

**FINANCIAL STATEMENTS**

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

**FOR THE YEAR ENDED DECEMBER 31, 2018  
WITH SUMMARIZED FINANCIAL  
INFORMATION FOR 2017**

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

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**CPAs & ADVISORS**

## **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, 2018, and the related statements of activities and change in net assets, functional expenses 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, 2018, 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.

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**MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF CROWE GLOBAL  
MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION**

### **Report on Summarized Comparative Information**

We have previously audited Fairtrade America's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Friedman".

October 22, 2019

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

**STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2018**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

**ASSETS**

	<u>2018</u>	<u>2017</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 625,673	\$ 902,821
Accounts receivable	2,103,157	940,703
Prepaid expenses	<u>33,142</u>	<u>56,057</u>
Total current assets	<u>2,761,972</u>	<u>1,899,581</u>
<b>FIXED ASSETS</b>		
Furniture	59,397	59,397
Computers and equipment	<u>37,376</u>	<u>35,119</u>
	96,773	94,516
Less: Accumulated depreciation and amortization	<u>(47,009)</u>	<u>(32,085)</u>
Net fixed assets	<u>49,764</u>	<u>62,431</u>
<b>OTHER ASSETS</b>		
Other assets	75	75
Deposits	<u>23,104</u>	<u>23,104</u>
Total other assets	<u>23,179</u>	<u>23,179</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 2,834,915</u></b>	<b><u>\$ 1,985,191</u></b>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Current portion of capital lease	\$ 1,910	\$ 1,910
Accounts payable and accrued liabilities	1,277,161	623,050
Current portion of deferred rent	<u>12,075</u>	<u>8,095</u>
Total current liabilities	<u>1,291,146</u>	<u>633,055</u>
<b>LONG-TERM LIABILITIES</b>		
Capital lease payable, net of current portion	2,540	4,508
Deferred rent, net of current portion	<u>32,839</u>	<u>44,914</u>
Total long-term liabilities	<u>35,379</u>	<u>49,422</u>
Total liabilities	<u>1,326,525</u>	<u>682,477</u>
<b>NET ASSETS</b>		
Without restrictions	<u>1,508,390</u>	<u>1,302,714</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 2,834,915</u></b>	<b><u>\$ 1,985,191</u></b>

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

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

	<b>Without Restrictions</b>	
	<b>2018</b>	<b>2017</b>
<b>REVENUE</b>		
License fees	\$ 3,038,833	\$ 2,742,061
Administrative fees	148,596	156,179
Contributions	-	71,935
Other revenue	12,008	51,610
Interest income	<u>1,351</u>	<u>762</u>
Total revenue	<u>3,200,788</u>	<u>3,022,547</u>
<b>EXPENSES</b>		
Program Services	<u>2,512,750</u>	<u>2,637,785</u>
Supporting Services:		
Management and General	<u>482,362</u>	<u>444,073</u>
Total expenses	<u>2,995,112</u>	<u>3,081,858</u>
Change in net assets	205,676	(59,311)
Net assets at beginning of year	<u>1,302,714</u>	<u>1,362,025</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 1,508,390</u></b>	<b><u>\$ 1,302,714</u></b>

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

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2018  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

	2018						2017		
	Program Services					Supporting Services			
	Governance	Education and Awareness	Licensee Development and Support	Market Development	Producer Support	Total Program Services	Management and General	Total Expenses	Total Expenses
Awareness costs	\$ -	\$ 16,631	\$ -	\$ 91,176	\$ -	\$ 107,807	\$ 8,202	\$ 116,009	\$ 41,611
Bad debt expense/recovery	-	-	-	-	-	-	2,346	2,346	3,974
Bank charges	-	-	-	-	-	-	7,128	7,128	4,611
Board expenses	37,885	-	-	-	1,573	39,458	-	39,458	41,615
Consulting fees	-	-	-	62,621	5,000	67,621	43,073	110,694	331,186
Courier and postage	-	823	34	79	-	936	184	1,120	4,444
Depreciation	-	-	-	-	-	-	17,092	17,092	18,148
Donations	-	-	-	-	4,000	4,000	-	4,000	6,500
Events	-	6,173	36	47,509	-	53,718	-	53,718	61,760
Fees for service	-	-	-	-	947,388	947,388	-	947,388	851,822
Insurance	340	3,062	2,552	7,656	-	13,610	3,403	17,013	16,529
Legal fees	-	-	-	-	-	-	1,249	1,249	6,434
Loss of foreign exchange	-	-	-	-	-	-	5,324	5,324	(4,721)
Membership and subscriptions	-	927	-	7,205	-	8,132	6,529	14,661	21,633
Miscellaneous	-	514	-	24	-	538	972	1,510	810
Office supplies and expenses	269	2,448	2,019	28,056	-	32,792	15,236	48,028	30,968
Printing and stationary	-	-	-	655	-	655	332	987	3,891
Professional fees	-	-	-	-	-	-	20,048	20,048	22,282
Rent	2,842	25,573	21,310	63,931	-	113,656	28,414	142,070	141,670
Salaries and benefits	25,965	233,694	194,745	584,234	-	1,038,638	274,405	1,313,043	1,284,096
Sponsorships	-	3,500	-	6,700	-	10,200	-	10,200	8,889
Technology expenses	-	-	-	3,672	-	3,672	8,081	11,753	27,669
Telephone and internet	240	2,163	1,802	5,407	-	9,612	2,403	12,015	11,275
Training and development	-	-	-	-	-	-	8,320	8,320	8,999
Travel and entertainment	2,519	1,946	3,999	47,959	-	56,423	29,621	86,044	121,747
Website and domain hosting	-	3,444	-	450	-	3,894	-	3,894	14,015
<b>TOTAL</b>	<b>\$ 70,060</b>	<b>\$ 300,898</b>	<b>\$ 226,497</b>	<b>\$ 957,334</b>	<b>\$ 957,961</b>	<b>\$ 2,512,750</b>	<b>\$ 482,362</b>	<b>\$ 2,995,112</b>	<b>\$ 3,081,858</b>

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, 2018**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 205,676	\$ (59,311)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	17,092	18,148
Loss on disposal of fixed assets	1,089	-
(Increase) decrease in:		
Accounts receivable	(1,162,454)	(179,000)
Prepaid expenses	22,915	(7,506)
Increase (decrease) in:		
Accounts payable and accrued liabilities	654,111	200,614
Deferred rent	<u>(8,095)</u>	<u>19,518</u>
Net cash used by operating activities	<u>(269,666)</u>	<u>(7,537)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of fixed assets	<u>(5,514)</u>	<u>(5,115)</u>
Net cash used by investing activities	<u>(5,514)</u>	<u>(5,115)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on capital lease obligation	<u>(1,968)</u>	<u>(1,898)</u>
Net cash used by financing activities	<u>(1,968)</u>	<u>(1,898)</u>
Net decrease in cash and cash equivalents	(277,148)	(14,550)
Cash and cash equivalents at beginning of year	<u>902,821</u>	<u>917,371</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 625,673</u></b>	<b><u>\$ 902,821</u></b>
<b>SUPPLEMENTAL INFORMATION:</b>		
Interest Paid	<b><u>\$ 27</u></b>	<b><u>\$ 50</u></b>



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

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**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 improve the livelihoods of smallholder farmers and workers by growing fair trading practices in the U.S. market. Fairtrade America works for the livelihoods of producers, their families and their communities and primarily intervenes via market-facilitation in support of Fairtrade International's Theory of Change. Fairtrade America seeks a better balance of the terms and conditions of trade to improve the livelihoods of farmers, workers and their families as well as increase their voice. When Fairtrade America needs to make a difficult decision, Fairtrade America will first consider what would most benefit producer interests. Fairtrade America is an associate member of the global organization, Fairtrade International ("FTI"). They are a member of FTI, however the governance of each organization is done separately.

**Basis of presentation -**

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The ASU was adopted during the year ended December 31, 2018 and applied retrospectively.

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, 2017, 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.

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

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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

Fixed assets (continued) -

Depreciation and amortization expense for the year ended December 31, 2018 totaled \$17,092.

Income taxes -

Fairtrade America is classified as a private operating foundation. As such, it is subject to a Federal excise tax based on net investment income and unrelated business income. For the current year, Fairtrade America did not have any net investment income.

Uncertain tax positions -

For the year ended December 31, 2018, 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 -

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board designated and are also reported as net assets without donor restrictions.
- **Net Assets With Donor Restrictions** - Contributions restricted by donors (or certain grantors) are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in "net assets with donor restrictions", depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities and Change in Net Assets as net assets released from donor restrictions.

License fees -

Fairtrade America's 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 are 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.

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

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

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

**Contributions and grants -**

Contributions and grants are recorded as revenue in the year notification is received from the donor. Contributions and grants with donor restrictions are recognized as without donor restrictions 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 net assets with donor restrictions 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.

**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. Expenses directly attributed to a specific functional area of Fairtrade America are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of estimated time and effort or other reasonable basis.

**New accounting pronouncements not yet adopted -**

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.

In June 2018, FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP.

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

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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

New accounting pronouncements not yet adopted (continued) -

The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. Fairtrade America has not yet decided on a transition method. The ASU is effective for years beginning after December 15, 2018.

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 ASUs at the required implementation dates.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. The reclassifications are primarily due to the adoption of ASU 2016-14, as discussed above, which requires two classifications of net assets from the previously presented three classes. Net assets previously classified as of December 31, 2017 as unrestricted net assets in the amount of \$1,302,714 are now classified as "net assets without donor restrictions".

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, 2018, the cost and related accumulated amortization of the leased asset were \$9,574 and \$4,947, respectively. Amortization of assets held under capital leases is included with depreciation expense.

Future minimum lease payments at December 31, 2018, are as follows:

**Year Ending December 31,**

2019	\$ 1,892
2020	1,774
2021	<u>811</u>
	4,477
Less: Interest	<u>(27)</u>
	4,450
Less: Current portion	<u>(1,910)</u>
<b>LONG-TERM PORTION</b>	<b><u>\$ 2,540</u></b>

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

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**3. LEASE COMMITMENTS**

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 lease agreement are as follows:

**Year Ending December 31,**

2019	\$ 148,701
2020	152,790
2021	<u>130,532</u>
	<b><u>\$ 432,023</u></b>

Rent expense for the year ended December 31, 2018 was \$142,070.

**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.

**5. CONCENTRATION OF REVENUE**

Approximately 32% of Fairtrade America's revenue for the year ended December 31, 2018, 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. LIQUIDITY AND AVAILABILITY**

Financial assets available for use for general expenditures within one year of the Statement of Financial Position date comprise the following:

Cash and cash equivalents	\$ 625,673
Accounts receivable	<u>2,103,157</u>

<b>FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR</b>	<b><u>\$ 2,728,830</u></b>
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**FAIRTRADE INTERNATIONAL USA, INC. D/B/A FAIRTRADE AMERICA**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**6. LIQUIDITY AND AVAILABILITY (Continued)**

Fairtrade America has a policy to structure its financial assets to be available and liquid as its obligations become due. As of December 31, 2018, Fairtrade America has financial assets equal to approximately eleven months of operating expenses.

**7. RELATED PARTY**

Fairtrade America is a full member of the Fairtrade International System, and incurred membership fees of \$826,281. Additional fees for system wide projects were also incurred for a total amount of \$107,261. Fairtrade America was also subject to fees for FLO-Cert services in the amount of \$13,845; this total is based on Fairtrade America's headcount.

**8. SUBSEQUENT EVENTS**

In preparing these financial statements, Fairtrade America has evaluated events and transactions for potential recognition or disclosure through October 22, 2019, the date the financial statements were issued.