



RAINFOREST ALLIANCE INC. AND SUBSIDIARIES

Consolidated Financial Statements

June 30, 2017 and 2016

With Independent Auditors' Report

Rainforest Alliance, Inc. and Subsidiaries
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June 30, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Rainforest Alliance, Inc. and Subsidiaries, ("RA" or the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referenced above, present fairly, in all material respects, the financial position of Rainforest Alliance, Inc. and Subsidiaries as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's June 30, 2016, consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 31, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Withum Smith + Brown, PC

October 23, 2017

Rainforest Alliance, Inc. and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	\$ 5,930,110	\$ 7,009,275
Grants and contributions receivables	3,344,122	2,317,131
RA Cert, participation fee and other receivables, net of allowances for doubtful accounts of \$134,925 in 2017 and \$110,338 in 2016	2,306,622	2,432,250
Advances and prepaid expenses	514,844	647,248
Total current assets	<u>12,095,698</u>	<u>12,405,904</u>
Property and equipment, net	530,493	685,196
Other assets		
Security deposits	359,674	363,137
Investments	3,957,421	3,687,003
Total other assets	<u>4,317,095</u>	<u>4,050,140</u>
Total assets	<u>\$ 16,943,286</u>	<u>\$ 17,141,240</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 6,727,463	\$ 6,090,963
Lease financing provision - current portion	25,855	49,039
Refundable advances	295,347	327,248
Total current liabilities	<u>7,048,665</u>	<u>6,467,250</u>
Long term liabilities		
Deferred rent liability	657,773	656,316
Lease financing provision - net of current portion	--	25,855
Foreign severance payable	1,887,850	1,819,577
Total liabilities	<u>9,594,288</u>	<u>8,968,998</u>
Net assets		
Unrestricted	2,538,175	2,354,744
Temporarily restricted	3,810,823	4,817,498
Permanently restricted	1,000,000	1,000,000
Total net assets	<u>7,348,998</u>	<u>8,172,242</u>
Total liabilities and net assets	<u>\$ 16,943,286</u>	<u>\$ 17,141,240</u>

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

Rainforest Alliance, Inc. and Subsidiaries
Consolidated Statement of Activities and Changes in Net Assets
Year Ended June 30, 2017
(With Summarized Comparative Totals for June 30, 2016)

	2017			Total	Total 2016
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and revenues					
Contributions					
Major donors and individuals	\$ 3,762,489	\$ 484,643	\$ --	\$ 4,247,132	\$ 3,796,367
Foundations and corporate grants	534,769	4,454,653	--	4,989,422	3,520,518
Government grants and contracts	10,760,400	--	--	10,760,400	11,935,089
Certification fees	9,309,778	--	--	9,309,778	9,977,677
Participation agreement revenue	8,305,692	--	--	8,305,692	8,334,894
Special events - net	1,022,887	--	--	1,022,887	932,611
Other income	229,925	--	--	229,925	320,529
Investment income (loss)	285,045	(5,065)	--	279,980	90,194
In-kind contributions	1,197,827	--	--	1,197,827	1,183,981
Net assets released from restrictions	5,940,906	(5,940,906)	--	--	--
Total support and revenues	41,349,718	(1,006,675)	--	40,343,043	40,091,860
Expenses					
Program services					
Landscapes and livelihoods	13,567,553	--	--	13,567,553	14,921,531
RA-Cert	9,949,947	--	--	9,949,947	10,899,976
Evaluation and research	941,868	--	--	941,868	861,274
Markets transformation	5,322,667	--	--	5,322,667	5,594,132
Communications	2,331,923	--	--	2,331,923	3,182,597
Total program services	32,113,958	--	--	32,113,958	35,459,510
Support services					
Management and general	5,057,423	--	--	5,057,423	4,289,718
Fundraising	3,994,906	--	--	3,994,906	5,105,142
Total expenses	41,166,287	--	--	41,166,287	44,854,370
Changes in net assets	183,431	(1,006,675)	--	(823,244)	(4,762,510)
Net assets, beginning of year	2,354,744	4,817,498	1,000,000	8,172,242	12,934,752
Net assets, end of year	\$ 2,538,175	\$ 3,810,823	\$ 1,000,000	\$ 7,348,998	\$ 8,172,242

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

Rainforest Alliance, Inc. and Subsidiaries
Consolidated Statement of Functional Expenses
Year Ended June 30, 2017
(With Summarized Comparative Totals for June 30, 2016)

	2017										2016	
	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	\$ 5,107,755	\$ 5,017,283	\$ 624,867	\$ 3,030,313	\$ 1,152,070	\$ 14,932,288	\$ 4,018,687	\$ 2,483,832	\$ 6,502,519	\$ 21,434,807	\$ 23,379,603	
Sub-grants	3,658,389	--	119,208	--	--	3,777,597	--	--	--	3,777,597	4,220,744	
Consultants	2,229,976	2,659,958	65,357	1,022,499	473,486	6,451,276	400,677	349,266	749,943	7,201,219	7,723,096	
Telephone	84,603	73,210	3,978	43,454	8,905	214,150	2,665	18,554	21,219	235,369	268,834	
Printing	52,209	6,929	913	7,449	4,666	72,166	523	69,222	69,745	141,911	148,189	
Postage/shipping	11,958	17,794	672	17,503	2,308	50,235	471	174,487	174,958	225,193	234,168	
Office supplies	35,828	19,985	1,443	11,128	2,713	71,097	469	5,399	5,868	76,965	111,245	
Office equipment	79,540	53,662	4,254	31,546	25,240	194,242	4,062	27,059	31,121	225,363	278,729	
Occupancy	688,928	557,645	34,768	360,838	84,130	1,726,309	15,780	173,287	189,067	1,915,376	2,107,321	
Travel	721,423	690,109	42,742	255,614	61,673	1,771,561	20,863	59,046	79,909	1,851,470	2,162,298	
Workshops	328,348	15,901	583	7,376	3,506	355,714	482	3,428	3,910	359,624	477,055	
Other office expenses	467,291	645,594	40,509	509,065	77,758	1,740,217	50,385	390,686	441,071	2,181,288	1,813,033	
Depreciation	67,505	38,769	2,437	26,991	5,902	141,604	975	12,124	13,099	154,703	155,351	
Foreign tax expense	33,800	38,985	137	11,555	332	84,809	55	683	738	85,547	435,597	
Bad debt expense (recovery)	--	114,123	--	(12,664)	--	101,459	569	--	569	102,028	155,126	
	<u>13,567,553</u>	<u>9,949,947</u>	<u>941,868</u>	<u>5,322,667</u>	<u>1,902,689</u>	<u>31,684,724</u>	<u>4,516,663</u>	<u>3,767,073</u>	<u>8,283,736</u>	<u>39,968,460</u>	<u>43,670,389</u>	
In-Kind services and supplies	--	--	--	--	429,234	429,234	540,760	227,833	768,593	1,197,827	1,183,981	
	<u>\$ 13,567,553</u>	<u>\$ 9,949,947</u>	<u>\$ 941,868</u>	<u>\$ 5,322,667</u>	<u>\$ 2,331,923</u>	<u>\$ 32,113,958</u>	<u>\$ 5,057,423</u>	<u>\$ 3,994,906</u>	<u>\$ 9,052,329</u>	<u>\$ 41,166,287</u>	<u>\$ 44,854,370</u>	

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

Rainforest Alliance, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Changes in net assets	\$ (823,244)	\$ (4,762,510)
Adjustments to reconcile changes in net assets to net cash used by operating activities		
Depreciation	154,703	155,351
Bad debt expense	102,028	155,126
Realized gain on sale of investments	--	(37)
Unrealized gains on investments	(189,526)	(31,955)
Exchange rate loss	70,916	116,564
Changes in assets and liabilities		
Grants and contributions receivable	(1,026,991)	2,295,213
RA Cert, participation fee and other receivables	23,600	(192,262)
Advances and prepaid expenses	132,404	(132,133)
Accounts payable and accrued expenses	636,500	(508,384)
Foreign severance payable	68,273	(110,297)
Refundable advances	(31,901)	(344,470)
Deferred rent liability	<u>1,457</u>	<u>46,094</u>
Net cash used by operating activities	(881,781)	(3,313,700)
Cash flows from investing activities		
Change in security deposits	3,463	(6,920)
Purchase of investments and reinvested income	(80,892)	(3,557,931)
Proceeds from sale of investments	<u>--</u>	<u>1,111,976</u>
Net cash used by investing activities	(77,429)	(2,452,875)
Cash flows from financing activities		
Change in restricted cash	--	1,914,814
Payments on lease financing provision	<u>(49,039)</u>	<u>(45,733)</u>
Net cash (used) provided by financing activities	(49,039)	1,869,081
Effects of exchange rates on cash	<u>(70,916)</u>	<u>(116,564)</u>
Net change in cash and cash equivalents	(1,079,165)	(4,014,058)
Cash and cash equivalents		
Beginning of year	<u>7,009,275</u>	<u>11,023,333</u>
End of year	<u>\$ 5,930,110</u>	<u>\$ 7,009,275</u>
Supplemental disclosure of cash flow information		
Foreign income taxes paid	<u>\$ --</u>	<u>\$ 279,265</u>

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

Rainforest Alliance, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

1. Organization and Nature of Activities

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

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

2. Summary of Significant Accounting Policies

Basis of Consolidation

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

Basis of Presentation

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

The net assets of RA are reported as follows:

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

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

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

Revenue and Support Recognition

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

RA accounts for those government grant and contract revenues which have been determined to be exchange transactions in the 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
June 30, 2017 and 2016

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

Receivables and Credit Policies

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

Estimates

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

Cash Equivalents

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

Grants and Contributions Receivable

Grants and contributions receivable mainly consist of government grant receivables and unconditional contribution receivables. The Organization monitors the collectability of these receivables and has determined that no allowance for uncollectible accounts was necessary at June 30, 2017 and 2016.

Property and Equipment

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

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

Donated Goods and Services

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

Rainforest Alliance, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

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.

Prior Year Summarized Comparative Information

Information as of and for the year ended June 30, 2016, is presented for comparative purposes only. Certain activity by net asset classification in the consolidated statement of activities and changes in net assets and consolidated statement of functional expenses is not included in this report. Accordingly, such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with RA's consolidated financial statements as of and for the year ended June 30, 2016, from which the summarized comparative information was derived.

Income Taxes

RA is exempt from federal income tax under Section 501(c)(3) of the United States Internal Revenue Code and no provision for such income tax has been reflected in the accompanying consolidated financial statements. RA has evaluated uncertain tax positions with respect to its U.S. operations and concluded there are no such positions at June 30, 2017 and 2016. RA has operations in other countries and is subject to the laws and regulations of those countries. During the years ended June 30, 2017 and 2016, RA has paid foreign income taxes of approximately \$0 and \$279,000, respectively, which are included in foreign tax expense in the consolidated statement of functional expenses, in accordance with required local tax laws in various foreign jurisdictions.

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

Valuation of Long-Lived Assets

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

Rainforest Alliance, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

Investments

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

Economic Dependency

During the years ended June 30, 2017 and 2016, 14.77 and 19.72 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 \$(71,000) and \$(117,000) at June 30, 2017 and 2016, respectively, are included in other income in the consolidated statement of activities and changes in net assets.

New Accounting Pronouncement

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. The Organization is currently evaluating the impact these changes will have on its future consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the 2016 consolidated financial statements to conform to the 2017 consolidated financial statement presentation. There was no impact on previously reported change in net assets or net assets.

3. Investments

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

	June 30, 2017		June 30, 2016	
	Cost	Market	Cost	Market
Money funds	\$ 46,648	\$ 46,648	\$ 30,943	\$ 30,943
Intermediate-Term Bond	1,162,250	1,149,855	1,162,250	1,182,458
Equity ETF	2,461,601	2,729,768	2,395,681	2,441,829
Other investments	31,150	31,150	31,773	31,773
	<u>\$ 3,701,649</u>	<u>\$ 3,957,421</u>	<u>\$ 3,620,647</u>	<u>\$ 3,687,003</u>

Rainforest Alliance, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

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

	2017	2016
Realized and unrealized gains	\$ 189,526	\$ 31,992
Interest income	<u>90,454</u>	<u>58,202</u>
	<u>\$ 279,980</u>	<u>\$ 90,194</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 as of June 30, 2017 and 2016:

	June 30, 2017			June 30, 2016		
	Total	Level 1	Level 2	Total	Level 1	Level 2
Money funds	\$ 46,648	\$ 46,648	\$ --	\$ 30,943	\$ 30,943	\$ --
Intermediate-Term Bond	1,149,855	1,149,855	--	1,182,458	1,182,458	--
Equity ETF	2,729,768	2,729,768	--	2,441,829	2,441,829	--
Other investments	<u>31,150</u>	<u>--</u>	<u>31,150</u>	<u>31,773</u>	<u>--</u>	<u>31,773</u>
	<u>\$ 3,957,421</u>	<u>\$ 3,926,271</u>	<u>\$ 31,150</u>	<u>\$ 3,687,003</u>	<u>\$ 3,655,230</u>	<u>\$ 31,773</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.

Rainforest Alliance, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

4. Property and Equipment

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

	2017	2016
Furniture and equipment	\$ 482,659	\$ 482,659
Software	8,996	8,996
Leasehold improvements	<u>813,404</u>	<u>813,404</u>
	1,305,059	1,305,059
Less: Accumulated depreciation	<u>774,566</u>	<u>619,863</u>
	<u>\$ 530,493</u>	<u>\$ 685,196</u>

Depreciation expense amounted to \$154,703 and \$155,351 for the years ended June 30, 2017 and 2016, respectively.

5. In-Kind Contributions

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

	2017	2016
Legal services	\$ 529,760	\$ 336,617
Annual gala services	227,833	186,660
Advertising	369,234	425,897
Products & services	<u>71,000</u>	<u>234,807</u>
	<u>\$ 1,197,827</u>	<u>\$ 1,183,981</u>

6. 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 \$418,000 and \$453,000 for the years ended June 30, 2017 and 2016, 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 \$1,888,000 and \$1,820,000 at June 30, 2017 and 2016, respectively, which is included in foreign severance payable in the consolidated statements of financial position. The foreign severance reserve is an estimate that is based on the laws of each foreign jurisdiction but generally is computed based on the years of employment for each employee as well as other factors and varies based on the individual laws within the foreign country. The obligation is required to be funded when an employee's employment with RA terminates.

7. Concentration of Credit Risk and Foreign Currency Risk

Financial instruments, which potentially subject RA to concentrations of credit risk, consist of cash, investments in foreign banks, investments, receivables and foreign currency risk. As of June 30, 2017 and 2016, RA had approximately \$2,762,000 and \$1,637,000, respectively, in foreign banks which are not insured by the FDIC or any Federal or State agency. Management monitors the soundness of these institutions and has not experienced any losses. Investments are placed in high credit quality financial instruments. Although subject to market fluctuation, this investment policy limits RA's exposure to concentrations of credit risk.

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RA has a long standing history of collecting its receivables which are from corporations, foundations and governmental agencies throughout the world. This limits RA's exposure to credit risk. RA had an outstanding RA Cert, participation fee and other receivables from two customers which comprised 17 percent of the outstanding balance at June 30, 2017. Additionally, there were grants and contributions receivable outstanding from four donors that comprise 68 percent of the outstanding balance at June 30, 2017. At June 30, 2016 there were two customers that represented 30 percent the outstanding receivables of RA Cert, participation fee and other receivables and two donors that represented 65 percent of the grants and contribution receivables.

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

8. Line of Credit

The Organization obtained a line of credit during fiscal year 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 4.029 percent at June 30, 2017. The borrowings are secured by the Organization's investments. The Organization had no drawdowns and no outstanding balance for the year ended June 30, 2017.

9. 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 \$1,679,000 and \$1,801,000, for the years ended June 30, 2017 and 2016, 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	\$ 1,403,314
2019	1,236,347
2020	1,179,319
2021	1,203,559
2022	1,190,604
Thereafter	<u>1,067,752</u>
	<u>\$ 7,280,895</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 June 30, 2017 the outstanding balance of the lease financing provision was \$25,855.

Government Grants and Contracts

RA receives funding from various federal and foreign agencies under grants and contracts, many of which have commitments spanning multiple years. RA has available funding under federal agency contracts through February 2018 of approximately \$2,089,000. 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 and \$1,088,000 at June 30, 2017 and 2016, respectively, which is included in accounts payable and accrued expenses in the consolidated statements of financial position. These amounts have been accrued for estimated potential payroll tax liabilities in certain foreign jurisdictions. During the years ended June 30, 2017 and 2016 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.

10. Net Assets

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

	2017	2016
Landscapes and livelihoods	\$ 1,609,709	\$ 1,243,367
Evaluation and research	120,189	221,848
Markets transformation	242,763	--
Communications	8,951	3,615
Development campaign	1,800,911	3,318,800
Charitable trusts	28,300	29,868
	<u>\$ 3,810,823</u>	<u>\$ 4,817,498</u>

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

	2017	2016
Landscapes and livelihoods	\$ 4,101,260	\$ 3,623,598
Evaluation and research	196,017	183,029
Markets transformation	140,567	5,029
Communications	90	29,197
Development campaign	1,501,404	5,235,900
Charitable trusts	1,568	1,630
	<u>\$ 5,940,906</u>	<u>\$ 9,078,383</u>

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

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

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

	2017			2016		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	\$ 149,731	\$ 1,000,000	\$ 1,149,731	\$ 139,962	\$ 1,000,000	\$ 1,139,962
Contributions received	--	--	--	--	--	--
Expenditures	(46,029)	--	(46,029)	(18,166)	--	(18,166)
Investment return						
Investment income	27,538	--	27,538	37,756	--	37,756
Unrealized loss	(32,603)	--	(32,603)	(9,821)	--	(9,821)
	<u>(5,065)</u>	<u>--</u>	<u>(5,065)</u>	<u>27,935</u>	<u>--</u>	<u>27,935</u>
Endowment assets end of year	<u>\$ 98,637</u>	<u>\$ 1,000,000</u>	<u>\$ 1,098,637</u>	<u>\$ 149,731</u>	<u>\$ 1,000,000</u>	<u>\$ 1,149,731</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 \$1,196,000 and \$1,201,000 as of June 30, 2017 and 2016, 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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12. Subsequent Events

RA has evaluated subsequent events occurring after the consolidated statement of financial position date through the date of October 23, 2017, 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.

- In July 2017 RA and the Sustainable Agriculture Network (“SAN”) entered into an agreement whereby SAN would transfer the operations of the RA-SAN certification scheme to RA, along with related intellectual property licenses, in exchange for a payment of \$2,000,000 over two years.
- RA and UTZ entered into a letter of intent on June 1, 2017 whereby the parties set forth terms for the exploration of a potential business combination. RA and UTZ are currently completing due diligence and in negotiations on the final combination agreement and related closing documents. Upon successful completion of the foregoing, both parties’ boards will make a decision whether to proceed with the merger