

**Organic Farming Research Foundation**  
(A California Nonprofit Organization)

Audited Financial Statements & Reports  
December 31, 2019



**Chavan & Associates, LLP**  
Certified Public Accountants  
1475 Saratoga Ave, Suite 180  
San Jose, CA 95129

**ORGANIC FARMING RESEARCH FOUNDATION**  
(A California Nonprofit Organization)

Table of Contents

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<b>TITLE</b>	<b>PAGE</b>
<b>FINANCIAL SECTION:</b>	
Independent Auditor's Report.....	1 - 2
Financial Statements:	
Statement of Financial Position .....	3
Statement of Activities .....	4
Statement of Functional Expenses .....	5
Statement of Cash Flows .....	6
Notes to Financial Statements.....	7 - 17

## ***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, 2019, 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.



**Chavan and Associates, LLP**  
Certified Public Accountants

*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, 2019, 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*

April 13, 2020  
San Jose, California

## ***Financial Statements***

**ORGANIC FARMING RESEARCH FOUNDATION**

(A California Nonprofit Organization)

Statement of Financial Position

December 31, 2019

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**ASSETS**

Cash and cash equivalents	\$ 349,466
Grants receivable	717,219
Operating investments	1,607
Other assets	9,377
Property and equipment, net	568
Endowment - certificates of deposit	107,034
Beneficial interest in assets held by community foundation	26,669
Total Assets	<u>\$ 1,211,940</u>

**LIABILITIES**

Accounts payable	\$ 31,043
Credit cards payable	3,281
Grants payable	11,486
Unearned revenue	678,335
Accrued vacation and employee benefits	20,294
Total Liabilities	<u>744,439</u>

**NET ASSETS**

Without donor restrictions:	
Designated by the Board for operating reserves	179,416
With donor restrictions:	
Endowment:	
Perpetual in nature	106,354
Purpose restrictions	181,731
Total net assets with donor restrictions	<u>288,085</u>
Total Net Assets	<u>467,501</u>
Total Liabilities and Net Assets	<u>\$ 1,211,940</u>

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

**ORGANIC FARMING RESEARCH FOUNDATION**

(A California Nonprofit Organization)

Statement of Activities

For the Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND SUPPORT</b>			
Government grants and contributions	\$ -	\$ 272,428	\$ 272,428
Events	89,718	-	89,718
Corporate contributions	88,705	86,948	175,653
Foundation contributions	163,500	160,000	323,500
Contributions from individuals	33,099	-	33,099
Indirect public support	1,578	-	1,578
In-kind contributions	9,384	-	9,384
Charge for service	300	-	300
Net investment return	1,401	-	1,401
Net assets released from restrictions:			
Satisfaction of program restrictions	503,075	(503,075)	-
Total Revenue and Support	<u>890,760</u>	<u>16,301</u>	<u>907,061</u>
<b>OPERATING EXPENSES</b>			
Program services:			
Research	560,321	-	560,321
Policy	134,187	-	134,187
Communication	131,690	-	131,690
Total program expenses	<u>826,198</u>	<u>-</u>	<u>826,198</u>
Support services:			
Management and general	51,114	-	51,114
Fundraising and development	119,490	-	119,490
Total support services expenses	<u>170,604</u>	<u>-</u>	<u>170,604</u>
Total Expenses	<u>996,802</u>	<u>-</u>	<u>996,802</u>
Change in Net Assets	(106,042)	16,301	(89,741)
Beginning Net Assets	<u>285,458</u>	<u>271,784</u>	<u>557,242</u>
Ending Net Assets	<u>\$ 179,416</u>	<u>\$ 288,085</u>	<u>\$ 467,501</u>

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



**ORGANIC FARMING RESEARCH FOUNDATION**

(A California Nonprofit Organization)

Statement of Functional Expenses

For the Year Ended December 31, 2019

	Support Services			Program Services				
	Management and General	Fundraising and Development	Total Support Services	Research	Policy	Communi- cations	Total Program Services	Total Expenses
Personnel	\$ 17,241	\$ 56,813	\$ 74,054	\$ 254,109	\$ 105,100	\$ 92,992	\$ 452,201	\$ 526,255
Professional services	8,675	15,533	24,208	161,042	6,916	13,904	181,862	206,070
Office expenses	1,097	3,912	5,009	2,513	387	828	3,728	8,737
Telephone and internet	282	586	868	416	766	1,704	2,886	3,754
Postage and shipping	862	226	1,088	1,378	190	2,718	4,286	5,374
Occupancy	5,201	7,398	12,599	14,751	8,598	9,834	33,183	45,782
Equipment and furniture	148	343	491	1,150	373	829	2,352	2,843
Printing and publications	6	4,304	4,310	6,794	26	1,210	8,030	12,340
Travel	-	4,610	4,610	13,548	5,946	1,127	20,621	25,231
Conferences and meetings	1,083	13,212	14,295	9,502	2,598	748	12,848	27,143
Interest	1,907	-	1,907	-	-	-	-	1,907
Depreciation	378	-	378	-	-	-	-	378
Insurance	3,181	274	3,455	195	359	798	1,352	4,807
Media and data services	1,555	4,001	5,556	1,434	705	3,645	5,784	11,340
License and fees	9,498	465	9,963	1,010	2,223	1,353	4,586	14,549
Donated services	-	7,813	7,813	-	-	-	-	7,813
Grant awards	-	-	-	92,479	-	-	92,479	92,479
<b>Total Expenses</b>	<b>\$ 51,114</b>	<b>\$ 119,490</b>	<b>\$ 170,604</b>	<b>\$ 560,321</b>	<b>\$ 134,187</b>	<b>\$ 131,690</b>	<b>\$ 826,198</b>	<b>\$ 996,802</b>

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

**ORGANIC FARMING RESEARCH FOUNDATION**

(A California Nonprofit Organization)

Statement of Cash Flows

For the Year Ended December 31, 2019

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**CASH FLOWS FROM OPERATING ACTIVITIES:**

Change in net assets	\$ (89,741)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:	
Depreciation expense	378
Donated operating investment	(1,595)
Realized and unrealized (gain) loss on operating investments	(12)
Change in beneficial interests in assets held by others	(331)
Endowment net investment (return) loss	(680)
Changes in operating assets and liabilities:	
Decrease (increase) in grants receivable	(270,958)
Increase (decrease) in accounts payable	(3,406)
Increase (decrease) in grants payable	5,983
Increase (decrease) in credit cards payable	(740)
Increase (decrease) in accrued vacation and employee benefits	(6,082)
Increase (decrease) in unearned revenue	231,319
Net cash provided by (used for) operating activities	<u>(135,865)</u>
Net increase (decrease) in cash and cash equivalents	(135,865)
Cash and cash equivalents - beginning of year	<u>485,331</u>
Cash and cash equivalents - end of year	<u><u>\$ 349,466</u></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, 2019

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## **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.

As of December 31, 2019, the US Department of Agriculture made up 78% of the Foundation's accounts receivable, and the CA Department of Agriculture made up 17% of 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, 2019, there was no allowance for uncollectable accounts.

As of December 31, 2019, the US Department of Agriculture comprise 78% of the Foundation's grants receivable, and the CA Department of Agriculture comprise 17% of grants receivable.

### **Operating 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.

# ORGANIC FARMING RESEARCH FOUNDATION

(A California Nonprofit Organization)

Notes to Financial Statements

For the Year Ended December 31, 2019

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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, 2019.

## Beneficial Interest in Assets Held by Community Foundation

The Foundation has investments held in the RSF Social Investment Fund (SIF) that serves social enterprises working in food & agriculture, education & the arts, and climate & environment. The Foundation granted variance power to the SIF, which allows the SIF to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if, in the sole judgment of the SIF's Board of Directors, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The fund is held and invested by the SIF for the Foundation's benefit and is reported at fair value in the statements of financial position, with distributions and changes in fair value recognized in the statements of activities.

## 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. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve. The reserve is intended to be used for emergencies and non-recurring situations and not to replace a permanent loss of funding or ongoing budget gaps. The board can approve the use of the reserve when cash flows are inadequate to meet monthly operating needs, and it is the policy of the board to take steps to replenish the operating reserve within a reasonable period-of-time.

*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.

# **ORGANIC FARMING RESEARCH FOUNDATION**

(A California Nonprofit Organization)

Notes to Financial Statements

For the Year Ended December 31, 2019

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## **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.

## **Grant Revenue**

Grant revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants or when a unit of service is provided for performance grants and all conditions of the grants have been satisfied. Grant revenue from federal agencies is subject to independent audit and review by grantor agencies. The review could result in the disallowance of an 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.

For the year ended December 31, 2019, the Foundation received grants from the CA Department of Agriculture, the Foundation for Food and Agriculture Research, and the USDA Organic Agriculture Research Education Initiative totaling 15%, 12% and 10% of revenues, respectively.

## **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.

## **Advertising Costs**

Advertising costs are expensed as incurred, and during the year ended December 31, 2019, the Foundation did not have any advertising costs.

## **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

# ORGANIC FARMING RESEARCH FOUNDATION

(A California Nonprofit Organization)

Notes to Financial Statements

For the Year Ended December 31, 2019

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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 Foundation'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.

## Implemented New Accounting Pronouncements

In May of 2019, FASB issued Accounting Standards Update No. 2019-06—Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities. The objective of the amendments in this Update is to address the concerns of not-for-profit stakeholders that the benefits of the current accounting for goodwill and certain identifiable intangible assets acquired in a business combination do not justify the related costs. Therefore, the amendments in this Update permit a not-for-profit entity to elect the private company alternatives. Under Topic 350, instead of testing goodwill for impairment annually at the reporting unit level, a not-for-profit entity can elect to amortize goodwill on a straight-line basis, test for impairment upon a triggering event, and have the option to elect to test for impairment at the entity level. Under the Topic 805, a not-for-profit entity can elect to recognize fewer items as separate intangible assets in an acquisition. The amendments in this Update are effective immediately. This Accounting Standards Update is the final version of Proposed Accounting Standards Update 2018-320—*Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*, which has been deleted. This ASU did not have a significant impact on the Foundation's financial statements.

## ORGANIC FARMING RESEARCH FOUNDATION

(A California Nonprofit Organization)

Notes to Financial Statements

For the Year Ended December 31, 2019

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### 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 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



# ORGANIC FARMING RESEARCH FOUNDATION

(A California Nonprofit Organization)

Notes to Financial Statements

For the Year Ended December 31, 2019

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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.

## 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	<u>\$ 234,895</u>
Total	<u>\$ 234,895</u>

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

## 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

**ORGANIC FARMING RESEARCH FOUNDATION**

(A California Nonprofit Organization)

Notes to Financial Statements

For the Year Ended December 31, 2019

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, 2019, \$26,669 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.

The following table presents assets and liabilities measured at fair value on a recurring basis as of December 31, 2019:

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)
Operating investments:				
Merrill Lynch equities	\$ 1,607	\$ 1,607	\$ -	\$ -
Endowment investments:				
Certificates of deposit	107,034	-	107,034	-
Beneficial interests in:				
Assets held by community foundation	26,669	-	-	26,669
<b>Total</b>	<b>\$ 135,310</b>	<b>\$ 1,607</b>	<b>\$ 107,034</b>	<b>\$ 26,669</b>

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis for donor restricted endowments, with fair value measurements noted above, and assets held by a community foundation, using significant unobservable inputs (Level 3), for the year ended December 31, 2019:

	Donor Restricted Endowments	Beneficial Interests Assets Held by Community Foundation
Beginning Balance	\$ 106,354	\$ 26,338
Investment return, net	680	331
Ending Balance	<u>\$ 107,034</u>	<u>\$ 26,669</u>

# ORGANIC FARMING RESEARCH FOUNDATION

(A California Nonprofit Organization)

Notes to Financial Statements

For the Year Ended December 31, 2019

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## NOTE 5 – GRANTS RECEIVABLE

As of December 31, 2019, three grantors accounted for a majority of the total grants receivable, as follows:

California Department of Agriculture	\$ 123,177
USDA Risk Management Agency	55,361
USDA Organic Agriculture Research and Extension Initiative	499,646
Miscellaneous	<u>39,035</u>
Total Grants Receivable	<u>\$ 717,219</u>

All grants receivable are expected to be collected within one year, therefore no discounts have been applied.

## 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. The credit cards are set to expire in January 2021 and 2024. The Foundation also has a Chase Bank credit card which carries a 15.24% interest rate on purchases and 26.99% on cash advances. The Chase credit card has a \$40,000 unsecured credit limit and expires in December 2023. As of December 2019, the outstanding balances totaled \$3,281.

## 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, 2019:

California Department of Agriculture	\$ 110,930
USDA Risk Management Agency	54,382
USDA Farm Service Agency	11,531
USDA Organic Agriculture Research and Extension Initiative	<u>501,492</u>
Total Unearned Revenue from Conditional Contributions	<u>\$ 678,335</u>

# ORGANIC FARMING RESEARCH FOUNDATION

(A California Nonprofit Organization)

Notes to Financial Statements

For the Year Ended December 31, 2019

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## NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of December 31, 2019:

### Net Assets with Donor Restrictions

Subject to Expenditure for Specified Purpose:	
Research Grants	\$ 141,462
Climate Policy	35,000
Organic Agriculture Research Symposium	<u>5,269</u>
Total Net Assets Subject to Expenditure for Specified Purpose	<u>181,731</u>
Endowment:	
Subject to NFP endowment spending policy and appropriation:	
General use	<u>106,354</u>
Total Net Assets with Donor Restrictions	<u>\$ 288,085</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, 2019:

### Net Assets Released from Restrictions

Satisfaction of Purpose Restrictions:	
Soil Health	\$ 38,895
Research Grants	97,022
CA Department of Agriculture Crop Block	134,504
USDA Organic Agriculture Research and Extension Initiative	3,450
Western Sustainable Agriculture Research & Education	37,560
United Natural Foods, Inc. Foundation	10,000
USDA Risk Management Agency	92,813
Organic Agriculture Research Symposium	6,837
Development Grants	31,994
General Mills	<u>50,000</u>
Total Net Assets Released from Restrictions	<u>\$ 503,075</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

# **ORGANIC FARMING RESEARCH FOUNDATION**

(A California Nonprofit Organization)

Notes to Financial Statements

For the Year Ended December 31, 2019

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(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.

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. See Note 4 for additional disclosures related to fair values and changes in the endowment net assets.

## **NOTE 10 – COMMITMENTS AND CONTINGENCIES**

### **Federal Awards and Grants**

The Foundation has received federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

### **Lease Commitments**

In December 2019, the Foundation extended its office space lease on Potrero Street Santa Cruz through January 31, 2023, at \$2,552 to \$2,655 per month. Total rent expense for the year ended December 31, 2019 was \$43,582.

**ORGANIC FARMING RESEARCH FOUNDATION**

(A California Nonprofit Organization)

Notes to Financial Statements

For the Year Ended December 31, 2019

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The future lease payments for the Foundation are as follows:

Year Ending December 31,	
2020	\$ 30,574
2021	31,185
2022	31,808
2020	<u>2,655</u>
Total Lease Payments	<u>\$ 96,222</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 \$5,750 to the Plan for the year ended December 31, 2019.