

# **CALIFORNIA FARMLINK**

*(A California Nonprofit Public Benefit Corporation)*

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT  
YEAR ENDED DECEMBER 31, 2016**

CALIFORNIA FARMLINK  
*(A California Nonprofit Public Benefit Corporation)*  
 FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2016

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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 statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2016, 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.

Report on Supplementary Information

Our audit was 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 17 is presented for purposes of additional analysis 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*, and is also 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 23, 2017 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 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 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.

Report on Summarized Comparative Information

The summarized comparative information presented herein as of and for the year ended December 31, 2015 was derived from the financial statements of California Farmlink as of December 31, 2015 which were audited by other auditors and whose report dated May 27, 2016, expressed an unmodified opinion on those statements.

*Lindquist, von Husen and Joyce LLP*

May 23, 2017

CALIFORNIA FARMLINK  
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2016

*(With summarized comparative totals for the year ended December 31, 2015)*

	2016	2015
<b>ASSETS</b>		
Current assets:		
Cash:		
Operating cash	\$ 520,438	\$ 444,908
Loan fund	1,039,975	1,201,605
Loan loss reserves	159,889	178,309
Total cash	1,720,302	1,824,822
Receivables (Note 3):		
Contributions	669,301	487,346
Government grants	119,647	18,744
Prepaid expenses	7,610	7,441
Notes receivable, net – current portion (Note 4)	905,838	1,134,393
Total current assets	3,422,698	3,472,746
Notes receivable, net – net of current portion (Note 4)	1,060,368	324,860
Property and equipment – net (Note 5)	16,303	21,448
Other	8,286	178,783
Total assets	\$ 4,507,655	\$ 3,997,837
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 81,968	\$ 57,383
Interest payable – current portion (Note 6)	412	833
Notes payable – current portion (Note 6)	52,919	291,348
Total current liabilities	135,299	349,564
Long-term liabilities:		
Interest payable – net of current portion (Note 6)	8,936	-
Notes payable – net of current portion (Note 6)	2,558,955	1,955,856
Other long-term liability	13,166	123,615
Total liabilities	2,716,356	2,429,035
Net assets:		
Unrestricted	457,289	56,479
Temporarily restricted (Note 8)	1,334,010	1,512,323
Total net assets	1,791,299	1,568,802
Total liabilities and net assets	\$ 4,507,655	\$ 3,997,837

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

CALIFORNIA FARMLINK  
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

(With summarized comparative totals for the year ended December 31, 2015)

	2016			2015
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>	<i>Total</i>
Support and revenue:				
Contributions:				
Foundation	\$ 106,742	\$ 118,000	\$ 224,742	\$ 428,500
Banks	20,000	320,000	340,000	232,831
Government	-	500,000	500,000	300,000
Individuals/other	12,444	-	12,444	5,585
Government grants	355,486	-	355,486	184,429
Interest income	93,847	-	93,847	67,625
Loan fees	60,091	-	60,091	120,959
Net assets released from restriction (Note 8)	1,116,313	(1,116,313)	-	-
Total support and revenue	<u>1,764,923</u>	<u>(178,313)</u>	<u>1,586,610</u>	<u>1,339,929</u>
Expenses:				
Program services:				
Farm Opportunities Loan Program	696,683	-	696,683	606,850
Land Access Program	304,785	-	304,785	301,186
Supporting services:				
Management and general	216,677	-	216,677	159,742
Fundraising	145,968	-	145,968	115,301
Total expenses	<u>1,364,113</u>	<u>-</u>	<u>1,364,113</u>	<u>1,183,079</u>
Change in net assets	400,810	(178,313)	222,497	156,850
Net assets, beginning of year	56,479	1,512,323	1,568,802	1,411,952
Net assets, end of year	<u>\$ 457,289</u>	<u>\$ 1,334,010</u>	<u>\$ 1,791,299</u>	<u>\$ 1,568,802</u>

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

CALIFORNIA FARMLINK

(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016

(With summarized comparative totals for the year ended December 31, 2015)

	2016						2015	
	Program Services			Supporting Services				
	Farm Opportunities Loan Program	Land Access Program	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total	Total
Salaries and wages	\$ 317,770	\$ 201,381	\$ 519,151	\$ 89,271	\$ 108,681	\$ 197,952	\$ 717,103	\$ 665,646
Employees benefits	40,550	25,698	66,248	11,392	13,868	25,260	91,508	95,930
Payroll taxes	27,628	17,508	45,136	7,761	9,449	17,210	62,346	64,337
Professional fees	100,745	24,891	125,636	17,610	3,503	21,113	146,749	121,952
Accounting fees	256	63	319	15,426	-	15,426	15,745	15,323
Advertising	589	1,428	2,017	445	-	445	2,462	1,907
Conferences and training	2,833	6,299	9,132	2,400	-	2,400	11,532	16,666
Occupancy	18,075	2,834	20,909	7,013	4,188	11,201	32,110	36,901
Printing and duplication	1,172	1,805	2,977	6	353	359	3,336	4,756
Travel	11,788	11,290	23,078	16,256	317	16,573	39,651	31,282
Communications	1,623	2,487	4,110	7,511	-	7,511	11,621	9,041
Postage and shipping	499	229	728	40	9	49	777	477
Supplies and equipment	1,356	1,761	3,117	5,129	566	5,695	8,812	13,504
Insurance	320	-	320	6,891	-	6,891	7,211	2,337
Interest expense	39,267	-	39,267	-	-	-	39,267	42,377
Loan loss reserve	88,135	-	88,135	-	-	-	88,135	30,759
Service fees	22,517	-	22,517	-	-	-	22,517	17,215
Other operating expense	21,560	7,111	28,671	24,381	5,034	29,415	58,086	7,477
Total operating expenses before depreciation	696,683	304,785	1,001,468	211,532	145,968	357,500	1,358,968	1,177,887
Depreciation	-	-	-	5,145	-	5,145	5,145	5,192
Total expenses	\$ 696,683	\$ 304,785	\$ 1,001,468	\$ 216,677	\$ 145,968	\$ 362,645	\$ 1,364,113	\$ 1,183,079

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

CALIFORNIA FARMLINK  
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STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2016

*(With summarized comparative totals for the year ended December 31, 2015)*

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 222,497	\$ 156,850
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	5,145	5,192
(Increase) decrease in assets:		
Receivables:		
Contributions	(231,763)	(437,500)
Government grants	(51,095)	71,355
Prepaid expenses	(169)	370
Other	170,497	(178,102)
Increase in liabilities:		
Accounts payable and accrued expenses	24,585	24,661
Interest payable	8,515	833
Other long-term liability	(110,449)	41,566
Net cash provided by (used in) operating activities	37,763	(314,775)
Cash flows from investing activities:		
Purchase of property and equipment	-	(7,131)
Notes receivable disbursed	(1,866,838)	(1,713,990)
Collection of notes receivable	1,359,885	1,097,721
Net cash used in investing activities	(506,953)	(623,400)
Cash flows from financing activities:		
Payment of notes payable	(1,435,330)	(22,928)
Proceeds from notes payable	1,800,000	550,000
Net cash provided by financing activities	364,670	527,072
Net decrease in cash	(104,520)	(411,103)
Cash, beginning of year	1,824,822	2,235,925
Cash, end of year	\$ 1,720,302	\$ 1,824,822
Supplementary information:		
Cash paid for interest	\$ 36,306	\$ 42,377

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



CALIFORNIA FARMLINK  
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

**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 253 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. During 2016, Farmlink made 35 loans, with an average loan size of \$40,254. 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) – In 2016, Farmlink Staff provided direct hands-on technical assistance to 253 growers and landowners.
- Educational events – In 2016, Farmlink staff conducted 30 educational events attended by over 574 growers. 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  
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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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 three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At December 31, 2016, Farmlink did not have any permanently restricted net assets.

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 unrestricted support, temporarily restricted support, and permanently restricted support, 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), temporarily restricted net assets are reclassified to unrestricted net assets 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 awards are recognized as revenue when allowable activities or expenditures under the respective awards are incurred. These awards are funded on a reimbursement basis and are shown as unrestricted revenue.

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 \$701,000 as of December 31, 2016. Farmlink has not experienced any losses in such accounts.

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 5 years approximately \$1.6 million.

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NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016

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 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.

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 loss as of December 31, 2016 was estimated at 6.4% of the outstanding loan portfolio.

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 based on the straight-line method over the estimated useful lives of 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 2013 through 2015 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 providing program services and supporting services have been summarized on a functional basis in the statements of activities and statements of functional expenses. Accordingly, certain costs have been allocated among program services and supporting services based on estimates of employees' time incurred and on usage of resources.

CALIFORNIA FARMLINK  
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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

Subsequent Events

Management has evaluated subsequent events through May 23, 2017, the date on which the financial statements were available to be issued.

Reclassification

Certain amounts previously reported in the 2015 financial statements were reclassified to conform to the 2016 presentation for comparative purposes.

**NOTE 3 – RECEIVABLES**

Receivables are summarized as follows:

CDFI Fund – US Department of Treasury	\$ 500,000
Wells Fargo Bank	160,000
Farm Service Agency	20,330
Washington State University	12,593
USDA Risk Management Agency	22,779
USDA Rural Business Development Grant	18,844
USDA Rural Microenterprise Assistance Program (RMAP)	37,051
Others	<u>17,351</u>
Total	<u>\$ 788,948</u>

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

Notes receivable at December 31, 2016 are summarized as follows:

Total notes receivable	\$ 2,100,522
Less: allowance for loan losses	<u>(134,316)</u>
Net notes receivable	1,966,206
Less: current portion	<u>(905,838)</u>
Long-term portion	<u>\$ 1,060,368</u>

As of December 31, 2016, notes receivable, net of allowance for loan losses consist of loans with interest rates ranging from 0% to 8%.

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

2017	\$ 905,838
2018	262,639
2019	134,963
2020	94,422
2021	77,063

CALIFORNIA FARMLINK  
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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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 for 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 semi-annually 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. 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, 2016, 55% of the loans receivable portfolio had the additional FSA government guarantee. Farmlink’s loan loss reserve (LLR) was capitalized with \$159,889 in cash as of December 31, 2016.

Allowance for Loan Losses

The following are the details of activities on the allowance for loan losses during the year ended December 31, 2016:

Balance, beginning of year	\$	94,083
Provision for loan losses during the year		88,135
Write-off		<u>(47,902)</u>
Balance, end of year	\$	<u><u>134,316</u></u>

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.

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

- 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 the equipment purchases. All collateral is secured by UCC lien filings.

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

Land and farm mortgages	\$ 980,205
Farm operating loans	915,005
Farm equipment loans	205,312
	<u>2,100,522</u>
Less: allowance for loan losses	<u>(134,316)</u>
Net notes receivable	<u>\$ 1,966,206</u>

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, 2016.

**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment is summarized as follows:

Office equipment	\$ 14,001
Software	10,687
Furniture and fixtures	3,131
	<u>27,819</u>
Less: accumulated depreciation	<u>(11,516)</u>
Total property and equipment	<u>\$ 16,303</u>

CALIFORNIA FARMLINK  
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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

**NOTE 6 – NOTES PAYABLE**

Notes payable consist of the following:

	<i>Interest Payable</i>	<i>Principal</i>
<u>Term Loans</u>		
Bank of the West, non-interest bearing loan, required payment of at least 20% of the outstanding balance equal to \$7,000 on September 13, 2016. The remaining outstanding balance to be paid in full by March 14, 2017.	\$ -	\$ 28,000
Capital Impact Partners loan, bears 3.25% interest per annum. No annual payments are required and the entire principal and accrued interest are due on February 9, 2019. At maturity, the lender may forgive up to 25% of the outstanding principal balance. Interest expense was \$8,936.	8,936	300,000
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.	-	100,000
U.S. Department of Agriculture, RMAP loan, bears 2% interest per annum. Requires quarterly interest payments with entire principal and interest due in full on September 21, 2031. Interest expense was \$4,325.	-	433,874
<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. Interest expense was \$21,000.	-	1,500,000
Wells Fargo Bank unsecured loan, bears 2% simple interest. Requires quarterly interest payments with entire principal and interest due in full on September 23, 2018. Interest expense was \$5,006.	412	250,000
Total	9,348	2,611,874
Less: current portion	(412)	(52,919)
Long term portion	\$ 8,936	\$ 2,558,955

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

2017	\$	52,919
2018		375,422
2019		325,935
2020		26,458
2021		1,526,992

CALIFORNIA FARMLINK  
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016

**NOTE 7 – OPERATING LEASES**

Farmlink leases two office spaces under non-cancelable leases expiring at various dates through October 2017. Total rent expense for the year ended December 31, 2016 was \$32,110. Future minimum lease payments for 2017 is \$16,374. Management is currently in the process of negotiating the lease renewal.

**NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS**

The temporarily restricted net assets are for the following purposes:

	<i>December 31, 2015</i>	<i>Contributions</i>	<i>Releases from Restrictions</i>	<i>December 31, 2016</i>
Land Access Program	\$ 136,920	\$ 68,000	\$ (136,483)	\$ 68,437
Farm Opportunities Loan Program	1,375,403	870,000	(979,830)	1,265,573
	\$ 1,512,323	\$ 938,000	\$ (1,116,313)	\$ 1,334,010

**NOTE 9 – 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 \$17,080 during 2016.

**NOTE 10 – COMMITMENTS AND CONTINGENCIES**

Loan Commitments

Farmlink had approved undisbursed loan commitments totaling \$163,000 as of December 31, 2016 relating to its loan programs.

Loans Sold and Servicing Contracts

During 2016, Farmlink transferred participating interests in two loans to a 3<sup>rd</sup> party. The transactions met the definition of a sale of financial asset, thus Farmlink derecognized the transferred assets during the year. Details of the loans follow:



CALIFORNIA FARMLINK  
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NOTES TO FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2016

Carrying amount of loans receivable:

	<i>At Date of Sale</i>	<i>As of December 31, 2016</i>
Derecognized portion	\$ 346,963	\$ 342,882
Retained portion	24,723	24,332
	<u>\$ 371,686</u>	<u>\$ 367,214</u>
Participating interest sold in %		90% to 95%
Maturity date		2035 – 2046
Interest rate on notes		5.02% – 6.00%

During 2016, management determined that certain loans transferred to 3<sup>rd</sup> party in prior years and accounted for as secured borrowing were sold loans. The loans were derecognized in 2016.

Carrying amount of loans receivable as of December 31, 2016	\$ 121,799
Participating interest sold in %	100%
Maturity date	2015 – 2020
Interest rate on notes	7.00% to 8.50%

Farmlink retained the loan servicing responsibilities for the loans. Collections of principal and interest on loans are remitted monthly to the 3<sup>rd</sup> 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 1% – 2.57%. Total amount of servicing fee earned during 2016 was \$3,831 and is included in loan fees in the accompanying statement 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, 2016

<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>			
Pass-through awards:			
Washington State University:			
Building Profitable Farms and Strong Financial	10.500	\$ 32,846	\$ -
Organic Elders and the Next Generation	10.500	31,692	-
		<u>64,538</u>	<u>-</u>
Direct awards:			
Rural Microentrepreneur Assistance Program	10.870	77,353	-
Loan made in prior years by the Rural Microentrepreneur Assistance Program for which continuing compliance is required	10.870	462,204	-
		<u>539,557</u>	<u>-</u>
Direct award:			
Rural Business Development Grant	10.351	36,521	-
Direct award:			
USDA Risk Management Agency – Risk Management Education Division	10.460	66,903	-
Direct award:			
Farm Agency Service – Farm Operating Loans Program	10.406	37,619	-
<u>U.S. Department of the Treasury:</u>			
Direct award:			
Community Development Financial Institutions Program	21.020	375,493	-
<b>TOTAL FEDERAL AWARDS</b>		<u>\$ 1,120,631</u>	<u>\$ -</u>

CALIFORNIA FARMLINK

*(A California Nonprofit Public Benefit Corporation)*

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2016

**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, 2016, 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 – PRIOR YEARS' EXPENDITURES**

The accompanying schedule of expenditures of federal awards includes \$462,204 in expenditures from prior year for which continuing compliance is required.

CALIFORNIA FARMLINK  
 (A California Nonprofit Public Benefit Corporation)  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED DECEMBER 31, 2016

**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

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.



Board of Directors  
California Farmlink  
Santa Cruz, California

JAMES M. KRAFT  
S. SCOTT SEAMANDS  
MARK O. BRITAIN  
ALEXIS H. WONG  
CHARLOTTE SIEW-KUN TAY  
CATHY L. HWANG  
RITA B. DELA CRUZ  
STANLEY WOO  
\_\_\_\_\_  
SCOTT K. SMITH  
CRISANTO S. FRANCISCO

**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, 2016, 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 23, 2017.

*Internal Control Over Financial Reporting*

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

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

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

Compliance and Other Matters

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

Purpose of This Report

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

*Lindquist, von Haven and Joyce LLP*

May 23, 2017



JAMES M. KRAFT  
S. SCOTT SEAMANDS  
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SCOTT K. SMITH  
CRISANTO S. FRANCISCO

Board of Directors  
California Farmlink  
Santa Cruz, California

**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, 2016. 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, 2016.

Report on Internal Control Over Compliance

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

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

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

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

*Sindquist, von Husen and Joyce LLP*

May 23, 2017