

Fair Trade USA and Good World Solutions

Consolidated Financial Statements

December 31, 2016 and 2015



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fair Trade USA and Good World Solutions
Oakland, California

We have audited the accompanying consolidated financial statements of Fair Trade USA and Good World Solutions (both nonprofit corporations) (collectively, the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the years 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (the "U.S."); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fair Trade USA and Good World Solutions as of December 31, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the U.S.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Francisco, California

June 7, 2017

Fair Trade USA and Good World Solutions
Consolidated Statements of Financial Position
December 31, 2016 and 2015

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 8,886,094	\$ 11,000,634
Other assets	300,000	300,000
Service fees receivable, net	3,704,351	3,197,691
Grants receivable, current	3,550,013	1,190,888
Other receivables	177,310	73,648
Prepaid expenses	<u>166,242</u>	<u>126,301</u>
Total current assets	<u>16,784,010</u>	<u>15,889,162</u>
Non-current assets		
Property and equipment, net	193,153	105,259
Deposits	50,450	50,450
Grants receivable, long term	<u>392,240</u>	<u>830,127</u>
Total non-current assets	<u>635,843</u>	<u>985,836</u>
 Total assets	 <u>\$ 17,419,853</u>	 <u>\$ 16,874,998</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 359,970	\$ 277,967
Accrued liabilities	1,040,129	871,950
Deferred revenue	3,808,576	5,344,276
Notes payable, current portion	688,178	752,959
Accrued lease incentive	<u>71,098</u>	<u>51,954</u>
Total current liabilities	<u>5,967,951</u>	<u>7,299,106</u>
Long-term liabilities		
Notes payable, net of current portion	1,097,825	1,783,287
Deferred revenue, long term	1,008,907	2,172,001
Accrued lease incentive, long term	<u>201,942</u>	<u>273,039</u>
Total long-term liabilities	<u>2,308,674</u>	<u>4,228,327</u>
Total liabilities	<u>8,276,625</u>	<u>11,527,433</u>
Net assets		
Unrestricted	7,243,058	3,188,847
Temporarily restricted	<u>1,900,170</u>	<u>2,158,718</u>
Total net assets	<u>9,143,228</u>	<u>5,347,565</u>
 Total liabilities and net assets	 <u>\$ 17,419,853</u>	 <u>\$ 16,874,998</u>

The accompanying notes are an integral part of these consolidated financial statements.

Fair Trade USA and Good World Solutions
Consolidated Statement of Activities
For the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support			
Service fees, net	\$ 11,379,918	\$ -	\$ 11,379,918
Grants and contributions	5,919,288	1,079,246	6,998,534
In-kind donations	1,165,681	-	1,165,681
Consulting and contracting fees	727,500	-	727,500
Net assets released from restriction	<u>1,337,794</u>	<u>(1,337,794)</u>	<u>-</u>
Total revenue and support	<u>20,530,181</u>	<u>(258,548)</u>	<u>20,271,633</u>
Functional expenses			
Program	<u>13,713,550</u>	<u>-</u>	<u>13,713,550</u>
Support services			
Management and general	1,701,757	-	1,701,757
Fundraising	<u>1,024,808</u>	<u>-</u>	<u>1,024,808</u>
Total support services	<u>2,726,565</u>	<u>-</u>	<u>2,726,565</u>
Total functional expenses	<u>16,440,115</u>	<u>-</u>	<u>16,440,115</u>
Change in net assets from operations	<u>4,090,066</u>	<u>(258,548)</u>	<u>3,831,518</u>
Other changes in net assets			
Interest income	2,214	-	2,214
Foreign currency translation	<u>(38,069)</u>	<u>-</u>	<u>(38,069)</u>
Total other changes in net assets	<u>(35,855)</u>	<u>-</u>	<u>(35,855)</u>
Change in net assets	4,054,211	(258,548)	3,795,663
Net assets, beginning of year	<u>3,188,847</u>	<u>2,158,718</u>	<u>5,347,565</u>
Net assets, end of year	<u>\$ 7,243,058</u>	<u>\$ 1,900,170</u>	<u>\$ 9,143,228</u>

The accompanying notes are an integral part of these consolidated financial statements.

Fair Trade USA and Good World Solutions
Consolidated Statement of Activities
For the Year Ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support			
Service fees, net	\$ 10,010,665	\$ -	\$ 10,010,665
Grants and contributions	2,764,265	1,442,632	4,206,897
In-kind donations	896,474	-	896,474
Consulting and contracting fees	943,099	-	943,099
Net assets released from restriction	<u>1,281,616</u>	<u>(1,281,616)</u>	<u>-</u>
Total revenue and support	<u>15,896,119</u>	<u>161,016</u>	<u>16,057,135</u>
Functional expenses			
Program	<u>11,236,051</u>	<u>-</u>	<u>11,236,051</u>
Support services			
Management and general	1,384,252	-	1,384,252
Fundraising	<u>1,117,055</u>	<u>-</u>	<u>1,117,055</u>
Total support services	<u>2,501,307</u>	<u>-</u>	<u>2,501,307</u>
Total functional expenses	<u>13,737,358</u>	<u>-</u>	<u>13,737,358</u>
Change in net assets from operations	<u>2,158,761</u>	<u>161,016</u>	<u>2,319,777</u>
Other changes in net assets			
Interest income	1,498	-	1,498
Realized and unrealized loss on investments	(31,248)	-	(31,248)
Foreign currency translation	<u>(42,526)</u>	<u>-</u>	<u>(42,526)</u>
Total other changes in net assets	<u>(72,276)</u>	<u>-</u>	<u>(72,276)</u>
Change in net assets	2,086,485	161,016	2,247,501
Net assets, beginning of year	<u>1,102,362</u>	<u>1,997,702</u>	<u>3,100,064</u>
Net assets, end of year	<u>\$ 3,188,847</u>	<u>\$ 2,158,718</u>	<u>\$ 5,347,565</u>

The accompanying notes are an integral part of these consolidated financial statements.

Fair Trade USA and Good World Solutions
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2016

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Expenses				
Personnel	\$ 7,037,097	\$ 945,522	\$ 623,517	\$ 8,606,136
Professional fees	3,009,059	217,777	191,536	3,418,372
Facility	495,862	84,435	49,369	629,666
Travel	780,829	25,556	34,185	840,570
Promotional activities and materials	717,920	2,792	35,285	755,997
Computer, telecom, and equipment	952,142	223,035	42,912	1,218,089
Conferences, conventions, and trade shows	225,246	1,015	11,618	237,879
Third-party	206,046	147	209	206,402
Other	164,748	186,018	26,865	377,631
Loan interest	97,630	12,114	7,296	117,040
Depreciation and amortization	<u>26,971</u>	<u>3,346</u>	<u>2,016</u>	<u>32,333</u>
	<u>\$ 13,713,550</u>	<u>\$ 1,701,757</u>	<u>\$ 1,024,808</u>	<u>\$ 16,440,115</u>

The accompanying notes are an integral part of these consolidated financial statements.

Fair Trade USA and Good World Solutions
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2015

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Expenses				
Personnel	\$ 5,660,129	\$ 901,094	\$ 786,832	\$ 7,348,055
Professional fees	2,450,217	138,657	81,541	2,670,415
Facility	510,120	78,010	60,566	648,696
Travel	616,368	15,354	53,653	685,375
Promotional activities and materials	744,935	144	16,810	761,889
Computer, telecom, and equipment	677,021	140,924	45,629	863,574
Conferences, conventions, and trade shows	143,436	-	10,368	153,804
Third-party	130,888	1,167	8,448	140,503
Other	154,725	89,379	37,665	281,769
Loan interest	114,877	15,133	12,048	142,058
Depreciation and amortization	<u>33,335</u>	<u>4,390</u>	<u>3,495</u>	<u>41,220</u>
	<u>\$ 11,236,051</u>	<u>\$ 1,384,252</u>	<u>\$ 1,117,055</u>	<u>\$ 13,737,358</u>

The accompanying notes are an integral part of these consolidated financial statements.

Fair Trade USA and Good World Solutions
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ 3,795,663	\$ 2,247,501
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	32,333	41,220
Changes in operating assets and liabilities		
Service fees receivable	(506,660)	(545,949)
Grants receivable	(1,921,238)	(819,912)
Other receivables	(103,662)	(49,908)
Prepaid expenses	(39,941)	(35,631)
Accounts payable	82,003	128,082
Accrued liabilities	168,179	338,801
Deferred revenue	(2,698,794)	4,405,286
Accrued lease incentive	(51,953)	(51,954)
Net cash provided by (used in) operating activities	(1,244,070)	5,657,536
Cash flows from investing activities		
Purchases of property and equipment	(120,227)	(7,445)
Net cash used in investing activities	(120,227)	(7,445)
Cash flows from financing activities		
Principal payments on notes payable	(750,243)	(313,754)
Net cash used in financing activities	(750,243)	(313,754)
Net increase (decrease) in cash and cash equivalents	(2,114,540)	5,336,337
Cash and cash equivalents, beginning of year	11,000,634	5,664,297
Cash and cash equivalents, end of year	\$ 8,886,094	\$ 11,000,634
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 113,605	\$ 141,706

The accompanying notes are an integral part of these consolidated financial statements.

Fair Trade USA and Good World Solutions
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

1. NATURE OF OPERATIONS

On October 1, 2010, Transfair USA began doing business as Fair Trade USA. Fair Trade USA was incorporated in Minnesota in April 1996. During 2011, Fair Trade USA became the sole member of Good World Solutions, Inc. (GWS) a California non-profit public benefit organization. Fair Trade USA and Good World Solutions' (the "Organization") principal place of business is in Oakland, California.

The Organization enables sustainable development and community empowerment by cultivating a more equitable global trade model that benefits farmers, workers, consumers, industry, and the earth. The Organization achieves its mission by certifying and promoting Fair Trade products.

In addition to promoting successful empowering relationships between farmers and businesses, the Organization educates American consumers about Fair Trade and economic development. The Organization also verifies that farmers and farm workers who produce Fair Trade Certified™ ("FTC") products are paid a fair price for their products, receive a social premium, and adhere to the Fair Trade environmental, labor, and governance standards. The Organization communicates on a regular basis with producers in developing countries and provides support for producers entering the system and those working to stay in the system. The Organization has service agreements with more than 800 participating companies (manufacturers, retailers and importers) in the United States and around the world to offer FTC products that have met the Fair Trade criteria, providing these companies permission to use the FTC label on product packaging.

Ultimately, the Organization envisions a day when Fair Trade products are readily available in mainstream stores across the country, when U.S. consumers can opt for a "Fair Trade Lifestyle" and shop responsibly in every product category. FTC products under the Organization's service agreements include coffee, tea, sugar, cocoa, coconut, fresh fruit, seafood, flowers, apparel, home goods, and consumer packaged goods in which Fair Trade ingredients are used.

Good World Solutions mission is to use data to create safe and respectful workplaces. Its mobile solution, Laborlink, leverages the rapid spread of mobile phones to establish an anonymous two-way communication channel for workers to report on real factory conditions, and for companies to receive unfiltered data directly from workers. By translating worker voices into actionable analytics, Laborlink enables companies and factories to make data-driven decisions that measurably improve worker well-being. Since 2010, Laborlink has reached more than 700,000 workers in the supply chains of major apparel and electronics companies in 16 countries.

The Organization's major sources of revenue are service fees, foundation and corporate grants and contributions. The Organization holds exclusive rights to engage in service agreements to allow for the use of the "Fair Trade Certified™" trademark in the United States of America and select foreign countries. Service fees are received from participating companies (roasters for coffee, and importers and retailers for other products) and are based on the amount of Fair Trade products either purchased and/or sold per the service agreements. Service fees paid to Good World Solutions are based on the scope of services and data analytics provided to business partners and factories.

Fair Trade USA and Good World Solutions
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

1. NATURE OF OPERATIONS (continued)

Foundation and corporate grants fund the expansion of existing services and tools into new regions and industries, as well as to pilot new technological innovations to further its mission to bring the voice of the worker into improving worker well-being.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The Organization classifies its net assets and activities into one of three categories:

- *Unrestricted net assets* - Those net assets and activities which represent the portion of expendable funds available to support operations that are not subject to donor imposed stipulations. A portion of these net assets may be designated by the Board of Directors for specific purposes. There were no designated net assets at December 31, 2016 and 2015.
- *Temporarily restricted net assets* - Those net assets and activities which are donor-restricted for: (a) support of specific operating activities; (b) investment for a specified term; (c) use in a specified future period; or (d) acquisition of long-lived assets. A donor-imposed restriction may expire with time or may be satisfied by the actions of the Organization. Expiration of restrictions are recognized in the periods in which the restrictions expire. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Temporarily restricted contributions whose restrictions are satisfied in the same reporting period are reported as unrestricted contributions.
- *Permanently restricted net assets* - Those contributions which are to be held in perpetuity as directed by the donor. The income from these contributions is available to support activities of the Organization as designated by the donor. There were no permanently restricted net assets at December 31, 2016 and 2015.

Basis of consolidation

The accompanying consolidated financial statements present the consolidated financial position and changes in net assets and cash flows of the Organization. All intra-organizational accounts and transactions have been eliminated in consolidation.

Cash and cash equivalents

The Organization places its cash and cash equivalents with high credit quality institutions. Cash and cash equivalents include highly liquid investments which are readily convertible to known amounts of cash that present insignificant risk of changes in value because of changes in interest rates. The Organization maintains its cash in bank deposit accounts which, at times, may be in excess of federally insured limits. Management believes it is not exposed to any significant risks on cash accounts.

Fair Trade USA and Good World Solutions
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Service fees receivable

Service fees are generally billed quarterly or semi-annually based on either purchases and/or sales of FTC products reported by licensees, or based on the scope of the services being provided by GWS. The Organization has established an allowance for uncollectible service fees based on historical experience. The allowance for uncollectible service fees at December 31, 2016 and 2015 was \$49,850 and \$30,080, respectively. Uncollectible service fees receivable are written off when all collection efforts have been exhausted.

Contributed goods and services

Contributed services are recognized if they create or enhance non-financial assets or require specialized skills, which are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donations. During the years ended December 31, 2016 and 2015, the Organization received contributed professional services valued at \$278,698 and \$64,925 and software licenses and advertising valued at \$886,983 and \$831,549, respectively.

Property and equipment

Property and equipment, if purchased, are recorded at cost or, if donated, at the estimated fair value at the time of receipt. Software development costs (internal and external) incurred during the application development stage for new software and software enhancements are capitalized and depreciated, if the software's expected economic useful life is greater than one year. Property and equipment are depreciated over the estimated useful lives of three to eight years on the straight-line basis. Leasehold improvements are amortized using the straight-line method over the lesser of the useful lives of the assets or the term of the respective lease. The Organization capitalizes all expenditures for property and equipment with a cost basis of greater than \$2,000 and which have a useful life in excess of one year.

Revenue recognition

The Organization records service fee revenue in the period in which participating companies either purchase and/or sell FTC products, or the period over which GWS services are delivered, as defined in the applicable service agreement. Service fee revenue is shown net of discounts provided to companies.

The Organization recognizes grant and donor contributions upon the earlier of receipt or when an agreement has been executed. Contributions received without donor-imposed restrictions are reported as increases in unrestricted support. Contributions received with donor-imposed restrictions which are received and spent in the same year are reported as an increase in unrestricted support. Contributions received with donor-imposed restrictions that are not satisfied in the same year as received are reported as increases in either temporarily restricted or permanently restricted support, depending on the type of restriction. Conditional promise to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

Fair Trade USA and Good World Solutions
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Donated goods and services are recorded as contributions at their estimated fair value on the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the use of the asset for a specific purpose for which the asset is reported as an increase in restricted support.

Deferred revenue

Service revenue and other support that is received, but not yet earned, is recorded as deferred revenue.

Functional expenses

The costs of providing the program services and supporting activities of the Organization are shown in the statements of functional expenses. Expenses that can be directly identified with a specific function are allocated directly to that function. Expenses that cannot be directly identified with a specific function are allocated among the program services and the supporting activities benefited based on allocation methods and estimates made by the Organization's management.

Income tax status

The Organization is a qualified organization exempt from federal, Minnesota and California income taxes under the provisions of Sections 501(c)(3) of the Internal Revenue Code, Chapter 317A of the Minnesota Statutes and 23701d of the California Revenue and Taxation Code. Accordingly, no provision for federal, Minnesota or California income tax is reflected in the accompanying financial statements.

The Organization recognizes the effects of its income tax positions only if those positions are more likely than not of being sustained. The Organization has evaluated its tax positions and has concluded as of December 31, 2016 and 2015, that the Organization does not have any significant uncertain tax positions for which a reserve would be necessary.

Use of estimates

The preparation 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 the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Trade USA and Good World Solutions
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

3. OTHER ASSETS

As part of the debt agreement with RSF Social Investment Fund (the "Fund") (see Note 7), the Organization was required to open an investment in the Fund in a minimum amount of \$300,000. As of December 31, 2016 and 2015, \$300,000 was held in the Fund with a three-month renewable term. RSF Social Investment Fund is an innovative non-profit social finance organization that uses invested funds to make loans to mission-aligned enterprises that create deep social impact. Upon maturity this investment is expected to renew for an additional three-month term unless the Fund receives a request from the Organization for repayment before the maturity date. The Fund will pay interest on the investment at the published Fund rate in effect for the quarter in which the Fund accepts the investment. The interest rate will be reset as of the first day of each calendar quarter. The Organization carries this investment at cost.

4. GRANTS RECEIVABLE

Combined short-term and long-term grants receivable at December 31, 2016 are as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
General support	\$ 3,075,000	\$ -	\$ 3,075,000
Labor Link Technology reporting tool	-	687,253	687,253
R&D/Innovation in Asia	-	180,000	180,000
	<u>\$ 3,075,000</u>	<u>\$ 867,253</u>	<u>\$ 3,942,253</u>

Combined short-term and long-term grants receivable at December 31, 2015 are as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
General support	\$ 350,000	\$ -	\$ 350,000
Impact assessment of Capture Fisheries	-	224,599	224,599
Labor Link Technology reporting tool	-	1,446,416	1,446,416
	<u>\$ 350,000</u>	<u>\$ 1,671,015</u>	<u>\$ 2,021,015</u>

Grants receivables that are expected to be collected in subsequent years are typically discounted using a risk adjusted market interest rate applicable to the years in which the grants are expected to be received or when the promise is made. At December 31, 2016 and 2015, management has not adjusted grants receivable using the applicable interest rate as they have deemed any adjustment to be immaterial.

Fair Trade USA and Good World Solutions
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

4. GRANTS RECEIVABLE (continued)

Grants receivable consist of the following:

	2016	2015
Receivable in less than one year	\$ 3,550,013	\$ 1,190,888
Receivable in one to five years	392,240	830,127
	\$ 3,942,253	\$ 2,021,015

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2016	2015
Furniture and fixtures	\$ 168,590	\$ 168,590
Machinery and equipment	558,954	457,217
Leasehold improvements	68,930	50,440
	796,474	676,247
Less accumulated depreciation and amortization	(603,321)	(570,988)
	\$ 193,153	\$ 105,259

Depreciation and amortization expense for the years ended December 31, 2016 and 2015 was \$32,333 and \$41,220, respectively.

6. DEFERRED REVENUE

On November 1, 2014, the Organization received a one-to-one challenge matching gift from a Foundation in the amount of \$10,000,000, with no restrictions on use of the proceeds. The founder of this Foundation is a member of the Organization's Board of Directors. Accompanying the gift, \$4,000,000 in publicly traded stock was received by the Organization. The stock was sold upon receipt and this amount was recorded as deferred revenue during 2014. The Organization received an additional \$3,000,000 in publicly traded stock during the year ended December 31, 2015. The stock was sold upon receipt and this amount was recorded to deferred revenue. On October 28, 2016, the terms of the matching gift agreement were amended by removing the matching condition on the initial \$7,000,000. The remaining \$3,000,000 was subject to a new one-to-one matching condition. The Organization recognized the remaining \$3,000,000 as grants receivable and deferred revenue upon receipt of the amended agreement. The matching period for the remaining \$3,000,000 gift expires on October 31, 2017. Any amount that remains unmatched by the Organization as of October 31, 2017 will be donated to the Organization by the Foundation. During the years ended December 31, 2016 and 2015, \$4,635,171 and \$1,509,225, respectively was recognized as unrestricted revenue by the Organization relating to this gift. The deferred revenue balance associated with this gift totaled \$2,882,370 and \$4,517,541 as of December 31, 2016 and 2015, respectively.

Fair Trade USA and Good World Solutions
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

6. DEFERRED REVENUE (continued)

On November 20, 2015, the Organization received a conditional contribution from a separate Foundation in the amount of \$2,000,000 that is contingent upon the Organization meeting certain specified milestones. The funds are to be used for trade certification of wild caught fish. The award period is January 1, 2016 through December 31, 2018. The Organization will recognize the revenue over the term of the grant as conditions are met. Revenue recognized in relation to this grant during 2016 was \$666,667. There was no revenue recognized in relation to this grant during 2015. The deferred revenue balance associated with this grant totaled \$1,333,333 and \$2,000,000 as of December 31, 2016 and 2015, respectively.

During September 2015, the Organization received a grant from a federal agency totaling \$1,063,575. The terms of the grant require the Organization to meet certain specified milestones in order to receive funding. The Organization anticipates meeting all specified milestones and receiving the full grant amount. The Organization recognized the entire grant amount as grants receivable and deferred revenue upon receipt of the grant. During 2016 and 2015, the Organization recognized \$343,620 and \$118,175, respectively, of revenue from the grant. The deferred revenue balance associated with this grant totaled \$601,780 and \$945,400 as of December 31, 2016 and 2015, respectively.

The remaining amount of deferred revenue \$53,336 as of December 31, 2015 represented unearned service fees and consulting and contractor fees.

7. NOTES PAYABLE

Notes payable are detailed as follows:

Lender	Interest Rate	Maturity Date	2016	2015
	RSF Prime			
RSF Social Investment Fund	+.5%	6/10/2019	\$ 1,786,003	\$ 2,436,246
Sisters of St. Francis of Philadelphia	2%	2/6/2016	-	50,000
St. Joseph Fem. Ursuline Academy, Inc.	1%	6/15/2016	-	50,000
			<u>1,786,003</u>	<u>2,536,246</u>
Less: current portion			<u>(688,178)</u>	<u>(752,959)</u>
			<u>\$ 1,097,825</u>	<u>\$ 1,783,287</u>

Fair Trade USA and Good World Solutions
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

7. NOTES PAYABLE (continued)

The future maturities of the notes payable are as follows:

<u>Year ending December 31,</u>	
2017	\$ 688,178
2018	722,545
2019	<u>375,280</u>
	<u>\$ 1,786,003</u>

The Organization was in compliance with all covenants and restrictions as of December 31, 2016 and 2015.

8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2016</u>	<u>2015</u>
General support - time restricted	\$ -	\$ 20,972
Expansion of Haitian Fair Trade mango supply	1,807	25,000
Labor Link technology reporting tool	184,507	539,185
Western Uganda Fair Trade expansion project	3,592	43,507
Worker well-being initiative	-	30,000
Coffee price volatility and risk through market-based financial tools	197,669	200,000
Consumer activation plan	476,899	925,690
Improve labor conditions and protections for farm workers in North America	86,579	65,000
Fair Trade certification of wild catch fish	584,117	309,364
R&D/ Innovation in Asia	<u>365,000</u>	<u>-</u>
	<u>\$ 1,900,170</u>	<u>\$ 2,158,718</u>

9. PROGRAM SERVICES

Business Development

The Business Development program works with companies to increase sales of Fair Trade Certified products in the market, and increase the use of GWS services and tools by companies and factories to improve transparency in global supply chains.

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9. PROGRAM SERVICES (continued)

Marketing communications and education

The Organization executes a broad range of marketing and public relations programs whose goal is to raise consumer awareness of international trade issues in general, and Fair Trade concerns in particular. The resulting increase in consumer awareness leads directly to an increase in consumer demand.

Certification

The Certification Department audits transactions between companies offering FTC products and their international suppliers, to guarantee that the farmers and workers who produce FTC goods were paid a fair price for their products, receive a social premium, and adhere to the Fair Trade environmental, labor, and governance standards.

Supply Chain Management

Supply Chain Management includes support for producers, exporters, importers, retailers, and roasters throughout the Fair Trade supply chain. That support helps producers deliver high quality products that fit within the Organization's mission and are desired by retailers and consumers. Producer training and assistance services include: quality and environmental training, market data and linkage, access to capital, governance training, and other technical assistance.

Good World Solutions

Good World Solutions technology, in the form of its principal tools Labor Link, Voice of the Client (micro-finance), and the Fair Wage Guide, provides quantitative tools and analytics to establish an anonymous two-way communication channel for workers and borrowers to report, and for companies and lenders to receive, unfiltered data directly from workers. Good World Solutions products are also used to survey farmers and workers producing Fair Trade Certified products to assess the impact of Fair Trade programs against defined livelihood and well-being measures.

Program services incurred for the years ended December 31, 2016 and 2015 were comprised of the following:

	<u>2016</u>	<u>2015</u>
Business Development	\$ 2,971,534	\$ 2,433,403
Marketing Communications and Education	2,966,629	2,356,187
Certification	2,299,925	1,837,007
Supply Chain Development	3,368,986	2,861,835
Good World Solutions Technology Development	<u>2,106,476</u>	<u>1,747,619</u>
	<u>\$ 13,713,550</u>	<u>\$ 11,236,051</u>

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10. COMMITMENTS

The Organization leases its operating facilities in Oakland, California under a lease agreement which expires December 31, 2019. The lease was amended effective July 1, 2012 to extend the expiration date and to provide 18 months of reduced rent and annual rent increases of 3 percent thereafter. The lease is cancelable effective December 31, 2017 provided the Organization gives written notice and pays a \$175,000 termination fee. The monthly rent payments under the facility lease for the years ended December 31, 2016 and 2015 were \$53,178 and \$51,629, respectively. The Organization recognizes rent expense on a straight-line basis over the lease term.

The Organization leases office equipment under a long-term, non-cancelable operating lease with a monthly cost of \$907 expiring in December 2019.

Rent expense, included in facility expenses, for the years ended December 31, 2016 and 2015 was \$586,178 and \$606,901, respectively.

The scheduled minimum lease payments under the lease terms are as follows:

Year ending December 31,

2017	\$ 668,159
2018	687,878
2019	<u>708,187</u>
	<u>\$ 2,064,224</u>

11. RELATED PARTY

The Organization recognized approximately \$4,700,000 and \$2,700,000 in contributions from members of the Board of Directors, foundations of members of the Board of Directors, and employees for the years ended December 31, 2016 and 2015, respectively.

12. CONCENTRATIONS

During the years ended December 31, 2016 and 2015, one customer accounted for approximately 12% and 15%, respectively, of total service fees.

As of December 31, 2016 and 2015, one customer accounted for approximately 9% and 13%, respectively, of total service fees receivable.

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13. RETIREMENT PLAN

The Organization sponsors a 401(k) profit sharing plan covering all eligible employees who have completed six months of service. The Organization makes matching contributions up to 4% of the employee's eligible compensation. Employees are eligible to make elective contributions up to the maximum amount allowed by the Internal Revenue Code. The Organization contributed \$225,640 and \$188,429 to the plan for the years ended December 31, 2016 and 2015, respectively.

14. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through June 7, 2017, the date the financial statements were available to be issued. In March 2017, the Organization signed a non-binding memorandum of understanding for the sale of GWS's mobile solution, Laborlink. No other subsequent events have occurred that would have a material impact on the Organization's financial statements.