



Financial Statements  
September 30, 2013

**Native Seeds/Southwestern  
Endangered Aridland Resource  
Clearing House, Inc.**

# Native Seeds/Southwestern Endangered Aridland Resource Clearing House, Inc.

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September 30, 2013

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CPAs & BUSINESS ADVISORS

## Independent Auditor's Report

The Board of Directors  
Native Seeds/Southwestern Endangered  
Aridland Resource Clearing House, Inc.  
Tucson, Arizona

### Report on the Financial Statements

We have audited the accompanying financial statements of Native Seeds/Southwestern Endangered Aridland Resource Clearing House, Inc., which comprise the statement of financial position as of September 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Native Seeds/Southwestern Endangered Aridland Resource Clearing House, Inc. as of September 30, 2013, 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 – Supplemental Schedules**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on page 13 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying supplementary 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. Such information has been subjected to the auditing procedures applied in the audit 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 accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Erik Bailly LLP".

Phoenix, Arizona  
April 11, 2014

## Native Seeds/Southwestern Endangered Aridland Resource Clearing House, Inc.

## Statement of Financial Position

September 30, 2013

## Assets

## Cash and Cash Equivalents

Designated for facilities

\$ 487

Available for operations

147,899

148,386

Accounts Receivable

2,782

Inventory

70,865

Prepaid Expenses

21,602

Promises to Give

5,000

Grants Receivable

204,100

Property and Equipment, Net

1,392,563

Total assets

\$ 1,845,298

## Liabilities and Net Assets

## Liabilities

Accounts payable

\$ 33,929

Accrued expenses

29,461

Deferred revenue

67,017

Note payable

373,093

Total liabilities

503,500

## Net Assets

Unrestricted

998,965

Temporarily restricted

342,833

Total net assets

1,341,798

Total liabilities and net assets

\$ 1,845,298



## Native Seeds/Southwestern Endangered Aridland Resource Clearing House, Inc.

Statement of Activities  
Year Ended September 30, 2013

	2013		
	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue			
Grants	\$ 56,557	\$ 399,100	\$ 455,657
Contributions	134,726	-	134,726
In-kind contributions	3,540	-	3,540
Membership dues	128,369	-	128,369
Store and catalog sales, net of costs of goods sold of \$190,436	436,160	-	436,160
Tuition revenue	64,350	-	64,350
Interest income	1,730	-	1,730
Other revenue	4,857	-	4,857
Special event revenue	3,478	-	3,478
	<u>833,767</u>	<u>399,100</u>	<u>1,232,867</u>
Net assets released from restrictions	<u>166,963</u>	<u>(166,963)</u>	<u>-</u>
Total public support and revenue	<u>1,000,730</u>	<u>232,137</u>	<u>1,232,867</u>
Expenses			
Program services	796,215	-	796,215
Administration	99,183	-	99,183
Fundraising and membership	145,095	-	145,095
Total expenses	<u>1,040,493</u>	<u>-</u>	<u>1,040,493</u>
Change in Net Assets	(39,763)	232,137	192,374
Net Assets, Beginning of Year	<u>1,038,728</u>	<u>110,696</u>	<u>1,149,424</u>
Net Assets, End of Year	<u>\$ 998,965</u>	<u>\$ 342,833</u>	<u>\$ 1,341,798</u>

Native Seeds/Southwestern Endangered Aridland Resource Clearing House, Inc.

Statement of Cash Flows

Year Ended September 30, 2013

Cash Flows from Operating Activities	
Change in net assets	\$ 192,374
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation	46,564
Changes in operating assets and liabilities	
Accounts receivable	(1,302)
Inventory	(23,550)
Prepaid expenses	(11,465)
Grants receivable	(154,100)
Accounts payable	4,849
Accrued expenses	4,267
Deferred revenue	3,832
Net Cash from Operating Activities	<u>61,469</u>
Cash Flows from Investing Activities	
Purchases of property and equipment	<u>(29,146)</u>
Net Cash used for Investing Activities	<u>(29,146)</u>
Cash Flows from Financing Activities	
Repayments on line of credit	(100,001)
Payments on note payable	<u>(17,048)</u>
Net Cash used for Financing Activities	<u>(117,049)</u>
Net Change in Cash and Cash Equivalents	(84,726)
Cash and Cash Equivalents, Beginning of Year	<u>233,112</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 148,386</u></u>
Supplemental Disclosure of Cash Flow Information	
Cash paid for interest	<u><u>\$ 26,669</u></u>

**Note 1 - Nature of Operations and Significant Accounting Policies****Organization and Nature of Operations**

Native Seeds Southwestern Endangered Aridland Resource Clearing House, Inc. (Native Seeds) was founded in 1983 as an Arizona non-profit corporation whose mission is to conserve, distribute, and document the adapted and diverse varieties of agricultural crops and their wild relatives of the American Southwest and Northwest Mexico. Specifically, the goals of Native Seeds are to preserve specific genetic types, promote their use and of their wild relatives by gathering, safeguarding, and distributing their seeds to farming and gardening communities as well as working to preserve knowledge about their uses.

Native Seeds' programs consist of the following:

- Conservation - Conservation of rare arid lands crop seeds at the seed bank, including grow-outs at Native Seeds' farm.
- Distribution - Retail seed, craft, and food sales and seed donations to NativeAmericans.net proceeds support Native Seeds' mission.
- Membership and volunteers - Reaching out to the community through membership as well as volunteers.
- Education - Increasing public awareness of seed stewardship through newsletters, social media, educational material, lectures, seed schools, salons, and other means.

**Cash and Cash Equivalents**

Native Seeds considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures, permanent endowment, or other long-term purposes of Native Seeds are excluded from this definition.

**Receivables and Credit Policies**

Accounts receivable consist primarily of noninterest-bearing amounts due for educational programs. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At September 30, 2013, the allowance was \$0.

**Promises to Give and Grants Receivable**

Unconditional promises to give and grants receivable expected to be collected within one year are recorded at net realizable value. Unconditional promises to give and grants receivable expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. Management determines the allowance for uncollectable promises to give and grants receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give and grants receivable are written off when deemed uncollectable. At September 30, 2013, the allowance was \$0.

**Gift Shop Inventory**

Inventory is comprised of program-related merchandise held for sale in the gift shop, and is stated at the lower of cost or market determined by the first-in first-out method. Management has provided an allowance for inventory obsolescence of \$0 at September 30, 2013.



**Property and Equipment**

Property and equipment additions over \$1,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 2-40 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Native Seeds reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended September 30, 2013.

**Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Unrestricted Net Assets* – Net assets available for use in general operations. Unrestricted board-designated net assets consist of net assets designated by the Board of Directors for operating reserve and quasi-endowment.

*Temporarily Restricted Net Assets* – Net assets subject to donor restrictions that may or will be met by expenditures or actions of Native Seeds and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by Native Seeds' Board of Directors.

Native Seeds reports contributions restricted by donors as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*Permanently Restricted Net Assets* – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of Native Seeds. The restrictions stipulate that resources be maintained permanently but permit Native Seeds to expend the income generated in accordance with the provisions of the agreements. There are no permanently restricted net assets at September 30, 2013.

**Revenue and Revenue Recognition**

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

### **Donated Services and In-Kind Contributions**

Volunteers contribute significant amounts of time to Native Seeds' program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Native Seeds records donated professional services at the respective fair values of the services received.

### **Advertising expenses**

Advertising costs are expensed as incurred. Advertising expense was \$9,913 for the year ended September 30, 2013.

### **Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The schedules of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

### **Income Taxes**

Native Seeds is organized as an Arizona nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and has been determined not to be a private foundation under Section 509(a)(2). Accordingly, contributions to it qualify for the charitable contribution deduction under Section 170. The organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the organization is generally subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. Management has determined the organization has no taxable unrelated business income and it has not filed the Exempt Organization Business Income Tax Return (IRS Form 990-T), or its Arizona equivalent, Form 99-T.

The Organization believes that it has appropriate support for any income tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

### **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

### **Subsequent Events**

The Organization has evaluated subsequent events through April 11, 2014, the date which the financial statements were available to be issued.



**Note 2 - Grants Receivable**

Grants receivable were as follows at September 30:

Christensen Fund	\$ 75,000
Gila River Indian Community	100,000
CS Fund	10,000
RSF Social Finance	11,600
Fort McDowell Yavapai Nation	7,500
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	\$ 204,100
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**Note 3 - Promises to Give**

During the year ended September 30, 2006, the Native Seeds launched a capital campaign to secure a home for the seed bank and professional workplace for the Organization. The outstanding balance at September 30, 2013 of \$5,000 is due within one year. There was no discount recorded for the year ended September 30, 2013.

**Note 4 - Property and Equipment**

Property and equipment consisted of the following at September 30:

Land	\$ 77,855
Building	1,419,928
Leasehold improvements	12,441
Furniture and equipment	350,301
Construction in process	8,235
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	1,868,760
Less accumulated depreciation	(476,197)
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	\$ 1,392,563
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**Note 5 - Deferred Revenue**

Deferred revenue consisted of the following at September 30:

Deferred memberships	\$ 53,598
Deferred tuition	10,500
Unredeemed gift certificates and other	2,919
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	\$ 67,017
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**Note 6 - Line of Credit**

Native Seeds has a \$150,000 revolving line of credit with a financial institution to be drawn down as needed based on the timing of cash received on grants awarded. The line of credit bears interest at the LIBOR Rate plus 3.4% (6.21% at September 30, 2013), is secured by real property and matures in May 2014. The line of credit contains a provision whereby, in case of default, the bank has the right to charge or offset all sums owed on the line of credit against any checking and savings accounts held by Native Seeds at that bank. At September 30, 2013, the outstanding balance was \$0.

**Note 7 - Note Payable**

Native Seeds has a note payable to a bank secured by real property. Payments on the note payable are \$3,229 per month (including interest at 5.75% per annum) with the note maturing in May 2015. The outstanding balance at September 30, 2013 was \$373,093. The note payable also requires Native Seeds to be in compliance with certain financial and nonfinancial covenants, with which Native Seeds was in compliance at September 30, 2013.

Required principal payments on the note payable are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2014	\$ 19,685
2015	353,408
	<u>\$ 373,093</u>

**Note 8 - Unrestricted Net Assets**

At September 30, 2013, Native Seeds had unrestricted net assets as follows:

Undesignated (deficit)	\$ (120,505)
Board Designated Reserve for future purposes	100,000
Expended on property and equipment	<u>1,019,470</u>
	<u>\$ 998,965</u>



**Note 9 - Temporarily Restricted Net Assets**

Temporarily restricted net asset activity was as follows for the year ended September 30, 2013.

	Beginning Balance	Grants/ Contributions	Appropriations and Releases	Ending Balance
Time	\$ -	\$ 37,500	\$ (20,000)	\$ 17,500
Purpose				
Conserve Heritage Seeds	-	150,000	(6,105)	143,895
Community Connections	70,345	-	(70,345)	-
Climate Smart Agriculture Project	-	200,000	(30,162)	169,838
Sowing the Seeds	40,351	-	(40,351)	-
Seed School	-	11,600	-	11,600
	<u>\$ 110,696</u>	<u>\$ 399,100</u>	<u>\$ (166,963)</u>	<u>\$ 342,833</u>

**Note 10 - Leases**

Native Seeds leases retail and office space and equipment under various non-cancelable operating leases expiring through February 2016. Rent expense for the year ended September 30, 2013 was \$57,630.

Future minimum lease payments are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2014	\$ 49,217
2015	48,777
2016	19,015
	<u>\$ 117,009</u>

**Note 11 - Related Party Transactions**

During the year ended September 30, 2013, Native Seeds purchased inventory in the amount of \$9,844 from a company owned by two board members, representing 5% of total purchases during the year. Accounts payable to this company were \$135 at September 30, 2013.

Native Seeds also purchased inventory in the amount of \$5,356 from a company owned by another board member, representing 3% of total purchases during the year. Accounts payable to this company were \$0 at September 30, 2013.



Supplementary Information  
September 30, 2013

**Native Seeds/Southwestern  
Endangered Aridland Resource  
Clearing House, Inc.**

**Native Seeds/Southwestern Endangered Aridland Resource Clearing House, Inc.**  
**Schedule of Functional Expenses**  
**Year Ended September 30, 2013**

	Program Services					Fundraising and Membership	Total
	Conservation	Distribution	Volunteers	Education	Program Services		
Staff Salaries	\$ 158,359	\$ 174,299	\$ 1,950	\$ 35,351	\$ 369,959	\$ 76,320	\$ 506,957
Payroll Taxes and Employee Benefits	24,090	23,431	149	2,969	50,639	8,403	66,446
Total payroll costs	182,449	197,730	2,099	38,320	420,598	84,723	573,403
Advertising	-	4,366	-	1,665	6,031	3,644	9,913
Bad Debt Expense	-	50	-	-	50	-	50
Depreciation	28,849	4,480	586	3,256	37,171	5,340	46,564
Dues and Subscriptions	-	50	-	73	123	360	600
In-kind Expense	893	1,027	-	393	2,313	1,091	3,540
Insurance	10,185	5,857	517	1,653	18,212	4,576	24,643
Interest	10,480	2,230	-	3,345	16,055	4,014	26,669
Miscellaneous Expense	105	19,559	-	434	20,098	3,339	24,679
Office Expense	10,359	11,115	262	5,566	27,302	1,601	33,552
Postage and Printing	3,258	39,248	-	8,306	50,812	17,762	69,340
Professional Fees	9,544	16,566	336	46,548	72,994	6,761	90,853
Rent	7,355	46,165	-	1,694	55,214	1,553	57,630
Repairs and Maintenance	8,412	2,667	-	1,038	12,117	979	13,644
Supplies	936	-	-	-	936	-	936
Taxes and Licenses	-	930	-	20	950	-	980
Telephone and Utilities	15,045	14,270	-	2,674	31,989	3,194	36,958
Training and Development	-	-	-	-	-	900	900
Travel	10,351	1,038	34	11,827	23,250	2,210	25,639
Total expenses	298,221	367,348	3,834	126,812	796,215	145,095	1,040,493
Cost of Goods Sold	-	190,437	-	-	190,437	-	190,437
	\$ 298,221	\$ 557,785	\$ 3,834	\$ 126,812	\$ 986,652	\$ 145,095	\$ 1,230,930