

Organic Farming Research Foundation
(A California Nonprofit Organization)

Audited Financial Statements & Reports
December 31, 2018



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Certified Public Accounts
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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, 2018, 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 Foundation'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 Foundation'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.



Emphasis of Matter

As discussed in Note 2 to the financial statements, in December 31, 2018, the Foundation adopted new accounting guidance from Accounting Standards Update (ASU) No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

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, 2018, 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 CP

June 15, 2019
San Jose, California

Financial Statements

ORGANIC FARMING RESEARCH FOUNDATION

(A California Nonprofit Organization)

Statement of Financial Position

December 31, 2018

ASSETS

Cash and cash equivalents	\$ 485,331
Grants receivable	446,261
Investments	26,338
Other assets	9,377
Property and equipment, net	946
Endowment - certificates of deposit	<u>106,354</u>
Total Assets	<u>\$ 1,074,607</u>

LIABILITIES

Accounts payable	\$ 34,449
Grants payable	5,503
Credit cards payable	4,021
Unearned revenue	447,016
Accrued vacation and employee benefits	<u>26,376</u>
Total Liabilities	<u>517,365</u>

NET ASSETS

Without donor restrictions:	
Undesignated	102,522
Designated by the Board for operating reserve	<u>182,936</u>
Total net assets without donor restrictions	<u>285,458</u>
With donor restrictions:	
Perpetual in nature	106,354
Purpose restrictions	<u>165,430</u>
Total net assets with donor restrictions	<u>271,784</u>
Total Net Assets	<u>557,242</u>
Total Liabilities and Net Assets	<u>\$ 1,074,607</u>

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

ORGANIC FARMING RESEARCH FOUNDATION

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Statement of Activities

For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Government grants and contributions	\$ -	\$ 172,980	\$ 172,980
Events	106,076	-	106,076
Corporate contributions	99,383	106,805	206,188
Foundation contributions	281,650	80,002	361,652
Contributions from individuals	70,292	-	70,292
Indirect public support	1,197	-	1,197
In-kind contributions	2,267	-	2,267
Net investment return	537	663	1,200
Net assets released from restrictions:			
Satisfaction of program restrictions	324,765	(324,765)	-
Total Revenue and Support	<u>886,167</u>	<u>35,685</u>	<u>921,852</u>
OPERATING EXPENSES			
Program services:			
Research	335,968	-	335,968
Policy	189,508	-	189,508
Communication	179,582	-	179,582
Total program expenses	<u>705,058</u>	<u>-</u>	<u>705,058</u>
Support services:			
Management and general	24,030	-	24,030
Fundraising and development	137,197	-	137,197
Total support services expenses	<u>161,227</u>	<u>-</u>	<u>161,227</u>
Total Expenses	<u>866,285</u>	<u>-</u>	<u>866,285</u>
Change in Net Assets	19,882	35,685	55,567
Beginning Net Assets	<u>265,576</u>	<u>236,099</u>	<u>501,675</u>
Ending Net Assets	<u>\$ 285,458</u>	<u>\$ 271,784</u>	<u>\$ 557,242</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, 2018

	Support Services			Program Services			Total Program Services	Total Expenses
	Management and General	Fundraising and Development	Total Support Services	Research	Policy	Communications		
OPERATING EXPENSES:								
Personnel	\$ 7,349	\$ 98,427	\$ 105,776	\$ 198,504	\$ 154,070	\$ 116,185	\$ 468,759	\$ 574,535
Professional services	3,349	8,917	12,266	69,593	7,595	17,861	95,049	107,315
Office expenses	1,068	2,165	3,233	1,838	749	1,766	4,353	7,586
Telephone and internet	172	363	535	257	466	1,038	1,761	2,296
Postage and shipping	33	4,328	4,361	337	213	485	1,035	5,396
Occupancy	4,936	6,956	11,892	14,743	11,078	10,045	35,866	47,758
Equipment and furniture	-	-	-	391	-	-	391	391
Printing and publications	60	365	425	12,096	192	4,125	16,413	16,838
Travel	524	5,967	6,491	11,707	6,987	8,095	26,789	33,280
Conferences and meetings	631	2,394	3,025	2,755	3,612	12,674	19,041	22,066
Interest	97	-	97	-	-	-	-	97
Depreciation	918	-	918	-	-	-	-	918
Insurance	156	1,063	1,219	756	1,389	3,093	5,238	6,457
Advertising	374	350	724	-	-	-	-	724
Media and data services	321	4,762	5,083	475	874	2,459	3,808	8,891
License and fees	1,775	1,140	2,915	787	2,283	1,756	4,826	7,741
Donated services	2,267	-	2,267	-	-	-	-	2,267
Grant awards	-	-	-	21,729	-	-	21,729	21,729
Total Expenses	\$ 24,030	\$ 137,197	\$ 161,227	\$ 335,968	\$ 189,508	\$ 179,582	\$ 705,058	\$ 866,285

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, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 55,567
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:	
Depreciation expense	918
Realized and unrealized (gain) loss on investments	(246)
Endowment net investment (return) loss	(663)
Changes in operating assets and liabilities:	
Decrease (increase) in grants receivable	54,925
Decrease (increase) in other assets	(900)
Increase (decrease) in accounts payable	27,981
Increase (decrease) in grants payable	(8,555)
Increase (decrease) in credit cards payable	2,053
Increase (decrease) in accrued vacation and employee benefits	9,348
Increase (decrease) in unearned revenue	830
Net cash provided by (used for) operating activities	<u>141,258</u>
Net increase (decrease) in cash and cash equivalents	141,258
Cash and cash equivalents - beginning of year	449,764
Adjustment to beginning cash and cash equivalents from change in accounting principles (ASU 2016-14) - reclassification of endowments	<u>(105,691)</u>
Cash and cash equivalents - end of year	<u><u>\$ 485,331</u></u>

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

Notes to Financial Statements

ORGANIC FARMING RESEARCH FOUNDATION

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Notes to Financial Statements

For the Year Ended December 31, 2018

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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) for not-for-profit entities (FASB Topic 958, ASU 2016-14).

Cash and Cash Equivalents

The Foundation considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition, as applicable.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts for program support services. Management has determined the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. As of December 31, 2018, there was no allowance for accounts receivable.

Promises to Give and Grants Receivable

The Foundation records unconditional promises to give and grants receivable that are expected to be collected within one year at net realizable value. Unconditional promises to give and grants expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. The Foundation determines the allowance for uncollectable promises to give and grants receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give and grants receivable are written off when deemed uncollectable. As of December 31, 2018, there was no allowance for uncollectable accounts.

Investments

The Foundation records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

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Property and Equipment

The Foundation records property and equipment additions of \$1,000 or more at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently. Management did not review the carrying values of property and equipment for impairment because they were immaterial to the financial statements as of December 31, 2018.

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.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed (or certain grantor-imposed) restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue and Revenue Recognition

Revenue is recognized when earned. When applicable, program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to the Foundation's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. The Foundation records donated professional services at the respective fair values of the services received, when applicable.

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Notes to Financial Statements

For the Year Ended December 31, 2018

Advertising Costs

Advertising costs are expensed as incurred and totaled \$724 during the year ended December 31, 2018.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Foundation is organized as a California nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as organizations described in IRC Section 501(c)(3) and Section 23701(d) of the California Code, qualifies for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi) and (viii), and has been determined not to be private foundations under IRC Sections 509(a)(1) and (3). The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Foundation may be subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. Management has determined that the Foundation is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Foundation to make estimates and assumptions that affect the reported amounts of 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, and those differences could be material.

Financial Instruments and Credit Risk

The Foundation manages deposit concentration risk by placing cash and money market accounts with financial institutions believed by us to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Foundation has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from organizations, individuals, and foundations supportive of the Organization's mission. Investments are made by diversified investment managers/brokers whose performance is monitored by management and the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, the Foundation believes that its investment strategies are prudent for the long-term welfare of the organization.

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For the Year Ended December 31, 2018

Change in Accounting Principle

On August 18, 2016, 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 Foundation has implemented ASU 2016-14 and has adjusted the presentation in its financial statements accordingly. The ASU has been applied retrospectively to all periods presented which resulted in the reclassification of beginning temporarily restricted net assets to net assets with donor restrictions of \$236,099 and beginning unrestricted net assets to net assets without donor restrictions of \$265,576.

Relevant Upcoming New Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (ASU 2016-02)*. ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its balance sheet for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Foundation does not anticipate this ASU will have a significant impact on its financial statements.

In January 2018, FASB issued Accounting Standards Update (ASU) 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*. ASU 2018-01 allows for an entity to elect an optional transition practical expedient to not evaluate under Topic 842 land easements that exist or expired before the entity's adoption of Topic 842 and that were not previously accounted for as leases under Topic 840. ASU 2018-01 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Foundation does not anticipate this ASU will have a significant impact on its financial statements.

In June 2018, FASB issued Accounting Standards Update 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The FASB is issuing this update to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. A public company or a not-for-profit organization that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market would apply the new standard for transactions in which the entity serves as a resource provider to annual reporting periods beginning after December 15, 2018, including interim periods within that annual period. Other organizations would apply the standard to annual reporting periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. Early adoption of the amendments in this ASU is permitted. The Foundation does not anticipate this ASU will have a significant impact on its financial statements.

In August 2018, FASB issued Accounting Standards Update 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. Effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted

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Notes to Financial Statements

For the Year Ended December 31, 2018

average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance of this Update. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. The Foundation does not anticipate this ASU will have a significant impact on its financial statements.

In March 2019, FASB issued Accounting Standards Update 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*. The FASB is issuing this update to improve the definition of collections in the Master Glossary by realigning it with the definition in the American Alliance of Museums' (AAM) Code of Ethics for Museums (the Code). The FASB also is making a technical correction in Topic 360, Property, Plant, and Equipment, to clarify that the accounting and disclosure guidance for collections in Subtopic 958-360, Not-for-Profit Entities—Property, Plant, and Equipment, applies to business entities as well as not-for-profit entities, consistent with what was indicated in Statement 116. Amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. Early application of the amendments is permitted. The amendments in this update should be applied on a prospective basis. The Foundation does not anticipate this ASU will have a significant impact on its financial statements.

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 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	\$ 319,901
Short-term investments	<u>26,338</u>
Total	<u>\$ 346,239</u>

As part of our liquidity management plan, the Foundation invests cash in checking, savings, short-term investments and money market funds.

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Notes to Financial Statements

For the Year Ended December 31, 2018

NOTE 4 – FAIR VALUE MEASUREMENTS AND DISCLOSURES

The Foundation reports certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available.

A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Foundation develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Foundation's assessment of the quality, risk, or liquidity profile of the asset or liability.

The Foundation invests endowment funds in certificates of deposit (CDs) traded in the financial markets. Those CDs are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions, and are classified within Level 2.

As of December 31, 2018, \$26,338 was held in a 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.

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Notes to Financial Statements

For the Year Ended December 31, 2018

The following table presents assets and liabilities measured at fair value on a recurring basis as of December 31, 2018:

Description	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Un-observable Inputs (Level 3)
Investments:				
Social investment fund	\$ 26,338	\$ -	\$ -	\$ 26,338
Endowments:				
Certificates of deposit	106,354	-	106,354	-
Total	<u>\$ 132,692</u>	<u>\$ -</u>	<u>\$ 106,354</u>	<u>\$ 26,338</u>

NOTE 5 – GRANTS RECEIVABLE

As of December 31, 2018, three grantors accounted for a majority of the total grants receivable, as follows:

California Department of Agriculture	\$ 252,508
USDA Risk Management Agency	138,977
Western Sustainable Agriculture Research & Education	51,356
Miscellaneous	<u>3,420</u>
Total Grants Receivable	<u>\$ 446,261</u>

NOTE 6 – CREDIT CARDS PAYABLE

The Foundation has two credit cards from Lighthouse Bank totaling \$47,500 in unsecured credit with an annual interest rate of 15.24% for purchases and cash advances. Both credit cards are set to expire in January 2020. As of December 2018, the outstanding balances totaled \$4,021.

NOTE 7 – UNEARNED REVENUE

The Foundation records conditional contributions as unearned revenue until the barriers to entitlement are overcome, at which point the transaction is recognized as unconditional and classified as net assets with restriction or net assets without restrictions. Unearned revenue from conditional contributions consisted of the following as of December 31, 2018:

California Department of Agriculture	\$ 245,434
Western Sustainable Agriculture Research & Education	37,560
USDA Risk Management Agency	147,195
USDA Farm Service Agency	11,531
USDA Organic Agriculture Research and Extension Initiative	<u>5,296</u>
Total Unearned Revenue from Conditional Contributions	<u>\$ 447,016</u>

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Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of December 31, 2018:

Net Assets with Donor Restrictions	
Subject to Expenditure for Specified Purpose:	
Soil Health	\$ 38,894
Research Grants	66,536
General Mills	50,000
United Natural Foods, Inc. Foundation	10,000
Total Net Assets Subject to Expenditure for Specified Purpose	<u>165,430</u>
Endowment:	
Subject to NFP endowment spending policy and appropriation:	
General use	106,354
Total Endowment	<u>106,354</u>
Total Net Assets with Donor Restrictions	<u>\$ 271,784</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or other events specified by the donors as follows for the year ended December 31, 2018:

Net Assets Released from Restrictions	
Satisfaction of Purpose Restrictions:	
Soil Health	\$ 56,962
Research Grants	13,464
Soil Health Guide (Climate)	30,000
CA Department of Agriculture Crop Block	52,142
USDA Farm Service Agency	18,084
USDA Organic Agriculture Research and Extension Initiative	14,475
Western Sustainable Agriculture Research & Education	36,578
USDA Risk Management Agency	51,701
Miscellaneous	51,359
Total Net Assets Released from Restrictions	<u>\$ 324,765</u>

NOTE 9 – ENDOWMENT

Interpretation of Relevant Law

The Foundation is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions.

The Board of Trustees of the Foundation has interpreted the California version of the UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument.

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The Foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, 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 fund
2. The purposes of the organization and the donor-restricted endowment fund
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. Other resources of the Foundation
7. The investment policies of the Foundation.

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 10 – LEASE COMMITMENT

In February 2018, the Foundation extended its office space lease on Potrero Street Santa Cruz through January 31, 2020 at \$2,502 per month. Total rent expense for the year ended December 31, 2018 was \$42,356. The future lease payments for the Foundation are as follows:

Year Ending December 31,	
2019	\$ 30,024
2020	2,502
Total Lease Payments	<u>\$ 32,526</u>

NOTE 11 – 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 \$3,450 to the Plan for the year ended December 31, 2018.