

CALIFORNIA FARMLINK

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2021 AND 2020

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

TABLE OF CONTENTS

	Page
Independent Auditor’s Report	1
Statements of Financial Position	4
Statements of Activities	5
Statements of Functional Expenses	6
Statements of Cash Flows	8
Notes to Financial Statements	9
Schedule of Expenditures of Federal Awards	25
Notes to Schedule of Expenditures of Federal Awards	27
Schedule of Findings and Questioned Costs	28
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>	29
Independent Auditor’s Report on Compliance for Each Major Program, on Internal Control Over Compliance, and on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	31

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ALEXIS H. WONG
CHARLOTTE SIEW-KUN TAY
CATHY L. HWANG
RITA B. DELA CRUZ
SCOTT K. SMITH
CRISANTO S. FRANCISCO
JOE F. HUIE

SHERMAN G. LEONG

Board of Directors
California FarmLink
Santa Cruz, California

INDEPENDENT AUDITOR’S REPORT

Report on the Audit of the Financial Statements

Opinion

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, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of California FarmLink as of December 31, 2021 and 2020, 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 audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. 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 California FarmLink and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 California FarmLink’s ability to continue as a going concern within one year after the date that the financial statements are available to be 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 and *Government Auditing Standards* 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, including omissions, 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 and *Government Auditing Standards*, 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 California FarmLink'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 California FarmLink'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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards on pages 25 and 26, as required by Title 2 U.S. *Code of Federal Regulations* 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2022, 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.

Lindquist, von Hoven and Joyce LLP

May 13, 2022

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
 STATEMENTS OF FINANCIAL POSITION
 DECEMBER 31, 2021 AND 2020

	2021	2020
ASSETS		
Current assets:		
Cash:		
Operating cash	\$ 6,368,512	\$ 2,993,340
Loan fund	9,022,508	3,928,123
Restricted cash – loan loss reserves (Note 4)	863,380	345,671
Total cash	16,254,400	7,267,134
Grant funds receivable – current portion (Note 3)	1,119,499	1,070,738
Prepaid expenses	35,677	18,034
Notes and interest receivable, net – current portion (Note 4)	2,769,229	3,118,234
Total current assets	20,178,805	11,474,140
Grant funds receivable – net of current portion (Note 3)	175,000	357,000
Notes receivable, net – net of current portion (Note 4)	9,146,275	5,968,846
Property and equipment – net of accumulated depreciation (Note 5)	54,578	38,707
Total assets	\$ 29,554,658	\$ 17,838,693
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 498,213	\$ 247,316
Interest payable (Note 6)	91,120	65,354
Notes payable – term loans – current portion (Note 6)	184,879	83,233
Deferred revenue (Note 4)	1,241,198	-
Total current liabilities	2,015,410	395,903
Notes payable – term loans – net of current portion (Note 6)	15,953,835	10,405,236
Notes payable – equity-equivalent loan (Note 6)	500,000	2,000,000
Total liabilities	18,469,245	12,801,139
Net assets:		
Without grantor restrictions	6,547,766	2,299,582
With grantor restrictions (Note 8)	4,537,647	2,737,972
Total net assets	11,085,413	5,037,554
Total liabilities and net assets	\$ 29,554,658	\$ 17,838,693

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, 2021 AND 2020

	2021		2020	
	Without Grantor Restrictions	With Grantor Restrictions	Without Grantor Restrictions	With Grantor Restrictions
Support and revenue:				
Grant funds – operating	\$ 2,508,048	\$ 2,132,879	\$ 1,178,377	\$ 915,000
Grant funds – loan fund equity	-	3,028,386	-	657,000
Donations – cash	87,430	27,500	70,933	-
Donations – in-kind (Note 2)	48,288	20,313	-	-
Interest income	610,025	-	322,187	-
Program revenue	517,285	-	415,849	-
Forgiveness of debt – PPP loan (Note 11)	-	-	230,722	-
Other	12,703	-	7,481	-
Net assets released from restriction (Note 8)	3,409,403	(3,409,403)	1,090,630	(1,090,630)
Total support and revenue	7,193,182	1,799,675	3,316,179	481,370
Expenses:				
Program services:				
Farm and Ranch Prosperity Loan Program	1,085,680	-	1,072,439	-
Land Access and Farm Business Education Programs	981,414	-	770,059	-
Supporting services:				
Management and general	615,982	-	488,269	-
Fundraising	261,922	-	242,411	-
Total expenses	2,944,998	-	2,573,178	-
Change in net assets	4,248,184	1,799,675	743,001	481,370
Net assets, beginning of year	2,299,582	2,737,972	1,556,581	2,256,602
Net assets, end of year	\$ 6,547,766	\$ 4,537,647	\$ 2,299,582	\$ 2,737,972
				\$ 5,037,554

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, 2021 AND 2020

	2021				Total	
	Program Services		Supporting Services			
	Farm and Ranch Prosperity Loan Program	Land Access and Farm Business Education Programs	Total Program Services	Management and General	Fundraising	Total Supporting Services
Salaries and wages	\$ 475,724	\$ 540,182	\$ 1,015,906	\$ 267,738	\$ 142,838	\$ 410,576
Employee benefits	72,735	75,499	148,234	29,123	14,879	44,002
Payroll taxes	38,554	41,330	79,884	21,030	10,216	31,246
Recruiting	-	-	-	9,174	-	9,174
Professional fees	117,353	248,551	365,904	100,265	11,753	112,018
Accounting and legal	1,797	2,090	3,887	35,195	48,288	83,483
Advertising and promotion	1,181	54	1,235	1,814	739	2,553
Conferences and training	1,800	1,499	3,299	2,004	2,542	4,546
Grants	20,000	-	20,000	-	-	-
Occupancy	26,353	25,609	51,962	68,062	538	68,600
Travel	1,429	7,785	9,214	754	108	862
Supplies	-	1,401	1,401	-	-	-
Insurance	-	355	355	11,464	10,920	22,384
Interest	210,522	-	210,522	-	-	-
Provision for loan losses	75,351	-	75,351	-	-	-
Loan service fees	21,055	4,075	25,130	-	-	-
Computer and IT	21,132	25,750	46,882	14,048	11,391	25,439
Office expenses	694	7,234	7,928	39,150	7,710	46,860
Total operating expenses before depreciation	1,085,680	981,414	2,067,094	599,821	261,922	861,743
Depreciation	-	-	-	16,161	-	16,161
Total expenses	\$ 1,085,680	\$ 981,414	\$ 2,067,094	\$ 615,982	\$ 261,922	\$ 877,904

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, 2021 AND 2020

	2020			2020		
	Program Services			Supporting Services		
	Land Access					
	Farm and Ranch Prosperity Loan Program	Business Education Programs	Total Program Services	Management and General	Fundraising	Total Supporting Services
Salaries and wages	\$ 492,039	\$ 354,759	\$ 846,798	\$ 268,103	\$ 147,572	\$ 415,675
Employee benefits	75,100	52,798	127,898	9,197	23,205	32,402
Payroll taxes	39,211	27,549	66,760	21,457	11,874	33,331
Recruiting	-	-	-	743	-	743
Professional fees	98,587	257,137	355,724	56,729	39,894	96,623
Accounting and legal	16,398	11,767	28,165	9,752	3,266	13,018
Advertising and promotion	-	3,664	3,664	603	531	1,134
Conferences and training	1,769	1,351	3,120	3,219	881	4,100
Occupancy	18,826	30,118	48,944	29,043	4,160	33,203
Travel	2,446	4,144	6,590	3,628	2,883	6,511
Supplies	-	1,820	1,820	310	-	310
Insurance	-	-	-	17,292	-	17,292
Interest	124,133	-	124,133	-	-	-
Provision for loan losses	165,784	-	165,784	-	-	-
Loan service fees	14,191	-	14,191	604	-	604
Computer and IT	18,375	17,527	35,902	7,462	5,406	12,868
Office expenses	5,580	7,425	13,005	47,602	2,739	50,341
Total operating expenses before depreciation	1,072,439	770,059	1,842,498	475,744	242,411	718,155
Depreciation	-	-	-	12,525	-	12,525
Total expenses	\$ 1,072,439	\$ 770,059	\$ 1,842,498	\$ 488,269	\$ 242,411	\$ 730,680
						\$ 2,573,178

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, 2021 AND 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 6,047,859	\$ 1,224,371
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	16,161	12,525
Forgiveness of debt	-	(230,722)
(Increase) decrease in assets:		
Grant funds receivable	133,239	(711,044)
Prepaid expenses	(17,643)	(6,455)
Interest receivable	(172,595)	-
Provision for loan losses	71,857	98,252
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	250,897	(11,519)
Interest payable	25,766	30,600
Deferred revenue	(340,836)	-
Net cash provided by operating activities	6,014,705	406,008
Cash flows from investing activities:		
Purchase of property and equipment	(32,032)	(13,434)
Notes receivable disbursed	(9,288,199)	(8,129,046)
Collection of notes receivable	8,142,547	4,187,864
Net cash used in investing activities	(1,177,684)	(3,954,616)
Cash flows from financing activities:		
Payment of notes payable	(1,583,939)	(66,029)
Proceeds from notes payable	5,734,184	5,761,321
Payment of line of credit	-	(2,270,000)
Proceeds from line of credit	-	1,662,500
Net cash provided by financing activities	4,150,245	5,087,792
Net increase in cash	8,987,266	1,539,184
Cash, beginning of year	7,267,134	5,727,950
Cash, end of year	\$ 16,254,400	\$ 7,267,134
Supplementary information:		
Cash paid for interest	\$ 184,756	\$ 93,533
Noncash investing and financing activities:		
Assumption of notes receivable	\$ 1,582,034	\$ -

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, 2021 AND 2020

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

California FarmLink (FarmLink), a California nonprofit public benefit corporation, was formed in 1999. Its mission is to invest in the prosperity of farmers, ranchers and fishers through education, loans, and access to land. FarmLink helps the businesses it serves to build strong business skills, access fair financing, and establish secure land tenure. FarmLink works 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, ranchers and fishers access land and capital, grow their businesses, and create jobs, FarmLink organizes its work into two program areas:

- **Farm and Ranch Prosperity Loan Program** – provides flexibly structured financing to underserved, low income, immigrant and beginning farmers, ranchers and fishers across California 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, little or no credit history, small loan size, language barriers, or non-traditional marketing and business models. FarmLink also directs farmers to other appropriate sources of financing suited to the scale and type of the business. FarmLink made 126 and 197 loans, with an average loan size of \$63,053 and \$41,944 during 2021 and 2020, respectively. In 2021, as an SBA Community Advantage lender, FarmLink made 80 targeted Paycheck Protection Program (PPP) forgivable loans to communities underserved by the traditional commercial banking relationships. These loans formed the basis of deployment for coronavirus pandemic (COVID-19) relief efforts (see Note 11). FarmLink focuses on pathways to ownership to help growers plan for long-term, lower-interest land loans to establish secure land tenure. With land ownership, farmers build equity and are able to effectively invest in improvements to soil, farm infrastructure and housing.

The loan program dates back to 2005 when 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-scale and low-income farmers. For five years, FarmLink operated the loan program in collaboration with other lending institutions: FarmLink raised and loaned funds to the lending institutions who acted as the lender of record to make loans to small farmers. FarmLink obtained its own lending license from the California 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 markets that are underserved by traditional financial institutions. With this certification, FarmLink is eligible to access financial and technical assistance awards from the U.S. Department of Treasury’s CDFI Fund.

In 2021, FarmLink was approved by the California Ocean Protection Council to manage the “California Fisheries Fund.” Acquired from Community Vision Capital & Consulting at no cost, the portfolio consists of 15 small business loans for a total of \$1,582,034. FarmLink is prioritizing loans to beginning, low-income and disadvantaged small-scale fishers. Fishers from the coastal communities surrounding the Monterey Bay and Southern California ports are diverse in ethnicity (Latino, Sicilian, Vietnamese), and many come from multi-generational fishing families. Similar to trends observed in small-scale agriculture, the average age of fishers is 55-60, and a considerable transition is underway over the next 10 years to retain these businesses for the next generation.

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

- **Land Access and Farm Business Education Programs** – links landseekers with landholders and provides education and technical assistance in business skills, including financial and legal acumen and succession planning. FarmLink’s Land Access and Farm Business Education Programs also bring increased focus to the needs of different stakeholder groups through three program areas: “Equity and Conservation on Working Lands (ECWL),” “Resilience,” and “*La Resiliencia y La Prosperidad*.” All three approaches employ FarmLink’s core tools in lending, land access, business education and technical assistance to provide opportunity for growth and success among small and diverse farm and fishing entrepreneurs. In 2021, FarmLink staff provided direct, individualized technical assistance to 284 growers and landholders. Program details and outcomes include:

Equity and Conservation on Working Lands:

Land Access: FarmLink increases opportunities for California farmers to acquire affordable, secure, long-term access to farmland, with an emphasis on beginning farmers and Black, Indigenous, and People of Color (BIPOC) farmers. This program links landseekers with landholders, maintains a database of land available for lease or sale, connects farmers and landholders, facilitates the development and negotiation of strong and equitable lease agreements, and supports farmers seeking financing for land purchases. Since 2011, FarmLink staff has developed 485 successful leases or purchases tailored to the needs of landholders and growers.

Conservation of Farmland: FarmLink focuses its model as an agricultural CDFI to support long-term investments: establishing secure land tenure, farm succession planning to maintain farm businesses, and creating conservation initiatives to protect and improve natural resources, soil health, water quality and biodiversity. Important aspects of the work include deepening partnerships with land trusts and conservation organizations, and making loans designed to support regenerative farming practices. During the period of 2020 to 2021, FarmLink supported 15 farm businesses in purchasing land or transitioning their farm business to new owners/operators. Of the \$7.9 million FarmLink invested in these businesses, 68% supported land loans for farmers of color. FarmLink applies proven strategies to help landholders work with small farmers, promote a new publication to support the development of regenerative grazing leases, and invite more landholders to be part of ECWL.

Succession: FarmLink’s succession program, “The Regenerator: A Year of Farm Succession Planning,” is a 12-month course that works with a small cohort of farm families and their successors to generate plans that support transition to the next generation of farmers. Participants convene monthly to learn from professionals, compare notes with their peers, and work step-by-step to plan for their financial and family well-being, and the health and continuity of their working farms and ranches.

Wealth Building and Resilience:

FarmLink’s education programs assist farmers, ranchers and fishers in understanding the legal and financial structure of their businesses and help them establish practices that will ensure the farm, ranch or fishing business is resilient to financial and legal risks, and able to remain viable over the long-term.

The Spanish-language Wealth Building Program, *La Resiliencia y La Prosperidad*, assists farmers, ranchers and fishers with limited formal education or English language proficiency to build financial stability, including the ability to recover from short term setbacks, the ability to save for retirement and the ability to pass wealth to future generations. The English-language “Resilience” program provides comprehensive beginning and intermediate farm, ranch and fishery business training. During 2021, a total of 34 growers completed the parallel, 10-week English and Spanish language curricula, with follow-on bookkeeping and financial management assistance. Both the English and Spanish language programs use a comprehensive self-assessment tool (the FarmLink Business Resilience Self-Assessment) to help participants set learning goals and to assist in long-term evaluation of how educational programming shapes future business success.

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

FarmLink engages consultants with expertise in adult pedagogy and leadership from agricultural business advisors from the communities FarmLink serves to design and deliver programming that is responsive to how a cohort of participants learn new skills and behaviors.

FarmLink is vulnerable to the inherent risks associated with revenue that is substantially dependent on government funding, public support, and contributions from private foundations, banks, 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 restriction 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, 2021 and 2020.

Revenue Recognition

Grant funds and donations (grants) are recognized as revenue when they are unconditionally communicated, and the resource providers receive no value in exchange for the assets transferred. Grants 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. Grants 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.

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

A portion of FarmLink's operating grant 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. \$1,269,535 of cost-reimbursable federal grants has not been recognized as of December 31, 2021, 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 related to cost-reimbursable federal and state contracts and grants was \$-0- as of December 31, 2021.

Donated, non-cash assets are recognized and recorded as grants at their fair values in the period received. 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 as grants at their fair values in the period received. FarmLink received \$68,601 of donations in kind during the year ended December 31, 2021, consisting of \$20,313 of donated non-cash assets for the Farm and Ranch Prosperity Loan Program, and \$48,288 of donated legal services related to management and general expenses.

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 \$10,391,000 as of December 31, 2021. FarmLink has not experienced any losses in such accounts.

Loan Funds

FarmLink maintains cash for loan funds in separate bank accounts. Grants 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 and Interest Receivable

Notes receivable consists of loans made to farmers under the Farm and Ranch Prosperity 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.

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.

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

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, 2021 and 2020 was estimated at 4.3% and 4.8% of the outstanding loan portfolio, respectively. FarmLink's allowance for loan losses is adjusted quarterly on individual loan risk assessments, and is calculated in part based on the federal, state, or private sector guarantees in place for each loan.

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 2017 through 2020 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.

Subsequent Events

Management has evaluated subsequent events through May 13, 2022, the date on which the financial statements were available to be issued.

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 3 – GRANT FUNDS RECEIVABLE

Grant funds receivable as of December 31, 2021 and 2020 are summarized as follows:

	2021	2020
U.S. Department of the Treasury – CDFI Fund	\$ 782,000	\$ 657,000
W.K. Kellogg Foundation	250,000	250,000
The 11 th Hour Project	150,000	-
Community Foundation of Santa Cruz County	50,000	100,000
Western Center for Extension Risk Management Education	20,005	10,988
SBA – Microloan Program	12,673	7,898
USDA Rural Business Development Grants	11,399	-
USDA Farm Service Agency Outreach, Education, and Technical Cooperative Agreement	11,356	-
ALBA	3,415	26,643
Anonymous	-	150,000
Swift Foundation	-	75,000
SBA – PRIME	-	63,200
Mighty Arrow Family Foundation	-	50,000
USDA Rural Microentrepreneur Assistance Program	-	23,353
USDA Beginning Farmer and Rancher Development Program	-	12,616
Others	3,651	1,040
	<u>\$ 1,294,499</u>	<u>\$ 1,427,738</u>
Total		
	<u>\$ 1,294,499</u>	<u>\$ 1,427,738</u>
Due within one year	<u>\$ 1,119,499</u>	<u>\$ 1,070,738</u>
Due within one to five years	<u>\$ 175,000</u>	<u>\$ 357,000</u>

NOTE 4 – NOTES AND INTEREST RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Notes and interest receivable as of December 31, 2021 and 2020 are summarized as follows:

	2021	2020
Total notes receivable	\$ 12,275,519	\$ 9,547,833
Less: allowance for loan losses	(532,610)	(460,753)
Net notes receivable	11,742,909	9,087,080
Interest receivable	172,595	-
Net notes and interest receivable	11,915,504	9,087,080
Less: current portion	(2,769,229)	(3,118,234)
Long-term portion	<u>\$ 9,146,275</u>	<u>\$ 5,968,846</u>

As of December 31, 2021 and 2020, notes receivable, net of allowance for loan losses, consist of loans with interest rates ranging from 0% to 8%.

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

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

2022	\$ 2,596,634
2023	1,229,703
2024	1,257,944
2025	898,277
2026	852,561

Provision for Loan Losses and Guarantee

FarmLink’s risk management policies ensure FarmLink has sufficient provisions to protect against loan losses. 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 allowance for loan loss 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 allowance for loan loss are made as required, to maintain an adequate allowance for loan loss balance. If risk exposure is mitigated by a loan guarantee, the maximum loan loss provision allocation is the amount of the unguaranteed portion of the loan.

A large portion of the FarmLink portfolio has the additional protection of a 50% to 100% guarantee from the USDA FSA, SBA, Globetrotter Foundation, Cienega Capital, LLC, or Briar Patch. FarmLink seeks guarantee on loans over \$50,000 that qualify. In 2021 and 2020, 79 new loans in the total amount of \$6,366,112 and 97 new loans in the total amount of \$5,434,562 received additional security under these guarantees. If any portion of a loan is deemed uncollectible, a full or partial charge-off against the allowance for loan loss 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, 2021 and 2020, 73% and 76% of the loans receivable portfolio, respectively, had the additional guarantee.

FarmLink’s restricted cash loan loss reserve was capitalized with \$863,380 and \$345,671 in cash as of December 31, 2021 and 2020, 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, 2021 and 2020:

	2021	2020
Balance, beginning of year	\$ 460,753	\$ 362,501
Provision for loan losses during the year	75,351	165,784
Charge-off	(3,494)	(67,532)
Balance, end of year	\$ 532,610	\$ 460,753

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.

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2021 AND 2020

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 and 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 and purchases. All collateral is secured by UCC lien filings.
- Fisheries loans – FarmLink assumed the California Fisheries Fund (CFF) portfolio in October 2021, acquiring two funding sources: an investment of taxpayer funds authorized by the Ocean Protection Council (OPC) and an unrestricted grant from the Environmental Defense Fund (EDF). The following table summarizes the financial statement classification of the fund acquired:

Financial Statement Classification	OPC Fund	EDF Fund
Cash	\$ 797,744	\$ 243,498
Notes receivable	443,454	1,138,580
Total by fund	\$ 1,241,198	\$ 1,382,078
Deferred revenue	\$ 1,241,198	\$ -
Grant funds revenue	-	1,382,078

The OPC fund is a revolving loan fund investment classified as deferred revenue, and the EDF fund is an unrestricted grant encumbered on FarmLink’s financial statements specifically for lending within the CFF program. In 2024, the OPC fund may be converted into a grant to FarmLink at the OPC's discretion.

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

Overall, the most significant risk that these loans possess is the regulatory risk associated with the potential for unpredictable closure of a given fishery that is an important source of revenue and debt service for the borrower. Typically, these closures are the result of an assessment by regulators regarding the health of the fishery. This risk is mitigated at the individual loan level primarily by fishing diverse species, thus building resilience against shocks, such as fisheries closures, by having additional revenue streams. The following characteristics of the portfolio are strengths which help to mitigate risk at the individual loan and portfolio levels.

- Many loans in the portfolio have a 25% “top loss” provision from the OPC. In the event of a loss, FarmLink may apply 25% of the loss against the OPC fund and decrease deferred revenue.
 - The portfolio-level Loan To Value Ratio = 54.7%, indicating a strong collateral position, in the case of foreclosure and liquidation. Furthermore, the collateral for these loans is largely vessels, permits and equipment, which tend to be more feasible to liquidate and hold their value better, relative to farm crops and equipment.
 - The EDF grant is available to fund losses in excess of the 25% “top loss” allocation after liquidation of collateral.
 - With regard to species and port concentration, and the risk of fisheries closures, the loans have been made with an emphasis on diversity. There are moderate species and port concentrations, meaning that most operations in the portfolio are diversified across multiple species like Dungeness crab, Salmon, Halibut, etc.
 - The portfolio generates approximately \$74,000 per year in net income, which can be used to buffer against losses.
 - The portfolio-level global Debt Service Coverage Ratio = 3.33, indicating a strong ability to repay.
 - The portfolio generally experiences no delinquencies, indicating a strong repayment record.
- Paycheck Protection Program (PPP) loans – these loans possess a lower inherent risk of loss because these loans are expected to be forgiven.

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

	2021	2020
Land and farm mortgages	\$ 5,404,770	\$ 3,250,188
Farm operating loans	3,053,250	3,618,913
Farm equipment loans	1,185,560	1,043,242
Fisheries loans	1,525,022	-
PPP loans	1,106,917	1,635,490
	12,275,519	9,547,833
Less: allowance for loan losses	(532,610)	(460,753)
Net notes receivable	\$ 11,742,909	\$ 9,087,080

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

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, 2021 and 2020.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	2021	2020
Leasehold improvements	\$ 28,480	\$ 28,480
Office equipment	57,128	41,470
Software	989	14,898
Furniture and fixtures	10,143	9,567
	96,740	94,415
Less: accumulated depreciation	(42,162)	(55,708)
	\$ 54,578	\$ 38,707

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 6 – 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 Farm and Ranch Prosperity Loan Program (see Note 1). These notes payable consist of the following:

	Interest Rate	Maturity Date	2021	2020	2021	2020	2021	2020
			Principal Balance	Interest Payable	Interest Expense			
Mighty Arrow Family Foundation	1.00%	May 2022	100,000	100,000	667	2,667	978	929
ImpactAssets, Inc.	1.00%	January 2023	250,000	250,000	2,500	2,500	2,446	2,322
Ceres Trust	0.00%	May 2023	250,000	250,000	-	-	-	-
RIFF Foundation	1.00%	December 2023	150,000	150,000	125	125	1,468	116
ImpactAssets, Inc.	1.00%	January 2024	100,000	100,000	1,000	1,000	978	929
Justice, Justice Foundation	0.75%	March 2024	250,000	-	1,474	-	1,443	-
Wells Fargo Bank, N.A.	2.00%	November 2024	350,000	350,000	1,167	1,167	6,849	7,586
SEED Fund	1.00%	November 2024	200,000	200,000	167	167	1,957	-
Johnson Ohana Foundation	1.00%	November 2024	250,000	250,000	208	208	2,446	193
Highland Associates	1.50%	December 2024	300,000	300,000	375	375	4,403	4,528
ImpactAssets, Inc.	1.00%	January 2025	250,000	250,000	2,500	2,500	2,446	2,322
ImpactAssets, Inc.	1.00%	December 2025	75,000	75,000	63	63	734	58
Jewish Community Federation of San Francisco	2.00%	January 2026	469,625	-	8,646	-	8,460	-
Erich and Hannah Sachs Foundation	2.50%	April 2026	650,000	650,000	10,833	10,833	15,900	11,734
Jewish Community Federation of San Francisco	2.00%	May 2026	383,375	-	4,706	-	4,604	-
Delsar LLC ⁽¹⁾	1.00%	June 2026	-	-	-	-	-	-
Satterberg Foundation	1.00%	June 2026	1,000,000	-	27	-	27	-
Cogen Family Investments	1.75%	June 2026	100,000	-	882	-	863	-
The Deborah E Frieze Revocable Trust of 2017	1.75%	June 2026	100,000	-	882	-	863	-
Nancy Chartrand 2021 Irrevocable Trust	1.75%	June 2026	100,000	-	882	-	863	-
Paolo Fresia	1.75%	June 2026	150,000	-	1,323	-	1,295	-
The Gribley Fund	1.75%	June 2026	100,000	-	882	-	863	-
Johnson Ohana Foundation	1.00%	November 2026	250,000	250,000	313	313	2,446	2,613
Swift Family Foundation	1.00%	December 2026	250,000	250,000	2,500	2,500	2,446	2,322
Lauren Hartzell Nichols	1.00%	January 2027	150,000	-	-	-	-	-
ImpactAssets, Inc.	1.00%	January 2027	400,000	400,000	4,000	4,000	3,914	3,715
Schmidt Family Foundation	1.00%	November 2027	1,000,000	1,000,000	1,250	1,250	9,784	1,161
ELM Revocable Trust	1.00%	December 2027	250,000	250,000	208	208	2,446	194
CommonSpirit Health Operating Investment Pool, LLC	2.00%	January 2028	500,000	-	1,641	-	9,650	-
SBA Microloan Program	0.6% - 1.4%	June 2028	122,349	140,233	-	-	1,958	1,906
Community Foundation Santa Cruz County	2.50%	June 2028	750,000	750,000	9,375	9,375	18,346	16,235
Community Foundation Santa Cruz County	3.00%	June 2028	300,000	300,000	4,500	4,500	8,806	7,663
SEED Fund	0.00%	November 2028	200,000	200,000	-	-	-	-
Community Foundation for Monterey County	2.50%	December 2028	750,000	750,000	781	781	18,346	18,141
Sobrato Family Foundation	1.50%	March 2030	1,000,000	1,000,000	12,969	11,250	14,677	11,997
Opportunity Finance Network – Grow with Google	1.00%	May 2030	1,000,000	-	40	-	6,996	-
Opportunity Finance Network – Finance Justice Fund	3.00%	March 2031	1,000,000	-	124	-	14,717	-
USDA Rural Microenterprise Assistance Program	2.00%	September 2031	298,410	325,858	-	-	6,047	7,845
USDA Rural Microenterprise Assistance Program	1.00%	June 2038	461,667	489,274	-	-	7,816	6,036
USDA Intermediary Relending Program	1.00%	April 2049	1,000,000	849,005	7,083	6,013	9,784	8,019
USDA Intermediary Relending Program	1.00%	July 2050	321,005	250,000	2,044	1,250	3,141	1,161
FarmLink Investment Notes	Various	Through 2041	557,283	359,099	4,983	2,309	9,316	4,408
Total			16,138,714	10,488,469	91,120	65,354	210,522	124,133
Less: current portion			(184,879)	(83,233)	(91,120)	(65,354)	-	-
Long-term portion			\$ 15,953,835	\$ 10,405,236	\$ -	\$ -	\$ 210,522	\$ 124,133

⁽¹⁾ No loan draws have been made as of December 31, 2021.

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

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

2022	\$ 184,879
2023	847,855
2024	1,637,742
2025	561,304
2026	3,758,388

	2021		2020	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
<u><i>Equity-Equivalent Loans (EQ2):</i></u>				
Mechanics Bank California Organized Investment Network (COIN) unsecured loan, bore no interest and was due in full on September 30, 2023. The loan was paid off in 2021 at FarmLink's discretion.	\$ -	\$ -	\$ -	\$ 1,500,000
Comerica Bank unsecured loan, bears no interest and is due in full on July 13, 2030, with an option to extend to 2040 at FarmLink's discretion.	-	500,000	-	500,000
Total	\$ -	\$ 500,000	\$ -	\$ 2,000,000

There are no scheduled principal or interest payments on the EQ2 loan for the next five years.

FarmLink entered into a \$3,000,000 revolving line of credit agreement with 1st Capital Bank. The revolving line of credit bears variable interest rate starting at 3.75% and matures on December 10, 2022. As of December 31, 2021 and 2020, the balance outstanding was \$-0-. Interest expense was \$-0- in 2021 and 2020.

FarmLink entered into a \$1,700,000 revolving line of credit agreement with 1st Capital Bank on March 2, 2020 to provide temporary funding for the FSA guaranteed portion of a specific loan origination to Sun Valley Berries, LLC to bridge the timing gap prior to consummation of a commitment to purchase the loan by the Federal Agricultural Mortgage Corporation (Farmer Mac). The revolving line of credit bore variable interest rate and matured on May 31, 2020.

NOTE 7 – OPERATING LEASES

FarmLink leases office space in Aptos and Sacramento, California, under lease agreements with lease end dates ranging from 2022 to 2024. Monthly rent in an amount as specified in the lease agreements, subject to annual increases, are required. 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 \$85,072 and \$75,233 in 2021 and 2020, respectively, and is included in occupancy in the accompanying statements of functional expenses.

In January 2022, FarmLink exercised the 1st option to extend the lease on a portion of the Aptos office through June 2025.

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

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

	<i>Year Ending December 31,</i>
2022	\$ 53,290
2023	48,451
2024	45,199
2025	12,552
2026	-

NOTE 8 – NET ASSETS WITH GRANTOR RESTRICTIONS

Net assets with grantor restrictions are for the following purposes:

	2021			
	<i>December 31,</i>	<i>Grants</i>	<i>Releases from</i>	<i>December 31,</i>
	<i>2020</i>		<i>Restrictions</i>	<i>2021</i>
Farm and Ranch Prosperity Loan Program	\$ 1,391,222	\$ 4,621,578	\$ (2,380,716)	\$ 3,791,140
Land Access and Farm Business Education				
Programs	1,009,250	437,500	(741,187)	546,507
Time restriction	337,500	150,000	(287,500)	200,000
	\$ 2,737,972	\$ 5,209,078	\$ (3,409,403)	\$ 4,537,647
	2020			
	<i>December 31,</i>	<i>Grants</i>	<i>Releases from</i>	<i>December 31,</i>
	<i>2019</i>		<i>Restrictions</i>	<i>2020</i>
Farm and Ranch Prosperity Loan Program	\$ 1,294,513	\$ 663,500	\$ (566,791)	\$ 1,391,222
Land Access and Farm Business Education				
Programs	962,089	571,000	(523,839)	1,009,250
Time restriction	-	337,500	-	337,500
	\$ 2,256,602	\$ 1,572,000	\$ (1,090,630)	\$ 2,737,972

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 9 – LIQUIDITY AND AVAILABILITY

FarmLink has \$5,359,250 and \$2,532,088 of financial assets available for general expenditures within one year of the statement of financial position date, respectively, consisting of the following:

	<i>December 31,</i> <i>2021</i>	<i>December 31,</i> <i>2020</i>
Financial assets at end of year:		
Operating cash	\$ 6,368,512	\$ 2,993,340
Loan fund capital	9,022,508	3,928,123
Loan loss reserves	863,380	345,671
Grants receivable – current portion	1,119,499	1,070,738
Notes receivable, net – current portion	2,769,229	3,118,234
	20,143,128	11,456,106
Less financial assets at end of year not available for general expenditures within one year:		
Operating cash with grantor’s restriction for specific purpose	(1,096,882)	(644,490)
Loan fund with grantor’s or contract restriction, or management designated restriction for specific purpose	(9,022,508)	(3,928,123)
Loan loss reserves with grantor’s or contract restriction for specific purpose	(863,380)	(345,671)
Grants receivable with grantor’s restriction for specific purpose	(1,031,879)	(887,500)
Notes receivable with grantor’s or contract restriction for specific purpose	(2,769,229)	(3,118,234)
	(17,783,478)	(9,908,118)
Financial assets available for general expenditures within one year	\$ 5,359,250	\$ 2,532,088

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 a committed line of credit, which it can draw upon.

NOTE 10 – RETIREMENT PLAN

FarmLink established a defined contribution plan (the Plan) for all eligible employees. 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 \$46,103 and \$35,054 during 2021 and 2020, respectively.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Loan Commitments

FarmLink had approved undisbursed loan commitments totaling \$363,792 as of December 31, 2021 relating to its loan programs.

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

Loans Sold and Servicing Contracts

During 2021 and 2020, FarmLink transferred participating interests in four and two loans, respectively, to a third party. The transactions met the definition of a sale of financial asset, thus FarmLink derecognized the transferred assets during 2021 and 2020. Details of the sold loans follow:

Carrying amounts of loans receivable:

	2021		2020	
	<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	\$ 2,280,345	\$ 2,228,571	\$ 2,280,000	\$ 1,872,627
Retained portion	114,426	108,391	120,000	98,555
Total	\$ 2,394,771	\$ 2,336,962	\$ 2,400,000	\$ 1,971,182

	2021	2020
Participating interest sold in %	95%	95%
Maturity date	2040 to 2051	2021 to 2050
Interest rate on notes	4.78% to 5.06%	5.51% to 7.00%

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 4.10%). Total amount of servicing fees earned during 2021 and 2020 was \$120,449 and \$122,024, respectively, and is included in program revenue 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 \$11,376,015 and \$9,839,007 as of December 31, 2021 and 2020, respectively.

COVID-19 Pandemic

The emergence and spread of the coronavirus (COVID-19) 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.

PPP Loan

Due to the uncertainty of the current economic conditions, FarmLink requested and received loan funds totaling \$230,722 during 2020 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 were 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. The PPP loan was forgiven in December 2020.

SUPPLEMENTARY INFORMATION

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2021

<i>Federal Grantor/Pass-Through Grantor/Title</i>	<i>Federal Assistance Listing (AL) Number</i>	<i>Federal Expenditures</i>	<i>Expenditures to Subrecipients</i>
<u>U.S. Department of Agriculture:</u>			
Direct award: USDA Farm Service Agency – Outreach Education and Technical Assistance	10.147	\$ 11,356	\$ -
Direct award: National Institute of Food and Agriculture/USDA – Beginning Farmers and Ranchers Development Program	10.311	31,712	-
Pass-through award: Agriculture and Land-Based Training Association – Beginning Farmers and Ranchers Development Program	10.311	38,038	-
		<u>69,750</u>	<u>-</u>
Direct award: Rural Business Development Grant	10.351	71,399	-
Pass-through award: Agriculture and Land-Based Training Association – Rural Business Development Grant	10.351	6,000	-
		<u>77,399</u>	<u>-</u>
Pass-through award: Pie Ranch – Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers	10.443	9,455	-
Pass-through awards: Washington State University – Cooperative Extension Service	10.500	14,808	-
Washington State University – Cooperative Extension Service	10.500	11,268	-
Agriculture and Land-Based Training Association – Cooperative Extension Service	10.500	8,000	-
		<u>34,076</u>	<u>-</u>
Direct awards: Loan made in prior and current year by the Intermediary Relending Program for which continuing compliance is required	10.767	1,000,000	-

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2021

<i>Federal Grantor/Pass-Through Grantor/Title</i>	<i>Federal Assistance Listing (AL) Number</i>	<i>Federal Expenditures</i>	<i>Expenditures to Subrecipients</i>
Loan made in prior and current year by the Intermediary Relending Program for which continuing compliance is required	10.767	321,005	-
		1,321,005	-
Direct awards:			
Rural Microentrepreneur Assistance Program	10.870	88,812	-
Loan made in prior year by the Rural Microentrepreneur Assistance Program for which continuing compliance is required	10.870	325,858	-
Loans made in prior year by the Rural Microentrepreneur Assistance Program for which continuing compliance is required	10.870	489,274	-
		903,944	-
<u>U.S. Department of the Treasury:</u>			
Direct awards:			
Community Development Financial Institutions Program 2018-2021	21.020	317,540	-
Community Development Financial Institutions Program 2020-2023	21.020	495,122	-
Community Development Financial Institutions Rapid Response Program 2021-2023 (COVID-19)	21.020	1,183,271	-
		1,995,933	-
<u>U.S. Small Business Administration:</u>			
Direct awards:			
Microloan Program	59.046	5,386	-
Microloan Program	59.046	12,673	-
Loan made in prior year by the Microloan Program for which continuing compliance is required	59.046	140,233	-
		158,292	-
Direct award:			
U.S. Small Business Administration Program for Investment in Microentrepreneurs – prime	59.050	154,773	-
TOTAL FEDERAL AWARDS		\$ 4,735,983	\$ -

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2021

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, 2021, 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 elected 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 \$2,276,370 in expenditures from the 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, IRP prior year loan	\$ 1,000,000
U.S. Department of Agriculture, IRP prior year loan	321,005
U.S. Department of Agriculture, RMAP prior year loan	298,410
U.S. Department of Agriculture, RMAP prior year loan	461,667
U.S. Small Business Administration prior year loan	<u>122,349</u>
 Total	 <u><u>\$ 2,203,431</u></u>

CALIFORNIA FARMLINK
 (A California Nonprofit Public Benefit Corporation)
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED DECEMBER 31, 2021

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 programs: Names of Federal Programs or Clusters

AL #10.870 Rural Microentrepreneur Assistance Program

AL #21.020 Community Development Financial Institutions Program

AL #21.024 Community Development Financial Institutions Rapid Response Program (CDFI RRP)

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.



ALEXIS H. WONG
CHARLOTTE SIEW-KUN TAY
CATHY L. HWANG
RITA B. DELA CRUZ
SCOTT K. SMITH
CRISANTO S. FRANCISCO
JOE F. HUIE

SHERMAN G. LEONG

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, 2021, 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 May 13, 2022.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether California FarmLink's financial statements are free from 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 financial statements. 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 Husen and Joyce LLP

May 13, 2022



ALEXIS H. WONG
CHARLOTTE SIEW-KUN TAY
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CRISANTO S. FRANCISCO
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Board of Directors
California FarmLink
Santa Cruz, California

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Report on Compliance for Each Major Federal Program

Opinion on 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, 2021. 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.

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, 2021.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of California FarmLink and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of California FarmLink’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provision of contracts or grant agreements applicable to California FarmLink's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on California FarmLink's compliance based on our audit. 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 generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about California FarmLink's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 California FarmLink's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of California FarmLink's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 California FarmLink's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Lindquist, von Husen and Joyce LLP

May 13, 2022