

FINANCIAL STATEMENTS

**FAIRTRADE INTERNATIONAL USA, INC.
D/B/A FAIRTRADE AMERICA**

**FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2015**

FAIRTRADE INTERNATIONAL USA, INC. D/B/A FAIRTRADE AMERICA

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fairtrade International USA, Inc. d/b/a Fairtrade America
Washington, D.C.

We have audited the accompanying financial statements of Fairtrade International USA, Inc. d/b/a Fairtrade America (Fairtrade America), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and change in net assets, functional expense and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fairtrade America as of December 31, 2016, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

4550 MONTGOMERY AVENUE • SUITE 650 NORTH • BETHESDA, MARYLAND 20814
(301) 951-9090 • FAX (301) 951-3570 • WWW.GRCPA.COM

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Report on Summarized Comparative Information

We have previously audited Fairtrade America's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 29, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gelman Rosenberg & Freedman

November 13, 2017

FAIRTRADE INTERNATIONAL USA, INC. D/B/A FAIRTRADE AMERICA

STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015

ASSETS		<u>2016</u>	<u>2015</u>
CURRENT ASSETS			
Cash and cash equivalents		\$ 917,371	\$ 534,395
Accounts receivable		761,703	1,428,603
Prepaid expenses		<u>48,551</u>	<u>33,906</u>
Total current assets		<u>1,727,625</u>	<u>1,996,904</u>
FIXED ASSETS			
Furniture		59,397	-
Computers and equipment		<u>32,916</u>	<u>13,916</u>
		92,313	13,916
Less: Accumulated depreciation and amortization		<u>(16,849)</u>	<u>(4,541)</u>
Net fixed assets		<u>75,464</u>	<u>9,375</u>
OTHER ASSETS			
Other assets		75	75
Deposits		<u>23,104</u>	<u>1,500</u>
Total other assets		<u>23,179</u>	<u>1,575</u>
TOTAL ASSETS		<u>\$ 1,826,268</u>	<u>\$ 2,007,854</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Current portion of capital lease		\$ 1,898	\$ -
Accounts payable and accrued liabilities		422,436	493,610
Deferred revenue		<u>-</u>	<u>10,255</u>
Total current liabilities		<u>424,334</u>	<u>503,865</u>
LONG-TERM LIABILITIES			
Capital lease payable, net of current portion		6,418	-
Deferred rent		<u>33,491</u>	<u>-</u>
Total long-term liabilities		<u>39,909</u>	<u>-</u>
Total liabilities		<u>464,243</u>	<u>503,865</u>
NET ASSETS			
Unrestricted		<u>1,362,025</u>	<u>1,503,989</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 1,826,268</u>	<u>\$ 2,007,854</u>

See accompanying notes to financial statements.

FAIRTRADE INTERNATIONAL USA, INC. D/B/A FAIRTRADE AMERICA

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015**

	<u>Unrestricted</u>	
	<u>2016</u>	<u>2015</u>
REVENUE		
License fees	\$ 2,545,405	\$ 2,336,782
Project fees	33,583	121,799
Administrative fees	3,344	7,899
Other revenue	<u>40,400</u>	<u>897</u>
Total revenue	<u>2,622,732</u>	<u>2,467,377</u>
EXPENSES		
Program Services	<u>2,415,558</u>	<u>1,711,609</u>
Supporting Services: Management and General	<u>349,138</u>	<u>292,916</u>
Total expenses	<u>2,764,696</u>	<u>2,004,525</u>
Change in net assets	(141,964)	462,852
Net assets at beginning of year	<u>1,503,989</u>	<u>1,041,137</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,362,025</u>	<u>\$ 1,503,989</u>

FAIRTRADE INTERNATIONAL USA, INC. D/B/A FAIRTRADE AMERICA

**STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015**

	2016						2015		
	Program Services					Supporting Services			
	Education and Awareness	Governance	Licensee Support	Market Development	Producer Support	Total Program Services	Management and General	Total Expenses	Total Expenses
Fees for service	\$ -	\$ -	\$ -	\$ -	\$ 742,067	\$ 742,067	\$ -	\$ 742,067	\$ 269,280
Salaries and benefits	324,609	150,711	115,932	382,575	-	973,827	189,986	1,163,813	804,834
Consulting fees	71,211	26,826	10,692	6,643	17,500	132,872	28,426	161,298	247,273
Awareness costs	25,250	-	-	-	62,942	88,192	-	88,192	94,658
Travel and entertainment	24,671	17,674	16,330	54,084	-	112,759	12,757	125,516	152,763
Membership and subscriptions	1,183	-	-	5,890	-	7,073	2,748	9,821	11,952
Reimbursable expenses	-	10,255	-	1,441	10,917	22,613	-	22,613	87,568
Board expenses	-	32,570	-	-	-	32,570	-	32,570	34,244
Legal fees	-	-	-	-	-	-	6,092	6,092	3,334
Bad debt expense/recovery	-	-	-	-	-	-	13,352	13,352	29,288
Professional fees	-	-	-	-	-	-	17,498	17,498	20,100
Rent	35,608	16,532	12,717	41,967	-	106,824	20,348	127,172	75,928
Insurance	4,394	2,040	1,569	5,180	-	13,183	2,511	15,694	12,128
Bank charges	-	-	-	-	-	-	3,443	3,443	3,126
Telephone and internet	4,454	2,068	1,591	5,249	-	13,362	2,545	15,907	8,362
Office supplies	7,485	3,475	2,673	8,821	-	22,454	4,277	26,731	7,509
Miscellaneous expenses	-	-	-	-	-	-	764	764	2,081
Loss on foreign exchange	-	-	-	-	-	-	154	154	5,920
Recruiting and advertising	19,000	-	-	-	-	19,000	2,271	21,271	13,439
Courier and postage	5,743	83	86	151	-	6,063	1,014	7,077	7,081
Printing and stationary	12,798	-	-	936	-	13,734	1,405	15,139	22,001
Depreciation and amortization	-	-	-	-	-	-	12,308	12,308	2,968
Events	-	598	-	80,556	-	81,154	-	81,154	39,643
Website and domain hosting	15,427	-	-	-	-	15,427	-	15,427	17,847
Training and development	-	-	-	-	-	-	9,824	9,824	-
Donations	12,384	-	-	-	-	12,384	-	12,384	11,100
Technology expenses	-	-	-	-	-	-	17,415	17,415	20,098
TOTAL	\$ 564,217	\$ 262,832	\$ 161,590	\$ 593,493	\$ 833,426	\$ 2,415,558	\$ 349,138	\$ 2,764,696	\$ 2,004,525

See accompanying notes to financial statements.

FAIRTRADE INTERNATIONAL USA, INC. D/B/A FAIRTRADE AMERICA

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (141,964)	\$ 462,852
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	12,308	2,968
Bad debt expense	13,352	29,288
Decrease (increase) in:		
Accounts receivable	653,548	(843,297)
Prepaid expenses	(14,645)	(10,623)
Deposits	(21,604)	-
(Decrease) increase in:		
Accounts payable and accrued liabilities	(71,174)	31,878
Deferred revenue	(10,255)	(31,978)
Deferred rent	33,491	-
	<u>453,057</u>	<u>(358,912)</u>
Net cash provided (used) by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(68,823)	(8,024)
Net cash used by investing activities	<u>(68,823)</u>	<u>(8,024)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligation	(1,258)	-
Net cash used by financing activities	<u>(1,258)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	382,976	(366,936)
Cash and cash equivalents at beginning of year	534,395	901,331
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 917,371	\$ 534,395
SUPPLEMENTAL INFORMATION:		
Interest Paid	\$ 40	\$ -
Capital Lease Obligation Incurred for Use of Equipment	\$ 9,574	\$ -

FAIRTRADE INTERNATIONAL USA, INC. D/B/A FAIRTRADE AMERICA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Fairtrade International USA, Inc. d/b/a Fairtrade America (Fairtrade America) was incorporated on June 4, 2012, as a Delaware non-profit corporation that is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"). The purpose of Fairtrade America is to alleviate poverty and injustice and educate the public on the importance of fair and ethically sustainable farming and working procedures. Fairtrade America's goal is to aid small producers in poor developing countries by promoting consumer support in the USA for products produced fairly. Fairtrade America is an associate member of the global organization, Fairtrade International ("FTI").

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Fairtrade America's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Cash and cash equivalents -

Fairtrade America considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. At times during the year, Fairtrade America maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Accounts receivable -

Accounts receivable are recorded at their net realizable value, which approximates fair value. Management considers all amounts to be fully collectible within one year. Accordingly, an allowance for doubtful accounts has not been established.

Fixed assets -

Fixed assets in excess of \$500 are capitalized and stated at cost. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to seven years. The cost of maintenance and repairs is recorded as expenses are incurred. Depreciation and amortization expense for the year ended December 31, 2016 totaled \$12,308.

Income taxes -

Fairtrade America is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. Fairtrade America is not a private foundation.

FAIRTRADE INTERNATIONAL USA, INC. D/B/A FAIRTRADE AMERICA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Uncertain tax positions -

For the year ended December 31, 2016, Fairtrade America has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of Fairtrade America and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of Fairtrade America and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions. There was no temporarily restricted net asset activity as of or during the year ended December 31, 2016.

License fees -

The primary source of revenue is license fees paid by vendors for use of the Fairtrade label, which indicates that the labeled goods were made by Fairtrade certified producers. FLOCERT, an affiliate of Fairtrade International ("FTI"), currently certifies vendors. License fees are earned based on the volume or value of goods sold per quarter and is recognized on a quarterly basis. License fees paid in advance are deferred until earned. As part of the agreement with FTI, there is an administrative fee due per quarter per license from other national fairtrade organizations.

Contributions and grants -

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Such funds in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Use of estimates -

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

FAIRTRADE INTERNATIONAL USA, INC. D/B/A FAIRTRADE AMERICA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

New accounting pronouncements not yet adopted -

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statement of Activities and Change in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of Fairtrade America's financial statements, it is not expected to alter Fairtrade America's reported financial position.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states 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 the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year thus the effective date is fiscal years beginning after December 15, 2018. Early adoption is permitted and should be applied retrospectively in the year the ASU is first applied. Fairtrade America plans to adopt the new ASU at the required implementation date.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the statement of financial position and disclosing key information about leasing arrangements. The ASU is effective for private entities for fiscal years beginning after December 31, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach. Fairtrade America plans to adopt the new ASU at the required implementation date.

2. CAPITAL LEASE OBLIGATION

In June 2016, Fairtrade America entered into a capital lease obligation for a copier, which expires in 2021. As of December 31, 2016, the cost and related accumulated amortization of the leased asset were \$9,574 and \$1,117, respectively. Amortization of assets held under capital leases is included with depreciation expense.

FAIRTRADE INTERNATIONAL USA, INC. D/B/A FAIRTRADE AMERICA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

2. CAPITAL LEASE OBLIGATION (Continued)

Future minimum lease payments at December 31, 2016 are as follows:

<u>Year Ending December 31,</u>		
2017		\$ 1,948
2018		1,948
2019		1,948
2020		1,948
2021		<u>649</u>
		8,441
Less: Interest		<u>(125)</u>
		8,316
Less: Current portion		<u>(1,898)</u>
		<u>6,418</u>
	LONG-TERM PORTION	\$ <u>6,418</u>

3. LEASE COMMITMENTS

Fairtrade America leased office space in Washington, D.C. under a 27-month lease agreement than began on January 1, 2015 and expires on March 31, 2016. Base rent was \$3,600 per month, plus a proportionate share of operating expenses and real estate taxes.

On July 1, 2015, Fairtrade America amended its lease agreement, with base rent increasing to \$7,600 per month, and an expiration date of March 31, 2016.

During 2016, Fairtrade America signed a new lease agreement for office space located in Washington, D.C. The new lease agreement commenced June 1, 2016 and expires October 31, 2021. Base rent is \$11,552 per month, increasing every year, plus a proportionate share of operating expenses and real estate taxes.

Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability on the Statement of Financial Position.

Future minimum lease payments required under the assigned lease agreements are as follows:

<u>Year Ending December 31,</u>		
2017		\$ 117,108
2018		144,721
2019		148,701
2020		152,790
2021		<u>130,532</u>
		<u>\$ 693,852</u>

Rent expense for the year ended December 31, 2016 was \$127,172.

FAIRTRADE INTERNATIONAL USA, INC. D/B/A FAIRTRADE AMERICA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

4. RETIREMENT PLAN

Fairtrade America provides retirement benefits to its employees through a 401(k) savings plan covering all full-time employees with three months of eligible experience. Fairtrade America does not provide matching contributions under this plan. Employee retirement contributions during the year ended December 31, 2016 totaled \$20,349.

5. CONCENTRATION OF REVENUE

Approximately 40% of Fairtrade America's revenue for the year ended December 31, 2016, was derived from fees paid by one funding source for the use of the Fairtrade label. Fairtrade America has no reason to believe that relationships with this vendor will be discontinued in the foreseeable future. However, any interruption of this relationship (i.e., the failure of this vendor using the Fairtrade label) would adversely affect Fairtrade America's ability to finance ongoing operations.

6. RELATED PARTY

In January 2016, Fairtrade America became a full member of the Fairtrade International System and incurred membership fees of \$613,523. Additional fees for system wide projects were also incurred for a total amount of \$78,812. Fairtrade America was also subject to fees for FLO-Cert services in the amount of \$12,892; this total is based on Fairtrade America's headcount. The Fees For Service Agreement with Fairtrade Canada was terminated on March 31, 2016, and a final fee payment of \$40,462 was made.

7. SUBSEQUENT EVENTS

In preparing these financial statements, Fairtrade America has evaluated events and transactions for potential recognition or disclosure through November 13, 2017, the date the financial statements were issued.