



**RAINFOREST ALLIANCE INC. AND SUBSIDIARIES**

**Consolidated Financial Statements**

**For the Period July 1, 2017 to December 31, 2017  
And for the Year Ended June 30, 2017**

**With Independent Auditors' Report**

**Rainforest Alliance, Inc. and Subsidiaries**  
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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 December 31, 2017, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the period July 1, 2017 to December 31, 2017, 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 December 31, 2017, and the changes in its net assets and its cash flows for the period July 1, 2017 to December 31, 2017, 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, 2017 consolidated financial statements and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated October 23, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

*Withum Smith + Brown, PC*

April 18, 2018

**Rainforest Alliance, Inc. and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**December 31, 2017 and June 30, 2017**

	<u>December 31, 2017</u>	<u>June 30, 2017</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 6,642,319	\$ 5,930,110
Grants and contributions receivables, net	2,563,644	3,344,122
RA Cert, participation fee and other receivables, net	2,753,353	2,306,622
Advances and prepaid expenses	<u>529,453</u>	<u>514,844</u>
Total current assets	12,488,769	12,095,698
Property and equipment, net	456,204	530,493
Intangible assets, net	1,600,000	--
Other assets		
Grants and contributions receivable - net of current portion	191,737	--
Security deposits	350,828	359,674
Investments	<u>4,083,309</u>	<u>3,957,421</u>
Total other assets	<u>4,625,874</u>	<u>4,317,095</u>
Total assets	<u>\$ 19,170,847</u>	<u>\$ 16,943,286</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 5,937,697	\$ 6,727,463
Due to seller - current portion	500,000	--
Lease financing provision - current portion	--	25,855
Refundable advances	<u>1,905,830</u>	<u>295,347</u>
Total current liabilities	8,343,527	7,048,665
Long term liabilities		
Deferred rent liability	650,960	657,773
Due to seller - net of current portion	1,000,000	--
Foreign severance payable	<u>2,140,487</u>	<u>1,887,850</u>
Total liabilities	12,134,974	9,594,288
Net assets		
Unrestricted	2,548,811	2,538,175
Temporarily restricted	3,487,062	3,810,823
Permanently restricted	<u>1,000,000</u>	<u>1,000,000</u>
Total net assets	<u>7,035,873</u>	<u>7,348,998</u>
Total liabilities and net assets	<u>\$ 19,170,847</u>	<u>\$ 16,943,286</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**  
**For the Period July 1, 2017 to December 31, 2017**  
**(With Summarized Comparative Totals for the Year Ended June 30, 2017)**

	July 1, 2017 - December 31, 2017			Total	June 30, 2017
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and revenues					
Contributions					
Major donors and individuals	\$ 1,656,439	\$ 189,797	\$ --	\$ 1,846,236	\$ 4,247,132
Foundations and corporate grants	110,768	3,464,859	--	3,575,627	4,989,422
Government grants and contracts	4,942,605	--	--	4,942,605	10,760,400
Certification fees	4,590,018	--	--	4,590,018	9,309,778
Participation agreement revenue	4,213,734	--	--	4,213,734	8,305,692
Special events - net	--	--	--	--	1,022,887
Other income	134,246	--	--	134,246	229,925
Investment income	115,890	12,929	--	128,819	279,980
In-kind contributions	611,132	--	--	611,132	1,197,827
Net assets released from restrictions	<u>3,991,346</u>	<u>(3,991,346)</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total support and revenues	20,366,178	(323,761)	--	20,042,417	40,343,043
Expenses					
Program services					
Landscapes and livelihoods	6,468,294	--	--	6,468,294	13,567,553
RA-Cert	4,958,815	--	--	4,958,815	9,949,947
Evaluation and research	539,373	--	--	539,373	941,868
Markets transformation	2,928,802	--	--	2,928,802	5,322,667
Communications	<u>899,030</u>	<u>--</u>	<u>--</u>	<u>899,030</u>	<u>2,331,923</u>
Total program services	15,794,314	--	--	15,794,314	32,113,958
Support services					
Management and general	3,005,857	--	--	3,005,857	5,057,423
Fundraising	<u>1,555,371</u>	<u>--</u>	<u>--</u>	<u>1,555,371</u>	<u>3,994,906</u>
Total expenses	<u>20,355,542</u>	<u>--</u>	<u>--</u>	<u>20,355,542</u>	<u>41,166,287</u>
Changes in net assets	10,636	(323,761)	--	(313,125)	(823,244)
Net assets, beginning of period	<u>2,538,175</u>	<u>3,810,823</u>	<u>1,000,000</u>	<u>7,348,998</u>	<u>8,172,242</u>
Net assets, end of period	<u>\$ 2,548,811</u>	<u>\$ 3,487,062</u>	<u>\$ 1,000,000</u>	<u>\$ 7,035,873</u>	<u>\$ 7,348,998</u>

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

**Rainforest Alliance, Inc. and Subsidiaries**  
**Consolidated Statement of Functional Expenses**  
**For the Period July 1, 2017 to December 31, 2017**  
**(With Summarized Comparative Totals for the Year Ended June 30, 2017)**

	July 1, 2017 - December 31, 2017										June 30, 2017	
	Program Services					Support Services					Total	Total
	Landscapes and Livelihoods	RA-Cert	Evaluation and Research	Markets Transformation	Communications	Total Program Services	Management and General	Fund-Raising	Total Support Services			
Salaries and benefits	\$ 2,617,952	\$ 2,454,731	\$ 327,838	\$ 1,304,191	\$ 504,542	\$ 7,209,254	\$ 2,359,567	\$ 984,609	\$ 3,344,176	\$ 10,553,430	\$ 21,434,807	
Sub-grants	1,813,057	--	34,195	--	--	1,847,252	--	--	--	1,847,252	3,777,597	
Consultants	907,924	1,429,125	88,860	505,185	205,872	3,136,966	21,679	78,795	100,474	3,237,440	7,201,219	
Telephone	36,553	35,073	2,363	18,399	2,924	95,312	872	8,309	9,181	104,493	235,369	
Printing	11,892	2,206	336	3,003	1,117	18,554	95	26,345	26,440	44,994	141,911	
Postage/shipping	8,243	10,168	468	3,569	1,125	23,573	341	50,255	50,596	74,169	225,193	
Office supplies	17,115	11,409	952	6,083	997	36,556	293	2,670	2,963	39,519	76,965	
Office equipment	50,463	19,165	2,366	10,309	2,849	85,152	1,643	10,675	12,318	97,470	225,363	
Occupancy	259,864	241,949	20,771	148,089	23,977	694,650	9,622	70,183	79,805	774,455	1,915,376	
Travel	375,203	360,817	30,240	144,201	25,066	935,527	42,759	17,582	60,341	995,868	1,851,470	
Workshops	138,009	20,353	5,889	1,754	298	166,303	151	301	452	166,755	359,624	
Other office expenses	201,970	307,131	23,471	234,861	43,888	811,321	47,917	293,235	341,152	1,152,473	2,181,288	
Depreciation and amortization	30,040	20,591	1,615	413,516	2,028	467,790	535	5,964	6,499	474,289	154,703	
Foreign tax expense	--	11,233	9	9,001	14	20,257	--	32	32	20,289	85,547	
Bad debt expense	9	34,864	--	126,641	--	161,514	--	--	--	161,514	102,028	
	<u>6,468,294</u>	<u>4,958,815</u>	<u>539,373</u>	<u>2,928,802</u>	<u>814,697</u>	<u>15,709,981</u>	<u>2,485,474</u>	<u>1,548,955</u>	<u>4,034,429</u>	<u>19,744,410</u>	<u>39,968,460</u>	
In-Kind services and supplies	--	--	--	--	84,333	84,333	520,383	6,416	526,799	611,132	1,197,827	
	<u>\$ 6,468,294</u>	<u>\$ 4,958,815</u>	<u>\$ 539,373</u>	<u>\$ 2,928,802</u>	<u>\$ 899,030</u>	<u>\$ 15,794,314</u>	<u>\$ 3,005,857</u>	<u>\$ 1,555,371</u>	<u>\$ 4,561,228</u>	<u>\$ 20,355,542</u>	<u>\$ 41,166,287</u>	

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

**Rainforest Alliance, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**For the Period July 1, 2017 to December 31, 2017 and for the Year Ended June 30, 2017**

	<u>December 31, 2017</u>	<u>June 30, 2017</u>
<b>Cash flows from operating activities</b>		
Changes in net assets	\$ (313,125)	\$ (823,244)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	474,289	154,703
Bad debt expense	161,514	102,028
Net present value adjustment	8,263	--
Unrealized gains on investments	(81,336)	(189,526)
Exchange rate (gain) loss	(19,274)	70,916
Changes in assets and liabilities		
Grants and contributions receivable	580,478	(1,026,991)
RA Cert, participation fee and other receivables	(608,245)	23,600
Advances and prepaid expenses	(14,609)	132,404
Accounts payable and accrued expenses	(789,766)	636,500
Foreign severance payable	252,637	68,273
Refundable advances	1,610,483	(31,901)
Deferred rent liability	(6,813)	1,457
Net cash provided (used) by operating activities	<u>1,254,496</u>	<u>(881,781)</u>
<b>Cash flows from investing activities</b>		
Acquisition of intangible assets	(500,000)	--
Change in security deposits	8,846	3,463
Purchase of investments and reinvested income	(44,552)	(80,892)
Net cash used by investing activities	<u>(535,706)</u>	<u>(77,429)</u>
<b>Cash flows from financing activities</b>		
Payments on lease financing provision	(25,855)	(49,039)
Net cash used by financing activities	<u>(25,855)</u>	<u>(49,039)</u>
Effects of exchange rates on cash	<u>19,274</u>	<u>(70,916)</u>
Net change in cash and cash equivalents	712,209	(1,079,165)
<b>Cash and cash equivalents</b>		
Beginning of period	<u>5,930,110</u>	<u>7,009,275</u>
End of period	<u>\$ 6,642,319</u>	<u>\$ 5,930,110</u>
<b>Supplemental disclosure of non-cash information</b>		
Non-cash investing and financing activity		
Acquisition of intangible assets		
Total acquisition amount	\$ 2,000,000	\$ --
Cash paid	(500,000)	--
Non-cash portion	<u>\$ 1,500,000</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**  
**For the Period July 1, 2017 to December 31, 2017 and for the Year Ended June 30, 2017**

**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.

RA changed their fiscal year end from June 30 to December 31. Therefore, these financial statements present the activity for the full year ended June 30, 2017 and for the period from July 1, 2017 to December 31, 2017.

**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 consolidated 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**  
**For the Period July 1, 2017 to December 31, 2017 and for the Year Ended June 30, 2017**

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. RA Cert, participation fee and other receivables consisted of the following:

	<u>December 31, 2017</u>	<u>June 30, 2017</u>
RA Cert, participation fee and other receivables	\$ 2,928,353	\$ 2,441,547
Allowance for doubtful accounts	<u>(175,000)</u>	<u>(134,925)</u>
	<u>\$ 2,753,353</u>	<u>\$ 2,306,622</u>

**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 potential foreign payroll tax liability and the RA Cert, participation fee and other receivables. The RA Cert, participation fee 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 December 31, 2017 and June 30, 2017.

**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:

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

**Rainforest Alliance, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**For the Period July 1, 2017 to December 31, 2017 and for the Year Ended June 30, 2017**

**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.

**Intangible Assets**

Intangible assets with a finite life are amortized over their estimated useful life.

**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.

**Programs**

*Landscapes and Livelihoods* - 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. The program also 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.

*Evaluation & Research* – includes evaluating and communicating program impacts and developing and implementing effective, scientifically-based strategies, programs and projects through monitoring, evaluation, and results-based management that follows industry best practice.

*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.

*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.

*Communications* – responsible for outreach and education of the public on certification standards, sustainable practices and RA's work around the world and producing and publishing studies focused on forestry, agriculture and certification.

**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 December 31, 2017. RA has operations in other countries and is subject to the laws and regulations of those countries. During the period July 1, 2017 to December 31, 2017 and for the year ending June 30, 2017, RA paid no foreign income taxes. RA did not recognize any tax related interest or penalties during the periods 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**  
**For the Period July 1, 2017 to December 31, 2017 and for the Year Ended June 30, 2017**

**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 period July 1, 2017 to December 31, 2017 and for the year ending June 30, 2017 7.95 percent and 14.77 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 \$19,000 and (\$71,000) for the period from July 1, 2017 to December 31, 2017 and year ending June 30, 2017, respectively, are included in other income in the consolidated statement of activities and changes in net assets.

**Effect of Accounting Pronouncements Adopted in the Current Year**

In January 2017, FASB issued ASU 2017-01 "*Business Combinations*" (Topic 805), which clarifies the definition of a business. The amendments provide a screen to determine when an integrated set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets the set is not a business. As a result of adopting ASU 2017-01 in 2017, the Organization accounted for its acquisition in 2017 as an asset acquisition (See Note 6).

**New Accounting Pronouncement**

*Not-For-Profit Reporting*

In August 2016 the FASB issued ASU 2016-14 - Not-for-profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-profit Entities*. ASU 2016-14, which is effective for fiscal years beginning after December 15, 2017 with early adoption permitted, will require a change to two areas of not-for-profit accounting and significant new financial statement presentation and disclosure requirements. Under ASU 2016-14 (the "ASU") underwater funds will be accounted for within net assets with donor restrictions and not within net assets without donor restrictions as is the current practice. In addition, the ASU eliminates the accounting policy election to release donor imposed restrictions over the useful life of donated property and equipment when the donor does not explicitly specify the period of time the property must be used. Instead, entities will be required to relieve the donor's restrictions at the time the asset is placed in service. In addition to the above disclosures the ASU changes the presentation and disclosure requirements of not-for-profit entities in the following areas: expense disclosures, display of net asset classes, cash flow presentation, quantitative and qualitative liquidity disclosures and presentation of investment returns. RA is currently evaluating the impact these changes will have on its future consolidated financial statements.

*Revenue Recognition*

In May 2014, Financial Accounting Standards Board ("FASB") issued ASU 2014-09, "*Revenue from Contracts with Customers* (Topic 606)", which provides a comprehensive new revenue recognition model that requires a company to recognize revenue in an amount that reflects the consideration it expects to receive for the transfer of promised goods or services to its customers. The standard, including subsequent amendments, was codified as Topic 606 ("Topic 606") and requires additional disclosure regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Topic 606 is effective for annual periods beginning after December 15, 2018 and interim periods beginning after December 15, 2019. The ASU is to be applied retrospectively or using a cumulative effect transition method. RA is currently evaluating the effect that these pronouncements will have on its consolidated financial statements and related disclosures.

**Rainforest Alliance, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**For the Period July 1, 2017 to December 31, 2017 and for the Year Ended June 30, 2017**

*Leases*

In February 2016, FASB issued ASU 2016-02 “Leases (Topic 842)”, which requires the recognition of a “right to use” asset and a lease liability, initially measured at the present value of the lease payments, on the consolidated statements of financial position for all of RA’s lease obligations. This ASU is effective for fiscal years beginning after December 15, 2019. RA is currently evaluating the effect that this pronouncement will have on its consolidated financial statements and related disclosures.

**3. Grants and Contributions Receivable**

RA had outstanding grants and contributions receivable due to be collected as follows at December 31, 2017 and June 30, 2017:

	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Grants and contributions expected to be collected		
In one year or less	\$ 2,563,644	\$ 3,344,122
Between one and five years	200,000	--
	<u>2,763,644</u>	<u>3,344,122</u>
Less: Discount to present value	(8,263)	--
Grants and contributions receivable, net	<u>\$ 2,755,381</u>	<u>\$ 3,344,122</u>

**4. Investments**

Investments, recorded at fair value, consist of the following at December 31, 2017 and June 30, 2017:

	<u>December 31, 2017</u>		<u>June 30, 2017</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money funds	\$ 61,479	\$ 61,479	\$ 46,648	\$ 46,648
Intermediate-Term Bond	1,162,250	1,147,965	1,162,250	1,149,855
Equity ETF	2,491,799	2,842,583	2,461,601	2,729,768
Other investments	31,282	31,282	31,150	31,150
	<u>\$ 3,746,810</u>	<u>\$ 4,083,309</u>	<u>\$ 3,701,649</u>	<u>\$ 3,957,421</u>

Investment income related to these investments and interest earned on cash accounts was comprised of the following at December 31, 2017 and June 30, 2017:

	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Realized and unrealized gains	\$ 81,336	\$ 189,526
Interest income	47,483	90,454
	<u>\$ 128,819</u>	<u>\$ 279,980</u>

*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.

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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 at December 31, 2017 and June 30, 2017:

	December 31, 2017			June 30, 2017		
	Total	Level 1	Level 2	Total	Level 1	Level 2
Money funds	\$ 61,479	\$ 61,479	\$ --	\$ 46,648	\$ 46,648	\$ --
Intermediate-Term Bond	1,147,965	1,147,965	--	1,149,855	1,149,855	--
Equity ETF	2,842,583	2,842,583	--	2,729,768	2,729,768	--
Other investments	31,282	--	31,282	31,150	--	31,150
	<u>\$ 4,083,309</u>	<u>\$ 4,052,027</u>	<u>\$ 31,282</u>	<u>\$ 3,957,421</u>	<u>\$3,926,271</u>	<u>\$ 31,150</u>

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

Money funds, 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.

**5. Property and Equipment**

Property and equipment consists of the following as of December 31, 2017 and June 30, 2017:

	December 31, 2017	June 30, 2017
Furniture and equipment	\$ 482,659	\$ 482,659
Software	8,996	8,996
Leasehold improvements	813,404	813,404
	<u>1,305,059</u>	<u>1,305,059</u>
Less: Accumulated depreciation	848,855	774,566
	<u>\$ 456,204</u>	<u>\$ 530,493</u>

Depreciation expense amounted to \$74,289 and \$154,703 for the period July 1, 2017 to December 31, 2017 and for the year ending June 30, 2017, respectively.

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**6. Intangible Assets**

Effective July 2017, RA and the Sustainable Agriculture Network (“SAN”) entered into an agreement whereby SAN would transfer the RA-SAN certification scheme to RA, along with related intellectual property licenses, in exchange for a payment of \$2,000,000 over the term of the agreement which is 2.5 years. RA is amortizing the payment over the term of the agreement. Amortization expense amounted to \$400,000 for the period July 1, 2017 to December 31, 2017. RA paid \$500,000 for the period from July 1, 2017 to December 31, 2017 and the remaining \$1,500,000 is included in due to seller in the consolidated statements of financial position at December 31, 2017.

RA adopted the provisions of ASU 2107-01, “*Business Combinations* (Topic 805)”, which clarifies the definition of a business, in 2017. Accordingly, the acquisition was treated as an asset acquisition instead of business combinations, as substantially all of the fair value of the gross assets acquired were concentrated in a single group of identifiable assets, which consisted of a database, non-compete agreement and intellectual property.

**7. In-Kind Contributions**

In-kind contributions consist of the following for the period July 1, 2017 to December 31, 2017 and for the year ending June 30, 2017:

	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Legal services	\$ 520,383	\$ 529,760
Annual gala services	--	227,833
Advertising	84,333	369,234
Products & services	6,416	71,000
	<u>\$ 611,132</u>	<u>\$ 1,197,827</u>

**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 \$209,000 and \$418,000 for the period July 1, 2017 to December 31, 2017 and for the year ending June 30, 2017, 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 approximately \$2,140,000 and \$1,888,000 at December 31, 2017 and June 30, 2017, respectively, which is included in foreign severance payable in the consolidated statement 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.

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**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 December 31, 2017 and June 30, 2017, RA had approximately \$3,349,000 and \$ 2,762,000, 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 four customers which comprised 18 percent of the outstanding balance at December 31, 2017. RA had an outstanding RA Cert, participation fee and other receivables from three customers which comprised 36 percent of the outstanding balance at June 30, 2017. There were grants and contributions receivable outstanding from three donors that comprise 36 percent of the outstanding balance at December 31, 2017. There were grants and contributions receivable outstanding from four donors that comprise 68 percent of the outstanding balance at June 30, 2017.

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. Line of Credit**

The Organization obtained a line of credit during fiscal year end June 30, 2017, due on demand, from a financial institution for a maximum borrowing of \$1,800,000. Interest is computed at LIBOR plus 2.750 percent, which was 4.314 percent at December 31, 2017. The borrowings are secured by the Organization's investments. The Organization had no drawdowns and no outstanding balance for the period July 1, 2017 to December 31, 2017 and for the year ending June 30, 2017.

**11. 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 June 2023. These leases provide for minimum annual rentals, real estate taxes and other costs. Rent expense for the leases totaled approximately \$768,000 and \$1,679,000, for the period July 1, 2017 to December 31, 2017 and for the year ending June 30, 2017, respectively, which is included in occupancy expense in the consolidated 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.

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

Year	Amount
2018	\$ 1,526,334
2019	1,316,410
2020	1,207,198
2021	1,188,733
2022	1,204,104
Thereafter	514,253
	<u>\$ 6,957,032</u>

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*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 December 31, 2017 the lease financing provision was fully paid.

*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 February 2019 of approximately \$3,026,000. 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 \$849,000 for each of the years ended December 31, 2017 and June 30, 2017, 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 period July 1, 2017 to December 31, 2017 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.

**12. Net Assets**

Temporarily restricted net assets were comprised of the following at December 31, 2017 and June 30, 2017:

	<u>December 31, 2017</u>	<u>June 30, 2017</u>
<b><u>Programmatic restrictions</u></b>		
Landscapes and livelihoods	\$ 2,236,151	\$ 1,609,709
Evaluation and research	1,072,423	120,189
Markets transformation	--	242,763
Communications	--	8,951
Development campaign	150,964	1,800,911
Charitable trusts	27,524	28,300
	<u>\$ 3,487,062</u>	<u>\$ 3,810,823</u>

The following is a schedule of the net assets that were released from donor restrictions for the period July 1, 2017 to December 31, 2017 and for the year ending June 30, 2017:

	<u>December 31, 2017</u>	<u>June 30, 2017</u>
<b><u>Programmatic restrictions</u></b>		
Landscapes and livelihoods	\$ 1,939,733	\$ 4,101,260
Evaluation and research	148,158	196,017
Markets transformation	242,763	140,567
Communications	8,951	90
Development campaign	1,650,965	1,501,404
Charitable trusts	776	1,568
	<u>\$ 3,991,346</u>	<u>\$ 5,940,906</u>

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**13. 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.

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 available marketable securities
- (5) The amount of appreciation in the fund attributable to an inflation factor since the inception of the fund

RA has developed 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 period July 1, 2017 to December 31, 2017 and for the year ending June 30, 2017:

	July 1, 2017 to December 31, 2017			June 30, 2017		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	\$ 98,637	\$ 1,000,000	\$1,098,637	\$ 149,731	\$ 1,000,000	\$1,149,731
Contributions received	--	--	--	--	--	--
Expenditures	(9,015)	--	(9,015)	(46,029)	--	(46,029)
Investment return						
Investment income	14,819	--	14,819	27,538	--	27,538
Unrealized loss	(1,890)	--	(1,890)	(32,603)	--	(32,603)
	<u>12,929</u>	<u>--</u>	<u>12,929</u>	<u>(5,065)</u>	<u>--</u>	<u>(5,065)</u>
Endowment assets end of year	<u>\$ 102,551</u>	<u>\$ 1,000,000</u>	<u>\$1,102,551</u>	<u>\$ 98,637</u>	<u>\$ 1,000,000</u>	<u>\$1,098,637</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. The investment account associated with the endowment, which is included in investments in the consolidated statements of financial position, had a fair value of approximately \$1,209,000 and \$1,196,000 as of December 31, 2017 and June 30, 2017, 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.

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**14. Subsequent Events**

RA has evaluated subsequent events occurring after the consolidated statement of financial position date through the date of April 18, 2018, which is the date the consolidated financial statements were available for release. Based upon this evaluation, RA has determined that the following events occurred subsequent to year end.

- Effective January 1, 2018 Rainforest Alliance Holding, Inc. was established for the purpose of serving as the parent corporation of RA and Stichting UTZ, a Dutch foundation that has the exempt status of a public benefit organization pursuant to Dutch Law. No consideration was transferred as a result of this transaction.
- RA entered into a letter of intent on January 10, 2018 whereby it is intended that RA sell certain assets pertaining to RA's RA-Cert business unit. RA is currently in negotiations on the sale.