



RAINFOREST ALLIANCE

RAINFOREST ALLIANCE INC. AND SUBSIDIARIES
Consolidated Financial Statements
December 31, 2018
With Independent Auditor's Report

Rainforest Alliance, Inc. and Subsidiaries
December 31, 2018

TABLE OF CONTENTS	
Independent Auditor's Report	1-2
Consolidated Financial Statements	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities and Changes in Net Assets	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7-18

INDEPENDENT AUDITOR'S 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, 2018, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year ended December 31, 2018, 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.

Auditor's 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 auditor's 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, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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, 2018, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

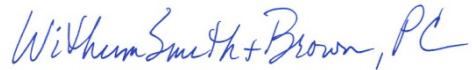
Adoption of ASU 2016-14

As discussed in Note 2 in the notes to consolidated financial statements, in 2018 the Organization adopted Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities* (Topic 958).

Restatement

As discussed in Note 16 in the notes to consolidated financial statements, RA's net assets at January 1, 2018 have been increased by \$1.35 million due to an error in the calculation of deferred revenue specifically related to RA-Cert.

Our opinion is not modified with respect to these matters.

A handwritten signature in blue ink that reads "Withum Smith + Brown, PC".

May 7, 2019

Rainforest Alliance, Inc. and Subsidiaries
Consolidated Statement of Financial Position
December 31, 2018

Assets

Current assets	
Cash and cash equivalents	\$ 8,135,585
Grants and contributions receivables	3,790,403
RA-Cert receivables, net (discontinued operations)	310,567
Participation fee and other receivables, net	2,610,245
Unbilled receivables	3,898,749
Advances and prepaid expenses	<u>666,289</u>
Total current assets	19,411,838
Property and equipment, net	362,211
Intangible asset, net	800,000
Other assets	
Grants and contributions receivable - net of current portion	792,492
Security deposits	384,474
Investments	<u>2,688,635</u>
Total other assets	<u>3,865,601</u>
Total assets	<u>\$ 24,439,650</u>

Liabilities and Net Assets

Current liabilities	
Accounts payable and accrued expenses	\$ 3,690,093
Due to seller - current portion	1,000,000
Refundable advances	<u>2,602,272</u>
Total current liabilities	7,292,365
Long term liabilities	
Deferred rent liability	611,282
Foreign severance payable	<u>2,243,149</u>
Total liabilities	10,146,796
Net assets	
Without donor restriction	9,668,290
With donor restriction	<u>4,624,564</u>
Total net assets	<u>14,292,854</u>
Total liabilities and net assets	<u>\$ 24,439,650</u>

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

Rainforest Alliance, Inc. and Subsidiaries
Consolidated Statement of Activities and Changes in Net Assets
Year Ended December 31, 2018

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Support and revenues			
Contributions			
Major donors and individuals	\$ 3,688,492	\$ 59,989	\$ 3,748,481
Foundations and corporate grants	887,214	4,000,226	4,887,440
Government grants and contracts	8,478,995	--	8,478,995
Participation agreement revenue	19,470,886	--	19,470,886
Special events - net	645,375	--	645,375
Other income (loss)	38,037	(9,850)	28,187
In-kind contributions	1,122,588	--	1,122,588
Net assets released from restrictions	<u>3,912,863</u>	<u>(3,912,863)</u>	<u>--</u>
Total support and revenues	38,244,450	137,502	38,381,952
Expenses			
Program services			
Landscapes and livelihoods	12,190,017	--	12,190,017
Evaluation and research	1,984,577	--	1,984,577
Markets transformation	6,362,520	--	6,362,520
Communications	<u>2,168,585</u>	<u>--</u>	<u>2,168,585</u>
Total program services	22,705,699	--	22,705,699
Support services			
Management and general	6,088,722	--	6,088,722
Fundraising	<u>3,308,887</u>	<u>--</u>	<u>3,308,887</u>
Total expenses	<u>32,103,308</u>	<u>--</u>	<u>32,103,308</u>
Changes in net assets from continuing operations	6,141,142	137,502	6,278,644
Discontinued operations (see Note 15)			
Revenues from RA-Cert	7,026,370	--	7,026,370
Expenses from RA-Cert	(7,773,604)	--	(7,773,604)
Gain on sale of RA-Cert	<u>370,360</u>	<u>--</u>	<u>370,360</u>
Changes in net assets from discontinued operations	<u>(376,874)</u>	<u>--</u>	<u>(376,874)</u>
Changes in net assets	5,764,268	137,502	5,901,770
Net assets, beginning of year, as previously stated	2,548,811	4,487,062	7,035,873
Prior period adjustment (see Note 16)	<u>1,355,211</u>	<u>--</u>	<u>1,355,211</u>
Net assets, beginning of year, as restated	<u>3,904,022</u>	<u>4,487,062</u>	<u>8,391,084</u>
Net assets, end of year	<u>\$ 9,668,290</u>	<u>\$ 4,624,564</u>	<u>\$ 14,292,854</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 December 31, 2018

	Program Services				Total Program Services	Support Services			Total
	Landscapes and Livelihoods	Evaluation and Research	Markets Transformation	Communications		Management and General	Fund-Raising	Total Support Services	
Salaries and benefits	\$ 5,187,632	\$ 975,110	\$ 2,836,214	\$ 1,186,504	\$ 10,185,460	\$ 4,433,874	\$ 2,141,810	\$ 6,575,684	\$ 16,761,144
Sub-grants	2,578,968	546,975	--	--	3,125,943	--	--	--	3,125,943
Consultants	1,725,664	200,355	1,128,456	400,980	3,455,455	288,763	250,472	539,235	3,994,690
Office supplies	271,927	16,842	86,423	34,079	409,271	82,215	194,417	276,632	685,903
Occupancy	569,709	55,120	323,890	111,241	1,059,960	31,606	133,711	165,317	1,225,277
Travel	961,269	113,258	312,911	42,915	1,430,353	335,336	70,104	405,440	1,835,793
Workshops	362,911	11,760	6,022	7,087	387,780	45,351	3,111	48,462	436,242
Other office expenses	472,897	59,800	481,675	102,288	1,116,660	94,736	374,885	469,621	1,586,281
Depreciation and amortization	46,359	3,738	823,728	7,548	881,373	2,041	9,072	11,113	892,486
Foreign tax expense	12,681	1,619	91,739	2,743	108,782	1,402	3,352	4,754	113,536
Bad debt expense	--	--	271,462	--	271,462	51,963	--	51,963	323,425
	<u>12,190,017</u>	<u>1,984,577</u>	<u>6,362,520</u>	<u>1,895,385</u>	<u>22,432,499</u>	<u>5,367,287</u>	<u>3,180,934</u>	<u>8,548,221</u>	<u>30,980,720</u>
In-kind services and supplies	--	--	--	273,200	273,200	721,435	127,953	849,388	1,122,588
	<u>\$ 12,190,017</u>	<u>\$ 1,984,577</u>	<u>\$ 6,362,520</u>	<u>\$ 2,168,585</u>	<u>\$ 22,705,699</u>	<u>\$ 6,088,722</u>	<u>\$ 3,308,887</u>	<u>\$ 9,397,609</u>	<u>\$ 32,103,308</u>

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

Rainforest Alliance, Inc. and Subsidiaries
Consolidated Statement of Cash Flows
Year Ended December 31, 2018

Cash flows from operating activities	
Changes in net assets	\$ 5,901,770
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Depreciation and amortization	922,920
Bad debt expense	323,425
Net present value adjustment	44,370
Realized and unrealized losses on investments	64,759
Exchange rate loss	138,080
Deferred rent	(39,678)
Changes in assets and liabilities	
Grants and contributions receivable	(1,871,884)
Participation fee and other receivables	(204,731)
Unbilled receivables	(3,898,749)
Advances and prepaid expenses	(136,836)
Security deposits	(33,646)
Accounts payable and accrued expenses	(2,247,604)
Foreign severance payable	102,662
Refundable advances	696,442
Net cash used by continuing operating activities	(238,700)
Discontinued operations - RA-Cert	1,069,058
Net cash provided by operating activities and discontinued operations	830,358
Cash flows from investing activities	
Amount paid to seller in connection with acquisition of intangibles	(500,000)
Purchase of investments and reinvested income	(3,661,321)
Sale of investments	4,991,236
Purchase of property and equipment	(28,927)
Net cash provided by investing activities	800,988
Effects of exchange rates on cash	(138,080)
Net change in cash and cash equivalents	1,493,266
Cash and cash equivalents	
Beginning of year	6,642,319
End of year	\$ 8,135,585

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

Rainforest Alliance, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2018

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.

Effective January 1, 2018, RA merged with Stichting UTZ (now known as Stichting Rainforest Alliance), a Dutch Foundation that has the exempt status of a public benefit organization pursuant to Dutch law. Also effective January 1, 2018, Rainforest Alliance Holding, Inc., organized in the State of Delaware, was established for the purpose of serving as the controlling parent entity of both RA and Stichting Rainforest Alliance. RA's consolidated financial statements are included in Rainforest Alliance Holding, Inc.'s consolidated financial statements.

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 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:

Without Donor Restrictions: Net assets without donor restrictions are net assets that are not restricted by donor-imposed stipulations and are available for the general operations of RA.

With Donor Restrictions: Net assets with donor restrictions include gifts of cash and other assets received with donor stipulations that limit the use of the donated assets or that cannot be satisfied by either the actions of RA or through the passage of time. These net assets include donor restricted endowments, unconditional contributions and contributions with programmatic restrictions.

Revenue and Support Recognition

RA recognizes contributions as revenue when they are received or unconditionally pledged and records these revenues as support with or without donor restriction according to donor stipulations that limit the use of these assets due to time or purpose restrictions. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 net assets without donor restrictions 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.

Rainforest Alliance, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

Revenue without donor restrictions is also obtained from certification fees 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. During 2018, the RA-Cert business line was sold (see Note 15).

Participation agreement revenues are recorded when certified product purchases have been accepted by the customer. 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. RA improved its reporting and capturing of data related to participation agreement revenues which resulted in the ability to identify and bill for revenue in a more streamlined approach. Due to this change, the 2018 consolidated financial statements resulted in the ability to recognize revenue more timely and includes an additional \$3.9 million of revenue to reflect 5 quarters of activity.

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.

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:

Participation fee and other receivables	\$	2,910,245
RA-Cert receivables (discontinued operations)		517,612
Allowance for doubtful accounts - participation fee and other receivables		(300,000)
Allowance for doubtful accounts - RA-Cert receivables		(207,045)
	\$	<u>2,920,812</u>

Unbilled Receivables

Unbilled receivables represent participation fee royalties that are calculated and earned but not yet invoiced to the customer.

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 (Note 12) and the participation fee and other receivables. 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.

Rainforest Alliance, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

Investments

Investments are stated at fair value. Gains and losses, both realized and unrealized, resulting from changes in the fair value of investments are reflected in the consolidated statement of activities and changes in net assets as increases or decreases in net assets without restrictions unless the use is restricted by explicit donor stipulations or by law.

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, 2018.

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

Intangible Assets

RA's intangible assets consisted of a database, non-compete agreement and intellectual property and was treated as a single group of identifiable assets. RA's intangible assets are amortized over their estimated useful life which was determined to be 2.5 years.

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 period presented in these consolidated financial statements.

Allocation of Expenses

The costs of providing program and other activities have been summarized on a functional basis in the consolidated statement of activities and changes in net assets. 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. Such allocations are determined by management on an equitable basis. The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries and benefits	Time and effort
Office expenses	Time and effort, headcount, direct expenses
Occupancy	Headcount
Travel	Time and effort, direct expenses
Workshops	Time and effort, direct expenses
Depreciation	Direct expenses

Rainforest Alliance, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2018

Programs

The following is a summary of RA's primary programs:

Landscapes and Livelihoods – advances long-term, landscape-level initiatives to support sustainable, community-based development in communities vulnerable to ecological and social destruction including farming certification projects encouraging farmers to use best practices in environmental protection, social equality, and economic viability and forest communities to harvest and manufacture forest products in a sustainable way.

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.

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.

Markets Transformation - helps 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, 2018. RA has operations in other countries and is subject to the laws and regulations of those countries. During the year ended December 31, 2018, RA paid approximately \$12,000 in foreign income taxes in addition to VAT taxes to foreign jurisdictions. RA did not recognize any tax related interest or penalties during the period in question.

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 (\$138,000) for the year ending December 31, 2018 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

Not-For-Profit Reporting

In August 2016 the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-profit Entities* (Topic 958) - *Presentation of Financial Statements of Not-for-profit Entities*. ASU 2016-14 reduces the number of net asset classes from three to two: net assets without donor restrictions, previously reported as unrestricted net assets, and net assets with donor restrictions, previously reported as temporarily restricted and permanently restricted net assets. Additionally, it increases the quantitative and qualitative disclosures regarding liquidity and availability of resources, and requires expenses to be reported by both their natural and functional classification in one location.

Rainforest Alliance, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

RA adopted ASU 2016-14 effective January 1, 2018. A recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of December 31, 2017 follows:

Net Assets Classifications	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
As previously presented:			
Unrestricted	\$ 2,548,811	\$ --	\$ 2,548,811
Temporarily restricted	--	3,487,062	3,487,062
Permanently restricted	--	1,000,000	1,000,000
Net assets as previously presented	<u>\$ 2,548,811</u>	<u>\$ 4,487,062</u>	<u>\$ 7,035,873</u>

New Accounting Pronouncements Issued Not Yet Effective

Revenue Recognition – Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which supersedes all existing revenue recognition requirements, including most industry-specific guidance. Together with subsequent amendments, this created Accounting Standards Codification Topic 606 (“ASC 606”). ASC 606 requires an entity to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the entity expects to receive for those goods or services. ASC 606 also expands disclosure requirements. ASC 606 will be effective for non-public entities for annual reporting periods beginning after December 15, 2018. ASC 606 allows for either “full retrospective” adoption, meaning the standard is applied to all of the periods presented, or “modified retrospective” adoption, meaning the standard is applied only to the most current period presented in the financial statements. At this time, ASC 606 is not expected to have a material impact on RA’s consolidated financial statements because existing contractual performance obligations, which determine when and how revenue is recognized, are not materially changed under ASC 606.

Revenue Recognition – Contributions Made and Received

In June 2018 the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The FASB is issuing this ASU to improve and clarify existing guidance on revenue recognition of grants and contracts not-for-profit organizations (“NFPs”) because there is diversity in practice among NFPs with characterizing grants and similar contracts with government agencies and others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and distinguishing between conditional and unconditional contributions. This proposed ASU also provides guidance to help determine whether a contribution is conditional or unconditional, and better distinguish a donor-imposed condition from a donor-imposed restriction. This ASU is effective for annual periods and interim periods beginning after December 15, 2018. At this time, ASU 2018-08 is not expected to have a material impact on RA’s financial statements

Leases

In February 2016, the 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.

Cash Flows

In November 2016, the FASB issued ASU 2016-18 *Statement of Cash Flows* (Topic 230), which requires restricted cash to be included within cash and cash equivalents when explaining the total change in cash for the period within the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2018. RA is currently evaluating the effect that this pronouncement will have on its consolidated financial statements and related disclosures.

Rainforest Alliance, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

3. FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of December 31, 2018, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses and fulfillment of liabilities, were as follows:

Financial assets at year end	
Cash and cash equivalents	\$ 8,135,585
Grants and contributions receivables	4,582,895
RA-Cert receivables	310,567
Participation fee and other receivables	2,610,245
Unbilled receivables	3,898,749
Investments	<u>2,688,635</u>
Total financial assets	22,226,676
Less amounts not available for general expenditure within one year	
Net assets with donor restrictions	(4,624,564)
Long term receivables	<u>(792,492)</u>
	<u>(5,417,056)</u>
Financial assets available to meet general expenditures over the next twelve months	16,809,620
Liquidity resources	
Available line of credit	<u>1,800,000</u>
Total financial assets and liquidity resources	<u>\$ 18,609,620</u>

RA manages its financial assets to be available as its operating expenditures, liabilities and other obligations come due. RA's cash flows have fluctuations during the year attributable to the timing of operations and repayment from funding sources which varies on a funding source basis. To help manage unanticipated liquidity needs, RA has a committed line of credit in the amount of \$1.8 million, which is available to be drawn upon.

4. GRANTS AND CONTRIBUTIONS RECEIVABLE

RA had outstanding grants and contributions receivable due to be collected as follows at December 31, 2018:

Grants and contributions expected to be collected	
In one year or less	\$ 3,790,403
Between one and five years	<u>836,862</u>
	4,627,265
Less: Discount to present value	<u>(44,370)</u>
Grants and contributions receivable, net	<u>\$ 4,582,895</u>

Rainforest Alliance, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

5. INVESTMENTS

Investments, recorded at fair value, consist of the following at December 31, 2018:

	<u>Cost</u>	<u>Market</u>
Equity ETF	\$ 4,448	\$ 4,049
US Treasury Bills	2,635,958	2,657,640
Other investments	<u>26,946</u>	<u>26,946</u>
	<u>\$ 2,667,352</u>	<u>\$ 2,688,635</u>

Investment income related to these investments and interest earned on cash accounts is included in other income on the consolidated statement of activities and changes in net assets and is comprised of the following for the year ending December 31, 2018:

Realized and unrealized losses	\$ (64,759)
Interest income	<u>127,348</u>
	<u>\$ 62,589</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.

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, 2018:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Equity ETF	\$ 4,049	\$ 4,049	\$ --
US Treasury Bills	2,657,640	--	2,657,640
Other investments	<u>26,946</u>	<u>--</u>	<u>26,946</u>
	<u>\$ 2,688,635</u>	<u>\$ 4,049</u>	<u>\$ 2,684,586</u>

Rainforest Alliance, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

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

Equity ETFs are valued based on readily available pricing sources for comparable instruments and, therefore, are designated as Level 1.

US Treasury Bills are valued based on comparable but not identical pricing sources and therefore, are designated as Level 2.

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.

6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31, 2018:

Furniture and equipment	\$	511,586
Software		8,996
Leasehold improvements		<u>813,404</u>
		1,333,986
Less: Accumulated depreciation		<u>971,775</u>
	\$	<u><u>362,211</u></u>

Depreciation expense amounted to \$122,920 for the year ended December 31, 2018 and is included in depreciation and amortization expense in the consolidated statement of functional expenses.

7. 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 \$800,000 for the year ending December 31, 2018. RA has paid \$1,000,000 cumulatively through December 31, 2018 and the remaining \$1,000,000 is included in due to seller in the consolidated statement of financial position at December 31, 2018.

8. IN-KIND CONTRIBUTIONS

In-kind contributions consist of the following for the year ending December 31, 2018:

Legal services	\$	721,435
Advertising		273,200
Products & services		8,398
Gala event services		<u>119,555</u>
	\$	<u><u>1,122,588</u></u>

Rainforest Alliance, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

9. 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 \$426,000 for the year ended December 31, 2018.

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 \$2,243,000 at December 31, 2018, 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.

10. 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, 2018, RA had approximately \$2,929,000 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. There were grants and contributions receivable outstanding from two donors that comprise 36 percent of the outstanding balance at December 31, 2018.

RA received revenues from foreign governments and other organizations of approximately \$4,650,000 which is included in grants and contracts at December 2018.

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.

11. LINE OF CREDIT

The Organization has a line of due on demand with no stated maturity date, from a financial institution for a maximum borrowing of \$1,800,000. Interest is computed at LIBOR plus 2.750 percent, which was 5.253 at December 31, 2018. The borrowings are secured by the Organization's investments. The Organization had no drawdowns and no outstanding balance for the year ended December 31, 2018.

12. 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 September 2026. These leases provide for minimum annual rentals, real estate taxes and other costs. Rent expense for the leases totaled approximately \$1,561,000 for the year ending December 31, 2018, 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.

Rainforest Alliance, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

During 2019, RA sub-leased their New York office space in a sublease agreement that expires May 2023. Additionally, during 2019 RA entered into a lease agreement that expires in September 2026 for lower-cost office space from another NGO in New York. The commitment of rent under non-cancellable lease agreements for the next five years and in the aggregate thereafter, net of sublease income is as follows:

Year	Rental Commitments	Subrental Income	Rental Commitments, net
2019	\$ 1,850,096	\$ 603,025	\$ 1,247,071
2020	1,779,167	1,209,167	570,000
2021	1,765,283	1,188,733	576,550
2022	1,800,304	1,204,104	596,200
2023	1,110,457	514,253	596,204
2024 and thereafter	<u>1,639,550</u>	<u>--</u>	<u>1,639,550</u>
	<u>\$ 9,944,857</u>	<u>\$ 4,719,282</u>	<u>\$ 5,225,575</u>

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 August 2022 of approximately \$5,033,000. 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 \$523,000 at December 31, 2018, which is included in accounts payable and accrued expenses in the consolidated statement of financial position. During the year ended December 31, 2018, \$124,679 was paid for 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.

13. NET ASSETS

Net assets with donor restrictions were comprised of the following at December 31, 2018:

<u>Programmatic restrictions</u>	
Landscapes and livelihoods	\$ 2,653,634
Evaluation and research	793,816
Development campaign	150,964
Charitable trusts	26,150
Donor endowed principal	<u>1,000,000</u>
	<u>\$ 4,624,564</u>

Rainforest Alliance, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

The following is a schedule of the net assets that were released from donor restrictions for the year ended December 31, 2018:

<u>Programmatic restrictions</u>	
Landscapes and livelihoods	\$ 3,090,522
Evaluation and research	820,967
Charitable trusts	<u>1,374</u>
	<u>\$ 3,912,863</u>

14. 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 year ended December 31, 2018:

Endowment assets at beginning of year	\$ 1,102,551
Contributions received	--
Expenditures	(45,090)
Investment return	
Investment income	19,693
Unrealized loss	<u>(29,543)</u>
	<u>(9,850)</u>
Endowment assets at end of year	<u>\$ 1,047,611</u>

Investment by type of fund

Donor restricted endowment	
Historical gift value	\$ 1,000,000
Appreciation	<u>47,611</u>
Endowment assets at end of year	<u>\$ 1,047,611</u>

Rainforest Alliance, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

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 \$1,199,000 as of December 31, 2018. Donor-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.

15. SALE OF RA-CERT AND DISCONTINUED OPERATIONS

During 2018, RA sold its assets in connection with its RA-Cert line of business. This sale represented a strategic shift in RA's operations and as such was recorded as a discontinued operation in the consolidated statement of activities and changes in net assets. RA sold certain assets such as customer lists and other assets which had no basis and transferred certain liabilities amounting to approximately \$380,000 in connection with its RA-Cert line of business. The total sale amount is contingent upon future revenues. RA received a \$750,000 nonrefundable payment upon transfer of assets and liabilities. In addition, for the next 5 years, RA will receive amounts ranging from 4.87 percent to 7.42 percent of applicable annual revenue. As a result of the sale, RA recognized a gain from discontinued operations of \$370,360.

Continuing Involvement

RA will continue to collect revenues each year of the term based on a percentage of applicable annual revenues. In addition to the collection of the receipts from applicable annual revenue, RA signed a license agreement with the buyer whereby the buyer will have the right to utilize the Rainforest Alliance Certified Seal at no charge.

16. RESTATEMENT

Throughout RA's history, RA-Cert revenue totaled approximately \$103,000,000. During the course of the sale of the RA-Cert business line in 2018, RA identified a historical miscalculation of RA-Cert deferred revenue that resulted in approximately \$1,355,000 of accumulated deferred revenue after accounting for the effects of the sale. As a result, RA's opening balance net assets at January 1, 2018 increased by approximately \$1,355,000 and deferred revenue at January 1, 2018 decreased by approximately \$1,355,000. At December 31, 2018, there is no deferred revenue remaining related to RA-Cert.

17. SUBSEQUENT EVENTS

RA has evaluated subsequent events occurring after the consolidated statement of financial position date through the date of May 7, 2019, which is the date the consolidated financial statements were available for release. Based upon this evaluation, RA has determined that, except for the following events, no events occurred requiring adjustment to or disclosure in the consolidated financial statements.

On April 15, 2019, RA signed a sublease for its New York office space. On April 29, 2019, RA signed a lease on new office space in New York. Both leases have been included in Note 12.