

# **CALIFORNIA FARMLINK**

*(A California Nonprofit Public Benefit Corporation)*

**FINANCIAL STATEMENTS**

**AND**

**INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED DECEMBER 31, 2022 AND 2021**

CALIFORNIA FARMLINK  
(A California Nonprofit Public Benefit Corporation)  
FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2022 AND 2021

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Board of Directors  
California FarmLink  
Santa Cruz, California

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## INDEPENDENT AUDITOR'S REPORT

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the accompanying financial statements of California FarmLink, a California nonprofit public benefit corporation, which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of California FarmLink as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### Basis for Opinion

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

#### Emphasis of Matter – New Accounting Standard

As discussed in Note 2 to the financial statements, California FarmLink adopted the new accounting guidance required by accounting principles generally accepted in the United States of America on leases. Our opinion is not modified with respect to this matter.

### Responsibilities of Management for the Financial Statements

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

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

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of California FarmLink's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about California FarmLink's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards on pages 27 through 29, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2023 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 Huen and Joyce LLP*

May 16, 2023

CALIFORNIA FARMLINK  
*(A California Nonprofit Public Benefit Corporation)*  
 STATEMENTS OF FINANCIAL POSITION  
 DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
Current assets:		
Cash:		
Operating cash	\$ 4,580,899	\$ 6,368,512
Loan fund	9,696,078	9,022,508
Restricted cash – loan loss reserves (Note 4)	863,540	863,380
Total cash	15,140,517	16,254,400
Grant funds and donations receivable – current portion (Note 3)	843,128	1,119,499
Prepaid expenses	93,030	35,677
Notes and interest receivable, net – current portion (Note 4)	2,809,621	2,769,229
Right-of-use asset – operating leases – current portion (Note 7)	42,600	-
Total current assets	18,928,896	20,178,805
Grant funds and donations receivable – net of current portion (Note 3)	150,000	175,000
Notes receivable, net – net of current portion (Note 4)	12,529,507	9,146,275
Property and equipment – net of accumulated depreciation (Note 5)	54,450	54,578
Right-of-use asset – operating leases – net of current portion (Note 7)	121,959	-
Total assets	\$ 31,784,812	\$ 29,554,658
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 565,183	\$ 498,213
Interest payable (Note 6)	117,448	91,120
Notes payable – term loans – current portion (Note 6)	433,455	184,879
Deferred revenue (Note 4)	1,203,198	1,241,198
Operating lease liability – current portion (Note 7)	50,551	-
Total current liabilities	2,369,835	2,015,410
Notes payable – term loans – net of current portion (Note 6)	17,643,977	15,953,835
Notes payable – equity-equivalent loan (Note 6)	1,000,000	500,000
Operating lease liability – net of current portion (Note 7)	116,506	-
Total liabilities	21,130,318	18,469,245
Net assets:		
Without grantor restrictions	8,277,416	6,547,766
With grantor restrictions (Note 8)	2,377,078	4,537,647
Total net assets	10,654,494	11,085,413
Total liabilities and net assets	\$ 31,784,812	\$ 29,554,658

*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, 2022 AND 2021

	2022			2021		
	<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:						
Grant funds – operating	\$ 1,734,602	\$ 145,000	\$ 1,879,602	\$ 2,531,953	\$ 2,132,879	\$ 4,664,832
Grant funds – loan fund equity	-	-	-	-	3,028,386	3,028,386
Donations – cash	193,754	300,000	493,754	87,430	27,500	114,930
Donations – in-kind (Note 2)	-	-	-	48,288	20,313	68,601
Interest income	734,081	-	734,081	610,025	-	610,025
Program revenue	340,524	-	340,524	493,380	-	493,380
Other	33,226	-	33,226	12,703	-	12,703
Net assets released from restriction (Note 8)	2,605,569	(2,605,569)	-	3,409,403	(3,409,403)	-
Total support and revenue	5,641,756	(2,160,569)	3,481,187	7,193,182	1,799,675	8,992,857
Expenses:						
Program services:						
Farm and Ranch Prosperity Loan Program	1,723,095	-	1,723,095	1,085,680	-	1,085,680
Land Access and Farm Business Education Programs	983,304	-	983,304	981,414	-	981,414
Supporting services:						
Management and general	842,184	-	842,184	615,982	-	615,982
Fundraising	363,523	-	363,523	261,922	-	261,922
Total expenses	3,912,106	-	3,912,106	2,944,998	-	2,944,998
Change in net assets	1,729,650	(2,160,569)	(430,919)	4,248,184	1,799,675	6,047,859
Net assets, beginning of year	6,547,766	4,537,647	11,085,413	2,299,582	2,737,972	5,037,554
Net assets, end of year	\$ 8,277,416	\$ 2,377,078	\$ 10,654,494	\$ 6,547,766	\$ 4,537,647	\$ 11,085,413

*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, 2022 AND 2021

	2022						
	<i>Program Services</i>			<i>Supporting Services</i>			
	<i>Farm and Ranch Prosperity Loan Program</i>	<i>Land Access and Farm Business Education Programs</i>	<i>Total Program Services</i>	<i>Management and General</i>	<i>Fundraising</i>	<i>Total Supporting Services</i>	<i>Total</i>
Salaries and wages	\$ 708,206	\$ 517,827	\$ 1,226,033	\$ 448,585	\$ 209,675	\$ 658,260	\$ 1,884,293
Employee benefits	106,607	72,545	179,152	44,360	29,428	73,788	252,940
Payroll taxes	54,558	39,156	93,714	31,432	16,386	47,818	141,532
Recruiting	-	-	-	17,176	-	17,176	17,176
Professional fees	189,648	225,898	415,546	57,962	22,186	80,148	495,694
Accounting and legal	4,688	2,090	6,778	37,084	22,535	59,619	66,397
Advertising and promotion	1,293	449	1,742	1,431	6,007	7,438	9,180
Conferences and training	1,274	4,210	5,484	28,183	6,450	34,633	40,117
Occupancy	35,557	32,628	68,185	60,751	1,026	61,777	129,962
Travel	6,590	19,175	25,765	15,118	6,997	22,115	47,880
Supplies	-	9,856	9,856	108	-	108	9,964
Insurance	-	355	355	16,473	11,623	28,096	28,451
Interest	292,266	-	292,266	-	-	-	292,266
Provision for loan losses	222,322	-	222,322	-	-	-	222,322
Loan service fees	39,949	-	39,949	-	-	-	39,949
Computer and IT	56,974	51,293	108,267	10,421	9,421	19,842	128,109
Office expenses	3,163	7,793	10,956	53,818	21,789	75,607	86,563
Total operating expenses before depreciation	1,723,095	983,275	2,706,370	822,902	363,523	1,186,425	3,892,795
Depreciation	-	29	29	19,282	-	19,282	19,311
Total expenses	\$ 1,723,095	\$ 983,304	\$ 2,706,399	\$ 842,184	\$ 363,523	\$ 1,205,707	\$ 3,912,106

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



CALIFORNIA FARMLINK  
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STATEMENTS OF FUNCTIONAL EXPENSES  
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2021						
	<i>Program Services</i>			<i>Supporting Services</i>			
	<i>Farm and Ranch Prosperity Loan Program</i>	<i>Land Access and Farm Business Education Programs</i>	<i>Total Program Services</i>	<i>Management and General</i>	<i>Fundraising</i>	<i>Total Supporting Services</i>	<i>Total</i>
Salaries and wages	\$ 475,724	\$ 540,182	\$ 1,015,906	\$ 267,738	\$ 142,838	\$ 410,576	\$ 1,426,482
Employee benefits	72,735	75,499	148,234	29,123	14,879	44,002	192,236
Payroll taxes	38,554	41,330	79,884	21,030	10,216	31,246	111,130
Recruiting	-	-	-	9,174	-	9,174	9,174
Professional fees	117,353	248,551	365,904	100,265	11,753	112,018	477,922
Accounting and legal	1,797	2,090	3,887	35,195	48,288	83,483	87,370
Advertising and promotion	1,181	54	1,235	1,814	739	2,553	3,788
Conferences and training	1,800	1,499	3,299	2,004	2,542	4,546	7,845
Grants	20,000	-	20,000	-	-	-	20,000
Occupancy	26,353	25,609	51,962	68,062	538	68,600	120,562
Travel	1,429	7,785	9,214	754	108	862	10,076
Supplies	-	1,401	1,401	-	-	-	1,401
Insurance	-	355	355	11,464	10,920	22,384	22,739
Interest	210,522	-	210,522	-	-	-	210,522
Provision for loan losses	75,351	-	75,351	-	-	-	75,351
Loan service fees	21,055	4,075	25,130	-	-	-	25,130
Computer and IT	21,132	25,750	46,882	14,048	11,391	25,439	72,321
Office expenses	694	7,234	7,928	39,150	7,710	46,860	54,788
Total operating expenses before depreciation	1,085,680	981,414	2,067,094	599,821	261,922	861,743	2,928,837
Depreciation	-	-	-	16,161	-	16,161	16,161
Total expenses	\$ 1,085,680	\$ 981,414	\$ 2,067,094	\$ 615,982	\$ 261,922	\$ 877,904	\$ 2,944,998

*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, 2022 AND 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (430,919)	\$ 6,047,859
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	19,311	16,161
Amortization of right-of-use asset – operating leases	42,390	-
Conversion of note payable to grant	(250,000)	-
(Increase) decrease in assets:		
Grant funds and donations receivable	301,371	133,239
Prepaid expenses	(57,353)	(17,643)
Interest receivable	(1,149)	(172,595)
Provision for loan losses	222,921	71,857
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	66,970	250,897
Interest payable	26,328	25,766
Deferred revenue	(38,000)	(340,836)
Operating lease liability	(39,892)	-
Net cash provided by (used in) operating activities	(138,022)	6,014,705
Cash flows from investing activities:		
Purchase of property and equipment	(19,183)	(32,032)
Notes receivable disbursed	(9,559,906)	(9,288,199)
Collection of notes receivable	5,914,510	8,142,547
Net cash used in investing activities	(3,664,579)	(1,177,684)
Cash flows from financing activities:		
Payment of notes payable	(185,173)	(1,583,939)
Proceeds from notes payable	2,873,891	5,734,184
Net cash provided by financing activities	2,688,718	4,150,245
Net increase (decrease) in cash	(1,113,883)	8,987,266
Cash, beginning of year	16,254,400	7,267,134
Cash, end of year	<u>\$ 15,140,517</u>	<u>\$ 16,254,400</u>
Supplementary information:		
Cash paid for interest	<u>\$ 265,938</u>	<u>\$ 184,756</u>
Noncash investing and financing activities:		
Assumption of notes receivable	<u>\$ -</u>	<u>\$ 1,582,034</u>

*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, 2022 AND 2021

**NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES**

California FarmLink (FarmLink), a California nonprofit public benefit corporation, was formed in 1999. Its mission is to invest in the prosperity of farmers, ranchers and fishers through education, loans, and access to land. FarmLink helps the businesses it serves to build strong business skills, access fair financing, and establish secure land tenure. FarmLink works across the state, with particular focus on the Central Coast and in the Sacramento and San Joaquin valleys, and the North Bay region of California. To help farmers, ranchers and fishers access land and capital, grow their businesses, and create jobs, FarmLink organizes its work into two program areas:

- **Farm and Ranch Prosperity Loan Program** – provides flexibly structured financing to underserved, low income, immigrant and beginning farmers, ranchers and fishers across California for operating, equipment and infrastructure loans. FarmLink’s loan program serves borrowers who would otherwise have a difficult time securing financing due to limited history as entrepreneurs, limited traditional collateral, little or no credit history, small loan size, language barriers, or non-traditional marketing and business models. FarmLink also directs farmers to other appropriate sources of financing suited to the scale and type of the business. In 2022, FarmLink deployed 50 loans with an average loan size of \$113,463. In 2021, FarmLink deployed 126 loans with an average loan size of \$63,053, including PPP loans. FarmLink focuses on generating pathways to ownership, helping farmers and ranchers and fishers plan for lower-interest land loans and other means to establish secure long-term land tenure. With secure land tenure, farmers can build financial equity by investing in improvements to soil health, farm infrastructure and housing.

The loan program dates back to 2005 when FarmLink began partnering with lenders to develop a farm loan fund to provide financing to underserved growers. FarmLink identified a lack of access to financing as one of the top obstacles faced by small-scale and low-income farmers. For five years, FarmLink operated the loan program in collaboration with other lending institutions: FarmLink raised and loaned funds to the lending institutions who acted as the lender of record to make loans to small farmers. FarmLink obtained its own lending license from the California Department of Corporations at the end of 2010, secured guaranteed lender status from the United States Department of Agriculture (USDA) Farm Service Agency (FSA) in 2011 and has been making direct loans since the fall of 2011. In 2013, FarmLink received certification from the U.S. Department of the Treasury as a Community Development Financial Institution (CDFI). A CDFI is a specialized financial institution that works in markets that are underserved by traditional financial institutions. With this certification, FarmLink is eligible to access financial and technical assistance awards from the U.S. Department of Treasury’s CDFI Fund.

In 2021, FarmLink was approved by the California Ocean Protection Council to manage the “California Fisheries Fund.” Acquired from Community Vision Capital & Consulting at no cost, the portfolio consisted of 15 small business loans for a total of \$1,582,034. FarmLink is prioritizing loans to beginning, low-income and disadvantaged small-scale fishers. Fishers from the coastal communities on the Monterey Bay and Southern California ports are diverse in ethnicity (Latino, Sicilian, Vietnamese), and many come from multi-generational fishing families. Similar to small-scale agriculture, the average age of fishers is 55-60, there are considerable barriers to starting a business, a complex regulatory environment, and a challenge to retain these businesses for the next generation. In 2022, FarmLink deployed \$966,400 through 8 loans to small scale fishers.

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- **Land Access and Farm Business Education Programs** – links landseekers with landholders and provides education and technical assistance in business skills, including financial and legal acumen and succession planning. FarmLink’s Land Access and Farm Business Education Programs also bring increased focus to the needs of various stakeholder groups through two program areas: “Equity and Conservation on Working Lands (ECWL),” and “Resilience and Wealth Building.” These two programs employ FarmLink’s core tools in lending, land access, business education and technical assistance to provide opportunity for growth and success among small-scale and people-of-color-owned farm and fishing businesses. In 2022, FarmLink staff provided direct, individualized technical assistance to 177 growers and landholders. Program details and outcomes include:

Equity and Conservation on Working Lands:

Land Access: FarmLink increases opportunities for California farmers to acquire affordable, secure, long-term access to farmland, with an emphasis on beginning farmers, women farmers, and farmers of color. This program links landseekers with landholders, maintains a bilingual database of land available for lease or sale, connects farmers and landholders, facilitates the development and negotiation of strong and equitable lease agreements, and supports farmers seeking financing for land purchases. Since 2011, FarmLink staff has developed 510 successful leases or purchases tailored to the needs of landholders and growers.

Conservation of Farmland: FarmLink focuses its model as an agricultural CDFI to support long-term investments: establishing secure land tenure, farm succession planning to maintain farm businesses, and creating conservation initiatives to protect and improve natural resources, soil health, water quality and biodiversity. Important aspects of the work include deepening partnerships with land trusts and conservation organizations, and making loans designed to support regenerative farming practices. During 2022, FarmLink supported 20 farm businesses in purchasing land or transitioning their farm business to new owners/operators. Of the \$1.5 million FarmLink deployed in land loans to these businesses, 75% supported land loans for farmers with low incomes or farmers of color. FarmLink applies proven strategies to help landholders work with beginning and small-scale farmers, promote a new publication to support the development of regenerative grazing leases, and invite more landholders to be part of ECWL.

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

Resilience and Wealth Building:

FarmLink’s education programs assist farmers, ranchers and fishers in understanding the legal and financial structure of their businesses and help them establish practices that will ensure the farm, ranch or fishing business is resilient to financial and legal risks, and able to remain viable over the long-term. Participation in education programs may help a client to become ready to apply for a loan, and may result in a client qualifying for reduced interest loans. Through the Farm Recovery and Resilience Fund, launched in 2021, FarmLink has deployed \$1.14 million in multi-year term “developmental” capital through 26 loans, 90% to farmers of color.

The Spanish-language program includes cohort-based, in-person learning and one-on-one technical assistance to assist farmers, ranchers and fishers with limited formal education or English-language proficiency. The goal is to build financial stability, including the ability to recover from short-term setbacks, the ability to save for retirement and the ability to pass wealth to future generations. The English-language program is virtual and provides cohort-based comprehensive beginning and intermediate farm, ranch and fishing business training in a group setting followed by one on one technical assistance.

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During 2022, a total of 38 growers completed the parallel, 10-week English- and Spanish-language curricula, with follow-on technical assistance on topics including bookkeeping and financial management. Both the English and Spanish language programs use a comprehensive self-assessment tool (the FarmLink Business Resilience Self-Assessment) to help participants set learning goals and to assist in long-term evaluation of how educational programming shapes future business success. FarmLink engages consultants with expertise in adult pedagogy, leadership from agricultural business advisors from the communities FarmLink serves, as well as program alumni serving as peer-based guest instructors, to design and deliver programming that is responsive to how a cohort of participants learn new skills and behaviors.

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Accounting Method

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

Estimates

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

Basis of Presentation

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

- Net assets without grantor restrictions include those assets over which the Board of Directors has discretionary control in carrying out the operations of FarmLink.
- Net assets with grantor restrictions include those assets subject to grantor restrictions and for which the applicable restrictions were not met as of the end of the current reporting period. Some grantor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the grantor. When a grantor restriction expires – that is, when a stipulated time restriction ends or purpose restriction is accomplished – net assets with grantor restrictions are reclassified to net assets without grantor restrictions and reported in the statements of activities as *net assets released from restrictions*. Other grantor-imposed restrictions are perpetual in nature, where the grantor stipulates the resources be maintained in perpetuity. FarmLink has no net assets with non-expiring grantor restrictions as of December 31, 2022 and 2021.

CALIFORNIA FARMLINK  
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NOTES TO FINANCIAL STATEMENTS  
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Revenue Recognition

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

A portion of FarmLink's operating grant revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when FarmLink has incurred expenditures in compliance with specific contract or grant provisions. \$3,096,414 of cost-reimbursable federal and state grants has not been recognized as of December 31, 2022, and will be recognized when FarmLink incurs expenditures in compliance with the contract or grant provisions. Amounts received prior to incurring qualifying expenditures, if any, are reported as deferred revenue in the statement of financial position. Deferred revenue related to cost-reimbursable federal and state contracts and grants was \$-0- as of December 31, 2022 and 2021.

Donated, non-cash assets are recognized and recorded as grants at their fair values in the period received. Donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded as grants at their fair values in the period received. FarmLink did not receive donations in kind during the year ended December 31, 2022.

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 \$13,641,000 as of December 31, 2022. FarmLink has not experienced any losses in such accounts.

Loan Funds

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

Notes and Interest Receivable

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

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

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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. FarmLink's allowance for loan losses is adjusted quarterly on individual loan risk assessments, and is calculated in part based on the federal, state, or private sector guarantees in place for each loan. The balance of the allowance for loan losses as of December 31, 2022 and 2021 was estimated at 4.7% and 4.3% of the outstanding loan portfolio, respectively.

Property and Equipment

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

The useful lives of the assets are estimated as follows:

Furniture, fixtures and equipment	3 to 5 years
Leasehold improvements	3 to 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 2018 through 2021 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, communications, supplies, and miscellaneous expenses.

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New Accounting Standard on Leases

A new accounting standard on leases, required by accounting principles generally accepted in the United States of America, amends both lessor and lessee accounting with the most significant change being the requirement for lessees to account for leases as either finance leases or operating leases and to recognize right-of-use (ROU) assets and corresponding lease liabilities on the statement of financial position for all leases other than leases with terms of 12 months or less. For finance leases, lessees would recognize interest expense and amortization of the ROU asset, and for operating leases, lessees would recognize straight-line total rent expense. The accounting standard also requires additional disclosures about the amount, timing, and uncertainty of cash flows arising from leases.

FarmLink adopted the leasing standard effective January 1, 2022, using the modified retrospective approach with January 1, 2022 as the initial date of application. FarmLink elected to use all available practical expedients provided in the transition guidance. These practical expedients allow entities to not reassess the identification, classification and initial direct costs of lease agreements, to not separate lease and non-lease components for underlying equipment assets, and to use hindsight in lease agreements for determining lease term and ROU asset impairment, as applicable.

FarmLink accounts for the existing office leases as operating leases. As of January 1, 2022, adoption of the new leasing standard resulted in a recognition of ROU asset of \$206,949 and an increase in operating lease liability of \$206,949.

Subsequent Events

Management has evaluated subsequent events through May 16, 2023, the date on which the financial statements were available to be issued.



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**NOTE 3 – GRANT FUNDS RECEIVABLE**

Grant funds receivable as of December 31, 2022 and 2021 are summarized as follows:

	2022	2021
Anonymous	\$ 300,000	\$ -
The 11 <sup>th</sup> Hour Project	196,300	150,000
U.S. Department of the Treasury – CDFI Fund	175,000	782,000
USDA Beginning Farmer and Rancher Development Program	77,615	-
Multiplier	45,500	-
USDA Farm Service Agency Outreach, Education, and Technical Cooperative Agreement	42,138	11,356
California Association for Microenterprise Opportunity	38,700	-
California Office of the Small Business Advocate	37,044	-
USDA Natural Resources Conservation Service	27,594	-
Western Center for Extension Risk Management Education	19,730	20,005
USDA Rural Business Development Grants	11,359	11,399
W.K. Kellogg Foundation	-	250,000
Community Foundation of Santa Cruz County	-	50,000
SBA – Microloan Program	-	12,673
ALBA	-	3,415
Others	22,148	3,651
Total	<u>\$ 993,128</u>	<u>\$ 1,294,499</u>
Due within one year	<u>\$ 843,128</u>	<u>\$ 1,119,499</u>
Due within one to five years	<u>\$ 150,000</u>	<u>\$ 175,000</u>

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

Notes and interest receivable as of December 31, 2022 and 2021 are summarized as follows:

	2022	2021
Total notes receivable	\$ 15,920,915	\$ 12,275,519
Less: allowance for loan losses	<u>(755,531)</u>	<u>(532,610)</u>
Net notes receivable	15,165,384	11,742,909
Interest receivable	<u>173,744</u>	<u>172,595</u>
Net notes and interest receivable	15,339,128	11,915,504
Less: current portion	<u>(2,809,621)</u>	<u>(2,769,229)</u>
Long-term portion	<u>\$ 12,529,507</u>	<u>\$ 9,146,275</u>

As of December 31, 2022 and 2021, notes receivable, net of allowance for loan losses, consist of loans with interest rates ranging from 0% to 8%.

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

2022	\$ 2,809,621
2023	2,124,582
2024	1,245,282
2025	1,441,276
2026	1,346,681

Provision for Loan Losses and Guarantee

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

A large portion of the FarmLink portfolio has the additional protection of a 50% to 100% guarantee from the USDA FSA, SBA, Globetrotter Foundation, Cienega Capital, LLC, or Briar Patch. FarmLink seeks guarantee on loans over \$50,000 that qualify. In 2022 and 2021, 30 new loans in the total amount of \$3,370,018 and 79 new loans in the total amount of \$6,366,112 received additional security under these guarantees. If any portion of a loan is deemed uncollectible, a full or partial charge-off against the allowance for loan loss is made to assure that the value of the loan program's assets is stated as accurately as possible when disclosed. As of December 31, 2022 and 2021, 77% of the loans receivable portfolio had these additional guarantees.

FarmLink's restricted cash loan loss reserve was capitalized with \$863,540 and \$863,380 in cash as of December 31, 2022 and 2021, respectively, and is in compliance with requirements of CDFI Fund, USDA, SBA-Microloan and SBA-Community Advantage Pilot agreements.

Allowance for Loan Losses

The following are the details of activities on the allowance for loan losses during the years ended December 31, 2022 and 2021:

	2022	2021
Balance, beginning of year	\$ 532,610	\$ 460,753
Provision for loan losses during the year	222,921	75,351
Charge-off	-	(3,494)
Balance, end of year	<u>\$ 755,531</u>	<u>\$ 532,610</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.

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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 higher inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating farm businesses. Debt coverage is provided by business cash flows and economic trends influenced by key economic indicators and are closely correlated to the credit quality of these loans. There are generally collateral values in the 80% or greater range for new equipment purchases, and 65% or greater range for used equipment and purchases. All collateral is secured by UCC lien filings.
- Fisheries loans – FarmLink assumed the California Fisheries Fund (CFF) portfolio in October 2021, acquiring two funding sources: an investment of taxpayer funds authorized by the Ocean Protection Council (OPC) and an unrestricted grant from the Environmental Defense Fund (EDF). The following table summarizes the financial statement classification of the fund on December 31, 2022:

Financial Statement Classification	OPC Fund	EDF Fund
Cash	\$ 762,509	\$ 29,847
Notes receivable	440,689	1,352,231
Total by fund	<u>\$ 1,203,198</u>	<u>\$ 1,382,078</u>
Deferred revenue	\$ 1,203,198	\$ -
Net assets without donor restrictions	<u>\$ -</u>	<u>\$ 1,382,078</u>

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

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

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- Paycheck Protection Program (PPP) loans – these loans possess a lower inherent risk of loss because these loans are expected to be forgiven.

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

	2022	2021
Land and farm mortgages	\$ 8,515,475	\$ 5,404,770
Farm operating loans	5,244,726	3,053,250
Farm equipment loans	905,194	1,185,560
Fisheries loans	1,255,520	1,525,022
PPP loans	-	1,106,917
	15,920,915	12,275,519
Less: allowance for loan losses	(755,531)	(532,610)
Net notes receivable	<u>\$ 15,165,384</u>	<u>\$ 11,742,909</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, 2022 and 2021.

**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment is summarized as follows:

	2022	2021
Leasehold improvements	\$ 31,107	\$ 28,480
Office equipment and computer hardware	73,684	57,128
Software	989	989
Furniture and fixtures	10,143	10,143
	115,923	96,740
Less: accumulated depreciation	(61,473)	(42,162)
Total property and equipment	<u>\$ 54,450</u>	<u>\$ 54,578</u>

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**NOTE 6 – NOTES PAYABLE**

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

<i>Interest Rate</i>	<i>Maturity Date</i>	2022		2021		2022		2021		2022		2021	
		<i>Principal Balance</i>		<i>Interest Payable</i>		<i>Interest Expense</i>							
		\$	-	\$	100,000	\$	-	\$	667	\$	479	\$	978
Mighty Arrow Family Foundation	1.00%	May 2022											
BDS 2012 Qualified Annuity Trust <sup>(1)</sup>	1.00%	November 2022	-	-	-	-	-	4,435	-				
Ceres Trust	0.00%	May 2023	-	250,000	-	-	-	-	-				
RIFF Foundation	1.00%	December 2023	150,000	150,000	125	125	1,481	1,468					
ImpactAssets, Inc.	1.00%	January 2024	100,000	100,000	1,000	1,000	987	978					
Justice, Justice Foundation	0.75%	March 2024	250,000	250,000	1,474	1,474	1,851	1,443					
SEED Fund	1.00%	November 2024	200,000	200,000	167	167	1,974	1,957					
Johnson Ohana Foundation	1.00%	November 2024	250,000	250,000	208	208	2,468	2,446					
Wells Fargo Bank, N.A.	2.00%	November 2024	350,000	350,000	1,167	1,167	6,909	6,849					
Highland Associates	1.50%	December 2024	300,000	300,000	375	375	4,442	4,403					
ImpactAssets, Inc.	1.00%	January 2025	250,000	250,000	2,500	2,500	2,468	2,446					
ImpactAssets, Inc.	1.00%	January 2025	250,000	250,000	2,500	2,500	2,468	2,446					
ImpactAssets, Inc.	1.00%	December 2025	75,000	75,000	63	63	740	734					
Jewish Community Federation of San Francisco	2.00%	January 2026	469,625	469,625	8,646	8,646	9,270	8,460					
Erich and Hannah Sachs Foundation	2.50%	April 2026	650,000	650,000	10,833	10,833	16,250	15,900					
Jewish Community Federation of San Francisco	2.00%	May 2026	383,375	383,375	4,706	4,706	7,568	4,604					
Cogen Family Investments	1.75%	June 2026	100,000	100,000	882	882	1,727	863					
The Deborah E Frieze Revocable Trust of 2017	1.75%	June 2026	100,000	100,000	882	882	1,727	863					
The Gribble Fund	1.75%	June 2026	100,000	100,000	882	882	1,727	863					
Nancy Chartrand 2021 Irrevocable Trust	1.75%	June 2026	100,000	100,000	882	882	1,727	863					
Paolo Fresia	1.75%	June 2026	150,000	150,000	1,323	1,323	2,591	1,295					
Delsar LLC	1.00%	June 2026	1,000,000	-	9,726	-	9,600	-					
Satterberg Foundation	1.00%	June 2026	1,000,000	1,000,000	9,946	27	9,789	27					
Jack and Kim Johnson	1.00%	November 2026	250,000	250,000	313	313	2,468	2,446					
Swift Family Foundation	1.00%	December 2026	250,000	250,000	2,500	2,500	2,468	2,446					
ImpactAssets, Inc.	1.00%	January 2027	400,000	400,000	4,000	4,000	3,948	3,914					
Juno Shaye	1.00%	January 2027	100,000	-	979	-	979	-					
Lauren Hartzell Nichols	1.00%	January 2027	150,000	150,000	1,488	-	1,468	-					
Kalliopeia Foundation	1.00%	January 2027	500,000	-	4,959	-	4,894	-					
Mighty Arrow Family Foundation	0%	July 2027	250,000	-	-	-	-	-					
Ballyhall Trust <sup>(1)</sup>	0.00%	November 2027	500,000	-	-	-	-	-					
Schmidt Family Foundation	1.00%	November 2027	1,000,000	1,000,000	1,250	1,250	9,870	9,784					
ELM Revocable Trust	1.00%	December 2027	250,000	250,000	208	208	2,468	2,446					
CommonSpirit Health Operating Investment Pool, LLC	2.00%	January 2028	500,000	500,000	1,641	1,641	9,870	9,650					
SBA Microloan Program	0.6% - 1.4%	June 2028	104,218	122,349	-	-	5,527	1,958					
Community Foundation Santa Cruz County	3.00%	June 2028	300,000	300,000	4,500	4,500	8,883	8,806					
Community Foundation Santa Cruz County	2.50%	June 2028	750,000	750,000	9,375	9,375	18,506	18,346					
SEED Fund	0.00%	November 2028	200,000	200,000	-	-	-	-					
Community Foundation for Monterey County	2.50%	December 2028	750,000	750,000	781	781	18,506	18,346					
Sobrato Family Foundation	1.50%	March 2030	1,000,000	1,000,000	12,969	12,969	14,805	14,677					
Opportunity Finance Network – Grow with Google	3.00%	May 2030	1,000,000	1,000,000	40	40	29,610	6,996					
Opportunity Finance Network – Finance Justice Fund	3.00%	March 2031	1,000,000	1,000,000	124	124	29,610	14,717					
USDA Rural Microenterprise Assistance Program	2.00%	September 2031	269,640	298,410	-	-	6,872	6,047					
USDA Rural Microenterprise Assistance Program	1.00%	June 2038	437,178	461,667	-	-	5,527	7,816					
USDA Intermediary Relending Program	1.00%	April 2049	1,000,000	1,000,000	7,083	7,083	9,870	9,784					

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	<i>Interest Rate</i>	<i>Maturity Date</i>	2022	2021	2022	2021	2022	2021
			<i>Principal Balance</i>		<i>Interest Payable</i>		<i>Interest Expense</i>	
USDA Intermediary Relending Program	1.00%	July 2050	321,005	321,005	2,044	2,044	3,168	3,141
FarmLink Investment Notes	Various	Through 2041	567,391	557,283	4,907	4,983	10,271	9,316
Total			18,077,432	16,138,714	117,448	91,120	292,266	210,522
Less: current portion			(433,455)	(184,879)	(117,448)	(91,120)	-	-
Long-term portion			\$ 17,643,977	\$ 15,953,835	\$ -	\$ -	\$ 292,266	\$ 210,522

(1) In November 2022, the note payable to BDS 2012 Qualified Annuity Trust was reassigned to Ballyhall Trust.

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

2023	\$ 433,455
2024	1,640,258
2025	794,667
2026	4,738,987
2027	3,336,326

	2022		2021	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
<u>Equity-Equivalent Loans (EQ2):</u>				
Comerica Bank unsecured loan, bears no interest and is due in full on July 13, 2030, with an option to extend to 2040 at FarmLink's discretion.	\$ -	\$ 500,000	\$ -	\$ 500,000
Comerica Bank unsecured loan, bears no interest and is due in full on January 31, 2032, with an option to extend to 2042 at FarmLink's discretion.	-	500,000	-	-
Total	\$ -	\$ 1,000,000	\$ -	\$ 500,000

FarmLink had an unsecured loan with Mechanics Bank California Organized Investment Network (COIN) in the amount of \$1,500,000, which bore no interest and was due in full on September 30, 2023. The loan was paid off in 2021 at FarmLink's discretion.

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

FarmLink entered into a \$3,000,000 revolving line of credit agreement with 1st Capital Bank. The revolving line of credit bears variable interest rate and matures on December 10, 2023. As of December 31, 2022 and 2021, the balance outstanding was \$-0-. Interest expense was \$-0- in 2022 and 2021.

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**NOTE 7 – OPERATING LEASES**

FarmLink leases office space in Aptos and Sacramento, California, under lease agreements with lease end dates ranging from 2022 to 2024, one of which has an option to extend the term. In January 2022, FarmLink exercised the 1st option to extend the lease on a portion of the Aptos office through June 2025. Monthly rent in an amount as specified in the lease agreements, subject to annual increases, are required. The lease agreements for office space in Aptos also require FarmLink to pay a percentage of the operating expenses of the office building.

The right-of-use asset and operating lease liability were calculated utilizing a borrowing rate of 4.25%, based on interest rate on the line of credit. Rent expense in 2022 was \$64,075, of which \$15,000 was not included in the measurement of the right-of-use asset. Rent expense in 2021, prior to adoption of the new leasing standards, was \$85,072. Cash paid for amounts included in the measurement of lease liability was \$46,577 in 2022, as part of operating cash flows from the operating leases.

The line items in the statements of financial position, which include amounts for the operating leases as of December 31, 2022 are summarized as follows:

Total right-of-use asset – operating leases	\$ 206,949
Less: accumulated amortization	(42,390)
Right-of-use asset – operating leases, net of amortization	164,559
Less: current portion	(42,600)
Long-term portion	<u>\$ 121,959</u>
 Total operating lease liability	 \$ 167,057
Less: current portion	(50,551)
Long-term portion	<u>\$ 116,506</u>

The maturities of lease liability are estimated as follows:

<u>Year Ending December 31,</u>	
2023	\$ 47,974
2024	45,199
2025	25,481
2026	26,245
2027	27,033
Thereafter	13,716
Less: amount representing interest	(18,591)
Present value of lease liability	<u>\$ 167,057</u>

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**NOTE 8 – NET ASSETS WITH GRANTOR RESTRICTIONS**

Net assets with grantor restrictions are for the following purposes:

		2022		
	<i>December 31, 2021</i>	<i>Grants</i>	<i>Releases from Restrictions</i>	<i>December 31, 2022</i>
Farm and Ranch Prosperity Loan Program	\$ 3,791,140	\$ -	\$ (2,303,872)	\$ 1,487,268
Land Access and Farm Business Education Programs	546,507	145,000	(101,697)	589,810
Time restriction	200,000	300,000	(200,000)	300,000
	<u>\$ 4,537,647</u>	<u>\$ 445,000</u>	<u>\$ (2,605,569)</u>	<u>\$ 2,377,078</u>
		2021		
	<i>December 31, 2020</i>	<i>Grants</i>	<i>Releases from Restrictions</i>	<i>December 31, 2021</i>
Farm and Ranch Prosperity Loan Program	\$ 1,391,222	\$ 4,621,578	\$ (2,380,716)	\$ 3,791,140
Land Access and Farm Business Education Programs	1,009,250	437,500	(741,187)	546,507
Time restriction	337,500	150,000	(287,500)	200,000
	<u>\$ 2,737,972</u>	<u>\$ 5,209,078</u>	<u>\$ (3,409,403)</u>	<u>\$ 4,537,647</u>



CALIFORNIA FARMLINK  
*(A California Nonprofit Public Benefit Corporation)*  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2022 AND 2021

**NOTE 9 – LIQUIDITY AND AVAILABILITY**

FarmLink has \$4,197,582 and \$5,359,250 of unrestricted financial assets available for general expenditures within one year of the statement of financial position date, respectively, consisting of the following:

	<i>December 31, 2022</i>	<i>December 31, 2021</i>
Financial assets at end of year:		
Operating cash	\$ 4,580,899	\$ 6,368,512
Loan fund capital	9,696,078	9,022,508
Loan loss reserves	863,540	863,380
Grants receivable – current portion	843,128	1,119,499
Notes and interest receivable, net – current portion	2,809,621	2,769,229
	<u>18,793,266</u>	<u>20,143,128</u>
Less financial assets at end of year not available for general expenditures within one year:		
Operating cash with grantor’s restriction for specific purpose	(901,445)	(1,096,882)
Loan fund with grantor’s or contract restriction, or management designated restriction for specific purpose	(9,696,078)	(9,022,508)
Loan loss reserves with grantor’s or contract restriction for specific purpose	(863,540)	(863,380)
Grants receivable with grantor’s restriction for specific purpose	(325,000)	(1,031,879)
Notes and interest receivable with grantor’s or contract restriction for specific purpose	(2,809,621)	(2,769,229)
	<u>(2,809,621)</u>	<u>(2,769,229)</u>
Financial assets available for general expenditures within one year	<u>\$ 4,197,582</u>	<u>\$ 5,359,250</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 grantor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. To help manage unanticipated liquidity needs, FarmLink has a committed line of credit, which it can draw upon.

**NOTE 10 – RETIREMENT PLAN**

FarmLink established a defined contribution plan (the Plan) for all eligible employees. Employee contributions are immediately vested. FarmLink may also make employer discretionary contributions to the Plan on behalf of qualifying participants. FarmLink contributed total discretionary contributions of \$79,830 and \$46,103 during 2022 and 2021, respectively.

**NOTE 11 – COMMITMENTS AND CONTINGENCIES**

*Loan Commitments*

FarmLink had approved undisbursed loan commitments totaling \$29,583 as of December 31, 2022 relating to its loan programs.

CALIFORNIA FARMLINK  
(A California Nonprofit Public Benefit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2022 AND 2021

Loans Sold and Servicing Contracts

During 2022 FarmLink did not transfer participating interests in any loans. During 2021, FarmLink transferred participating interests in four loans to a third party. The transactions met the definition of a sale of financial asset, thus FarmLink derecognized the transferred assets during 2021. Details of the sold loans follow:

Carrying amounts of loans receivable:

	2021	
	<i>At Date of Sale</i>	<i>As of December 31</i>
Derecognized portion	\$ 2,280,345	\$ 2,228,571
Retained portion	114,426	108,391
Total	<u>\$ 2,394,771</u>	<u>\$ 2,336,962</u>

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

FarmLink retained the loan servicing responsibilities for the loans. Collections of principal and interest on loans are remitted monthly to the third party. Principal is remitted on a pro rata basis and interest is remitted at the yield rate, that is, net of the servicing fee rate (1.75% to 4.10%). Total amount of servicing fees earned during 2022 and 2021 was \$203,133 and \$120,449, respectively, and is included in program revenue in the accompanying statements of activities. Management has determined that the benefits of servicing are equal to adequate compensation; therefore, no servicing asset or liability is recognized.

The outstanding balance of all loans serviced by FarmLink was \$8,449,699 and \$11,376,015 as of December 31, 2022 and 2021, respectively.

Conditional Grant for 11th Hour Project

In December 2022, FarmLink received a \$2,044,000 grant from the 11th Hour Project to build “Cooling and Marketing Infrastructure for Central Coast Farmers”, which qualifies as a conditional promise to give. The grant contains donor-imposed conditions that represent barriers that must be overcome as well as right of release obligations. Revenue shall be recognized when the conditions upon which the grant depends are substantially met, at which time the conditional promise becomes unconditional.

Recent Banking Failures

FarmLink does not maintain cash at the banks that have experienced failures in 2022. Current banking relationships are with institutions that maintain diverse depositor concentrations. FarmLink is currently taking appropriate action to transfer cash balances to maximize Federal Deposit Insurance Corporation limits, to the greatest extent possible.

CALIFORNIA FARMLINK  
*(A California Nonprofit Public Benefit Corporation)*  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2022 AND 2021

COVID-19 Pandemic

The emergence and spread of the coronavirus (COVID-19) has affected businesses and economic activities in the U.S. and beyond. The extent of the impact of COVID-19 on FarmLink's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, the effects on supply chains, service providers, and business partners, and changes in business practices, all of which are uncertain and cannot be determined at this time.

## **SUPPLEMENTARY INFORMATION**

CALIFORNIA FARMLINK  
*(A California Nonprofit Public Benefit Corporation)*  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2022

<i>Federal Grantor/Pass-Through Grantor/Title</i>	<i>Federal Assistance Listing (AL) Number</i>	<i>Federal Expenditures</i>	<i>Expenditures to Subrecipients</i>
<u>U.S. Department of Agriculture:</u>			
Direct award:			
USDA Farm Service Agency – Outreach Education and Technical Assistance	10.147	\$ 87,504	\$ -
Pass-through award:			
Montana State University – Sustainable Agriculture Research and Education	10.215	56,400	-
Direct award:			
National Institute of Food and Agriculture/USDA – Beginning Farmers and Ranchers Development Program	10.311	180,502	-
Pass-through award:			
Agriculture and Land-Based Training Association – Beginning Farmers and Ranchers Development Program	10.311	10,000	-
		190,502	-
Direct awards:			
Rural Business Development Grant	10.351	80,558	-
Rural Business Development Grant	10.351	15,808	-
		96,366	-
Pass-through awards:			
Pie Ranch – Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers	10. 443	9,540	-
Agriculture and Land-Based Training Association – Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers	10. 443	7,840	-
		17,380	-
Pass-through awards:			
Washington State University – Cooperative Extension Service	10.500	19,730	-
Washington State University – Cooperative Extension Service	10.500	58,732	-
		78,462	-

CALIFORNIA FARMLINK  
*(A California Nonprofit Public Benefit Corporation)*  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2022

<i>Federal Grantor/Pass-Through Grantor/Title</i>	<i>Federal Assistance Listing (AL) Number</i>	<i>Federal Expenditures</i>	<i>Expenditures to Subrecipients</i>
Direct awards:			
Loan made in prior year by the Intermediary Relending Program for which continuing compliance is required	10.767	1,000,000	-
Loan made in prior year by the Intermediary Relending Program for which continuing compliance is required	10.767	321,005	-
		<u>1,321,005</u>	<u>-</u>
Direct awards:			
Rural Microentrepreneur Assistance Program	10.870	164,369	-
Loan made in prior year by the Rural Microentrepreneur Assistance Program for which continuing compliance is required	10.870	298,410	-
Loans made in prior year by the Rural Microentrepreneur Assistance Program for which continuing compliance is required	10.870	461,667	-
		<u>924,446</u>	<u>-</u>
Direct award:			
Soil and Water Conservation	10.902	39,266	-
<u>U.S. Department of the Treasury:</u>			
Direct awards:			
Community Development Financial Institutions Program 2020-2023	21.020	99,165	-
Community Development Financial Institutions Program 2021-2024	21.020	409,786	-
		<u>508,951</u>	<u>-</u>
Direct award:			
Community Development Financial Institutions Rapid Response Program 2021-2023 (COVID-19)	21.024	499,968	-

CALIFORNIA FARMLINK  
*(A California Nonprofit Public Benefit Corporation)*  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED DECEMBER 31, 2022

<i>Federal Grantor/Pass-Through Grantor/Title</i>	<i>Federal Assistance Listing (AL) Number</i>	<i>Federal Expenditures</i>	<i>Expenditures to Subrecipients</i>
<u>U.S. Small Business Administration:</u>			
Direct awards:			
Microloan Program	59.046	21,194	-
Loan made in prior year by the Microloan Program for which continuing compliance is required	59.046	122,349	-
		143,543	-
<b>TOTAL FEDERAL AWARDS</b>		<u>\$ 3,963,793</u>	<u>\$ -</u>

CALIFORNIA FARMLINK  
(A California Nonprofit Public Benefit Corporation)  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2022

**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, 2022, which have been financed by the U.S. Government. For purposes of the Schedule, federal awards include all federal assistance entered into directly and indirectly between California FarmLink and the federal government. California FarmLink elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE 3 – PRIOR YEARS' EXPENDITURES**

The accompanying Schedule includes \$2,203,431 in expenditures from the prior year for which continuing compliance is required.

**NOTE 4 – YEAR-END LOAN BALANCE**

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

U.S. Department of Agriculture, IRP prior year loan	\$ 1,000,000
U.S. Department of Agriculture, IRP prior year loan	321,005
U.S. Department of Agriculture, RMAP prior year loan	269,640
U.S. Department of Agriculture, RMAP prior year loan	437,178
U.S. Small Business Administration prior year loan	<u>104,218</u>
Total	<u><u>\$ 2,132,041</u></u>



CALIFORNIA FARMLINK  
*(A California Nonprofit Public Benefit Corporation)*  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED DECEMBER 31, 2022

**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 <u>  X  </u> No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ Yes <u>  X  </u> None reported
Noncompliance material to financial statements noted?	_____ Yes <u>  X  </u> No

*Federal Awards*

Internal control over major programs:	
Material weakness(es) identified?	_____ Yes <u>  X  </u> No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ Yes <u>  X  </u> None reported
Type of auditor’s report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 200.516 of the Uniform Guidance?	_____ Yes <u>  X  </u> No
Identification of major programs:	<u><i>Names of Federal Programs or Clusters</i></u>
AL #10.767	Intermediary Relending Program
AL #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?	<u>  X  </u> 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

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

---

SHERMAN G. LEONG

**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, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 16, 2023.

*Report on Internal Control over Financial Reporting*

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

*Sindquist, von Husen and Joyce LLP*

May 16, 2023



Board of Directors  
California FarmLink  
Santa Cruz, California

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

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SHERMAN G. LEONG

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

**Report on Compliance for Each Major Federal Program**

**Opinion on Each Major Federal Program**

We have audited California FarmLink's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of California FarmLink's major federal programs for the year ended December 31, 2022. California FarmLink's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, California FarmLink complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

**Basis for Opinion on Each Major Federal Program**

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of California FarmLink and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of California FarmLink's compliance with the compliance requirements referred to above.

### Responsibilities of Management for Compliance

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

### Auditor's Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding California FarmLink's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of California FarmLink's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of California FarmLink's internal control over compliance. Accordingly, no such opinion is expressed.

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

### Report on Internal Control over Compliance

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

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

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

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

*Lindquist, von Husen and Joyce LLP*

May 16, 2023