in unsecured credit with an annual interest rate of 14.24% for purchases and cash advances. As of December 2016, the outstanding balances totaled \$3,859.

ORGANIC FARMING RESEARCH FOUNDATION

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Notes to Financial Statements

For the Year Ended December 31, 2016

NOTE 6 – TEMPORARILY AND PERMENANTLY RESTRICTED NET ASSETS

The following is a summary of the changes in temporarily and permanently restricted net assets for the year ended December 31, 2016:

	Beginning Balance	Ending Balance	Temporarily Restricted	Permanently Restricted
Nora	\$ 7,585	\$ 6,039	\$ 6,039	\$ -
Stretch Island	12,859	-	-	-
Expo West	29,750	-	-	-
General Grant Distributions	-	-	-	-
Soil Health	17,000	17,901	17,901	-
Research Grants	20,000	75,044	75,044	-
Miscellaneous	-	500	500	-
Donor Restricted Endowments	105,728	105,728	-	105,728
Totals	<u>\$ 192,922</u>	<u>\$ 205,212</u>	<u>\$ 99,484</u>	<u>\$ 105,728</u>

The Foundation's donor restricted 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.

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 UPMIF A. In accordance with UPMIF A, 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.

ORGANIC FARMING RESEARCH FOUNDATION
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Notes to Financial Statements
For the Year Ended December 31, 2016

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.

NOTE 7 – LEASE COMMITMENT

On July 2013, the Foundation signed a one year lease for office space on Potrero street in Santa Cruz, which commenced August 1, 2013 and ended on July 31, 2014. The Foundation then operated on a month-to-month basis at \$2,619 per month until July 14, 2014 when a seventeen month lease amendment was signed that commenced on August 1, 2014 and ended on January 31, 2016 with a monthly base rent of \$2,381. In 2016, the lease was extended through January 31, 2018 at \$2,429 per month. Total rent expense for the year ended December 31, 2016 was \$33,198.

NOTE 8 – 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 \$6,300 to the Plan for the year ended December 31, 2016.