

Practical Farmers of Iowa

Financial Statements

Year Ended September 30, 2018

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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, 2018, 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, 2018 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 2017 financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated December 15, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017, 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.
December 11, 2018



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Practical Farmers of Iowa
Statement of Financial Position
September 30, 2018
(With Comparative Totals for September 30, 2017)

	2018	2017
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Assets		
Assets		
Cash	\$ 786,278	\$ 778,319
Certificates of deposit	153,891	150,836
Investments	124,939	110,075
Grants receivable	487,600	339,477
Unconditional promises to give	1,094,462	188,687
Prepaid expenses	28,592	28,949
Property and equipment, less accumulated depreciation of \$18,619 and \$11,901	227,932	150,349
Beneficial interest in assets held by Community Foundation of Greater Des Moines	324,548	307,105
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Total assets	\$3,228,242	\$2,053,797
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Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 79,590	\$ 24,854
Accrued payroll and taxes	117,559	92,697
Refundable advance	-	87,325
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Total liabilities	197,149	204,876
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Net assets		
Unrestricted	1,092,764	941,138
Temporarily restricted	1,882,715	852,169
Permanently restricted	55,614	55,614
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Total net assets	3,031,093	1,848,921
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Total liabilities and net assets	\$3,228,242	\$2,053,797
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See accompanying notes to financial statements.

Practical Farmers of Iowa
Statement of Activities
Year Ended September 30, 2018
(With Comparative Totals for the Year Ended September 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
Changes in unrestricted net assets					
Support and revenue					
Grants	\$ 745,466	\$ 2,027,117	\$ -	\$ 2,772,583	\$ 1,215,595
Contributions-general	95,553	30,460	-	126,013	214,101
Contributions-in-kind	13,300	-	-	13,300	148,000
Membership dues	96,425	-	-	96,425	73,370
Conference and event sponsorships	89,521	-	-	89,521	83,685
Conference and event registrations	52,519	-	-	52,519	43,860
Investment income	19,622	4,985	-	24,607	42,854
Other Income	8,934	-	-	8,934	6,423
Total revenues and gains	1,121,340	2,062,562	-	3,183,902	1,827,888
Net assets released from restrictions	1,032,016	(1,032,016)	-	-	-
Total revenues, gains, and other support	2,153,356	1,030,546	-	3,183,902	1,827,888
Expenses					
Compensation and benefits	1,097,514	-	-	1,097,514	948,235
Contracted services	439,624	-	-	439,624	416,797
Meetings, events, and conferences	101,675	-	-	101,675	89,507
Occupancy	54,242	-	-	54,242	37,434
Insurance	15,636	-	-	15,636	19,473
Travel	47,736	-	-	47,736	52,422
Printing and postage	54,636	-	-	54,636	43,740
Supplies and equipment	107,500	-	-	107,500	49,421
Telephone	24,496	-	-	24,496	13,206
Publicity	19,197	-	-	19,197	15,181
Depreciation	11,743	-	-	11,743	1,306
Other	27,731	-	-	27,731	18,853
Total expenses	2,001,730	-	-	2,001,730	1,705,575
Increase in net assets	151,626	1,030,546	-	1,182,172	122,313
Net assets at beginning of year	941,138	852,169	55,614	1,848,921	1,726,608
Net assets at end of year	\$ 1,092,764	\$ 1,882,715	\$ 55,614	\$ 3,031,093	\$ 1,848,921

See accompanying notes to financial statements.

Practical Farmers of Iowa
Statement of Cash Flows
Year Ended September 30, 2018
(With Comparative Totals for the Year Ended September 30, 2017)

	2018	2017
Cash flows from operating activities		
Increase in net assets	\$ 1,182,172	\$ 122,313
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	11,743	1,306
Realized and unrealized (gains) losses on investments	(14,271)	(35,013)
In-kind donation	(13,300)	(148,000)
Restricted grants and contributions	(2,057,577)	(513,966)
(Increase) Decrease in operating assets		
Grants receivable	(148,123)	(195,121)
Prepaid expenses	357	(8,984)
Unconditional promises to give	(905,775)	311,491
Increase (Decrease) in operating liabilities		
Accounts payable	54,736	15,120
Accrued payroll and taxes	24,862	2,793
Refundable advance	(87,325)	(15,738)
Net cash (used) by operating activities	(1,952,501)	(463,799)
Cash flows from investing activities		
Net purchase of investments	(18,036)	(72,698)
Net purchase of fixed assets	(76,026)	(2,899)
Redemptions of certificates of deposit	150,836	148,640
Purchases of certificates of deposit	(153,891)	(150,836)
Net cash (used) by investing activities	(97,117)	(77,793)
Cash flows from financing activities		
Restricted grants and contributions	2,057,577	513,966
Net cash provided by financing activities	2,057,577	513,966
Net increase (decrease) in cash and cash equivalents	7,959	(27,626)
Cash and cash equivalents at beginning of year	778,319	805,945
Cash and cash equivalents at end of year	\$ 786,278	\$ 778,319

Supplemental disclosure

Noncash investing transaction:

The Organization received office furnishings from a donor	\$ 13,300	\$ -
The Organization received land and a building from a donor	\$ -	\$ 148,000

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, 2017, 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.

2. Investments

Investments were comprised of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Investment in Community			
Foundation of Greater Des Moines	\$ 297,096	\$ 324,548	\$ 27,452
Other Investments	<u>116,812</u>	<u>124,939</u>	<u>8,127</u>
	<u>\$ 413,908</u>	<u>\$ 449,487</u>	<u>\$ 35,579</u>

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

2. Investments (continued)

Investment return is summarized as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
Interest and dividend income	\$ 8,975	\$ 1,361	\$ 10,336
Net realized and unrealized gains and losses	<u>10,647</u>	<u>3,624</u>	<u>14,271</u>
	<u>\$ 19,622</u>	<u>\$ 4,985</u>	<u>\$ 24,607</u>

Expenses relating to investment revenues including custodial fees amounted to \$3,356 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, 2018 are as follows:

	<u>Fair Value</u>	Quoted Prices in Active Markets For Identical Assets (Level 1)
Investments	\$ <u>449,487</u>	\$ <u>449,487</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 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.

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

4. Endowment Funds (Continued)

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, 2018 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ -	\$ 37,142	\$ 55,614	\$ 92,756
Board-designated endowment funds	<u>231,792</u>	<u>-</u>	<u>-</u>	<u>231,792</u>
Total	<u>\$ 231,792</u>	<u>\$ 37,142</u>	<u>\$ 55,614</u>	<u>\$ 324,548</u>
Endowment net assets, beginning of year	\$ 219,334	\$ 32,157	\$ 55,614	\$ 307,105
Contributions	-	-	-	-
Investment income	<u>12,458</u>	<u>4,985</u>	<u>-</u>	<u>17,443</u>
Endowment net assets, end of year	<u>\$ 231,792</u>	<u>\$ 37,142</u>	<u>\$ 55,614</u>	<u>\$ 324,548</u>

5. Certificates of Deposit

The Organization had certificates of deposit totaling \$153,891 at September 30, 2018. The certificates bear interest ranging from 1.54% and 2.53% with maturities of 24 to 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.

6. Concentration of Credit Risk

The Organization maintains its cash balances in five financial institutions. The accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. At September 30, 2018, the Organization's uninsured cash balance totaled \$57,237.

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

7. Promises To Give

Practical Farmers of Iowa has unconditional promises to give at September 30, 2018, as follows:

Agronomic and policy	\$ <u>1,094,462</u>
Unconditional promises to give	\$ <u>1,094,462</u>
Receivable in one year	\$ 919,462
Receivable in one to five years	<u>175,000</u>
Total unconditional promises to give	\$ <u>1,094,462</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.

8. Property and Depreciation

Property and equipment is summarized by major classification as follows:

	<u>2018</u>	<u>2017</u>
Equipment	\$ 59,585	\$ 14,250
Building	11,000	11,000
Land	137,000	137,000
Improvements	<u>38,966</u>	<u>-</u>
Accumulated depreciation	<u>(18,619)</u>	<u>(11,901)</u>
	\$ <u>227,932</u>	\$ <u>150,349</u>

Depreciation expense was \$11,743 and \$1,306 for the year ended September 30, 2018 and 2017, respectively.

During the year ended September 30, 2018, the Organization received a donation of office furniture for their new office valued at \$13,300.

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 \$30,184 and \$26,045 for the years ended September 30, 2018 and 2017, respectively.

10. Functional Classification of Expenses

Expenses by function for the year ended September 30, 2018 are as follows:

Program services	\$ 1,719,275
Management and general activities	170,961
Fundraising activities	<u>111,494</u>
	\$ <u>2,001,730</u>

Practical Farmers of Iowa
Notes to Financial Statements

11. Restrictions/Limitations on Net Assets

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

	<u>2018</u>	<u>2017</u>
Designated for agency endowment	\$ 231,789	\$ 156,137
Designated for farm transfer program	3,654	9,062
Designated for beginning farmer program	-	12,592
Designated for land and building	148,000	148,000
Designated for savings incentive program	84,000	66,000
Designated for labor 4 learning program	7,650	9,850
Designated for website upgrade	6,400	-
Designated for Granger farm contingency fund	5,018	-
Undesignated	<u>606,253</u>	<u>539,497</u>
Total unrestricted net assets	1,092,764	941,138
Grazing	847,998	145,340
Agronomic and policy	790,051	434,022
Horticulture	123,015	125,626
Beginning farmer	3,991	12,758
Non-GMO seed development	41,960	46,801
Donor-restricted endowment earnings	37,142	32,157
Savings incentive	<u>38,558</u>	<u>55,465</u>
Total temporarily restricted	1,882,715	852,169
Total permanently restricted endowment	<u>55,614</u>	<u>55,614</u>
Total net assets	\$ <u>3,031,093</u>	\$ <u>1,848,921</u>

12. Lease Agreement

The Organization utilizes operating leases for office space and a copier that expire December 31, 2020. The future minimum rental payments for the leases are as follows:

<u>Year Ending September 30,</u>	
2019	\$ 47,258
2020	47,258
2021	<u>11,815</u>
	\$ <u>106,331</u>

Rent expense is included in occupancy expense and supplies and equipment expense on the statement of activities and totaled \$45,956 for the year ended September 30, 2018.

13. 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.

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

14. Subsequent Events

The Organization has evaluated subsequent events through December 11, 2018, the date which the financial statements were available to be issued.

In October 2018, the Organization purchased a van in the amount of \$29,923.

In November 2018, the Organization purchased a new database system in the amount of \$14,516.