CALIFORNIA AGRICULTURAL LEADERSHIP FOUNDATION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2018 AND 2017

AND INDEPENDENT AUDITORS' REPORT

CALIFORNIA AGRICULTURAL LEADERSHIP FOUNDATION

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HAYASHI | WAYLAND

INDEPENDENT AUDITORS' REPORT

Board of Directors
California Agricultural Leadership Foundation
Salinas, California

Report on the Financial Statements

We have audited the accompanying financial statements of ***California Agricultural Leadership Foundation*** which comprise the statements of financial position as of June 30, 2018 and 2017, the related statements of activities and changes in net assets 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 audits. We conducted our audits 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 of 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.

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HAYASHI & WAYLAND ACCOUNTING & CONSULTING, LLP | LOCATIONS IN CARMEL, KING CITY, PASO ROBLES & SALINAS

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ***California Agricultural Leadership Foundation*** as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

December 5, 2018

Hayashi Wayland, LLP

CALIFORNIA AGRICULTURAL LEADERSHIP FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 320,679	$ 68,862
Contributions receivable	851	20,230
Pledges receivable	191,900	246,499
Short-term investments	11,140	53,016
Other current asset	11,500	40,171
Total current assets	536,070	428,778
Property and equipment – net	27,383	4,001
Pledges receivable – net	532,058	538,852
Long-term investments	17,904,106	16,001,424
TOTAL ASSETS	$ 18,999,617	$ 16,973,055
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 64,355	$ 24,390
Funds held for others	4,521	30,136
Other current liabilities	252,057	45,999
Total current liabilities	320,933	100,525
NET ASSETS:		
Unrestricted:		
Undesignated	2,384,342	2,163,423
Board designated	600,000	600,000
Temporarily restricted	2,190,113	1,208,546
Permanently restricted	13,504,229	12,900,561
Total net assets	18,678,684	16,872,530
TOTAL LIABILITIES AND NET ASSETS	$ 18,999,617	$ 16,973,055

See Notes to Financial Statements.

CALIFORNIA AGRICULTURAL LEADERSHIP FOUNDATION
STATEMENTS OF ACTIVITES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CHANGES IN UNRESTRICTED NET ASSETS:		
REVENUES AND GAINS:		
Special events gross revenues	$ 342,157	$ 402,871
Less: special events direct costs	(76,150)	(92,121)
Net revenues from special events	266,007	310,750
Contributions	1,039,569	980,996
Net investment income (loss)	109,512	157,427
In-kind revenue	37,482	25,253
Other income	16,904	18,571
Net assets released from restrictions	306,449	719,919
Total unrestricted revenues and gains	1,775,923	2,212,916
EXPENSES:		
Program services	1,206,721	1,136,316
Fundraising	245,007	282,256
General and administrative	103,776	125,621
Granted fund expense	–	200,000
Total expenses	1,555,504	1,744,193
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	220,419	468,723
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Net investment income (loss)	1,288,516	1,767,817
Net assets released from restrictions	(306,449)	(719,919)
Contributions	–	500
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	982,067	1,048,398
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS – Contributions	603,668	230,983
INCREASE (DECREASE) IN PERMANENTLY RESTRICTED NET ASSETS	603,668	230,983
CHANGE IN NET ASSETS	1,806,154	1,748,104
NET ASSETS, BEGINNING OF YEAR	16,872,530	15,124,426
NET ASSETS, END OF YEAR	$ 18,678,684	$ 16,872,530

See Notes to Financial Statements.

CALIFORNIA AGRICULTURAL LEADERSHIP FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 1,806,154	$ 1,748,104
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	1,362	2,970
Net realized/unrealized (gain)/loss on investments	(1,398,028)	(1,794,326)
Contributions for endowment purposes	(603,668)	(230,983)
Change in present value of discount on pledges	43,894	(27,028)
(Increase) decrease in:		
Contributions receivable	19,379	(17,743)
Pledges receivable	17,499	(55,849)
Other current assets	28,671	(11,050)
Increase (decrease) in:		
Accounts payable	39,965	(2,446)
Funds held for others	(25,615)	30,136
Other liabilities	206,058	(173,565)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	135,671	(531,780)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment purchases	(4,387,906)	(1,340,969)
Proceeds from sale of investments	3,925,128	1,594,689
Property and equipment purchases	(24,744)	–
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(487,522)	253,720
CASH FLOWS FROM FINANCING ACTIVITIES – Permanently restricted contributions	603,668	230,983
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	603,668	230,983
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	251,817	(47,077)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	68,862	115,939
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 320,679	$ 68,862

See Notes to Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities – The California Agricultural Leadership Foundation (the "Foundation") is a non-profit organization which was originally formed in 1962 as the Agricultural Education Foundation. In 2004, the Agricultural Education Foundation merged with Agricultural Leadership Alumni and the name was changed to the California Agricultural Leadership Foundation. The mission of the Foundation is to enhance the long-term viability of California agriculture through leadership development, which in turn benefits the people and communities that agriculture serves. The Foundation's mission statement was simplified in 2010 to reinforce its focus on adult education and leadership: "We grow leaders who make a difference."

Basis of Presentation – The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The net assets, revenues, gains and losses, other support and expenses, and other changes in the accompanying financial statements are classified based on the existence or absence of donor-imposed restrictions. Accordingly, for reporting purposes, net assets of the Foundation and changes therein are classified as follows:

- **Unrestricted Net Assets** – Net assets that are not subject to donor-imposed stipulations. This includes certain amounts designated by the Board for endowment and other purposes.

- **Temporarily Restricted Net Assets** – Net assets subject to donor-imposed stipulations that may be or will be met either by actions of the Foundation and/or the passage of time.

- **Permanently Restricted Net Assets** – Net assets subject to donor-imposed restrictions that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or a part of the income earned on related investments for general or specific purposes.

Recognition of Donor Restrictions – Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or the purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as "net assets released from restriction."

NOTE 1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Cash and Cash Equivalents – The Foundation considers all highly liquid investments with an initial maturity of three months or less at the date of purchase to be cash equivalents except for money market funds held in investment brokerage accounts, which are classified as investments.

Contributions Receivable – Contributions receivable are recorded at net realizable value. The Foundation uses the allowance method to determine uncollectible contributions receivable. The allowance is based on prior years' experience and management estimate of collectability of specific contributions made. The allowance has been estimated at zero for the years ended June 30, 2018 and 2017.

Pledges Receivable – Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected over periods in excess of one year are recorded at the present value of the estimated future cash flows beyond one year. The discounts on those amounts are computed using an estimated discount rate applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Management provides for probable uncollectible amounts based on its assessment of recent collections, economic factors and current donor relationships. The allowance has been estimated at zero for the years ended June 30, 2018 and 2017.

Investment Valuation and Income Recognition – The Foundation carries investments in marketable securities with readily determined fair values and all investments in debt securities at their fair values in the statement of financial position. Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date. Realized gains and losses on investments are recognized upon the sale of the related investments. Unrealized gains and losses are recognized at month end when the carrying values of the related investments are adjusted to their estimated fair market value and are included in the change in net assets. Purchases and sales of securities are reflected on a trade-date basis.

Property and Equipment – Property is recorded at cost, except for donated property, which is recorded at fair market value on the date received. 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 Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service. It is the Foundation's policy to capitalize assets with a useful life greater than one year and cost over $1,500. The costs of normal maintenance and repairs that do not add to the value of the asset, or materially extend its useful life, are expensed to operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which has been estimated to be five years.

Fair Value of Financial Instruments – The fair value of financial instruments including cash and cash equivalents, contributions receivable, accounts payable, and accrued expenses approximate their individual carrying amounts due to the relatively short period of the time between their origination and expected realization.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition – Contributions, which include unconditional promises to give, are recognized as revenues in the period received or promised. Conditional contributions are recorded when the conditions have been substantially met. Contributions are considered to be unrestricted unless specifically restricted by the donor.

Gains and losses on investments and other assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Donated Services – Donated services are not recorded unless such services create or enhance nonfinancial assets or require specialized skills and are so essential that they would be purchased if not provided by donation.

Functional Allocation of Expenses – The cost of providing various programs and supporting activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Taxes on Income – As a tax-exempt not-for-profit organization, the Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and from State Franchise tax under California Revenue and Taxation Code Section 23701 (d), but is subject to taxes on unrelated business income when earned.

Management has considered its tax positions and believes that all of the positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Foundation's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts. Actual results could differ from those estimates.

Reclassifications – Certain prior year amounts have been reclassified to conform with the current year presentation.

Recent Accounting Pronouncements – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 provides a robust framework for addressing revenue recognition issues and, upon its effective date, will replace almost all pre-existing revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles (GAAP). Implementation for non-public entities must occur in years beginning after December 15, 2018. Early application of the amendments in this update is permitted. The Foundation has no plans for early implementation of this Statement. At this time the Foundation is not certain of the effect the adoption of ASU 2014-09 will have on the accompanying financial statements.

NOTE 1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

On February 25, 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Non-public entities are required to adopt the standard for reporting periods beginning after December 15, 2019. All entities may elect to early-adopt. The core principle of the new leases standard is that lessees should recognize assets and liabilities arising from all leases, except for leases with a lease term of 12 months or less. The Foundation has no plans for early implementation of this Statement. At this time the Foundation is not certain of the effect the adoption of ASU 2016-02 will have on the accompanying financial statements.

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. While the guidance is effective for fiscal years beginning after December 15, 2017, early adoption is allowed. Key elements of the ASU include a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. The Foundation has no plans for early implementation of this Statement. At this time the Foundation is not certain of the effect the adoption of ASU 2016-14 will have on the accompanying financial statements.

In June 2018, the FASB issued ASU 2018-08 Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The amendments in this update clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. This standard is effective for nonpublic companies for years beginning after December 15, 2018. The Foundation has no plan for early implementation of this statement. At this time the Foundation is not certain of the effect the adoption of ASU 2018-08 will have on the accompanying financial statements.

Subsequent Events – Subsequent events have been evaluated through December 5, 2018, which is the date the financial statements were available to be issued.

NOTE 2. **CONCENTRATION OF CREDIT RISK**

The Foundation maintains deposits and investments in financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC) insured amounts. The FDIC insures accounts up to $250,000 and the SIPC insures accounts up to $500,000 per account holder. Financial instruments that are exposed to concentrations of credit risk consist of cash and cash equivalents and marketable securities. At June 30, 2018 and 2017, the total bank balances exceeded the FDIC and SIPC limits by $17,435,661 and $15,501,406, respectively. The Foundation has not experienced any losses in such accounts and believes it was not exposed to any significant credit risk on cash and cash equivalents.

NOTE 2. CONCENTRATION OF CREDIT RISK (Continued)

The Foundation's investments are exposed to various risks, such as fluctuations in the market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near future and such changes could materially affect the amounts reported in the statement of activities.

NOTE 3. PLEDGES RECEIVABLE

Pledges receivable consist of unconditional promises to give for various purposes. Pledges written off as uncollectible and recorded to bad debt expense amounted to $800 and zero for the years ended June 30, 2018 and 2017, respectively. The pledges have been discounted at an average discount rate of 5.89%. No allowance for doubtful pledges has been recorded as of June 30, 2018 and 2017.

Pledges receivable at June 30 are as follows:

	2018	2017
Pledges receivable due in less than one year	$ 191,900	$ 246,499
Pledges receivable due in one to six years	639,550	602,450
Total pledges	831,450	848,949
Less discount to net present value	107,492	63,598
Pledges receivable – net	$ 723,958	$ 785,351

NOTE 4. FAIR VALUE MEASUREMENTS

The Foundation measures its assets and liabilities at fair value in accordance with the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification. This guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value.

The guidance establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The guidance expands disclosures about instruments measured at fair value. The guidance applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, the guidance does not require any new fair value measurements.

NOTE 4. FAIR VALUE MEASUREMENTS (Continued)

As noted above, the guidance establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial statement.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurements.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents the financial instruments carried at fair value as of June 30 by caption on the statement of financial position by the valuation hierarchy defined above:

	2018			
	Level 1	Level 2	Level 3	Total
Investment category:				
Money market (Note 5)	$ 11,140	$ –	$ –	$ 11,140
Stocks, bonds and mutual funds (Note 5)	17,904,106	–	–	17,904,106
	$ 17,915,246	$ –	$ –	$ 17,915,246

	2017			
	Level 1	Level 2	Level 3	Total
Investment category:				
Money market (Note 5)	$ 53,016	$ –	$ –	$ 53,016
Stocks, bonds and mutual funds (Note 5)	16,001,424	–	–	16,001,424
	$ 16,054,440	$ –	$ –	$ 16,054,440

Following is a description of the Foundation's valuation methodologies for assets measured at fair value:

Fair value for Level 1 is based upon quoted market prices. Inputs are obtained from various sources including market participants, dealers, brokers and financial institutions.

NOTE 5. INVESTMENTS

Investments are managed by outside managers under the direction and oversight of Management and the Finance Committee of the Board of Directors. The Finance Committee determines the asset allocation formula and places limitations on the types of investments the managers may purchase.

Investments restricted by the donor for endowment purposes are recorded as permanently restricted net assets based on the original amount of the gift. Dividends and interest on such endowment assets are reflected as an increase in unrestricted net assets based on the intentions stipulated by the donors.

Investments are stated at fair value based on quoted market prices and were composed of the following at June 30:

	2018	2017
Money market funds	$ 11,140	$ 53,016
Domestic stocks and stock funds	7,073,828	6,687,688
International stocks and stock funds	4,405,858	4,223,300
Domestic corporate bonds and bond funds	5,204,051	4,237,497
International corporate bonds and bond funds	1,220,369	852,939
Total investments	$ 17,915,246	$ 16,054,440

The following schedule summarizes net investment income for the years ended June 30:

	2018	2017
Interest/dividend income	$ 229,836	$ 187,593
Realized/unrealized gains (losses) on investments	1,226,323	1,794,326
Investment fees	(58,131)	(56,675)
Total investment income (loss) – net	$ 1,398,028	$ 1,925,244

NOTE 6. PROPERTY AND EQUIPMENT – NET

The Foundation's property and equipment consists of the following at June 30:

	2018	2017
Office furniture and equipment	$ 18,821	$ 18,821
Computer and software	48,246	29,039
Total	67,067	47,860
Accumulated depreciation	(39,684)	(43,859)
Property and equipment – net	$ 27,383	$ 4,001

Depreciation expense for the years ended June 30, 2018 and 2017 was $1,362 and $2,970, respectively.

NOTE 7. FUNDS HELD FOR OTHERS

The Foundation maintains cash funds for each Ag leadership class on behalf of the class treasurer. The monies are deposited in the Foundation's bank accounts, but they belong to the classes and are used on a discretionary basis by each class. The funds held for others consisted of the following at June 30:

	2018	2017
Class 46	$ –	$ 30,136
Class 47	2,271	–
Class 48	2,250	–
Total	$ 4,521	$ 30,136

NOTE 8. COMMITMENTS

The Foundation leases office equipment under non-cancelable operating leases that expire December 2022 and June 2023. Equipment lease expense totaled $4,610 and $10,070 for the years ended June 30, 2018 and 2017, respectively.

The Foundation leases office space under a non-cancelable operating lease, which is subject to renewal options through June 2019. Total rent expense for the years ended June 30, 2018 and 2017 was $40,800 and $36,000, respectively.

Future minimum payments under non-cancelable operating leases are as follows as of June 30, 2018:

2019	$ 43,909
2020	3,109
2021	3,109
2022	3,109
2023	2,280
Total	$ 55,516

NOTE 9. BOARD DESIGNATED NET ASSETS

Board designated net assets consist of unrestricted funds received from donors that are to be used in the future for operations in accordance with a board approved plan of action. At June 30, 2018 and 2017, Board designated net assets consisted of a $600,000 Board Designated Endowment Fund. On May 12, 2016, the Board authorized a reduction of $400,000 from the Board Designated Endowment Fund to be used for general operations. On July 20, 2016, the Foundation transferred $360,000 from the Board Designated Endowment Fund to the Foundation’s checking account to be used for operations. Over a three-year period, the Board Designated Endowment Fund will be restored to $1,000,000 as originally intended.

NOTE 10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets represent accumulated endowment investment earnings net of investment expenses. When the earnings are appropriated by the Board, the restrictions will have been met and temporarily restricted net assets are released from restriction and classified to unrestricted net assets. Temporarily restricted net assets totaled $2,190,113 and $1,208,546 at June 30, 2018 and 2017, respectively.

NOTE 11. PERMANENTLY RESTRICTED NET ASSETS

At June 30, 2018 and 2017, permanently restricted net assets are composed of various donor restricted contributions to the Foundation’s endowment funds. Under the terms of these contributions, the original donation must be kept in perpetuity and depending on the donors’ wishes, the earnings are available for unrestricted use. The total of these permanently restricted contributions at June 30, 2018 and 2017 was $13,504,229 and $12,900,561, respectively.

NOTE 12. ENDOWMENTS

The Foundation’s endowment consists of nine individual funds established for general operating purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds, including 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.

NOTE 12. ENDOWMENTS (Continued)

Interpretation of Relevant Law – The Foundation's Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent 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 that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Foundation and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Foundation
(7) The investment policies of the Foundation

Spending Policy – Consistent with the standard of prudence prescribed by UPMIFA, the Foundation board may, but is not obligated to, appropriate and distribute in any given year, or in the subsequent fiscal year, from 0% – 7% of the earnings from the donor-restricted endowment funds under its control with a targeted annual distribution of 5%, if circumstances allow. The percentage payout shall be reviewed annually by the Foundation's Finance Committee, which may make recommendations to the board as to any recommended changes in this spending policy, depending on the factors outlined in the paragraph above. In fiscal year 2017, the Foundation authorized a 5% distribution of the June 30, 2017 net asset value to aid in the cash flow for operations in fiscal year 2018. The amount calculated to be $796,253, with $306,449 spent during the 2018 fiscal year. For fiscal year 2018, the Foundation elected to again appropriate a distribution of 5% of the June 30, 2018 net assets value to aid in the cash flow for operations, which will be spent in fiscal year 2019.

Investment Policy

Investment Objective: The Fund is a balanced portfolio composed of equity, fixed income, and cash equivalent securities and, as such, is intended to be more aggressive than fixed income-oriented portfolios and less aggressive than equity-oriented portfolios. In this context "aggressive" relates to such issues as investment vehicles, diversification among economic and industry sectors and individual securities, and expected long-term rates of return and return volatility. Within this framework, the investment objectives for the Fund are stated below in order of importance:

NOTE 12. ENDOWMENTS (Continued)

A. Preservation of Purchasing Power – Asset growth, exclusive of contributions and withdrawals, should exceed the rate of inflation in order to preserve purchasing power of the Foundation's assets.

B. Growth of Capital – Asset growth is expected to be consistent with the Investment Consultant's stated style characteristics over a complete market cycle (generally three to five years).

C. Preservation of Capital – Over the investment time horizon, capital gains are to be protected. A positive return must be experienced over the investment time horizon.

Asset Allocation Limitations: Equity 55% – 85%; and Fixed Income Assets 20% – 40%.

Risk Tolerance: The Board recognizes that risk (i.e., the uncertainty of future events), volatility (i.e., the potential for variability of asset values), and the possibility of loss in purchasing power (due to inflation) are present to some degree in all types of investment vehicles. While high levels of risk are to be avoided, as measured and evidenced by high volatility and/or low quality rated securities, the assumption of risk is warranted and encouraged in order to allow the investment consultant the opportunity to achieve satisfactory long-term results consistent with the objectives and fiduciary character of the Foundation.

Endowment Net Asset Composition –
Endowment net asset composition as of June 30:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	$ 1,118,645	$ 2,190,113	$13,504,229	$16,812,987
Board-designated endowments	600,000	–	–	600,000
	$ 1,718,645	$ 2,190,113	$13,504,229	$17,412,987

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	$ 1,008,444	$ 1,208,046	$12,900,561	$15,117,051
Board-designated endowments	600,000	–	–	600,000
	$ 1,608,444	$ 1,208,046	$12,900,561	$15,717,051

NOTE 12. ENDOWMENTS (Continued)

Changes in Endowment Net Assets –
Changes in endowment net assets for the years ended June 30:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at Beginning of Year	$ 1,608,444	$ 1,208,046	$12,900,561	$15,717,051
Investment return:				
Investment income	18,081	211,413	–	229,494
Realized/unrealized gain (loss)	96,615	1,129,646	–	1,226,261
Investment fees	(4,495)	(52,543)	–	(57,038)
Total investment return	110,201	1,288,516	–	1,398,717
Contributions	–	–	603,668	603,668
Appropriation of endowment assets for expenditure	–	(306,449)	–	(306,449)
Balance at End of Year	$ 1,718,645	$ 2,190,113	$13,504,229	$17,412,987

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at Beginning of Year	$ 1,450,342	$ 160,148	$12,669,578	$14,280,068
Investment return:				
Investment income	15,384	172,021	–	187,405
Realized/unrealized gain (loss)	147,300	1,647,026	–	1,794,326
Investment fees	(4,582)	(51,230)	–	(55,812)
Total investment return	158,102	1,767,817	–	1,925,919
Contributions	–	–	230,983	230,983
Appropriation of endowment assets for expenditure	–	(719,919)	–	(719,919)
Balance at End of Year	$ 1,608,444	$ 1,208,046	$12,900,561	$15,717,051

SUPPLEMENTAL SCHEDULE

CALIFORNIA AGRICULTURAL LEADERSHIP FOUNDATION
SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018			
	Program	Fundraising	General & Administrative	TOTAL
Personnel cost	$ 318,867	$ 98,113	$ 73,613	$ 490,593
Professional services	56,458	69,666	8,224	134,348
Occupancy costs	70,404	15,596	11,697	97,697
Travel	437,912	4,247	984	443,143
Fees	6,152	–	3,313	9,465
Programs and events	221,738	–	–	221,738
In-kind	22,902	14,580	–	37,482
Other operating expenses	71,403	42,805	5,468	119,676
Depreciation expense	885	–	477	1,362
Totals	$ 1,206,721	$ 245,007	$ 103,776	$ 1,555,504

	2017			
	Program	Fundraising	General & Administrative	TOTAL
Personnel cost	$ 327,991	$ 100,633	$ 75,475	$ 504,099
Professional services	84,339	70,727	16,546	171,612
Occupancy costs	54,653	14,823	11,117	80,593
Travel	359,870	9,836	680	370,386
Fees	29,474	–	15,870	45,344
Programs and events	209,488	–	–	209,488
In-kind	8,447	16,525	281	25,253
Other operating expenses	60,124	69,712	4,612	134,448
Depreciation expense	1,930	–	1,040	2,970
Totals	$ 1,136,316	$ 282,256	$ 125,621	$ 1,544,193