

CALIFORNIA FARMLINK

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2019 AND 2018

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

TABLE OF CONTENTS

	Page
Independent Auditor’s Report	1
Statements of Financial Position	3
Statements of Activities.....	4
Statements of Functional Expenses	5
Statements of Cash Flows.....	7
Notes to Financial Statements	8
Schedule of Expenditures of Federal Awards.....	26
Notes to Schedule of Expenditures of Federal Awards	28
Schedule of Findings and Questioned Costs.....	29
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	30
Independent Auditor’s Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance.....	32

* * * *



Board of Directors
California FarmLink
Santa Cruz, California

JAMES M. KRAFT
S. SCOTT SEAMANDS
ALEXIS H. WONG
CHARLOTTE SIEW-KUN TAY
CATHY L. HWANG
RITA B. DELA CRUZ
STANLEY WOO
SCOTT K. SMITH

CRISANTO S. FRANCISCO
JOE F. HUIE

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of California FarmLink, a California nonprofit public benefit corporation, which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California FarmLink as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 2 and 13 to the financial statements, California FarmLink adopted the new accounting guidance required by accounting principles generally accepted in the United States of America from Accounting Standards Updates 2018-08, *Not-for-Profit Entities (Topic 605): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* and 2019-09, *Revenue from Contracts with Customers (Topic 606)*. The change in accounting principle has been applied retrospectively to the prior period presented. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards on page 26, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued a report dated June 19, 2020 on our consideration of California FarmLink's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of California FarmLink's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering California FarmLink's internal control over financial reporting and compliance.

Sindquist, von Husen and Joyce LLP

June 19, 2020

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
 STATEMENTS OF FINANCIAL POSITION
 DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
Current assets:		
Cash:		
Operating cash	\$ 2,667,231	\$ 1,553,994
Loan fund	2,838,807	1,429,072
Loan loss reserves (Note 4)	221,912	137,583
Total cash	5,727,950	3,120,649
Contributions receivable (Note 3)	716,694	1,094,664
Prepaid expenses	11,579	7,998
Notes receivable, net – current portion (Note 4)	2,072,317	1,382,519
Total current assets	8,528,540	5,605,830
Notes receivable, net – net of current portion (Note 4)	3,171,833	2,417,604
Property and equipment – net (Note 5)	37,798	31,158
Total assets	\$ 11,738,171	\$ 8,054,592
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 258,835	\$ 143,531
Line of credit (Note 6)	607,500	-
Interest payable (Notes 6 and 7)	34,754	51,243
Notes payable – term loans – current portion (Note 7)	56,482	333,070
Total current liabilities	957,571	527,844
Notes payable – term loans – net of current portion (Note 7)	5,467,417	3,056,445
Notes payable – equity-equivalent loan (Note 7)	1,500,000	1,500,000
Total liabilities	7,924,988	5,084,289
Net assets:		
Without grantor restrictions	1,556,581	682,045
With grantor restrictions (Note 9)	2,256,602	2,288,258
Total net assets	3,813,183	2,970,303
Total liabilities and net assets	\$ 11,738,171	\$ 8,054,592

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

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019			2018		
	<i>Without Grantor Restrictions</i>	<i>With Grantor Restrictions</i>	<i>Total</i>	<i>Without Grantor Restrictions</i>	<i>With Grantor Restrictions</i>	<i>Total</i>
Support and revenue:						
Contributions:						
Foundation	\$ 175,000	\$ 1,355,000	\$ 1,530,000	\$ 182,703	\$ 150,500	\$ 333,203
Banks	28,500	500,000	528,500	5,000	65,000	70,000
Government	725,879	-	725,879	770,422	632,000	1,402,422
Individuals/other	67,594	-	67,594	70,293	-	70,293
Interest income	264,768	-	264,768	214,744	-	214,744
Loan fees	174,554	-	174,554	167,922	-	167,922
Other	26,429	-	26,429	-	-	-
Net assets released from restriction (Note 9)	1,886,656	(1,886,656)	-	591,534	(591,534)	-
Total support and revenue	3,349,380	(31,656)	3,317,724	2,002,618	255,966	2,258,584
Expenses:						
Program services:						
Farm Opportunities Loan Program	899,931	-	899,931	742,109	-	742,109
Land Access and Farm Business Education Programs	885,133	-	885,133	679,673	-	679,673
Supporting services:						
Management and general	457,626	-	457,626	331,985	-	331,985
Fundraising	232,154	-	232,154	169,742	-	169,742
Total expenses	2,474,844	-	2,474,844	1,923,509	-	1,923,509
Change in net assets	874,536	(31,656)	842,880	79,109	255,966	335,075
Net assets, beginning of year	682,045	2,288,258	2,970,303	602,936	2,032,292	2,635,228
Net assets, end of year	\$ 1,556,581	\$ 2,256,602	\$ 3,813,183	\$ 682,045	\$ 2,288,258	\$ 2,970,303

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

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019							Total
	<i>Program Services</i>			<i>Supporting Services</i>				
	<i>Farm Opportunities Loan Program</i>	<i>Land Access and Farm Business Education Programs</i>	<i>Total Program Services</i>	<i>Management and General</i>	<i>Fundraising</i>	<i>Total Supporting Services</i>		
Salaries and wages	\$ 344,893	\$ 390,766	\$ 735,659	\$ 212,117	\$ 99,614	\$ 311,731	\$ 1,047,390	
Employee benefits	47,442	53,752	101,194	29,178	13,702	42,880	144,074	
Payroll taxes	26,077	29,545	55,622	16,038	7,532	23,570	79,192	
Recruiting	571	-	571	18,439	-	18,439	19,010	
Professional fees	78,435	305,774	384,209	40,677	976	41,653	425,862	
Accounting fees	-	-	-	33,251	-	33,251	33,251	
Legal	-	-	-	4,000	-	4,000	4,000	
Advertising	-	842	842	-	12,178	12,178	13,020	
Conferences and training	16,847	24,456	41,303	452	7,150	7,602	48,905	
Occupancy	20,659	21,126	41,785	19,016	-	19,016	60,801	
Printing and duplication	681	1,099	1,780	778	478	1,256	3,036	
Travel	8,458	23,193	31,651	1,149	20,985	22,134	53,785	
Communications	2,654	4,987	7,641	2,703	125	2,828	10,469	
Postage and shipping	222	424	646	629	85	714	1,360	
Supplies and equipment	4,613	22,694	27,307	11,486	868	12,354	39,661	
Insurance	1,280	-	1,280	13,807	2	13,809	15,089	
Interest	98,686	-	98,686	-	-	-	98,686	
Loan loss reserve	197,593	-	197,593	-	-	-	197,593	
Service fees	33,506	-	33,506	-	-	-	33,506	
Computer and IT	16,525	5,860	22,385	18,251	43,440	61,691	84,076	
Other	789	615	1,404	23,097	25,019	48,116	49,520	
Total operating expenses before depreciation	899,931	885,133	1,785,064	445,068	232,154	677,222	2,462,286	
Depreciation	-	-	-	12,558	-	12,558	12,558	
Total expenses	\$ 899,931	\$ 885,133	\$ 1,785,064	\$ 457,626	\$ 232,154	\$ 689,780	\$ 2,474,844	

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

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2018							Total
	Program Services			Supporting Services				
	Farm Opportunities Loan Program	Land Access and Farm Business Education Programs	Total Program Services	Management and General	Fundraising	Total Supporting Services		
Salaries and wages	\$ 425,130	\$ 211,598	\$ 636,728	\$ 97,720	\$ 124,964	\$ 222,684	\$ 859,412	
Employee benefits	48,281	24,031	72,312	11,098	14,192	25,290	97,602	
Payroll taxes	34,492	17,168	51,660	7,928	10,139	18,067	69,727	
Recruiting	751	-	751	763	-	763	1,514	
Professional fees	53,321	358,993	412,314	66,263	7,515	73,778	486,092	
Accounting fees	1,420	-	1,420	28,394	-	28,394	29,814	
Legal	-	-	-	3,905	-	3,905	3,905	
Advertising	-	338	338	1,431	1,189	2,620	2,958	
Conferences and training	2,968	2,208	5,176	5,823	-	5,823	10,999	
Occupancy	16,860	13,225	30,085	6,734	4,876	11,610	41,695	
Printing and duplication	101	2,767	2,868	1,519	157	1,676	4,544	
Travel	16,156	14,492	30,648	27,499	308	27,807	58,455	
Communications	1,937	2,310	4,247	10,402	-	10,402	14,649	
Postage and shipping	979	729	1,708	76	-	76	1,784	
Supplies and equipment	2,701	12,632	15,333	3,364	-	3,364	18,697	
Insurance	-	-	-	8,149	-	8,149	8,149	
Interest	45,318	-	45,318	-	-	-	45,318	
Loan loss reserve	69,171	-	69,171	-	-	-	69,171	
Service fees	15,876	-	15,876	-	-	-	15,876	
Computer and IT	-	11,798	11,798	28,971	-	28,971	40,769	
Other	6,647	7,384	14,031	11,071	6,402	17,473	31,504	
Total operating expenses before depreciation	742,109	679,673	1,421,782	321,110	169,742	490,852	1,912,634	
Depreciation	-	-	-	10,875	-	10,875	10,875	
Total expenses	\$ 742,109	\$ 679,673	\$ 1,421,782	\$ 331,985	\$ 169,742	\$ 501,727	\$ 1,923,509	

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

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
 STATEMENTS OF CASH FLOWS
 YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 842,880	\$ 335,075
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	12,558	10,875
Forgiveness of debt	(75,000)	-
(Increase) decrease in assets:		
Receivables:		
Contributions	377,970	314,016
Other	-	3,402
Prepaid expenses	(3,581)	4,504
Loan losses provision	131,651	47,151
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	115,304	26,941
Interest payable	(16,489)	29,709
Net cash provided by operating activities	1,385,293	771,673
Cash flows from investing activities:		
Purchase of property and equipment	(19,198)	(9,133)
Notes receivable disbursed	(7,443,640)	(2,791,998)
Collection of notes receivable	5,867,962	1,734,387
Net cash used in investing activities	(1,594,876)	(1,066,744)
Cash flows from financing activities:		
Payment of notes payable	(262,621)	(275,721)
Proceeds from notes payable	2,472,005	1,907,167
Payment of line of credit	(2,794,748)	-
Proceeds from line of credit	3,402,248	-
Net cash provided by financing activities	2,816,884	1,631,446
Net increase in cash	2,607,301	1,336,375
Cash, beginning of year	3,120,649	1,784,274
Cash, end of year	\$ 5,727,950	\$ 3,120,649
Supplementary information:		
Cash paid for interest	\$ 115,175	\$ 15,609

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

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

California FarmLink (FarmLink), a California nonprofit public benefit corporation, was formed in 1999 with the mission to link independent farmers and ranchers with the land, financing and information they need for a sustainable future. FarmLink helps farmers to build strong business skills, access fair financing, and establish secure land tenure. FarmLink became a certified Community Development Financial Institution in 2013 and serves across the state, with particular focus on the Central Coast, Sacramento and San Joaquin valleys, and the North Coast regions of California. To help farmers access land and capital, grow their businesses, and create jobs, FarmLink employs the following programs:

- **Farm Opportunities Loan Program** – provides flexibly structured financing to underserved, low income, immigrant and beginning farmers across the state for operating, equipment and infrastructure loans. FarmLink’s loan program serves borrowers who would otherwise have a difficult time securing financing due to limited history as entrepreneurs, limited traditional collateral, limited or no credit history, small loan size, language barriers, or non-traditional marketing and business models. FarmLink also directs farmers to other appropriate alternative sources of financing suited to the scale and type of the farming business. FarmLink made 78 and 60 loans, with an average loan size of \$91,402 and \$46,018 during 2019 and 2018, respectively. The Pathways to Ownership program helps growers plan for farm mortgages and provides farmers long term, lower-interest mortgage loans as they gain ownership and land security. With farm ownership, farmers build equity, invest in improvements to soil, farm infrastructure and even farm housing.
- **Land Access and Farm Business Education Programs** – link land seekers with landowners, and provide education and technical assistance in farm business skills, including financial and legal acumen and succession planning. These programs also bring increased focus to the needs of different stakeholder groups through three interrelated strategic initiatives: “Wealth Building,” “Resilience and Succession,” and “Equity on Conservation Lands.” All three approaches employ FarmLink’s core tools in lending, land access, technical assistance, and business education to provide opportunity for growth and success among small and diverse farm entrepreneurs. Program outcomes include:

Land Access:

FarmLink maintains a farmland listing database of land available for lease or sale, connects farmers and land owners, helps them develop and negotiate strong leases, and supports farmers seeking financing for land purchases. Succession planning workshops help farm families pass farming businesses and assets to the next generation. Since 2011, FarmLink staff has developed 410 successful leases or purchases tailored to the needs of landowners and growers.

Business Education:

FarmLink staff and partners conducted 21 and 24 educational events attended by over 1,058 and 1,011 growers during 2019 and 2018, respectively. Events include Land Tenure Clinics and Farm Finance Trainings, which bring together a wide variety of farm lenders and farmers, through collaborations with farmer training programs such as the Agricultural and Land-Based Training Association and the California Farm Academy at the Center for Land-Based Learning, as well as the California Small Farm Conference, the Eco-Farm Conference, and land trust organizations. FarmLink is currently evolving its business education curriculum through its three strategic initiatives, and has piloted a new “Business Resilience Intensive” multi-session series with 15 and 35 farmers in 2019 and 2018, respectively.

Business Technical Assistance:

FarmLink staff provided direct, individualized, hands-on technical assistance to 239 and 205 growers and landowners during 2019 and 2018, respectively.

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

In 2005, FarmLink began developing a farm loan fund to provide financing to growers. FarmLink identified a lack of access to financing as one of the top obstacles faced by small and low-income farmers. For five years, FarmLink operated the loan program in collaboration with other lending institutions: FarmLink raised funds and loaned those funds to the other lending institutions who acted as the lender of record to make loans to small farmers. FarmLink obtained its own lending license from the Department of Corporations at the end of 2010, secured guaranteed lender status from the United States Department of Agriculture (USDA) Farm Service Agency (FSA) in 2011 and has been making direct loans to growers since the fall of 2011. In 2013, FarmLink received certification from the U.S. Department of the Treasury as a Community Development Financial Institution (CDFI). A CDFI is a specialized financial institution that works in market niches that are underserved by traditional financial institutions. With this certification, FarmLink is eligible for accessing financial and technical award assistance from the CDFI fund to advance its mission. FarmLink has received CDFI Fund awards each year for the past 8 years of approximately \$3,100,000.

FarmLink is especially vulnerable to the inherent risks associated with revenue that is substantially dependent on government funding, public support and contributions from government agencies, banks, foundations, and corporations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method

FarmLink uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of the timing of payments.

Estimates

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

Basis of Presentation

FarmLink reports information regarding its financial position and activities according to two classes of net assets, as applicable: Net assets without grantor restrictions and net assets with grantor restrictions.

- Net assets without grantor restrictions include those assets over which the Board of Directors has discretionary control in carrying out the operations of FarmLink.
- Net assets with grantor restrictions include those assets subject to grantor restrictions and for which the applicable restrictions were not met as of the end of the current reporting period. Some grantor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the grantor. When a grantor restriction expires – that is, when a stipulated time restrictions ends or purpose restriction is accomplished – net assets with grantor restrictions are reclassified to net assets without grantor restrictions and reported in the statements of activities as *net assets released from restrictions*. Other grantor-imposed restrictions are perpetual in nature, where the grantor stipulates the resources be maintained in perpetuity. FarmLink has no net assets with non-expiring grantor restrictions as of December 31, 2019 and 2018.

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

Revenue Recognition

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recognized when the grantor makes a promise to give; that is, in substance, an unconditional promise. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Contributions are recorded at their fair value as support without grantor restrictions or support with grantor restrictions, depending on the absence or existence of grantor-imposed restrictions as applicable. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with grantor restrictions are reclassified to net assets without grantor restrictions and are reported in the statements of activities as net assets released from restrictions.

A portion of FarmLink's contribution revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when FarmLink has incurred expenditures in compliance with specific contract or grant provisions. An amount of approximately \$210,000 of cost-reimbursable federal grants has not been recognized as of December 31, 2019, and will be recognized when FarmLink incurs expenditures in compliance with the contract or grant provisions. Amounts received prior to incurring qualifying expenditures, if any, are reported as deferred revenue in the statement of financial position. Deferred revenue was \$-0- as of December 31, 2019.

Contributions of donated, non-cash assets are recognized and recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. FarmLink did not receive contributions of donated services during 2019.

Cash

Cash is defined as cash in demand deposit accounts as well as cash on hand. FarmLink occasionally maintains cash on deposit at a bank in excess of the Federal Deposit Insurance Corporation limit. The uninsured cash balance was approximately \$4,410,000 as of December 31, 2019. FarmLink has not experienced any losses in such accounts.

Loan Funds

FarmLink maintains cash for loan funds in separate bank accounts. Grants, contributions, and loan funds are received and deposited into their respective bank account based on the program or other grantor requirement. Disbursements require approval by FarmLink's loan committee.

Notes Receivable

Notes receivable consists of loans made to farmers under the Land Access and Farm Business Education Programs and Farm Opportunities Loan Program and are carried at their outstanding principal balances, net of an allowance for loan losses. Loan origination fees are recognized immediately, which management has determined is not materially different from accounting principles generally accepted in the United States of America.

Interest income is accrued on principal loan balances. FarmLink accrues interest on past due loans at the regular rate of interest or at the default rate of interest for loans that are in default. Loans may be placed on nonaccrual status when any portion of the principal or interest is ninety days past due or earlier when concern exists as to the ultimate collectability of principal or interest, as evaluated. FarmLink makes every effort to collect all interest payments from the borrower even after loans are placed on nonaccrual status for accounting purposes.

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

Loans return to accrual status when principal and interest become current and are anticipated to be fully collectible. Payments received on nonaccrual loans receivable are first applied to outstanding principal or interest depending on the circumstances of each particular loan.

Allowance for Loan Losses

Management's determination of the level of the allowance for loan losses rests upon various judgments and assumptions, including current and projected economic conditions, prior loan loss experience, the value of the underlying collateral, continuing review of the loans, and evaluation of credit risk. Management considers the allowance for loan losses adequate to cover losses inherent in loans and loan commitments. However, because of uncertainties associated with these judgments and assumptions, it is reasonably possible that management's estimate of loan losses and the related allowance may change materially in the near-term. The allowance is increased or decreased by a provision (recapture) for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. The balance of the allowance for loan losses as of December 31, 2019 and 2018 was estimated at 6% and 5.7% of the outstanding loan portfolio, respectively.

A large portion of FarmLink's portfolio has the additional 90% to 95% guarantee from the USDA FSA and other state and private guarantors. As of December 31, 2019, 67% of the notes receivable portfolio had the additional guarantee from FSA, Small Business Administration (SBA), State, or other providers. See Note 4 for more details.

Property and Equipment

Property and equipment is stated at cost of acquisition or fair value, if donated. Assets with a useful life of over one year and an individual or aggregate cost in excess of \$500 are capitalized. The costs of maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

The useful lives of the assets are estimated as follows:

Furniture, fixtures and equipment	5 years
Leasehold improvements	5 years

Income Taxes

FarmLink is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and the related California code sections. Contributions to FarmLink qualify for the charitable contribution deduction and FarmLink is not classified as a private foundation.

FarmLink believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. FarmLink's federal and state information returns for the years 2015 through 2018 are subject to examination by regulatory agencies, generally for three years and four years after they were filed for federal and state, respectively.

Functional Expenses Allocation

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. Certain categories of expenses are attributed to more than one program or supporting function that require consistent allocation on a reasonable basis. Expenses that are allocated include employee benefits and payroll taxes, outside services, facility and other office expenses, travel, communications, supplies, and miscellaneous expenses.

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

Subsequent Events

Management has evaluated subsequent events through June 19, 2020, the date on which the financial statements were available to be issued.

Reclassification

Certain amounts previously reported in the 2018 financial statements were reclassified to conform to the 2019 presentation for comparative purposes.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows:

	2019	2018
The 11 th Hour Project	\$ 500,000	\$ -
USDA NIFA Beginning Farmer and Rancher Development Program (BFRDP)	48,492	53,394
USDA Risk Management Agency	41,350	36,801
USDA Rural Business Development Grants (RBDG)	24,747	-
USDA Rural Microentrepreneur Assistance Program (RMAP)	14,324	1,711
USDA Office of Advocacy and Outreach – Section 2501	-	15,654
SBA – Microloan Program	55,925	-
SBA – PRIME	5,097	15,862
UNFI Foundation	15,000	-
Union Bank	9,000	-
U.S. Department of the Treasury – CDFI Fund	-	862,405
California Department of Food and Agriculture – Specialty Crop Block Grant Program (SCBGP)	-	52,243
Agriculture and Land-Based Training Association	-	15,750
Swift Foundation	-	35,000
Others	2,759	5,844
Total	<u>\$ 716,694</u>	<u>\$ 1,094,664</u>

NOTE 4 – NOTES RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Notes receivable as of December 31, 2019 and 2018 are summarized as follows:

	2019	2018
Total notes receivable	\$ 5,606,651	\$ 4,030,973
Less: allowance for loan losses	<u>(362,501)</u>	<u>(230,850)</u>
Net notes receivable	5,244,150	3,800,123
Less: current portion	<u>(2,072,317)</u>	<u>(1,382,519)</u>
Long-term portion	<u>\$ 3,171,833</u>	<u>\$ 2,417,604</u>

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

As of December 31, 2019 and 2018, notes receivable, net of allowance for loan losses, consist of loans with interest rates ranging from 0% to 8%.

Annual maturities on notes receivable within the next five years are estimated as follows:

2020	\$ 2,072,317
2021	214,342
2022	151,871
2023	634,962
2024	193,037

Loan Loss Reserve and Guarantee

FarmLink’s risk management policies ensure FarmLink has sufficient loan loss reserve. FarmLink’s policy is to maintain both a funded loan loss reserve (cash restricted to replenish the loan fund following any loan losses) as well as an allowance for loan losses that reflects the risk exposure in the loan portfolio. FarmLink has outlined a risk rating system that states the loan loss reserve requirements on a scale from 1-Excellent, 2-Very Good/Good, 3-Average, 4-Substandard, 5-Doubtful and 6-Loss. Reserve adequacy is calculated quarterly and additions to the reserve are made as required, to maintain an adequate reserve balance. If risk exposure is mitigated by a loan guarantee, the maximum loan loss reserve allocation is the amount of the unguaranteed portion of the loan.

A large portion of the FarmLink portfolio has the additional protection of a 90 to 95 percent guarantee from the USDA FSA. FarmLink seeks this government guarantee on loans over \$50,000 that qualify. In 2019, fifteen new loans in the total amount of \$1,825,400 received the additional protection of a 50 to 98% percent guarantee from FSA, SBA, and Cienega Capital, LLC (Cienega). In 2018, six new loans in the total amount of \$719,200 received the additional protection of a 75 to 85 percent guarantee from SBA, State, and Cienega. If any portion of a loan is deemed uncollectible, a full or partial charge-off against the loan loss reserve is made to assure that the value of the loan program’s assets is stated as accurately as possible when disclosed. As of December 31, 2019 and 2018, 67% of the loans receivable portfolio had the additional guarantee from FSA, SBA, State, or Cienega.

FarmLink’s loan loss reserve was capitalized with \$221,912 and \$137,583 in cash as of December 31, 2019 and 2018, respectively, and is in compliance with requirements of CDFI Fund, USDA, SBA-Microloan and SBA-Community Advantage Pilot agreements.

Allowance for Loan Losses

The following are the details of activities on the allowance for loan losses during the years ended December 31, 2019 and 2018:

	2019	2018
Balance, beginning of year	\$ 230,850	\$ 183,699
Provision for loan losses during the year	197,593	69,171
Write-off	(65,942)	(22,020)
Balance, end of year	\$ 362,501	\$ 230,850

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

FarmLink’s methodology for assessing the appropriateness of the allowance consists of several key elements, which include the formula (or general) allowance. The determination of the general allowance for loans that are collectively evaluated for impairment is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by FarmLink, its peers or a combination thereof since FarmLink’s inception in 2013. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment.

These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

FarmLink evaluates notes receivable based on the following credit quality indicators:

- Land and farm mortgages – trends in real estate values significantly impact the credit quality of these loans, as property values determine the value of collateral risk.
- Farm operating loans – loans secured by crop production and livestock are especially vulnerable to two risk factors that are largely outside the control of FarmLink and borrowers: commodity prices and weather conditions.
- Farm equipment loans – these loans possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating farm businesses. Debt coverage is provided by business cash flows and economic trends influenced by key economic indicators are closely correlated to the credit quality of these loans. There are generally collateral values in the 80% or greater range for new equipment purchases, and 65% or greater range for used equipment purchases. All collateral is secured by UCC lien filings.

The summary of notes receivable according to credit quality indicators is as follows:

	2019	2018
Land and farm mortgages	\$ 1,970,668	\$ 1,407,891
Farm operating loans	2,554,191	1,865,245
Farm equipment loans	1,081,792	757,837
	5,606,651	4,030,973
Less: allowance for loan losses	(362,501)	(230,850)
	\$ 5,244,150	\$ 3,800,123

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

Impaired Loans

FarmLink considers a loan to be impaired when it is deemed probable by management that FarmLink will be unable to collect all contractual interest and contractual principal payments in accordance with the terms of the original loan agreement. Impaired loans include all loans that: (i) are contractually delinquent 90 days or more; (ii) meet the definition of a troubled debt restructuring; (iii) are classified in part or in whole as either doubtful or loss; and (iv) have been placed on non-accrual status. FarmLink may also classify other loans as impaired based upon their specific circumstances. Loans identified as impaired are evaluated and have a specific loss allowance applied to adjust the loan to fair value, or the impaired amount is charged off. FarmLink accounts for impaired loans at the value of outstanding principal. Payments received on impaired non-accrual loans may be allocated between principal and interest or may be recorded entirely as a reduction in principal based upon management’s opinion of the ultimate risk of loss on the individual loan. Interest income on impaired loans is recognized on an accrual basis. There were no loans considered to be impaired as of December 31, 2019 and 2018.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	2019	2018
Leasehold improvements	\$ 27,714	\$ 24,176
Office equipment	29,791	19,912
Software	13,909	13,909
Furniture and fixtures	9,567	3,786
	80,981	61,783
Less: accumulated depreciation	(43,183)	(30,625)
	\$ 37,798	\$ 31,158

NOTE 6 – LINES OF CREDIT

FarmLink entered into a \$1,000,000 revolving line of credit agreement with 1st Capital Bank on September 12, 2016 to serve as a 45 to 90 day bridge loan for USDA FSA-guaranteed loans sold into the secondary market. The line of credit matured on September 12, 2019 and was extended to December 10, 2020. The line of credit bears variable interest (5.75% and 5.50% as of December 31, 2019 and 2018, respectively) and is secured by specific notes receivable as described in the Commercial Security Agreement. The balance outstanding was \$607,500 and \$-0- as of December 31, 2019 and 2018, respectively. Accrued interest was \$3,276 and \$-0- as of December 31, 2019 and 2018, respectively. Interest expense was 22,052 and \$1,636 in 2019 and 2018, respectively.

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 7 – NOTES PAYABLE

FarmLink borrows loan capital from USDA, banks, foundations, corporations, and individual investors (through its “FarmLink Investment Notes” Program) and uses these funds for the Loan Program (see Note 1). The following is a summary of notes payable:

	2019		2018	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
<u>Term Loans</u>				
Johnson Ohana Foundation, bears 1% interest per annum and requires annual interest-only payments. The entire principal and accrued interest are due in full on November 25, 2024. Interest expense was \$2,462 and \$2,500 in 2019 and 2018, respectively.	\$ 2,500	\$ 250,000	\$ 2,746	\$ 250,000
Johnson Ohana Foundation, bears 1% interest per annum and requires annual interest-only payments. The entire principal and accrued interest are due in full on November 15, 2026. Interest expense was \$-0- in 2019.	-	250,000	-	-
Seed Fund, bears 1% interest per annum and requires annual interest-only payments. The entire principal and accrued interest are due in full on November 20, 2024. Interest expense was \$3,664 and \$2,333 in 2019 and 2018, respectively.	4,000	200,000	2,503	200,000
Seed Fund, bears no interest and is due in full on November 13, 2028.	-	200,000	-	200,000
Swift Family Foundation, bears 1% interest per annum and requires annual interest-only payments. The entire principal and accrued interest are due in full in December 2026. Interest expense was \$2,480 and \$2,520 in 2019 and 2018, respectively.	2,500	250,000	5,020	250,000

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019		2018	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
<p>Capital Impact Partners loan, bore 3.25% interest per annum. No annual payments were required, and the entire principal and accrued interest were due at maturity on February 9, 2019, at which point the lender had the right to forgive up to 25% of the outstanding principal balance (equal to a maximum of \$75,000). At maturity, the lender exercised its right to forgive 25% of the outstanding principal, and \$75,000 was recognized as contribution income and is included in foundation contributions in the accompanying statements of activities. The remaining principal and accrued interest were paid off in 2019. Interest expense was \$-0- and \$9,744 in 2019 and 2018, respectively.</p>	-	-	28,362	300,000
<p>New Belgium Family Foundation, bore no interest and required no annual payments through April 2018. The loan was refinanced and restructured on May 1, 2018. Effective May 1, 2018, the loan bears 1% interest per annum and requires annual interest-only payments. The entire principal and accrued interest are due in full on May 1, 2022. Interest expense was \$1,667 and \$-0- in 2019 and 2018, respectively.</p>	1,667	100,000	-	100,000
<p>USDA RMAP, in the original amount of \$500,000, bears 2% interest per annum. Monthly payments of principal and interest of \$2,874 are required, with the entire principal and accrued interest due in full on September 21, 2031. Interest expense was \$11,010 and \$8,737 in 2019 and 2018, respectively.</p>	-	353,516	-	382,348
<p>USDA RMAP, in the maximum amount of \$500,000, bears 1% interest per annum. Monthly payments of principal and interest are required, with the entire principal and accrued interest due in full on June 1, 2038. Interest expense was \$-0- and \$417 in 2019 and 2018, respectively.</p>	-	375,000	417	125,000

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019		2018	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
Community Foundation Santa Cruz County, bears 2.5% interest per annum and requires annual interest-only payments. The entire principal and accrued interest are due in full on June 21, 2028. Interest expense was \$18,750 and \$6,750 in 2019 and 2018, respectively.	10,646	750,000	6,750	750,000
Community Foundation Santa Cruz County, bears 3% interest per annum and requires annual interest-only payments. The entire principal and accrued interest are due in full on June 21, 2028. Interest expense was \$9,000 and \$5,250 in 2019 and 2018, respectively.	5,250	300,000	5,250	300,000
SBA Microloan Program, in the maximum amount of \$500,000, bears interest, recalculated in accordance with terms of the agreement: (a) during the first through twelfth month (June 2019), interest rate was 0.625%. (b) In the ninth month after the June 20, 2018 (note date), if the average size of microloans made exceeds \$10,000, interest will be recalculated at 1.375%, retroactively applied from the first year of accrual through the twenty-fourth month of the note date. (c) Recalculation of interest will be done at regular intervals on the twenty-first month and annually thereafter and will become effective on the twenty-fifth month and annually thereafter. Monthly payments of principal and interest are required, commencing on June 19, 2019, with the entire principal and accrued interest due in full on June 19, 2028. Interest expense was \$845 and \$174 in 2019 and 2018, respectively.	-	157,878	174	166,667
Highlands Associates, bears 1.5% interest per annum and requires annual interest-only payments. The entire principal and accrued interest are due in full on December 10, 2024. Interest expense was \$-0- in 2019.	-	300,000	-	-

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019		2018	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
<p>USDA Intermediary Relending Program (IRP), bears 1% interest per annum and requires annual interest-only payments on the first three years of the loan. Commencing April 15, 2022, annual payments of principal and interest will be required through April 14, 2049. Interest expense was \$3,693 in 2019.</p>	3,693	849,005	-	-
<p>Community Foundation for Monterey County, bears 2.5% interest per annum and requires annual interest-only payments. The entire principal and accrued interest are due in full on December 13, 2023, subject to extension to December 21, 2028. Interest expense was \$13,949 in 2019.</p>	-	750,000	-	-
<p>Wells Fargo Bank unsecured loan, in the original amount of \$250,000, bore 2% simple interest. Quarterly interest-only payments were required, with the entire principal and accrued interest due in full on September 23, 2018. On November 2, 2018, the loan was refinanced with a subordinated loan in the amount of \$350,000, due in full on November 2, 2024, the sixth anniversary from disbursement date. The loan bears 2% interest per annum and requires quarterly interest payments. Effective as of the fifth anniversary of disbursement date, quarterly principal payments of \$87,500 shall be required, in addition to the quarterly interest payments, to fully repay the loan. Interest expense was \$8,371 and \$5,236 in 2019 and 2018, respectively.</p>	-	350,000	-	350,000

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019		2018	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
FarmLink Investment Notes, unsecured promissory notes offered through a California state licensed direct public offering to California residents and corporations domiciled in California. Individual investor loans bear interest from 0.75% to 2.25% and require only annual interest payment. The entire principal and remaining interest balance to be repaid in full through 2026. Interest expense was \$1,201 and \$21 in 2019 and 2018, respectively.	1,222	88,500	21	15,500
Total	31,478	5,523,899	51,243	3,389,515
Less: current portion	(31,478)	(56,482)	(51,243)	(333,070)
Long term portion	\$ -	\$ 5,467,417	\$ -	\$ 3,056,445

	2019		2018	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
<u>Equity-Equivalent Loan (EQ2)</u>				
Mechanics Bank (formerly Rabobank, N.A.) California Organized Investment Network (COIN) unsecured loan, bears no interest and is due in full on September 30, 2023.	\$ -	\$ 1,500,000	\$ -	\$ 1,500,000
Total	\$ -	\$ 1,500,000	\$ -	\$ 1,500,000

Scheduled principal payments on the notes payable for the next five years are estimated as follows:

2020	\$ 56,482
2021	83,235
2022	178,308
2023	1,583,033
2024	1,955,167

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 8 – OPERATING LEASES

FarmLink leases office space in Aptos, Sacramento, Inverness, and Soquel, California, under lease agreements with lease end dates ranging from 2020 to 2022. Monthly rent in an amount as specified in the lease agreements, subject to annual increases, are required. FarmLink entered into a new lease agreement for office space in Aptos on November 1, 2019, with base rent of \$1,818 required, subject to annual increases as specified in the agreement, effective through October 2024. The lease agreements for office space in Aptos also require FarmLink to pay a percentage of the operating expenses of the office building. Total rent expense was \$55,849 and \$37,205 in 2019 and 2018, respectively.

Future minimum lease for the next five years are estimated as follows:

	<i>Year Ending December 31,</i>
2020	\$ 48,103
2021	45,220
2022	34,745
2023	23,956
2024	20,460

NOTE 9 – NET ASSETS WITH GRANTOR RESTRICTIONS

Net assets with grantor restrictions are for the following purposes:

	<i>December 31,</i> <i>2018</i>	<i>Contributions</i>	<i>Releases from</i> <i>Restrictions</i>	<i>December 31,</i> <i>2019</i>
Land Access and Farm Business Education Programs	\$ 105,850	\$ 1,305,000	\$ (541,300)	\$ 869,550
Farm Opportunities Loan Program	2,182,408	550,000	(1,345,356)	1,387,052
	\$ 2,288,258	\$ 1,855,000	\$ (1,886,656)	\$ 2,256,602

	<i>December 31,</i> <i>2017</i>	<i>Contributions</i>	<i>Releases from</i> <i>Restrictions</i>	<i>December 31,</i> <i>2018</i>
Land Access and Farm Business Education Programs	\$ 130,937	\$ 110,500	\$ (135,587)	\$ 105,850
Farm Opportunities Loan Program	1,901,355	737,000	(455,947)	2,182,408
	\$ 2,032,292	\$ 847,500	\$ (591,534)	\$ 2,288,258

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 10 – LIQUIDITY AND AVAILABILITY

FarmLink has \$1,859,080 and \$800,439 of financial assets available for general expenditures within one year of statement of financial position date, respectively, consisting of the following:

	<i>December 31,</i> <i>2019</i>	<i>December 31,</i> <i>2018</i>
Financial assets at end of year:		
Operating cash	\$ 2,667,231	\$ 1,553,994
Loan fund	2,838,807	1,429,072
Loan loss reserves	221,912	137,583
Contributions receivable	716,694	1,094,664
Notes receivable, net – current portion	2,072,317	1,382,519
	8,516,961	5,597,832
Less financial assets at end of year not available for general expenditures within one year:		
Operating cash with grantor’s restriction for specific purpose	(1,009,845)	(985,814)
Loan fund with grantor’s or contract restriction for specific purpose	(2,838,807)	(1,429,072)
Loan loss reserves with grantor’s or contract restriction for specific purpose	(221,912)	(137,583)
Contributions receivable with grantor’s restriction for specific purpose	(515,000)	(862,405)
Notes receivable with grantor’s or contract restriction for specific purpose	(2,072,317)	(1,382,519)
Financial assets available for general expenditures within one year	\$ 1,859,080	\$ 800,439

Financial assets include amounts that will be used to pay accounts payable, accrued expenses and other distributions from operating cash flow, if any, in the subsequent year. None of the financial assets are subject to grantor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. To help manage unanticipated liquidity needs, FarmLink has committed lines of credit, which it can draw upon.

NOTE 11 – RETIREMENT PLAN

FarmLink established a defined contribution plan (the Plan) for all eligible employees. An employee must have 12 months service and have attained the age of 21 before they can participate in the Plan. Employee contributions are immediately vested. FarmLink may also make employer discretionary contributions to the Plan on behalf of qualifying participants. FarmLink contributed total discretionary contributions of \$31,945 and \$20,709 during 2019 and 2018, respectively.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Loan Commitments

FarmLink had approved undisbursed loan commitments totaling \$2,865,500 as of December 31, 2019 relating to its loan programs.

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

Loans Sold and Servicing Contracts

During 2019 and 2018, FarmLink transferred participating interests in eight and three loans, respectively, to a third party. The transactions met the definition of a sale of financial asset, thus FarmLink derecognized the transferred assets during 2019 and 2018. Details of the sold loans follow:

Carrying amounts of loans receivable:

	2019		2018	
	<i>At Date of Sale</i>	<i>As of December 31</i>	<i>At Date of Sale</i>	<i>As of December 31</i>
Derecognized portion	\$ 3,753,198	\$ 3,751,687	\$ 365,750	\$ 362,554
Retained portion	544,522	541,585	19,250	19,082
Total	\$ 4,297,720	\$ 4,293,272	\$ 385,000	\$ 381,636

	2019	2018
Participating interest sold in %	90% to 95%	95%
Maturity date	2026 to 2049	2048
Interest rate on notes	4.96% to 7.00%	6.80%

FarmLink retained the loan servicing responsibilities for the loans. Collections of principal and interest on loans are remitted monthly to the third party. Principal is remitted on a pro rata basis and interest is remitted at the yield rate, that is, net of the servicing fee rate (1.75% to 3.98%). Total amount of servicing fees earned during 2019 and 2018 was \$32,848 and \$37,771, respectively, and is included in loan fees in the accompanying statements of activities. Management has determined that the benefits of servicing are equal to adequate compensation; therefore, no servicing asset or liability is recognized.

The outstanding balance of all loans serviced by FarmLink was \$8,664,546 as of December 31, 2019.

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 13 – CHANGE IN ACCOUNTING PRINCIPLE

In 2019, FarmLink adopted the new accounting guidance from Accounting Standards Updates (ASU) 2018-08, *Not-for-Profit Entities (Topic 605): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* and ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The change in accounting principle was applied retrospectively to the prior period presented. The change resulted in support and revenue and receivables reclassification and had no effect on previously reported net assets and change in net assets. The following financial statement line items as of and for the year ended December 31, 2018 were affected by the change in accounting principle:

	<i>Before Retrospective Application</i>	<i>Retrospective Application</i>	<i>As Presented</i>
Receivables:			
Contributions	\$ 900,750	\$ 193,914	\$ 1,094,664
Government grants	193,914	(193,914)	-
Support and revenue:			
Contributions – government	632,000	770,422	1,402,422
Government grants	770,422	(770,422)	-

NOTE 14 – SUBSEQUENT EVENTS

The emergence and spread of the coronavirus (COVID-19) during 2020 has affected businesses and economic activities in the U.S. and beyond. The extent of the impact of COVID-19 on FarmLink’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, the effects on supply chains, service providers, and business partners, and changes in business practices, all of which are uncertain and cannot be determined at this time. Due to the uncertainty of the current economic conditions, FarmLink requested and received loan funds totaling \$230,722 from the Paycheck Protection Program (PPP), a program authorized under the CARES Act and the PPP Flexibility Act, to support ongoing operations and to retain workers and maintain payroll. Loan funds are fully guaranteed by the SBA and eligible for forgiveness if used on eligible costs for a covered period of 8-weeks after loan disbursement, including the requirement to maintain staff and compensation levels. FarmLink may choose to extend the covered period to 24-weeks after loan disbursement. Any unforgiven funds will be due by April 2022. FarmLink may renegotiate the loan terms to extend the maturity date to April 2025.

SUPPLEMENTARY INFORMATION

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED DECEMBER 31, 2019

<i>Federal Grantor/Pass-Through Grantor/Title</i>	<i>Federal CFDA Number</i>	<i>Federal Expenditures</i>	<i>Expenditures to Subrecipients</i>
<u>U.S. Department of Agriculture:</u>			
Direct awards:			
Rural Microentrepreneur Assistance Program	10.870	\$ 49,137	\$ -
Loan made in prior years by the Rural Microentrepreneur Assistance Program for which continuing compliance is required	10.870	382,348	-
Loan made in prior year by the Rural Microentrepreneur Assistance Program for which continuing compliance is required	10.870	375,000	-
		<u>806,485</u>	<u>-</u>
Direct award:			
USDA Risk Management Agency – Fostering a Collaborative Network to Increase Access to Risk Management Tools in California	10.460	<u>124,808</u>	-
Direct award:			
National Institute of Food and Agriculture/USDA – Beginning Farmers and Ranchers Development Program	10.311	186,478	-
Pass-through award:			
Agriculture and Land-Based Training Association National Institute of Food and Agriculture/USDA – Beginning Farmers and Ranchers Development Program	10.311	36,000	-
		<u>222,478</u>	<u>-</u>
Direct award:			
Loan made in current year by the Intermediary Relending Program for which continuing compliance is required	10.767	<u>849,005</u>	-
Direct award:			
USDA – Rural Business Development Grants	10.351	<u>48,832</u>	-
Pass-through award:			
California Department of Food and Agriculture Scaling Up the Next Generation of Vegetable and Berry Farmers: A Finance and Conservation Training Program	10.170	<u>113,103</u>	-

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2019

<i>Federal Grantor/Pass-Through Grantor/Title</i>	<i>Federal CFDA Number</i>	<i>Federal Expenditures</i>	<i>Expenditures to Subrecipients</i>
<u>U.S. Department of the Treasury:</u>			
Direct awards:			
Community Development Financial Institutions Program 2016-2019	21.020	214,755	-
Community Development Financial Institutions Program 2017-2020	21.020	841,330	-
Community Development Financial Institutions Program 2018-2021	21.020	31,876	-
		1,087,961	-
<u>U.S. Small Business Administration:</u>			
Direct award:			
U.S. Small Business Administration Program for Investment in Microentrepreneurs – prime	59.050	134,038	-
Direct awards:			
Microloan Program	59.046	33,483	-
Loan made in current year by the Microloan Program for which continuing compliance is required	59.046	166,667	-
		334,188	-
TOTAL FEDERAL AWARDS		\$ 3,586,860	\$ -

CALIFORNIA FARMLINK

(A California Nonprofit Public Benefit Corporation)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2019

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant and loan activities of California FarmLink and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The purpose of the Schedule is to present a summary of those activities of California FarmLink for the year ended December 31, 2019, which have been financed by the U.S. Government. For purposes of the Schedule, federal awards include all federal assistance entered into directly and indirectly between California FarmLink and the federal government. California FarmLink did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – PRIOR YEARS' EXPENDITURES

The accompanying Schedule includes \$408,069 in expenditures from prior year for which continuing compliance is required.

NOTE 4 – YEAR-END LOAN BALANCE

The loan balance outstanding at year-end is summarized as follows:

U.S. Department of Agriculture, RMAP prior year loan	\$ 353,516
U.S. Department of Agriculture, RMAP prior year loan	375,000
U.S. Department of Agriculture, IRP current year loan	849,005
U.S. Small Business Administration prior year loan	<u>157,878</u>
Total	<u>\$ 1,735,399</u>

CALIFORNIA FARMLINK
 (A California Nonprofit Public Benefit Corporation)
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED DECEMBER 31, 2019

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 200.516 of the Uniform Guidance? _____ Yes X No

Identification of major program: Name of Federal Program or Cluster

CFDA #10.767 Intermediary Relending Program

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

None noted.



JAMES M. KRAFT
S. SCOTT SEAMANDS
ALEXIS H. WONG
CHARLOTTE SIEW-KUN TAY
CATHY L. HWANG
RITA B. DELA CRUZ
STANLEY WOO
SCOTT K. SMITH

CRISANTO S. FRANCISCO
JOE F. HUIE

Board of Directors
California FarmLink
Santa Cruz, California

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited, in accordance with the 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, the financial statements of California FarmLink, 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, and have issued our report thereon dated June 19, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered California FarmLink’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of California FarmLink’s internal control. Accordingly, we do not express an opinion on the effectiveness of California FarmLink’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether California FarmLink's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of California FarmLink's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering California FarmLink's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lindquist, von Haven and Joyce LLP

June 19, 2020



Board of Directors
California FarmLink
Santa Cruz, California

JAMES M. KRAFT
S. SCOTT SEAMANDS
ALEXIS H. WONG
CHARLOTTE SIEW-KUN TAY
CATHY L. HWANG
RITA B. DELA CRUZ
STANLEY WOO
SCOTT K. SMITH

CRISANTO S. FRANCISCO
JOE F. HUIE

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Report on Compliance for Each Major Federal Program

We have audited California FarmLink’s compliance, with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of California FarmLink’s major federal programs for the year ended December 31, 2019. California FarmLink’s major federal programs are identified in the summary of auditor’s results section of the accompanying Schedule of Findings and Questioned Costs.

Management’s Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its major federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of California FarmLink’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about California FarmLink’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on California FarmLink’s compliance.

Opinion on Each Major Federal Program

In our opinion, California FarmLink complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of California FarmLink is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered California FarmLink's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of California FarmLink's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Sindquist, von Husen and Joyce LLP

June 19, 2020