LOFTIS GROUP LLC
CERTIFIED PUBLIC ACCOUNTANTS ▪ BUSINESS ADVISORS

SANTA FE
FARMERS MARKET
INSTITUTE

Financial Statements
and
Independent Auditor's Report

December 31, 2017 and 2016

Santa Fe Farmers Market Institute

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Independent Auditor's Report

To the Board of Directors
Santa Fe Farmers Market Institute

We have audited the accompanying financial statements of the Santa Fe Farmers Market Institute (the "Institute", a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Institute 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.

Prior Period Financial Statements

The financial statements of the Institute as of and for the year ended December 31, 2016 were audited by a predecessor auditor, whose report dated August 24, 2017 expressed an unmodified opinion. Our opinion is not modified with respect to this matter.

Loftis Group LLC

Albuquerque, New Mexico
May 21, 2018

Financial Statements

Santa Fe Farmers Market Institute
Statements of Financial Position
December 31,

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	$ 150,547	$ 211,951
Accounts receivable, net of allowance for doubtful accounts of $4,650 at December 31, 2017 and 2016	27,052	17,663
Grants receivable	147,589	25,242
Prepaid expenses	3,949	-
Total current assets	329,137	254,856
Noncurrent assets		
Investments restricted for Farmers Microloan Program	174,133	150,010
Cash restricted for revolving Farmers Microloan Program	30,428	65,293
Cash restricted for token reimbursements	37,484	40,506
Property and equipment, net	3,321,382	3,431,011
Total noncurrent assets	3,563,427	3,686,820
Total assets	$ 3,892,564	$ 3,941,676
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 9,370	$ 9,700
Payroll and related liabilities	3,556	11,728
Accrued vacation pay	6,183	5,817
Deferred revenue	20,670	30,390
Token reimbursements payable	5,101	1,517
Accrued property taxes	20,613	16,703
Note payable, current portion	27,707	26,358
Total current liabilities	93,200	102,213
Noncurrent liabilities		
Security deposits	19,385	19,385
Note payable, net of current portion and debt issuance costs	300,052	325,575
Total noncurrent liabilities	319,437	344,960
Total liabililties	412,637	447,173
Net assets		
Unrestricted	3,045,013	3,202,183
Temporarily restricted	434,914	292,320
Total net assets	3,479,927	3,494,503
Total liabilities and net assets	$ 3,892,564	$ 3,941,676

The accompanying notes are an integral part of these financial statements.

Santa Fe Farmers Market Institute
Statement of Activities
For the Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Earned income			
Leasing income	$ 421,022	$ -	$ 421,022
Other income	17,485	-	17,485
Total earned income	438,507	-	438,507
Grants and contributions			
Foundation grants	73,400	15,000	88,400
Governmental grants	28,559	135,000	163,559
Individual contributions	72,987	22,500	95,487
Corporate contributions	27,429	-	27,429
In-kind contributions	52,590	-	52,590
Total grants and contributions	254,965	172,500	427,465
Other support and revenue			
Fundraising income, net of related expenses	32,198	-	32,198
Investment income	4,044	-	4,044
Total other support and revenue	36,242	-	36,242
Net assets released from restrictions	29,906	(29,906)	-
Total support and revenue	759,620	142,594	902,214
Expenses			
Program services	647,820	-	647,820
Supporting services			
Management and general	165,508	-	165,508
Fundraising	103,462	-	103,462
Total supporting services	268,970	-	268,970
Total expenses	916,790	-	916,790
Change in net assets	(157,170)	142,594	(14,576)
Net assets, beginning of year	3,202,183	292,320	3,494,503
Net assets, end of year	$ 3,045,013	$ 434,914	$ 3,479,927

The accompanying notes are an integral part of these financial statements.

Santa Fe Farmers Market Institute
Statement of Activities
For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Earned income			
Leasing income	$ 385,951	$ -	$ 385,951
Other income	14,307	-	14,307
Total earned income	400,258	-	400,258
Grants and contributions			
Foundation grants	78,375	20,250	98,625
Governmental grants	32,793	-	32,793
Individual contributions	88,706	6,000	94,706
Corporate contributions	41,652	-	41,652
In-kind contributions	18,831	-	18,831
Total grants and contributions	260,357	26,250	286,607
Other support and revenue			
Fundraising income, net of related expenses	24,648	-	24,648
Investment income	6,865	-	6,865
Total other support and revenue	31,513	-	31,513
Net assets released from restrictions	88,658	(88,658)	-
Total support and revenue	780,786	(62,408)	718,378
Expenses			
Program services	556,992	-	556,992
Supporting services			
Management and general	211,407	-	211,407
Fundraising	104,894	-	104,894
Total supporting services	316,301	-	316,301
Total expenses	873,293	-	873,293
Change in net assets	(92,507)	(62,408)	(154,915)
Net assets, beginning of year	3,294,690	354,728	3,649,418
Net assets, end of year	$ 3,202,183	$ 292,320	$ 3,494,503

The accompanying notes are an integral part of these financial statements.

Santa Fe Farmers Market Institute
Statement of Functional Expenses
For the Year Ended December 31, 2017

	Program Services	Management and General	Fundraising	Total
Salaries, payroll taxes, and benefits	$ 188,353	$ 101,712	$ 86,643	$ 376,708
Depreciation and amortization	116,889	11,560	-	128,449
Occupancy	87,719	8,676	-	96,395
Consultants and contracts	78,363	6,591	12,113	97,067
Supplies and office	33,885	4,081	-	37,966
Lease expense	33,673	3,330	-	37,003
Advertising and marketing	28,404	1,984	2,336	32,724
Equipment expense and repairs and maintenance	24,465	2,420	-	26,885
Interest	15,948	1,577	-	17,525
Accounting and legal	-	12,903	-	12,903
Printing and postage	7,426	3,253	387	11,066
Bank and merchant fees	7,890	1,353	1,284	10,527
Insurance	9,546	944	-	10,490
Scholarships and grants distributed	9,397	-	-	9,397
Travel	2,005	1,750	504	4,259
Dues and fees	1,917	2,035	195	4,147
Miscellaneous	379	1,339	-	1,718
Professional development	1,561	-	-	1,561
Total expenses	$ 647,820	$ 165,508	$ 103,462	$ 916,790

The accompanying notes are an integral part of these financial statements.

Santa Fe Farmers Market Institute
Statement of Functional Expenses
For the Year Ended December 31, 2016

	Program Services	Management and General	Fundraising	Total Expenses
Salaries, payroll taxes, and benefits	$ 176,791	$ 90,507	$ 57,155	$ 324,453
Depreciation and amortization	101,467	25,232	2,053	128,752
Occupancy	77,106	20,900	3,293	101,299
Consultants and contracts	59,746	18,856	30,835	109,437
Supplies and office	4,776	900	3,750	9,426
Lease expense	31,294	7,783	632	39,709
Advertising and marketing	12,248	367	144	12,759
Equipment expense and repairs and maintenance	27,111	7,240	794	35,145
Interest	14,623	3,637	296	18,556
Accounting and legal	-	10,483	-	10,483
Printing and postage	9,290	6,785	4,176	20,251
Bank and merchant fees	-	5,143	-	5,143
Insurance	8,695	7,517	904	17,116
Scholarships and grants distributed	2,759	-	-	2,759
Travel	3,079	619	245	3,943
Dues and fees	501	103	501	1,105
Miscellaneous	-	788	-	788
Professional development	9,610	4,547	116	14,273
Loss on diposal of property and equipment	15,735	-	-	15,735
Bad debt	2,161	-	-	2,161
Total expenses	$ 556,992	$ 211,407	$ 104,894	$ 873,293

The accompanying notes are an integral part of these financial statements.

Santa Fe Farmers Market Institute
Statements of Cash Flows
For the Years Ended December 31,

	2017	2016
Cash flows from operating activities		
Cash received from tenants	**$ 401,913**	$ 371,916
Cash received from grants and contributions	**252,528**	262,198
Cash received from fundraising	**52,689**	61,087
Other cash received	**21,529**	21,172
Cash paid to employees and suppliers	**(743,308)**	(706,325)
Cash paid for interest	**(17,525)**	(18,556)
Net cash used by operating activities	**(32,174)**	(8,508)
Cash flows from investing activities		
Proceeds from the sale of investments	**13,764**	-
Purchases of investments	**-**	(3,427)
Purchases of property and equipment	**(16,873)**	-
Net cash used by investing activities	**(3,109)**	(3,427)
Cash flows from financing activities		
Principal payments on note payable	**(26,121)**	(29,294)
Net cash used by financing activities	**(26,121)**	(29,294)
Net decrease in cash and cash equivalents	**(61,404)**	(41,229)
Cash and cash equivalents, beginning of year	**211,951**	253,180
Cash and cash equivalents, end of year	**$ 150,547**	$ 211,951

The accompanying notes are an integral part of these financial statements.

Santa Fe Farmers Market Institute

Statements of Cash Flows – continued

For the Years Ended December 31,

	2017	2016
Reconciliation of change in net assets to net cash used by operating activities		
Change in net assets	**$ (14,576)**	$ (154,915)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation and amortization	**128,449**	128,752
Bad debt	**-**	2,161
Loss on disposal of property and equipment	**-**	15,735
Changes in assets and liabilities		
Accounts receivable	**(9,389)**	(14,035)
Grants receivable	**(122,347)**	(5,578)
Prepaid expenses	**(3,949)**	3,927
Accounts payable	**(330)**	(17,459)
Payroll and related liabilities	**(8,172)**	2,434
Accrued vacation pay	**366**	(1,745)
Deferred revenue	**(9,720)**	13,995
Token reimbursements payable	**3,584**	1,517
Accrued property taxes	**3,910**	16,703
Total adjustments	**(17,598)**	146,407
Net cash used by operating activities	**$ (32,174)**	$ (8,508)

The accompanying notes are an integral part of these financial statements.

Santa Fe Farmers Market Institute
Notes to the Financial Statements
December 31, 2017 and 2016

1) Organization

Santa Fe Farmers Market Institute (the "Institute") is a non-profit corporation organized under the laws of the State of New Mexico in 2002. The Institute's purpose is to:

- Support the Santa Fe Farmers Market (the "Market") by owning and managing a long-term building and site for the Market in Santa Fe's Railyard District (the "Railyard");
- Implement programs to promote agricultural and other land-based traditions in northern New Mexico, and;
- Educate consumers about the cultural, nutritional and economic benefits of buying locally produced foods and agricultural products.

Support for the Institute comes primarily from individual, corporate, foundation, and governmental (federal, state, and local) grants and contributions.

2) Summary of Significant Accounting Policies

<u>Basis of Accounting and Presentation</u>
The financial statements of the Institute are prepared on the accrual basis of accounting in conformity with generally accepted accounting principles. Financial statement presentation follows the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Section 958-205, *Not-for-Profit Entities–Presentation of Financial Statements*.

The Institute is required to report information regarding their financial position and activities according to the following three classes of net assets:

- *Unrestricted net assets* represent the portion of the Institute's net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.
- *Temporarily restricted net assets* represent the Institute's net assets whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled by actions of the Institute. When the stipulated time restrictions end or action is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statements of activities as net assets released from restrictions.
- *Permanently restricted net assets* represent the part of net assets whose use by the Institute is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Institute. The Institute reported no permanently restricted net assets at December 31, 2017 and 2016.

Santa Fe Farmers Market Institute
Notes to the Financial Statements
December 31, 2017 and 2016

2) Summary of Significant Accounting Policies – continued

Use of Estimates
Financial statement preparation in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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 financial statement date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents
For purposes of reporting cash flows, the Institute considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Institute maintains cash deposits in checking and savings accounts, as well as certificates of deposits, which at times may exceed federally insured limits. At December 31, 2017 and 2016, bank balances totaled $428,551 and $470,096, respectively, all of which was insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration.

Restricted Cash and Investments
Restricted cash and investments includes amounts deposited into accounts for use in the Farmers Microloan Program, as described in Note 11, and for token reimbursements under the Double Up Food Bucks program.

The Institute's restricted investments are comprised of long-term certificates of deposit. The carrying value of these investments reasonably approximate fair value. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Receivables
Receivables are stated at the amount that management expects to collect. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance. Allowances for uncollectible receivables is based on analysis and aging of receivables. Pledges receivable represent amounts pledged by the public during periodic fundraising events held by the Institute. Grants receivable represent unconditional pledges by corporations, private foundations or other grantors, or amounts collectible under agreements with government entities.

Property and Equipment
Purchased property and equipment are recorded at cost and donations of property and equipment are recorded as support at their estimated fair value at the date of donation. The Institute capitalizes expenditures for property and equipment in excess of $1,000 when the useful life extends beyond one year. Donations of property and equipment are

2) Summary of Significant Accounting Policies – continued

reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Depreciation is calculated using the straight-line method over the estimated useful lives ranging from 3 – 40 years. Leasehold improvements are amortized over their useful lives not to exceed the term of the related lease.

Accrued Vacation Pay
The Institute pays accrued vacation upon separation from service. Employees are not paid for accrued sick leave upon termination of their employment. A maximum carryover of 10 vacation days (80 hours) is allowed on an employee's employment anniversary date unless an exception to the carryover limit is approved by the Board of Directors.

Revenue Recognition
Unrestricted contributions are recognized when cash or ownership of donated assets is unconditionally promised to the Institute. The Institute recognizes gifts of cash and other assets as temporarily restricted if they are received with donor stipulations of purpose or time. The Institute recognizes revenue from governmental agencies when all eligibility requirements related to the award have been met, generally when a grant award is made to the Institute and funds have been obligated by the governmental agency, and is reported as temporarily restricted revenue.

Donated Assets, Materials and Services
The Institute receives in-kind donations of facilities, services and supplies. Contributions of facilities and supplies are recorded at their estimated fair values at the date of donation. Donated services that (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would otherwise be purchased by the Institute if not provided by donation, are recorded at their fair values in the period received. A substantial number of unpaid volunteers have made contributions of their time that did not meet the criteria for recognition.

Income Taxes
The Institute is a non-profit organization and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified by the Internal Revenue Service as an organization that is not a private foundation. The Institute has adopted FASB ASC 740-10, *Income Taxes*, relating to accounting for uncertain tax positions. The Institute has not recognized any changes to its financial statements for uncertain tax positions resulting from this adoption. The Institute's income tax filings for the years ended December 31, 2014 and thereafter are subject to audit by various taxing authorities.

2) Summary of Significant Accounting Policies – continued

Advertising Costs

The Institute charges the costs of advertising to expense as incurred. Advertising costs totaled $13,225 and $10,923 for the years ended December 31, 2017 and 2016, respectively, not including in-kind advertising services received.

Fair Value of Financial Instruments

For financial statement purposes, receivables, accounts payable, accrued liabilities, and note payable are considered financial instruments. The Institute estimates that the fair value of all financial instruments at December 31, 2017 and 2016, did not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statements of financial position because of their short-term nature and because interest rates on the note payable approximate current market rates.

Functional Allocation of Expenses

The costs of providing the various program services and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the program and supporting services on the basis of benefits received.

Reclassifications

Certain reclassifications have been made to the 2016 financial information to conform to the 2017 financial statement presentation. Such reclassifications had no effect on 2016 total net assets or changes in net assets.

Subsequent Events

Subsequent events through May 21, 2018, the date which the financial statements were available to be issued, were evaluated as follows for recognition and disclosure in the December 31, 2017, financial statements.

3) Receivables

Accounts Receivable

Accounts receivable consist of the following at December 31:

	2017	2016
Tenants	**$ 14,512**	$ 20,260
Defaulted microloans	**17,190**	2,053
Less: Allowance for doubtful accounts	**(4,650)**	(4,650)
Total accounts receivable, net	**$ 27,052**	$ 17,663

3) Receivables – continued

Grants Receivable

Grants receivable consist of the following at December 31:

	2017	2016
City of Santa Fe	**$ 139,500**	$ -
NM Department of Agriculture	**8,089**	25,242
Total grants receivable	**$ 147,589**	$ 25,242

4) Property and Equipment

Property and equipment consists of the following as of December 31:

	2017	2016
Depreciable		
Buildings and improvements	**$ 4,250,014**	$ 4,234,915
Leasehold improvements	**117,516**	117,516
Landscaping	**13,095**	13,095
Furniture and equipment	**22,330**	22,330
Tenant lease commissions paid	**3,193**	3,193
Less: Depreciation and amortization	**(1,123,051)**	(996,549)
Total depreciable property and equipment, net	**3,283,097**	3,394,500
Construction in progress	**1,774**	-
Artwork	**36,511**	36,511
Property and equipment, net	**$ 3,321,382**	$ 3,431,011

5) Note Payable

During September 2012, the Institute issued a promissory note to a local financial institution for $457,773. The proceeds from the note were used to refinance a mortgage note and provide funds for construction and renovations of its leased premises. The loan is payable in monthly installments of $3,637, including interest at a fixed rate of 5%, through December 19, 2019. The note is secured by the Institute's rights and interest in its tenant lease agreements plus assignment of rents on its leased premises located at 1607 Paseo de Peralta in Santa Fe, New Mexico.

5) Note Payable – continued

Future principal payments on the note payable are as follows:

	Principal	Interest	Total
2018	$ 27,707	$ 15,939	$ 43,646
2019	300,052	14,522	314,574
	$ 327,759	$ 30,461	$ 358,220

The Institute reports debt issuance costs as a direct deduction from the face amount of the related debt. Unamortized debt issuance costs totaled $3,851 and $5,798 at December 31, 2017 and 2016, respectively. Amortization of debt issuance costs of $1,947 for the years ended December 31, 2017 and 2016 is reported as a portion of depreciation and amortization in the accompanying statements of activities.

The Institute is required to comply with various covenants for its note, including the timely submittal of financial information and the maintenance of certain financial ratios. As of December 31, 2017 and 2016, the Institute was in compliance with all covenants.

6) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31:

	2017	2016
Farmers Microloan Program		
Restricted cash and investments	**$ 204,561**	$ 215,303
Individual and foundation grants and contributions	**14,575**	-
Total farmers microloan program	**219,136**	215,303
Restricted cash for token reimbursements	**37,484**	40,506
Professional development	**6,058**	-
Programming Assistant	**2,500**	-
Market hall kitchen improvements	**133,225**	-
Artwork	**36,511**	36,511
Total temporarily restricted net assets	**$ 434,914**	$ 292,320

Interest earned on the temporarily restricted funds is considered unrestricted and available to be used for general operations.

7) Leasing Income

The Institute leases space in its leased premises, also known as the Market Building, to various tenants. Below is a summary of these lease agreements as:

- During September 2008, the Institute signed an agreement with the Market to lease the main Market Hall and other space of the Market Building for forty years, with four consecutive renewal options of ten years each. Base monthly rent amounts are charged, with an increase of 2.5% annually at the beginning of each calendar year thereafter.
- During June 2012, the Institute signed a second lease agreement with the Market to rent a first-floor retail space for 3.33 years with one 3-year renewal option. Base monthly rent amounts are charged, with an increase of 2.5% annually at the beginning of each calendar year thereafter.
- During January 2009, the Institute signed a lease agreement with an organization to rent a portion of its second-floor office space. The lease agreement commenced on January 1, 2009 and is for five years, with three consecutive renewal options of 5 years each. Base monthly rent amounts are charged, with an increase of 2.5% annually at the beginning of each calendar year thereafter.
- During May 2009, the Institute signed a lease agreement with a restaurant to rent a portion of its first-floor space. The lease agreement began October 1, 2009, and is for a period of 10 years, with two options to renew for five years each. Base monthly rent amounts are charged, with an increase of 2.5% annually at the beginning of each calendar year thereafter. Additionally, this tenant pays the Institute a percentage of its annual gross sales above the restaurant’s "natural break point" for gross sales.
- During December 2009, the Institute signed an agreement with a local financial institution to allow the financial institution’s Automatic Teller Machine (ATM) to be on the Institute’s premises. The lease term is for five years, with three five-year renewal options. Base monthly rent amounts are charged.

Rental income for the years ended December 31, 2017 and 2016 was $421,022 and $385,951, respectively. These amounts include the common area maintenance (CAM) reimbursements received from tenants.

Santa Fe Farmers Market Institute
Notes to the Financial Statements
December 31, 2017 and 2016

7) Leasing Income - continued

Future minimum lease payments to be received by the Institute are as follows:

Year ending December 31,		
2018	$	240,769
2019		102,463
2020		25,594
2021		25,609
2022		26,249
2023-2027		141,425
2028-2032		160,009
2033-2037		181,036
2038-2042		204,825
2043-2047		231,741
2048		33,254
	$	1,372,974

8) Fundraising Income, Net of Related Expenses

Fundraising income consist of the following for the years ended December 31:

	2017	2016
Fundraising events		
Auction and ticket sales	**$ 32,417**	$ 39,830
Less: fundraising event expenses	**(20,491)**	(36,439)
Fundraising events, net of related expenses	**11,926**	3,391
Raflle ticket sales	**1,397**	5,000
Special appeals	**18,875**	16,257
Total fundraising income, net of related expenses	**$ 32,198**	$ 24,648

9) In-Kind Contributions

In-kind contributions consist of the following for the years ended December 31:

	2017	2016
Professional services	**$ 3,865**	$ 1,250
Advertising services	**19,499**	1,836
Photography and printing services	**827**	14,000
Legal services	**-**	450
Event materials/expenses	**28,399**	1,295
Total in-kind contributions	**$ 52,590**	$ 18,831

10) Operating Lease

The Institute signed a lease with the Santa Fe Railyard Community Corporation (SFRCC) in November 2005 for lease of the premises where the permanent site for the Santa Fe Farmer's Market is located. The initial lease term was for forty years beginning on the commencement date, with four consecutive ten-year renewal options. Following the commencement date, which occurred in 2008 when the Institute and the Market initially occupied the building, the annual base rent started at $29,568 per year with an increase of 2.5% annually at the beginning of each calendar year thereafter.

Future minimum lease payments under the lease are as follows:

Year ending December 31,	
2018	$ 36,926
2019	37,850
2020	38,796
2021	39,766
2022	40,760
2023-2027	219,603
2028-2032	248,461
2033-2037	281,111
2038-2042	318,051
2043-2047	359,845
2048	77,456
	$ 1,698,625

11) Farmers Microloan Program

The Institute collaborates with local credit unions in offering microloans to vendors of the Market. The local credit unions originate the loans and collect and keep the repayments of principal and interest of the loans. Under the program, a board committee accepts applications and approves loans for qualified farmers and projects. The Institute is required to maintain funds to collateralize 100% of the loans outstanding. At December 31, 2017 and 2016, $204,561 and $215,303 in cash and investments were on hand, respectively. Therefore, the loans outstanding were fully collateralized at December 31, 2017 and 2016.

The loans are not held in the Institute's name and are not reflected in the accompanying financial statements. Individual loans range from $400 to $10,000 on a case-by-case basis and one vendor may have up to $10,000 outstanding at any given time. The interest rate is 6% on all loans.

Microloan activity is as follows for the years ended December 31:

	2017	2016
Outstanding microloans, beginning of the year	**$ 129,537**	$ 127,453
Plus: New loans issued, collections, and recoveries, net	**(5,472)**	4,244
Less: Defaulted loans written off	**(15,137)**	(2,160)
Outstanding microloans, end of the year	**$ 108,928**	$ 129,537

Loan statistics include the following at December 31:

	2017	2016
Total number of outstanding loans	**27**	37
New loans issued during the year	**6**	17
Average amount of loans issued (life-to-date)	**$ 4,796**	$ 3,856
Interest rate of new loans issued	**6.00%**	6.00%

As of December 31, 2017, there was one microloan outstanding from an Institute board member. The loan originated on April 30, 2013 in the amount of $5,000. The balance at December 31, 2017 was $1,770.

12) Recently Issued Accounting Pronouncements

The following accounting pronouncements have been issued but have not yet been implemented by the Institute.

<u>Revenue Recognition</u>
In May 2014, the FASB issued ASC 606 – *Revenue from Contracts with Customers*. ASC 606 is a single principle-based revenue standard for U.S. GAAP and IFRS (International Financial Reporting Standards) that replaces almost all U.S. GAAP and IFRS guidance for revenue recognition. The pronouncement is effective for fiscal years beginning after December 15, 2018 (the Institute's fiscal year ending December 31, 2019).

<u>New Not-for-Profit Reporting Framework</u>
In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. ASU 2016-14 is intended to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The main provisions of the ASU require a not-for-profit entity to:

- Present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. That is, a not-for-profit entity will report amounts for *net assets with donor restrictions* and *net assets without donor restrictions*, as well as the currently required amount for total net assets.
- Present on the face of the statement of activities the amount of the change in each of the two classes of net assets (noted above) rather than the currently required three classes. Not-for-profit entities would continue to report the currently required amount of the change in total net assets for the period.
- Continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting, but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.

The ASU also provides for enhanced disclosures regarding the following:

- Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits in the use of resources without donor-imposed restrictions as of the end of the period.
- Composition of *net assets with donor restrictions* at the end of the period and how the restrictions affect the use of resources.

12) Recently Issued Accounting Pronouncements – continued

- Qualitative information that communicates how a not-for-profit entity manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date.
- Quantitative information, either on the face of the statement of financial position or in the notes, and additional qualitative information in the notes as necessary, that communicates the availability of a not-for-profit entity's financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date. Availability of a financial asset may be affected by (1) its nature, (2) external limits imposed by donors, grantors, laws, and contracts with others, and (3) internal limits imposed by governing board decisions.
- Amounts of expenses by both their natural classification and their functional classification. That analysis of expenses is to be provided in one location, which could be on the face of the statement of activities, as a separate statement, or in notes to the financial statements.
- Method(s) used to allocate costs among program and support functions.
- Underwater endowment funds, which include required disclosures of (1) an NFP's policy, and any actions taken during the period, concerning appropriation from underwater endowment funds, (2) the aggregate fair value of such funds, (3) the aggregate of the original gift amounts (or level required by donor or law) to be maintained, and (4) the aggregate amount by which funds are underwater (deficiencies), which are to be classified as part of net assets with donor restrictions.

The ASU is effective for fiscal years beginning after December 15, 2017 (the Institute's fiscal year ending December 31, 2018).

<u>Leases</u>
On February 25, 2016, the FASB issued ASU 2016-02 *Leases*, which significantly changes the accounting for leases in the financial statements of lessees and supersedes FASB ASC Topic 840. With this update, U.S. GAAP now will require lessees under operating leases to recognize a liability in the statement of financial position, a liability to make lease payments (the lease liability), and an asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting election not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. Cash flows related to operating leases will continue to be reported within operating activities on the statement of cash flows. The ASU is effective for fiscal years beginning after December 15, 2019 (the Institute's fiscal year ending December 31, 2020).

As of the date of these financial statements, management has not determined the impact these new accounting pronouncements will have on future reporting periods.