

CALIFORNIA FARMLINK

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
California Farmlink
Santa Cruz, California

Report on the Financial Statements

We have audited the accompanying financial statements of California Farmlink (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2015, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2015, 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 Summarized Comparative Information

We have previously audited the California Farmlink's financial statements for the year ended December 31, 2014, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 4, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Goranson and Associates, Inc.

May 27, 2016

Santa Rosa, California

CALIFORNIA FARMLINK
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015
(with summarized comparative totals for December 31, 2014)

	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents:		
Operating	\$ 444,908	\$ 824,470
Loan fund, including loss reserve	1,379,914	1,411,455
Total cash and cash equivalents	1,824,822	2,235,925
Accounts receivable	68,590	139,945
Grants receivable	437,500	-
Prepaid expenses and deposits	7,441	7,811
Loan servicing receivable	109,466	-
Loans receivable		
Current portion	1,228,476	863,461
Less loan loss reserve	(94,083)	(87,868)
Net loans receivable	1,134,393	775,593
Total current assets	3,582,212	3,159,274
Fixed assets		
Net furniture and equipment	21,448	19,509
Other assets		
Non-current loan receivables	394,177	68,072
Total assets	\$ 3,997,837	\$ 3,246,855

The accompanying notes are an integral part of these financial statements

CALIFORNIA FARMLINK
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015
(with summarized comparative totals for December 31, 2014)

	2015	2014
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 58,217	\$ 32,722
Loan servicing payable	123,614	82,049
Current portion of notes payable	291,348	-
Total current liabilities	473,179	114,771
Long-term liabilities:		
EQ2 Notes payable	1,650,000	1,200,000
Notes payable	305,856	520,132
Total long-term liabilities	1,955,856	1,720,132
Total liabilities	2,429,035	1,834,903
Net Assets:		
Unrestricted operating	56,479	(126,758)
Temporarily restricted	1,512,323	1,538,710
Total net assets	1,568,802	1,411,952
Total liabilities and net assets	\$ 3,997,837	\$ 3,246,855

The accompanying notes are an integral part of these financial statements

CALIFORNIA FARMLINK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015
(with summarized comparative totals for the year ended December 31, 2014)

	Unrestricted	Temporarily Restricted	2015 Total	2014 Total
SUPPORT AND REVENUE:				
Government grants	\$ 184,429	\$ 300,000	\$ 484,429	\$ 1,456,945
Foundation grants	134,000	294,500	428,500	343,865
Bank grants	161,831	71,000	232,831	219,581
Contributions	5,585	-	5,585	2,715
Program revenue	6,917	-	6,917	11,532
Interest income	67,625	-	67,625	41,673
Loan fee income	114,042	-	114,042	27,687
Net assets released from restriction	691,887	(691,887)	-	-
Total support and revenue	1,366,316	(26,387)	1,339,929	2,103,998
EXPENSES:				
Program expense:				
Land Access program	301,186		301,186	343,772
Loan program	606,850		606,850	374,617
Individual Development Accounts	-		-	235,244
Total program expenses	908,036		908,036	953,633
Supporting expenses:				
Management and general	159,742		159,742	100,970
Fundraising	115,301		115,301	118,622
Total supporting expenses	275,043		275,043	219,592
Total expenses	1,183,079		1,183,079	1,173,225
CHANGE IN NET ASSETS	183,237	(26,387)	156,850	930,773
NET ASSETS, BEGINNING	(126,758)	1,538,710	1,411,952	481,179
NET ASSETS, ENDING	\$ 56,479	\$ 1,512,323	\$ 1,568,802	\$ 1,411,952

The accompanying notes are an integral part of these financial statements

CALIFORNIA FARMLINK
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

(with summarized comparative totals for the year ended December 31, 2014)

	Farm Opportunities Loan Program	Farmlink Land Access Program	Total Program	Management and General	Fundraising	2015 Total	2014 Total
Salaries and wages	\$ 299,541	\$ 199,694	\$ 499,235	\$ 79,877	\$ 86,534	\$ 665,646	\$ 560,279
Employee benefits	43,169	28,779	71,948	11,511	12,471	95,930	87,993
Payroll taxes	28,952	19,301	48,253	7,720	8,364	64,337	47,500
Professional fees	103,864	8,876	112,740	3,231	\$ 5,981	121,952	279,337
Accounting fees	-	8,095	8,095	7,228	-	15,323	31,284
Advertising	-	1,717	1,717	-	190	1,907	6,454
Conferences and training	4,147	6,889	11,036	5,630	-	16,666	5,121
Occupancy	12,708	3,121	15,829	20,672	400	36,901	28,332
Printing and duplication	1,821	2,248	4,069	633	54	4,756	2,620
Travel	14,668	15,692	30,360	836	86	31,282	37,042
Communications	3,623	3,129	6,752	2,289	-	9,041	8,514
Postage and shipping	221	50	271	206	-	477	469
Supplies and equipment	3,584	1,887	5,471	8,033	-	13,504	6,602
Insurance	-	-	-	2,087	250	2,337	6,000
Interest expense	42,377	-	42,377	-	-	42,377	30,664
Loan loss reserve	30,759	-	30,759	-	-	30,759	14,570
Loan fund fee expense	16,636	-	16,636	579	-	17,215	15,446
Depreciation	-	-	-	5,192	-	5,192	1,178
Other operating expense	780	1,708	2,488	4,018	971	7,477	3,820
Total expenses	\$ 606,850	\$ 301,186	\$ 908,036	\$ 159,742	\$ 115,301	\$1,183,079	\$1,173,225

The accompanying notes are an integral part of these financial statements

CALIFORNIA FARMLINK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015
(with summarized comparative totals for the year ended December 31, 2014)

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 156,850	\$ 930,773
Adjustments to reconcile change in net assets to cash from operations:		
Depreciation	5,192	1,178
(Increase) decrease in:		
Accounts receivable	71,355	489,899
Grants receivable	(437,500)	-
Prepays and deposits	370	(7,811)
Increase (decrease) in:		
Accounts payable and accrued expenses	25,495	(23,076)
Deferred revenue	-	(600,000)
Loan servicing payables	41,565	67,049
Net cash provided (used) by operating activities	<u>(136,673)</u>	<u>858,012</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(7,131)	(20,687)
(Increase) decrease in notes receivable	(794,371)	(344,963)
Net cash provided (used) by investing activities	<u>(801,502)</u>	<u>(365,650)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increases in long-term debt	<u>527,072</u>	<u>595,132</u>
NET INCREASE (DECREASE) IN CASH	(411,103)	1,087,494
CASH, beginning of year	<u>2,235,925</u>	<u>1,148,431</u>
CASH, end of year	<u>\$ 1,824,822</u>	<u>\$ 2,235,925</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 42,377</u>	<u>\$ 30,664</u>

The accompanying notes are an integral part of these financial statements

CALIFORNIA FARMLINK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 ORGANIZATION

Established in 1999, California FarmLink (FarmLink) has developed a statewide program of economic development support for beginning, limited-resource, immigrant, and underserved farmers, and became a certified Community Development Financial Institution in 2013. In the last five years, FarmLink has helped more than 1,500 farmers in forty counties to start and grow farm businesses with education, financing and land access support. FarmLink staff work from three regional offices serving the Central Coast, North Coast and Central Valley, providing farmers with direct technical assistance as well as workshops and classes in collaboration with farm incubators and training programs to engage and grow the next generation of organic farmers. To help farmer's access land and capital, grow their businesses, and create jobs, FarmLink works in two program areas:

1. **FarmLink's Land Access Program** maintains a FarmLand Listing database of land available for lease or sale, connects farmers and landowners, 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 166 successful leases or purchases tailored to the needs of landowners and growers.
2. **FarmLink's 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 required; 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. In 2015 FarmLink made 50 loans, with an average loan size of \$35,000. 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.
3. **Personalized advisory services (technical assistance)** In 2015, FarmLink staff provided direct hands-on technical assistance to 344 growers and landowners. Seventy-two percent of this assistance supported low-income farmers.

CALIFORNIA FARMLINK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 ORGANIZATION, continued

4. **Educational events** In 2015, California FarmLink staff conducted 30 educational events attended by over 950 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 (ALBA) 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.

Public and private funding support FarmLink's work.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accounting and reporting policies of FarmLink conform to accounting principles generally accepted in the United States of America (US GAAP). The financial statements are prepared on the accrual basis of accounting.

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions. These also may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted Net Assets – Net assets that are subject to donor-imposed stipulations that may be fulfilled by actions of FarmLink to meet the stipulations or that become unrestricted at the date specified by the donor.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be retained and invested permanently by FarmLink to use all or part of the investment return on these net assets for specified or unspecified purposes. FarmLink does not have any permanently restricted net assets at December 31, 2015.

Net assets released from restriction – Temporarily restricted net assets are “released” to unrestricted net assets when the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed.

Other Basis of Presentation – Program Revenues or support are reported as increases in unrestricted net assets unless subject to donor-imposed restrictions. If temporary restrictions are fulfilled in the same time period the revenue or support is received, FarmLink reports the revenue or support as unrestricted.

CALIFORNIA FARMLINK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Other Basis of Presentation, continued – Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless restricted by explicit donor stipulation or by law.

Cash and Cash Equivalents – Cash equivalents consist primarily of money market accounts and other investments with an original maturity of 90 days or less. Interest rates range from 0.02 – 1.0 percent. FarmLink considers all highly liquid investments with maturities of less than one year a cash equivalent.

Concentrations of Credit Risk – FarmLink maintains cash balances at local financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times during the year, FarmLink held cash and cash equivalent balances in excess of federally insured limits. The amount in excess of the FDIC limit totaled \$877,429 at December 31, 2015.

Accounts Receivable – Accounts receivable consist primarily of amounts owed from grants and contracts. Grant and contract receivables are subject to review by the issuing agencies and, consequently certain costs could be disallowed. Management is of the opinion that any adjustments made during these reviews would be immaterial.

Fixed Assets – FarmLink capitalizes all expenditures for property and equipment in excess of \$2,500. Property and equipment are stated at cost or, if donated, at fair value at date of donation. Depreciation is computed using the straight-line method over the estimated useful life of the asset. Estimated useful lives are 5 years for all assets.

Loan Fund – 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.

CALIFORNIA FARMLINK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Loan Fund, continued – FarmLink has received CDFI Fund awards each year for the past 4 years totaling \$1.1 million.

Loans Receivable – Loans receivable are stated as the unpaid principal balance, less the allowance for loan losses and deferred loan fees net of deferred loans costs. In 2015, FarmLink increased loan receivables 93% from \$835,000 to \$1.61 million, received USDA approval to resell FSA guaranteed loans, and began work on a secondary market program. FarmLink was also certified under California's state tax credit program, COIN. This certification will increase lending capacity through equity-like investments from banks and impact investors seeking a 20% state tax credit.

Loan Loss Reserve – FarmLink's internal portfolio management ratios and overall portfolio management and loan loss reserve goals are outlined in the FarmLink Loan Fund Policies and Procedures Manual.

FarmLink loan 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, 2015, 61.1 percent of the loans receivable portfolio had the additional FSA government guarantee. FarmLink's loan loss reserve (LLR) was capitalized with \$178,292 in cash as of December 31, 2015, with LLR equivalent to 9.6% of the total outstanding portfolio.

CALIFORNIA FARMLINK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Loan Loss Reserve, continued – Risk Management policies ensure FarmLink have sufficient loan loss reserves—at least 7 percent of outstanding portfolio—to cover potential losses FarmLink may take per our risk rating guidelines to cover potential losses per risk rating. FarmLink has been successful in seeking funded loan loss reserves of \$203,000 from banks. Careful loan monitoring and TA keep PAR very low.

Loan Servicing Payables – FarmLink services loans for several agencies and maintains a liability of the amounts due to these agencies on an ongoing basis.

Use of 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.

Estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in local economic conditions.

Donated Services and Items – Many people have contributed significant amounts of time to the activities of FarmLink without compensation. The financial statements do not reflect the value of those contributed services, because, although clearly substantial, no reliable basis exists for determining an appropriate valuation.

Allocation of Expenditures – FarmLink charges all direct expenditures to the appropriate programs. Indirect expenditures eligible to be charged to cost reimbursement programs are allocated to all funds, subject to contractual limits. Indirect costs which are not eligible to be charged to cost reimbursement programs are allocated prorata among the remaining programs

Income Taxes – FarmLink is exempt from Federal and State Income taxes under Internal Revenue Code Section 501(c)(3) and California Franchise Tax Board Code Section 23701d. Therefore, no provision for income taxes has been made in the accompanying financial statements. In addition, the Internal Revenue Service has determined FarmLink is not a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code.

CALIFORNIA FARMLINK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Income Taxes, continued – Management of FarmLink considers the likelihood of changes by taxing authorities in its filed tax returns and recognizes a liability for or discloses potential significant changes if management believes it is more likely than not for a change to occur, including changes to FarmLink status as a not-for-profit entity. Management believes FarmLink met the requirements to maintain its tax-exempt status and has no income subject to unrelated business income tax; therefore no provision for income taxes has been provided in these financial statements. FarmLink tax returns for the past three years are subject to examination by tax authorities, and may change upon examination.

Reclassifications - Certain reclassifications have been made in the 2014 and 2015 financial statements to conform to the classifications currently requested. The reclassifications have no effect on the overall net assets.

Summarized Financial Information – The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with FarmLink's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

NOTE 3 ACCOUNTS AND GRANTS RECEIVABLE

Accounts and grants receivable at December 31, 2015 consists of the following:

CDFI Fund- U.S. Department of Treasury	\$ 300,000
11th Hour Foundation	100,000
Northern American Development Bank	39,310
Community Foundation for Monterey County	31,500
USDA Risk Management Agency	18,744
Other funders	16,536
Total	<u>\$ 506,090</u>

CALIFORNIA FARMLINK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 4 NOTES RECEIVABLE

Notes receivable at December 31, 2015 consist of the following:

	Cal Coastal Loan	Direct Loan Program	Total
Microloans and business loans	\$ 22,414	\$ 1,600,239	\$ 1,622,653

FarmLink's loan portfolio is collateralized predominately by farm equipment, real estate, and crops throughout the North and Central Coast areas of California. As a result, these portfolios consist of similar collateral types concentrated in the same region. Although FarmLink has a diversified portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the economy of this region of California.

FarmLink assesses loans individually and classifies a loan as supervised (impaired) when the accrual of interest has been discontinued, or management has serious doubts about the future collectability of principle interest, even though the loans may be currently performing. Collection procedures may be pursued either through foreclosure, demand on FSA guarantee, or both.

Loan Fund Activities

Sales Of Loans – FarmLink to date has not been party to the sale of any loan, either purchaser or seller. Gains or losses resulting from sales of loans are recorded at the time of sale and are determined by the difference between: (i) the net sales proceeds plus the estimated fair value of any interests retained in the loans, and (ii) the carrying value of the assets sold.

Troubled Debt Restructuring – A loan is considered a "troubled debt restructuring" ("TDR") when the CDFI, for economic or legal reasons related to the borrower's financial difficulties, provides the borrower certain concessions that it would not normally consider. The concessions are provided with the objective of maximizing the recovery of the CDFI investment. The loan fund restructured one loan in its portfolio during the year with total new principal balance of \$21,641.

Impaired Loans – The CDFI considers a loan to be impaired when it is deemed probable by management that the CDFI will be unable to collect all contractual interest and contractual principal payments in accordance with the terms of the original loan agreement. The CDFI includes among impaired loans all loans that: (i) are contractually delinquent 90 days or more; (ii) meet the

CALIFORNIA FARMLINK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 4 NOTES RECEIVABLE, continued

Impaired Loans, continued - 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. The CDFI 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. The CDFI 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.

Allowance For Loan Losses – The CDFI maintains an allowance for loan losses to absorb probable losses inherent in the loan portfolio. The allowance is based on ongoing assessments of the probable estimated inherent losses. Loans are charged against the allowance when management believes the principal to not be recoverable. The allowance is increased by the provision for loan losses. The provision for loan losses is charged against quarterly operating results. The allowance is decreased by the amount of charge-offs, net of recoveries. While allocations of the allowance for loan losses may be made for specific loans, the entire allowance for loan losses is available for any loan that should be charged off.

The CDFI'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 the CDFI, its peers or a combination thereof since the CDFI 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.

CALIFORNIA FARMLINK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 4 NOTES RECEIVABLE, continued

These loss factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment described below.

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.

Operating Loans- Farm – Loans secured by crop production and livestock are especially vulnerable to two risk factors that are largely outside the control of the CDFI and borrowers: commodity prices and weather conditions.

Equipment Loans – Farm – 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 percent or greater range for the equipment purchases. All collateral is secured by UCC lien filings.

NOTE 5 ACCRUED PERSONAL LEAVE

Accumulated unpaid employee leave benefits are recognized as liabilities of FarmLink. Accrued personal leave at December 31, 2015 is \$24,404.

NOTE 6 NOTES AND EQUITY EQUIVALENT PAYABLES

The notes payable are monies used to fund the Farm Opportunities Loan Program.

The Equity Equivalent, or EQ2, is a capital product for CDFIs and their investors. It is a financial tool that allows CDFIs to strengthen their capital structures, leverage additional debt capital, and, as a result, increase lending and investing in economically disadvantaged communities. For bank investors, the EQ2 is a mechanism for receiving enhanced credit under the Community Reinvestment Act (CRA). This special debt investment is a precedent-setting community development debenture that permit 'equity like' investments in not-for-profit corporations.

The EQ2 is a fully subordinated debt with equity-like character investment in a nonprofit CDFI. EQ2s on the Farmlink balance sheet are 5 and 10 year rolling term notes, with automatic renewal for each of those first years, effectively making them long term general obligations in FarmLink.

CALIFORNIA FARMLINK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 6 NOTES AND EQUITY EQUIVALENT PAYABLES, continued

EQ2 Investments with Farmlink are not liquid assets; they cannot be redeemed or traded before maturity. The EQ2 is a general debt obligation of Farmlink that is not secured by any of FarmLink's assets. The EQ2 is fully subordinate to the right of repayment of all other FarmLink creditors. The EQ2 has a rolling term, and is carried as an investment on the bank's balance sheet in accordance with Generally Accepted Accounting Principles (GAAP).

The notes payable detail is as follows at December 31, 2015 :

EQ2 payable from Wells Fargo Bank, interest only payable quarterly at two percent, due, September 2016	\$ 250,000
EQ2 payable from Rabobank, interest only payable quarterly at two percent, due, April 2018	1,400,000
Note payable from Bank of the West, Inc., no interest; due, March 2017	35,000
Note payable from New Belgium Foundation, no interest due April 2016	100,000
Note payable totaling \$500,000 from U.S. Department of Agriculture, principal and interest payments commence September 2011, at two percent interest, due September 2031.	<u>462,204</u>
	<u>\$ 2,247,204</u>

Future maturities are as follows at December 31:

2016	\$250,000
2017	135,000
2018	1,400,000
2019	306,740
2020	-
Thereafter	451,000

CALIFORNIA FARMLINK
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NOTE 6 NOTES AND EQUITY EQUIVALENT PAYABLES, continued

FarmLink also participates with other agencies for partial funding of receivables or loan participation. The balance of the notes payable participation agreements at December 31, 2015, is \$673,615.

As of December 31, 2015, all short term and mid-term maturities were being negotiated for renewal, extension, or loan forgiveness through 2019.

NOTE 7 UNRESTRICTED NET ASSETS

Unrestricted net assets on December 31, 2015 are \$53,027

On 2014 audited financials FarmLink shows a FYE unrestricted net assets of \$(126,758) due to a financial timing issue. During 2014, FarmLink increased its total net assets by \$937,763 compared to 2013, due in part to reclassifying its CDFI Fund awards from being incorrectly booked as deferred revenues to being booked as net assets. The decision was made with our auditors in late 2014 to book all existing CDFI grants at December 31, 2014 totaling \$832,000 as temporarily restricted net assets (TRNA) per GAAP accounting standards. FarmLink releases these grant funds on a quarterly basis to cover development services for borrowers associated with operating the loan fund.

There was a timing issue with regard to the decision to release to unrestricted net assets in December 2014 as FarmLink was at the same time reclassifying the deferred revenues and therefore the TRNA available for release was underrepresented during the period. This resulted in us showing a negative unrestricted net assets balance on December 31, 2014.

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31, 2015:

Farm Opportunities Loan Program	\$ <u>1,512,323</u>
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NOTE 9 LEASE COMMITMENTS

FarmLink leases office space for its headquarters in Santa Cruz. Monthly rent is \$1,357 for the original lease that was signed August 2014 expiring in July 2015. An amendment was signed to continue the lease through July 2017.

FarmLink also leases an office space in Watsonville. The lease was signed October 2015 and expires October 2017, monthly rent is \$668.

The total rent expense for the year ended December 31, 2015 is \$30,137. Future annual payments are as follows:

2016	\$24,334
2017	16,374

NOTE 10 CONTINGENCIES

Grant awards require the fulfillment of certain conditions as set forth in the grant instrument. Failure to fulfill the conditions could result in the return of funds to the grantor. FarmLink deems this contingency remote and makes every effort to comply with all grant terms and to fulfill all grant provisions and objectives.

Nonprofit organizations are especially vulnerable to such inherent risks when their revenue base is substantially predicated on continuing and new grants from governmental agencies. FarmLink received approximately thirty-six percent of its total revenue from government agency grants for the year ended December 31, 2015. The continued growth and existence of this organization is significantly affected by these sources of revenue.

NOTE 11 SUBSEQUENT EVENTS

FarmLink has evaluated subsequent events through May 27, 2016, the date the financial statements were available to be issued, and determined that there were no events occurring subsequent to December 31, 2015 that would have a material impact on FarmLink's results of operations or financial position.