



Report of Independent Auditors and  
Consolidated Financial Statements

**Fair Trade USA and Good World Solutions**

December 31, 2022 and 2021

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## **Report of Independent Auditors**

The Board of Directors  
Fair Trade USA and Good World Solutions

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the consolidated financial statements of Fair Trade USA and Good World Solutions, which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Fair Trade USA and Good World Solutions as of December 31, 2022 and 2021, 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 United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Fair Trade USA and Good World Solutions and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Fair Trade USA and Good World Solutions' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fair Trade USA and Good World Solutions' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Fair Trade USA and Good World Solutions' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



San Francisco, California  
June 23, 2023

## **Consolidated Financial Statements**

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**Fair Trade USA and Good World Solutions**  
**Consolidated Statements of Financial Position**  
**December 31, 2022 and 2021**

	2022	2021
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 10,919,548	\$ 12,321,645
Service fees receivable	5,328,097	5,575,025
Grants receivable	541,414	234,000
Prepaid expenses	444,865	404,442
Other assets	348,038	123,288
Total current assets	17,581,962	18,658,400
<b>NONCURRENT ASSETS</b>		
Property and equipment, net	215,643	158,973
Deposits	-	255,563
Total noncurrent assets	215,643	414,536
Total assets	\$ 17,797,605	\$ 19,072,936
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 298,717	\$ 2,722,711
Accrued liabilities	2,184,503	1,652,841
Contract liabilities	76,260	382,394
Notes payable, current portion	360,555	351,540
Total current liabilities	2,920,035	5,109,486
<b>LONG-TERM LIABILITIES</b>		
Notes payable, net of current portion	715,931	1,076,486
Total long-term liabilities	715,931	1,076,486
Total liabilities	3,635,966	6,185,972
<b>NET ASSETS</b>		
Without donor restrictions	12,196,257	11,164,826
With donor restrictions	1,965,382	1,722,138
Total net assets	14,161,639	12,886,964
Total liabilities and net assets	\$ 17,797,605	\$ 19,072,936

See accompanying notes.

**Fair Trade USA and Good World Solutions**  
**Consolidated Statements of Activities and Changes in Net Assets**  
**Year Ended December 31, 2022**

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND SUPPORT</b>			
Service fees	\$ 22,280,407	\$ -	\$ 22,280,407
Grants and contributions	479,016	2,370,142	2,849,158
Contributions of nonfinancial assets	374,307	-	374,307
Net assets released from restriction	2,126,898	(2,126,898)	-
Total revenue and support	<u>25,260,628</u>	<u>243,244</u>	<u>25,503,872</u>
<b>OPERATING EXPENSES</b>			
Program services	18,990,544	-	18,990,544
Supporting services			
Management and general	3,588,153	-	3,588,153
Fundraising	1,650,500	-	1,650,500
Total supporting services	<u>5,238,653</u>	<u>-</u>	<u>5,238,653</u>
Total operating expenses	<u>24,229,197</u>	<u>-</u>	<u>24,229,197</u>
<b>CHANGE IN NET ASSETS</b>	<u>1,031,431</u>	<u>243,244</u>	<u>1,274,675</u>
<b>NET ASSETS, beginning of year</b>	<u>11,164,826</u>	<u>1,722,138</u>	<u>12,886,964</u>
<b>NET ASSETS, end of year</b>	<u>\$ 12,196,257</u>	<u>\$ 1,965,382</u>	<u>\$ 14,161,639</u>

See accompanying notes.

**Fair Trade USA and Good World Solutions**  
**Consolidated Statements of Activities and Changes in Net Assets (Continued)**  
**Year Ended December 31, 2021**

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND SUPPORT</b>			
Service fees	\$ 19,832,085	\$ -	\$ 19,832,085
Grants and contributions	398,478	1,333,041	1,731,519
Contributions of nonfinancial assets	614,911	-	614,911
Net assets released from restriction	<u>3,240,010</u>	<u>(3,240,010)</u>	<u>-</u>
Total revenue and support	<u>24,085,484</u>	<u>(1,906,969)</u>	<u>22,178,515</u>
<b>OPERATING EXPENSES</b>			
Program services	15,868,859	-	15,868,859
Supporting services			
Management and general	2,765,901	-	2,765,901
Fundraising	<u>1,438,578</u>	<u>-</u>	<u>1,438,578</u>
Total supporting services	<u>4,204,479</u>	<u>-</u>	<u>4,204,479</u>
Total operating expenses	<u>20,073,338</u>	<u>-</u>	<u>20,073,338</u>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	<u>4,012,146</u>	<u>(1,906,969)</u>	<u>2,105,177</u>
<b>OTHER CHANGES IN NET ASSETS</b>			
Gain from forgiveness of			
Paycheck Protection Program loan	2,419,639	-	2,419,639
Other income	22,000	-	22,000
Foreign currency translation	<u>822</u>	<u>-</u>	<u>822</u>
Total other changes in net assets	<u>2,442,461</u>	<u>-</u>	<u>2,442,461</u>
<b>CHANGE IN NET ASSETS</b>	6,454,607	(1,906,969)	4,547,638
<b>NET ASSETS, beginning of year</b>	<u>4,710,219</u>	<u>3,629,107</u>	<u>8,339,326</u>
<b>NET ASSETS, end of year</b>	<u>\$ 11,164,826</u>	<u>\$ 1,722,138</u>	<u>\$ 12,886,964</u>

See accompanying notes.



**Fair Trade USA and Good World Solutions**  
**Consolidated Statements of Functional Expenses**  
**Years Ended December 31, 2022 and 2021**

	2022			
	Program	Management and General	Fundraising	Total Expenses
<b>OPERATING EXPENSES</b>				
Personnel	\$ 11,997,755	\$ 2,590,256	\$ 1,044,532	\$ 15,632,543
Professional fees	4,524,487	601,198	328,867	5,454,552
Computer, telecom, and equipment	979,429	217,175	97,088	1,293,692
Travel	431,544	62,435	21,801	515,780
Other	264,970	38,161	102,673	405,804
Facility	244,631	42,631	16,571	303,833
Conferences, conventions, and trade shows	209,783	6,493	13,424	229,700
Promotional activities and materials	193,307	3,877	12,065	209,249
Depreciation and amortization	96,464	18,226	8,384	123,074
Third party	22,994	2,943	2,907	28,844
Loan interest	25,180	4,758	2,188	32,126
	<u>\$ 18,990,544</u>	<u>\$ 3,588,153</u>	<u>\$ 1,650,500</u>	<u>\$ 24,229,197</u>
	2021			
	Program	Management and General	Fundraising	Total Expenses
<b>OPERATING EXPENSES</b>				
Personnel	\$ 8,294,091	\$ 1,802,760	\$ 833,577	\$ 10,930,428
Professional fees	4,348,991	453,901	269,914	5,072,806
Computer, telecom, and equipment	839,332	196,986	83,528	1,119,846
Travel	36,374	15,261	7,506	59,141
Other	417,196	30,829	59,899	507,924
Facility	1,618,278	241,507	131,890	1,991,675
Conferences, conventions, and trade shows	37,872	4,595	40	42,507
Promotional activities and materials	106,742	73	4,937	111,752
Depreciation and amortization	78,287	13,645	7,097	99,029
Third party	55,296	-	36,890	92,186
Loan interest	36,400	6,344	3,300	46,044
	<u>\$ 15,868,859</u>	<u>\$ 2,765,901</u>	<u>\$ 1,438,578</u>	<u>\$ 20,073,338</u>

See accompanying notes.

**Fair Trade USA and Good World Solutions**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2022 and 2021**

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 1,274,675	\$ 4,547,638
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	123,074	99,029
Gain on forgiveness of Paycheck Protection Program loan	-	(2,419,639)
Changes in operating assets and liabilities:		
Service fees receivable	246,928	(617,496)
Grants receivable	(307,414)	130,000
Prepaid expenses	(40,423)	(80,192)
Other assets and deposits	30,813	(115,350)
Accounts payable	(2,423,994)	2,286,285
Accrued liabilities	531,662	475,656
Contract liabilities	(306,134)	(341,384)
Deferred rent liabilities	-	(360,506)
	<u>(870,813)</u>	<u>3,604,041</u>
<b>CASH FLOWS FROM INVESTING ACTIVITY</b>		
Purchases of property and equipment	<u>(179,744)</u>	<u>(124,041)</u>
Net cash used in investing activity	<u>(179,744)</u>	<u>(124,041)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on notes payable	<u>(351,540)</u>	<u>(492,752)</u>
Net cash used in financing activities	<u>(351,540)</u>	<u>(492,752)</u>
<b>NET CHANGES IN CASH AND CASH EQUIVALENTS</b>	(1,402,097)	2,987,248
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>12,321,645</u>	<u>9,334,397</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 10,919,548</u>	<u>\$ 12,321,645</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION</b>		
Cash paid during the year for interest	<u>\$ 32,126</u>	<u>\$ 46,044</u>

See accompanying notes.

# Fair Trade USA and Good World Solutions

## Notes to Consolidated Financial Statements

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### **Note 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 nonprofit public benefit organization. Fair Trade USA’s and Good World Solutions’ (collectively, 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, fisherman, 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, workers, and fisherman 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 farmers, workers, and fisherman 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 1,100 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 United States 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.

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.

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 the Organization’s mission to bring the voice of the worker into improving worker well-being.

## Fair Trade USA and Good World Solutions

### Notes to Consolidated Financial Statements

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#### **Note 2 – Summary of Significant Accounting Policies**

**Basis of presentation** – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Net assets and revenue and support are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net assets without donor restrictions* – Represents resources available to support the Organization's operations without donor restrictions and donor restricted resources that have become available for use by the Organization in accordance with the intention of the donor.

*Net assets with donor restrictions* – Represents contributions that are limited in use by the Organization in accordance with donor-imposed stipulations. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires; that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**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 material intercompany accounts and transactions have been eliminated in consolidation.

**Cash and cash equivalents** – The Organization places its cash and cash equivalents with high quality credit institutions. Cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and 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 the Organization is not exposed to any significant risks on cash accounts.

**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. The Organization recognizes revenues and a corresponding receivable after considering implicit and explicit price concessions. Uncollectible service fee receivables are written off when all collection efforts have been exhausted. The allowance for service fee receivables as of December 31, 2022 and 2021 was \$27,053 and \$39,686, respectively.

**Property and equipment, net** – 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.

## Fair Trade USA and Good World Solutions

### Notes to Consolidated Financial Statements

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The Organization periodically evaluates the carrying value of its long-lived assets for impairment. When the carrying value of an asset exceeds estimated recoverability, an asset impairment is recognized. No impairment was recognized for the years ended December 31, 2022 and 2021.

**Revenue recognition** – The Organization records service fee revenue in the period in which participating companies either purchase and/or sell FTC products, as defined in the applicable service agreement, which is when the performance obligation is met. Consideration is based on the applicable service agreement. Service fee revenue is shown net of implicit and explicit price concessions provided to participating companies.

Service fee revenue was from the following product lines as of December 31:

	2022	2021
Coffee	\$ 9,079,898	\$ 7,808,420
Consumer packaged goods	4,608,312	4,292,955
Apparel and home goods	3,968,156	3,457,773
Produce and flowers	3,872,237	3,726,842
Seafood	751,804	546,095
	\$ 22,280,407	\$ 19,832,085

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 support without donor restrictions. Contributions received with donor-imposed restrictions that are received and spent in the same year are reported as an increase in support without donor restrictions. Contributions received with donor-imposed restrictions that are not satisfied in the same year as received are reported as increases in support with donor restrictions. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met and barriers to entitlement have been overcome.

The Organization recognizes contributed nonfinancial assets for contributed goods and services if they create or enhance nonfinancial 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. Contributed goods and services are recorded as contributions at their estimated fair value based on wholesale values that would be received for selling similar goods and current rates for similar services on the date of receipt. Such contributions are reported as support without donor restrictions unless the donor has restricted the use of the asset for a specific purpose and the asset is therefore reported as an increase in support with donor restrictions. During the years ended December 31, 2022 and 2021, the Organization received contributed professional services valued at \$238,850 and \$148,195, respectively, which was used for management and general, program services, and fundraising activities and software licenses and advertising valued at \$135,457 and \$466,716, respectively, which was used for management and general, program services, and fundraising activities. Programs services consist of business development, supply chain, certification, standards, impact, communication, and technology. All professional services and software licenses and advertising were utilized during the respective years within the Organization.

## Fair Trade USA and Good World Solutions

### Notes to Consolidated Financial Statements

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**Contract liabilities** – Service revenue and other support where cash was received, but not yet earned, are recorded as contract liabilities. The amount of contract liabilities of \$76,260 and \$382,394 as of December 31, 2022 and 2021, respectively, represented unearned service fees and unearned consulting and contractor fees. Contract liabilities are recognized as revenue when services are performed by the Organization as stipulated in the applicable service agreements.

**Functional expenses** – The costs of providing the program services and supporting services 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 services activities benefited based upon employee time and effort recorded on functions related to the specific activity, or in the case of shared expenses, using an allocation based on personnel costs, space usage, or other relevant bases.

**Income tax status** – Fair Trade USA and GWS are qualified organizations 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 consolidated 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, 2022 and 2021, that the Organization does not have any significant uncertain tax positions for which a reserve would be necessary.

**Use of estimates** – The preparation of consolidated financial statements in conformity with U.S. GAAP 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 consolidated financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**New accounting pronouncements** – On January 1, 2022, the Organization adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)* (“ASU 2016-02”), which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements in the financial statements of lessees, using the modified retrospective approach permitted under ASU 2016-02. The adoption of ASU 2016-02 had no material impact on the Organization’s consolidated financial statements.

On January 1, 2022, the Organization adopted ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (“ASU 2020-07”), which increases the transparency of contributed nonfinancial assets for not-for-profit organizations through enhancements to presentation and disclosure. The adoption of ASU 2020-07 had no material impact on the Organization’s consolidated financial statements.

**Fair Trade USA and Good World Solutions**  
**Notes to Consolidated Financial Statements**

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**Note 3 – Grants Receivable**

Total grants receivable consisted of the following at December 31:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
General support	\$ 40,019	\$ 501,395	\$ 541,414
	\$ 40,019	\$ 501,395	\$ 541,414
	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
General support	\$ 109,000	\$ 125,000	\$ 234,000
	\$ 109,000	\$ 125,000	\$ 234,000

Grants receivable 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, 2022 and 2021, management had not adjusted grants receivable using the applicable interest rate as they have deemed any adjustment to be insignificant to the consolidated financial statements. All receivables are considered fully recoverable for the years ended December 31, 2022 and 2021. At December 31, 2022 and 2021, all grants receivable is considered receivable in less than on year.

**Note 4 – Property and Equipment, Net**

Property and equipment, net consisted of the following at December 31:

	2022	2021
Machinery and equipment	\$ 1,090,980	\$ 911,235
Website development	304,083	304,083
Furniture and fixtures	168,590	168,590
Leasehold improvements	68,930	68,930
	1,632,583	1,452,838
Less: accumulated depreciation and amortization	(1,416,940)	(1,293,865)
	\$ 215,643	\$ 158,973

Depreciation and amortization expense for the years ended December 31, 2022 and 2021 was \$123,074 and \$99,029, respectively.

## Fair Trade USA and Good World Solutions

### Notes to Consolidated Financial Statements

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#### Note 5 – Notes Payable

In May 2020, the Organization entered into a loan agreement with Bank of the West for \$2,419,639. The loan was granted as part of the U.S. Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”) under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), to help small businesses and organizations maintain payroll in light of the COVID-19 pandemic. The two-year loan bore an interest rate at 1% per year and matured in May 2022. The loan was guaranteed by the SBA and no payments were due on the loan for the first ten months. The loan was subject to partial or full forgiveness if the Organization used all proceeds for eligible purposes; maintained certain employment levels; and maintained certain compensation levels in accordance with and subject to the CARES Act and the rules, regulations, and guidance. The Organization submitted an application for forgiveness and the full outstanding loan balance, including principal and interest, was formally forgiven in June 2021. The outstanding balance was derecognized as notes payable at December 31, 2021 and recognized as a gain from forgiveness of PPP loan during the year ended December 31, 2021 in the consolidated statements of activities and changes in net assets.

In November 2020, the Organization entered into a secured collateralized loan agreement with First Republic Bank (“FRB”) in the amount of \$1,800,000, which is due in November 2025. The loan bears interest at a rate of 2.50%. Monthly principal and interest payments are payable in the amount of \$31,972, which began in December 2020.

In November 2021, the Organization renewed its secured line of credit agreement with FRB in the amount of \$1,000,000. The line of credit bore interest at a rate of 3.25% and matured in November 2022. As of December 31, 2021, no amounts are outstanding for this line of credit. The line of credit was not renewed upon maturity during 2022.

Notes payable are detailed as follows at December 31:

<u>Lender</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>2022</u>	<u>2021</u>
First Republic Bank	2.50%	11/2/2025	\$ 1,076,486	\$ 1,428,026
Less: current portion			<u>(360,555)</u>	<u>(351,540)</u>
			<u>\$ 715,931</u>	<u>\$ 1,076,486</u>

The future maturities of the notes payable are as follows:

<u>Years Ending December 31,</u>	
2023	\$ 360,555
2024	369,755
2025	<u>346,176</u>
	<u>\$ 1,076,486</u>



## Fair Trade USA and Good World Solutions

### Notes to Consolidated Financial Statements

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Management believes the Organization is in compliance with all covenants and restrictions as of and for the years ended December 31, 2022 and 2021.

#### Note 6 – Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following as of December 31:

	2022	2021
Innovation technology support	\$ 995,120	\$ 610,712
To support the revision of its Agricultural Production Standard and to facilitate market adoption and producer and community support in Indonesia and India	308,700	-
To conduct data collection in support of living wage research in tea farm in India	194,481	-
Support the expansion, demand for, and impact of Fair Trade USA's seafood program	184,000	107,833
To support Phase II of the Tuna Consortium work in Indonesia	104,123	-
To develop geospatial farm analysis and coaching systems to enable mapping of environmental impacts such as deforestation and carbon capture on fair trade certified farms across the Americas	55,500	100,000
To participate in strategic and project specific meetings (both in person and remotely)	55,000	-
To support living wage study in Assam and West Bengal, India	44,047	-
General support - time restricted	24,411	52,990
Enabling meaningful producer needs assessments and maximizing the impact of global community development project investments program	-	502,909
Research cost of sustainable production for coffee farmers	-	132,662
Support the expansion and feasibility study for expansion of Fair Trade USA's certification in the Midwest	-	127,800
Global impact work in the Philippines	-	36,130
Fair trade certification of aquaculture	-	31,102
Analyze and track the global landscape of sustainable seafood	-	20,000
	\$ 1,965,382	\$ 1,722,138

## Fair Trade USA and Good World Solutions

### Notes to Consolidated Financial Statements

Net assets with donor restrictions released from restrictions by incurring expenses were comprised of the following for the years ended December 31:

	2022	2021
Innovation technology support	\$ 610,712	\$ 1,078,477
Enabling meaningful producer needs assessments and maximizing the impact of global community development project investments program	502,909	547,113
Research cost of sustainable production for coffee farmers	132,662	17,338
To support the revision of its Agricultural Production Standard and to facilitate market adoption and producer and community support in Indonesia and India	132,303	-
Support the expansion and feasibility study for expansion of Fair Trade USA's certification in the Midwest	127,800	147,200
To provide support for Fair Trade USA priority and climate-related efforts	116,000	-
Support the expansion, demand for, and impact of Fair Trade USA's seafood program	107,833	219,022
Support for building new tools to deliver better learning content and access to those materials for producers and workers and to use technology to enable better assurance of compliance by companies to drive impact to people and planet	101,880	-
General support - time restricted	58,575	110,493
To develop geospatial farm analysis and coaching systems to enable mapping of environmental impacts such as deforestation and carbon capture on Fair Trade Certified farms across the Americas	44,500	-
Global impact work in the Philippines	36,130	57,370
Emergency response support	35,813	-
To participate in strategic and project specific meetings (both in person and remotely)	35,000	-
To support phase II of the tuna consortium work Sven has been carrying out in Indonesia with a group of partners	33,679	-
Fair trade certification of aquaculture	31,102	56,054
Analyze and track the global landscape of sustainable seafood	20,000	29,000
Apparel and home goods program	-	600,000
Fair Trade certification of wild catch fish	-	88,727
Support and develop digital training material for fair trade committees	-	65,436
Support to MMAF to adopt a participatory science-based decision making process to implement a five year management tuna	-	47,417
Improving farmer livelihoods in the Philippines	-	46,250
Support producer services work, training farmers global north	-	45,000
Develop healthy & safety virtual trainings for at-risk communities along global supply chains with the emphasis on COVID-19 prevention, labor rights, and financial literacy	-	35,000
Improving farmer livelihoods in the Colombia	-	17,613
Develop a living wage benchmark in Mexico	-	17,500
Donation to support fair trade committee Shanghai Weijie garment factory	-	15,000
	<u>\$ 2,126,898</u>	<u>\$ 3,240,010</u>

## Fair Trade USA and Good World Solutions

### Notes to Consolidated Financial Statements

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#### Note 7 – Program Services

**Business development** – The Business Development program works with companies to increase sales of FTC products in the market.

**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 impact program operations** – 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 technology** – Good World Solutions Technology, in the form of its principal tools, 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. GWS 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 were comprised of the following for the years ended December 31:

	2022	2021
Business Development	\$ 5,766,897	\$ 4,508,088
Certification Impact Program Operations	4,643,133	4,119,752
Supply Chain Management	4,599,334	4,410,186
Marketing Communications and Education	3,978,085	2,825,916
Good World Solutions Technology	3,095	4,917
	\$ 18,990,544	\$ 15,868,859

## **Fair Trade USA and Good World Solutions**

### **Notes to Consolidated Financial Statements**

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#### **Note 8 – Commitments**

The Organization entered into a sublease agreement with Flexera for its office location at 1901 Harrison Street, Suite 1700, Oakland, California, that began on July 1, 2019. In June 2021, this sublease agreement was terminated early when a new sublessor was identified. Upon termination of the sublease, \$356,942 of the remaining deferred rent liabilities was derecognized and recorded against rent expense for the year ended December 31, 2021. While the Organization continued to negotiate the final settlement of its sublease agreement exit, \$2,396,167 of accrued rent was recorded as accounts payable at December 31, 2021, under the terms of the existing sublease agreement. A settlement agreement for payment of \$2,700,000 was signed by the Organization and Flexera in September 2022. An additional \$303,833 was recorded as rent expense for the year ended December 31, 2022.

Rent expense, included in facility expenses on the consolidated statements of functional expenses, for the years ended December 31, 2022 and 2021 was \$303,833 and \$1,906,971, respectively.

#### **Note 9 – Concentrations**

During the years ended December 31, 2022 and 2021, one customer accounted for approximately 6% and 7% of total service fees, respectively.

As of the years ended December 31, 2022 and 2021, one customer accounted for approximately 5% and 6% of total service fees receivable, net, respectively.

#### **Note 10 – 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 \$340,732 and \$236,826, respectively, to the plan for the years ended December 31, 2022 and 2021, which is included in personnel expenses on the consolidated statements of functional expenses.

## Fair Trade USA and Good World Solutions

### Notes to Consolidated Financial Statements

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#### Note 11 – Liquidity and Availability

Financial assets available for general expenditure, within one year of the consolidated statements of financial position at December 31, comprise the following:

	2022	2021
Financial assets, year end:		
Cash and cash equivalents	\$ 10,919,548	\$ 12,321,645
Service fees receivable	5,328,097	5,575,025
Grants receivable, current portion	541,414	234,000
	16,789,059	18,130,670
Less assets unavailable for general expenditures within one year:		
Cash and cash equivalents held with donor restrictions	(1,463,987)	(1,597,138)
Grants receivable, current portion with donor restrictions	(501,395)	(125,000)
	(1,965,382)	(1,722,138)
Financial assets available to meet cash needs for general expenditures within one year	\$ 14,823,677	\$ 16,408,532

The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As part of the Organization's liquidity management plan, the Organization invests cash in excess of daily requirements in certificate of deposits and money market funds. The service fee receivable and grants receivable, current portion are expected to be collected within one year.

#### Note 12 – Subsequent Events

Subsequent events are events or transactions that occur after the consolidated statement of financial position date, but before the consolidated financial statements are available to be issued. The Organization recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing the consolidated financial statements. The Organization's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position, but arose after the consolidated statement of financial position date and before the consolidated financial statements were available to be issued.

Subsequent to year end, to mitigate the risks on cash accounts due to the collapse of Silicon Valley Bank and all the uncertainties regarding FRB's future, management decided to secure Insured Cash Sweep accounts (ICS) with FRB and opened \$3,500,000 in certificate of deposit accounts at Chase Bank. With the acquisition of FRB by JP Morgan Chase, management believes the Organization's cash accounts are appropriately secured.

## **Fair Trade USA and Good World Solutions**

### **Notes to Consolidated Financial Statements**

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In February 2023, the Organization renewed its secured line of credit agreement with FRB in the amount of \$1,000,000. The line of credit bears interest at a rate of 3.25% and matures in November 2023.

The Organization has evaluated subsequent events through June 23, 2023, which is the date the consolidated financial statements were available to be issued.

