

CALIFORNIA FARMLINK

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2018 AND 2017

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

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California Farmlink
Santa Cruz, California

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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, 2018 and 2017, 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, 2018 and 2017, 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 Note 2 of the financial statements, California Farmlink adopted the new accounting guidance required by accounting principles generally accepted in the United States of America and changed its classification of net assets and enhanced its disclosures about net assets and liquidity in Notes 9 and 10. 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 24, 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 May 9, 2019 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 Husen and Joyce LLP

May 9, 2019

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
 STATEMENTS OF FINANCIAL POSITION
 DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Current assets:		
Cash:		
Operating cash	\$ 1,553,994	\$ 801,349
Loan fund	1,429,072	845,591
Loan loss reserves (Note 4)	137,583	137,334
Total cash	3,120,649	1,784,274
Receivables (Note 3):		
Contributions – current portion	900,750	1,189,480
Government grants	193,914	139,200
Other	-	3,402
Prepaid expenses	7,998	12,502
Notes receivable, net – current portion (Note 4)	1,382,519	918,189
Total current assets	5,605,830	4,047,047
Contribution receivables – net of current portion (Note 3)	-	80,000
Notes receivable, net – net of current portion (Note 4)	2,417,604	1,871,474
Property and equipment – net (Note 5)	31,158	32,900
Total assets	\$ 8,054,592	\$ 6,031,421
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 143,531	\$ 116,590
Interest payable – current portion (Note 7)	51,243	2,916
Notes payable – current portion (Note 7)	333,070	276,650
Total current liabilities	527,844	396,156
Long-term liabilities:		
Interest payable – net of current portion (Note 7)	-	18,618
Notes payable – net of current portion (Note 7)	4,556,445	2,981,419
Total liabilities	5,084,289	3,396,193
Net assets:		
Without grantor restrictions	682,045	602,936
With grantor restrictions	2,288,258	2,032,292
Total net assets	2,970,303	2,635,228
Total liabilities and net assets	\$ 8,054,592	\$ 6,031,421

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, 2018 AND 2017

	2018			2017		
	<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	\$ 182,703	\$ 150,500	\$ 333,203	\$ 356,400	\$ 305,434	\$ 661,834
Banks	5,000	65,000	70,000	7,500	83,000	90,500
Government	-	632,000	632,000	-	930,405	930,405
Individuals/other	70,293	-	70,293	28,040	-	28,040
Government grants	770,422	-	770,422	348,765	-	348,765
Interest income	214,744	-	214,744	126,189	-	126,189
Loan fees	167,922	-	167,922	109,785	-	109,785
Other	-	-	-	2,137	-	2,137
Net assets released from restriction (Note 9)	591,534	(591,534)	-	620,557	(620,557)	-
Total support and revenue	2,002,618	255,966	2,258,584	1,599,373	698,282	2,297,655
Expenses:						
Program services:						
Farm Opportunities Loan Program	742,109	-	742,109	658,328	-	658,328
Land Access Program	679,673	-	679,673	349,869	-	349,869
Supporting services:						
Management and general	331,985	-	331,985	293,647	-	293,647
Fundraising	169,742	-	169,742	151,882	-	151,882
Total expenses	1,923,509	-	1,923,509	1,453,726	-	1,453,726
Change in net assets	79,109	255,966	335,075	145,647	698,282	843,929
Net assets, beginning of year	602,936	2,032,292	2,635,228	457,289	1,334,010	1,791,299
Net assets, end of year	\$ 682,045	\$ 2,288,258	\$ 2,970,303	\$ 602,936	\$ 2,032,292	\$ 2,635,228

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, 2018 AND 2017

	2018						
	Program Services			Supporting Services			
	Farm Opportunities Loan Program	Land Access Program	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries and wages	\$ 425,130	\$ 211,598	\$ 636,728	\$ 97,720	\$ 124,964	\$ 222,684	\$ 859,412
Employees 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
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
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	18,124	-	18,124	29,922
Other	7,398	7,384	14,782	26,586	6,402	32,988	47,770
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 FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2017						
	Program Services			Supporting Services			
	Farm Opportunities Loan Program	Land Access Program	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries and wages	\$ 360,417	\$ 191,573	\$ 551,990	\$ 99,625	\$ 110,398	\$ 210,023	\$ 762,013
Employees benefits	46,624	24,782	71,406	12,888	14,281	27,169	98,575
Payroll taxes	33,524	17,819	51,343	9,267	10,269	19,536	70,879
Professional fees	53,479	72,331	125,810	60,946	2,345	63,291	189,101
Accounting fees	69	98	167	25,472	-	25,472	25,639
Advertising	-	767	767	2,256	755	3,011	3,778
Conferences and training	3,383	2,571	5,954	565	-	565	6,519
Occupancy	19,049	10,107	29,156	3,887	5,831	9,718	38,874
Printing and duplication	1,000	2,395	3,395	1,547	819	2,366	5,761
Travel	15,759	15,615	31,374	22,476	578	23,054	54,428
Communications	4,121	1,568	5,689	7,932	-	7,932	13,621
Postage and shipping	326	184	510	365	80	445	955
Supplies and equipment	1,957	2,557	4,514	3,150	-	3,150	7,664
Insurance	493	-	493	7,208	-	7,208	7,701
Interest	31,121	-	31,121	-	-	-	31,121
Loan loss reserve	58,585	-	58,585	-	-	-	58,585
Service fees	12,860	-	12,860	-	-	-	12,860
Computer and IT	11,382	6,040	17,422	2,324	3,484	5,808	23,230
Other	4,179	1,462	5,641	25,505	3,042	28,547	34,188
Total operating expenses before depreciation	658,328	349,869	1,008,197	285,413	151,882	437,295	1,445,492
Depreciation	-	-	-	8,234	-	8,234	8,234
Total expenses	\$ 658,328	\$ 349,869	\$ 1,008,197	\$ 293,647	\$ 151,882	\$ 445,529	\$ 1,453,726

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, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 335,075	\$ 843,929
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	10,875	8,234
(Increase) decrease in assets:		
Receivables:		
Contributions	368,730	(169,774)
Government grants	(54,714)	(449,958)
Other	3,402	(3,402)
Prepaid expenses	4,504	(4,892)
Loan losses provision	47,151	49,383
Other	-	8,286
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	26,941	34,622
Interest payable	29,709	12,186
Other long-term liability	-	(13,166)
Net cash provided by operating activities	771,673	315,448
Cash flows from investing activities:		
Purchase of property and equipment	(9,133)	(24,831)
Notes receivable disbursed	(2,791,998)	(3,504,834)
Collection of notes receivable	1,734,387	2,631,994
Net cash used in investing activities	(1,066,744)	(897,671)
Cash flows from financing activities:		
Payment of notes payable	(275,721)	(53,805)
Proceeds from notes payable	1,907,167	700,000
Net cash provided by financing activities	1,631,446	646,195
Net increase in cash	1,336,375	63,972
Cash, beginning of year	1,784,274	1,720,302
Cash, end of year	\$ 3,120,649	\$ 1,784,274
Supplementary information:		
Cash paid for interest	\$ 15,609	\$ 18,935

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, 2018 AND 2017

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

California Farmlink (Farmlink), a California nonprofit public benefit corporation, was formed in 1999 with the mission to support beginning, limited-resource, immigrant and other underserved farmers. 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:

- Farmlink’s Land Access Program – 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 have developed 375 successful leases or purchases tailored to the needs of landowners and growers.
- 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, and 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 60 and 41 loans, with an average loan size of \$46,018 and \$81,699 during 2018 and 2017, 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.
- Personalized advisory services (technical assistance) – Farmlink Staff provided direct hands-on technical assistance to 205 and 210 growers and landowners during 2018 and 2017, respectively.
- Educational events – Farmlink staff conducted 24 and 21 educational events attended by over 1,011 and 513 growers during 2018 and 2017, respectively. Events included Farmland Lease 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 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.

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

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 the Organization.
- 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 donor 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. The Organization has no net assets with non-expiring grantor restrictions as of December 31, 2018 and 2017.

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 recorded at their fair value as support without grantor restrictions or support with grantor restrictions, depending on the absence or existence of donor 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 reported in the statements of activities as net assets released from restrictions. Unconditional promises to give are recognized as contribution revenue in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Government grants are recognized as revenue when allowable activities or expenditures under the respective awards are incurred. These grants are funded on a reimbursement basis and are shown as revenue without grantor restrictions.

Contributed services are stated at their estimated fair value, if ordinarily purchased and of a specialized nature.

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 \$1,657,000 as of December 31, 2018. Farmlink has not experienced any losses in such accounts.

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

Loan Funds

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 USDA Farm Service Agency in 2011 and has been making direct loans to growers since the fall of 2011. In 2013, Farmlink received certification from the US 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 7 years of approximately \$3.1 million.

Notes Receivable

Notes receivable consists of loans made to farmers under the Land Access Program 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 generally accepted accounting principles.

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 collectibility 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.

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, 2018 and 2017 was estimated at 5.7% and 6.2% of the outstanding loan portfolio, respectively.

Property and Equipment

Property and equipment is stated at cost of acquisition or fair value, if donated. 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.

CALIFORNIA FARMLINK
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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

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 2014 through 2017 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. These expenses have been allocated among program services and supporting services based on estimates of employees' time incurred and on usage of resources.

Subsequent Events

Management has evaluated subsequent events through May 9, 2019, the date on which the financial statements were available to be issued.

Reclassification

Certain amounts previously reported in the 2017 financial statements were reclassified to conform to the 2018 presentation for comparative purposes.

CALIFORNIA FARMLINK
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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 3 – RECEIVABLES

Receivables are summarized as follows:

	2018	2017
CDFI Fund – US Department of Treasury	\$ 862,405	\$ 930,405
Wells Fargo Bank	-	160,000
11 th Hour Project	-	150,000
California Department of Food and Agriculture	52,243	45,020
Agriculture and Land-Based Training Association	15,750	31,500
Community Foundation for Monterey County	-	25,000
USDA Office of Advocacy and Outreach	15,654	17,579
USDA Risk Management Agency	36,801	14,130
USDA Rural Microentrepreneur Assistance Program (RMAP)	1,711	12,113
USDA’s NIFA Beginning Farmer and Rancher Development Program	53,394	12,018
Washington State University	-	6,840
US Small Business Administration	15,862	-
Swift Foundation	35,000	-
Others	5,844	7,477
	<hr/>	<hr/>
Total	1,094,664	1,412,082
Less: current portion	<hr/> (1,094,664)	<hr/> (1,332,082)
Long-term portion	<hr/> \$ -	<hr/> \$ 80,000

NOTE 4 – NOTES RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Notes receivable at December 31, 2018 and 2017 are summarized as follows:

	2018	2017
Total notes receivable	\$ 4,030,973	\$ 2,973,362
Less: allowance for loan losses	<hr/> (230,850)	<hr/> (183,699)
Net notes receivable	3,800,123	2,789,663
Less: current portion	<hr/> (1,382,519)	<hr/> (918,189)
Long-term portion	<hr/> \$ 2,417,604	<hr/> \$ 1,871,474

As of December 31, 2018 and 2017, notes receivable, net of allowance for loan losses, consist of loans with interest rates ranging from 0% to 8%.

CALIFORNIA FARMLINK
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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

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

2019	\$ 1,382,519
2020	503,353
2021	34,794
2022	207,020
2023	410,059

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 Farm Service Agency (FSA). Farmlink seeks this government guarantee on loans over \$50,000 that qualify. In 2018, six new loans in the amount of \$719,200 received the additional protection of a 75 to 85 percent guarantee from U.S. Small Business Association (SBA), State and Cienega Capital, LLC, respectively. In 2017, one loan in the amount of \$150,000 received the additional protection of 100 percent guarantee from Globetrotter Foundation. 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, 2018 and 2017, respectively, 67% and 55% of the loans receivable portfolio had the additional guarantee from either FSA government, SBA, State, Cienega Capital, LLC or Globetrotter Foundation.

Farmlink's loan loss reserve (LLR) was capitalized with \$137,583 and \$137,334 in cash as of December 31, 2018 and 2017, respectively.

Allowance for Loan Losses

The following are the details of activities on the allowance for loan losses during the years ended December 31, 2018 and 2017:

	2018	2017
Balance, beginning of year	\$ 183,699	\$ 134,316
Provision for loan losses during the year	69,171	58,585
Write-off	(22,020)	(9,202)
Balance, end of year	<u>\$ 230,850</u>	<u>\$ 183,699</u>

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
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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 is 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:

	2018	2017
Land and farm mortgages	\$ 1,407,891	\$ 974,317
Farm operating loans	1,865,245	1,362,038
Farm equipment loans	757,837	637,007
	4,030,973	2,973,362
Less: allowance for loan losses	(230,850)	(183,699)
Net notes receivable	<u>\$ 3,800,123</u>	<u>\$ 2,789,663</u>

CALIFORNIA FARMLINK
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YEARS ENDED DECEMBER 31, 2018 AND 2017

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, 2018 and 2017.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	2018	2017
Leasehold improvements	\$ 24,176	\$ 19,776
Office equipment	19,912	15,834
Software	13,909	13,909
Furniture and fixtures	3,786	3,131
	61,783	52,650
Less: accumulated depreciation	(30,625)	(19,750)
Total property and equipment	<u>\$ 31,158</u>	<u>\$ 32,900</u>

NOTE 6 – LINE OF CREDIT

Farmlink entered into a \$1,000,000 revolving line of credit agreement with 1st Capital Bank on September 12, 2016. The line of credit matured on September 12, 2018 and was extended to September 12, 2019. The line bears variable interest of 5.5% at December 31, 2018 and 2017 and is secured by property as described in the Commercial Security Agreement. Interest expense was \$1,636 and \$5,079 for 2018 and 2017, respectively. There was no amount outstanding at December 31, 2018 and 2017.

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 7 – NOTES PAYABLE

Notes payable consists of the following:

	2018		2017	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
<u><i>Term Loans</i></u>				
Johnson Ohana Foundation, bears 1% interest per annum and requires only annual interest payment. The entire principal and remaining interest balance is due in full on November 25, 2024. Interest expense was \$2,500 and \$246 in 2018 and 2017, respectively.	\$ 2,746	\$ 250,000	\$ 246	\$ 250,000
Seed Fund, bears 1% interest per annum and requires only annual interest payment. The entire principal and remaining interest balance is due in full on November 20, 2024. Interest expense was \$2,333 and \$170 in 2018 and 2017, respectively.	2,503	200,000	170	200,000
Seed Fund, non-interest bearing and requires no annual payment. The entire principal balance is due on November 13, 2028.	-	200,000	-	-
Swift Family Foundation, bears 1% interest per annum and requires only annual interest payment. The entire principal and remaining interest balance is due in full in December 2026. Interest expense was \$2,520 and \$2,500 in 2018 and 2017, respectively.	5,020	250,000	2,500	250,000
Capital Impact Partners loan, bears 3.25% interest per annum. No annual payments are required and the entire principal and accrued interest is due on February 9, 2019. At maturity, the lender may forgive up to 25% of the outstanding principal balance. Interest expense was \$9,744 and \$9,682 in 2018 and 2017, respectively.	28,362	300,000	18,618	300,000

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018		2017	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
New Belgium Family Foundation, non-interest bearing and requires no annual payment. The entire principal balance was originally due on May 1, 2016, and was adjusted to an extended maturity date of May 1, 2018. On May 1, 2018, the terms of the loan were modified. The loan will bear 1% interest per annum, and maturity date was extended to May 1, 2022.	-	100,000	-	100,000
U.S. Department of Agriculture, Rural Microenterprise Assistance Program loan, bears 2% interest per annum. Requires monthly principal and interest payments of \$2,874 with entire principal and interest due in full on September 21, 2031. Interest expense was \$8,737 and \$8,444 in 2018 and 2017, respectively.	-	382,348	-	408,069
U.S. Department of Agriculture, Rural Microenterprise Assistance Program loan in the maximum amount of \$500,000, bears 1% interest per annum. Requires monthly principal and interest payments of \$644 beginning on June 30, 2020 with entire principal and interest due in full on June 1, 2038. Interest expense was \$417 in 2018.	417	125,000	-	-
Community Foundation Santa Cruz County, bears 2.5% interest per annum and requires annual interest payment. The entire principal and remaining interest balance is due in full on June 21, 2028. Interest expense was \$6,750 in 2018.	6,750	750,000	-	-
Community Foundation Santa Cruz County, bears 3% interest per annum and requires annual interest payment. The entire principal and remaining interest balance is due in full on June 21, 2028. Interest expense was \$5,250 in 2018.	5,250	300,000	-	-

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018		2017	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
Small Business Administration in the maximum amount of \$500,000, bears interest of 0.625% on the first twelve months. In the ninth month after the note date, if the average size of the loan exceeds \$10,000, interest will be recalculated at 1.375% retroactively from the first year of accrual through the twenty-fourth month. Recalculation of interest will be done at a regular interval on the twenty-first month and annually thereafter and will become effective on the twenty-fifth month and annually thereafter. Requires monthly principal and interest payments of \$1,773 beginning on June 19, 2019 with entire principal and interest due in full on June 19, 2028. Interest expense was \$174 in 2018.	174	166,667	-	-
Individual Investor loans, bears interest from 1.75% to 2.25% and requires only annual interest payment. The entire principal and remaining interest balance to be repaid in full through 2025. Interest expense was \$20 in 2018.	20	15,500	-	-
<u>Equity-Equivalent Loans (EQ2)</u>				
Rabobank, unsecured loan, bore 2% interest. Principal was due in April 2018. The loan was, however, paid off in full in 2016 from proceeds of a new California Organized Investment Network (COIN) loan for \$1,500,000. The loan bears no interest and matures on September 30, 2021 with two 12-month extensions that may be allowed by the bank. Interest expense was \$- in 2018 and 2017.	-	1,500,000	-	1,500,000

CALIFORNIA FARMLINK
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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018		2017	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
Wells Fargo Bank unsecured loan, bore 2% simple interest. Required quarterly interest payments with entire principal and interest due in full on September 23, 2018. On November 2, 2018, the loan was refinanced with a subordinated loan amounting to \$350,000. The loan bears 2% simple interest, matures on November 9, 2024 and requires quarterly interest payments. In addition to quarterly interest payments, quarterly payments of principal totaling \$87,500 is required to be made during the 5 th year in order to fully pay the principal on maturity date. Interest expense was \$5,236 and \$5,000 in 2018 and 2017, respectively.	-	350,000	-	250,000
Total	51,243	4,889,515	21,534	3,258,069
Less: current portion	(51,243)	(333,070)	(2,916)	(276,650)
Long term portion	\$ -	\$ 4,556,445	\$ 18,618	\$ 2,981,419

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

2019	\$ 333,070
2020	46,338
2021	1,552,594
2022	153,688
2023	60,304

NOTE 8 – OPERATING LEASES

FarmLink leased two office spaces under non-cancelable leases that terminated at various dates through October 2017. FarmLink entered into a new lease agreement on April 1, 2017. The new lease requires monthly base rent of \$1,701 with fixed annual increase as specified in the lease agreement. The new lease also requires FarmLink to pay 24.2% of operating expenses of the office building. The new lease will expire on June 30, 2022. Total rent expense was \$37,205 and \$32,854 for the years ended December 31, 2018 and 2017, respectively.

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

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

	<i>Year Ending December 31,</i>
2019	\$ 21,340
2020	21,980
2021	22,639
2022	11,487
2023	-

NOTE 9 – NET ASSETS WITH GRANTOR RESTRICTIONS

The net assets with grantor restrictions are for the following purposes:

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

	<i>December 31, 2016</i>	<i>Contributions</i>	<i>Releases from Restrictions</i>	<i>December 31, 2017</i>
Land Access Program	\$ 68,437	\$ 160,434	\$ (97,934)	\$ 130,937
Farm Opportunities Loan Program	1,265,573	1,158,405	(522,623)	1,901,355
	<u>\$ 1,334,010</u>	<u>\$ 1,318,839</u>	<u>\$ (620,557)</u>	<u>\$ 2,032,292</u>

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 10 – LIQUIDITY AND AVAILABILITY

Farmlink has \$800,439 of financial assets available for general expenditures within one year of the balance sheet date consisting of the following:

Financial assets at end of year:	
Operating cash	\$ 1,553,994
Loan fund	1,429,072
Loan loss reserves	137,583
Contributions receivable	900,750
Government grants	193,914
Notes receivable	<u>3,800,123</u>
	8,015,436
Less financial assets at end of year not available for general expenditures within one year:	
Operating cash with grantor's restriction for specific purpose	(985,814)
Loan fund with grantor's or contract restriction for specific purpose	(1,429,072)
Loan loss reserves with grantor's or contract restriction for specific purpose	(137,583)
Contribution receivable with grantor's restriction for specific purpose	(862,405)
Notes receivable with grantor's or contract restriction for specific purpose	<u>(3,800,123)</u>
Financial assets available for general expenditures within one year	<u><u>\$ 800,439</u></u>

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 donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. To help manage unanticipated liquidity needs, the Organization has a committed line of credit of \$1,000,000, 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 \$20,709 and \$11,450 during 2018 and 2017, respectively.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Loan Commitments

Farmlink had approved undisbursed loan commitments totaling \$438,000 as of December 31, 2018 relating to its loan programs.

Loans Sold and Servicing Contracts

During 2018 and 2017, Farmlink transferred participating interests in three 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 2018 and 2017. Details of the loans follow:

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

Carrying amount of loans receivable:

	2018		2017	
	<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	\$ 365,750	\$ 362,554	\$ 1,724,500	\$ 1,710,029
Retained portion	19,250	19,082	155,500	154,228
Total	\$ 385,000	\$ 381,636	\$ 1,880,000	\$ 1,864,257

	2018	2017
Participating interest sold in %	95%	90% – 95%
Maturity date	2048	2047
Interest rate on notes	6.80%	5.84% – 6.18%

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 of 2%. Total amount of servicing fees earned during 2018 and 2017 was \$37,771 and \$19,067, 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.

SUPPLEMENTARY INFORMATION

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2018

<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	\$ 32,994	\$ -
Loan made in prior years by the Rural Microentrepreneur Assistance Program for which continuing compliance is required	10.870	408,069	-
		125,000	-
		<u>566,063</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>185,681</u>	<u>-</u>
Direct award:			
National Institute of Food and Agriculture/USDA – Beginning Farmers and Ranchers Development Program	10.311	<u>203,747</u>	<u>-</u>
Pass-through award:			
Agriculture and Land-Based Training Association			
National Institute of Food and Agriculture/USDA – Beginning Farmers and Ranchers Development Program	10.311	<u>63,000</u>	<u>-</u>
		<u>266,747</u>	<u>-</u>
Direct award:			
USDA – Office of Advocacy and Outreach	10.443	<u>166,440</u>	<u>-</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>102,698</u>	<u>-</u>
Direct Award:			
U.S. Small Business Administration			
Program for Investment in Microentrepreneurs - prime	59.050	<u>15,862</u>	<u>-</u>
<u>U.S. Department of the Treasury:</u>			
Direct award:			
Community Development Financial Institutions Program	21.020	<u>234,415</u>	<u>-</u>
TOTAL FEDERAL AWARDS		<u><u>\$ 1,537,906</u></u>	<u><u>\$ -</u></u>

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2018

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, 2018, 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 of expenditures of federal awards 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 loan	<u>\$ 382,348</u>
Total	<u><u>\$ 382,348</u></u>

CALIFORNIA FARMLINK
(A California Nonprofit Public Benefit Corporation)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2018

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 510(a) of Circular A-133?

_____ Yes X No

Identification of major programs:

Name of Federal Program or Cluster

CFDA #10.870

Rural Microentrepreneur Assistance Program

CFDA #10.311

Agriculture and Land-Based Training Association

National Institute of Food and Agriculture/USDA – Beginning Farmers and Ranchers Development Program

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

Auditee qualified as low-risk auditee?

_____ Yes X No

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

None noted.



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 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, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 9, 2019.

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 Husen and Joyce LLP

May 9, 2019



Board of Directors
California Farmlink
Santa Cruz, California

JAMES M. KRAFT
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**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, 2018. 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, 2018.

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.

Lindquist, von Husen and Joyce LLP

May 9, 2019