

Solidaridad

FINANCIAL REPORT

December 31, 2019

Solidaridad North America



SOLIDARIDAD NORTH AMERICA

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December 31, 2019

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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, 2019, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2019, 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 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 31, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Singer Lewak LLP

July 28, 2020

SOLIDARIDAD NORTH AMERICA

STATEMENT OF FINANCIAL POSITION

December 31, 2019

(Summarized Information for as of December 31, 2018)

	ASSETS	
	<u>2019</u>	<u>2018</u>
Assets		
Cash	\$ 637,838	\$ 348,086
Grants receivable	-	260,000
Advances – affiliates	113,630	157,403
Prepaid expenses and deposits	<u>1,650</u>	<u>5,064</u>
Total assets	<u>\$ 753,118</u>	<u>\$ 770,553</u>
	LIABILITIES AND NET ASSETS	
Liabilities		
Accounts payable and accrued expenses	<u>\$ 48,770</u>	<u>\$ 48,087</u>
Net assets		
Net assets without donor restrictions	202,613	336,183
Net assets with donor restrictions	<u>501,735</u>	<u>386,283</u>
Total net assets	<u>704,348</u>	<u>722,466</u>
Total liabilities and net assets	<u>\$ 753,118</u>	<u>\$ 770,553</u>

See notes to financial statements.

SOLIDARIDAD NORTH AMERICA

STATEMENT OF ACTIVITIES

Year Ended December 31, 2019

(Summarized Information for the Year Ended December 31, 2018)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total 2019</u>	<u>Total 2018</u>
Revenue and support				
Grants and contributions	\$ 196	\$ 400,000	\$ 400,196	\$ 95,095
Contracts	246,561	-	246,561	299,709
Net assets released from restrictions	<u>284,548</u>	<u>(284,548)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>531,305</u>	<u>115,452</u>	<u>646,757</u>	<u>394,804</u>
Expenses				
Program services	<u>309,712</u>	<u>-</u>	<u>309,712</u>	<u>785,232</u>
Supporting services				
Management and general	351,857	-	351,857	91,675
Fundraising	<u>3,306</u>	<u>-</u>	<u>3,306</u>	<u>43,800</u>
Total supporting services	<u>355,163</u>	<u>-</u>	<u>355,163</u>	<u>135,475</u>
Total expenses	<u>664,875</u>	<u>-</u>	<u>664,875</u>	<u>920,707</u>
Change in net assets	(133,570)	115,452	(18,118)	(525,903)
Net assets, beginning of year	<u>336,183</u>	<u>386,283</u>	<u>722,466</u>	<u>1,248,369</u>
Net assets, end of year	<u>\$ 202,613</u>	<u>\$ 501,735</u>	<u>\$ 704,348</u>	<u>\$ 722,466</u>

See notes to financial statements.

SOLIDARIDAD NORTH AMERICA

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2019

(Summarized Information for the Year Ended December 31, 2018)

	Program Services					Supporting Services				Total 2019	Total 2018	
	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	Management and General	Fundraising	Total			
Personnel expenses												
Salaries and wages	\$ 11,108	\$ 17,441	\$ (11,099)	\$ -	\$ 4,716	\$ 22,166	\$ 194,276	\$ -	\$ 194,276	\$ 216,442	\$ 263,903	
Benefits and taxes	3,321	5,274	(2,408)	-	1,397	7,584	50,986	-	50,986	58,570	56,044	
Total personnel expenses	14,429	22,715	(13,507)	-	6,113	29,750	245,262	-	245,262	275,012	319,947	
Nonpersonnel expenses												
Project expenses	229,105	-	29,709	19,716	-	278,530	-	-	-	278,530	527,141	
Travel and meetings	978	154	(336)	-	27	823	44,642	-	44,642	45,465	23,774	
Professional fees	99	356	(910)	-	42	(413)	28,004	-	28,004	27,591	22,725	
Office expense	348	702	(543)	-	147	654	16,149	3,306	19,455	20,109	12,694	
Occupancy	496	882	(476)	-	209	1,111	10,109	-	10,109	11,220	11,250	
Insurance	67	346	(116)	-	28	325	3,124	-	3,124	3,449	2,791	
Bank service	-	-	(15)	-	-	(15)	35	-	35	20	375	
Miscellaneous expense	(1,876)	10	810	-	3	(1,053)	4,532	-	4,532	3,479	10	
Total nonpersonnel expenses	229,217	2,450	28,123	19,716	456	279,962	106,595	3,306	109,901	389,863	600,760	
Total expenses	\$ 243,646	\$ 25,165	\$ 14,616	\$ 19,716	\$ 6,569	\$ 309,712	\$ 351,857	\$ 3,306	\$ 355,163	\$ 664,875	\$ 920,707	

See notes to financial statements.

SOLIDARIDAD NORTH AMERICA
STATEMENT OF CASH FLOWS
Year Ended December 31, 2019
(Summarized Information for the Year Ended December 31, 2018)

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ (18,118)	\$ (525,903)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Change in operating assets and liabilities:		
Grants receivable	260,000	484,575
Prepaid expenses and deposits	3,414	269
Prepaid expenses – affiliates	-	290,775
Advances – affiliates	43,773	(20,151)
Accounts payable and accrued expenses	683	(17,166)
Accounts payable – affiliates	-	(273,909)
	289,752	(61,510)
Net cash provided by (used in) operating activities	289,752	(61,510)
Net change in cash	289,752	(61,510)
Cash, beginning of year	348,086	409,596
Cash, end of year	\$ 637,838	\$ 348,086

See notes to financial statements.

NOTE 1 – ORGANIZATION

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 commodity supply chains globally. Solidaridad Network works across numerous supply chains and operates through nine regional offices on five continents.

Solidaridad North America (the “Organization”), a California Public Benefit Corporation, represents the Solidaridad Network in the USA and Canada. The Organization 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.

Solidaridad North America contributes to the following projects:

The David and Lucile Packard Foundation continued to support the third 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 fourth phase commencing in December 2019.

Solidaridad North America completed The Nature Conservancy funded project to address deforestation from soy farming, implemented by Solidaridad South America and Solidaridad China in 2019.

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.

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 Financial Presentation

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

- *Net Assets without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- *Net Assets with Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. 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 reported as increases in net assets with donor restrictions, depending on the nature of the restriction. 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.

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the audited financial statements for the year ended December 31, 2018, from which the summarized information was derived.

Grants Receivable

Grants Receivable represent program grants and operating receivables from nonprofit organizations and are recorded at net realizable value. The Organization determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Grants are written off when deemed uncollectable. Management has reviewed grants receivable and has determined no allowance for uncollectable grants receivable was required as of December 31, 2019. At December 31, 2019, the Organization had a conditional grant from a foundation for \$258,273, which will be paid out in 2020.

SOLIDARIDAD NORTH AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

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 payments are made when the contractor has demonstrated compliance with the terms of the agreement.

Functional Allocation of 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.

Income Taxes

Solidaridad North America is organized as a California nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal taxes under Internal Revenue Code (IRC) Section 501(c)(3). The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been determined not to be a private foundation under IRC Section 509(a)(1). The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. Management has determined that the Organization is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

SOLIDARIDAD NORTH AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments and Credit Risk

The Organization manages deposit concentration risk by placing cash with financial institutions believed by the Organization to be creditworthy. At times, amounts on deposit may exceed insured limits. To date, the Organization has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from foundations and organizations supportive of the Organization's mission. For the year ended December 31, 2019, two donors comprised 100% of total revenue.

Change in Accounting Principle

During the year ended 2019, the Organization adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Organization applied the adoption on a modified prospective basis which did not have an impact on the Organization's results of operations or financial position.

NOTE 3 – FINANCIAL ASSETS AND LIQUIDITY RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash	\$ 637,838
Advances – affiliates	<u>113,630</u>
	<u>\$ 751,468</u>

The Organization considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

SOLIDARIDAD NORTH AMERICA

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 4 – AFFILIATED ORGANIZATIONS

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, 2019, grants from Stichting Solidaridad (Netherlands) totaled \$246,513. In addition, the Organization received payroll and expense reimbursements from Fundación Solidaridad Central America, Mexico & Caribbean in the amount of \$172,638, which were treated as reductions of payroll and related expenses.

For the year ended December 31, 2019, advances for program expenses paid to Solidaridad Asia Limited totaled \$258,814, and to Fundación Solidaridad Latin America – Brazil totaled \$19,716. As of December 31, 2019, the unspent balance on these advances is included in the statement of financial position as advances – affiliates.

NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, 2019, net assets with donor restrictions are restricted for the following purposes or periods:

<i>Subject to expenditure for a specified purpose</i>	
Oil Palm Production – Indonesia	\$ 450,458
Sustainable Sugar Cane Program	<u>51,277</u>
	<u>\$ 501,735</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of the passage of time or other events specified by the donors as follows for the year ended December 31, 2019:

<i>Satisfaction of purpose restrictions</i>	
Oil Palm Production - Indonesia	\$ 250,215
Sustainable Sugar Cane Program	14,617
Collaboration for Forests and Agriculture – Chinese Soy	<u>19,716</u>
	<u>\$ 284,548</u>

NOTE 6 – RETIREMENT PLAN

The Organization has a Simplified Employee Pension plan under Section 408(k) of the IRC, 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, 2019, the Organization made \$11,815 in employer contributions.

NOTE 7 – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through July 28, 2020, the date which the financial statements were available to be issued, and determined that no reportable events occurred.

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak to be a pandemic. The disruption resulting from the COVID-19 pandemic is currently expected to be temporary, but there is considerable uncertainty around the duration and the Organization expects this matter to negatively impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

On May 8, 2020, the Organization was informed by a bank that the U.S. Small Business Administration (SBA) approved the Organization's request for a loan under the SBA's Paycheck Protection Program (PPP) as authorized under the Coronavirus Aid, Relief and Economic Security (CARES) Act. The Organization signed a promissory note in the amount of \$67,777 for a PPP loan and, in accordance with the CARES Act, the Organization will use the PPP loan proceeds for eligible costs that should result in forgiveness of the PPP loan. The PPP loan bears interest at 1.0% and will mature on May 8, 2022.