

# **Foundation for Food and Agriculture Research**

Financial Report  
December 31, 2017

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## Independent Auditor's Report

RSM US LLP

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, 2017, 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 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, 2017, 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.

*RSM US LLP*

Washington, D.C.  
May 8, 2018

**Foundation for Food and Agriculture Research**

**Balance Sheet  
December 31, 2017**

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**Assets**

|                             |                              |
|-----------------------------|------------------------------|
| Cash and cash equivalents   | \$ 9,460,979                 |
| Certificate of deposit      | 200,000                      |
| Award match receivable      | 53,150,587                   |
| Investments                 | 183,533,819                  |
| Security deposits           | 101,603                      |
| Property and equipment, net | <u>32,232</u>                |
|                             | <u><u>\$ 246,479,220</u></u> |

**Liabilities and Net Assets**

Liabilities:

|  |                    |
|--|--------------------|
| Accounts payable                                   | \$ 35,901          |
| Grants payable, net of discount                    | 89,439,473         |
| Accrued expenses                                   | 185,269            |
| Conditional grant                                  | 148,976,145        |
| Conditional grant – General Operating Support Fund | 2,347,171          |
| Deferred rent                                      | <u>122,477</u>     |
|  | <u>241,106,436</u> |

Net assets

|                                 |                              |
|---------------------------------|------------------------------|
| Unrestricted – Board designated | <u>5,372,784</u>             |
|                                 | <u>5,372,784</u>             |
|                                 | <u><u>\$ 246,479,220</u></u> |

See notes to financial statements.

**Foundation for Food and Agriculture Research**

**Statement of Activities  
Year Ended December 31, 2017**

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|                                       |                     |
|---------------------------------------|---------------------|
| Revenue:                              |                     |
| Recognition of deferred appropriation | \$ 43,301,753       |
| Matching award revenue, net           | 69,532,463          |
| Investment income, net of fees        | 5,372,784           |
| Crops of the future contributions     | 207,000             |
| Contributions                         | 36,460              |
| Other revenue                         | 202,407             |
| <b>Total revenue</b>                  | <u>118,652,867</u>  |
| Expenses:                             |                     |
| Program:                              |                     |
| Grants and awards program             | 110,918,970         |
| Supporting services:                  |                     |
| General and administrative            | 2,106,213           |
| Development                           | 254,900             |
| <b>Total expense</b>                  | <u>113,280,083</u>  |
| <b>Change in net assets</b>           | 5,372,784           |
| Net assets:                           |                     |
| Beginning of year                     | <u>-</u>            |
| End of year                           | <u>\$ 5,372,784</u> |

See notes to financial statements.

**Foundation for Food and Agriculture Research**

**Statement of Cash Flows**  
**Year Ended December 31, 2017**

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|   |                            |
|---|----------------------------|
| Cash flows from operating activities:   |                            |
| Change in net assets  | \$ 5,372,784               |
| Adjustments to reconcile change in net assets to net cash used in operating activities: |                            |
| Depreciation  | 8,523                      |
| Deferred rent   | 38,141                     |
| Realized and unrealized gains in investments  | (5,372,845)                |
| Changes in operating assets and liabilities:  |                            |
| (Increase) decrease in:   |                            |
| Contributions receivable  | (51,489,444)               |
| Prepaid expenses  | 41,372                     |
| Security deposits   | (45,762)                   |
| (Decrease) increase in:   |                            |
| Accounts payable  | (509,688)                  |
| Grants payable, net of discount   | 86,002,010                 |
| Accrued expenses  | 66,372                     |
| Conditional grant   | (45,299,443)               |
| Conditional grant – General Operating Support Fund                                      | 2,347,171                  |
| <b>Net cash used in operating activities</b>  | <u><u>(8,840,809)</u></u>  |
| Cash flows from investing activities:   |                            |
| Sales of investments  | 18,036,833                 |
| Purchase of certificate of deposit  | (200,000)                  |
| <b>Net cash provided by investing activities</b>  | <u><u>17,836,833</u></u>   |
| <b>Net increase in cash and cash equivalents</b>  | 8,996,024                  |
| Cash and cash equivalents:  |                            |
| Beginning of year   | <u>464,955</u>             |
| End of year   | <u><u>\$ 9,460,979</u></u> |

See notes to financial statements.

## Foundation for Food and Agriculture Research

### Notes to Financial Statements

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#### 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.

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 three classes of net assets: unrestricted, temporarily restricted and permanently restricted. There were no temporarily restricted or permanently restricted net assets as of December 31, 2017.

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

**Unrestricted:** Unrestricted net assets are available for the overall operations of the Foundation.

**Unrestricted – Board designated:** Unrestricted – Board designated assets represent investment income designated 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

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#### 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. Accordingly, the estimated fair value may differ significantly from the value that would have been used had a readily available market existed for these investments.

**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 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 or in-kind services provided for 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. 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:** The Foundation has established a policy, whereby 5% of the Foundations' share of the award commitments are allocated from the conditional grant to fund the administration of grant awards through their completion. In addition, 5% of any matching award funds received directly by the foundation will be allocated to General Operating Support Fund.



## Foundation for Food and Agriculture Research

### Notes to Financial Statements

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

**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 net unrelated business income for the year ended December 31, 2017, 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 statement of activities. Accordingly, certain costs have been charged to the program development, award and supporting services benefited.

**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.

**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.

In August 2016, the FASB issued 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 ASU will be effective for fiscal years beginning after December 15, 2017. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied.

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 8, 2018, which is the date of the financial statements were available to be issued.

## Foundation for Food and Agriculture Research

### Notes to Financial Statements

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#### Note 2. 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, 2017.

|  | Total                 | Level 1           |
|--|-----------------------|-------------------|
| Investments:   |                       |                   |
| Investments valued using a net asset value per share practical expedient | \$ 183,245,224        | \$ -              |
| Money market fund  | 288,595               | 288,595           |
| Total investments at fair value  | <u>\$ 183,533,819</u> | <u>\$ 288,595</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, 2017.

## Foundation for Food and Agriculture Research

### Notes to Financial Statements

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#### Note 2. Fair Value Measurements and Investments (Continued)

The Foundation invests in four different funds that comprise the \$183,245,224 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. | \$ 155,257,297        |
| 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.  | 11,170,042            |
| The investment objective of the fund is to approximate as closely as practicable, before expenses, the performance of the Russell 3000 <sup>®</sup> Index over the long-term.   | 9,413,396             |
| 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.   | 7,404,489             |
|   | <u>\$ 183,245,224</u> |

#### Note 3. Property and Equipment

Property and equipment at December 31, 2017, consisted of the following:

|                              |                  |
|------------------------------|------------------|
| Computer equipment           | \$ 21,642        |
| Software                     | 28,343           |
| Total property and equipment | 49,985           |
| Accumulated depreciation     | (17,753)         |
| Property and equipment, net  | <u>\$ 32,232</u> |

#### Note 4. Lease Commitments

The Foundation has a lease agreement for office space that expires in 2026. Total rent expense was approximately \$251,000 for the year ended December 31, 2017. Commitments related to the lease are as follows:

|                           |                     |
|---------------------------|---------------------|
| Years ending December 31: |                     |
| 2018                      | \$ 406,412          |
| 2019                      | 424,709             |
| 2020                      | 443,781             |
| 2021                      | 463,784             |
| 2022                      | 484,640             |
| Thereafter                | 2,166,573           |
|                           | <u>\$ 4,389,899</u> |

## Foundation for Food and Agriculture Research

### Notes to Financial Statements

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#### 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 matching funds at December 31, 2017, are as follows:

|                           |                      |
|---------------------------|----------------------|
| Years ending December 31: |                      |
| 2018                      | \$ 40,427,126        |
| 2019                      | 33,589,296           |
| 2020                      | 14,262,349           |
| 2021                      | 2,701,684            |
|                           | <hr/>                |
|                           | 90,980,455           |
| Less discount (2.26%)     | (1,540,982)          |
|                           | <hr/>                |
|                           | <u>\$ 89,439,473</u> |

#### Note 6. Award Match Receivable

The expected future payments or in-kind services to satisfy award matching receivables at December 31, 2017, are as follows:

|                           |                      |
|---------------------------|----------------------|
| Years ending December 31: |                      |
| 2018                      | \$ 22,859,309        |
| 2019                      | 20,486,498           |
| 2020                      | 9,166,491            |
| 2021                      | 1,595,186            |
|                           | <hr/>                |
|                           | 54,107,484           |
| Less discount (2.26%)     | (956,897)            |
|                           | <hr/>                |
|                           | <u>\$ 53,150,587</u> |

#### 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 employee's contribution up to 6% of salary. The Foundation contributed approximately \$76,000 during the year ended December 31, 2017.