

Organic Farming Research Foundation
(A California Nonprofit Organization)

Audited Financial Statements & Reports
December 31, 2022



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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

Opinion

We have audited the financial statements of Organic Farming Research Foundation (a California Nonprofit Organization) (the "Foundation") which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2022 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will



always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

C & A LLP

May 5, 2023
Morgan Hill, California

Financial Statements

ORGANIC FARMING RESEARCH FOUNDATION

(A California Nonprofit Organization)

Statement of Financial Position

December 31, 2022

ASSETS

Cash and cash equivalents	\$ 876,641
Grants receivable	694,053
Promise to give, net	383,452
Operating investments	3,264
Prepaid expenses and other current assets	6,312
Other assets	2,666
Endowment - certificates of deposit	108,445
Beneficial interest in assets held by community foundation	<u>27,007</u>
Total Assets	<u><u>\$ 2,101,840</u></u>

LIABILITIES

Accounts payable	\$ 44,269
Credit cards payable	6,529
Grants payable	21,076
Unearned revenue	562,960
Accrued vacation and employee benefits	<u>42,556</u>
Total Liabilities	<u><u>677,390</u></u>

NET ASSETS

Without donor restrictions:	
Undesignated	874,022
Designated by the Board for operating reserves	<u>269,385</u>
Total net assets without donor restrictions	<u><u>1,143,407</u></u>
With donor restrictions:	
Endowment:	
Perpetual in nature	106,354
Purpose restrictions	<u>174,689</u>
Total net assets with donor restrictions	<u><u>281,043</u></u>
Total Net Assets	<u><u>1,424,450</u></u>
Total Liabilities and Net Assets	<u><u>\$ 2,101,840</u></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, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Government grants and contributions	\$ -	335,385	\$ 335,385
Corporate contributions	307,053	21,000	328,053
Foundation contributions	392,014	200,500	592,514
Contributions from individuals	162,730	-	162,730
ERC (tax credit)	80,590	-	80,590
Indirect public support	5,211	-	5,211
In-kind contributions	700	-	700
Net investment return	1,830	-	1,830
Miscellaneous revenue	17	-	17
Net assets released from restrictions:			
Satisfaction of program restrictions	561,169	(561,169)	-
Total Revenue and Support	<u>1,511,314</u>	<u>(4,284)</u>	<u>1,507,030</u>
OPERATING EXPENSES			
Program services:			
Research	452,457	-	452,457
Policy	235,021	-	235,021
Communication	60,593	-	60,593
Total program expenses	<u>748,071</u>	<u>-</u>	<u>748,071</u>
Support services:			
Management and general	186,188	-	186,188
Fundraising and development	95,889	-	95,889
Total support services expenses	<u>282,077</u>	<u>-</u>	<u>282,077</u>
Total Expenses	<u>1,030,148</u>	<u>-</u>	<u>1,030,148</u>
Change in Net Assets	481,166	(4,284)	476,882
Beginning Net Assets	680,512	265,956	946,468
Prior Period Adjustment	(18,271)	19,371	1,100
Beginning Net Assets - Adjusted	<u>662,241</u>	<u>285,327</u>	<u>947,568</u>
Ending Net Assets	<u>\$ 1,143,407</u>	<u>\$ 281,043</u>	<u>\$ 1,424,450</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, 2022

	Support Services			Program Services			Total Program Services	Total Expenses
	Management and General	Fundraising and Development	Total Support Services	Research	Policy	Communi- cations		
Personnel	\$ 132,082	\$ 89,998	\$ 222,080	\$ 208,450	\$ 183,278	\$ 45,399	\$ 437,127	\$ 659,207
Professional services	25,126	1,695	26,821	100,778	42,863	11,765	155,406	182,227
Office expenses	1,805	-	1,805	294	109	234	637	2,442
Postage and shipping	568	189	757	99	-	-	99	856
Occupancy	9,712	-	9,712	18,860	1,263	-	20,123	29,835
Equipment and furniture	3,004	1,046	4,050	-	-	-	-	4,050
Printing and publications	-	1,218	1,218	2,107	-	-	2,107	3,325
Travel	297	338	635	2,274	823	-	3,097	3,732
Conferences and meetings	818	401	1,219	-	113	-	113	1,332
Interest	207	-	207	-	-	-	-	207
Insurance	4,507	-	4,507	-	-	-	-	4,507
Media and data services	449	118	567	1,207	744	3,145	5,096	5,663
License and fees	7,613	886	8,499	360	5,828	50	6,238	14,737
Grant awards	-	-	-	118,028	-	-	118,028	118,028
Total Expenses	\$ 186,188	\$ 95,889	\$ 282,077	\$ 452,457	\$ 235,021	\$ 60,593	\$ 748,071	\$ 1,030,148

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, 2022

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 476,882
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:	
Realized and unrealized (gain) loss on operating investments	(2,610)
Change in beneficial interests in assets held by others	(87)
Endowment net investment (return) loss	(348)
Prior period adjustments	1,100
Changes in operating assets and liabilities:	
Decrease (increase) in grants receivable	285,169
Decrease (increase) in promises to give, net	(324,967)
Decrease (increase) in prepaid expenses and other current assets	(6,312)
Increase (decrease) in accounts payable	(26,163)
Increase (decrease) in grants payable	10,371
Increase (decrease) in credit cards payable	(1,321)
Increase (decrease) in accrued vacation and employee benefits	8,236
Increase (decrease) in unearned revenue	(326,013)
Net cash provided by (used for) operating activities	<u>93,937</u>
Net increase (decrease) in cash and cash equivalents	93,937
Cash and cash equivalents - beginning of year	<u>782,704</u>
Cash and cash equivalents - end of year	<u>\$ 876,641</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, 2022

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.

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.

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, 2022, there was no allowance for uncollectable accounts.

As of December 31, 2022, the Foundation's receivables comprised of 40% from USDA National Institute of Food and Agriculture (NIFA), 17% from a private family foundation, 13% from California Department of Food and Agriculture's Specialty Crop Block Grant Program, and 10% from USDA Natural Resources Conservation Service (NRCS).

ORGANIC FARMING RESEARCH FOUNDATION

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Notes to Financial Statements

For the Year Ended December 31, 2022

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, 2022.

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

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Notes to Financial Statements

For the Year Ended December 31, 2022

Revenue Recognition Accounted for in Accordance with ASC 605: Topic 958 Not for Profit Entities

Grants – Grants awarded by federal, state or local agencies, or passed through to the Foundation from another donor that received similar grants, are generally considered nonreciprocal transactions restricted by the awarding agency for certain purposes. Revenue is recognized when qualified expenses are incurred and conditions under the grant agreement are met. 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. The following summarizes the Foundation’s grant revenue for the fiscal year ended December 31, 2022:

	Grant Revenue
USDA Organic Agriculture Research and Extension Initiative	\$ 123,399
USDA National Institute of Food and Agriculture (NIFA)	90,445
CDFA Specialty Crop Block Grant Program	59,860
USDA Natural Resources Conservation Service (NRCS)	50,035
Southern Sustainable Agriculture Research and Education	8,962
UC Agriculture & Natural Resources	2,684
Totals	<u>\$ 335,385</u>

Fund-Raising Events – The Foundation holds fund-raising events and reports the revenues generated, net of any direct operating costs, as revenue, gains, and other support in the accompanying statements of activities. Fund-raising revenue is recognized at fair value on the earlier of the receipt of cash or an unconditional promise to give.

Contribution Revenue – The Foundation receives support from individuals, corporations, and other nonprofit organizations in support of its mission. Contribution revenue is recognized at fair value on the earlier of the receipt of cash or an unconditional promise to give. From time to time, the Foundation receives promises to give that have certain conditions such as meeting specific performance-related barriers or limiting the Foundation’s discretion on use of the funds. Other contributions may have revocable features to the promises to give. Such conditional promises to give are recognized when the conditions are 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.

Advertising Costs

Advertising costs are expensed as incurred, and during the year ended December 31, 2022, the Foundation had zero advertising costs.

ORGANIC FARMING RESEARCH FOUNDATION

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Notes to Financial Statements

For the Year Ended December 31, 2022

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.

Concentrations

For the year ended December 31, 2022, government grants and contributions comprised 22% of total revenue, corporate contributions comprised another 22% of total revenue, contributions from other foundations comprised 39%, and contributions from individuals made up 11% of total revenue.

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.

ORGANIC FARMING RESEARCH FOUNDATION

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Notes to Financial Statements

For the Year Ended December 31, 2022

Implemented New Accounting Pronouncements

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit Associations through enhancements to presentation and disclosure. ASU No. 2020-07 was issued to address certain stakeholders' concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by not-for-profits, as well as the amount of those contributions used in an entity's programs and other activities. The standard is effective for annual reporting periods beginning after June 15, 2021 and should be applied on a retrospective basis. This standard did not have a significant impact on the Foundation's financial statements.

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. On April 8, 2020, the FASB voted to defer the effective date of ASU 2016-02 by one additional year. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. This standard did not have a significant impact on the Foundation's 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	\$	876,641
Short-term investments		30,271
Certificate of deposits		108,445
Grants receivable		962,505
Less:		
Net assets with donor restrictions		(281,043)
Accounts payable		(71,874)
Accrued expenses		(42,556)
Total	\$	<u>1,582,389</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, 2022

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, 2022, \$27,007 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.

ORGANIC FARMING RESEARCH FOUNDATION
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Notes to Financial Statements
For the Year Ended December 31, 2022

The following table presents assets and liabilities measured at fair value on a recurring basis as of December 31, 2022:

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	\$ 3,264	\$ 3,264	\$ -	\$ -
Endowment investments:				
Certificates of deposit	108,445	-	108,445	-
Beneficial interests in:				
Assets held by community foundation	27,007	-	-	27,007
Total	<u>\$ 138,716</u>	<u>\$ 3,264</u>	<u>\$ 108,445</u>	<u>\$ 27,007</u>

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, 2022:

	Donor Restricted Endowments	Beneficial Interests Assets Held by Community Foundation
Beginning Balance	\$ 108,097	\$ 26,920
Investment return, net	348	87
Ending Balance	<u>\$ 108,445</u>	<u>\$ 27,007</u>

NOTE 5 – PROMISES TO GIVE AND GRANTS RECEIVABLE

As of December 31, 2022, promises to give and grants receivable were as follows:

USDA National Institute of Food and Agriculture (NIFA)	\$ 432,092
CDFA Specialty Crop Block Grant Program	138,728
USDA Natural Resources Conservation Service (NRCS)	104,624
National Co-op Grocers	50,000
Gaia Foundation	180,000
The Globetrotter Foundation	100,000
Miscellaneous	72,061
Total Promises to Give and Grants Receivable	<u>\$ 1,077,505</u>

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

ORGANIC FARMING RESEARCH FOUNDATION

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Notes to Financial Statements

For the Year Ended December 31, 2022

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 2022, the outstanding balances totaled \$6,529.

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, 2022:

USDA National Institute of Food and Agriculture (NIFA)	\$	406,742
CDFA Specialty Crop Block Grant Program		114,934
USDA Natural Resources Conservation Service (NRCS)		37,307
Southern Sustainable Agriculture Research & Education		<u>3,977</u>
Total Unearned Revenue from Conditional Contributions	\$	<u><u>562,960</u></u>

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of December 31, 2022:

Net Assets with Donor Restrictions

Subject to Expenditure for Specified Purpose:

Gaia Foundation	\$	120,000
Farmers Advocating for Organics		27,877
21/22 Grant Making Program		16,879
Gordon Foundation		<u>9,933</u>
Total Net Assets Subject to Expenditure for Specified Purpose		<u>174,689</u>

Endowment:

Subject to NFP endowment spending policy and appropriation:

General use		<u>106,354</u>
Total Net Assets with Donor Restrictions	\$	<u><u>281,043</u></u>

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Notes to Financial Statements

For the Year Ended December 31, 2022

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, 2022:

Net Assets Released from Restrictions

Satisfaction of Purpose Restrictions:

Heller Foundation climate	\$	35,391
Climate Policy		25,000
Farmers Advocating for Organics		15,623
Gordon Foundation		10,067
Foundation for Sustainability & Innovation (FSI)		8,000
National Sustainable Agriculture Coalition (NSAC)		9,000
19/20 Grant Making Program		18,082
21/22 Grant Making Program		104,621
CDFA Specialty Crop Block Grant Program		59,860
USDA Organic Agriculture Research and Extension Initiative		123,399
USDA Natural Resources Conservation Service (NRCS)		50,035
USDA National Institute of Food and Agriculture (NIFA)		90,445
Southern Sustainable Agriculture Research & Education		8,962
UC Agriculture & Natural Resources		2,684
		<hr/>
Total Net Assets Released from Restrictions	\$	<u>561,169</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.

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

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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. In August 2020, the Foundation terminated the original terms of the lease and signed a new one-year lease for office space on Potrero Street in Santa Cruz, which commenced September 1, 2020 and expected to end on August 31, 2021, at \$1,315 per month. On August 8, 2022, the Foundation amended its lease agreement to extend the terms from August 1, 2022 to July 31, 2023, for \$395 per month. Total rent expense for the year ended December 31, 2022 was \$7,000.

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 \$11,758 to the Plan for the year ended December 31, 2022.