

**THE CENTER FOR PRODUCE
SAFETY**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED
DECEMBER 31, 2022 AND 2021**

THE CENTER FOR PRODUCE SAFETY

TABLE OF CONTENTS DECEMBER 31, 2022 AND 2021

	<u>PAGE</u>
Independent Auditor's Report	1
Financial Statements:	
Statements of Financial Position	4
Statements of Activities	5
Statements of Functional Expenses	6
Statements of Cash Flows	8
Notes to Financial Statements	9
Supplemental Schedules:	
Schedule of Expenditures of Federal Awards	15
Notes to Schedule of Expenditures of Federal Awards	18
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	21
Schedule of Findings and Questioned Costs	24

INDEPENDENT AUDITOR'S REPORT

**Board of Directors
The Center for Produce Safety
Woodland, California**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Center for Produce Safety (CPS), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Center for Produce Safety as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of CPS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CPS's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CPS's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2023, on our consideration of CPS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CPS's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CPS's internal control over financial reporting and compliance.

Gilbert CPAs

GILBERT CPAs
Sacramento, California

April 13, 2023

THE CENTER FOR PRODUCE SAFETY

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,679,998	\$ 6,598,002
Certificates of deposit	2,955,000	500,000
Grants receivable	1,083,425	634,812
Current portion of pledges receivable	2,345,000	1,999,353
Prepaid expenses and other current assets	38,644	85,263
Total current assets	<u>11,102,067</u>	<u>9,817,430</u>
NONCURRENT ASSETS:		
Pledges receivable, net	3,068,296	4,139,543
Deposits	2,909	2,909
Right-of-use asset - operating lease	<u>75,825</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 14,249,097</u>	<u>\$ 13,959,882</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 778,024	\$ 459,090
Deferred revenue	31,800	-
Refundable grant advances	272,972	322,249
Lease liability - operating lease, current	43,367	-
Total liabilities	<u>1,126,163</u>	<u>781,339</u>
LEASE LIABILITY - OPERATING LEASE, Net	<u>33,539</u>	<u>-</u>
TOTAL LIABILITIES	<u>1,159,702</u>	<u>781,339</u>
NET ASSETS:		
With donor restrictions	12,803,064	12,673,506
Without donor restrictions	286,331	505,037
Total net assets	<u>13,089,395</u>	<u>13,178,543</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,249,097</u>	<u>\$ 13,959,882</u>

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

THE CENTER FOR PRODUCE SAFETY

STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUES:		
Specialty Crop Program grants	\$ 3,000,345	\$ 2,270,716
Contributions	100,000	570,000
Symposium:		
Sponsorship	181,250	79,500
Registration	129,564	-
Interest income	54,376	917
Other income	392	3,907
Net assets released from restrictions	<u>803,600</u>	<u>745,428</u>
Total revenues	<u>4,269,527</u>	<u>3,670,468</u>
EXPENSES:		
Program services:		
Specialty Crop Program research	3,000,345	2,270,716
Campaign for Produce Safety research	776,688	874,609
Symposium	359,156	116,574
Professional development	26,856	-
Master's immersion	<u>16,873</u>	<u>-</u>
Total program services	<u>4,179,918</u>	<u>3,261,899</u>
Supporting services:		
General and administrative	218,122	203,555
Fundraising	<u>90,193</u>	<u>122,461</u>
Total supporting services	<u>308,315</u>	<u>326,016</u>
Total expenses	<u>4,488,233</u>	<u>3,587,915</u>
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>(218,706)</u>	<u>82,553</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Campaign for Produce Safety contributions	928,158	2,808,835
Other contributions	5,000	1,150,785
Net assets released from restrictions	<u>(803,600)</u>	<u>(745,428)</u>
INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>129,558</u>	<u>3,214,192</u>
INCREASE (DECREASE) IN NET ASSETS	(89,148)	3,296,745
NET ASSETS, Beginning of Year	<u>13,178,543</u>	<u>9,881,798</u>
NET ASSETS, End of Year	<u>\$ 13,089,395</u>	<u>\$ 13,178,543</u>

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

THE CENTER FOR PRODUCE SAFETY

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2022

	Program Services				Supporting Services			
	Campaign for Specialty Crop Program Research	Produce Safety Research	Symposium	Professional Development	Master's Immersion	General & Administrative	Fundraising	Total Expenses
Research subgrants	\$ 2,739,280	\$ 641,839	\$ -	\$ 9,335	\$ -	\$ -	\$ -	\$ 3,390,454
Professional services	154,762	-	37,238	-	-	128,547	-	320,547
Salaries and wages	100,995	83,541	41,846	10,462	10,462	20,924	41,846	310,076
Facility and hotel	-	-	216,509	-	-	-	-	216,509
Occupancy	-	29,764	14,882	3,720	3,720	7,441	14,882	74,409
Payroll taxes and employee benefits	5,308	21,544	10,773	2,691	2,691	5,386	10,773	59,166
Travel and meetings	-	-	14,237	648	-	37,363	-	52,248
Marketing	-	-	10,000	-	-	-	22,692	32,692
Supplies and materials	-	-	13,671	-	-	18,461	-	32,132
Total expenses	<u>\$ 3,000,345</u>	<u>\$ 776,688</u>	<u>\$ 359,156</u>	<u>\$ 26,856</u>	<u>\$ 16,873</u>	<u>\$ 218,122</u>	<u>\$ 90,193</u>	<u>\$ 4,488,233</u>

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

THE CENTER FOR PRODUCE SAFETY

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2021

	Program Services			Supporting Services		Total Expenses
	Specialty Crop Program Research	Campaign for Produce Safety Research	Symposium	General & Administrative	Fundraising	
Research subgrants	\$ 2,077,096	\$ 699,908	\$ -	\$ -	\$ -	\$ 2,777,004
Professional services	120,823	-	47,706	135,498	-	304,027
Salaries and wages	67,489	112,299	44,919	22,460	44,919	292,086
Occupancy	-	32,380	12,952	6,476	12,952	64,760
Payroll taxes and employee benefits	5,308	23,977	9,590	4,795	9,590	53,260
Travel and meetings	-	-	1,358	31,088	-	32,446
Marketing	-	-	-	-	55,000	55,000
Supplies and materials	-	-	49	3,238	-	3,287
Special projects	-	6,045	-	-	-	6,045
Total expenses	<u>\$ 2,270,716</u>	<u>\$ 874,609</u>	<u>\$ 116,574</u>	<u>\$ 203,555</u>	<u>\$ 122,461</u>	<u>\$ 3,587,915</u>

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

THE CENTER FOR PRODUCE SAFETY

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (89,148)	\$ 3,296,745
Reconciliation to net cash provided by operating activities:		
Non-cash operating lease expense	42,755	-
Changes in:		
Grants receivable	(448,613)	259,178
Pledges receivable	725,600	(2,384,369)
Prepaid expenses and other current assets	46,619	(85,000)
Accounts payable and accrued expenses	318,934	5,419
Deferred revenue	31,800	-
Refundable grant advances	(49,277)	(19,253)
Lease liability - operating lease	(41,674)	-
Net cash provided by operating activities	<u>536,996</u>	<u>1,072,720</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of certificates of deposit	(3,955,000)	(2,000,000)
Maturities of certificates of deposit	<u>1,500,000</u>	<u>2,250,000</u>
Net cash provided (used) in investing activities	<u>(2,455,000)</u>	<u>250,000</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 (1,918,004)	 1,322,720
 CASH AND CASH EQUIVALENTS, Beginning of Year	 <u>6,598,002</u>	 <u>5,275,282</u>
 CASH AND CASH EQUIVALENTS, End of Year	 <u>\$ 4,679,998</u>	 <u>\$ 6,598,002</u>
 NON-CASH INVESTING ACTIVITY:		
Right-of-use asset upon adoption of ASC 842	<u>\$ 118,580</u>	

THE CENTER FOR PRODUCE SAFETY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Center for Produce Safety (CPS) is a nonprofit public benefit corporation whose mission is to provide and share ready-to-use, science-based solutions to prevent or minimize produce safety vulnerabilities. CPS is a collaborative partnership that leverages the combined expertise of industry, government and the scientific and academic communities to identify the most pressing research needs, fund the most promising investigations and advance real-world solutions. CPS is primarily supported through government research grants and research contributions from members of the produce industry.

Basis of presentation – The financial statements are presented in conformity with accounting standards for not-for-profit entities. CPS reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Cash and cash equivalents – For financial statement purposes, CPS considers all investments with an initial maturity of three months or less to be cash equivalents.

Certificates of deposit are stated at cost.

Revenue recognition – Specialty Crop Program grants are received from various states under the United States Department of Agriculture’s Specialty Crop Block Grant Program. These grants are conditioned upon the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when CPS has incurred expenditures in compliance with specific grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statements of financial position.

Grants receivable represents amounts owed from Specialty Crop Program grants where qualifying expenses incurred exceed amounts received. Grants receivable are scheduled to be received within one year and are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Management believes that all grants receivable are collectible and no allowance is necessary.

CPS’s Campaign for Produce Safety contributions are used to match or supplement the Specialty Crop Program research projects received under government grants. Unconditional contributions that are expected to be collected within one year are recorded at net realizable value. Unconditional contributions that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the contribution is received. Amortization of the discounts is included in contribution revenue.

All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in net assets with donor restrictions. Net assets with donor restrictions become unrestricted and are reported in the statements of activities as net assets released from restrictions when the time restrictions expire or the contributions are used for the restricted purpose.

THE CENTER FOR PRODUCE SAFETY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Restricted contributions that were initially classified as conditional due to a qualifying expense barrier are recognized as net assets without donor restrictions since the restriction is met simultaneously when the condition is released and the revenue is recognized.

Symposium revenues are recognized in the year the related symposium occurs. Fees collected in advance of the symposium are recorded as deferred revenues. Deferred revenues at December 31, 2022 were \$31,800. There were no deferred revenues at December 31, 2021.

Leases – CPS determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the statements of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets are also adjusted for prepaid or accrued rent. CPS uses the rate implicit in the lease if it is determinable. When the rate implicit in the lease is not determinable, CPS has made an accounting policy election to use the risk-free rate at the lease commencement date, in lieu of its incremental borrowing rate to discount future lease payments. Operating lease expense is recognized on a straight-line basis over the lease term. Lease terms may include options to renew, extend or terminate to the extent they are reasonably certain to be exercised. CPS does not report ROU assets and leases liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

Income taxes – CPS is publicly supported and exempt from income taxes under Internal Revenue Code Section (IRC §) 501(c)(3) and by the California Franchise Tax Board under Section 23701(d). CPS has applied the accounting principles related to accounting for uncertainty in income taxes and has determined that there is no material impact on the financial statements.

Functional allocation of expenses – Campaign for Produce Safety funds are used exclusively for research projects and are not used to pay for the administrative costs of CPS. The administrative costs are paid by unrestricted contributions and federal awards, as allowable under grants from state agencies. In order to present expenses in accordance with accounting standards for not-for-profit entities, the administrative costs have been allocated on a functional basis to program and supporting services in the statements of activities and of functional expenses. The expenses that are allocated include salaries, wages and professional services, which are allocated based on time and effort; payroll taxes and employee benefits, which are allocated based on salaries and wages; and occupancy and supplies which are allocated based on estimated usage.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant estimates included in these financial statements are the collectability of grants and pledges receivable, and the allocation of expenses by function. Accordingly, actual results could differ from those estimates.

Recent accounting pronouncements – Effective January 1, 2022, CPS adopted Accounting Standards Codification (ASC) 842, *Leases*, using the modified retrospective approach with January 1, 2022 as the date of initial adoption. ASC 842 is intended to improve financial reporting of lease transactions by requiring entities that lease assets to recognize assets and liabilities for the rights and obligations created by leases that extend more than 12 months. Key provisions in this guidance include additional disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases. For leases existing at the transition date, CPS applied the package of three transition practical expedients and therefore did not reassess whether an arrangement is or contains a

THE CENTER FOR PRODUCE SAFETY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

lease, did not reassess lease classification, and did not reassess what qualifies as an initial direct cost. Additionally, CPS applied the practical expedient to use hindsight for the purpose of determining the lease term.

Under the modified retrospective approach, the adoption of ASC 842 resulted in the recognition of ROU assets and lease liabilities of \$118,580. There is no cumulative effect adjustment to net assets at the transition date.

Subsequent events have been reviewed through April 13, 2023, the date the financial statements were available to be issued. Management concluded that no material subsequent events have occurred since December 31, 2022 that require recognition or disclosure in the financial statements.

2. LIQUIDITY AND AVAILABILITY OF RESOURCES

CPS's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 4,679,998	\$ 6,598,002
Certificates of deposit	2,955,000	500,000
Grants receivable	1,083,425	634,812
Pledges receivable	<u>5,413,296</u>	<u>6,138,896</u>
Total financial assets	14,131,719	13,871,710
Less:		
Amounts unavailable for general expenditures within one year:		
Restricted by donors (see Note 6):		
Campaign for Produce Safety research	(11,790,079)	(11,430,001)
Encouraging Young Scientists	(15,485)	(27,505)
Master's Immersion	(3,500)	-
Time restricted to be received in more than 1 year	(602,000)	(904,000)
Specialty Crop Block Grant Program advances	<u>(272,972)</u>	<u>(322,249)</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 1,447,683</u>	<u>\$ 1,187,955</u>

As part of its liquidity management, CPS receives advances for its research grants and structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. Certificates of deposits are scheduled to mature through the year to coincide with research funding needs.

3. PLEDGES RECEIVABLE

CPS recognizes pledges receivable at their estimated fair value, on a nonrecurring basis, at the time the pledge is made. Fair value is determined by calculating the net present value of the estimated future cash flows. The discount rate used in determining the net present value of pledges receivable was 1.26% at both December 31, 2022 and 2021. Management provides for probable uncollectible

THE CENTER FOR PRODUCE SAFETY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

pledges through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual pledges. There were no pledges written off during 2022 or 2021. Management believes that all remaining pledges are collectible and no allowance is necessary.

Pledges receivable consist of the following:

	<u>2022</u>	<u>2021</u>
Gross pledges receivable	\$ 5,474,500	\$ 6,245,565
Less: Unamortized discount	<u>(61,204)</u>	<u>(106,669)</u>
Pledges receivable, net	<u>\$ 5,413,296</u>	<u>\$ 6,138,896</u>

Pledges receivable are due to be collected as follows:

	<u>2022</u>	<u>2021</u>
Within one year	\$ 2,345,000	\$ 1,999,353
In one to five years	<u>3,068,296</u>	<u>4,139,543</u>
Pledges receivable, net	<u>\$ 5,413,296</u>	<u>\$ 6,138,896</u>

4. CONDITIONAL CONTRIBUTIONS RECEIVABLE

Conditional promises to give, which depend on the occurrence of specified future and uncertain events, are not recorded until the conditions are met. CPS receives Specialty Crop Program government grants which limit spending to qualifying expenditures as defined in the grant agreements. Outstanding conditional promises to give subject to qualifying expenditure requirements were \$10,042,025 and \$6,089,326 at December 31, 2022 and 2021, respectively, and will be recognized as revenue as the conditions are met.

5. LEASES

CPS leases its office space under an operating lease expiring in September 2024, which is included on the statement of financial position as of December 31, 2022 as a ROU asset and operating lease liability of \$75,825 and \$76,906, respectively. The ROU asset and operating lease liability were calculated using a risk-free discount rate of 0.97%. Lease expense for this lease totaled \$46,605 for 2022 and cash paid for amounts included in the measurement of operating lease liabilities totaled \$42,606 for 2022. Maturities of the lease liability for this lease are as follows:

<u>Year ending December 31,</u>	
2023	\$ 43,886
2024	<u>33,648</u>
Total lease payments	77,534
Less: interest	<u>(628)</u>
Present value of operating lease liability	<u>\$ 76,906</u>

THE CENTER FOR PRODUCE SAFETY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Prior to the implementation of ASC 842 in 2022, leases were accounted for in accordance with the previous lease standard, ASC 840. Total rent expense for operating leases under ASC 840 was \$41,895 for 2021.

6. NET ASSETS

Net assets with donor restrictions consist of the following:

	<u>2022</u>	<u>2021</u>
Campaign for Produce Safety research	\$ 11,790,079	\$ 11,430,001
Time restricted	994,000	1,216,000
Encouraging Young Scientists	15,485	27,505
Master's Immersion	<u>3,500</u>	<u>-</u>
Total	<u>\$ 12,803,064</u>	<u>\$ 12,673,506</u>

CPS's net assets without donor restrictions include cumulative surpluses earned on its annual symposiums totaling \$174,784 and \$170,717 at December 31, 2022 and 2021, respectively. These funds have been designated by the Board of Directors to pay future symposium costs.

7. CONCENTRATIONS

Cash balances

CPS maintains its cash in bank deposit and money market accounts that, at times, may exceed federally insured limits. CPS has not experienced any losses in such accounts. At December 31, 2022 and 2021, CPS held deposits with financial institutions in excess of federal depository insurance limits of \$4,493,970 and \$6,356,479, respectively. Management believes CPS is not exposed to any significant credit risk related to cash.

Pledges receivable

Approximately 45% of CPS's pledges receivable are from four donors at December 31, 2022, totaling \$2,475,000. At December 31, 2021, approximately 44% of CPS's pledges receivable are from four donors, totaling \$2,675,000.

Revenue

Approximately 51% of CPS's 2022 Campaign for Produce Safety contributions were from one donor, totaling \$500,000. For 2021, approximately 33% of CPS's Campaign for Produce Safety contributions were from two donors, totaling \$1,500,000.

All of CPS's government research grants were received under the Specialty Crop Block Grant Program of the United States Department of Agriculture.

THE CENTER FOR PRODUCE SAFETY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

8. RESEARCH COMMITMENTS

CPS contracts with outside parties to perform the research projects funded by its Specialty Crop Program grants and produce safety program. The research commitments are treated as conditional contributions in conformity with accounting standards for not-for-profit entities and are recognized as expense when qualifying expenses are incurred. The balance of research commitments totaled \$12,684,435 and \$8,629,281 at December 31, 2022 and 2021, respectively. These projects have varying terms from twelve to thirty months.

9. PENSION PLAN

CPS sponsors a defined contribution SIMPLE IRA plan under Internal Revenue Code Section 408(p) for all eligible employees. Under the terms of the plan, CPS contributes 3% of eligible participants' salaries. In 2022 and 2021, the employer contribution totaled \$7,088 and \$6,750, respectively. Employees immediately become fully vested in CPS's contributions to the plan.

THE CENTER FOR PRODUCE SAFETY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED DECEMBER 31, 2022

	<u>Assistance Listing Number</u>	<u>Pass-Thru Entity Identifying Number</u>	<u>Federal Expenditures</u>	<u>Passed Through to Subrecipients</u>
U.S. Department of Agriculture:				
Specialty Crop Block Grant Program:				
Passed through California Department of Food and Agriculture:				
Verification and validation of environmental monitoring programs for biofilm control in the packing house	10.170	19061	\$ 23,633	\$ 20,605
Post-harvest fresh produce wash water disinfection by submerged cold plasma non-chemical continuous treatment system	10.170	19063	94,979	83,805
Analysis of the presence of Cyclospora in waters of the Mid-Atlantic states and evaluation of removal and inactivation by filtration	10.170	19064	18,921	12,816
Sources and prevalence of Cyclospora cayetanensis in Southeastern US irrigation water sources and growing environments	10.170	19065	59,613	53,751
The prevalence of Cyclospora in water and produce	10.170	19066	17,512	12,370
When the E. coli hits the fan! Evaluating the risks of dust associated produce cross-contamination.	10.170	20053	151,907	137,481
Overcome critical food safety challenges of blueberry harvesting	10.170	20058	151,404	137,976
Survival of Infectious Human Norovirus in water and on leafy greens	10.170	20056	134,250	118,298
Determination of Physical and Chemical Mechanisms to Prevent Cyclospora Infection	10.170	20055	227,523	209,407
Bio-based antimicrobial coatings for reducing risk of cross-contamination during harvesting	10.170	20051	108,668	91,985
Digital Farm-to-Facility Food Safety Testing Optimization	10.170	20057	148,349	134,966
Field evaluation of microfluidic paper-based analytical devices for microbial source tracking	10.170	20054	234,603	214,400
Waxing of whole produce and its involvement in and impact on microbial food safety	10.170	20052	97,216	85,972

THE CENTER FOR PRODUCE SAFETY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED DECEMBER 31, 2022

	<u>Assistance Listing Number</u>	<u>Pass-Thru Entity Identifying Number</u>	<u>Federal Expenditures</u>	<u>Passed Through to Subrecipients</u>
Quantifying risk associated with changes in EHEC physiology during post-harvest pre-processing stages of leafy green production	10.170	21060	144,929	136,546
Microbial characterization of irrigation waters using rapid, inexpensive and portable next generation sequencing technologies	10.170	21058	79,124	72,523
Towards a holistic assessment of the food-safety risks imposed by wild birds	10.170	21059	192,538	186,189
Cross-contamination risks in dry environments	10.170	21062	38,800	32,432
Assessing Romaine lettuce “Forward Processing” for potential impacts on EHEC growth, antimicrobial susceptibility, and infectivity	10.170	21061	81,906	74,628
Practical application of superheated steam to harvesting, processing, and produce packing tools and equipment	10.170	21065	163,618	157,021
Cyclospora cayetanensis monitoring in agricultural water	10.170	21064	80,274	73,951
Assessing the potential for production practices to impact dry bulb onion safety	10.170	21063	162,529	153,448
Optimizing methods for the detection and quantification of infectious human Norovirus from fresh berries using human intestinal enteroids	10.170	22050	1,053	-
Microbiological risk assessment using QMRA in preharvest agriculture water treatment systems for leafy greens	10.170	22045	808	-
A metagenomic approach to food safety risk mitigation in pears	10.170	22047	1,094	-
Testbeds for microbial source tracking using microfluidic paper-based analytical devices	10.170	22046	991	-
Supplementing food antimicrobials in commercial edible coatings to enhance the safety and extend the shelf-life of stone fruits	10.170	22049	981	-
Control of Salmonella and Listeria monocytogenes on peaches through spray-bar brush bed sanitizer intervention	10.170	22048	1,073	-

THE CENTER FOR PRODUCE SAFETY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED DECEMBER 31, 2022

	<u>Assistance Listing Number</u>	<u>Pass-Thru Entity Identifying Number</u>	<u>Federal Expenditures</u>	<u>Passed Through to Subrecipients</u>
Passed through Florida Department of Agriculture and Consumer Services:				
Understanding and predicting food safety risks posed by wild birds	10.170	027408	166,918	155,566
AFECCT: Assessing filtration efficacy for Cyclospora control	10.170	028505	37,933	29,020
A viability assay for Cyclospora and its surrogates Eimeria	10.170	029346	1,053	-
Development of an infrared-functionalized microbalance sensor for Cyclospora cayetanensis detection and differentiation	10.170	029345	1,022	-
Passed through Texas International Produce Association:				
Possibility, duration, and molecular predictors of sanitizer tolerance in Listeria Monocytogenes	10.170	SC-1920-65	11,708	7,303
Strategic approaches to mitigate Salmonella contamination of bulb onions	10.170	SC-2122-52	71,189	67,154
Flexible risk process models to quantify residual risks and the impact of interventions	10.170	SC-2022-83	205	-
Control of Listeria monocytogenes in processing/ packing plants using antimicrobial blue light (aBL)	10.170	SC-2021-34	12,369	8,537
Passed through Washington State Department of Agriculture:				
Validation of sanitizer disinfection of wash water in dump tank operation of apple packing lines	10.170	K3155	197,411	193,487
Validation study for the tree-fruit industry: effective strategies to sanitize harvest bins and picking bags	10.170	K3594	82,036	77,643
Interaction of resident microbiome and Listeria on pears during cold storage	10.170	K3936	205	-
Total U.S. Department of Agriculture			<u>3,000,345</u>	<u>2,739,280</u>
Total Expenditures of Federal Awards			<u>\$ 3,000,345</u>	<u>\$ 2,739,280</u>

THE CENTER FOR PRODUCE SAFETY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS DECEMBER 31, 2022

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards of The Center for Produce Safety (CPS) is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. INDIRECT COST RATE

CPS has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Board of Directors
The Center for Produce Safety
Woodland, California**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Center For Produce Safety (CPS), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 13, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CPS’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CPS’s internal control. Accordingly, we do not express an opinion on the effectiveness of CPS’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether CPS's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gilbert CPAs

GILBERT CPAs
Sacramento, California

April 13, 2023

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

**Board of Directors
The Center for Produce Safety
Woodland, California**

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited The Center For Produce Safety’s (CPS) compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of CPS’s major federal programs for the year ended December 31, 2022. CPS’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, CPS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of CPS and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of CPS’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to CPS’s federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on CPS's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about CPS's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding CPS's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of CPS's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of CPS's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant

deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Gilbert CPAs

GILBERT CPAs
Sacramento, California

April 13, 2023

THE CENTER FOR PRODUCE SAFETY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED DECEMBER 31, 2022

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Type of auditor's report issued: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>Assistance Listing Number</u>
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Specialty Crop Block Grant Program	10.170
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Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

THE CENTER FOR PRODUCE SAFETY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2022

SECTION II – FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

SECTION IV – STATUS OF PRIOR YEAR AUDIT FINDINGS

None noted.