

FINANCIAL STATEMENTS

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

**FOR THE YEAR ENDED DECEMBER 31, 2019
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2018**

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, 2019, 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, 2019, 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 THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

Report on Summarized Comparative Information

We have previously audited Fairtrade America's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 22, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, 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".

November 30, 2020

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

STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018

ASSETS

	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 817,499	\$ 625,673
Accounts receivable	2,379,645	2,103,157
Prepaid expenses	<u>26,407</u>	<u>33,142</u>
Total current assets	<u>3,223,551</u>	<u>2,761,972</u>
FIXED ASSETS		
Furniture	59,397	59,397
Computers and equipment	<u>38,005</u>	<u>37,376</u>
	97,402	96,773
Less: Accumulated depreciation and amortization	<u>(60,543)</u>	<u>(47,009)</u>
Net fixed assets	<u>36,859</u>	<u>49,764</u>
OTHER ASSETS		
Other assets	75	75
Deposits	<u>23,104</u>	<u>23,104</u>
Total other assets	<u>23,179</u>	<u>23,179</u>
TOTAL ASSETS	<u>\$ 3,283,589</u>	<u>\$ 2,834,915</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Current portion of capital lease	\$ 1,936	\$ 1,910
Accounts payable and accrued liabilities	1,388,431	1,277,161
Current portion of deferred rent	<u>16,164</u>	<u>12,075</u>
Total current liabilities	<u>1,406,531</u>	<u>1,291,146</u>
LONG-TERM LIABILITIES		
Capital lease payable, net of current portion	648	2,540
Deferred rent, net of current portion	<u>16,676</u>	<u>32,839</u>
Total long-term liabilities	<u>17,324</u>	<u>35,379</u>
Total liabilities	<u>1,423,855</u>	<u>1,326,525</u>
NET ASSETS		
Without restrictions	<u>1,859,734</u>	<u>1,508,390</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,283,589</u>	<u>\$ 2,834,915</u>

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

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018

	Without Restrictions	
	2019	2018
REVENUE		
License fees	\$ 3,465,409	\$ 3,038,833
Administrative fees	160,884	148,596
Contributions	201	-
Other revenue	1,596	12,008
Interest income	<u>1,544</u>	<u>1,351</u>
Total revenue	<u>3,629,634</u>	<u>3,200,788</u>
EXPENSES		
Program Services	<u>2,762,576</u>	<u>2,512,750</u>
Supporting Services:		
Management and General	<u>515,714</u>	<u>482,362</u>
Total expenses	<u>3,278,290</u>	<u>2,995,112</u>
Change in net assets	351,344	205,676
Net assets at beginning of year	<u>1,508,390</u>	<u>1,302,714</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,859,734</u>	<u>\$ 1,508,390</u>

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

**STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

	2019						2018		
	Program Services					Supporting Services			
	Education and Awareness	Governance	Licensee Development and Support	Market Development	Producer Support	Total Program Services	Management and General	Total Expenses	Total Expenses
Salaries and benefits	\$ 172,520	\$ 30,871	\$ 137,443	\$ 576,950	\$ -	\$ 917,784	\$ 257,736	\$ 1,175,520	\$ 1,313,043
Consulting fees	23,190	14,000	4,537	156,087	-	197,814	72,202	270,016	110,694
Awareness costs	1,390	-	4,261	73,077	-	78,728	-	78,728	116,009
Bad debt expense/recovery	-	-	-	-	-	-	1,500	1,500	2,346
Bank charges	-	-	-	-	-	-	9,467	9,467	7,128
Board expenses	-	59,830	-	590	-	60,420	-	60,420	39,458
Courier and postage	1,694	-	509	768	-	2,971	101	3,072	1,120
Depreciation and amortization	-	-	-	-	-	-	14,850	14,850	17,092
Donations	1,000	-	-	-	1,000	2,000	3,250	5,250	4,000
Events	3,555	-	75	30,611	-	34,241	-	34,241	53,718
Fees for service	-	-	-	-	1,171,658	1,171,658	-	1,171,658	947,388
Insurance	2,594	464	2,067	8,676	-	13,801	3,878	17,679	17,013
Legal fees	-	-	-	-	-	-	1,360	1,360	1,249
Loss on foreign exchange	-	-	-	-	-	-	10,895	10,895	5,324
Membership and subscriptions	2,650	-	-	16,934	-	19,584	3,873	23,457	14,661
Miscellaneous expenses	17	-	192	13	10	232	42	274	1,510
Office supplies & expenses	1,291	229	1,018	4,272	-	6,810	1,910	8,720	48,028
Printing and stationary	157	-	790	10,522	-	11,469	284	11,753	987
Professional fees	-	-	-	-	-	-	25,254	25,254	20,048
Recruiting and advertising	-	-	-	-	-	-	1,950	1,950	-
Rent	17,250	3,799	16,914	71,000	-	108,963	31,735	140,698	142,070
Sponsorships	-	-	-	4,000	-	4,000	2,175	6,175	10,200
Taxes	-	-	-	-	-	-	1,975	1,975	-
Technology expenses	1,186	-	180	14,834	-	16,200	45,395	61,595	11,753
Telephone and internet	1,972	353	1,571	6,595	-	10,491	2,948	13,439	12,015
Training and development	2,980	-	-	-	-	2,980	10,435	13,415	8,320
Travel and entertainment	3,202	7,228	13,759	74,871	362	99,422	12,499	111,921	86,044
Website and domain hosting	3,008	-	-	-	-	3,008	-	3,008	3,894
TOTAL	\$ 239,656	\$ 116,774	\$ 183,316	\$ 1,049,800	\$ 1,173,030	\$ 2,762,576	\$ 515,714	\$ 3,278,290	\$ 2,995,112

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, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 351,344	\$ 205,676
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	14,850	17,092
Loss on disposal of fixed assets	-	1,089
(Increase) decrease in:		
Accounts receivable	(276,488)	(1,162,454)
Prepaid expenses	6,735	22,915
Increase (decrease) in:		
Accounts payable and accrued liabilities	111,270	654,111
Deferred rent	<u>(12,074)</u>	<u>(8,095)</u>
Net cash provided (used) by operating activities	<u>195,637</u>	<u>(269,666)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	<u>(1,945)</u>	<u>(5,514)</u>
Net cash used by investing activities	<u>(1,945)</u>	<u>(5,514)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligation	<u>(1,866)</u>	<u>(1,968)</u>
Net cash used by financing activities	<u>(1,866)</u>	<u>(1,968)</u>
Net increase (decrease) in cash and cash equivalents	191,826	(277,148)
Cash and cash equivalents at beginning of year	<u>625,673</u>	<u>902,821</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 817,499</u>	<u>\$ 625,673</u>
SUPPLEMENTAL INFORMATION:		
Interest Paid	\$ <u>27</u>	\$ <u>27</u>
Taxes Paid	\$ <u>1,975</u>	\$ <u>-</u>

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

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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 Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor 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 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.

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, 2018, from which the summarized information was derived.

New accounting pronouncement adopted -

During 2019, Fairtrade America adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made.

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

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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

New accounting pronouncement adopted (continued) -

Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions, and improved guidance to better distinguish between conditional and unconditional contributions. Fairtrade America adopted the ASU using a modified prospective basis.

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, 2019 totaled \$14,850.

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, 2019, 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.

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, 2019**

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

Contributions -

Contributions are recognized in the appropriate category of net assets in the period received. Fairtrade America performs an analysis of the individual contribution or grant to determine if the revenue streams follow the contribution rules or if they should be recorded as an exchange transaction depending upon whether the transactions are deemed reciprocal or nonreciprocal

For contributions and grants and contracts qualifying under the contribution rules, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions and grants and contracts qualifying as contributions that are unconditional that have 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 -

FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended. The ASU provides a framework for recognizing revenue and is intended to improve comparability of revenue recognition practices across for-profit and non-profit entities. During 2020, the FASB delayed the implementation date under ASU 2020-05 for an additional year. Organizations may elect to adopt the guidance for annual reporting periods beginning after December 15, 2019 and for interim periods within annual reporting periods beginning after December 15, 2020. Early adoption is still permitted.

FASB issued ASU 2019-01, *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. During 2020, the FASB issued ASU 2020-05 and delayed the implementation date by one year. The ASU is effective for non public entities beginning after December 15, 2021. Early adoption is still permitted. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach or applied at the beginning of the period of adoption recognizing a cumulative-effect adjustment.

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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

New accounting pronouncements not yet adopted (continued) -

Fairtrade America plans to adopt the new ASUs at the required implementation dates and management is currently in the process of evaluating the adoption method and the impact of the new standard on its accompanying financial statements.

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, 2019, the cost and related accumulated amortization of the leased asset were \$9,574 and \$6,862, respectively. Amortization of assets held under capital leases is included with depreciation expense.

Future minimum lease payments at December 31, 2019, are as follows:

Year Ending December 31,

2020	\$ 1,948
2021	<u>811</u>
	2,759
Less: Interest	<u>(175)</u>
	2,584
Less: Current portion	<u>(1,936)</u>
LONG-TERM PORTION	<u>\$ 648</u>

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,

2020	\$ 152,790
2021	<u>130,532</u>
	<u>\$ 283,322</u>

Rent expense for the year ended December 31, 2019 was \$140,698. Deferred rent for the year ended December 31, 2019 was \$32,840.

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

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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 30% of Fairtrade America's revenue for the year ended December 31, 2019, 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	\$ 817,499
Accounts receivable	<u>2,379,645</u>

FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	\$ <u>3,197,144</u>
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Fairtrade America has a policy to structure its financial assets to be available and liquid as its obligations become due. As of December 31, 2019, Fairtrade America has financial assets equal to approximately twelve months of operating expenses.

7. RELATED PARTY

Fairtrade America is a full member of the Fairtrade International System, and incurred membership of \$826,281 and system wide fees of \$1,150,423. Fees for system wide projects were also incurred for a total amount of \$107,261. Additional fees were also incurred for a total amount of \$3,975 and paid to Fairtrade Belgium. Fairtrade America was also subject to fees for FLO-Cert services in the amount of \$17,260; \$13,203 is stakeholder fee and based on Fairtrade America's headcount and \$4,057 is for FairLens Service which is a business intelligence system for the Fairtrade system.

8. SUBSEQUENT EVENTS

In preparing these financial statements, Fairtrade America has evaluated events and transactions for potential recognition or disclosure through November 30, 2020, the date the financial statements were issued.

On March 11, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen which may negatively impact Fairtrade America's operations. The overall potential impact is unknown at this time.