

Practical Farmers of Iowa

Financial Statements

Year Ended September 30, 2016

C o n t e n t s

	<u>Page</u>
Independent Auditor's Report	3
Financial Statements:	
Statement of Financial Position	4
Statement of Activities	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 13

HOUSTON & SEEMAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
724 Story Street, Suite 601
Boone, IA 50036-2871

Kevin N. Houston, CPA
Eric G. Seeman, CPA

Telephone: (515) 432-1176
Fax: (515) 432-1186

Independent Auditor's Report

Board of Directors
Practical Farmers of Iowa
Ames, Iowa 50010

We have audited the accompanying financial statements of Practical Farmers of Iowa (a nonprofit Organization) which comprise the statement of financial position as of September 30, 2016, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and reasonableness of significant 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 Practical Farmers of Iowa as of September 30, 2016 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Practical Farmers of Iowa's 2015 financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated December 11, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Houston & Seeman, P.C.

Houston & Seeman, P.C.
January 13, 2017



America Counts on CPAs

Member American Institute of Certified Public Accountants

Practical Farmers of Iowa
Statement of Financial Position
September 30, 2016
(With Comparative Totals for September 30, 2015)

	2016	2015
Assets		
Assets		
Cash	\$ 805,945	\$ 738,556
Certificates of deposit	148,640	146,755
Investments	94,816	70,613
Grants receivable	144,356	138,334
Unconditional promises to give	500,178	64,239
Prepaid expenses	19,965	15,302
Property and equipment, less accumulated depreciation of \$10,595 and \$9,839	756	1,512
Beneficial interest in assets held by Community Foundation of Greater Des Moines	214,653	198,838
Total assets	\$ 1,929,309	\$ 1,374,149
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 9,734	\$ 8,973
Accrued payroll and taxes	89,904	86,521
Refundable advance	103,063	103,063
Total liabilities	202,701	198,557
Net assets		
Unrestricted	599,112	551,178
Temporarily restricted	1,071,882	568,800
Permanently restricted	55,614	55,614
Total net assets	1,726,608	1,175,592
Total liabilities and net assets	\$ 1,929,309	\$ 1,374,149

See accompanying notes to financial statements.

Practical Farmers of Iowa
Statement of Activities
Year Ended September 30, 2016
(With Comparative Totals for the Year Ended September 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
Changes in unrestricted net assets					
Support and revenue					
Grants	\$ 576,972	\$ 990,682	\$ -	\$ 1,567,654	\$ 978,623
Contributions-general	29,437	99,483	-	128,920	118,907
Membership dues	74,820	-	-	74,820	80,240
Conference and event sponsorships	90,635	-	-	90,635	89,914
Conference and event registrations	48,820	-	-	48,820	42,013
Investment income	20,227	5,801	-	26,028	(9,751)
Other Income	8,514	-	-	8,514	5,761
Total revenues and gains	849,425	1,095,966	-	1,945,391	1,305,707
Net assets released from restrictions	592,884	(592,884)	-	-	-
Total revenues, gains, and other support	1,442,309	503,082	-	1,945,391	1,305,707
Expenses					
Compensation and benefits	863,563	-	-	863,563	799,736
Contracted services	264,117	-	-	264,117	308,793
Meetings, events, and conferences	73,515	-	-	73,515	65,500
Occupancy	37,556	-	-	37,556	37,650
Insurance	9,989	-	-	9,989	8,999
Travel	34,092	-	-	34,092	50,924
Printing and postage	44,461	-	-	44,461	46,708
Supplies and equipment	24,336	-	-	24,336	22,421
Telephone	13,378	-	-	13,378	8,441
Publicity	11,181	-	-	11,181	6,994
Depreciation	756	-	-	756	1,331
Other	17,431	-	-	17,431	27,000
Total expenses	1,394,375	-	-	1,394,375	1,384,497
Increase (decrease) in net assets	47,934	503,082	-	551,016	(78,790)
Net assets at beginning of year	551,178	568,800	55,614	1,175,592	1,254,382
Net assets at end of year	\$ 599,112	\$ 1,071,882	\$ 55,614	\$ 1,726,608	\$ 1,175,592

See accompanying notes to financial statements.

Practical Farmers of Iowa
Statement of Cash Flows
Year Ended September 30, 2016
(With Comparative Totals for the Year Ended September 30, 2015)

	2016	2015
Cash flows from operating activities		
Increase (Decrease) in net assets	\$ 551,016	\$ (78,790)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	756	1,331
Realized and unrealized (gains) losses on investments	(12,402)	9,349
Restricted grants and contributions	(1,090,165)	(700,370)
(Increase) Decrease in operating assets		
Grants receivable	(6,022)	(57,480)
Prepaid expenses	(4,663)	(91)
Unconditional promises to give	(435,939)	163,261
Increase (Decrease) in operating liabilities		
Accounts payable	761	(3,174)
Accrued payroll and taxes	3,383	8,243
Refundable advance	-	(14,413)
Net cash (used) by operating activities	(993,275)	(672,134)
Cash flows from investing activities		
Net purchase of investments	(27,616)	(73,928)
Redemptions of certificates of deposit	146,755	201,069
Purchases of certificates of deposit	(148,640)	(146,755)
Net cash (used) by investing activities	(29,501)	(19,614)
Cash flows from financing activities		
Restricted grants and contributions	1,090,165	700,370
Net cash provided by financing activities	1,090,165	700,370
Net increase in cash and cash equivalents	67,389	8,622
Cash and cash equivalents at beginning of year	738,556	729,934
Cash and cash equivalents at end of year	\$ 805,945	\$ 738,556

See accompanying notes to financial statements.

Practical Farmers of Iowa
Notes to Financial Statements

1. Nature of Activities and Summary of Significant Accounting Policies

a. Nature of Activities

Practical Farmers of Iowa is a nonprofit corporation that seeks to preserve the productive capacity of farmland, improve the environmental and economic well-being of farm families, and protect the health of consumers through food system activities, farming system activities, educational activities, and public policy activities.

b. Basis of Accounting

The financial statements of Practical Farmers of Iowa have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

c. Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

d. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

e. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

f. Investments

The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the Statement of Financial Position. All gains and losses are included in the change in net assets in the accompanying Statement of Activities.

g. Grants Receivable and Program Service Revenue.

Grants receivable are stated at unpaid balances at net realizable amounts, thus no allowance for doubtful accounts is recorded.

h. Contributions

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets as net assets released from restrictions.

i. Memberships

The Organization records revenue from memberships as received because they are deemed to be contributions rather than exchange transactions.

Practical Farmers of Iowa
Notes to Financial Statements

1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

j. Promises to Give

Unconditional promises to give are recorded as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises are recognized only when the conditions on which they depend are substantially met and promises become unconditional. The Organization has no conditional promises to give. Uncollectible promises are written off after management has used reasonable collection efforts and determines the promises will not be collected.

k. Property and Equipment

Acquisitions of equipment in excess of \$2,500 are capitalized. Equipment is carried at cost, or, if donated, at the approximate fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

l. Government Grants

Some of Practical Farmers of Iowa's programs are funded by grants from government agencies. Revenue from grants is based on the actual cost of grant work completed, up to the maximum amount specified in the grant. Costs are allocated to grant-funded programs in accordance with established procedures and are subject to audit by the government agencies that fund the programs. No determination has been made regarding the effect, if any, such audits could have on the financial statements.

m. Comparative 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2015, from which the summarized information was derived.

n. Income Taxes

The Organization is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

**Practical Farmers of Iowa
Notes to Financial Statements**

2. Investments

Investments were comprised of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Investment in Community Foundation of Greater Des Moines	\$ 200,664	\$ 214,653	\$ 13,989
Other Investments	<u>94,990</u>	<u>94,816</u>	<u>(174)</u>
	<u>\$ 295,654</u>	<u>\$ 309,469</u>	<u>\$ 13,815</u>

Investment return is summarized as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividend income	\$ 6,580	\$ 1,253	\$ 7,833
Net realized and unrealized gains and losses	<u>13,647</u>	<u>4,548</u>	<u>18,195</u>
	<u>\$ 20,227</u>	<u>\$ 5,801</u>	<u>\$ 26,028</u>

Expenses relating to investment revenues including custodial fees amounted to \$2,309 and have been netted against investment income in the accompanying Statement of Activities.

3. Fair Value Measurements

Fair values of assets measured on a recurring basis at September 30, 2016 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets For Identical Assets (Level 1)</u>
Investments	<u>\$ 309,469</u>	<u>\$ 309,469</u>

Fair value for investments is determined by reference to quoted market prices and other relevant information generated by market transactions.

4. Endowment Funds

The Organization's endowment consists of marketable securities invested in the Community Foundation of Greater Des Moines. Its endowment includes donor-restricted funds that function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including if any funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time

**Practical Farmers of Iowa
Notes to Financial Statements**

4. Endowment Funds (Continued)

the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, and (6) other resources of the Organization, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The Organization has invested the endowment funds with the Community Foundation of Greater Des Moines, who has investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are investing in a diversified asset mix that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. The Organization has an agreement with the Community Foundation of Greater Des Moines in which the Organization may request and appropriate for distribution each year 5% of its endowment fund fair value of the December 31 balance of the previous year in which the distribution is planned. In following this policy, the Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds and the possible effects of inflation. The Organization expects the current spending policy to allow its endowment funds to grow at a nominal rate. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Endowment net asset composition by type of fund as of September 30, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ -	\$ 23,115	\$ 55,614	\$ 78,729
Board-designated endowment funds	<u>135,924</u>	<u>-</u>	<u>-</u>	<u>135,924</u>
Total	<u>\$ 135,924</u>	<u>\$ 23,115</u>	<u>\$ 55,614</u>	<u>\$ 214,653</u>
Endowment net assets, beginning of year	\$ 125,910	\$ 17,314	\$ 55,614	\$ 198,838
Contributions	-	-	-	-
Investment income	<u>10,014</u>	<u>5,801</u>	<u>-</u>	<u>15,815</u>
Endowment net assets, end of year	<u>\$ 135,924</u>	<u>\$ 23,115</u>	<u>\$ 55,614</u>	<u>\$ 214,653</u>

**Practical Farmers of Iowa
Notes to Financial Statements**

5. Promises To Give

Practical Farmers of Iowa has unconditional promises to give at September 30, 2016, as follows:

Grazing	\$ 110,000
Agronomic and policy	384,178
Farm transfer program	<u>6,000</u>
Unconditional promises to give	<u>\$ 500,178</u>
Receivable in one year	\$ 457,991
Receivable in one to five years	42,187
Less discounts to net present value	<u>-</u>
Total unconditional promises to give	<u>\$ 500,178</u>

The Organization has not applied a discount or an allowance for uncollectible promises to give because most of the balance is due from multiple donors within one year and historically the Organization has collected all amounts promised.

6. Property and Depreciation

Property and equipment is summarized by major classification as follows:

	<u>2016</u>	<u>2015</u>
Equipment	\$ 11,351	\$ 11,351
Accumulated depreciation	<u>(10,595)</u>	<u>(9,839)</u>
	<u>\$ 756</u>	<u>\$ 1,512</u>

Depreciation expense was \$756 and \$1,331 for the year ended September 30, 2016 and 2015, respectively.

7. Restrictions/Limitations on Net Assets

The Organization has net assets available for the following purposes at September 30:

	<u>2016</u>	<u>2015</u>
Designated for agency endowment	\$ 135,924	\$ 125,909
Designated for farm transfer program	9,062	7,638
Designated for beginning farmer program	35,231	30,000
Designated for energy program	-	1,207
Designated for savings incentive program	61,000	61,000
Designated for labor 4 learning program	16,150	20,495
Undesignated	<u>341,745</u>	<u>304,929</u>
Total unrestricted net assets	599,112	551,178
Grazing	218,829	67,124
Agronomic and policy	554,956	200,567
Horticulture	100,640	89,677
Beginning farmer	45,311	58,395
Non-GMO seed development	32,148	14,230
Donor-restricted endowment earnings	23,115	17,314
Savings incentive	<u>96,883</u>	<u>121,493</u>
Total temporarily restricted	1,071,882	568,800
Total permanently restricted endowment	<u>55,614</u>	<u>55,614</u>
Total net assets	<u>\$ 1,726,608</u>	<u>\$ 1,175,592</u>

**Practical Farmers of Iowa
Notes to Financial Statements**

8. Lease Agreement

The Organization utilizes operating leases for office space and a copier that expire February 28, 2018, and October 31, 2017, respectively. The future minimum rental payments for the leases are as follows:

<u>Year Ending September 30,</u>	
2017	\$ 35,559
2018	<u>14,750</u>
	\$ <u>50,309</u>

Rent expense is included in occupancy expense and supplies and equipment expense on the statement of activities and totaled \$37,609 for the year ended September 30, 2016.

9. Defined Contribution Plan

The Organization has a defined contribution plan (the Plan) covering all employees that have been employed at least one year and worked over 1,000 hours with the year of eligibility. The Organization makes a matching contribution to the Plan each year up to 4% of the individual participant's compensation. Total expense was \$24,959 and \$21,126 for the years ended September 30, 2016 and 2015, respectively.

10. Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization does not believe it has any income derived from unrelated business activities. The Organization 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.

The Organization's federal Return of Organization Exempt from Income Tax (Form 990) for 2013, 2014 and 2015 are subject to examination by the IRS, generally for three years after they were filed.

11. Certificates of Deposit

The Organization had certificates of deposit totaling \$148,640 at September 30, 2016. The certificates bear interest ranging from 1.34% and 1.69% with maturities of 25 months, with penalties for early withdrawal. The certificates of deposit are valued at cost, which approximates fair value; any penalties for early withdrawal would not have a material effect on the financial statements.

12. Requirement to Hold Cash in a Separate Account

Per the agreement with one of its funders, Practical Farmers of Iowa is required to keep all the proceeds from that funder at a separate financial institution. At September 30, 2016, Practical Farmers of Iowa was required to have \$103,063 at the specified financial institution.

**Practical Farmers of Iowa
Notes to Financial Statements**

13. Functional Classification of Expenses

Expenses by function for the year ended September 30, 2016 are as follows:

Program services	\$ 1,176,354
Management and general activities	121,529
Fundraising activities	<u>96,492</u>
	<u>\$ 1,394,375</u>

14. Subsequent Event

Subsequent events were evaluated through January 13, 2017, which is the date the financial statements were available to be issued. In December 2016, 13.21 acres of land was donated to the Organization. The land was valued at \$148,000.