



RAINFOREST ALLIANCE INC. AND SUBSIDIARIES

Consolidated Financial Statements

June 30, 2016 and 2015

With Independent Auditors' Report

Rainforest Alliance, Inc. and Subsidiaries
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June 30, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors,
Rainforest Alliance, Inc. and Subsidiaries.:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Rainforest Alliance, Inc. and Subsidiaries, ("RA" or the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. 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 consolidated 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 consolidated financial statements referenced above, present fairly, in all material respects, the financial position of Rainforest Alliance, Inc. and Subsidiaries as of June 30, 2016, 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.

Report on Summarized Comparative Information

We have previously audited the Organization's June 30, 2015, consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 29, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



October 31, 2016

Rainforest Alliance, Inc. and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2016 and 2015

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 7,009,275	\$ 11,023,333
Grants and contributions receivables	2,317,131	4,612,344
RA Cert, participation fee and other receivables, net of allowances for doubtful accounts of \$110,338 in 2016 and \$104,719 in 2015	2,432,250	2,395,114
Advances and prepaid expenses	647,248	515,115
Total current assets	<u>12,405,904</u>	<u>18,545,906</u>
Property and equipment, net	685,196	840,547
Other assets		
Restricted cash	--	1,914,814
Security deposits	363,137	356,217
Investments	3,687,003	1,209,056
Total other assets	<u>4,050,140</u>	<u>3,480,087</u>
Total assets	<u>\$ 17,141,240</u>	<u>\$ 22,866,540</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 6,090,963	\$ 6,599,347
Lease financing provision - current portion	49,039	45,733
Refundable advances	327,248	671,718
Total current liabilities	<u>6,467,250</u>	<u>7,316,798</u>
Long term liabilities		
Deferred rent liability	656,316	610,222
Lease financing provision - net of current portion	25,855	74,894
Foreign severance payable	1,819,577	1,929,874
Total liabilities	<u>8,968,998</u>	<u>9,931,788</u>
Net assets		
Unrestricted	2,354,744	2,381,452
Temporarily restricted	4,817,498	9,553,300
Permanently restricted	1,000,000	1,000,000
Total net assets	<u>8,172,242</u>	<u>12,934,752</u>
	<u>\$ 17,141,240</u>	<u>\$ 22,866,540</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

Rainforest Alliance, Inc. and Subsidiaries
Consolidated Statement of Activities and Changes in Net Assets
Year Ended June 30, 2016
(With Summarized Comparative Totals for June 30, 2015)

	2016			Total	Total 2015
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and revenues					
Contributions					
Major donors and individuals	\$ 2,789,390	\$ 1,006,977	\$ --	\$ 3,796,367	\$ 6,002,734
Foundations and corporate grants	212,849	3,307,669	--	3,520,518	5,432,494
Government grants and contracts	11,935,089	--	--	11,935,089	15,571,679
Certification fees	9,977,677	--	--	9,977,677	11,176,672
Participation agreement revenue	8,334,894	--	--	8,334,894	7,934,741
Special events - net	932,611	--	--	932,611	1,190,996
Other income	320,529	--	--	320,529	233,140
Investment income	62,259	27,935	--	90,194	30,653
In-kind contributions	1,183,981	--	--	1,183,981	1,108,202
Net assets released from restrictions	<u>9,078,383</u>	<u>(9,078,383)</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total support and revenues	44,827,662	(4,735,802)	--	40,091,860	48,681,311
Expenses					
Program services					
Sustainable agriculture	4,806,776	--	--	4,806,776	5,548,649
RA Cert	11,144,642	--	--	11,144,642	11,631,175
TREES	8,049,463	--	--	8,049,463	11,566,434
Markets transformation	6,599,687	--	--	6,599,687	5,852,385
Other	<u>4,858,942</u>	<u>--</u>	<u>--</u>	<u>4,858,942</u>	<u>5,900,832</u>
Total program services	35,459,510	--	--	35,459,510	40,499,475
Support services					
Management and general	4,289,718	--	--	4,289,718	4,348,144
Fundraising	<u>5,105,142</u>	<u>--</u>	<u>--</u>	<u>5,105,142</u>	<u>2,996,545</u>
Total expenses	<u>44,854,370</u>	<u>--</u>	<u>--</u>	<u>44,854,370</u>	<u>47,844,164</u>
Changes in net assets	(26,708)	(4,735,802)	--	(4,762,510)	837,147
Net assets, beginning of year	<u>2,381,452</u>	<u>9,553,300</u>	<u>1,000,000</u>	<u>12,934,752</u>	<u>12,097,605</u>
Net assets, end of year	<u>\$ 2,354,744</u>	<u>\$ 4,817,498</u>	<u>\$ 1,000,000</u>	<u>\$ 8,172,242</u>	<u>\$ 12,934,752</u>

The Notes to Consolidated Financial Statements are an integral part of this statement.

Rainforest Alliance, Inc. and Subsidiaries
Consolidated Statement of Functional Expenses
Year Ended June 30, 2016
(With Summarized Comparative Totals for June 30, 2015)

	2016										2015
	Program Services					Support Services					Total
	Sustainable Agriculture	RA Cert	TREES	Markets Transformation	Other	Total	Management and General	Fund-Raising	Total	Total	
Salaries and benefits	\$ 2,364,464	\$ 5,687,383	\$ 2,226,220	\$ 3,989,947	\$ 2,260,422	\$ 16,528,436	\$ 3,760,079	\$ 3,091,088	\$ 6,851,167	\$ 23,379,603	\$ 24,196,980
Sub-grants	863,538	--	3,274,715	--	80,491	4,218,744	--	2,000	2,000	4,220,744	5,423,748
Consultants	609,412	2,709,777	1,200,977	1,161,729	1,325,535	7,007,430	38,104	677,562	715,666	7,723,096	7,764,316
Telephone	29,948	89,374	46,628	52,785	24,252	242,987	5,183	20,664	25,847	268,834	322,746
Printing	16,537	7,520	22,442	5,238	9,764	61,501	293	86,395	86,688	148,189	202,227
Postage/shipping	4,687	18,104	10,240	18,334	3,812	55,177	457	178,534	178,991	234,168	354,517
Office supplies	16,029	26,110	29,837	16,592	14,490	103,058	1,442	6,745	8,187	111,245	213,379
Office equipment	56,251	72,066	51,318	45,092	23,247	247,974	2,979	27,776	30,755	278,729	328,643
Occupancy	249,904	598,970	404,329	422,655	199,223	1,875,081	33,823	198,417	232,240	2,107,321	2,316,947
Travel	332,075	749,554	290,470	397,896	216,956	1,986,951	81,469	93,878	175,347	2,162,298	2,458,710
Workshops	105,046	19,451	216,824	25,343	104,030	470,694	1,754	4,607	6,361	477,055	808,114
Other office expenses	138,765	673,426	180,611	386,994	129,689	1,509,485	21,004	282,544	303,548	1,813,033	1,878,646
Depreciation	16,424	34,858	42,719	26,303	21,567	141,871	1,972	11,508	13,480	155,351	155,706
Foreign tax expense	3,696	322,297	52,133	35,611	19,568	433,305	336	1,956	2,292	435,597	254,285
Bad debt expense	--	135,752	--	15,168	--	150,920	4,206	--	4,206	155,126	56,998
	<u>4,806,776</u>	<u>11,144,642</u>	<u>8,049,463</u>	<u>6,599,687</u>	<u>4,433,046</u>	<u>35,033,614</u>	<u>3,953,101</u>	<u>4,683,674</u>	<u>8,636,775</u>	<u>43,670,389</u>	<u>46,735,962</u>
In-Kind services and supplies	--	--	--	--	425,896	425,896	336,617	421,468	758,085	1,183,981	1,108,202
	<u>\$ 4,806,776</u>	<u>\$ 11,144,642</u>	<u>\$ 8,049,463</u>	<u>\$ 6,599,687</u>	<u>\$ 4,858,942</u>	<u>\$ 35,459,510</u>	<u>\$ 4,289,718</u>	<u>\$ 5,105,142</u>	<u>\$ 9,394,860</u>	<u>\$ 44,854,370</u>	<u>\$ 47,844,164</u>

The Notes to Consolidated Financial Statements are an integral part of this statement.

Rainforest Alliance, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Changes in net assets	\$ (4,762,510)	\$ 837,147
Adjustments to reconcile changes in net assets to net cash used by operating activities		
Depreciation	155,351	155,706
Bad debt expense	155,126	56,998
Realized gain on sale of investments	(37)	(1,152)
Unrealized loss (gain) on investments	(31,955)	17,571
Forgiveness of indebtedness	--	(480,750)
Exchange rate loss	116,564	84,008
Changes in assets and liabilities		
Grants and contributions receivable	2,295,213	(386,911)
RA Cert and other receivables	(192,262)	(1,251,702)
Advances and prepaid expenses	(132,133)	206,487
Accounts payable and accrued expenses	(508,384)	(346,616)
Foreign severance payable	(110,297)	634,299
Refundable advances	(344,470)	(855,955)
Deferred rent liability	46,094	70,233
Net cash used by operating activities	<u>(3,313,700)</u>	<u>(1,260,637)</u>
Cash flows from investing activities		
Purchases of property and equipment	--	(17,950)
Change in security deposits	(6,920)	122
Purchase of investments and reinvested income	(3,557,931)	(75,874)
Proceeds from sale of investments	1,111,976	51,942
Net cash used by investing activities	<u>(2,452,875)</u>	<u>(41,760)</u>
Cash flows from financing activities		
Change in restricted cash	1,914,814	(636,519)
Payments on lease financing provision	<u>(45,733)</u>	<u>(42,629)</u>
Net cash provided (used) by financing activities	1,869,081	(679,148)
Effects of exchange rates on cash	<u>(116,564)</u>	<u>(113,925)</u>
Net change in cash and cash equivalents	(4,014,058)	(2,095,470)
Cash and cash equivalents		
Beginning of year	<u>11,023,333</u>	<u>13,118,803</u>
End of year	<u>\$ 7,009,275</u>	<u>\$ 11,023,333</u>
Supplemental disclosure of cash flow information		
Foreign taxes paid	<u>\$ 279,265</u>	<u>\$ 146,855</u>
Non-cash transactions		
Forgiveness of indebtedness	\$ --	\$ (480,750)
Loan payable	--	192,300
Recoverable grant payable	--	288,450
	<u>\$ --</u>	<u>\$ --</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

Rainforest Alliance, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

1. Organization and Nature of Activities

Rainforest Alliance, Inc. ("RA" or the "Organization") is an international non-profit organization, organized in 1987 in the State of New York with branches and affiliates in various countries. Its mission is to conserve biodiversity and ensure sustainable livelihoods by transforming land-use practices, business practices and consumer behavior. All the activities of its branches and affiliates are included in these consolidated financial statements. RA conducts the majority of its activities throughout North America, Central America, South America, Africa, Europe and Southeast Asia.

Significant sources of revenues are received from contributions, governmental grants and contracts, certification fees and participation agreement revenue.

2. Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include all of the assets, liabilities, net assets, revenues and expenses of all branches and affiliates of the Rainforest Alliance, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation

Financial reporting by not-for-profit organizations requires that resources be classified for accounting and reporting purposes into net asset categories according to externally (donor) imposed restrictions.

The net assets of RA are reported as follows:

Unrestricted: Unrestricted net assets are net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations and are available for the general operations of RA.

Temporarily Restricted: Temporarily restricted net assets include gifts of cash and other assets received with donor stipulations that limit the use of the donated assets.

Permanently Restricted: Permanently restricted net assets include gifts of cash and other assets received with donor stipulations that cannot be satisfied by either the actions of RA or through the passage of time.

Revenue and Support Recognition

RA recognizes contributions as revenue when they are received or unconditionally pledged and records these revenues as unrestricted or restricted support according to donor stipulations that limit the use of these assets due to time or purpose restrictions. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions.

RA accounts for those government grant and contract revenues which have been determined to be exchange transactions in the statement of activities and changes in net assets as changes in unrestricted net assets to the extent that expenses have been incurred for the purpose specified by the grantor during the period. In applying this concept, the legal and contractual requirements of each individual contract are used as guidance. All monies not expended in accordance with the grant or contract are recorded as a liability to the funding source, as RA does not maintain any equity in the grant or contract, or shown as refundable advances for those contracts whose contract terms continue into the subsequent fiscal year. In addition, these contracts are subject to audit by the awarding agencies. Each funding source, at its discretion, can request reimbursement for expenses or return of funds, or both, as a result of noncompliance by RA with the terms of the grants or contracts.

Unrestricted revenue is also obtained from certification fees and participation agreement revenue. RA certifies various products including coffee, tea, cocoa, and also certifies forest management operations, chain of custody, and agriculture (farms) and performs other sustainability work and training. Certification fees are recognized as revenue as the service is provided according to the level of work done.

Rainforest Alliance, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Participation agreement revenues are recorded, net of pass through fees, when certified product purchases are completed and have been invoiced. Participation agreement revenues are recorded for the use of the certification seal and other intellectual property associated with it (from the businesses in the middle of the supply chain to those that buy and sell goods produced on Rainforest Alliance Certified farms). The amount charged is based on the volume of goods purchased as certified and varies by crop.

Receivables and Credit Policies

RA Cert, participation fee and other receivables represent unsecured, non-interest bearing obligations due from customers. In the normal course of business, RA grants credit directly to certain customers after a credit analysis based on financial and other criteria and generally requires no collateral. RA reviews the receivables and has established an allowance for doubtful accounts.

Estimates

The presentation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates included in these consolidated financial statements consist of the foreign payroll tax liability included in accounts payable and accrued expenses, and RA Cert and other receivables. The RA Cert and other receivables have been shown net of an estimate for unearned revenue for billings sent in advance of services being performed. There is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Cash Equivalents

RA considers all highly liquid financial instruments with a maturity of three months or less at the time of purchase to be cash equivalents.

Grants and Contributions Receivable

Grants and contributions receivable mainly consist of government grant receivables and unconditional contribution receivables. The Organization monitors the collectability of these receivables and has determined that no allowance for uncollectible accounts was necessary at June 30, 2016 and 2015.

Property and Equipment

Property and equipment is recorded at cost, except for donated items which are recorded at fair value on the date of donation. When donors stipulate how long the assets must be used, the contributions are recorded as temporarily restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. When an asset is sold or retired, the cost and accumulated depreciation are removed from the respective accounts. Maintenance, repairs and minor renewals are charged to operations as incurred. Depreciation is provided using the straight-line method over the estimated useful lives of the property and equipment as follows:

Description	Estimated Life (Years)
Furniture and equipment	5-10
Software	3
Leasehold improvements	Shorter of term of lease or life of asset

Donated Goods and Services

RA received donated services in the form of legal, advertising and professional fees. Additionally, RA received donated goods for their gala and other purposes. RA recognized goods and services provided which had an ascertainable value and were an integral part of RA's program services at the fair market value of the services or goods received. These donated goods and services are included in in-kind contributions on the consolidated statement of activities and changes in net assets and as in-kind services and supplies on the consolidated statement of functional expenses.

Rainforest Alliance, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Allocation of Expenses

Expenses, other than indirect expenses, are directly charged to the program that derives the direct benefit. Indirect expenses are allocated to the various program and supporting services based on the ratio of direct expense for any one function to total direct expenses of all functional areas or programs.

Program Expenses

Sustainable Agriculture – includes certification programs that encourage farmers to grow crops and manage ranchlands sustainably, including environmental protection, social equity and economic viability, to support long term success.

RA Cert – includes certification, verification and validation activities in the areas of forestry, agriculture and carbon/climate. These services are focused on conserving biodiversity and ensuring sustainable livelihoods.

Training, Extension, Enterprises and Sourcing (“TREES”) - works to help small and medium enterprises to harvest and manufacture forest products in a sustainable way and to market these goods to responsible businesses and consumers around the world.

Markets Transformation - helping organizations across the forestry, agriculture and tourism value chains to successfully integrate sustainability into their business practices from sustainable production to sustainable consumption.

Other – includes sustainable tourism, climate initiatives, special projects, sustainable finance, communications and education.

Prior Year Summarized Comparative Information

Information as of and for the year ended June 30, 2015, is presented for comparative purposes only. Certain activity by net asset classification in the consolidated statement of activities and changes in net assets and consolidated statement of functional expenses is not included in this report. Accordingly, such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with RA’s consolidated financial statements as of and for the year ended June 30, 2015, from which the summarized comparative information was derived.

Income Taxes

RA is exempt from federal income tax under Section 501(c)(3) of the United States Internal Revenue Code and no provision for such income tax has been reflected in the accompanying consolidated financial statements. RA has evaluated uncertain tax positions with respect to its U.S. operations and concluded there are no such positions at June 30, 2016 and 2015. RA has operations in other countries and is subject to the laws and regulations of those countries. During the years ended June 30, 2016 and 2015, RA has paid foreign income taxes of approximately \$279,000 and \$147,000, respectively, which are included in foreign tax expense in the consolidated statement of functional expenses, in accordance with required local tax laws in various foreign jurisdictions.

RA did not recognize any tax related interest or penalties during the period in question.

Valuation of Long-Lived Assets

RA reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. RA has determined that no assessment was required for the periods presented in these consolidated financial statements.

Rainforest Alliance, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Investments

Investments are stated at fair value. Gains and losses, both realized and unrealized, resulting from increases or decreases in the fair value of investments are reflected in the consolidated statement of activities and changes in net assets as increases or decreases in unrestricted net assets unless the use is restricted by explicit donor stipulations or by law.

Economic Dependency

During the years ended June 30, 2016 and 2015, 19.72 and 22.24 percent, respectively of RA's total support and revenues were received from the United States Agency for International Development.

Translation of Foreign Currencies

The foreign operations of RA occur in functional currencies other than the U.S. dollar. The revenues and expenses occurring in foreign currencies are translated into U.S. dollars using an average monthly rate of exchange. Assets and liabilities are translated using the rate of exchange at the consolidated statement of financial position date. The related translation adjustments of approximately \$(117,000) and \$(198,000) at June 30, 2016 and 2015, respectively, are included in other income in the consolidated statement of activities and changes in net assets.

3. Investments

Investments, recorded at current value, consist of the following at June 30:

	2016		2015	
	Cost	Market	Cost	Market
Money funds	\$ 30,943	\$ 30,943	\$ 340,517	\$ 340,517
Intermediate-Term Bond	1,162,250	1,182,458	--	--
Equity ETF	2,395,681	2,441,829	--	--
Corporate bonds	--	--	800,524	832,769
Other investments	31,773	31,773	35,770	35,770
	<u>\$ 3,620,647</u>	<u>\$ 3,687,003</u>	<u>\$ 1,176,811</u>	<u>\$ 1,209,056</u>

During the fiscal year ended June 30, 2016, the Organization had approximately \$1,915,000 of restricted cash that was released for use (see Note 5). This unrestricted cash along with funds that were invested in corporate bonds during 2016 were invested into an Intermediate-term Bond and an Equity ETF.

Investment income (loss) related to these investments and interest earned on cash accounts was comprised of the following at June 30:

	2016	2015
Realized and unrealized gain (loss)	\$ 31,992	\$ (16,419)
Interest income	58,202	47,072
	<u>\$ 90,194</u>	<u>\$ 30,653</u>

Rainforest Alliance, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Fair Value Measurements

RA has reviewed investments within the framework for measuring fair value which establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities RA has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability (The unobservable inputs should be developed based on the best information available in the circumstances and may include RA's own data).

The following table summarizes assets which have been accounted for at fair value on a recurring basis along with the basis of the determination of fair value as of June 30, 2016 and 2015:

	Total	Quoted Prices in Active Markets (Level 1)	Observable Measurement Criteria (Level 2)	Total	Quoted Prices in Active Markets (Level 1)	Observable Measurement Criteria (Level 2)
	June 30, 2016			June 30, 2015		
Money funds	\$ 30,943	\$ 30,943	\$ --	\$ 340,517	\$ 340,517	\$ --
Intermediate-Term Bond	1,182,458	1,182,458	--	--	--	--
Equity ETF	2,441,829	2,441,829	--	--	--	--
Corporate bonds						
AA rating	--	--	--	53,221	53,221	--
A+ rating	--	--	--	50,891	50,891	--
A rating	--	--	--	102,459	102,459	--
A- rating	--	--	--	50,877	50,877	--
BB rating	--	--	--	101,375	101,375	--
BB+ rating	--	--	--	52,407	52,407	--
BBB+ rating	--	--	--	106,582	106,582	--
BBB rating	--	--	--	156,885	156,885	--
BBB- rating	--	--	--	158,072	158,072	--
Other investments	31,773	--	31,773	35,770	--	35,770
	<u>\$ 3,687,003</u>	<u>\$ 3,655,230</u>	<u>\$ 31,773</u>	<u>\$ 1,209,056</u>	<u>\$ 1,173,286</u>	<u>\$ 35,770</u>

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Money funds, corporate bonds, intermediate term bonds and equity ETF are valued based on readily available pricing sources for comparable instruments and, therefore, are designated as Level 1.

Other investments consist of charitable gift annuity contracts which are held at a third party investment house. There are no identical instruments for valuation, however, these instruments are based on instruments of comparable value and are therefore shown as Level 2.

Rainforest Alliance, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

4. Property and Equipment

Property and equipment consists of the following as of June 30:

	2016	2015
Furniture and equipment	\$ 482,659	\$ 482,659
Software	8,996	8,996
Leasehold improvements	<u>813,404</u>	<u>813,404</u>
	1,305,059	1,305,059
Less: Accumulated depreciation	<u>619,863</u>	<u>464,512</u>
	<u>\$ 685,196</u>	<u>\$ 840,547</u>

Depreciation expense amounted to \$155,351 and \$155,706 for the years ended June 30, 2016 and 2015, respectively.

5. Restricted Cash

The Organization was required to maintain a dedicated operating reserve in accordance with the recoverable grant agreement and the loan (see Note 6). In October 2015, the related debt was satisfied (see Note 6) and Restricted cash amounted to \$-0- and \$1,914,814 as of June 30, 2016 and 2015, respectively.

6. Long-Term Debt

In July 1998, RA was awarded a recoverable grant of \$1,500,000 to fund certain RA Cert program activities. Grant repayments were tied to cash flows from operations from funded activities which began in 2004. During December 2011 a new agreement was established between RA and the grantor that became effective for the fiscal year ended June 30, 2011 that allowed for annual partial forgiveness of the recoverable grant under certain conditions. For the years ended June 30, 2016 and 2015, RA complied with the terms of these conditions and recorded \$-0- and \$288,450, respectively, of forgiveness of the recoverable grant in foundation and corporate grant contributions in the consolidated statement of activities and changes in net assets. As of June 30, 2016, all obligations of the Organization under the loan and promissory note executed in connection with the loan have been satisfied.

In April 1999, RA received an interest-free loan of \$1,000,000 for the same RA Cert program activities. During December 2011 a new agreement was agreed to by the lender, which allowed for annual partial forgiveness of the loan under certain conditions. For the years ended June 30, 2016 and 2015, RA complied with the terms of these conditions and recorded \$-0- and \$192,300, respectively, of forgiveness of the loan in contributions revenue in the consolidated statement of activities and changes in net assets. As of June 30, 2016, all obligations of the Organization under the loan and promissory note executed in connection with the loan have been satisfied.

7. In-Kind Contributions

In-kind contributions consist of the following for the years ended June 30:

	2016	2015
Legal services	\$ 336,617	\$ 339,756
Annual gala services	186,660	300,012
Advertising	425,897	458,819
Products & services	234,807	--
Imputed interest	--	9,615
	<u>\$ 1,183,981</u>	<u>\$ 1,108,202</u>

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8. Retirement Plans and Foreign Severance Payable

RA has a qualified tax-deferred annuity plan under Section 403(b) of the Internal Revenue Code for eligible employees in the United States. RA offers all eligible employees working more than 20 hours per week a matching contributory retirement plan. Employees can begin making contributions immediately upon hire and are eligible for an employer matching contribution of up to 5 percent of salary after one year of employment. The Organization made matching contributions totaling approximately \$453,000 and \$439,000 for the years ended June 30, 2016 and 2015, respectively.

RA has recorded an obligation for foreign severance payable in accordance with the laws in the locations for employees working in certain foreign jurisdictions of \$1,819,577 and \$1,929,874 at June 30, 2016 and 2015, respectively, which is included in foreign severance payable in the consolidated statements of financial position. The foreign severance reserve is an estimate that is based on the laws of each foreign jurisdiction but generally is computed based on the years of employment for each employee as well as other factors and varies based on the individual laws within the foreign country. The obligation is required to be funded when an employee's employment with RA terminates.

9. Concentration of Credit Risk and Foreign Currency Risk

Financial instruments, which potentially subject RA to concentrations of credit risk, consist of cash, investments in foreign banks, investments, receivables and foreign currency risk. As of June 30, 2016 and 2015, RA had approximately \$1,637,000 and \$2,524,000, respectively, in foreign banks which are not insured by the FDIC or any Federal or State agency. Management monitors the soundness of these institutions and has not experienced any losses. Investments are placed in high credit quality financial instruments. Although subject to market fluctuation, this investment policy limits RA's exposure to concentrations of credit risk.

RA has a long standing history of collecting its receivables which are from corporations, foundations and governmental agencies throughout the world. This limits RA's exposure to credit risk. RA had an outstanding RA Cert, participation fee and other receivables from two customers which comprised 30 percent of the outstanding balance at June 30, 2016. Additionally there were grants and contributions receivable outstanding from two donors that comprise 65 percent of the outstanding balance at June 30, 2016. At June 30, 2015 there were two customers that represented 28 percent the outstanding receivables of RA Cert, participation fee and other receivables and two donors that represented 70 percent of the grants and contribution receivables.

Foreign currency risk is the risk to RA that arises from fluctuations in foreign currency exchange rates, and the degree of volatility of these rates. Consequently, some assets, liabilities and expenses are exposed to foreign exchange fluctuations. The Organization does not hold derivative financial instruments to manage the fluctuation of exchange rate risk. The assets and liabilities held in other foreign currencies include cash, severance and payroll liabilities.

10. Commitments and Contingencies

Operating Leases

RA leases office space in New York and in various other locations in the United States and in several foreign localities under leases that expire through April 2023. These leases provide for minimum annual rentals, real estate taxes and other costs. Rent expense for the leases totaled approximately \$1,801,000 and \$2,029,000, for the years ended June 30, 2016 and 2015, respectively, which is included in occupancy expense in the statement of functional expenses. Annual rent expenses paid under the leases include the basic rent plus charges for common area management costs and real estate tax escalation charges.

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The commitment of rent under non-cancellable lease agreements for the next five years and in the aggregate thereafter is as follows:

Year	Amount
2017	\$ 1,514,259
2018	1,254,076
2019	1,133,143
2020	1,176,088
2021	1,175,563
Thereafter	<u>2,258,356</u>
	<u>\$ 8,511,485</u>

Lease Financing Provision

RA signed a lease agreement on June 11, 2012 whereby the landlord agreed to perform alterations on the premises. The lease provides that the cost of alterations is to be paid as additional rent with \$221,902 as the financed portion, with a stated rate of interest of 7 percent for 60 months with monthly payments of principal and interest of \$4,394. As of June 30, 2016 the outstanding balance of the lease financing provision was as follows:

Year	Amount
2017	\$ 52,727
2018	<u>26,364</u>
	79,091
Less interest	<u>(4,197)</u>
	<u>\$ 74,894</u>

Future minimum principal payments are as follows at June 30: 2017 - \$49,039; 2018 - \$25,855

Government Grants and Contracts

RA receives funding from various federal and foreign agencies under grants and contracts, many of which have commitments spanning multiple years. RA has available funding under federal agency contracts through June 2018 of approximately \$4,685,000. RA's costs incurred under its government grants and contracts are subject to audit by government agencies. Management believes that disallowance of costs, if any, would not be material to the consolidated financial position or changes in net assets of RA.

Foreign Payroll Tax

RA has recorded an obligation for estimated potential foreign payroll tax liabilities in accordance with the laws in the locations for employees working in certain foreign jurisdictions of approximately \$1,088,000 and \$1,729,000 at June 30, 2016 and 2015, respectively, which is included in accounts payable and accrued expenses in the consolidated statements of financial position. These amounts have been accrued for estimated potential payroll tax liabilities in certain foreign jurisdictions. During the years ended June 30, 2016 and 2015 there were no amounts paid for these estimated foreign payroll tax liabilities.

General Litigation

The Organization is subject to legal proceedings and claims which arise in the ordinary course of business. Management does not believe that the outcome of any of these matters will have a material adverse effect on the consolidated financial position, operating results or cash flows.

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11. Net Assets

Temporarily restricted net assets were comprised of the following at June 30:

	2016	2015
Sustainable Forestry	\$ 485,581	\$ 282,656
Sustainable Agriculture	387,676	571,860
Sustainable Tourism	171	38,870
Climate Change	57,902	122,773
Education	20,375	8,261
Communications	--	29,197
Special Projects	517,125	585,290
Development Campaign	3,318,800	7,877,866
Charitable Trusts	29,868	31,498
Markets	--	5,029
	<u>\$ 4,817,498</u>	<u>\$ 9,553,300</u>

The following is a schedule of the net assets that were released from donor restrictions at June 30:

	2016	2015
Sustainable Forestry	\$ 919,755	\$ 591,302
Sustainable Agriculture	1,975,923	3,552,909
Sustainable Tourism	101,997	257,798
Climate Change	194,687	189,457
Education	38,395	44,034
Communications	29,197	25,583
Special Projects	575,870	776,927
Development Campaign	5,235,900	1,815,165
Charitable Trusts	1,630	930
Markets	5,029	222,253
	<u>\$ 9,078,383</u>	<u>\$ 7,476,358</u>

12. Endowment Funds

RA's endowment is comprised of one donor-restricted endowment. As required by generally accepted accounting principles, net assets associated with endowment funds, are classified and reported based on the existence of donor-imposed restrictions.

Interpretation of Relevant Law

Under the New York Prudent Management of Institutional Funds Act ("NYPMIFA"), a charitable organization can only spend amounts of an endowment funds' above "historic dollar value" that it deems to be prudent. With respect to its existing endowment fund, RA has followed the donor instrument in classifying as permanently restricted net assets at the original value of the gift donated to the permanent endowment. Investment earnings on the donor-restricted endowment fund are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by RA pursuant to its obligations under the agreement with the donor and applicable law.

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RA conducts an annual analysis of the endowment fund with respect to:

- (1) Its historic value
- (2) Donor restrictions on the use of income or appreciation and the effect of the restriction
- (3) Any loss affecting the historic dollar value
- (4) The amount of the fund's appreciation held in non-readily marketable securities
- (5) The amount of appreciation in the fund attributable to an inflation factor since the inception of the fund

RA is currently developing an investment policy that will determine return objectives and risk parameters, and strategies employed for achieving objectives.

The following table provides information regarding the change in endowment net assets for the years ended June 30:

	2016			2015		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	\$ 139,962	\$ 1,000,000	\$ 1,139,962	\$ 125,127	\$ 1,000,000	\$ 1,125,127
Contributions received	--	--	--	--	--	--
Expenditures	(18,166)	--	(18,166)	(4,863)	--	(4,863)
Investment return						
Investment income	37,756	--	37,756	34,396	--	34,396
Unrealized loss	(9,821)	--	(9,821)	(14,698)	--	(14,698)
	<u>27,935</u>	<u>--</u>	<u>27,935</u>	<u>19,698</u>	<u>--</u>	<u>19,698</u>
Endowment assets end of year	<u>\$ 149,731</u>	<u>\$ 1,000,000</u>	<u>\$ 1,149,731</u>	<u>\$ 139,962</u>	<u>\$ 1,000,000</u>	<u>\$ 1,139,962</u>
Permanently restricted net assets						
Required to be maintained in perpetuity		<u>\$ 1,000,000</u>			<u>\$ 1,000,000</u>	

RA invests the endowment funds in a separate investment account. Investment balances, which are included in investments in the consolidated statements of financial position, were approximately \$1,201,000 and \$1,173,000 as of June 30, 2016 and 2015, respectively. Temporarily restricted funds released from restriction in the current year are transferred from the investment account in subsequent years in accordance with RA's spending policy.

13. Subsequent Events

RA has evaluated subsequent events occurring after the consolidated statement of financial position date through the date of October 31, 2016, which is the date the consolidated financial statements were available for release. Based upon this evaluation, RA has determined that no subsequent events have occurred which require adjustment to or disclosure in the consolidated financial statements.