

SOLIDARIDAD NORTH AMERICA
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

SOLIDARIDAD NORTH AMERICA
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December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

Continental Supervisory Board
Solidaridad North America

Report on the Financial Statements

We have audited the accompanying financial statements of Solidaridad North America (the "Organization"), which comprise the statement of financial position as of December 31, 2017, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements (collectively, 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 of 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 Organization'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 Organization'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 the Organization as of December 31, 2017, and the changes 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.

Report on Summarized Comparative Information

We have previously audited the Organization's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 19, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

April 4, 2018

SOLIDARIDAD NORTH AMERICA
STATEMENT OF FINANCIAL POSITION
December 31, 2017
(Comparative Information at December 31, 2016)

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 409,596	\$ 408,973
Grants receivable, current portion	484,575	200,000
Grants receivable, current portion - affiliates	-	8,256
Advances - affiliates	137,252	38,124
Prepaid expenses	3,683	308
Prepaid expenses - affiliates	290,775	-
Total current assets	1,325,881	655,661
Noncurrent assets		
Grants receivable, noncurrent portion	260,000	-
Deposits	1,650	1,650
Total noncurrent assets	261,650	1,650
Total assets	\$ 1,587,531	\$ 657,311
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ -	\$ 75
Accounts payable - affiliates	290,775	1,805
Accrued vacation	36,387	25,979
Accrued expenses	12,000	9,500
Total liabilities	339,162	37,359
Net assets		
Unrestricted	(95,317)	(48,400)
Temporarily restricted	1,343,686	668,352
Total net assets	1,248,369	619,952
Total liabilities and net assets	\$ 1,587,531	\$ 657,311

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

SOLIDARIDAD NORTH AMERICA
STATEMENT OF ACTIVITIES
Year Ended December 31, 2017
(Summarized Comparative Information for the Year Ended December 31, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2017</u>	<u>Total 2016</u>
Revenue				
Grants and contributions	\$ 125,055	\$ 819,575	\$ 944,630	\$ 998,614
Contracts	-	341,960	341,960	152,350
Investment income	1,870	-	1,870	1,001
	<u>126,925</u>	<u>1,161,535</u>	<u>1,288,460</u>	<u>1,151,965</u>
Net assets released from restrictions				
Satisfaction of program restrictions	<u>486,201</u>	<u>(486,201)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>613,126</u>	<u>675,334</u>	<u>1,288,460</u>	<u>1,151,965</u>
Expenses				
Program services	<u>474,415</u>	<u>-</u>	<u>474,415</u>	<u>580,358</u>
Supporting services				
Management and general expenses	113,972	-	113,972	101,111
Fundraising	71,656	-	71,656	6,210
Total supporting services	<u>185,628</u>	<u>-</u>	<u>185,628</u>	<u>107,321</u>
Total expenses	<u>660,043</u>	<u>-</u>	<u>660,043</u>	<u>687,679</u>
Change in net assets	(46,917)	675,334	628,417	464,286
Net assets, beginning of year	<u>(48,400)</u>	<u>668,352</u>	<u>619,952</u>	<u>155,666</u>
Net assets, end of year	<u>\$ (95,317)</u>	<u>\$ 1,343,686</u>	<u>\$ 1,248,369</u>	<u>\$ 619,952</u>

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

SOLIDARIDAD NORTH AMERICA

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2017

(Summarized Comparative Information for the Year Ended December 31, 2016)

	Program Services					Supporting Services				Total 2017	Total 2016	
	Oil Palm - Indonesia (D & L Packard Foundation)	MasterCard Foundation - Ghana Youth Program (Stichting Solidaridad)	Sustainable Sugar Cane Program (PepsiCo)	Collaboration for Forests and Agriculture – Chinese Soy (The Nature Conservancy)	Other Program Services	Total Program Services	Management and General	Fundraising	Total Supporting Services			
Personnel expenses												
Salaries and wages	\$ 25,006	\$ 73,525	\$ 15,862	\$ 17,908	\$ 7,270	\$ 139,571	\$ 74,663	\$ 53,593	\$ 128,256	\$ 267,827	\$ 233,259	
Employee benefits	3,405	9,936	2,163	2,359	4,995	22,858	3,930	8,062	11,992	34,850	25,829	
Payroll taxes	1,392	4,103	892	1,007	410	7,804	(2,646)	9,802	7,156	14,960	13,023	
Total personnel expenses	<u>29,803</u>	<u>87,564</u>	<u>18,917</u>	<u>21,274</u>	<u>12,675</u>	<u>170,233</u>	<u>75,947</u>	<u>71,457</u>	<u>147,404</u>	<u>317,637</u>	<u>272,111</u>	
Nonpersonnel expenses												
Project expenses	204,065	-	52,906	15,908	-	272,879	-	-	-	272,879	348,376	
Travel and meetings	398	4,985	245	257	6,572	12,457	19,767	-	19,767	32,224	33,214	
Professional fees	1,597	4,608	856	1,051	411	8,523	7,422	-	7,422	15,945	11,513	
Occupancy	1,027	3,041	665	757	311	5,801	5,471	-	5,471	11,272	13,175	
Contract services	265	768	168	178	70	1,449	1,241	-	1,241	2,690	216	
Insurance	64	207	49	65	(162)	223	2,023	-	2,023	2,246	3,122	
Office expense	421	1,253	270	317	398	2,659	1,977	199	2,176	4,835	5,450	
Bank service	18	55	92	15	11	191	124	-	124	315	500	
Miscellaneous expense	-	-	-	-	-	-	-	-	-	-	2	
Total nonpersonnel expenses	<u>207,855</u>	<u>14,917</u>	<u>55,251</u>	<u>18,548</u>	<u>7,611</u>	<u>304,182</u>	<u>38,025</u>	<u>199</u>	<u>38,224</u>	<u>342,406</u>	<u>415,568</u>	
Total expenses	<u>\$ 237,658</u>	<u>\$ 102,481</u>	<u>\$ 74,168</u>	<u>\$ 39,822</u>	<u>\$ 20,286</u>	<u>\$ 474,415</u>	<u>\$ 113,972</u>	<u>\$ 71,656</u>	<u>\$ 185,628</u>	<u>\$ 660,043</u>	<u>\$ 687,679</u>	

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

SOLIDARIDAD NORTH AMERICA
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017
(Comparative Information for the Year Ended December 31, 2016)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 628,417	\$ 464,286
Changes in operating assets and liabilities		
Grants receivable	(536,319)	(140,693)
Prepaid expenses	(3,375)	38
Advances - affiliates	(99,128)	(38,124)
Deposits	-	225
Accounts payable	-75	0
Accounts payable - affiliates	288,970	1,805
Accrued vacation	10,408	8,915
Accrued expenses	2,500	(4,000)
Net cash provided by operating activities	<u>291,398</u>	<u>292,452</u>
Net change in cash and cash equivalents	291,398	292,452
Cash and cash equivalents, beginning of year	<u>408,973</u>	<u>116,521</u>
Cash and cash equivalents, end of year	<u>\$ 700,371</u>	<u>\$ 408,973</u>

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

NOTE 1 - ORGANIZATION

Solidaridad North America (the “Organization”), a California Public Benefit Corporation, is the “face” of the Solidaridad Network in the USA and Canada. The Solidaridad Network is an international civil society organization with more than 45 years of global experience in facilitating the development of socially responsible, ecologically sound and economically viable supply chains. Solidaridad Network works across numerous supply chains and operates through nine regional offices on five continents.

Solidaridad North America brings together supply chain actors and engages them in innovative solutions to improve production, ensuring the transition to a sustainable and inclusive economy that maximizes the benefit for all.

We envision a world in which all we produce, and all we consume, can sustain us while respecting the planet, each other and the next generations.

Solidaridad North America contributes to the following projects:

The Walmart Foundation continued to support a program to create an enabling environment for female farmers in the cotton supply chain of China, to increase participation and leadership from women in ongoing Better Cotton Initiative (BCI) projects, improve livelihoods, reduce impact on the environment and women’s health, and positively impact the community.

The David and Lucile Packard Foundation continued to support the second phase of a project to improve smallholder palm oil production in Indonesia while reducing conversion of forest and peat. The Foundation also agreed to continue support for a third phase commencing in 2018.

Solidaridad North America is managing The Nature Conservancy funded project to address deforestation from soy farming, implemented by Solidaridad South America and Solidaridad China.

PepsiCo continued its support for a program to improve the sustainability of smallholder sugarcane farmers in India, with an emphasis on increasing productivity together with more efficient use of water and other inputs.

Mars provided additional support for the same Indian sugarcane farmers sustainability program.

Solidaridad North America continues the oversight and management of the relationship with the MasterCard Foundation for that organization’s support of Solidaridad West Africa’s Youth in Cocoa program in Ghana. Additionally, Solidaridad North America serves on the Foundation’s steering committee for its Youth Forward Initiative, of which the Ghana project is a part.

SOLIDARIDAD NORTH AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP), which reflects revenues when earned and expenses as incurred.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization has no permanently restricted net assets as of December 31, 2017.

Cash and Cash Equivalents

The Organization considers all unrestricted highly liquid investments with a maturity of three months or less at the purchase date to be cash equivalents.

Grants and Accounts Receivable

Grants and Accounts Receivable represent program grants and operating receivables from Nonprofit Organizations. Grants and accounts receivable have been reviewed by management and it has been determined that there is no requirement for an allowance for doubtful accounts as of December 31, 2017.

Contributions Receivable

Unconditional receivables are recognized as revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Unconditional receivables are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional receivables are recognized only when the conditions on which they depend are substantially met and the receivables become unconditional.

Fixed Assets

The Organization records acquisitions of items with a cost of \$5,000 or more as fixed assets. Fixed assets are recorded at cost when purchased and at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the fixed assets. As of December 31, 2017, the Organization had no fixed assets.

Contracts and Consultants

Payments to entities in and outside the United States by the Organization are only made upon execution of a written contract agreement signed by the two parties outlining the terms of the contract. Adherence to the terms is monitored by the Organization's management and no subsequent payments are made until contractor has demonstrated compliance terms.

SOLIDARIDAD NORTH AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted and Unrestricted Revenue

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. When a donor-specified restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as Net Assets Released from Restrictions.

Donated Services

The Organization recognizes donated services and goods in-kind when (a) the services required specialized knowledge or skill and (b) if the services or goods were not donated, the Organization would have purchased the services at fair market value.

Allocation of Functional Expenses

Salaries are allocated to supporting and program services based on management's estimate of the level of effort in each activity. Common costs are allocated based primarily on the ratio of salary costs of each activity to total salary costs.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Income Taxes

The Organization is exempt from income taxes under Internal Revenue Section 501(c)(3). The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

Recent Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions", and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-05 is effective for years beginning after December 15, 2017 and interim periods within years beginning after December 15, 2018, with early adoption permitted. The Organization is currently evaluating the impact the adoption of this guidance will have on its financial statements.

SOLIDARIDAD NORTH AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for years beginning after December 15, 2018. The Organization has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

NOTE 3 – CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances at two financial institutions. Accounts at each institution are insured up to \$250,000. The Organization did not have any uninsured cash balances at December 31, 2017.

At December 31, 2017, three donors comprised 91% of total revenue and 90% of total grants receivable for the year then ended.

NOTE 4 – RELATED PARTIES

The Organization works with independent Solidaridad affiliates in locations around the world, receiving grants and support for operations and programs and paying program service fees to subcontractors. For the year ended December 31, 2017, grants from Stichting Solidaridad (Netherlands) totaled \$354,001. In addition, the Organization received payroll reimbursements from Fundación Solidaridad Central America, Mexico & Caribbean in the amount of \$167,816, which were treated as reductions of payroll and related expenses.

For the year ended December 31, 2017, advances for program expenses paid to Solidaridad Asia Limited totaled \$312,000, and to Fundación Solidaridad Latin America - Brazil totaled \$50,250. As of December 31, 2017, the unspent balance on these advances are included in the Statement of Financial Position as advances – affiliates.

Amounts obligated to affiliates through subgrant agreements in which expenses have not been incurred are recorded as payables with an offsetting prepaid as of December 31, 2017. Total unexpensed obligation to Solidaridad Asia Limited totaled \$67,500, to Solidaridad China totaled \$173,250, and to Fundación Solidaridad Latin America - Brazil totaled \$50,250. These balances are included in the Statement of Financial Position as prepaid expenses – affiliates and accounts payable – affiliates.

SOLIDARIDAD NORTH AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

	Beginning	Additions	Releases	Ending
Restricted as to purpose:				
Oil Palm Production - Indonesia	\$ 255,724	\$ 520,000	\$ 237,659	\$ 538,065
Ghana Youth Program	240,241	236,856	102,481	374,616
Sustainable Sugar Cane Program	150,000	75,000	74,168	150,832
Creating and Enabling Environment for Female Farmers in the Cotton Supply of China	22,387	-	22,387	-
Collaboration for Forests and Agriculture – Chinese Soy	-	299,575	39,822	259,753
Partnership for Sustainable & Climate Smart Sugarcane Growing in India	<u>-</u>	<u>30,104</u>	<u>9,684</u>	<u>20,420</u>
Total	<u>\$ 668,352</u>	<u>\$ 1,161,535</u>	<u>\$ 486,201</u>	<u>\$ 1,343,686</u>

NOTE 6 – OPERATING LEASES

The Organization leases office space under an operating lease that terminated on January 31, 2018 and converted to a month-to-month lease thereafter, providing for monthly lease payments of \$1,100. Rent paid under facilities leases for the year ended December 31, 2017 was \$11,272.

Future minimum lease payments are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2018	\$ 935

NOTE 7 – RETIREMENT PLAN

The Organization has a Simplified Employee Pension (SEP) plan under Section 408(k) of the Internal Revenue Code, which covers all employees at least 21 years in age. The Organization determines the contributions to be paid to all eligible employees on a yearly basis. For the year ended December 31, 2017, the Organization made \$6,730 in employer contributions.

SOLIDARIDAD NORTH AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 8 – MASTERCARD SUBAWARD AGREEMENT

During 2016, the Organization entered into a five-year funding agreement with Solidaridad Netherlands as a subrecipient of a Master Agreement from the MasterCard Foundation in the amount of \$1,343,407. As of December 31, 2017, \$787,738 of this grant is deemed conditional based on annual approval of funding disbursements from the MasterCard Foundation.

The conditional portion of the grant will not be recognized as an asset or revenue until the annual appropriation has been approved by the grantor. Future disbursements scheduled for approval are as follows:

<u>Year Ending December 31,</u>	
2018	\$ 287,402
2019	242,063
2020	<u>258,273</u>
Total	<u>\$ 787,738</u>

The Organization expects to fulfill the terms of the conditional grant. For the year ended December 31, 2017, the Organization recognized \$236,856 of revenue related to this grant, which is included in the Statement of Activities as grants and contributions.

NOTE 9 – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through April 4, 2018, the date which the financial statements were available to be issued, and determined that no reportable events occurred.