

**PRECISION AGRICULTURE FOR DEVELOPMENT, INC.**

**FINANCIAL STATEMENTS**

*with*

**INDEPENDENT AUDITORS' REPORT**

**YEAR ENDED DECEMBER 31, 2018**

*(With Summarized Comparative Information for 2017)*

Smith  Sullivan  
& Brown PC  
CERTIFIED PUBLIC ACCOUNTANTS

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**PRECISION AGRICULTURE FOR DEVELOPMENT, INC.**

**REPORT ON FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2018**

*(With Summarized Comparative Information for 2017)*



Precision  
Agriculture for  
Development

**Mission Statement**

*Our mission is to support smallholder farmers in developing countries by providing customized information and services that increase productivity, profitability, and environmental sustainability.*

*Precision Agriculture for Development (PAD) is working on a new model for agricultural extension: reaching farmers with personalized agricultural advice through their mobile phones.*

*We implement this model in collaboration with partner organizations and gather evidence on its impact.*

*We aim to improve the lives of 100 million farmers in developing countries with our services.*

PRECISION AGRICULTURE FOR DEVELOPMENT, INC

REPORT ON FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018  
*(With Summarized Comparative Information for 2017)*

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Precision Agriculture for Development, Inc.  
Boston, Massachusetts

We have audited the accompanying financial statements of Precision Agriculture for Development, Inc. (a Massachusetts nonprofit organization), which comprise the statement of financial position as of December 31, 2018, 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.

**Auditors' 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization'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 Precision Agriculture for Development, Inc. as of December 31, 2018 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors  
Precision Agriculture for Development, Inc.

**Report on Summarized Comparative Information**

We have previously audited Precision Agriculture for Development, Inc.'s 2017 financial statements, and our report dated March 29, 2018 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Smith, Sullivan & Brown, PC*

Westborough, Massachusetts  
July 31, 2019

PRECISION AGRICULTURE FOR DEVELOPMENT, INC.

STATEMENTS OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
<u>CURRENT ASSETS:</u>		
Cash, Without Donor Restrictions	\$ 2,747,804	\$ 1,169,710
Cash, With Donor Restrictions	228,390	1,449,220
Grants Receivable	746,694	81,324
Accounts Receivable	21,754	7,748
Short-Term Investments	-	10,005
Prepaid Expenses	<u>16,398</u>	<u>7,652</u>
Total Current Assets	<u>3,761,040</u>	<u>2,725,659</u>
<u>PROPERTY AND EQUIPMENT:</u>		
Leasehold Improvements	38,192	-
Less: Accumulated Depreciation	<u>(3,183)</u>	<u>-</u>
Net Property and Equipment	<u>35,009</u>	<u>-</u>
<u>NON-CURRENT ASSETS:</u>		
Cash, Board Designated Operating Reserve	1,506,261	1,500,976
Grants Receivable, Net of Current Portion and Discount	<u>329,493</u>	<u>827,396</u>
Total Non-Current Assets	<u>1,835,754</u>	<u>2,328,372</u>
<u>TOTAL ASSETS</u>	<u>\$ 5,631,803</u>	<u>\$ 5,054,031</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES:</u>		
Accounts Payable and Accrued Expenses	\$ 285,298	\$ 239,287
Accrued Payroll and Related Costs	<u>24,770</u>	<u>46,432</u>
Total Current Liabilities	<u>310,068</u>	<u>285,719</u>
<u>TOTAL LIABILITIES</u>	<u>310,068</u>	<u>285,719</u>
<u>NET ASSETS:</u>		
Net Assets Without Donor Restrictions:		
Undesignated	2,752,528	924,959
Board Designated Operating Reserve	<u>1,506,261</u>	<u>1,500,976</u>
Total Net Assets Without Donor Restrictions	4,258,789	2,425,935
Net Assets With Donor Restrictions	<u>1,062,946</u>	<u>2,342,377</u>
Total Net Assets	<u>5,321,735</u>	<u>4,768,312</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 5,631,803</u>	<u>\$ 5,054,031</u>

PRECISION AGRICULTURE FOR DEVELOPMENT, INC.

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2018  
*(With Summarized Comparative Totals for 2017)*

	<u>WITHOUT</u> <u>DONOR</u> <u>RESTRICTIONS</u>	<u>WITH</u> <u>DONOR</u> <u>RESTRICTIONS</u>	<u>TOTAL ACTIVITIES</u> <u>2018</u>	<u>2017</u>
<b><u>SUPPORT, REVENUES AND RECLASSIFICATIONS:</u></b>				
<i>Support and Revenues:</i>				
Gifts, Grants and Contributions	\$ 3,594,975	\$ 144,100	\$ 3,739,075	\$ 2,946,771
Program Revenue	48,038	-	48,038	19,371
Interest Income	<u>7,693</u>	<u>-</u>	<u>7,693</u>	<u>5,690</u>
Total Support and Revenues	<u>3,650,706</u>	<u>144,100</u>	<u>3,794,806</u>	<u>2,971,832</u>
<i>Reclassification of Net Assets:</i>				
Net Assets Released from Restriction	<u>1,423,531</u>	<u>(1,423,531)</u>	<u>-</u>	<u>-</u>
<b><u>TOTAL SUPPORT, REVENUES AND RECLASSIFICATIONS</u></b>	<b><u>5,074,237</u></b>	<b><u>(1,279,431)</u></b>	<b><u>3,794,806</u></b>	<b><u>2,971,832</u></b>
<b><u>FUNCTIONAL EXPENSES:</u></b>				
Program Services	2,759,680	-	2,759,680	1,390,651
Administrative	354,190	-	354,190	270,246
Fund Raising	<u>127,513</u>	<u>-</u>	<u>127,513</u>	<u>125,877</u>
<b><u>TOTAL FUNCTIONAL EXPENSES</u></b>	<b><u>3,241,383</u></b>	<b><u>-</u></b>	<b><u>3,241,383</u></b>	<b><u>1,786,774</u></b>
<b><u>CHANGE IN NET ASSETS</u></b>	<b>1,832,854</b>	<b>(1,279,431)</b>	<b>553,423</b>	<b>1,185,058</b>
<b><u>NET ASSETS - BEGINNING OF YEAR</u></b>	<b><u>2,425,935</u></b>	<b><u>2,342,377</u></b>	<b><u>4,768,312</u></b>	<b><u>3,583,254</u></b>
<b><u>NET ASSETS - END OF YEAR</u></b>	<b><u>\$ 4,258,789</u></b>	<b><u>\$ 1,062,946</u></b>	<b><u>\$ 5,321,735</u></b>	<b><u>\$ 4,768,312</u></b>

PRECISION AGRICULTURE FOR DEVELOPMENT, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2018  
*(With Summarized Comparative Totals for 2017)*

	<u>PROGRAM</u> <u>SERVICES</u>	<u>ADMINI-</u> <u>STRATIVE</u>	<u>FUND</u> <u>RAISING</u>	<u>TOTAL</u> <u>FUNCTIONAL EXPENSES</u>	
				<u>2018</u>	<u>2017</u>
Salaries	\$ 334,810	\$ 126,019	\$ 94,382	\$ 555,211	\$ 377,138
Payroll Taxes	24,057	10,090	5,710	39,857	24,756
Employee Benefits	30,879	9,836	4,214	44,929	38,994
U.S. Based Contractors	133,019	12,096	10,860	155,975	162,361
Personnel Costs, Non-U.S. Based	1,112,594	-	5,100	1,117,694	477,841
Implementation and Field Costs	438,007	-	-	438,007	414,556
Travel and Meeting Costs	257,615	4,941	882	263,438	130,320
Professional Fees	258,545	135,808	-	394,353	104,885
Rent Expense	42,843	7,800	5,800	56,443	21,205
Insurance	4,269	1,533	-	5,802	2,652
Information Technology and Equipment	92,240	20,222	339	112,801	-
Office Expense	27,619	23,765	226	51,610	32,066
Depreciation Expense	3,183	-	-	3,183	-
Miscellaneous Expense	<u>-</u>	<u>2,080</u>	<u>-</u>	<u>2,080</u>	<u>-</u>
<b>Total Functional Expenses</b>	<b><u>\$ 2,759,680</u></b>	<b><u>\$ 354,190</u></b>	<b><u>\$ 127,513</u></b>	<b><u>\$ 3,241,383</u></b>	<b><u>\$ 1,786,774</u></b>



PRECISION AGRICULTURE FOR DEVELOPMENT, INC.

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Change in Net Assets	\$ <u>553,423</u>	\$ <u>1,185,058</u>
<i>Adjustments to Reconcile the Above to Net Cash Provided by Operating Activities:</i>		
Depreciation Expense	3,183	-
<i>(Increase) Decrease in Current Assets:</i>		
Grants Receivable	(665,370)	182,472
Accounts Receivable	(14,006)	(7,748)
Prepaid Expenses	(8,746)	(4,537)
<i>Increase (Decrease) in Current Liabilities:</i>		
Accounts Payable and Accrued Expenses	46,011	197,456
Accrued Payroll and Related Costs	(21,662)	21,727
<i>(Increase) Decrease in Other Assets:</i>		
Grants Receivable, Non-Current	<u>497,903</u>	<u>(701,796)</u>
Net Adjustment	<u>(162,687)</u>	<u>(312,426)</u>
<b><u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b>	<b><u>390,736</u></b>	<b><u>872,632</u></b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Purchase of Property and Equipment	(38,192)	-
Proceeds from Redemption of Certificate of Deposit	10,005	-
Cash Invested in Certificate of Deposit	<u>-</u>	<u>(5)</u>
Cash Flows from Investing Activities	<u>(28,187)</u>	<u>(5)</u>
<b><u>NET INCREASE IN CASH BALANCES</u></b>	<b><u>362,549</u></b>	<b><u>872,627</u></b>
<b><u>CASH BALANCES - BEGINNING OF YEAR</u></b>	<b><u>4,119,906</u></b>	<b><u>3,247,279</u></b>
<b><u>CASH BALANCES - END OF YEAR</u></b>	<b><u>\$ 4,482,455</u></b>	<b><u>\$ 4,119,906</u></b>
<i>Cash Balances :</i>		
Cash, Without Donor Restrictions	\$ 2,747,804	\$ 1,169,710
Cash, With Donor Restrictions	228,390	1,449,220
Cash, Board Designated Operating Reserve	<u>1,506,261</u>	<u>1,500,976</u>
Total Cash Balances	<u>\$ 4,482,455</u>	<u>\$ 4,119,906</u>

PRECISION AGRICULTURE FOR DEVELOPMENT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

*(With Summarized Comparative Information for 2017)*

NOTE 1      ORGANIZATION

Precision Agriculture for Development, Inc. (“PAD” or the “Organization”) was incorporated in December 2015 under Massachusetts General Laws Chapter 180. On July 19, 2016, the Organization received notification from the Internal Revenue Service that it had been approved for exemption from federal taxes as a tax-exempt, nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code retroactive to the date of incorporation. PAD has been classified as an organization which is not a private foundation under IRC Section 509(a); accordingly, contributions made to this Organization qualify for the maximum charitable deduction for federal income tax purposes. The Organization is primarily funded through individual and foundation donations and grants.

NOTE 2      PROGRAM SERVICES

Precision Agriculture for Development is a U.S.-based non-profit organization with a mission to support smallholder farmers in developing countries by providing customized agricultural information and services that increase productivity, profitability, and environmental sustainability. PAD is pioneering a model for agricultural extension: delivering farmers personalized agricultural advice via their mobile phones. PAD implements this model in collaboration with partner organizations and gathers evidence on its impact. PAD aims to improve the lives of 100 million farmers in developing countries with its services.

The initial phase of PAD’s work consisted of testing the impact of mobile phone-based agricultural extension services in multiple contexts across the developing world. That work and research found that, with careful attention to design and context and critical evaluation, mobile phone-based agricultural extension could increase adoption of appropriate farm management practices, yields, and incomes, with point estimates suggesting a benefit cost ratio of 10/1. Based on our initial evidence around a proof of concept technology, PAD began working with partners capable of scaling and further testing this approach, while simultaneously continuing to build its own research efforts.

A key element of our approach is helping partners with wide reach - such as governments, contract farming organizations, telecommunications firms, agribusiness, and NGOs - to design, build, evaluate, and improve customized mobile phone-based agricultural advisory systems. We help partners structure and improve their service offerings through the incorporation of the latest availability technologies and data as well as insights from behavioral economics and social learning theory. Taking a global approach, we bring experience on what has worked elsewhere to every engagement and continue to optimize to local contexts using A/B testing and rigorous evaluation.

PRECISION AGRICULTURE FOR DEVELOPMENT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

*(With Summarized Comparative Information for 2017)*

*(Continued)*

NOTE 2 *(Continued)*

**The Issue:**

Approximately 450 million smallholder farms feed more than 2 billion people worldwide. To meet growing demands for food and fiber in the coming decades, their annual production will need to increase substantially. Studies in developing countries suggest that small changes in agricultural practices can substantially improve productivity and profitability. However, offering farmers standardized agricultural advice has limited effectiveness due to variation in conditions. For example, the profitability of seeds and fertilizers depends on pH levels and micronutrient content of the local soil. Traditional extension systems have been unable to incorporate and disseminate this information to farmers, in part due to the high costs of operating in rural areas.

In developed countries, precision agriculture technologies are transforming agricultural production by allowing farmers to better target inputs to local conditions, thus increasing yields and reducing environmental impacts from input overuse. Precision agriculture approaches in these settings include sensors, such as soil and yield monitors, and processing techniques for existing data: for example, new spectroscopy methods that measure growth stages and nutrient deficiency from satellite imagery. In developing countries, such precision agriculture technologies are beyond the reach of most farmers. However, several technological innovations have created new opportunities to provide and deliver tailored information to farmers. First, new technology has facilitated quick learning about local characteristics. For instance, mobile soil labs with spectroscopy, satellite and drone photographs, and new weather prediction models allow more fine-tuned recommendations. Second, the widespread use of mobile phones across the developing world provides an easy and cost-effective platform for information delivery and data collection.

Not only are advances in technology promising, but new research methods can also be leveraged to improve the agricultural extension landscape in the developing world. First, behavioral economics can improve messaging and encourage adoption of appropriate technologies while social learning theory can facilitate the diffusion of relevant information across farmer networks. Second, big data and machine learning techniques make it possible to tailor expert knowledge at scale to conditions revealed in existing and new sources of data. Third, A/B testing - sending two or more options then assessing which is the most preferred or effective - allows for near instantaneous upgrades to content and service delivery options that can both improve the user experience and deliver more appropriate information. And finally, randomized controlled trials ("RCTs") provide opportunities for rigorous evaluation of services to understand the true impact and to refine over time.

**Our Solution:**

PAD's approach harnesses these innovations in technology and research to improve the lives of smallholder farmers. We seek to provide a two-way flow of information that delivers customized, expert advice to farmers through mobile phones. As farmers realize the benefits of this service, they have incentives to contribute accurate information to improve the recommendations from the system over time. The recommendations we send to farmers can be tailored to optimize inputs (seeds, water, fertilizers, pesticides) and management practices conditional on geographic and temporal-specific conditions (soil types, weather, etc.), markets conditions (input and output prices and availability, etc.), and farmer-specific information (education, experience, risk tolerance, demographics, etc.). The ultimate goal is intelligent platforms that provide farmers with context-relevant and personalized agricultural recommendations through their mobile phones with the objectives of improving productivity, increasing profitability, and reducing negative environmental impacts.

PRECISION AGRICULTURE FOR DEVELOPMENT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

*(With Summarized Comparative Information for 2017)*

*(Continued)*

NOTE 2      *(Continued)*

Unlike many other information and communications technologies (ICT) innovations, we aim to deliver value to farmers through multiple avenues to achieve impact at scale. In our “lab” settings, we send messages directly to farmers, with the dual aims of directly improving outcomes for farmers and of learning more about what approaches are most effective. With partners - including NGOs, governments, businesses, contract farming organization, etc. - we take lessons learned from our lab settings and other partnership engagements to help build, improve, and evaluate their systems. We bring our expertise from behavioral economics and social learning theory, conduct rigorous impact evaluation and cost-effectiveness analysis, and design and execute A/B testing.

**Our Work to Date:**

PAD now has operations in India, Kenya, Pakistan, Rwanda, Ethiopia, Uganda, and Bangladesh. These opportunities have allowed PAD to reach over 340,000 farmers, both through our own services and research efforts as well as through partnerships. PAD maintains two lab settings - one in Gujarat, India and one in Western Kenya - where we offer direct services to farmers while experimenting, evaluating, and upgrading over time. These two initiatives inform partnerships in both countries and elsewhere that offer opportunities for scaling the approaches that hold promise for cost-effectively delivering impact. We are pleased to be supporting the Governments of Odisha (India), Punjab (Pakistan), and Ethiopia (through the Agricultural Transformation Agency) to build, customize, and evaluate mobile phone-based advisory systems that they own and integrate into their existing public extension infrastructure. We are also supporting efforts to design and evaluate services with One Acre Fund in both Kenya and Rwanda, and several partners across India.

NOTE 3      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies which affect significant elements of the Organization’s financial statements are described below to enhance the usefulness of the financial statements to the reader. 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates

**Basis of Accounting:**

The Organization’s policy is to maintain its books and prepare its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles. Revenues and gains are recognized in the year in which they become due and expenses and losses are recognized in the year in which the liability is incurred.

PRECISION AGRICULTURE FOR DEVELOPMENT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

*(With Summarized Comparative Information for 2017)*

*(Continued)*

NOTE 3 *(Continued)*

**Financial Statement Presentation:**

As required by the *FASB Accounting Standards Codification*<sup>TM</sup>, the Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restriction and net assets with donor restriction. These classifications are related to the existence or absence of donor-imposed restrictions as follows:

*Net Assets Without Donor Restrictions* - consists of assets, public support and program revenues which are available and used for operations and programs. Net assets without donor restrictions represents the portion of net assets of the Organization that are not restricted by donor-imposed stipulations. Contributions are considered available for use unless specifically restricted by the donor. In addition, net assets within this classification may include funds which represent resources designated by the Board of Directors for specific purposes.

*Net Assets With Donor Restrictions* - includes funds with donor-imposed restrictions which permit the donee organization to expend the assets as specified and is satisfied either by the passage of time or by actions of the Organization. Resources of this nature originate from gifts, grants or bequests and may include investment income earned on restricted funds. These net assets may also include resources which have a donor-imposed restriction which stipulates that a portion of the assets are to be maintained in perpetuity, but permits the Organization to expend part or all of the income derived from the donated assets.

The accompanying financial statements include certain prior year summarized comparative information. With respect to the Statement of Activities, such prior year information is not presented by net asset class, and in the Statement of Functional Expenses, 2017 expenses by line item are in total, rather than by functional category. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

**Grants and Accounts Receivable**

*Grants Receivable* reflects the balances due on unconditional grant commitments. *Accounts Receivable* represent amounts due under an agreement for professional services. The portion of receivables which is scheduled for payment in the coming fiscal year is classified as current, while commitments that exceed one year are classified as non-current. Management considers these commitments to be fully collectible and therefore, has not established a reserve for uncollectible receivables. If amounts are determined to be uncollectible, an allowance will be provided for when that determination is made. For the years presented, the Organization did not report any bad debts or losses related to uncollectible receivables.

**Short-Term Investments:**

*Short-Term Investments* as of December 31, 2017 consist of a 12-month Certificate of Deposit. The Certificate of Deposit had an annual interest rate of 0.05%, is stated at cost plus accrued interest, and matured in 2018.

PRECISION AGRICULTURE FOR DEVELOPMENT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

*(With Summarized Comparative Information for 2017)*

*(Continued)*

NOTE 3 *(Continued)*

**Property and Equipment**

The Organization records all property and equipment at cost, if purchased (exceeding \$5,000), or if donated, at fair value on the date of receipt. Expenditures for maintenance, repairs and renewals are charged to expense as incurred, whereas major betterments (exceeding \$5,000) are capitalized as additions to property and equipment. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets, as expressed in terms of years. As of December 31, 2018, property and equipment consisted of leasehold improvements for its Kenya office that have an estimated useful life equal to the lease term of six years.

**Gifts, Grants and Contributions:**

As required by the *FASB Accounting Standards Codification*<sup>TM</sup>, contributions are required to be recorded as receivables and revenues and the Organization is required to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Contributions may include gifts of cash, collection items, or promises to give.

Contributions, including unconditional promises to give, are recognized as revenues in the year received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions of assets other than cash are reported at their estimated fair value.

Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved when such amounts are considered material. Support that is restricted by the donor is reported as an increase in net assets with donor restrictions depending on the nature of the restriction until the restriction expires, at which time these amounts are reclassified to net assets without donor restrictions.

**Program Revenue Recognition:**

Program revenue is recognized as reimbursable expenditures are incurred, or as deliverable services are provided under the terms of the individual contract or agreement.

**Donated Services:**

As required by the *FASB Accounting Standards Codification*<sup>TM</sup>, the Organization maintains a policy whereby the value of donated goods and services which require a specialized skill and which would have otherwise been purchased by the Organization, are recognized on the Statement of Activities and are listed as expenses on the Statement of Functional Expenses. The Organization receives a significant time commitment from its Board of Directors on a volunteer basis; however, although critical to the success of the Organization, these services do not meet the recognition criteria.

PRECISION AGRICULTURE FOR DEVELOPMENT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

*(With Summarized Comparative Information for 2017)*

*(Continued)*

NOTE 3      *(Continued)*

**Functional Expenses:**

As required by the *FASB Accounting Standards Codification*<sup>TM</sup>, the Organization allocates its expenses on a functional basis among various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expense classification. Other expenses that are common to several functions are allocated using formulas derived from estimates based upon time, space and asset usage. Expenses allocated by time usage consist of *Salaries, Payroll Taxes, Employee Benefits, U.S. Based Contractors and Personnel Costs, Non-U.S. Based. Rent Expense, Office Expense, and Depreciation Expense* are allocated based on the usage of the underlying assets.

Supporting services are those related to operating and managing the Organization and its programs on a day-to-day basis. Supporting services have been sub-classified as follows:

*Administrative* - includes all activities related to the Organization's internal management and accounting for program services.

*Fund Raising* - includes all activities related to maintaining contributor information, writing grant proposals, direct mail solicitation, costs of fund raising events, distribution of materials and other similar projects related to the procurement of funds.

**Recent Accounting Guidance:**

*Recently Implemented Standards*

In August 2016, the Financial Accounting Standards Board ("FASB") issued ASC Update No. 2016-14, (Topic 958) *Presentation of Financial Statements of Not-for-Profit Entities*, with the goal of improving not-for-profit financial statements to provide more useful information to donors, grantors, creditors, and other financial statement users. This ASU modified the current guidance over several criteria, of which the following affected the Organization's financial statements:

- The Organization's net assets are segregated into two categories, "with donor restrictions" and "without donor restrictions" as opposed to the previous requirement of three classes of net assets.
- The Organization provided qualitative and quantitative information relating to management of liquidity and the availability of financial assets to meet cash needs for general expenditures within one year of the Statement of Financial Position date.
- The Organization provided a more in-depth explanation of the methods used to allocate costs among program and supporting functions.

In accordance with this ASU, the Organization has applied retrospective application. The ASU provides organizations with the option of presenting one year of liquidity and the availability of financial assets in the year of implementation; therefore, the Organization is not presenting a liquidity and availability disclosure for the year ended December 31, 2017.

PRECISION AGRICULTURE FOR DEVELOPMENT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

*(With Summarized Comparative Information for 2017)*

*(Continued)*

NOTE 3      *(Continued)*

*Recently Issued Standards*

In May 2014, the FASB issued ASC Update No. 2014-09, (Topic 606) *Revenue from Contracts with Customers*. This ASU is a comprehensive new revenue recognition model that requires an organization to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This updated guidance impacts not-for-profit entities that have revenue transactions other than contributions. In August 2015, the FASB deferred the effective date of ASC Update No. 2014-09 by one year when it issued ASC Update No. 2015-14, (Topic 606) *Revenue from Contracts with Customers*. This standard is effective for this Organization in financial statements issued for the fiscal year beginning January 1, 2019. The adoption of this ASU is not expected to have a material effect on the Organization's financial position or change in net assets.

In June 2018, the FASB issued ASC Update No. 2018-08, (Topic 958) *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The ASU also provides additional guidance to help determine whether a contribution is conditional or unconditional. This standard is effective for this Organization in financial statements issued for the fiscal year beginning January 1, 2019. The adoption of this ASU is not expected to have a material effect on the Organization's financial position or change in net assets.

In February 2016, the FASB issued ASC Update No. 2016-02, (Topic 842) *Leases* which establishes a comprehensive new lease accounting model. The new standard clarifies the definition of a lease and causes lessees to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset for leases with a lease term of more than one year. This standard is effective for this Organization in financial statements issued for the fiscal year beginning January 1, 2020. The new standard requires a modified retrospective transition for capital or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements, but it does not require transition accounting for leases that expire prior to the date of initial application.

NOTE 4      GRANTS RECEIVABLE

As of December 31, 2018 and 2017, *Grants Receivable* are discounted at a 2.5% effective rate and are due as follows:

	<u>2018</u>	<u>2017</u>
Due in Less than One Year	\$ 746,694	\$ 81,324
Due in One to Five Years	<u>337,862</u>	<u>856,782</u>
Total Grants Receivable	1,084,556	938,106
Less: Discount	<u>(8,369)</u>	<u>(29,386)</u>
Subtotal	1,076,187	908,720
Less: Current Portion	<u>(746,694)</u>	<u>(81,324)</u>
Non-Current Grants Receivable	<u>\$ 329,493</u>	<u>\$ 827,396</u>



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NOTES TO FINANCIAL STATEMENTS

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*(With Summarized Comparative Information for 2017)*

*(Continued)*

NOTE 5      NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consists of unexpended donor designated grants and contributions with the following restrictions as of December 31, 2018 and 2017:

<u>Nature of Restriction</u>	<u>2018</u>	<u>2017</u>
Effectiveness of Agriculture in India	\$1,062,946	\$1,358,273
India and Africa Program Development	-	782,620
One Acre Fund Data Project	-	147,546
Advisory Services for India Coffee Farmers	-	53,938
Total	<u>\$1,062,946</u>	<u>\$2,342,377</u>

Net assets released from donor restrictions by incurring expenses which satisfied the restricted purposes by occurrence of events specified by the donors were as follows:

<u>Nature of Restriction</u>	<u>2018</u>	<u>2017</u>
India and Africa Program Development	\$ 782,620	\$657,760
One Acre Fund Data Project	147,546	52,983
Overcoming Barriers to Soil Fertility Management	65,930	62,385
Effectiveness of Agriculture in India	295,327	9,591
Advisory Services for India Coffee Farmers	132,108	-
Lapse of Time Restrictions	-	100,000
Total	<u>\$1,423,531</u>	<u>\$882,719</u>

NOTE 6      CONDITIONAL GRANTS

**Operating Grant Commitments:**

PAD received a \$3 million commitment from an individual donor in 2016, payable in three annual installments of \$1 million, which is unrestricted for program expansion and general operating costs. Each installment of the grant is subject to specific conditions. During 2018 and 2017, upon achieving the requirements set forth in the grant, the second and third installments of \$1 million were received in each respective year, and there are no remaining amounts due on this commitment as of December 31, 2018.

In 2018, PAD was awarded a two-year grant for general operating support totaling \$4 million. PAD received the first installment of \$2 million during the year ended December 31, 2018, which has been recognized as revenue. The remaining installment of \$2 million, which is scheduled to be paid in August 2019, is strictly conditional upon satisfactory program accomplishments and progress reports; accordingly, this amount has not been recorded as revenue in the accompanying financial statements.

PRECISION AGRICULTURE FOR DEVELOPMENT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

*(With Summarized Comparative Information for 2017)*

*(Continued)*

NOTE 6 *(Continued)*

**Agricultural Technology Adoption Initiative (ATAI):**

During 2016, PAD received a funding commitment from ATAI, which is an initiative of the Massachusetts Institute of Technology (“MIT”). The grant is funding a project entitled “Overcoming Barriers to Soil Fertility Management”. The total commitment is \$149,342, administered on a cost-reimbursement basis, and contingent upon successful receipt of ATAI Initiative Review Board approval and the execution of the deliverable services. During the years ended December 31, 2018 and 2017, the Organization had met the conditions to receive \$65,930 and \$62,385 of this grant award, and the remaining conditional portion totaled \$21,027 as of December 31, 2018.

Since the terms of the conditional components of the above grant commitments had not been met as of December 31, 2018 and 2017, the aggregate conditional commitment of \$2,021,027 and \$1,133,019 has not been recognized in the accompanying financial statements.

**Pilot Mobile Phone-Based Agriculture Advisory Services for Coffee Farmers in India:**

During the year ended December 31, 2017, the Organization received a grant totaling \$100,000 to support pilot mobile phone-based agriculture advisory services for coffee farmers in India. In December 2018, the grant agreement was amended to increase the total award to \$132,108. During the years ended December 31, 2018 and 2017, payments on this grant totaled \$78,170 and \$53,938, respectively, the Organization had fulfilled all obligations and conditions related to this project and there are no remaining amounts due on this commitment as of December 31, 2018.

NOTE 7 EMPLOYEE BENEFIT PLAN

PAD maintains a 401(k) retirement savings plan covering all eligible employees. The Plan allows eligible employees of the Organization to defer a percentage of their earnings from current taxation and also allows for after tax contributions. The Plan makes a tiered matching contribution of up to 4% of employee compensation as well as provides an opportunity for a discretionary employer contribution that is determined annually by the Board of Directors. For the year ended December 31, 2018 and 2017, PAD made matching contributions of \$42,538 and \$35,444, which are included in *Employee Benefits* in the accompanying Statement of Functional Expenses.

NOTE 8 OPERATING LEASES

**United States:**

PAD occupies office space in Boston, Massachusetts pursuant to a tenancy-at-will arrangement that may be canceled by either party subject to a 30-day notice requirement. During the years presented, the monthly rent ranged from \$1,000 to \$3,250.

PRECISION AGRICULTURE FOR DEVELOPMENT, INC.

NOTES TO FINANCIAL STATEMENTS

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*(With Summarized Comparative Information for 2017)*

*(Continued)*

NOTE 8      *(Continued)*

**Kenya:**

In 2018, PAD entered into a six-year lease agreement to lease approximately 1,600 square feet of office space in Nairobi Kenya, which serves as the Organization's foreign branch office for its East African programs (*see Note 10*). For the first two years of the lease agreement, monthly rent payments will be approximately \$1,300 per month and are subject to annual increases. The Organization is also responsible for paying additional amounts for office service charges and local taxes.

The following is a schedule of the estimated future rental payments related to the Kenya office:

<u>Year Ending</u>	<u>Amount</u>
December 31, 2019	\$15,230
December 31, 2020	16,753
December 31, 2021	17,515
December 31, 2022	19,266
December 31, 2023	20,142
December 31, 2024	<u>6,714</u>
Total	<u>\$95,620</u>

NOTE 9      RELATED PARTY TRANSACTIONS

**Salaries:**

PAD's chief executive is the Managing Director, who is compensated as an employee and also serves as an Officer of the Board of Directors and is allocated to various program expense categories based on the nature of the service.

**Contracted Services:**

An Officer of the Board of Directors is compensated by the Jameel Poverty Action Lab ("JPAL"), a research organization based at the Massachusetts Institute of Technology. He is a board member, the co-chair for research, and a member of the executive committee of JPAL. This global organization supports J-PAL South Asia, an organization based in India which provided contracted services totaling \$361,343 and \$224,646 to PAD in connection with implementation and field costs for the years ended December 31, 2018 and 2017 and is allocated to various program expense categories based on the nature of the service.

PRECISION AGRICULTURE FOR DEVELOPMENT, INC.

NOTES TO FINANCIAL STATEMENTS

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*(With Summarized Comparative Information for 2017)*

*(Continued)*

NOTE 10    CONCENTRATIONS

**Credit Risk:**

The Organization is subject to concentrations in credit risk relating to cash balances. For the years presented, the Organization's cash deposits are held in two financial institutions in checking and money market savings accounts. Deposits are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. The Organization had \$4,113,580 and \$3,552,741 in excess of federally insured limits as of December 31, 2018 and 2017, respectively; however, the Organization has not experienced any losses on such accounts and management considers credit risk on cash to be low. In early 2019, the Organization moved \$2.5 million of its cash balances to two other financial institutions to increase the rate of return and to fully insure this amount.

**Gifts, Grants and Contributions:**

For the years ended December 31, 2018 and 2017, 80% and 81% of total *Gifts, Grants and Contributions* are from two donors, respectively.

**Grants Receivable:**

As of December 31, 2018, amounts due related to one grant award accounted for 78% and 89%, respectively, of total *Grants Receivable*.

**Foreign Operations:**

Consistent with its mission, PAD conducts the majority of its program activities in developing countries. For the years presented, activities were primarily concentrated in Kenya, India and Ethiopia with additional services in Pakistan, Rwanda, Uganda, Bangladesh, and Ecuador.

In June 2017, PAD registered a foreign branch office in Kenya under The Companies Act, 2015. There were no transactions processed through the branch office during the year ended December 31, 2017. The Kenyan branch office began operations during 2018, and during the year ended December 31, 2018, PAD maintained bank accounts in Kenya, conducted financial transactions using Kenyan shillings and is subject to the volatility of the Kenyan Shilling to the U.S. Dollar. Any gain or loss resulting from fluctuations in the currency exchange rate is reported as an increase or decrease in net assets without donor restrictions in the accompanying Statement of Activities.

**Subcontracted Services:**

PAD subcontracts services and partners with local consultants and organizations in various countries to conduct its program activities. For the years ended December 31, 2018 and 2017, amounts paid to two contracted agencies account for 22% and 23%, respectively, of total expenses.

PRECISION AGRICULTURE FOR DEVELOPMENT, INC.

NOTES TO FINANCIAL STATEMENTS

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*(With Summarized Comparative Information for 2017)*

*(Continued)*

NOTE 11 LIQUIDITY AND AVAILABILITY

The following table reflects the Organization's financial assets as of December 31, 2018, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, trust assets, perpetual endowments and accumulated earnings net of appropriations within one year, because the governing board has set aside the funds for a specific contingency reserve or a long-term investment as board designated endowments, or when restricted by donors for purposes more limited than general expenditures.

Financial Assets:	
Cash	\$ 4,482,455
Grants Receivable	1,076,187
Accounts Receivable	<u>21,754</u>
Total Financial Assets as of December 31, 2018	5,580,396
Less Amounts Not Available to be Used Within One Year:	
Grants Receivable, Non-Current	(329,493 )
Board-Designated Funds	<u>(1,506,261 )</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 3,744,642</u>

As part of the Organization's liquidity management, the Board of Directors has a policy to structure the financial assets to be available as its general expenditures, liabilities, and other obligations come due. Additionally, the Organization has Board-Designated funds that, while the Organization does not intend to spend these for purposes within the next year, these amounts could be made available for current operations, if necessary.

NOTE 12 SUBSEQUENT EVENTS

Management is required to consider events subsequent to the financial statement date for potential adjustment to or disclosure in the financial statements. Therefore, Management has evaluated subsequent events through July 31, 2019, the date which the financial statements were available for issue, and noted no events which met the recognition or disclosure criteria.