

**INSTITUTE FOR AGRICULTURE AND TRADE POLICY
AND SUBSIDIARY**

(A Non-Profit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2022 and 2021



INDEPENDENT AUDITORS' REPORT

To the Board of Directors

INSTITUTE FOR AGRICULTURE AND TRADE POLICY AND SUBSIDIARY

Opinion

We have audited the consolidated financial statements of Institute for Agriculture and Trade Policy (the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Emphasis of Matter with Respect to Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Organization changed its method of accounting for leases as a result of the adoption of Accounting Standards Codification Topic 842, Leases, effective January 1, 2022, under the modified retrospective transition method. Our opinion is not modified with respect to this matter.

Mayer Hoffman McCann P.C.

Minneapolis, Minnesota
June 23, 2023

INSTITUTE FOR AGRICULTURE AND TRADE POLICY AND SUBSIDIARY

STATEMENTS OF FINANCIAL POSITION

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
	<u>ASSETS</u>	
CURRENT ASSETS		
Cash and cash equivalents	\$ 554,545	\$ 409,232
Accounts receivable	-	600
Grants receivable, current portion	593,093	82,918
Prepaid expenses	<u>45,612</u>	<u>29,598</u>
TOTAL CURRENT ASSETS	<u>1,193,250</u>	<u>522,348</u>
PROPERTY AND EQUIPMENT		
Land and buildings	-	272,999
Buildings and leasehold improvements	192,472	129,065
Equipment	75,447	66,799
Less accumulated depreciation	<u>(61,514)</u>	<u>(335,125)</u>
NET PROPERTY AND EQUIPMENT	<u>206,405</u>	<u>133,738</u>
OTHER ASSETS		
Cash restricted for long-term purposes	46,800	98,000
Grants receivable, net of current portion and discount	52,970	68,117
Unemployment trust reserve	40,075	71,981
Investments	1,119,521	855,750
Operating lease right-of-use assets	<u>211,472</u>	<u>-</u>
TOTAL OTHER ASSETS	<u>1,470,838</u>	<u>1,093,848</u>
TOTAL ASSETS	<u>\$ 2,870,493</u>	<u>\$ 1,749,934</u>
	<u>LIABILITIES</u>	
CURRENT LIABILITIES		
Accounts payable	\$ 80,331	\$ 39,946
Accrued expenses	51,037	47,372
Fiscal agent payable	138,006	158,491
Refundable advances	3,500	-
Current portion of operating lease liabilities	<u>47,229</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	<u>320,103</u>	<u>245,809</u>
OPERATING LEASE LIABILITIES, less current portion above	<u>181,708</u>	<u>-</u>
TOTAL LIABILITIES	<u>501,811</u>	<u>245,809</u>
	<u>NET ASSETS</u>	
NET ASSETS		
Without donor restrictions:		
Undesignated	781,466	190,973
Board designated	<u>583,075</u>	<u>733,884</u>
TOTAL NET ASSETS	<u>1,364,541</u>	<u>924,857</u>
With donor restrictions	<u>1,004,141</u>	<u>579,268</u>
TOTAL NET ASSETS	<u>2,368,682</u>	<u>1,504,125</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,870,493</u>	<u>\$ 1,749,934</u>

See Notes to Financial Statements

INSTITUTE FOR AGRICULTURE AND TRADE POLICY AND SUBSIDIARY

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<u>PUBLIC SUPPORT AND REVENUE</u>						
Public support, contributions and grants	\$ 387,322	\$ 1,852,685	\$ 2,240,007	\$ 471,858	\$ 796,705	\$ 1,268,563
Paycheck protection program income	-	-	-	198,553	-	198,553
Administrative fees	9,000	-	9,000	14,500	-	14,500
Honoraria and publications	2,950	-	2,950	1,849	-	1,849
Net investment return	(111,181)	(20,398)	(131,579)	83,532	30,895	114,427
Miscellaneous	603,875	-	603,875	56,193	-	56,193
Net assets released from restrictions	1,407,414	(1,407,414)	-	903,511	(903,511)	-
TOTAL PUBLIC SUPPORT AND REVENUE	2,299,380	424,873	2,724,253	1,729,996	(75,911)	1,654,085
<u>EXPENSES</u>						
PROGRAM SERVICES						
Programs services	1,243,005	-	1,243,005	1,087,506	-	1,087,506
Supporting services:						
Management and general	400,841	-	400,841	307,770	-	307,770
Fund raising	215,850	-	215,850	195,311	-	195,311
TOTAL EXPENSES	1,859,696	-	1,859,696	1,590,587	-	1,590,587
CHANGE IN NET ASSETS	439,684	424,873	864,557	139,409	(75,911)	63,498
NET ASSETS, BEGINNING OF YEAR	924,857	579,268	1,504,125	785,448	655,179	1,440,627
NET ASSETS, END OF YEAR	\$ 1,364,541	\$ 1,004,141	\$ 2,368,682	\$ 924,857	\$ 579,268	\$ 1,504,125

See Notes to Financial Statements

INSTITUTE FOR AGRICULTURE AND TRADE POLICY AND SUBSIDIARY

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2022

	Total Program Services	Supporting Services			Total Supporting Services	Total
		Management and General	Fund Raising			
Salaries, taxes and benefits	\$ 958,744	\$ 202,314	\$ 138,729	\$ 341,043	\$ 1,299,787	
Contracted services	115,588	60,688	46,109	106,797	222,385	
Travel	31,573	17,924	2,093	20,017	51,590	
Conferences and meetings	1,260	989	7,270	8,259	9,519	
Legal and accounting fees	-	92,767	-	92,767	92,767	
Building and grounds	62,496	9,321	6,551	15,872	78,368	
Office expense	16,675	3,103	4,050	7,153	23,828	
Information technology	14,358	1,897	6,279	8,176	22,534	
Insurance, membership and other	25,748	7,783	1,919	9,702	35,450	
Depreciation	16,563	4,055	2,850	6,905	23,468	
Total expenses	\$ 1,243,005	\$ 400,841	\$ 215,850	\$ 616,691	\$ 1,859,696	

See Notes to Financial Statements

INSTITUTE FOR AGRICULTURE AND TRADE POLICY AND SUBSIDIARY

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2021

	Total Program Services	Supporting Services			Total Supporting Services	Total
		Management and General	Fund Raising			
Salaries, taxes and benefits	\$ 886,303	\$ 157,071	\$ 133,148	\$ 290,219	\$ 1,176,522	
Contracted services	88,432	39,737	47,130	86,867	175,299	
Travel	2,210	5,040	141	5,181	7,391	
Conferences and meetings	482	408	-	408	890	
Legal and accounting fees	-	89,087	-	89,087	89,087	
Building and grounds	41,749	3,407	3,121	6,528	48,277	
Office expense	15,573	1,902	2,730	4,632	20,205	
Information technology	11,375	739	4,253	4,992	16,367	
Insurance, membership and other	26,100	7,294	1,962	9,256	35,356	
Depreciation	15,282	3,085	2,826	5,911	21,193	
Total expenses	\$ 1,087,506	\$ 307,770	\$ 195,311	\$ 503,081	\$ 1,590,587	

See Notes to Financial Statements

INSTITUTE FOR AGRICULTURE AND TRADE POLICY AND SUBSIDIARY

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 864,557	\$ 63,498
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation expense	23,468	21,193
Unrealized (gain) loss on investments	142,044	(104,804)
Reinvested dividends and interest	(10,295)	(9,617)
Operating lease expense	18,336	-
Gain on sale of property and equipment	(587,930)	-
Changes in operating assets and liabilities:		
Accounts receivable	600	5,000
Grants receivable	(495,028)	106,037
Prepaid expenses	(16,014)	(3,322)
Unemployment trust reserve	31,906	(71,981)
Accounts payable	40,385	26,255
Accrued expenses	3,665	(5,750)
Fiscal agent payable	(20,485)	112,991
Refundable advances	3,500	-
Operating lease liabilities	(871)	-
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>(2,162)</u>	<u>139,500</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(395,520)	-
Purchase of property and equipment	(201,120)	(20,435)
Proceeds from sale of property and equipment	692,915	-
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>96,275</u>	<u>(20,435)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Collection of contributions received for endowment	-	80,000
NET CASH FLOWS FROM FINANCING ACTIVITIES	<u>-</u>	<u>80,000</u>
NET INCREASE IN CASH	94,113	199,065
CASH AND CASH EQUIVALENTS		
BEGINNING OF YEAR	<u>507,232</u>	<u>308,167</u>
END OF YEAR	<u>\$ 601,345</u>	<u>\$ 507,232</u>

Supplemental disclosure of cash flow information

	<u>2022</u>	<u>2021</u>
Components of cash and cash equivalents		
Cash and cash equivalents	\$ 554,545	\$ 409,232
Cash restricted for long-term purposes	46,800	98,000
	<u>\$ 601,345</u>	<u>\$ 507,232</u>

See Notes to Financial Statements

INSTITUTE FOR AGRICULTURE AND TRADE POLICY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

Organization – The Institute for Agriculture and Trade Policy (IATP) was organized under the provisions of Chapter 317, Minnesota Statutes, as a not-for-profit corporation on February 10, 1987. IATP works locally and globally at the intersection of policy and practice to ensure fair and sustainable food, farm and trade systems.

IATP formed a not-for-profit corporation, IATPAction, in July 2003 to encourage United States citizens to engage in the democratic process and exercise their right to vote.

Principles of consolidation - The consolidated financial statements include the accounts of IATP and its affiliate, IATPAction (collectively referred to as the Organization). Significant intercompany accounts and transactions have been eliminated.

Description of programs:

IATP is a policy advocacy think tank that works at the intersection of food and economic systems. Our programmatic work is organized in interconnected core areas according to content, relationships with partners and the associated policy decision-makers. The areas are Agroecology & Community Food Systems, Climate Change & Rural Strategies and Trade & International Food Governance. In 2022, IATP continued to advance our mission despite the continued challenges induced by the pandemic.

Agroecology & Community Food Systems: IATP is committed to building community-based food systems in Minnesota that give all people access to sufficient, safe, culturally appropriate, and nutritious food, while also developing local food supply chains that allow small to mid-scale farmers to access a variety of new markets, especially farmers from historically excluded Black, Indigenous and People of Color (BIPOC) communities. IATP is helping to revitalize local economies, give farmers stable and predictable income through the buying power of institutions, like school districts and hospitals, and supply fresh and healthy local food to students and communities. Our FY 2022 accomplishments include Increasing the public budget and spending for Farm-To School programs in MN; uniting local food and farmer organizations in their advocacy and public policy making; launching a monthly article on agroecology on our website; and internationally partnering with civil society to strengthen the role of the U.N. Committee on World Food Security as the premier convenor and coordinator of food security and nutrient work.

Climate Change & Rural Strategies: IATP has fought against the harms of exploitive factory farm systems for decades. We are committed to food and farm systems that serve independent family farmers and workers, rural communities, and human and ecosystem health. In 2022 we continued to monitor and report on the most highly polluting forms of agricultural emissions in MN, the US and globally – we published another installment of our ‘Emissions Impossible’ series; we addressed corporate damages to our food and agricultural systems by addressing ‘forever chemicals’; We published a series of papers and articles such as ‘True or False? Evaluating solutions for agriculture and climate change’; and produced a limited episodes podcast ‘Uprooted – Talking COP 27’.

INSTITUTE FOR AGRICULTURE AND TRADE POLICY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Description of programs (continued):

Trade & International Food Governance: IATP is committed to trade relationships that support and protect independent farmers, farm workers, rural communities, and the planet. This means transforming trade negotiations to integrate them into other areas of social and environmental policy and ensure they are accountable and transparent. Our trade work is in coalition with U.S. and international partners, opposing the expansion of harmful trade deals and advancing fair trade alternatives. In 2022 we continued to monitor and write about different trade-policy related threats – including an analysis of the U.S. Challenge to the Canadian dairy supply management; we wrote a series of papers on the interaction of agriculture and trade to inform a European campaign; we published several comments related to the proposed Indo-Pacific Economic Framework and the attempts of U.S. agribusiness to be excluded from the proposed SEC rule on greenhouse gas emissions.

Income tax status - IATP is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and applicable state law. IATP has been classified as a publicly-supported organization and not a private foundation as defined by the IRC. IATPAction is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code and applicable state law. IATPAction has been classified as a publicly-supported organization and not a private foundation as defined by the IRC.

The Organization reviews and assesses its tax positions taken or expected to be taken in tax returns. Based on this assessment the Organization determines whether it is more likely than not that the position would be sustained upon examination by tax authorities. The Organization's assessment has not identified any significant positions that it believes would not be sustained under examination.

The Organization has identified its tax status as a tax exempt entity as its only significant tax position and has determined that such tax position does not result in an uncertainty requiring recognition. The Organization is not currently under examination by any taxing jurisdiction.

The Organization files Form 990 in the U.S. federal jurisdiction and the State of Minnesota. The Organization is generally no longer subject to examination by the Internal Revenue Service three years after the date of filing, including extensions.

Financial statement presentation - The Organization reports information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions. Accordingly net assets of the organization and changes therein are classified and reported as follows:

- Net assets without donor restrictions – Net assets available for general use and not subject to donor-imposed restrictions. These may be used at the discretion of the Organization's management and board of directors. Designated amounts represent those revenues which the Board has set aside for a particular purpose.

INSTITUTE FOR AGRICULTURE AND TRADE POLICY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Financial statement presentation (continued) –

- Net assets with donor restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by the passage of time or by actions of the Organization. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Going concern – Management assesses the Organization’s ability to continue as a going concern and provides related disclosures in certain circumstances. Substantial doubt about an entity’s ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. Management has determined there is not substantial doubt about the Organization’s ability to continue as a going concern.

Contributions and grants - The Organization recognizes contributions and grants as revenue when they are received or unconditionally pledged.

Conditional contributions are recorded as revenue when such amounts become unconditional which generally involves the meeting of a barrier to entitlement. This can include items like meeting a matching provision, incurring specified allowable expenses in accordance with a framework of allowable costs or other barriers. The Organization records conditional contributions received in advance of conditions being met as refundable advances.

Contributions received and net investment return (loss) are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Revenue from government grant and contract agreements, which are generally considered to be conditional non-exchange transactions are recognized when qualifying expenditures are incurred and conditions under the agreements are met.

Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Organization will record such disallowance at the time the determination is made.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

INSTITUTE FOR AGRICULTURE AND TRADE POLICY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Cash and cash equivalents - The Organization considers cash in demand deposit accounts and temporary investments purchased with an original maturity of three months or less to be cash equivalents. Cash and money market funds held as a portion of the Organization's investments portfolio, are classified as long-term assets and are not considered to be cash equivalents for purposes of the statement of cash flows. The Organization maintains cash balances which were derived from donor restricted endowment contributions in perpetuity. As such, these balances are classified separately as noncurrent assets. The Organization maintains its cash and cash equivalents with high credit quality financial institutions. From time to time, the Organization's balances in its bank accounts may exceed Federal Deposit Insurance Corporation limits. The Organization periodically evaluates the risk of exceeding insurance levels and may transfer funds as it deems appropriate. The Organization has not experienced any losses with regards to balances in excess of insured limits or as a result of other concentrations of credit risk.

Investments - Investments are reported at fair value. Fair value is 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. See Note 4 for discussions of fair value measurements.

Net investment return (loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external and direct internal investment expenses.

Purchases and sales of investments are reflected on a trade date basis. Realized gains or losses on sales of investments are based on the cost of specifically identified investments. Changes in unrealized gains and losses are included in the change in net assets in the accompanying statement of activities. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Fair value measurement – US GAAP defines fair value and establishes a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. Fair value is 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.

The fair value hierarchy is broken down into three levels of inputs that market participants would use in valuing the asset or liability, which can be summarized as follows:

- Level 1 - Quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - Quoted prices for similar assets or liabilities
- Level 3 - Valuations based on inputs that are unobservable, therefore requiring management's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

INSTITUTE FOR AGRICULTURE AND TRADE POLICY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Accounts receivable – Accounts receivable are stated at net realizable value. Bad debts are provided on the reserve method based on historical experience and management's evaluation of outstanding receivables at the end of each year. When all collection efforts have been exhausted, the accounts are written off against the related allowance. An allowance for doubtful accounts has not been provided for since management expects all accounts receivables to be collected.

Grants receivable – Contributions are recognized when the donor makes a grant that is, in substance, unconditional. Grants receivable represent amounts committed by donors that have not been received by the Organization. An allowance for doubtful accounts has not been provided for since management expects all grant receivables to be collected.

Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their estimated future cash flows, discounted using risk-adjusted interest rates to the years in which the promises are to be received. Promises to give receivable that are expected to be collected in more than one year are discounted at a rate of 4.7%.

Insurance – The Organization uses a combination of insurance and self-insurance mechanisms, including participation in an unemployment trust, to provide for liabilities for certain risks. Reserve balances attributable to the Organization in the unemployment services trust were \$40,075 and \$71,981 at December 31, 2022 and 2021, respectively.

Property and equipment - The Organization capitalizes all expenditures of property and equipment with a useful life of greater than one year, and a cost in excess of \$1,500 for equipment and \$2,500 for building improvements. Property and equipment are recorded at cost or, in the case of contributed property, at the fair value at the date of contribution. If donors stipulate how long the assets must be used, the contributions are recorded as support with donor restrictions. In the absence of such stipulations, contributions of property and equipment are recorded as support without donor restrictions.

Expenditures for renewals and improvements are capitalized while the cost of maintenance and repairs is charged to expense as incurred. When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts and any resulting gain or loss is reflected in income for the period.

Depreciation is computed using the straight-line method over estimated useful lives of three to forty years.

Fiscal agency – The Organization receives cash from donors for which it is acting as a fiscal agent, which have not been fully disbursed. As such, these funds have been treated as current liabilities.

INSTITUTE FOR AGRICULTURE AND TRADE POLICY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Functional allocation of expenses - The statements of functional expenses present the natural classification detail of expenses by function. Expenses which apply to more than one function are allocated among the functions to which they apply. The allocation of salary expense is based on the annual budget and managements estimate. Other expenses are allocated by time and effort as a percentage of salary and contracted services expense devoted to that function unless a more direct basis is apparent.

Leases – The Organization determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets and operating lease liabilities on the Organization’s statements of financial postiiion. The Organization has no finance leases. ROU assets represent the Organization’s right to use an underlying asset for the lease term and lease liabilities represent the Organization’s obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Organization’s leases do not provide an implicit rate, it uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Organization accounts for the lease and non-lease components as a single lease component. For arrangements accounted for as a single lease component, there may be variability in future lease payments as the amount of the non-lease components is typically revised from one period to the next. These variable lease payments, which are primarily comprised of real estate taxes, utilities, common area maintenance, cleaning services, etc. are recognized in operating expenses in the period in which the obligation for those payments was incurred.

The Organization has elected to apply the short-term lease exemption to all classes of underlying assets.

Accounting pronouncement recently adopted – In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016 – 02, Leases (ASC 842) that requires lessees to recognize a right-of-use asset and lease liability on the statement of financial condition and disclose key information about leasing arrangements. The recognition, measurement and presentation of expenses and cash flows arising from an operating lease by a lessee have not significantly changed from current U.S. GAAP. The Organization adopted the standard effective January 1, 2022, and recognized and measured leases existing at January 1, 2022 through a cumulative effect adjustment. Lease disclosures for the year ended December 31, 2021, are made under prior lease guidance in FASB ASC 840.

INSTITUTE FOR AGRICULTURE AND TRADE POLICY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

(1) **Summary of significant accounting policies (continued)**

Accounting pronouncement recently adopted (continued) – The Organization elected the available practical expedients to account for the existing operating leases under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

The standard did not have a material impact on the Organization’s financial statements at adoption on January 1, 2022.

Risks and uncertainties - The Organization is exposed to various known and unknown risks and uncertainties. Risks include internal and external events and conditions (e.g., pandemics, international conflicts, labor market and supply chain disruption, government mandates and policies, volatile financial markets, etc.) which could impact the value of investment securities, the availability of grants and contributions, and the ability to provide program services. It is at least reasonably possible that changes could occur in the near term and that such changes could materially affect the results of changes in net assets and financial position.

Subsequent events policy - Subsequent events have been evaluated through June 23, 2023, which is the date the financial statements were available to be issued.

INSTITUTE FOR AGRICULTURE AND TRADE POLICY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

(2) Liquidity and availability

The following represents the Organization's financial assets available for general expenditure at December 31:

	<u>2022</u>	<u>2021</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 554,545	\$ 409,232
Accounts receivable	-	600
Grants receivable	649,593	152,918
Cash restricted for long-term purposes	46,800	98,000
Investments	<u>1,119,521</u>	<u>855,750</u>
Total financial assets	<u>2,370,459</u>	<u>1,516,500</u>
Less amounts not available to be used within one year:		
Cash restricted for long-term purposes	46,800	98,000
Long term grants receivable	56,500	70,000
Endowment investments	140,929	121,870
Less amount expected to be appropriated for expenditure	(46,300)	(51,200)
Net assets with donor restrictions subject to expenditure for specified purpose or passage of time	816,412	359,394
Less net assets with restrictions to be met in less than a year:		
Purpose	(395,138)	(120,999)
Time	(364,774)	(168,395)
Net assets designated by the board	<u>583,075</u>	<u>733,884</u>
Total	<u>837,504</u>	<u>1,042,554</u>
Financial assets available for general expenditure within one year	<u>\$ 1,532,955</u>	<u>\$ 473,946</u>

The Organization is substantially supported by restricted contributions. Because donors' restrictions require resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet its responsibilities to its donors. Thus, financial assets may not be available for general expenditure within a single year. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

INSTITUTE FOR AGRICULTURE AND TRADE POLICY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

(3) Conditional promises to give

Conditional promises to give are not recognized as revenue or as a receivable until such amounts become unconditional.

Conditional promises to give at December 31, 2022 and 2021, consist of promises to:

	<u>2022</u>	<u>2021</u>
Enhance the competitiveness of Minnesota's specialty crop industries	\$ 67,547	\$ 37,087
Protect, maintain and improve the health of all Minnesotans	-	2,750
Assist in the fueling of advocates initiative	13,000	-
Communicate remaking of the Global Trade System for a sustainable future project on food security and waste	2,500	-
Total	<u>\$ 83,047</u>	<u>\$ 39,837</u>

(4) Fair value measurements

Fair values of assets measured on a recurring basis at December 31, 2022 and 2021 are as follows:

	Fair value measurements at reporting date using			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2022				
Money market funds	\$ 578,895	\$ 578,895	\$ -	\$ -
US equities	344,112	344,112	-	-
International equities	196,514	196,514	-	-
Total assets measured at fair value	<u>\$ 1,119,521</u>	<u>\$ 1,119,521</u>	<u>\$ -</u>	<u>\$ -</u>
December 31, 2021				
Money market funds	\$ 252,905	\$ 252,905	\$ -	\$ -
US equities	355,075	355,075	-	-
International equities	247,770	247,770	-	-
Total assets measured at fair value	<u>\$ 855,750</u>	<u>\$ 855,750</u>	<u>\$ -</u>	<u>\$ -</u>

Following is a description of the valuation methodologies used for assets measured at fair value. All assets have been valued using a market approach. There have been no changes in the methodologies used at December 31, 2022 and 2021.

Money market funds: Valued at the closing price reported on the active market on which the individual securities are traded.

US and international equities: Valued at the net asset value (NAV) of shares held by the Organization at year end.

The preceding methods described may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

INSTITUTE FOR AGRICULTURE AND TRADE POLICY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

(5) Net assets

The net assets are summarized as follows as of December 31, 2022:

Detail of Net Assets	Without Donor Restrictions	With Donor Restrictions	Total
Undesignated	\$ 781,466	\$ -	\$ 781,466
Board designated - financial stability	583,075	-	583,075
Restricted for specific purposes:			
Trade, technology and global governance	-	98,940	98,940
Climate and rural development	-	150,331	150,331
Mini-grants	-	88,632	88,632
Communications	-	57,235	57,235
Subject to the passage of time	-	421,274	421,274
Endowment funds restricted in perpetuity:			
Original gifts to endowment	-	125,000	125,000
Accumulated investment return (loss)	-	62,729	62,729
	<u>\$ 1,364,541</u>	<u>\$ 1,004,141</u>	<u>\$ 2,368,682</u>

The net assets are summarized as follows as of December 31, 2021:

Detail of Net Assets	Without Donor Restrictions	With Donor Restrictions	Total
Undesignated	\$ 190,973	\$ -	\$ 190,973
Board designated - financial stability	733,884	-	733,884
Restricted for specific purposes:			
Trade, technology and global governance	-	81,354	81,354
Promote sustainable agriculture	-	42,691	42,691
Climate and rural development	-	15,003	15,003
Mini-grants	-	6,850	6,850
Communications	-	22,500	22,500
Subject to the passage of time	-	191,000	191,000
Endowment funds restricted in perpetuity:			
Original gifts to endowment	-	125,000	125,000
Accumulated investment return (loss)	-	94,870	94,870
	<u>\$ 924,857</u>	<u>\$ 579,268</u>	<u>\$ 1,504,125</u>

INSTITUTE FOR AGRICULTURE AND TRADE POLICY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

(5) Net assets (continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, by the occurrence of the passage of time, or by the occurrence of other events specified by donors. Net assets released from restriction for the years ended December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Purpose restriction accomplished:		
Trade, technology and global governance	\$ 339,907	\$ 214,830
Promote sustainable agriculture	42,690	47,130
Climate and rural development	418,373	348,744
Community food systems	102,980	85,233
Mini-grants	29,050	30,551
Communications	96,164	37,500
Expiration of specified time period	366,508	122,397
Endowment appropriation for operations	11,742	17,126
Total restrictions accomplished	<u>\$ 1,407,414</u>	<u>\$ 903,511</u>

(6) Endowments

Interpretation of relevant law - 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 net assets with donor restrictions (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. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Organization in a manner consistent with the standard of prudence described 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 fund
- (2) The purposes of the Organization 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 Organization
- (7) The investment policies of the Organization

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NOTES TO FINANCIAL STATEMENTS

(6) Endowments (continued)

Endowment composition and changes in endowment net assets

Endowment net asset composition by type of fund as of December 31, 2022:

	Without Donor	With Donor	
	<u>Restrictions</u>	<u>Restrictions</u>	<u>Total</u>
Donor restricted	\$ -	\$ 187,729	\$ 187,729
Total endowment net assets	<u>\$ -</u>	<u>\$ 187,729</u>	<u>\$ 187,729</u>
Reconciliation to assets:			
Investments			\$ 140,929
Cash restricted for long-term purposes			46,800
			<u>\$ 187,729</u>

Endowment net asset composition by type of fund as of December 31, 2021:

	Without Donor	With Donor	
	<u>Restrictions</u>	<u>Restrictions</u>	<u>Total</u>
Donor restricted	\$ -	\$ 219,870	\$ 219,870
	<u>\$ -</u>	<u>\$ 219,870</u>	<u>\$ 219,870</u>
Reconciliation to assets:			
Investments			\$ 121,870
Cash restricted for long-term purposes			98,000
			<u>\$ 219,870</u>

Changes in endowment net assets for the year ended December 31, 2022:

	Donor	With Donor	
	<u>Restrictions</u>	<u>Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 219,870	\$ 219,870
Earnings appropriated to support operations	-	(20,399)	(20,399)
Investment return (loss)	-	(11,742)	(11,742)
	<u>\$ -</u>	<u>\$ 187,729</u>	<u>\$ 187,729</u>

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NOTES TO FINANCIAL STATEMENTS

(6) Endowments (continued)

Endowment composition and changes in endowment net assets

Changes in endowment net assets for the year ended December 31, 2021:

	Without Donor	With Donor	
	<u>Restrictions</u>	<u>Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 206,101	\$ 206,101
Earnings appropriated to support operations	-	(17,126)	(17,126)
Investment return (loss)	-	30,895	30,895
	<u>\$ -</u>	<u>\$ 219,870</u>	<u>\$ 219,870</u>

The Organization has adopted investment and spending policies for endowment assets that attempt to maximize income with some focus on moderate growth. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor or board-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that generate income to fund operations each year, while obtaining some long-term growth. To achieve investment objectives, the Organization has adopted long-term strategic asset allocation guidelines as follows: investments will consist of between 60% and 80% equities and between 20% and 40% fixed income investments.

The Organization's current strategy is to maintain funding in lower risk accounts to mitigate the risk of investment losses while providing income to fund the Organization's mission. The target rate of draw allocated for support of operations is 5% per year based on a sixteen quarter rolling average of the endowment's market value. The payout is subject to approval by the Board of Directors and will be released for operations on an annual basis following the end of the calendar year.

The Organization has a policy of appropriating certain funds in excess of the original endowed gift to use to support operations. In establishing this policy, the Organization considered the stipulations of the endowment as needing to maintain financial assets in the original amount of the endowment gifts. Any assets in excess of original gift balances which have not been appropriated to support operations by the Board are classified as net assets with donor restrictions until appropriated. Unless subject to donor restrictions, the board retains the ability to increase or reduce appropriations due to the specific needs of the Organization, including the policy to permit spending from underwater endowment funds.

INSTITUTE FOR AGRICULTURE AND TRADE POLICY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

(7) Paycheck protection program income

The Organization applied for and received a forgivable Paycheck Protection Program (PPP) loan of \$198,553 as provided under the Federal Coronavirus Aid, Relief and Economic Security Act during the years ended December 31, 2021. The Organization accounted for this PPP loans as a conditional contribution. Under the terms of the loan, the balance is forgivable to the extent proceeds are used for certain qualified costs during the measurement period and that certain employment levels are maintained. To the extent a portion of the PPP loan does not meet the criteria to be forgiven, such amount will be required to be repaid, including interest at 1% per the terms of the agreement. The Organization used all of the proceeds on qualified costs and has recorded \$198,553 of grant revenue on the statement of activities during the year ending December 31, 2021.

(8) Leases

The Organization leases office space, under an operating lease, which expires in April 2029 with base monthly payments of approximately \$4,000. In addition, the Organization leases office space in Washington, D.C., Hallowell, Maine and Berlin, Germany under operating leases that have expired. The spaces continue to be leased on a month-to-month basis after the leases expired. The Organization also leases certain equipment under an agreement expiring in June 2023. Lease expense as accounted for under Legacy ASC Topic 840 was approximately \$25,000 for year ended December 31, 2021.

The components of operating lease expense are as follows:

	Year Ended December 31, 2022
Operating lease costs	\$ 25,000
Short-term lease costs	25,000
Total operating lease costs	\$ 50,000
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 17,000
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	\$ 232,000
Weighted average remaining lease term (in years):	
Operating leases	6.3
Weighted average discount rate:	
Operating leases	3.0%

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(8) Leases (continued)

Future minimum lease payments due under the operating lease are as follows:

<u>Years Ending December 31,</u>	
2023	\$ 47,000
2024	48,000
2025	49,000
2026	50,000
2027	51,000
Thereafter	<u>70,000</u>
Total future minimum operating lease payments	\$ 315,000
Less lease incentives receivable	(58,000)
Less imputed interest	<u>(28,000)</u>
Total	<u>\$ 229,000</u>

(9) Retirement plan

The Organization sponsors a 403(b) plan into which employees may make voluntary elective deferrals. The Organization may provide a flat Board-approved amount to all eligible employees. In addition, the Organization will match 100% of employees' contributions on the first 2% of compensation during the plan year. The contributions made by the Organization for the year ended December 31, 2022 and 2021 were \$12,589 and \$15,780, respectively.