



RAINFOREST ALLIANCE

RAINFOREST ALLIANCE HOLDING, INC. AND AFFILIATES
Consolidated Financial Statements
December 31, 2019
(With Summarized Comparative Consolidated Information
For the Year Ended December 31, 2018)
With Independent Auditor's Report

Rainforest Alliance Holding, Inc. and Affiliates
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December 31, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Rainforest Alliance Holding, Inc. and Affiliates, (the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2019, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of Stichting Rainforest Alliance, which statements reflect total assets constituting 43% and 55% of consolidated total assets at December 31, 2019 and 2018, respectively and total revenues constituting 42% and 41%, respectively of consolidated total revenues for the years then ended. Those statements, which were prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code, were audited by other auditors, in accordance with Dutch Law and Dutch Standards on Auditing and whose report has been furnished to us. We have applied audit procedures on the conversion adjustments to the financial statements of Stichting Rainforest Alliance, which conform those financial statements to accounting principles generally accepted in the United States of America. Our opinion, insofar as it relates to the amounts included for Stichting Rainforest Alliance, prior to these conversion adjustments, is based solely on the report of the other auditors and additional audit procedures to meet the relevant requirements of auditing standards generally accepted in the United States of America.

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, based on our audit and the report of, and additional audit procedures performed by, the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rainforest Alliance Holding, Inc. and Affiliates as of December 31, 2019, and the changes in their net assets and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 of the consolidated financial statements, during 2019, the Organization adopted the following Accounting Standards Updates (“ASU”): ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825)*, and ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. Our opinion is not modified with respect to these matters.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statements of financial position and activities and changes in net assets (collectively the “supplementary information”) are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information referenced above is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Report on Summarized Comparative Consolidated Information

We have previously audited the Organization’s December 31, 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated June 13, 2019 based on our audit and the report of additional audit procedures performed by other auditors. In our opinion, the summarized comparative consolidated information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

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

May 13, 2020

Rainforest Alliance Holding, Inc. and Affiliates
Consolidated Statements of Financial Position
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 20,879,830	\$ 27,894,366
Grants and contributions receivable, net	4,934,363	3,790,403
RA-Cert receivables, net (discontinued operations)	-	310,567
Royalty and other contract receivables, net	11,448,715	8,335,784
Contract assets	6,115,422	3,898,749
Advances and prepaid expenses	3,043,761	2,497,757
Investments	<u>9,929,898</u>	<u>1,688,635</u>
Total current assets	<u>56,351,989</u>	<u>48,416,261</u>
Property and equipment, net	<u>881,370</u>	<u>650,412</u>
Intangible assets, net	<u>1,569,962</u>	<u>2,867,447</u>
Other assets		
Grants and contributions receivable - net of current portion	50,000	792,492
Security deposits	363,619	384,474
Investments	<u>1,000,000</u>	<u>1,000,000</u>
Total other assets	<u>1,413,619</u>	<u>2,176,966</u>
Total assets	<u>\$ 60,216,940</u>	<u>\$ 54,111,086</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 10,650,399	\$ 10,301,825
Due to seller - current portion	-	1,000,000
Contract liabilities	1,197,781	1,256,330
Refundable advances payable	<u>3,049,117</u>	<u>3,094,484</u>
Total current liabilities	14,897,297	15,652,639
Long term liabilities		
Deferred rent liability	553,396	622,902
Foreign severance payable	<u>3,978,925</u>	<u>3,510,915</u>
Total liabilities	<u>19,429,618</u>	<u>19,786,456</u>
Net assets		
Without donor restrictions	35,066,494	29,700,066
With donor restrictions	<u>5,720,828</u>	<u>4,624,564</u>
Total net assets	<u>40,787,322</u>	<u>34,324,630</u>
Total liabilities and net assets	<u>\$ 60,216,940</u>	<u>\$ 54,111,086</u>

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

Rainforest Alliance Holding, Inc. and Affiliates
Consolidated Statement of Activities and Changes in Net Assets
Year Ended December 31, 2019
(With Summarized Comparative Totals for December 31, 2018)

	December 31, 2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and revenues				
Contributions				
Major donors and individuals	\$ 4,027,669	\$ 1,631,388	\$ 5,659,057	\$ 3,797,012
Foundations and corporate grants	331,285	4,587,475	4,918,760	4,887,440
Government grants and contracts	-	11,302,896	11,302,896	12,418,257
Special events - net	710,345	-	710,345	645,375
In-kind contributions	1,130,601	-	1,130,601	1,122,588
Revenue from contracts with customers				
Royalty revenue	42,933,463	-	42,933,463	44,173,347
Other contract revenue	2,494,157	-	2,494,157	3,035,739
Other income	279,078	53,169	332,247	225,809
Net assets released from restrictions	<u>16,478,664</u>	<u>(16,478,664)</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>68,385,262</u>	<u>1,096,264</u>	<u>69,481,526</u>	<u>70,305,567</u>
Expenses				
Program services	51,008,089	-	51,008,089	43,326,632
Management and general	9,026,843	-	9,026,843	12,233,239
Fundraising	<u>3,327,705</u>	<u>-</u>	<u>3,327,705</u>	<u>3,308,887</u>
Total expenses	<u>63,362,637</u>	<u>-</u>	<u>63,362,637</u>	<u>58,868,758</u>
Changes in net assets from continuing operations	5,022,625	1,096,264	6,118,889	11,436,809
Nonoperating revenue (expense)				
Foreign currency translation	<u>(229,249)</u>	<u>-</u>	<u>(229,249)</u>	<u>(1,112,984)</u>
Change in net assets before discontinued operations	4,793,376	1,096,264	5,889,640	10,323,825
Discontinued operations (see Note 16)	<u>573,052</u>	<u>-</u>	<u>573,052</u>	<u>(582,324)</u>
Changes in net assets	5,366,428	1,096,264	6,462,692	9,741,501
Net assets				
Beginning of year	<u>29,700,066</u>	<u>4,624,564</u>	<u>34,324,630</u>	<u>24,583,129</u>
End of year	<u>\$ 35,066,494</u>	<u>\$ 5,720,828</u>	<u>\$ 40,787,322</u>	<u>\$ 34,324,630</u>

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

Rainforest Alliance Holding, Inc. and Affiliates
Consolidated Statements of Functional Expenses
Year Ended December 31, 2019
(With Summarized Comparative Totals for December 31, 2018)

	2019							2018	
	Program Services			Total Program Services	Support Services			Total	Total
	Landscapes and Communities	Markets Transformation	Communications		Management and General	Fund-Raising	Total Support Services		
Salaries and benefits	\$ 11,062,572	\$ 11,771,935	\$ 1,615,474	\$ 24,449,981	\$ 5,528,042	\$ 1,876,950	\$ 7,404,992	\$ 31,854,973	\$ 30,614,038
Sub-grants	4,850,488	1,068,959	-	5,919,447	-	-	-	5,919,447	4,894,369
Consultants & professional fees	3,144,118	2,862,960	183,939	6,191,017	1,152,556	432,336	1,584,892	7,775,909	7,785,480
IT services and licenses	293,977	1,581,936	30,046	1,905,959	564,891	141,463	706,354	2,612,313	1,977,081
Marketing and subscription fees	309,168	185,790	44,657	539,615	99,411	138,408	237,819	777,434	713,535
Bank and other fees	48,571	68,085	3,066	119,722	1,525	41,782	43,307	163,029	216,389
Insurance expenses	146,131	87,379	9,389	242,899	70,987	23,110	94,097	336,996	287,555
Equipment & materials	330,892	184,857	15,713	531,462	34,452	34,005	68,457	599,919	362,023
Office costs	1,926,793	847,959	78,231	2,852,983	102,220	259,513	361,733	3,214,716	2,761,979
Travel	2,251,442	1,573,177	41,837	3,866,456	150,869	60,935	211,804	4,078,260	3,814,779
Training & workshops	1,430,615	456,750	52,936	1,940,301	94,707	2,925	97,632	2,037,933	1,521,447
Depreciation and amortization	72,469	1,834,359	4,324	1,911,152	470,436	8,044	478,480	2,389,632	2,322,544
Special event expenses	-	-	-	-	-	238,747	238,747	238,747	-
Bad debt expense	10,000	216,206	-	226,206	6,522	-	6,522	232,728	474,951
	<u>25,877,236</u>	<u>22,740,352</u>	<u>2,079,612</u>	<u>50,697,200</u>	<u>8,276,618</u>	<u>3,258,218</u>	<u>11,534,836</u>	<u>62,232,036</u>	<u>57,746,170</u>
In-kind services and supplies	-	-	310,889	310,889	750,225	69,487	819,712	1,130,601	1,122,588
	<u>\$ 25,877,236</u>	<u>\$ 22,740,352</u>	<u>\$ 2,390,501</u>	<u>\$ 51,008,089</u>	<u>\$ 9,026,843</u>	<u>\$ 3,327,705</u>	<u>\$ 12,354,548</u>	<u>\$ 63,362,637</u>	<u>\$ 58,868,758</u>

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

Rainforest Alliance Holding, Inc. and Affiliates
Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating activities		
Changes in net assets	\$ 6,462,692	\$ 9,741,501
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	2,389,632	2,322,544
Bad debt expense	232,728	474,951
Net present value adjustment	(9,440)	44,370
Realized and unrealized (gains) losses on investments	(134,894)	64,759
Exchange rate gain	(75,275)	(44,971)
Deferred rent liability	(69,506)	(89,218)
Changes in assets and liabilities		
Grants and contributions receivable	(392,028)	(1,871,884)
Royalty and other contract receivables	(3,345,659)	2,067,173
Contract assets	(2,216,673)	(3,898,749)
Advances and prepaid expenses	(546,004)	721,737
Security deposits	20,855	(33,646)
Accounts payable and accrued expenses	348,574	(3,569,169)
Foreign severance payable	468,010	236,626
Contract liabilities	(58,549)	308,205
Refundable advances payable	(45,367)	(1,877,999)
Net cash provided by continuing operating activities	3,029,096	4,596,230
Discontinued operations - RA-Cert	310,567	1,061,625
Net cash provided by operating activities	<u>3,339,663</u>	<u>5,657,855</u>
Investing activities		
Acquisition of intangible assets	(824,734)	(1,160,348)
Acquisition of property and equipment	(498,371)	(150,732)
Amount paid to seller in connection with acquisition of intangibles	(1,000,000)	(500,000)
Sale of investments	5,191,000	4,991,236
Purchase of investments and reinvested income	(13,297,369)	(3,661,321)
Net cash used in investing activities	<u>(10,429,474)</u>	<u>(481,165)</u>
Effects of exchange rates on cash	<u>75,275</u>	<u>44,971</u>
Net change in cash and cash equivalents	(7,014,536)	5,221,661
Cash and cash equivalents		
Beginning of year	<u>27,894,366</u>	<u>22,672,705</u>
End of year	<u>\$ 20,879,830</u>	<u>\$ 27,894,366</u>

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

Rainforest Alliance Holding, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

1. ORGANIZATION AND NATURE OF ACTIVITIES

Rainforest Alliance Holding, Inc. (“RA Holding”) is an international non-profit organization, organized on January 1, 2018 in the State of Delaware to serve as the common parent nonprofit corporation providing centralized governance and oversight over Rainforest Alliance, Inc. (“RA”) and Stichting Rainforest Alliance (“Stichting RA”). RA Holding is the sole member of RA. RA Holding appoints the board of Stichting RA.

RA 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.

Stichting RA consists of two legal entities: Stichting Rainforest Alliance (a non-profit organization, formerly known as Stichting UTZ), founded on July 3, 2001 and Rainforest Alliance B.V. (the “B.V.”) (a for-profit organization, formerly known as UTZ Certified B.V.), founded on December 3, 2012. Both companies are registered in Amsterdam, Netherlands. Stichting Rainforest Alliance owns 100% of Rainforest Alliance B.V.

Significant sources of revenues are received from contributions and royalties and other contract revenues.

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 RA Holding, RA and Stichting RA and their subsidiaries, branches and affiliates (collectively the “Organization”). 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 the Organization 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 the Organization.

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 the Organization or through the passage of time. These net assets include donor restricted endowments, unconditional contributions and contributions with programmatic restrictions.

Operating Measure

The Organization presented an intermediate measure of operations. Activities presented outside the operating measure include items that are unusual or infrequent. The Organization classifies contributions from affiliates as nonoperating activity due to the nature of these contributions. The Organization classifies foreign currency translation gains (losses) outside the operating measure.

Rainforest Alliance Holding, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Prior Year Summarized Comparative Consolidated Information

Consolidated information as of and for the year ended December 31, 2018, 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 the Organization's consolidated financial statements as of and for the year ended December 31, 2018, from which the summarized comparative consolidated information was derived.

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 13) and the contract assets related to royalty revenues (Note 3). There is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Income Taxes

RA Holding is exempt from federal income tax under Section 501(c)(3) of the United States Internal Revenue Code ("IRC") and exempt from state taxes under state charities registration law.

RA is exempt from federal income tax under Section 501(c)(3) of the IRC in the United States and exempt from state taxes under state charities registration laws. No provision for income tax was required in the accompanying consolidated financial statements. Foreign taxes of approximately \$36,000 and \$12,000 were paid to foreign jurisdictions during the years ended December 31, 2019 and 2018, respectively and are included with VAT taxes as shown in the consolidated statement of functional expenses.

Stichting RA is established as a foundation under the laws of the Netherlands. Rainforest Alliance B.V. was established as a daughter limited company. Stichting RA is the full owner of the B.V. and all profits earned by the B.V. (program fees minus expenses) flow entirely back to Stichting RA. Stichting RA as a whole remains a non-profit and retains its charity status in the Netherlands as an "Algemeen Nut Beogende Instelling" or "ANBI" status. The ANBI status has certain tax advantages and is a pre-requisite for some potential donors considering subsidies or sponsorship. Stichting RA is required to meet certain criteria to maintain this structure. For the years ended December 31, 2019 and 2018, Stichting RA met these criteria and therefore, no income tax was assessed.

The Organization has evaluated uncertain tax positions and concluded there are no such positions at December 31, 2019 and 2018. The Organization has operations in other countries and is subject to the laws and regulations of those countries. During the years ended December 31, 2019 and 2018 the Organization paid no foreign income taxes. The Organization did not recognize any tax related interest or penalties during the periods in question.

Rainforest Alliance Holding, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Contribution Revenue

The Organization recognizes contributions, including unconditional promises to give, as revenue in the period received or pledged. Non-cash contributions of property are recorded at their fair value on the date of donation. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return or release, are not recognized in revenue until the conditions on which they depend have been substantially met. Revenue from government and private grant and contract agreements, which are generally considered non-exchange transactions, is recognized when qualifying expenditures are incurred and conditions under the agreements are met. Payments received in advance of conditions being met are recorded as refundable grants payable on the consolidated statements of financial position. Included in refundable grants payable at December 31, 2019 and 2018 is \$1,174,766 and \$1,345,942, respectively, of grant and contract receipts. Future funding from government and private grant and contract agreements is dependent on fiscal funding clauses and available appropriations from granting agencies and organizations.

Contributions, net assets and changes therein are classified and reported based on the existence or absence of donor-imposed 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.

The Organization recognizes donated goods and services provided which had an ascertainable value and were an integral part of the Organization's program services at the fair market value of the services or goods received. The Organization received donated services in the form of legal, advertising and professional fees. Additionally, the Organization received donated goods for their gala and other purposes. 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.

Special Events

Special event revenues are presented net of the direct costs of the event.

Revenue from Contracts with Customers

Royalty Revenues

The Organization has determined that royalty revenues shall be accounted for as revenue from contracts with customers in accordance with ASC 606. The Organization enters into contracts with customers whereby the Organization licenses its Rainforest Alliance Certified Seal (the "Seal") to customers by granting them the non-exclusive non-transferable right to reproduce the Seal on their own product packaging and off-product promotional materials for products which Rainforest Alliance has issued a transaction certificate. Certified products carry the Organization's green frog logo. The green frog certification seal indicates that a farm, forest, or tourism enterprise has been audited to meet standards that require environmental, social, and economic sustainability.

In order to become certified, farms must meet criteria of the Rainforest Alliance Sustainable Agriculture Standard (the "Standards"). The Standard encompasses all three pillars of sustainability—social, economic, and environmental. Rainforest Alliance Certified farms are audited regularly to verify that farmers are complying with the Standard's comprehensive requirements, which require continual improvement on the journey to sustainable agriculture. The Standard is built on these important principles of sustainable farming:

- Biodiversity conservation
- Improved livelihoods and human well-being

Rainforest Alliance Holding, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

- Natural resource conservation
- Effective planning and farm management systems

The Organization provides that purchasers of Certified Farm Product are eligible to become an authorized licensee of the Seal with respect to the Certified Farm Product. Royalties are assessed based on the volume (weight) of the Certified Farm Product purchased for which the Organization has issued a Transaction Certificate at the applicable rate for the product as set forth in the contract, which varies based on the products that the Organization certifies which fall into the following main buckets: Coffee, Tea, Cocoa, Bananas, Palm Oil, Coconut Oil and Juice. Generally, invoices are issued quarterly and payments are due within 45 days of invoice. Contract assets include royalties that are calculated and earned but not yet invoiced to the customer.

The Organization accounts for royalty revenue as a sales and/or usage based royalty arrangement. Revenue is therefore, recognized at the later of the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated or satisfied OR the subsequent sale or usage occurs. The Organization therefore, recognizes revenue when the purchase of Certified product occurs which is the time at which the royalty accrues per the contract and also represents the fulfillment of the performance obligations which involve the Organization certifying farms and tracking the Certified Farm Product through the supply chain utilizing the Organization's Marketplace System.

Other Contract Revenue

The Organization performs various engagements for clients whereby they perform specialized technical projects, such as sustainable supply chain consulting, process auditing, training, research and other advisory related services and has classified revenues into advisory contracts and risk assessment engagements. These services are performed for companies all over the world and each contract is evaluated individually for revenue recognition in accordance with ASC 606. Revenue from risk assessment engagements is recognized at a point in time. Revenue from advisory engagements is recognized over time as the contracts are either cost-reimbursable grant contracts that the Organization is paid based on allowable expenditures incurred and the benefit derived by the customer is through the time spent by Organization employees and the materials they purchase to carry out the project or based upon work that is consumed over time by the customer. Contract liabilities include billings in excess of revenue recognized.

Receivables and Credit Policies

Receivables represent unsecured, non-interest bearing obligations due from customers. In the normal course of business, the Organization grants credit directly to certain customers after a credit analysis based on financial and other criteria and generally requires no collateral. The Organization reviews the receivables and has established an allowance for doubtful accounts amounting to \$729,000 and \$958,000 at December 31, 2019 and 2018, respectively.

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, 2019 and 2018.

Sub-Grants

The Organization recognizes grants made, classified as Sub-grants on the consolidated statement of functional expenses, including unconditional promises, as expenses in the period made. Conditional promises, that is, those with a measurable performance or other barrier, and a right of return/release, are not recognized in expense until the conditions on which they depend have been substantially met.

Rainforest Alliance Holding, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

Cash Equivalents

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

Investments

Investments in equity securities are stated at fair value. Investments in debt securities are stated at amortized cost. 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.

Fair Value Measurements

The Organization 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 the Organization 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 the Organization's own data).

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 support with donor restrictions. In the absence of such stipulations, contributions of property and equipment are recorded as support without donor restrictions. 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:

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

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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 asset is amortized over the estimated useful life which was determined to be 2.5 years. Stichting RA's intangible asset consists of internally developed software which is amortized over 3 years.

Valuation of Long-Lived Assets

The Organization 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. The Organization has determined that no assessment was required for the periods presented in these consolidated financial statements.

Security Deposits

Security deposits represent funds paid to landlords which are held until a lease expires or is terminated. The Organization did not classify these assets as restricted cash for purposes of the consolidated statements of cash flows.

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:

<u>Expense</u>	<u>Method of Allocation</u>
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

Programs

The following is a summary of the Organization's primary programs:

Landscapes and Communities – 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. This also 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.

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

Translation of Foreign Currencies

The foreign operations of the Organization 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 \$(331,000) and \$(1,113,000) for the years ending December 31, 2019 and 2018, respectively are included in other activity in the consolidated statement of activities and changes in net assets.

Effect of Accounting Pronouncements Adopted in the Current Year

Revenue Recognition – Contracts with Customers

The Financial Accounting Standards Board (“FASB”) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (“ASC”). ASC 606 supersedes the prior revenue recognition requirements (codified as ASC 605, *Revenue Recognition*). ASC 606 established a core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The new guidance also added Subtopic 340-40, *Other Assets and Deferred Costs—Contracts with Customers*, which requires the deferral of incremental costs of obtaining a contract with a customer. All references to the “new guidance” include ASC 606 and/or ASC 340-40.

The Organization adopted the requirements of the new guidance as of January 1, 2019, utilizing the modified retrospective method of transition. No adjustment to net assets as of January 1, 2019 was necessary. The Organization applied the new guidance using the practical expedient provided in ASC 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019. Adoption of the new guidance resulted in minimal changes to the Company’s accounting policies for revenue recognition, trade and other receivables, contract costs, contract liabilities, and deferred costs.

Contribution Revenue Recognition

During 2019, the Organization adopted ASU 2018-08, *Not-for-profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transaction or contributions, and improved guidance to better distinguish between conditional and unconditional contributions. The adoption of this ASU required the Organization to reclassify grants and contracts revenue which were previously denoted as exchange transactions to conditional contributions. This change had no effect on timing of revenue recognition.

Financial Instruments

During 2019, the Organization adopted ASU 2016-01, *Financial Instruments* (Topic 825). This ASU required all equity securities to be measured at fair value with changes in the fair value recognized through changes in net assets. In addition, the amendments in this ASU eliminated the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities. Upon adoption, the Organization reclassified investments in treasury securities to be disclosed at amortized cost.

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Accounting Pronouncements Issued Not Yet Effective

Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842) (“ASU 2016-02”), which requires lessees to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by leases with lease terms of more than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will continue to primarily depend on its classification as a finance or operating lease. However, unlike current U.S. GAAP, which requires only capital leases to be recognized on the statement of financial position, ASU 2016-02 will require both types of leases to be recognized on the statement of financial position. ASU 2016-02 also requires disclosures about the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. ASU 2016-02 is effective beginning January 1, 2021, with early application permitted.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

Royalty Revenues

The Organization’s royalty revenue is generated from companies around the world, specifically in regions where the certified products are grown. The Organization’s contracts and royalties are based on purchase of Certified Farm Product and are affected by the demand for the products being purchased. Revenue from royalties is recognized over time and was related to the following crops for the years ending December 31, 2019 and 2018 as follows:

	<u>2019</u>	<u>2018</u>
Cocoa	\$ 13,945,872	\$ 15,032,046
Coffee	20,410,099	19,728,698
Tea	3,192,514	2,772,682
Coconut oil	91,644	18,004
Palm oil	3,003,655	4,140,356
Hazelnut	293,709	259,860
Juice	220,183	-
Bananas	1,775,787	2,221,701
	<u>\$ 42,933,463</u>	<u>\$ 44,173,347</u>

Other Contract Revenues

The Organization’s other contract revenues represent contracts whereby the customer receives direct commensurate value and comprise risk assessment engagements and advisory engagements.

The following represents revenue for these categories at December 31:

	<u>2019</u>	<u>2018</u>
Advisory agreements	\$ 2,378,694	\$ 2,975,000
Risk assessment engagements	115,463	60,739
	<u>\$ 2,494,157</u>	<u>\$ 3,035,739</u>

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Contract Balances

Royalty and other contract receivables and contract balances from contracts with customers for the years ended December 31, 2019 and 2018 were as follows:

	Royalty and Other Contract Receivables	Contract Assets	Contract Liabilities
December 31, 2019	\$ <u>11,448,715</u>	\$ <u>6,115,422</u>	\$ <u>1,197,781</u>
December 31, 2018	\$ <u>8,335,784</u>	\$ <u>3,898,749</u>	\$ <u>1,256,330</u>

4. FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of December 31, 2019 and 2018, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses and fulfillment of liabilities, were as follows:

	<u>2019</u>	<u>2018</u>
Financial assets at year end		
Cash and cash equivalents	\$ 20,879,830	\$ 27,894,366
Grants and contributions receivable	4,984,363	4,582,895
RA Cert receivables	-	310,567
Royalty and other contract receivables	11,448,715	8,335,784
Contract assets	6,115,422	3,898,749
Investments	<u>10,929,898</u>	<u>2,688,635</u>
Total financial assets	<u>54,358,228</u>	<u>47,710,996</u>
Less amounts not available for general expenditure within one year		
Net assets with donor restrictions	(5,720,828)	(4,624,564)
Long term receivables	<u>(50,000)</u>	<u>(792,492)</u>
	<u>(5,770,828)</u>	<u>(5,417,056)</u>
Financial assets available to meet general expenditures over the next twelve months	48,587,400	42,293,940
Liquidity resources		
Available line of credit	<u>1,800,000</u>	<u>1,800,000</u>
Total financial assets and liquidity resources	<u>\$ 50,387,400</u>	<u>\$ 44,093,940</u>

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The Organization manages its financial assets to be available as its operating expenditures, liabilities and other obligations come due. The Organization'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, the Organization has a committed line of credit in the amount of \$1.8 million, which is available to be drawn upon.

5. GRANTS AND CONTRIBUTIONS RECEIVABLE

The Organization had outstanding grants and contributions receivable due to be collected as follows at December 31:

	<u>2019</u>	<u>2018</u>
Grants and contributions expected to be collected		
In one year or less	\$ 4,966,792	\$ 3,790,403
Between one and five years	<u>52,501</u>	<u>836,862</u>
	5,019,293	4,627,265
Less: Discount to present value	<u>(34,930)</u>	<u>(44,370)</u>
Grants and contributions receivable, net	<u>\$ 4,984,363</u>	<u>\$ 4,582,895</u>

6. INVESTMENTS

Investments consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Equity ETF	\$ 4,688	\$ 4,049
US Treasury Bills	10,895,986	2,657,640
Other investments	<u>29,224</u>	<u>26,946</u>
	<u>\$ 10,929,898</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 years ending December 31:

	<u>2019</u>	<u>2018</u>
Realized and unrealized gains (losses)	\$ 134,894	\$ (64,759)
Interest income	<u>22,852</u>	<u>127,348</u>
	<u>\$ 157,746</u>	<u>\$ 62,589</u>

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7. PROPERTY AND EQUIPMENT

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

	<u>2019</u>	<u>2018</u>
Furniture and equipment	\$ 1,229,023	\$ 1,590,545
Leasehold improvements	<u>1,140,595</u>	<u>1,054,212</u>
	2,369,618	2,644,757
Less: Accumulated depreciation	<u>1,488,248</u>	<u>1,994,345</u>
	<u>\$ 881,370</u>	<u>\$ 650,412</u>

Depreciation expense amounted to approximately \$267,000 and \$320,000 for the years ended December 31, 2019 and 2018, respectively and is included in depreciation and amortization expense in the consolidated statement of functional expenses.

8. INTANGIBLE ASSETS

Intangible assets consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Internally developed software	\$ 4,822,759	\$ 5,475,443
Intellectual property, non-compete, licenses	<u>-</u>	<u>2,000,000</u>
	4,822,759	7,475,443
Less: Accumulated amortization	<u>3,252,797</u>	<u>4,607,996</u>
	<u>\$ 1,569,962</u>	<u>\$ 2,867,447</u>

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 total payments of \$2,000,000 over the term of the agreement which is 2.5 years. RA amortized the intellectual property, non-compete and licenses over the term of the agreement. These intangible assets were fully amortized as of December 31, 2019 and were disposed.

Amortization expense amounted to approximately \$2,122,000 and \$2,003,000 for the years ended December 31, 2019 and 2018, respectively and is included in depreciation and amortization expense in the consolidated statement of functional expenses.

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9. IN-KIND CONTRIBUTIONS

In-kind contributions consist of the following for the years ending December 31:

	<u>2019</u>	<u>2018</u>
Legal services	\$ 750,225	\$ 721,435
Annual gala services	310,889	273,200
Advertising	10,467	8,398
Gala event services	<u>59,020</u>	<u>119,555</u>
	<u>\$ 1,130,601</u>	<u>\$ 1,122,588</u>

10. 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% of salary after one year of employment. The Organization made matching contributions totaling approximately \$375,000 and \$426,000 for the years ended December 31, 2019 and 2018, respectively.

The Organization 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 \$3,979,000 and \$3,511,000 at December 31, 2019 and 2018, 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 the Organization terminates.

The Dutch plans are financed through contributions to pension providers, i.e., insurance companies and industry pension funds. The foreign pension plans can be compared to how the Dutch pension system has been designed and functions. The pension obligations of both the Dutch and the foreign plans are valued according to the 'valuation to pension fund approach'. This approach accounts for the contribution payable to the pension provider as an expense in the profit and loss account. Based on the administration agreement it is assessed whether and, if so, which obligations exist in addition to the payment of the annual contribution due to the pension provider as at balance sheet date. These additional obligations, including any obligations from recovery plans of the pension provider, lead to expenses for the group and are included in a provision on the balance sheet. With final salary pension plans an obligation (provision) for (upcoming) past service is included if future salary increases have already been defined as at balance sheet date.

The valuation of the obligation is the best estimate of the amounts required to settle this as at balance sheet date. If the effect of the time value of money is material the obligation is valued at the present value. Discounting is based on interest rates of high-quality corporate bonds. Additions to and release of the obligations are recognized in the profit and loss account. A pension receivable is included in the balance sheet when the group has the right of disposal over the pension receivable and it is probable that the future economic benefits which the pension receivable holds will accrue to the group, and the pension receivable can be reliably established.

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Rainforest Alliance BV has a defined contribution pension plan for all employees, working in The Netherlands, who are subject to Dutch law. This plan has no impact on the balance sheet for Rainforest Alliance. Also, the cover factor is not relevant in these schemes, because the guaranteed pension capitals do not constitute a right to a predetermined pension pay. On the pension date, the available capital will be used to provide a pension income, based on the prices for pensions at that time. The premium is calculated over the pension income. This is calculated as the employee's gross annual income including vacation pay, lowered by the "AOW-franchise". This franchise is used to correct for the AOW they will receive from the Dutch government when they retire. Part of the premiums from this premium table are used to insure continuation of the pension plan in case of disability. Partner pension and orphan pension are insured and included in the pension plan. The premiums for these insurances are paid on top of the premium table. The employer pays 2/3 and the employee pays 1/3 of the premium.

11. CONCENTRATION OF CREDIT RISK AND FOREIGN CURRENCY RISK

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist of cash, investments in foreign banks, investments, receivables and foreign currency risk. As of December 31, 2019 and 2018, the Organization had approximately \$13,471,000 and \$22,687,000, respectively, in foreign banks which is 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 the Organization's exposure to concentrations of credit risk.

The Organization has a long standing history of collecting its receivables which are from corporations, foundations and governmental agencies throughout the world. This limits the Organization's exposure to credit risk.

As the Organization operates internationally, a significant amount of revenues are from foreign sources for the years ended December 31, 2019 and 2018.

Foreign currency risk is the risk to the Organization 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, receivables, property and equipment, intangible assets, accounts payable, severance and payroll liabilities.

12. LINE OF CREDIT

The Organization has a line of credit 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%, which was 4.513% and 5.253% at December 31, 2019 and 2018, respectively. The borrowings are secured by the Organization's investments. The Organization had no drawdowns and no outstanding balance for the years ended December 31, 2019 and 2018.

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13. 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 2027. These leases provide for minimum annual rentals, real estate taxes and other costs. Rent expense for the leases totaled approximately \$2,077,000 and \$1,561,000 for the years ending December 31, 2019 and 2018, 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. Some of the leases are subject to rent escalation clauses. Rental expense incurred in advance of rent paid is included in deferred rent liability on the consolidated statements of financial position.

Additional leases include office space in Amsterdam under a lease expiring in March 2024. Rent expense was approximately \$425,000 and is included in occupancy in the consolidated statement of functional expenses for 2018. Future rentals have been included in the table above through the end of the lease at 360,000 Euro converted at the December 31, 2019 exchange rate of 1.12.

During 2019, RA sub-leased their New York office space in a sublease agreement that expires May 2024. 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:

<u>Year</u>	<u>Rental Commitments</u>	<u>Subrental Income</u>	<u>Rental Commitments, Net</u>
2020	\$ 2,412,263	\$ 1,213,666	\$ 1,198,597
2021	2,414,523	1,250,075	1,164,448
2022	2,384,644	1,287,578	1,097,066
2023	1,697,003	1,326,206	370,797
2024	789,901	515,578	274,323
Thereafter	<u>1,286,200</u>	<u>-</u>	<u>1,286,200</u>
	<u>\$ 10,984,534</u>	<u>\$ 5,593,103</u>	<u>\$ 5,391,431</u>

Government Grants and Contracts

The Organization receives funding from various federal and foreign agencies under grants and contracts, many of which have commitments spanning multiple years. The Organization has available funding under United States federal agency contracts through July 2023 of approximately \$6,229,000. Additionally, the Organization has available funding from the Dutch Ministry of Foreign Affairs under a contract through December 2020 of approximately \$4,032,000. The Organization'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 the Organization.

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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 \$349,000 and \$523,000 at December 31, 2019 and 2018, respectively, which is included in accounts payable and accrued expenses in the consolidated statements of financial position. During the years ended December 31, 2019 and 2018, \$0- and \$124,679, respectively, was paid relating to these 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.

14. NET ASSETS

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

	<u>2019</u>	<u>2018</u>
Programmatic restrictions		
Landscapes and communities	\$ 4,166,213	\$ 2,557,398
Markets transformation	379,011	890,052
Development campaign	150,964	150,964
Charitable trusts	24,640	26,150
Donor endowed principal	<u>1,000,000</u>	<u>1,000,000</u>
	<u>\$ 5,720,828</u>	<u>\$ 4,624,564</u>

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

	<u>2019</u>	<u>2018</u>
Programmatic restrictions		
Landscapes and communities	\$ 15,392,297	\$ 16,706,047
Markets transformation	1,084,857	1,309,760
Charitable trusts	<u>1,510</u>	<u>1,374</u>
	<u>\$ 16,478,664</u>	<u>\$ 18,017,181</u>

15. ENDOWMENT FUNDS

The Organization'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, the Organization 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 the Organization pursuant to its obligations under the agreement with the donor and applicable law.

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The Organization 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

The Organization 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 years ended December 31:

	<u>2019</u>	<u>2018</u>
Endowment assets at beginning of year	\$ 1,047,611	\$ 1,102,551
Contributions received	-	-
Expenditures	(41,237)	(45,090)
Investment return		
Investment income	9,450	19,693
Unrealized gain (loss)	22,311	(29,543)
	<u>31,761</u>	<u>(9,850)</u>
Endowment assets at end of year	<u>\$ 1,038,135</u>	<u>\$ 1,047,611</u>
Investment by type of fund		
Donor restricted endowment		
Historical gift value	\$ 1,000,000	\$ 1,000,000
Appreciation	<u>38,135</u>	<u>47,611</u>
Endowment assets at end of year	<u>\$ 1,038,135</u>	<u>\$ 1,047,611</u>

The Organization 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 \$1,231,000 and \$1,199,000 as of December 31, 2019 and 2018, respectively. Donor-restricted funds released from restriction in the current year are transferred from the investment account in subsequent years in accordance with the Organization's spending policy.

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16. 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 2018. In addition, for 5 years after the sale, RA will receive amounts ranging from 4.87% to 7.42% of applicable annual revenue. RA recognized a gain from discontinued operations of \$573,000 and \$370,000 for the years ended December 31, 2019 and 2018, respectively. During 2018, RA-Cert revenues prior to the sale were \$6,820,920 and expenses were \$7,773,604.

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.

17. BUSINESS COMBINATION – MERGER

Effective January 1, 2018, RA Holding was established for the purpose of serving as the parent corporation of RA and Stichting RA. No consideration was transferred as a result of the merger. The primary reason for the merger was to bring together two leading global nonprofit conservation and sustainable development organizations. RA and Stichting RA chose to effectively merge through the creation of a new common parent entity, RA Holding, so that they can respond collectively and in a coordinated manner to the critical challenges facing humanity today: deforestation, climate change, systemic poverty, and social inequity. The merged global organization will be able to utilize the increased size and strength of their combined expertise and enterprise to achieve the scale of impact necessary to meet these challenges effectively.

Amounts recognized as of the merger date for each major class of assets and liabilities and each class of net assets were as follows:

	<u>RA</u>	<u>Stichting RA</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 6,642,319	\$ 16,030,386	\$ 22,672,705
Grants and contributions receivables	2,755,381	-	2,755,381
RA Cert, participation fee and other receivables, net	4,108,564	8,141,536	12,250,100
Advances and prepaid expenses	529,453	2,690,041	3,219,494
Property and equipment, net	456,204	362,989	819,193
Intangible assets, net	1,600,000	2,110,130	3,710,130
Security deposits	350,828	-	350,828
Investments	<u>4,083,309</u>	<u>-</u>	<u>4,083,309</u>
 Total assets	 <u>\$ 20,526,058</u>	 <u>\$ 29,335,082</u>	 <u>\$ 49,861,140</u>

Rainforest Alliance Holding, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

	<u>RA</u>	<u>Stichting RA</u>	<u>Total</u>
Liabilities and Net Assets			
Liabilities			
Accounts payable and accrued expenses	\$ 5,937,697	\$ 7,933,297	\$ 13,870,994
Due to seller	1,500,000	-	1,500,000
Refundable advances payable	1,905,830	4,014,778	5,920,608
Deferred rent liability	650,960	61,160	712,120
Foreign severance payable	<u>2,140,487</u>	<u>1,133,802</u>	<u>3,274,289</u>
Total liabilities	<u>12,134,974</u>	<u>13,143,037</u>	<u>25,278,011</u>
Net assets			
Without restrictions	3,904,022	16,192,045	20,096,067
With restrictions	<u>4,487,062</u>	<u>-</u>	<u>4,487,062</u>
Total net assets	<u>8,391,084</u>	<u>16,192,045</u>	<u>24,583,129</u>
Total liabilities and net assets	<u>\$ 20,526,058</u>	<u>\$ 29,335,082</u>	<u>\$ 49,861,140</u>

Stichting RA recognized a liability for foreign severance accruals to convert to US GAAP amounting to approximately \$1,134,000 as of the date of merger.

18. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events occurring after the consolidated statement of financial position date through the date of May 13, 2020, which is the date the consolidated financial statements were available for release.

Based upon this evaluation, the Organization has determined that the following events occurred:

Risks Related to Contagious Diseases

The current outbreak of a novel strain of coronavirus (COVID-19) first identified in Wuhan, China is significantly impacting businesses across the world. On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern". While the duration of business interruption from this outbreak and related financial impact cannot be reasonably estimated at this time, financial results, including investment results, and exchange rate fluctuations may be adversely affected in 2020. The extent to which the coronavirus impacts operations will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and actions taken to contain the coronavirus or its impact, among others.

CARES Loan

During April 2020, the Organization received a loan from a financial institution authorized through the Paycheck Protection Program authorized by the Coronavirus Aid, Relief and Economic Security Act ("CARES") in the amount of approximately \$1,782,000. The loan may be forgiven upon a review by the financial institution of the Organization's use of the loan proceeds in accordance with the CARES Act. If the financial institution determines that the criteria for debt forgiveness has not been met, the loan matures 2 years from the date of the loan and interest accrues at 1% per year. Any such debt forgiveness would be recognized at the time that the financial institution completed the aforementioned review and approved the forgiveness of the loan.

SUPPLEMENTARY INFORMATION

Rainforest Alliance Holding, Inc. and Affiliates
Consolidating Statement of Financial Position
December 31, 2019

	<u>Rainforest Alliance, Inc.</u>	<u>Stichting Rainforest Alliance</u>	<u>Eliminations</u>	<u>Total</u>
Assets				
Current assets				
Cash and cash equivalents	\$ 9,016,577	\$ 11,863,253	\$ -	\$ 20,879,830
Grants and contributions receivable, net	4,934,363	-	-	4,934,363
RA-Cert receivables, net (discontinued operations)	-	-	-	-
Royalty and contract receivables, net	1,691,328	9,757,387	-	11,448,715
Contract assets	6,115,422	-	-	6,115,422
Due from affiliate	150,850	-	(150,850)	-
Advances and prepaid expenses	861,776	2,181,985	-	3,043,761
Investments	9,929,898	-	-	9,929,898
Total current assets	<u>32,700,214</u>	<u>23,802,625</u>	<u>(150,850)</u>	<u>56,351,989</u>
Property and equipment, net	<u>641,352</u>	<u>240,018</u>	<u>-</u>	<u>881,370</u>
Intangible assets, net	<u>-</u>	<u>1,569,962</u>	<u>-</u>	<u>1,569,962</u>
Other assets				
Grants and contributions receivable - net of current portion	50,000	-	-	50,000
Security deposits	363,619	-	-	363,619
Investments	1,000,000	-	-	1,000,000
Total other assets	<u>1,413,619</u>	<u>-</u>	<u>-</u>	<u>1,413,619</u>
Total assets	<u>\$ 34,755,185</u>	<u>\$ 25,612,605</u>	<u>\$ (150,850)</u>	<u>\$ 60,216,940</u>
Liabilities and Net Assets				
Current liabilities				
Accounts payable and accrued expenses	\$ 3,051,203	\$ 7,750,046	\$ (150,850)	\$ 10,650,399
Due to seller - current portion	-	-	-	-
Contract liabilities	1,197,781	-	-	1,197,781
Refundable advances payable	1,174,766	1,874,351	-	3,049,117
Total current liabilities	5,423,750	9,624,397	(150,850)	14,897,297
Long term liabilities				
Deferred rent liability	553,396	-	-	553,396
Foreign severance payable	2,340,259	1,638,666	-	3,978,925
Total liabilities	<u>8,317,405</u>	<u>11,263,063</u>	<u>(150,850)</u>	<u>19,429,618</u>
Net assets				
Without donor restrictions	20,716,952	14,349,542	-	35,066,494
With donor restrictions	5,720,828	-	-	5,720,828
Total net assets	<u>26,437,780</u>	<u>14,349,542</u>	<u>-</u>	<u>40,787,322</u>
Total liabilities and net assets	<u>\$ 34,755,185</u>	<u>\$ 25,612,605</u>	<u>\$ (150,850)</u>	<u>\$ 60,216,940</u>

See Independent Auditor's Report.

Rainforest Alliance Holding, Inc. and Affiliates
Consolidating Statement of Activities and Changes in Net Assets
Year Ended December 31, 2019

	Rainforest Alliance, Inc.			Stichting Rainforest Alliance			Eliminations	Total
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total		
Support and revenues								
Contributions								
Major donors and individuals	\$ 3,955,703	\$ 1,631,388	\$ 5,587,091	\$ 71,966	\$ -	\$ 71,966	\$ -	\$ 5,659,057
Foundations and corporate grants	331,285	4,587,475	4,918,760	-	-	-	-	4,918,760
Government grants and contracts	-	7,090,714	7,090,714	-	4,212,182	4,212,182	-	11,302,896
Special events - net	710,345	-	710,345	-	-	-	-	710,345
In-kind contributions	1,130,601	-	1,130,601	-	-	-	-	1,130,601
Revenue from contracts with customers								
Royalty revenue	18,318,143	-	18,318,143	24,615,320	-	24,615,320	-	42,933,463
Other contract revenue	2,079,553	-	2,079,553	414,604	-	414,604	-	2,494,157
Other income	176,941	53,169	230,110	102,137	-	102,137	-	332,247
Net assets released from restrictions	<u>12,266,482</u>	<u>(12,266,482)</u>	<u>-</u>	<u>4,212,182</u>	<u>(4,212,182)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>38,969,053</u>	<u>1,096,264</u>	<u>40,065,317</u>	<u>29,416,209</u>	<u>-</u>	<u>29,416,209</u>	<u>-</u>	<u>69,481,526</u>
Expenses								
Program services	28,049,133	-	28,049,133	22,958,956	-	22,958,956	-	51,008,089
Management and general	4,716,605	-	4,716,605	4,310,238	-	4,310,238	-	9,026,843
Fundraising	<u>3,327,705</u>	<u>-</u>	<u>3,327,705</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,327,705</u>
Total expenses	<u>36,093,443</u>	<u>-</u>	<u>36,093,443</u>	<u>27,269,194</u>	<u>-</u>	<u>27,269,194</u>	<u>-</u>	<u>63,362,637</u>
Changes in net assets from continuing operations	<u>2,875,610</u>	<u>1,096,264</u>	<u>3,971,874</u>	<u>2,147,015</u>	<u>-</u>	<u>2,147,015</u>	<u>-</u>	<u>6,118,889</u>
Nonoperating revenue (expense)								
Contribution from (to) affiliate	7,600,000	-	7,600,000	(7,600,000)	-	(7,600,000)	-	-
Foreign currency translation	<u>-</u>	<u>-</u>	<u>-</u>	<u>(229,249)</u>	<u>-</u>	<u>(229,249)</u>	<u>-</u>	<u>(229,249)</u>
Total nonoperating revenue (expense)	<u>7,600,000</u>	<u>-</u>	<u>7,600,000</u>	<u>(7,829,249)</u>	<u>-</u>	<u>(7,829,249)</u>	<u>-</u>	<u>(229,249)</u>
Change in net assets before discontinued operations	10,475,610	1,096,264	11,571,874	(5,682,234)	-	(5,682,234)	-	5,889,640
Discontinued operations (see Note 16)	<u>573,052</u>	<u>-</u>	<u>573,052</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>573,052</u>
Changes in net assets	11,048,662	1,096,264	12,144,926	(5,682,234)	-	(5,682,234)	-	6,462,692
Net assets								
Beginning of year	<u>9,668,290</u>	<u>4,624,564</u>	<u>14,292,854</u>	<u>20,031,776</u>	<u>-</u>	<u>20,031,776</u>	<u>-</u>	<u>34,324,630</u>
End of year	<u>\$ 20,716,952</u>	<u>\$ 5,720,828</u>	<u>\$ 26,437,780</u>	<u>\$ 14,349,542</u>	<u>\$ -</u>	<u>\$ 14,349,542</u>	<u>\$ -</u>	<u>\$ 40,787,322</u>

See Independent Auditor's Report.