

Foundation for Food and Agriculture Research

Financial Report
December 31, 2018

Contents

Independent auditor's report	1-2
<hr/>	
Financial statements	
Balance sheet	3
Statement of activities	4
Statement of functional expenses	5
Statement of cash flows	6
Notes to financial statements	7-14



RSM US LLP

Independent Auditor's Report

To the Board of Directors
Foundation for Food and Agriculture Research

Report on the Financial Statements

We have audited the accompanying financial statements of Foundation for Food and Agriculture Research (the Foundation), which comprise the balance sheet as of December 31, 2018, the related statements of activities, functional expenses, cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Foundation for Food and Agriculture Research as of December 31, 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.

Emphasis of Matter

As disclosed in Note 1 to the financial statements, the Foundation adopted the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The adoption of this standard resulted in the statement of functional expenses, additional disclosures over liquidity and changes to the classification of net assets. Our opinion is not modified with respect to this matter.

RSM US LLP

Washington, D.C.
May 10, 2019

Foundation for Food and Agriculture Research

Balance Sheet
December 31, 2018

Assets

Cash and cash equivalents	\$ 13,781,870
Certificate of deposit	200,224
Contributions receivable	357,113
Award match receivable	73,904,943
Investments	166,148,846
Security deposits	101,603
	<hr/>
	\$ 254,494,599

Liabilities and Net Assets

Liabilities:

Accounts payable	\$ 37,318
Grants payable, net of discount	130,103,097
Accrued expenses	201,851
Conditional grant	112,539,370
Conditional grant – General Operating Support Fund	5,056,061
Deferred rent	569,853
	<hr/>
	248,507,550

Net assets:

Without donor restrictions:

Undesignated	-
Board designated	5,987,049
	<hr/>
Total net assets	5,987,049

Total liabilities and net assets

\$ 254,494,599

See notes to financial statements.

Foundation for Food and Agriculture Research

**Statement of Activities
Year Ended December 31, 2018**

Revenue:	
Recognition of deferred appropriation	\$ 33,792,885
Matching award revenue, net	34,722,438
Investment income, net of fees	296,414
Consortia contributions	589,000
Contributions	13,812
Event revenues	214,524
Other revenue	18,000
Total revenue	<u>69,647,073</u>
Expenses:	
Program:	
Grants and awards program	66,752,646
Supporting services:	
General and administrative	1,754,684
Development	525,478
Total expenses	<u>69,032,808</u>
Change in net assets	614,265
Net assets:	
Beginning of year	<u>5,372,784</u>
End of year	<u>\$ 5,987,049</u>

See notes to financial statements.

Foundation for Food and Agriculture Research

**Statement of Functional Expense
Year Ended December 31, 2018**

	<u>Program services</u>	<u>Supporting services</u>		
	Grant and	General and		Total
	Awards Program	Administrative	Development	
Award expense	\$ 63,900,971	\$ -	\$ -	\$ 63,900,971
Salaries and benefits	1,777,182	507,977	239,661	2,524,820
Travel, event and meeting expense	184,256	140,913	177,014	502,183
Professional fees	187,163	657,024	-	844,187
Occupancy	698,073	199,532	94,138	991,743
Other expense	5,001	249,238	14,665	268,904
Total	\$ 66,752,646	\$ 1,754,684	\$ 525,478	\$ 69,032,808

See notes to financial statements.

Foundation for Food and Agriculture Research

Statement of Cash Flows Year Ended December 31, 2018

Cash flows from operating activities:	
Change in net assets	\$ 614,265
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	32,232
Deferred rent	447,376
Realized and unrealized loss in investments	1,381,293
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Award match receivable	(20,754,356)
Contributions receivable	(357,113)
(Decrease) increase in:	
Accounts payable	1,417
Grants payable, net of discount	40,663,624
Accrued expenses	16,582
Conditional grant	(36,436,775)
Conditional grant – General Operating Support Fund	2,708,890
Net cash used in operating activities	<u>(11,682,565)</u>
Cash flows from investing activities:	
Sales of investments	69,849,801
Purchase of investments	(53,846,345)
Net cash provided by investing activities	<u>16,003,456</u>
Net increase in cash and cash equivalents	4,320,891
Cash and cash equivalents:	
Beginning of year	<u>9,460,979</u>
End of year	<u>\$ 13,781,870</u>

See notes to financial statements.

Foundation for Food and Agriculture Research

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Foundation for Food and Agriculture Research (the Foundation) is a not-for-profit organization established to support innovative and actionable science addressing today's food and agricultural challenges. The Foundation was established by the Farm Bill passed in 2014 and a federal appropriation of \$200 million and charged with complementing and furthering the important work of the U.S. Department of Agriculture. The Foundation will increase scientific and technological research, innovation and partnerships critical to enhancing sustainable production of nutritious food for a growing global population.

During the year ended December 31, 2018, the 2018 Farm Bill (the Bill) was passed, which will provide the Foundation with a federal appropriation of approximately \$185 million. The Foundation is expected to receive the appropriation during the year ending December 31, 2019, upon submission of the Foundation's strategic plan as required by the Bill.

A summary of the Foundation's significant accounting policies follows:

Basis of accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned, unconditional support is recognized when received and expenses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the recommendation of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). As required by the Not-for-Profit Entities topics of the Codification, Balance Sheet and Income Statement, the Foundation is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets classification: Included in net assets are the following:

Net assets without donor restrictions: Undesignated net assets are available for the overall operations of the Foundation.

Net Assets without donor restrictions – Board designated: Net assets designated by the Board to be used for administering future awards.

Cash and cash equivalents: For purpose of the statement of cash flows, the Foundation considers all unrestricted highly liquid investments, not part of the Foundation's brokerage accounts, purchased with an original maturity of 90 days or less to be cash equivalents.

Financial risk: The Foundation maintains funds in bank deposit accounts which, at times, may exceed federally-insured limits. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant financial risk on cash and cash equivalents.

The Foundation invests in professionally managed portfolios that contain investments valued using a net asset value per share practical expedient and a money market fund that are exposed to risks, such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that the changes in risks in the near-term could materially affect investment balances and the amounts reported in the financial statements.

Foundation for Food and Agriculture Research

Notes to Financial Statements

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

Investments: Investments are recorded at fair market value. To adjust the carrying value of these investments, the change in fair market value is included in investment income, net of fees on the statement of activities. The investments, other than the money market fund, are reported at fair value based on a practical expedient, the net asset value per share, determined by the fund at the measurement date. The estimated value, provided by the fund, is subject to an annual independent audit and is reviewed by management for reasonableness. The Foundation believes the carrying amount of these financial instruments are a reasonable estimate of fair value.

Award match receivable: The award matching receivable is comprised of non-federal match commitments (promises to give) to the Foundation. The receivables are satisfied through non-federal matching payments to the Foundation, parallel payments to the Foundation's grant awardee, or in-kind services provided by the awardee on the Foundation's program. Awardees certify the commitment to meet the matching requirements when the grant is awarded. The matching award revenue is recognized when the award is made and the related award match receivable is relieved in accordance with the award terms. Receivables that will be satisfied in more than one year are discounted to their net present value using a rate commensurate with the risks involved.

Property and equipment: Property and equipment, if any, are stated at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful life of the depreciable assets. The Foundation capitalizes all property and equipment purchased with a cost of \$5,000 or more.

Deferred rent: The Foundation has a lease agreement for office space in Washington, D.C. In addition to annual escalating payments over the life of the lease, the agreement provided for four months of abated rent. The annual increases and abatement are being amortized on a straight-line basis over the life of the lease agreement.

Revenue recognition: The federal appropriation is recognized to the extent that the Foundation secures at least an equal amount of non-federal matching funds, provided to the Foundation or directly to the awardee, or in-kind services provided to match each expenditure. According to a legal opinion, appropriation funds are able to be used to pay expenses for establishing and organizing the Foundation and initiating its operations through July 2019. Under the 2018 Farm Bill the Foundation is permitted to recognize revenue to the extent that non-federal matching funds have been secured on an organization wide basis. The appropriation received in advance of achieving the criteria for revenue recognition is recorded as a conditional grant on the balance sheet. Unconditional promises to give in the form of matching funds on Foundation established research projects are recognized as matching award revenue as the promises are received.

Grants payable: Unconditional grants are recorded as expenses in the period awarded and are comprised of amounts to be paid directly by the Foundation and amounts to be satisfied through non-federal matching payments or in-kind services. In-kind services are provided from non-federal entities to satisfy and complete the terms of the grant. Payables that will be satisfied in more than one year are discounted to their net present value using a rate commensurate with the risks involved.

Conditional Grant – General Operating Support Fund: As permitted by the Farm Bill passed in the 2014, the Foundation has established a policy where 10% of the Foundation's share of the award commitments are allocated from the conditional grant to fund administration of grant awards through their completion. In addition, 5% of any matching award funds received directly by the Foundation will be allocated to the General Operating Support Fund.

Foundation for Food and Agriculture Research

Notes to Financial Statements

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

There was a legislative language change in the 2018 Farm Bill and the Foundation recognizes its matching revenue on an organization wide basis. As such, subsequent to the 2018 Farm Bill, allocations to the General Operating Support Fund are ceased. This will become effective for the year ending December 31, 2019. The existing funds from the General Operating Support Fund and investment income will be utilized to support operations.

Income taxes: The Foundation is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. Income that is not related to exempt purposes, less applicable deductions, is subject to income taxes. The Foundation had no significant net unrelated business income for the year ended December 31, 2018, and was determined to not be a private foundation.

Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no certain tax positions that require adjustment to the financial statements.

Functional allocation of expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying financial statements. Accordingly, costs have been charged to the program and supporting services benefited. The majority of expenses are directly identifiable. The Foundation allocates certain overhead expenses such as rent based on personnel time.

Use of estimates: The preparation of the financial statements 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 revenue and expenses during the reported period. Actual results could differ from those estimated.

Adoption of recent accounting pronouncement: In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. The Foundation adopted the ASU in 2018.

Pending accounting pronouncements: In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. A lessee is required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The ASU is expected to impact the Foundation's financial statements as the Foundation has certain operating lease for which it is the lessee. The standard is effective on January 1, 2020, with early adoption permitted.

Foundation for Food and Agriculture Research

Notes to Financial Statements

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

In June 2018, the FASB issued ASU No. 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The purpose of the ASU is to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in the ASU should assist entities in: (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The ASU has different effective dates for resource recipients and resource providers. Where the Foundation is the resource recipient, the ASU will be effective for contributions received for annual periods beginning after December 15, 2018. Where the Foundation is the resource provider, the ASU is effective for annual periods beginning after December 15, 2019. Early adoption is permitted. Management is currently evaluating the impact of the pending adoption of this new ASU on its financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in generally accepted accounting principles in generally accepted accounting principles in the United States of America (U.S. GAAP) when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018.

Subsequent events: The Foundation evaluated subsequent events through May 10, 2019, which is the date of the financial statements were available to be issued.

Note 2. Liquidity and Financial Availability

The Foundation regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. Management expects to utilize a significant portion of the conditional grant liability during the year ending December 31, 2019, as grants and awards are issued and the match requirement is satisfied. As of December 31, 2018, the following financial assets are available to meet annual operating needs for the upcoming fiscal year:

Cash and cash equivalents	\$ 13,781,870
Contributions receivable	357,113
Certificate of Deposit	200,224
Investments	166,148,846
Total financial assets available	<u>180,488,053</u>
Exclude conditional grant liability	(112,539,370)
Exclude conditional grant liability - General Operating Support Fund	(5,056,061)
Exclude invested funds subject to Board approval	<u>(5,987,049)</u>
Financial assets available to meet operating needs within one year	<u>\$ 56,905,573</u>

Foundation for Food and Agriculture Research

Notes to Financial Statements

Note 3. Fair Value Measurements and Investments

The Foundation follows the Codification topic, Fair Value Measurement. The topic applies to all assets and liabilities that are being measured and reported on a fair value basis. The topic establishes a framework for measuring fair value in accordance with U.S. GAAP and expands disclosure about fair value measurements. The topic enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The topic requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are subject to the topic. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The following table summarizes the Foundation's assets, which are measured at fair value on a recurring basis as of December 31, 2018.

	Total	Level 1
Investments:		
Investments valued using a net asset value per share practical expedient	\$165,854,493	\$ -
Money market fund	294,353	294,353
Total investments at fair value	<u>\$166,148,846</u>	<u>\$ 294,353</u>

The money market fund is classified as a Level 1 instrument as it is actively traded on a public exchange. The investments can be redeemed daily with no notice period, and there are no unfunded commitments at December 31, 2018.

Foundation for Food and Agriculture Research

Notes to Financial Statements

Note 3. Fair Value Measurements and Investments (Continued)

The Foundation invests in five different funds that comprise the \$165,854,493 in the above table. The fund objectives are detailed as follows:

Objective	Total
The investment objective of the fund is to seek an investment return that approximates as closely as practicable, before expenses, the performance of the Bloomberg Barclays U.S. 1-3 Year Government/Credit Bond Index over the long-term.	\$ 92,102,114
The investment objective of the fund is to provide long-term total return, which includes capital appreciation and income. The benchmark for the fund is the MSCI World Index.	9,327,557
The investment objective of the fund is to seek an investment return that approximates as closely as practicable, before expenses, the performance of the Bloomberg Barclays U.S. Aggregate Bond Index over the long-term.	50,899,788
The investment objective of the fund is to approximate as closely as practicable, before expenses, the performance of the Russell 3000 [®] Index over the long-term.	7,581,363
The investment objective of the fund is to provide long-term total return, which includes capital appreciation and income. The benchmark for the fund is the MSCI EAFE Index.	5,943,671
	<u>\$165,854,493</u>

The following schedule summarizes investment loss for the year ended December 31, 2018:

Interest and dividends	\$ 1,995,367
Net realized and unrealized loss	(1,381,293)
Investment fees	(317,660)
	<u>\$ 296,414</u>

Foundation for Food and Agriculture Research

Notes to Financial Statements

Note 4. Lease Commitments

The Foundation has a lease agreement for office space that expires in 2026. Total rent expense was approximately \$854,000 for the year ended December 31, 2018. Commitments related to the lease are as follows:

Years ending December 31:	
2019	\$ 424,709
2020	443,782
2021	463,785
2022	444,253
2023	506,426
Thereafter	<u>1,515,673</u>
	<u>\$ 3,798,628</u>

Note 5. Grants Payable

The expected future payments on the awarded grants made by the Foundation and from non-federal entities who have provided the match at December 31, 2018, are as follows:

Years ending December 31:	
2019	\$ 55,259,115
2020	48,704,808
2021	21,367,836
2022	7,122,421
2023	<u>400,000</u>
	132,854,180
Less discount (2.26%)	<u>(2,751,083)</u>
	<u>\$ 130,103,097</u>

Note 6. Award Match Receivable

The expected future payments, parallel funding or in-kind services to satisfy award matching receivables at December 31, 2018, are as follows:

Years ending December 31:	
2019	\$ 31,330,978
2020	27,614,797
2021	12,115,199
2022	4,038,292
2023	<u>226,832</u>
	75,326,098
Less discount (2.26%)	<u>(1,421,155)</u>
	<u>\$ 73,904,943</u>

Foundation for Food and Agriculture Research

Notes to Financial Statements

Note 7. Retirement Plan

The Foundation has a defined contribution 401(k) retirement plan covering all eligible employees who have completed one month of service. Under the plan, the Foundation matches 100% of the employees' contribution up to 6% of salary. The Foundation contributed approximately \$96,000 during the year ended December 31, 2018.