



Rainforest Alliance

RAINFOREST ALLIANCE, INC.

Financial Statements

June 30, 2012 and 2011

With Independent Auditors' Report

Rainforest Alliance, Inc.
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June 30, 2012 and 2011

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Independent Auditors' Report

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

We have audited the accompanying statement of financial position of Rainforest Alliance, Inc., ("RA") as of June 30, 2012, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of RA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from RA's 2011 financial statements and, in our report dated December 19, 2011 we expressed an unqualified opinion on those financial statements.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of RA as of June 30, 2012 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.

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

October 29, 2012

Rainforest Alliance, Inc.
Statement of Financial Position
June 30, 2012
(With Comparative Summarized Totals for June 30, 2011)

| | 2012 | 2011 |
|---|----------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 10,587,287 | \$ 10,376,656 |
| Grants and contributions receivables | 4,134,473 | 2,550,425 |
| SmartWood and other receivables, net of allowances for doubtful accounts of \$334,857 in 2012 and \$274,075 in 2011 | 1,744,578 | 1,576,423 |
| Advances and prepaid expenses | <u>457,332</u> | <u>1,065,853</u> |
| Total current assets | 16,923,670 | 15,569,357 |
| Security deposits | 448,577 | 186,338 |
| Investments | 1,132,080 | 1,108,972 |
| Property and equipment, net | <u>108,863</u> | <u>148,448</u> |
| | <u>\$ 18,613,190</u> | <u>\$ 17,013,115</u> |
| Liabilities and Net Assets | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 7,227,436 | \$ 6,700,489 |
| Refundable advances | 737,051 | 1,650,405 |
| Deferred rent liability | <u>17,773</u> | <u>57,470</u> |
| Total current liabilities | 7,982,260 | 8,408,364 |
| Long term liabilities | | |
| Loan payable | 674,700 | 872,700 |
| Recoverable grant payable | 1,012,050 | 1,309,050 |
| Deferred rent liability | <u>--</u> | <u>14,692</u> |
| Total liabilities | 9,669,010 | 10,604,806 |
| Net assets (deficiency) | | |
| Unrestricted | 512,025 | (543,505) |
| Temporarily restricted | 7,432,155 | 5,951,814 |
| Permanently restricted | <u>1,000,000</u> | <u>1,000,000</u> |
| Total net assets | <u>8,944,180</u> | <u>6,408,309</u> |
| | <u>\$ 18,613,190</u> | <u>\$ 17,013,115</u> |

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

Rainforest Alliance, Inc.
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2012
(With Summarized Comparative Totals for June 30, 2011)

| | 2012 | | | Total | 2011 |
|--|--------------|------------------------|------------------------|--------------|--------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | | |
| Support and revenues | | | | | |
| Contributions | \$ 1,371,175 | \$ 3,380,961 | \$ -- | \$ 4,752,136 | \$ 3,902,316 |
| Foundations and corporate grants | 972,570 | 5,452,517 | -- | 6,425,087 | 7,193,040 |
| Government grants and contracts | 10,896,468 | -- | -- | 10,896,468 | 10,812,889 |
| Membership dues | 812,348 | -- | -- | 812,348 | 692,979 |
| Certification fees | 13,838,314 | -- | -- | 13,838,314 | 13,191,703 |
| Participation agreement revenue | 4,911,777 | -- | -- | 4,911,777 | 1,011,977 |
| Special events - net | 1,352,399 | -- | -- | 1,352,399 | 1,314,236 |
| Other income | 199,565 | 71,516 | -- | 271,081 | 242,335 |
| In-kind contributions | 645,314 | -- | -- | 645,314 | 1,050,707 |
| Net assets released from restrictions | 7,424,653 | (7,424,653) | -- | -- | -- |
| Total support and revenues | 42,424,583 | 1,480,341 | -- | 43,904,924 | 39,412,182 |
| Expenses | | | | | |
| Program services | | | | | |
| Sustainable agriculture | 11,947,405 | -- | -- | 11,947,405 | 11,927,457 |
| RA Cert | 13,673,994 | -- | -- | 13,673,994 | 11,257,411 |
| TREES | 7,325,191 | -- | -- | 7,325,191 | 6,333,325 |
| Sustainable tourism | 1,747,655 | -- | -- | 1,747,655 | 2,460,659 |
| Communications/education | 935,862 | -- | -- | 935,862 | 1,213,989 |
| Climate initiative | 1,000,587 | -- | -- | 1,000,587 | 664,014 |
| Special projects | 1,313,988 | -- | -- | 1,313,988 | 1,088,725 |
| Sustainable finance | 98,515 | -- | -- | 98,515 | -- |
| Total program services | 38,043,197 | -- | -- | 38,043,197 | 34,945,580 |
| Support services | | | | | |
| Management and general | 513,342 | -- | -- | 513,342 | 360,369 |
| Fundraising | 2,812,514 | -- | -- | 2,812,514 | 2,614,987 |
| Total expenses | 41,369,053 | -- | -- | 41,369,053 | 37,920,936 |
| Change in net assets | 1,055,530 | 1,480,341 | -- | 2,535,871 | 1,491,246 |
| Net assets (deficiency), beginning of year | (543,505) | 5,951,814 | 1,000,000 | 6,408,309 | 4,917,063 |
| Net assets, end of year | \$ 512,025 | \$ 7,432,155 | \$ 1,000,000 | \$ 8,944,180 | \$ 6,408,309 |

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

Rainforest Alliance, Inc.
Statement of Functional Expenses
Year Ended June 30, 2012
(With Summarized Comparative Totals for June 30, 2011)

| | 2012 | | | | | | | | | | 2011 | | | |
|-------------------------------|-------------------------|----------------------|---------------------|---------------------|---------------------------|---------------------|---------------------|---------------------|----------------------|------------------------|---------------------|---------------------|----------------------|----------------------|
| | Program Services | | | | | | | Support Services | | | Total | Total | | |
| | Sustainable Agriculture | RA Cert | TREES | Sustainable Tourism | Communications/ Education | Climate Initiative | Special Projects | Sustainable Finance | Total | Management and General | | | Fund-Raising | |
| Salaries and benefits | \$ 5,205,794 | \$ 6,239,103 | \$ 3,222,979 | \$ 854,938 | \$ 501,651 | \$ 615,189 | \$ 804,653 | \$ 86,143 | \$ 17,530,450 | \$ 329,212 | \$ 1,313,993 | \$ 1,643,205 | \$ 19,173,655 | \$ 17,179,796 |
| Sub-grants | 2,116,419 | 18,287 | 908,666 | 55,880 | 9,629 | 27,809 | 102,244 | 95 | 3,239,029 | 486 | 1,998 | 2,484 | 3,241,513 | 2,752,878 |
| Consultants | 2,198,567 | 898,876 | 1,501,085 | 332,650 | 153,178 | 109,718 | 86,192 | 2,270 | 5,282,536 | 82,419 | 315,856 | 398,275 | 5,680,811 | 5,089,259 |
| Telephone | 73,308 | 112,267 | 67,272 | 16,133 | 3,047 | 6,519 | 11,194 | 767 | 290,507 | 8,349 | 13,463 | 21,812 | 312,319 | 328,187 |
| Printing | 20,316 | 16,476 | 17,868 | 6,210 | 17,379 | 811 | 15,091 | 44 | 94,195 | 210 | 113,231 | 113,441 | 207,636 | 225,286 |
| Postage/shipping | 27,410 | 19,412 | 15,728 | 4,826 | 5,412 | 961 | 7,322 | 67 | 81,138 | 600 | 291,590 | 292,190 | 373,328 | 336,066 |
| Office supplies | 75,736 | 86,818 | 68,741 | 6,486 | 5,277 | 6,328 | 47,873 | 207 | 297,466 | 1,875 | 13,878 | 15,753 | 313,219 | 270,308 |
| Office equipment | 47,940 | 71,973 | 58,231 | 8,961 | 3,856 | 9,834 | 8,987 | 249 | 210,031 | 4,774 | 11,689 | 16,463 | 226,494 | 211,138 |
| Certification | 6,702 | 4,196,831 | 3,225 | 57 | 29 | 37,277 | 1,756 | 3 | 4,245,880 | 19 | 84 | 103 | 4,245,983 | 4,454,287 |
| Occupancy | 398,850 | 386,266 | 214,561 | 162,210 | 132,495 | 48,065 | 84,042 | (1,446) | 1,425,043 | 24,264 | 205,639 | 229,903 | 1,654,946 | 1,601,006 |
| Travel | 946,700 | 466,330 | 722,381 | 191,160 | 36,980 | 92,371 | 95,820 | 4,439 | 2,556,181 | 27,183 | 44,615 | 71,798 | 2,627,979 | 2,465,559 |
| Workshops | 140,217 | 91,151 | 263,069 | 34,784 | 11,419 | 17,749 | 8,111 | 1,650 | 568,150 | 526 | 8,515 | 9,041 | 577,191 | 531,469 |
| Other office expenses | 471,555 | 357,374 | 121,665 | 53,865 | 45,742 | 17,208 | 26,209 | 2,968 | 1,096,586 | 27,906 | 195,925 | 223,831 | 1,320,417 | 1,146,533 |
| Depreciation | 5,639 | 6,532 | 19,090 | 828 | 368 | 474 | 622 | 47 | 33,600 | 245 | 5,740 | 5,985 | 39,585 | 40,005 |
| Tax expense | 8,435 | 154,238 | 4,379 | 1,045 | 350 | 598 | 1,166 | 59 | 170,270 | 310 | 1,532 | 1,842 | 172,112 | 81,523 |
| Bad debt expense | 88,952 | 420,595 | 45,825 | 820 | 52 | 56 | 73 | 6 | 556,379 | 29 | 143 | 172 | 556,551 | 156,927 |
| | 11,832,540 | 13,542,529 | 7,254,765 | 1,730,853 | 926,864 | 990,967 | 1,301,355 | 97,568 | 37,677,441 | 508,407 | 2,537,891 | 3,046,298 | 40,723,739 | 36,870,227 |
| In-Kind services and supplies | 114,865 | 131,465 | 70,426 | 16,802 | 8,998 | 9,620 | 12,633 | 947 | 365,756 | 4,935 | 274,623 | 279,558 | 645,314 | 1,050,709 |
| | <u>\$ 11,947,405</u> | <u>\$ 13,673,994</u> | <u>\$ 7,325,191</u> | <u>\$ 1,747,655</u> | <u>\$ 935,862</u> | <u>\$ 1,000,587</u> | <u>\$ 1,313,988</u> | <u>\$ 98,515</u> | <u>\$ 38,043,197</u> | <u>\$ 513,342</u> | <u>\$ 2,812,514</u> | <u>\$ 3,325,856</u> | <u>\$ 41,369,053</u> | <u>\$ 37,920,936</u> |

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

Rainforest Alliance, Inc.
Statement of Cash Flows
Year Ended June 30, 2012
(With Summarized Comparative Totals for June 30, 2011)

| | 2012 | 2011 |
|---|----------------------|----------------------|
| Cash flows from operating activities | | |
| Changes in net assets | \$ 2,535,871 | \$ 1,491,246 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities | | |
| Depreciation | 39,585 | 40,005 |
| Change in net present value | (3,358) | (1,650) |
| Bad debt expense | 556,551 | 156,927 |
| Realized loss (gain) | (931) | (584) |
| Unrealized (gains) losses | (21,784) | 26,931 |
| Forgiveness of indebtedness | (495,000) | (210,000) |
| Changes in assets and liabilities | | |
| Grants and contributions receivable | (1,584,048) | 744,012 |
| SmartWood and other receivables | (724,706) | (1,138,313) |
| Advances and prepaid expenses | 608,521 | (604,240) |
| Accounts payable and accrued expenses | 526,947 | 1,711,703 |
| Refundable advances | (913,354) | 364,732 |
| Deferred rent liability | (54,389) | (41,620) |
| Net cash provided by operating activities | <u>469,905</u> | <u>2,539,149</u> |
| Cash flows from investing activities | | |
| Security deposits | (262,239) | -- |
| Purchase of investments | (405,432) | (27,274) |
| Proceeds from sale of investments | <u>408,397</u> | <u>--</u> |
| Net cash used by investing activities | <u>(259,274)</u> | <u>(27,274)</u> |
| Net change in cash and cash equivalents | 210,631 | 2,511,875 |
| Cash and cash equivalents | | |
| Beginning of year | <u>10,376,656</u> | <u>7,864,781</u> |
| End of year | <u>\$ 10,587,287</u> | <u>\$ 10,376,656</u> |
| Supplemental disclosure of cash flow information | | |
| Foreign taxes paid | <u>\$ 172,112</u> | <u>\$ 81,523</u> |

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

Rainforest Alliance, Inc.
Notes to Financial Statements
June 30, 2012 and 2011

1. Organization and Nature of Activities

Rainforest Alliance, Inc. ("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 activity of the branches and affiliates is included in these financial statements.

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

2. Summary of Significant Accounting Policies

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 statement of activities and changes in net assets as net assets released from restrictions.

RA accounts for those contract and grant revenues which have been determined to be exchange transactions, in the statement of activities and changes in 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/contracts.

Unrestricted revenue is obtained from membership dues, certification fees and participation agreement revenue. Membership dues are allocated to the appropriate period when earned. Certification fees are recognized as revenue as the service is provided. Participation agreement revenues are recorded when certified product purchases are complete and have been invoiced.

Estimates

The presentation of 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. Accounts receivable has been shown net of an estimate for unearned revenue for billings sent in advance of services being performed. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Rainforest Alliance, Inc.
Notes to Financial Statements
June 30, 2012 and 2011

Cash Equivalents

RA considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents.

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 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 | 10 |
| Software | 5 |
| Leasehold improvements | Shorter of term of lease or life of asset |

Receivables and Credit Policies

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 uncollectible accounts.

Donated Goods and Services

RA receives donated services. RA does not recognize the value of volunteer support provided to program and support services if an objective basis for valuing the services is not available. However, RA does recognize goods and services provided which have an ascertainable value and are an integral part of RA's program services.

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.

Prior Year Summarized Comparative Information

Information as of and for the year ended June 30, 2011, is presented for comparative purposes only. The notes to the financial statements and certain activity by net asset classification are 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 financial statements as of and for the year ended June 30, 2011, 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 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, 2012 and 2011. There are no open tax years prior to June 30, 2009. RA has operations in other countries and is subject to the laws and regulations of those countries. RA did not recognize any tax related interest or penalties during the period in question.

Valuation of Long-Lived Assets

In accordance with the provisions of the pronouncement on accounting for the impairment or disposal 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.

Rainforest Alliance, Inc.
Notes to Financial Statements
June 30, 2012 and 2011

Fair Value of Financial Instruments

The carrying amounts of financial instruments including grants and contributions receivables, SmartWood and other receivables, advances and prepaid expenses, security deposits, accounts payable and accrued expenses, refundable advances, and deferred rent liability approximate their fair values because of the relatively short maturity of these instruments.

Investments

Investments, consisting of money funds, government bonds, corporate bonds, certificates of deposit, and other 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 statement of activities and changes in net assets as increases or decreases in unrestricted net assets unless the use was restricted by explicit donor stipulations or by law.

Economic Dependency

During the years ended June 30, 2012 and 2011, 11.16 and 10.80 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 statement of financial position date. The related translation adjustments of \$(317,000) and \$99,587 at June 30, 2012 and 2011, respectively, are included in changes in net assets.

3. Investments

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

| | 2012 | | 2011 | |
|-------------------------|---------------------|---------------------|---------------------|---------------------|
| | Cost | Market | Cost | Market |
| Money funds | \$ 63,933 | \$ 63,933 | \$ 110,722 | \$ 110,722 |
| Government bonds | 16,145 | 16,491 | 15,300 | 15,626 |
| Corporate bonds | 908,276 | 919,861 | 502,844 | 488,345 |
| Certificates of deposit | 106,000 | 106,826 | 457,335 | 459,936 |
| Other investments | 24,969 | 24,969 | 33,600 | 34,343 |
| | <u>\$ 1,119,323</u> | <u>\$ 1,132,080</u> | <u>\$ 1,119,801</u> | <u>\$ 1,108,972</u> |

Investment income related to these investments and interest earned on cash accounts is included in other income in the statement of activities and changes in net assets at June 30, 2012 and 2011 and was comprised of the following:

| | 2012 | 2011 |
|---------------------------|------------------|--------------------|
| Unrealized gains (losses) | \$ 21,784 | \$ (26,931) |
| Realized gains | 931 | 584 |
| Interest income | 50,478 | 15,160 |
| | <u>\$ 73,193</u> | <u>\$ (11,187)</u> |

Rainforest Alliance, Inc.
Notes to Financial Statements
June 30, 2012 and 2011

4. 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, 2012 and 2011:

| | Total | Quoted Prices in Active Markets (Level 1) | Observable Measurement Criteria (Level 2) | Total | Quoted Prices in Active Markets (Level 1) | Observable Measurement Criteria (Level 2) |
|-------------------------|---------------------|---|--|---------------------|---|--|
| | June 30, 2012 | | | June 30, 2011 | | |
| Money funds | \$ 63,933 | \$ 63,933 | \$ -- | \$ 110,722 | \$ 110,722 | \$ -- |
| Government bonds | 16,491 | -- | 16,491 | 15,626 | -- | 15,626 |
| Corporate bonds | | | | | | |
| AA rating | 55,205 | 55,205 | -- | 49,136 | 49,136 | -- |
| AA- rating | 50,575 | 50,575 | -- | | | |
| A+ rating | -- | -- | -- | 50,306 | 50,306 | -- |
| A rating | 103,798 | 103,798 | -- | 96,441 | 96,441 | -- |
| BBB+ rating | 154,180 | 154,180 | -- | 97,803 | 97,803 | -- |
| BBB rating | 204,665 | 204,665 | -- | 144,977 | 144,977 | -- |
| BBB- rating | 351,438 | 351,438 | -- | 49,682 | 49,682 | -- |
| Certificates of deposit | 106,826 | -- | 106,826 | 459,936 | -- | 459,936 |
| Other investments | 24,969 | -- | 24,969 | 34,343 | -- | 34,343 |
| | <u>\$ 1,132,080</u> | <u>\$ 983,794</u> | <u>\$ 148,286</u> | <u>\$ 1,108,972</u> | <u>\$ 599,067</u> | <u>\$ 509,905</u> |

Rainforest Alliance, Inc.
Notes to Financial Statements
June 30, 2012 and 2011

5. Property and Equipment

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

| | 2012 | 2011 |
|--------------------------------|-------------------|-------------------|
| Furniture and equipment | \$ 608,948 | \$ 608,948 |
| Software | 132,506 | 132,506 |
| Leasehold improvements | <u>60,275</u> | <u>60,275</u> |
| | 801,729 | 801,729 |
| Less: Accumulated depreciation | <u>692,866</u> | <u>653,281</u> |
| | <u>\$ 108,863</u> | <u>\$ 148,448</u> |

Depreciation expense amounted to \$39,585 and \$40,005 for the years ended June 30, 2012 and 2011, respectively.

6. Long-Term Debt

In July 1998, RA was awarded a recoverable grant of \$1,500,000 to fund certain SmartWood program activities. Grant repayments were tied to cash flows from operations from funded activities which began in 2004. During December 2011 a new agreement was established between RA and the grantor that became effective for the fiscal year ended June 30, 2011 that allowed for annual partial forgiveness of the recoverable grant under certain conditions. For the years ended June 30, 2012 and 2011, RA complied with the terms of these conditions and recorded \$297,000 and \$126,000, respectively, of forgiveness of the recoverable grant in foundation and corporate grant income in the statement of activities and changes in net assets. The balance under this recoverable grant at June 30, 2012 and 2011 was \$1,012,050 and \$1,309,050, respectively.

In April 1999, RA received an interest-free loan of \$1,000,000 for the same SmartWood program activities. During December 2011 a new agreement was agreed to by the lender, which allowed for annual partial forgiveness of the loan under certain conditions. For the years ended June 30, 2012 and 2011, RA complied with the terms of these conditions and recorded \$198,000 and \$84,000, respectively, of forgiveness of the loan in foundation and corporate grant income in the statement of activities and changes in net assets. The balance due under this loan payable at June 30, 2012 and 2011 was \$674,700 and \$872,700, respectively.

7. In-Kind Contributions

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

In-Kind Contributions

| | 2012 | 2011 |
|----------------------|-------------------|---------------------|
| Legal services | \$ 324,421 | \$ 762,401 |
| Annual gala services | 249,986 | 214,669 |
| Imputed interest | <u>70,907</u> | <u>73,637</u> |
| | <u>\$ 645,314</u> | <u>\$ 1,050,707</u> |

The contribution (imputed interest) inherent in the interest-free loans has been recorded at fair value, based on an imputed interest rate of 3.25 percent and 4.00 percent for fiscal years ended June 30, 2012 and 2011, respectively, which is the average prime rate of the fiscal year.

Rainforest Alliance, Inc.
Notes to Financial Statements
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8. Retirement Plan

RA has a qualified tax-deferred annuity plan under Section 403(b) of the Internal Revenue Code for eligible employees. 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. Plan expenses totaled approximately \$283,000 and \$254,000 for the years ended June 30, 2012 and 2011, respectively.

9. Concentration of Credit Risk and Foreign Currency Risk

Financial instruments, which potentially subject RA to concentrations of credit risk, consist of cash, investments in foreign banks, investments and receivables. As of June 30, 2012 and 2011, RA had approximately \$2,588,000 and \$3,009,000, 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 certificates of deposits and other high credit quality financial investments. Although subject to market fluctuation, this investment policy somewhat limits RA's exposure to concentrations of credit risk. RA has a long standing history of collecting its receivables which are from corporations, foundations and governmental agencies throughout the world. This limits RA's exposure to credit risk.

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 entity does not hold derivative financial instruments to manage the fluctuation of exchange rate risk. The assets and liabilities held in other foreign currencies include cash, severance and payroll liabilities.

10. Commitments

Operating Leases

RA leases office space in New York and in other locations under leases that expire through April 2023. The building lease provides for minimum annual rentals, real estate taxes and other costs. RA also has entered into leases for several foreign offices as well. The commitment of rent under non-cancellable lease agreements for the next five years and in the aggregate is as follows:

| Year | Amount |
|-------------|----------------------|
| 2013 | \$ 946,000 |
| 2014 | 1,162,000 |
| 2015 | 1,182,000 |
| 2016 | 1,191,000 |
| 2017 | 1,152,000 |
| Thereafter | <u>6,626,000</u> |
| | <u>\$ 12,259,000</u> |

Rent expense for the above leases totaled approximately \$1,294,000 and \$1,271,000, for the years ended June 30, 2012 and 2011, respectively, which is included in occupancy expense in the statement of functional expenses. Annual rent expenses paid under the leases include the basic rent plus charges for common area management costs and real estate tax escalation charges.

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Building Standard Work Letter

RA signed a work letter of credit on June 11, 2012 in connection with one of their lease agreements. As part of the letter of credit, the landlord agreed to perform alterations on the premises as set forth in the lease agreement. The letter of credit has a maximum availability of \$221,902, with a stated rate of interest of 7 percent for 60 months with monthly payments of principal and interest of \$4,394. No renovation work was performed as of June 30, 2012.

11. Net Assets

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

| | 2012 | 2011 |
|-------------------------|---------------------|---------------------|
| Sustainable Forestry | \$ 275,781 | \$ 501,823 |
| Sustainable Agriculture | 1,705,634 | 3,066,219 |
| Sustainable Tourism | 46,390 | 32,372 |
| Climate Change | 68,209 | 149,790 |
| Education | 73,508 | 101,214 |
| Communications | 6,430 | 16,967 |
| Special Projects | 343,804 | 93,216 |
| Development Campaign | 4,882,907 | 1,943,435 |
| Charitable Trusts | 29,492 | 46,778 |
| | <u>\$ 7,432,155</u> | <u>\$ 5,951,814</u> |

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

| | 2012 | 2011 |
|-------------------------|---------------------|---------------------|
| Sustainable Forestry | \$ 886,613 | \$ 1,257,827 |
| Sustainable Agriculture | 5,323,061 | 5,520,825 |
| Sustainable Tourism | 227,594 | 476,458 |
| Climate Change | 306,749 | 499,865 |
| Education | 276,187 | 317,536 |
| Communications | 44,123 | 222,734 |
| Special Projects | 294,540 | 415,607 |
| Development Campaign | 48,500 | 200,000 |
| Charitable Trusts | 17,286 | -- |
| Operations | -- | 30,276 |
| | <u>\$ 7,424,653</u> | <u>\$ 8,941,128</u> |

12. Endowment Funds

RA's endowment is comprised of a 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 Not-For-Profit Corporation Law, a charitable organization can only spend amounts of an endowment fund 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.

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RA has followed the donor instrument in classifying as permanently restricted, with respect to its existing endowment fund, net assets at the original value of the gift donated to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is 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, 2012 and 2011:

| | 2012 | | | 2011 | | |
|---|------------------------|------------------------|---------------------|------------------------|------------------------|---------------------|
| | Temporarily Restricted | Permanently Restricted | Total | Temporarily Restricted | Permanently Restricted | Total |
| Endowment assets, beginning of year | \$ 58,766 | \$ 1,000,000 | \$ 1,058,766 | \$ 64,395 | \$ 1,000,000 | \$ 1,064,395 |
| Contributions received | -- | -- | -- | -- | -- | -- |
| Transfer to operations | (33,062) | -- | (33,062) | -- | -- | -- |
| Investment return | | | | | | |
| Investment income | 33,691 | -- | 33,691 | 21,095 | -- | 21,095 |
| Unrealized gain (loss) | 24,131 | -- | 24,131 | (26,724) | -- | (26,724) |
| | <u>57,822</u> | <u>--</u> | <u>57,822</u> | <u>(5,629)</u> | <u>--</u> | <u>(5,629)</u> |
| Endowment assets end of year | <u>\$ 83,526</u> | <u>\$ 1,000,000</u> | <u>\$ 1,083,526</u> | <u>\$ 58,766</u> | <u>\$ 1,000,000</u> | <u>\$ 1,058,766</u> |
| Permanently restricted net assets Required to be maintained in perpetuity | | <u>\$ 1,000,000</u> | | | <u>\$ 1,000,000</u> | |

13. Subsequent Events

RA has evaluated subsequent events occurring after the statement of financial position date through the date of October 29, 2012, which is the date the financial statements were available for release. Based upon this evaluation, RA has determined that no additional subsequent events have occurred, which require adjustment to or disclosure in the financial statements.