Rare and Affiliates

Consolidated Financial Report
September 30, 2017

Contents

Independent Auditor's Report

To the Board of Trustees
Rare and Affiliates

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Rare and Affiliates (Rare), which comprise the consolidated balance sheets as of September 30, 2017 and 2016, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to consolidated 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rare as of September 30, 2017 and 2016, and the change in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our reports dated May 25, 2018, and April 13, 2017, on our consideration of Rare's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rare's internal control over financial reporting and compliance.

RSM US LLP

McLean, Virginia
May 25, 2018

Rare and Affiliates

Consolidated Balance Sheets
September 30, 2017 and 2016

	2017	2016
Assets		
Operating assets:		
Cash and cash equivalents	**$ 2,324,472**	$ 3,007,588
Grants and contributions receivable, net	**15,274,497**	6,073,755
Prepaid expenses and other assets	**681,558**	586,528
Investments	**8,187,370**	7,576,433
Assets held for deferred compensation	**1,593,412**	1,324,636
Property and equipment, net	**343,121**	430,672
Total operating assets	**28,404,430**	18,999,612
Portfolio assets – Meloy Fund I L.P. (Notes 1 and 3):		
Cash and cash equivalents	**443,982**	-
Debt investment receivables, net	**836,688**	-
Total portfolio assets	**1,280,670**	-
Total assets	**$ 29,685,100**	$ 18,999,612
Liabilities and Net Assets		
Operating liabilities:		
Accounts payable and accrued expenses	**$ 3,642,022**	$ 2,868,006
Refundable advances	**2,678,452**	2,062,140
Deferred compensation liabilities	**1,593,412**	1,324,636
Total operating liabilities	**7,913,886**	6,254,782
Portfolio liabilities – Meloy Fund I L.P. (Notes 1 and 3):		
Accounts payable and accrued expenses	**83,802**	-
Note payable – Meloy Fund I L.P. (Note 3)	**711,688**	-
Total portfolio liabilities	**795,490**	-
Total liabilities	**8,709,376**	6,254,782
Commitments and contingencies (Notes 8 and 9)		
Net assets:		
Unrestricted:		
Undesignated	**894,209**	1,345,776
Board designated fund	**8,480,177**	7,867,965
Total Rare unrestricted	**9,374,386**	9,213,741
Noncontrolling interest in Meloy Fund I L.P. (Note 3)	**485,180**	-
Total unrestricted	**9,859,566**	9,213,741
Temporarily restricted	**11,116,158**	3,531,089
Total net assets	**20,975,724**	12,744,830
Total liabilities and net assets	**$ 29,685,100**	$ 18,999,612

See notes to consolidated financial statements.

Rare and Affiliates

Consolidated Statements of Activities
Years Ended September 30, 2017 and 2016

	2017			2016		
	Unrestricted	**Temporarily Restricted**	**Total**	Unrestricted	Temporarily Restricted	Total
Operating support and revenue:						
Grants and contributions	**$ 20,630,492**	**$ 12,117,523**	**$ 32,748,015**	$ 18,544,535	$ 200,000	$ 18,744,535
In-country grants and contributions	**259,625**	**-**	**259,625**	411,759	-	411,759
Contributed services and materials	**243,126**	**-**	**243,126**	111,981	-	111,981
Net assets released from restrictions	**4,532,454**	**(4,532,454)**	**-**	4,315,462	(4,315,462)	-
Total operating support and revenue	**25,665,697**	**7,585,069**	**33,250,766**	23,383,737	(4,115,462)	19,268,275
Operating expenses:						
Program services	**22,000,484**	**-**	**22,000,484**	20,268,485	-	20,268,485
Fundraising	**2,282,439**	**-**	**2,282,439**	2,221,332	-	2,221,332
Administrative	**1,410,462**	**-**	**1,410,462**	1,646,805	-	1,646,805
Total operating expenses	**25,693,385**	**-**	**25,693,385**	24,136,622	-	24,136,622
Other income:						
Investment income	**104,134**	**-**	**104,134**	199,681	-	199,681
Changes in net assets before non-controlling interest	**76,446**	**7,585,069**	**7,661,515**	(553,204)	(4,115,462)	(4,668,666)
Other:						
Portfolio interest – Meloy Fund I L.P. (Note 3)	**64,379**	**-**	**64,379**	-	-	-
Contribution by limited partners to Meloy Fund I L.P. (Note 3)	**505,000**	**-**	**505,000**	-	-	-
	569,379	**-**	**569,379**	-	-	-
Change in net assets	**645,825**	**7,585,069**	**8,230,894**	(553,204)	(4,115,462)	(4,668,666)
Net assets:						
Beginning of year	**9,213,741**	**3,531,089**	**12,744,830**	9,766,945	7,646,551	17,413,496
End of year	**$ 9,859,566**	**$ 11,116,158**	**$ 20,975,724**	$ 9,213,741	$ 3,531,089	$ 12,744,830

See notes to consolidated financial statements.

Rare and Affiliates

Consolidated Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	**$ 8,230,894**	$ (4,668,666)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**185,064**	245,675
Bond premium amortization	**47,231**	63,768
(Decrease) increase in the allowance for doubtful accounts	**(7,724)**	47,083
Increase (decrease) in discount on pledges	**190,200**	(55,783)
Net loss (gain) on sale of investments	**72,851**	(10,032)
Proceeds from non-controlling partners	**(505,000)**	-
(Increase) decrease in:		
Grants and contributions receivables	**(9,383,218)**	3,899,931
Prepaid expenses and other assets	**(95,030)**	136,362
Assets held for deferred compensation	**(268,776)**	(172,162)
Increase (decrease) in:		
Accounts payable and accrued expenses	**857,818**	804,384
Refundable advances	**616,312**	(251,946)
Deferred compensation liabilities	**268,776**	75,012
Net cash provided by operating activities	**209,398**	113,626
Cash flows from investing activities:		
Purchase of property and equipment	**(97,513)**	(183,395)
Purchase of investments	**(3,127,517)**	(1,318,484)
Proceeds from sale of investments	**1,559,810**	1,352,133
Net cash used in investing activities	**(1,665,220)**	(149,746)
Cash flows from financing activities:		
Proceeds from limited partners in Meloy Fund I L.P.	**505,000**	-
Proceeds from note payable in Meloy Fund I L.P.	**711,688**	-
Principal payments on line of credit	**(3,000,000)**	(3,000,000)
Proceeds from line of credit	**3,000,000**	3,000,000
Net cash provided by financing activities	**1,216,688**	-
Net decrease in cash and cash equivalents	**(239,134)**	(36,120)
Cash and cash equivalents:		
Beginning	**3,007,588**	3,043,708
Ending	**$ 2,768,454**	$ 3,007,588
Cash and cash equivalents – Operating	**$ 2,324,472**	$ 3,007,588
Cash and cash equivalents – Portfolio	**443,982**	-
	$ 2,768,454	$ 3,007,588

See notes to consolidated financial statements.

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: Rare is a not-for-profit conservation organization that is solution-oriented and focused on inspiring change so people and nature thrive. Rare is incorporated under the laws of the state of Virginia and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Headquartered in Arlington, Virginia, Rare has offices in Brazil, China, Philippines, Mozambique, Indonesia, Colombia and Mexico.

Rare believes that for every major environmental challenge facing our planet, people are both the problem and the solution; dwindling forests and fisheries; threats to biodiversity; resources in crisis; harmful climate change. Rare, a global conservation organization, believes the key to addressing these threats lies with the people and communities that face the challenges firsthand, where their livelihoods and their lives depend on finding solutions.

For over 40 years, Rare has lead over 400 local programs in more than 55 counties worldwide, working directly with the communities to better manage their natural resources, restore fish populations, protect coral reefs, ensure access to clean fresh water and create a sustainable food supply. Rare is a global leader in the use of behavioral science to inspire change at a local level, to achieve conservation impact on a global scale. To learn more, go to rare.org.

Rare Ventures, LLC, Meloy Fund I, G.P. and Meloy Fund I, L.P.: Rare Ventures, LLC (the Management Company), a Delaware limited liability company was formed in 2010 as a wholly owned subsidiary of Rare Inc. and, from time to time, provide contract services on behalf of Rare Inc.

During FY2017, Rare authorized the formation of The Meloy Fund I, L.P., (the Fund), a Delaware limited partnership, and incorporated The Meloy Fund I, G.P., LLC (the General Partner), a Delaware limited liability company, as a wholly owned subsidiary and to act as general partner for the Fund.

The purpose of the Fund, is to generate measurable social and environmental outcomes, in addition to financial returns for investors by making debt and equity investments in fishing and fisheries-related enterprises that have operations in Indonesia and the Philippines.

In March 2017, the Fund, the General Partner and the Management Company entered into a Fund Management Agreement, whereby the Management Company agreed to provide services to the General Partner and the Partnership including investigating, structuring and negotiating potential investments, managing the Partnership’s investments and advising the Partnership with respect to investment opportunities. The Management Company agreed to provide these services to the General Partner and the Partnership.

Through a separate management agreement between Rare Inc. and the Management Company, the Management Company will utilize the existing resources, knowledge and expertise at Rare Inc., in consideration of certain payments to be made to Rare in furtherance of its mission to inspire change so people and nature can thrive. This Management Agreement creates a contractual relationship for services to be rendered by Rare Inc., for the benefit of acting in the ordinary course of its business as an independent contractor. It does not create a partnership, joint venture or any like relationship with the General Partner or the Partnership.

For the purposes of financial reporting, the General Partner and the Management Company are consolidated with Rare. Although the Fund is a separate entity, it is also included in the consolidation.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

A summary of Rare's significant accounting policies follows:

Basis of accounting: The accompanying consolidated financial statements have been prepared on the accrual basis of accounting, whereby unconditional support is recognized when received, revenue is recognized when earned and expenses are recognized when incurred.

Principles of consolidation: All transactions between Rare, the Management Company, the General Partner, and the Fund, have been eliminated in consolidation. For the purpose of this report, the entities are collectively referred to as Rare.

Reclassifications: Certain items in the September 30, 2016, consolidated financial statements, have been reclassified to conform to the September 30, 2017, consolidated financial statement presentation. The reclassifications had no effect on the previously reported change in net assets.

Basis of presentation: Rare reports information regarding its consolidated financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets, as applicable.

Unrestricted net assets: Revenues derived from contributions and other inflows of assets whose use is not subject to donor-imposed stipulations. The Board of Trustees has designated a portion of Rare's unrestricted net assets to build and maintain an adequate level of liquidity to support the organization's day-to-day operations in the event of unforeseen shortfalls. Earnings from the designated funds are reinvested in the fund. The board designated fund totaled $8,480,177 and $7,867,965 at September 30, 2017 and 2016, respectively.

Temporarily restricted net assets: Revenues derived from contributions and other inflows of assets whose use is subject to donor-imposed stipulations that either expire by the passage of time or will be met by actions of Rare pursuant to those stipulations, such as usage for specific programs.

Permanently restricted net assets: Revenues derived from contributions and other inflows of assets whose use is subject to donor-imposed stipulations that the principal must be maintained permanently by Rare. Rare had no permanently restricted net assets at September 30, 2017 and 2016.

Cash and cash equivalents: Rare considers all cash and highly-liquid investments with initial maturities of three months or less and which present insignificant risk of change in value to be cash and cash equivalents. As of September 30, 2017 and 2016, this balance included cash and demand deposits with the bank.

Foreign operations: The accompanying consolidated financial statements include the worldwide operations of Rare (field and branch offices). At September 30, 2017 and 2016, assets held in foreign countries totaled approximately $351,600 and $456,500, respectively.

Financial and credit risk: Rare maintains its cash in bank accounts which, at times, may exceed insured limits. Rare has not experienced any losses in such accounts. Rare believes it is not exposed to any significant financial risk on cash.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Grants, contributions and contributions receivable: Grants and contributions are recognized as revenue and receivables in the year unconditional promises to give are received from the grantor/donor. They are reported as increases in the appropriate revenue category of net assets. Grants and contributions receivable that will not be collected within one year are discounted at a rate commensurate with the risks involved at the time the gift was pledged, based upon anticipated payment dates. Rare has established an allowance for uncollectible grants and contributions receivable in the amount of $186,341 and $194,065 at September 30, 2017 and 2016, respectively. Conditional promises to give are not reported as revenue until the conditions are substantially met.

On August 31, 2012, Rare entered into a Grant and Pledge Agreement (the Agreement) with a grantor to match, up to $20 million, on a one-for-one basis, the aggregate amount of unrestricted contributions made to Rare by individual donors making a contribution of $500,000 or more. The matching period is effective for contributions received from March 23, 2012, through September 30, 2017. The grantor stipulated that these unrestricted gifts up to $20 million would be matched through the one-for-one basis for an aggregate of $40 million in the challenge pool. Individual donors contributing to the $20 million match pool understand that as per the Agreement, revenue recorded and cash received cannot be expended until additional funds are received towards the $40 million challenge. At September 30, 2017 and 2016, Rare has $1,587,586 and $259,220, respectively, as an outstanding receivable from this donor. At September 30, 2017, the matching contribution has been recorded in full. No additional revenue is expected, except the cash payment for the outstanding receivable above.

On October 1, 2015, Rare received a grant agreement from a foundation in the amount of $11,469,000 to reform local fishing practices in the Philippines and Brazil. During the years ended September 30, 2017 and 2016, Rare recognized $5,552,830 and $5,093,187, respectively, in revenue. At September 30, 2017 and 2016, Rare recognized a refundable advance of $822,983 and $544,813, respectively, from this grant agreement.

Investments: Investments consist primarily of fixed income securities carried at fair market value based on quoted market prices as described in Note 2. To adjust the carrying value of these investments, the change in fair market value is recorded as a component of investment income on the consolidated statements of activities.

Allowable investments in corporate bonds, mutual funds and international bonds are stipulated in Rare’s investment policy. These investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is possible that changes in risks in the near term would materially affect investment balances and amounts reported in the consolidated financial statements. As of September 30, 2017, the net unrealized gain on investments was $72,698.

Property and equipment: Property and equipment with a unit cost greater than $1,500 are initially recorded at cost and thereafter depreciated on a straight-line basis over the estimated useful lives of the related depreciable assets, generally three to ten years. The cost of maintenance and repairs is recorded as an expense.

Sub-grants and awards: Rare recognizes expenses for sub-grants and awards at the time the sub-grantee meets the conditions of the grant agreement and submits a request for payment. Conditions of a grant agreement include program milestones and documented expenses.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Refundable advances: Represents cash received on grants and contributions for which some condition has yet to be met. Conditions of a grant or contribution may include future funds availability, matching funding, or the completion of project tasks and related expenditures.

Contributed goods and services: Contributions of services are recognized when they are received if the services either (a) create or enhance non-financial assets or (b) require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not donated. Contributed non-cash goods and services are recognized at fair value per the contracts with Rare partners, or as provided by donors.

Use of estimates: The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. Actual results could differ from those estimates.

Foreign currency transactions: The functional currency of Rare is the U.S. dollar. The consolidated financial statements and transactions of Rare’s foreign operations are generally maintained in the relevant local currency.

Foreign currency translation: Where local currencies are used, assets and liabilities are translated into U.S. dollars at the consolidated balance sheet date at the exchange rate in effect at the fiscal year-end. Gains and losses resulting from these translations are recognized on the consolidated statements of activities. Monthly expenses that are incurred by field offices in foreign countries are paid at local currency and then translated into U.S. dollars at the rate of exchange in effect during the month of the transaction.

Allocation of functional expenses: The costs of providing the programs and other supporting services have been summarized on a functional basis on the consolidated statements of activities. Expenses that relate directly to program or supporting services are allocated to that program or supporting service.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

The presentation of expenses on the consolidated statements of activities is primarily based on Rare's indirect cost rate agreement with the U.S. Government. This presentation does not fully satisfy the functional expense requirements of accounting principles generally accepted in the United States of America (U.S. GAAP). The table below has been added to the consolidated financial statements in order to satisfy the requirements of U.S. GAAP:

	For the Year Ended September 30, 2017		
	As Presented on the Statements of Activities	Adjustments to Arrive at U.S. GAAP	Functional Expense Totals (U.S. GAAP Basis)
Program services	$ 22,000,484	$ (927,164)	$ 21,073,320
Fundraising	2,282,439	(90,246)	2,192,193
Administrative	1,410,462	1,017,410	2,427,872
	$ 25,693,385	$ -	$ 25,693,385

	For the Year Ended September 30, 2016		
	As Presented on the Statements of Activities	Adjustments to Arrive at U.S. GAAP	Functional Expense Totals (U.S. GAAP Basis)
Program services	$ 20,268,485	$ (441,296)	$ 19,827,189
Fundraising	2,221,332	(44,130)	2,177,202
Administrative	1,646,805	485,426	2,132,231
	$ 24,136,622	$ -	$ 24,136,622

Tax-exempt status: Rare is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). Rare is subject to unrelated business income taxes under Section 512 of the IRC; however, in the opinion of management, no provision for income taxes is required to be made.

Rare follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under this guidance, Rare may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes and accounting in interim periods.

Management evaluated Rare's tax positions and concluded that Rare had taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance. Generally, Rare is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2014.

The General Partner and the Fund are limited partnerships, registered in the state of Delaware. For tax filing purposes, the General Partner is considered a disregarded entity. The limited partners of the Fund report their respective portions of the Fund income and expense on their income tax returns.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Recent accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 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 No. 2015-14, which defers the effective date of ASU No. 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. Management is currently evaluating the effect that the standard will have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of nonprofit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a nonprofit entity's liquidity, financial performance, and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier application is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. Management is currently evaluating the impact of this ASU on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Rare is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.

Subsequent events: Rare evaluated subsequent events through May 25, 2018, which is the date the consolidated financial statements were available to be issued.

Note 2. Investments and Fair Value Measurements

Investments at September 30, 2017 and 2016, consist of the following:

	2017	2016
Corporate bonds	$ 4,641,751	$ 3,969,375
Mutual funds-fixed income	3,545,619	3,607,058
	$ 8,187,370	$ 7,576,433

Note 2. Investments and Fair Value Measurements (Continued)

Investment income for the years ended September 30, 2017 and 2016, consists of the following:

	2017	2016
Dividends and interest	$ 176,985	$ 189,649
Net realized and unrealized (losses) gains	(72,851)	10,032
	$ 104,134	$ 199,681

The Accounting Standards Codification (the Codification) Topic on Fair Value Measurement establishes a framework for measuring fair value in accordance with U.S. GAAP, and expands disclosures about fair market value measurements. This enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking quality and reliability of the information used to determine fair value.

The provision applies to all assets and liabilities that are being measured and reported on a fair value basis, and are disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data

In determining the appropriate levels, Rare performs a detailed analysis of the assets and liabilities that are subject to the Fair Value Measurement Topic. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. There were no Level 3 inputs for any assets held by Rare at September 30, 2017 and 2016.

Note 2. Investments and Fair Value Measurements (Continued)

The tables below present the balances of assets measured at fair value on a recurring basis by level within the hierarchy:

	2017			
Description	Total	Level 1	Level 2	Level 3
Corporate bonds	$ 4,641,751	$ -	$ 4,641,751	$ -
Mutual funds	3,545,619	3,545,619	-	-
	8,187,370	3,545,619	4,641,751	-
Employee benefit plan:				
Mutual funds	1,593,412	1,593,412	-	-
Total assets	$ 9,780,782	$ 5,139,031	$ 4,641,751	$ -
Deferred compensation liabilities	$ 1,593,412	$ -	$ 1,593,412	$ -
	$ 1,593,412	$ -	$ 1,593,412	$ -

	2016			
Description	Total	Level 1	Level 2	Level 3
Corporate bonds	$ 3,969,375	$ -	$ 3,969,375	$ -
Mutual funds	3,607,058	3,607,058	-	-
	7,576,433	3,607,058	3,969,375	-
Employee benefit plan:				
Mutual funds	1,324,636	1,324,636	-	-
Total assets	$ 8,901,069	$ 4,931,694	$ 3,969,375	$ -
Deferred compensation liabilities	$ 1,324,636	$ -	$ 1,324,636	$ -
	$ 1,324,636	$ -	$ 1,324,636	$ -

Mutual funds included in Level 1 assets are actively traded, and fair market values for identical assets are readily obtainable.

Corporate and international bonds are included in Level 2 assets as identical assets that are not actively traded. The fair market values are based on quoted prices for similar assets in active markets or quoted prices for identical assets in markets that are not active. Deferred compensation liabilities are also Level 2 as they are based on Level 1 fair values but only indirectly.

Note 3. Meloy Fund I, L.P.

Debt investment receivables – Meloy Fund I, L.P.: The Meloy Fund I, L.P. makes debt and equity investments designed to catalyze the development and adoption of sustainable fisheries in related enterprises that support the recovery of coastal fisheries. In addition to providing a financial return, these debt investments are designed to have a positive impact on the lives of fishers and their households by placing approximately 1.2 million hectares of coastal habitats under improved fisheries management.

Note 3. Meloy Fund I, L.P. (Continued)

Management has reviewed the collectability of the debt investment receivables and determined an allowance for impairment is not necessary as of September 30, 2017. The fair value of the debt investment receivables, $836,688, is shown on the balance sheet at cost.

Scheduled repayments of debt investment receivables at September 30, 2017 are as follows:

Years ending September 30:	
2018	$ 714,063
2019	40,875
2020	40,875
2021	40,875
	$ 836,688

Interest income on debt investments is recognized when earned. During the year ended September 30, interest earned on debt investments was $64,279.

Notes payable – Meloy Fund I, L.P.: During the year, the Fund signed a convertible promissory note in the amount of $1,013,500 with one of its limited partners for the purpose of making debt investments. The Fund borrowed $836,688 of the $1,013,500 available. The note, which is due to mature on November 21, 2021, is secured by the underlying debt investments made by the Fund. Payments of principal and interest are made per the terms in the promissory note. At the first Fund closing, any outstanding principal and accrued unpaid interest will be converted into a capital contribution in the Fund by the limited partner. At September 30, 2017, the outstanding note payable was $711,688 and $125,000 was converted as a capital contribution to the Fund.

Contribution by limited partners to Meloy Fund, I L.P.: The changes in the noncontrolling partners' interests in the Fund are as follows:

Capital contribution by noncontrolling limited partners	$ 505,000
Net loss	(19,820)
Noncontrolling limited partners interest in Meloy Fund I, L.P., September 30, 2017	$ 485,180

Note 4. Property and Equipment

Property and equipment, net of accumulated depreciation, at September 30, 2017 and 2016, consists of the following:

	2017	2016
Office furniture and equipment	$ 690,012	$ 592,649
Leasehold improvements	249,395	249,395
Website	360,500	360,500
	1,299,907	1,202,544
Less accumulated depreciation and amortization	(956,786)	(771,872)
	$ 343,121	$ 430,672

Depreciation expense for the years ended September 30, 2017 and 2016 was $185,064 and $245,675, respectively.

Note 5. Grants and Contributions Receivable

As of September 30, 2017 and 2016, grants and contributions receivable are due as follows:

	2017	2016
Within one year	$ 6,818,338	$ 5,775,120
1 to 2 years	5,320,000	300,000
3 to 5 years	3,520,000	200,000
Gross grants and contributions receivable	15,658,338	6,275,120
Less present value discount	(197,500)	(7,300)
Less allowance for doubtful accounts	(186,341)	(194,065)
Net grants and contributions receivable	$ 15,274,497	$ 6,073,755

Conditional grants: At September 30, 2017 and 2016, $13,749,510 and $15,622,885, respectively, had been conditionally pledged to Rare. Rare did not receive a cash advance payment from the grantor and the specified conditions of the grant agreement were not yet met. As such, these amounts are not reported in the accompanying consolidated balance sheets or consolidated statements of activities. Conditional pledges are recognized as revenue when the specified conditions of the grant are met such as documented expenses or program deliverables. A refundable advance is recorded when a grantor makes a cash advance payment on a conditional pledge and Rare has not yet met the condition.

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at September 30, 2017 and 2016:

	2017	2016
Time restricted	$ 11,116,158	$ 3,531,089

During the years ended September 30, 2017 and 2016, net assets were released from restriction as follows:

	2017	2016
Time restricted	$ 4,532,454	$ 4,315,462

Note 7. Board Designated Fund

The primary investment objective of the board designated fund assets is capital preservation. Each year, management and the Board of Trustees review the total return against market indexes and other funds to evaluate performance. Future fund growth comes from surplus unrestricted net assets and investment earnings from the fund. On an annual basis, management recommends a contribution amount that is approved by the Board of Trustees. All earnings are reinvested in the fund.

Rare is governed subject to its governing documents. The Board of Directors has determined that the majority of Rare's contributions are subject to the terms of its governing documents.

Under the terms of the governing documents, the Board of Directors has the ability to distribute so much of the corpus of the Board designated fund as the Board of Directors in its sole discretion shall determine. As a result of the ability to distribute corpus, all Board Designated contributions are classified as unrestricted net assets for financial statement purposes. The Board Designated account contains no contributions that are classified as either temporarily restricted or permanently restricted.

The Board designated fund is unrestricted – designated for long-term investment net assets. Changes in the Board designated fund are as follows for the years ended September 30, 2017 and 2016:

	2017	2016
Board designated fund, beginning of year	$ 7,867,965	$ 7,639,638
Investment income	184,910	189,649
Net unrealized/realized gains (losses)	(72,698)	38,678
Contribution to Board Designated	500,000	-
Board designated fund, end of year	$ 8,480,177	$ 7,867,965

Note 8. Line of Credit

During 2016, Rare had a line of credit totaling $4,000,000 from J.P. Morgan. The line of credit was renewed in January 2017 for $3,000,000 with a variable interest rate equal to London Interbank Offered Rate (LIBOR) plus 1.35% and an expiration date of January 31, 2018. Investments are used as a collateral for this line of credit. As of September 30, 2017 and 2016, there were no balances due on the line of credit.

Note 9. Lease Commitments

On September 1, 2015, Rare entered into an operating lease agreement for space in the same office building it had its headquarters. The lease term commenced on December 1, 2015, and ends on November 30, 2025.

Rare also leases office space at other locations, as well as storage and miscellaneous furnishings and equipment under various non-cancelable operating leases. All lease expenditures are recognized on a straight-line basis ratably over the term of the lease. The difference between the straight-line expense and the required lease payment is reflected as deferred rent and is included in the liabilities in the accompanying consolidated balance sheets.

Note 9. Lease Commitments (Continued)

Future minimum lease payments related to these leases are as follows:

Years ending September 30:	
2018	$ 1,434,179
2019	1,356,409
2020	1,302,140
2021	1,334,694
2022	1,368,060
Thereafter	4,559,379
	$ 11,354,861

During the years ended September 30, 2017 and 2016, rent expense was $1,393,686 and $1,350,345, respectively. The Arlington headquarters office rent charges include standard operating expenses.

Note 10. Employee Benefit Plan

Rare sponsors a defined-contribution retirement plan under Section 401(k) of the IRC for all employees who meet certain service requirements. The plan provides for employee contributions not to exceed annual limits as determined by the Internal Revenue Service (IRS). In 2017 and 2016, Rare contributed 3% of base salary for all eligible employees and matched 4% of each employee's contribution. Employees are vested in the employer contributions after two years of service. Retirement plan expense for the years ended September 30, 2017 and 2016, was $667,407 and $347,947, respectively.

During 2003, Rare established a non-qualified deferred compensation plan, the International Retirement Savings Plan (IRSP), to cover all foreign employees who meet certain service requirements. There are no employee contributions allowed under the IRSP plan. Rare contributes 3% of compensation for all eligible employees and increases its contribution to 7% of compensation after completion of two years of service. New participants to the plan vest over five years. At September 30, 2017 and 2016, the value of the IRSP was $904,023 and $735,388, respectively. There is a corresponding deferred compensation liability in the same amount that is included in deferred compensation liabilities on the consolidated balance sheets.

During 2011, upon Board approval, Rare established a 457(f), non-qualified compensation plan, for certain key employees. This plan is funded annually based on an amount that is approved by the Board. For the years ended September 30, 2017 and 2016, $79,288 and $77,834, respectively, was approved and funded. As of September 30, 2017 and 2016, the 457(f) liability amounted to $357,503 and $340,630, respectively.

Rare also established a Section 457(b) supplemental employee retirement plan (the Plan). Under the terms of the Plan, eligible employees elect to deposit a percentage of their compensation into the Plan, subject to IRS limits. Employee deposits and accumulations are accounted for as an asset and offsetting liability on Rare's consolidated balance sheets until they are distributed to the participants. The amount of deposits and related accumulations were $331,886 and $248,618 at September 30, 2017 and 2016, respectively. As of September 30, 2017 and 2016, the 457(b) liability amounted to $331,886 and $248,618, respectively.

Note 10. Employee Benefit Plan (Continued)

The assets held for deferred compensation and the deferred compensation liabilities at September 30, 2017 and 2016, are as follows:

	2017	
	Asset	Liability
IRSP Plan	$ 904,023	$ 904,023
457(b) Plan	331,886	331,886
457(f) Plan	357,503	357,503
	$ 1,593,412	$ 1,593,412

	2016	
	Asset	Liability
IRSP Plan	$ 735,388	$ 735,388
457(b) Plan	248,618	248,618
457(f) Plan	340,630	340,630
	$ 1,324,636	$ 1,324,636

Note 11. Contributed Service and Materials

During the years ended September 30, 2017 and 2016, the value of contributed services and materials was as follows:

	2017		
	Program Services	Administrative	Total
Consulting and contract fees	$ -	$ 243,126	$ 243,126
In-country direct contributions	259,625	-	259,625
	$ 259,625	$ 243,126	$ 502,751

	2016		
	Program Services	Administrative	Total
Consulting and contract fees	$ -	$ 111,981	$ 111,981
In-country direct contributions	411,759	-	411,759
	$ 411,759	$ 111,981	$ 523,740

Direct cash contributions are distinguished from in-kind donations when funds are paid directly in-country by a third-party on behalf of the project, rather than for the provision of goods and services.

Note 12. Related Party Transaction

In June 2017, Rare entered into a service contract with a company that is majority-owned by a member of the Rare governing board. The contract is for a boat charter expedition on the National Geographic Quest ship to the Mesoamerican Reef areas of Belize and Honduras. The total contract amount is $421,875. As of September 30, 2017, Rare has paid $210,938 of the total contract amount which is shown on the consolidated balance sheets under prepaid expenses.

RSM

RSM US LLP

Independent Auditor's Report on the Supplementary Information

To the Board of Directors
Rare and Affiliates

We have audited the consolidated financial statements (the financial statements) of Rare as of and for the years ended September 30, 2017 and 2016, and have issued our report thereon, which contains an unmodified opinion on those financial statements. See pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole.

The accompanying consolidating and other information is presented for purposes of additional analysis rather than to present the financial position and change in net assets of the individual companies and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The consolidating and other information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

RSM US LLP

McLean, Virginia
May 25, 2018

Rare and Affiliates

Consolidating Balance Sheet
September 30, 2017

	Rare	Meloy Fund I. G.P.	Meloy Fund I. L.P.	Elimination	Total
Assets					
Operating assets:					
Cash and cash equivalents	$ 2,324,472	$ -	$ -	$ -	$ 2,324,472
Grants and contributions receivable, net	15,274,497	-	-	-	15,274,497
Prepaid expenses and other assets	681,558	-	-	-	681,558
Investments	8,187,370	-	-	-	8,187,370
Assets held for deferred compensation	1,593,412	-	-	-	1,593,412
Property and equipment, net	343,121	-	-	-	343,121
Total operating assets	28,404,430	-	-	-	28,404,430
Portfolio assets – Meloy Fund I L.P.:					
Cash and cash equivalents	-	-	443,982	-	443,982
Debt investment receivables, net	-	-	836,688	-	836,688
Total portfolio assets	-	-	1,280,670	-	1,280,670
Total assets	$ 28,404,430	$ -	$ 1,280,670	$ -	$ 29,685,100
Liabilities and Net Assets					
Operating liabilities:					
Accounts payable and accrued expenses	$ 3,642,022	$ -	$ -	$ -	$ 3,642,022
Refundable advances	2,678,452	-	-	-	2,678,452
Deferred compensation liabilities	1,593,412	-	-	-	1,593,412
Total operating liabilities	7,913,886	-	-	-	7,913,886
Portfolio liabilities – Meloy Fund I L.P.:					
Accounts payable and accrued expenses	-	-	83,802	-	83,802
Note payable – Meloy Fund I L.P.	-	-	711,688	-	711,688
Total portfolio liabilities	-	-	795,490	-	795,490
Total liabilities	7,913,886	-	795,490	-	8,709,376
Net assets:					
Unrestricted:					
Undesignated	894,209	-	-	-	894,209
Board designated fund	8,480,177	-	-	-	8,480,177
Total Rare unrestricted	9,374,386	-	-	-	9,374,386
Noncontrolling interest in Meloy Fund I L.P.	-	-	485,180	-	485,180
Total unrestricted	9,374,386	-	485,180	-	9,859,566
Temporarily restricted	11,116,158	-	-	-	11,116,158
Total net assets	20,490,544	-	485,180	-	20,975,724
Total liabilities and net assets	$ 28,404,430	$ -	$ 1,280,670	$ -	$ 29,685,100

Rare and Affiliates

Consolidating Statement of Activities
Year Ended September 30, 2017

	Rare	Meloy Fund I. G.P.	Meloy Fund I. L.P.	Elimination	Total
Operating support and revenue:					
Grants and contributions	$ 32,748,015	$ 260,556	$ -	$ (260,556)	$ 32,748,015
In-country grants and contributions	259,625	-	-	-	259,625
Contributed services and materials	243,126	-	-	-	243,126
Total operating support and revenue	33,250,766	260,556	-	(260,556)	33,250,766
Operating expenses:					
Program services	21,916,285	260,556	84,199	(260,556)	22,000,484
Fundraising	2,282,439	-	-	-	2,282,439
Administrative	1,410,462	-	-	-	1,410,462
Total operating expenses	25,609,186	260,556	84,199	(260,556)	25,693,385
Other income:					
Investment income	104,134	-	-	-	104,134
Changes in net assets before non-controlling interest	7,745,714	-	(84,199)	-	7,661,515
Other:					
Portfolio interest – Meloy Fund I L.P.	-	-	64,379	-	64,379
Contribution by limited partners to Meloy Fund I L.P.	-	-	505,000	-	505,000
	-	-	569,379	-	569,379
Change in net assets	7,745,714	-	485,180	-	8,230,894
Net assets:					
Beginning of year	12,744,830	-	-	-	12,744,830
End of year	$ 20,490,544	$ -	$ 485,180	$ -	$ 20,975,724

Rare and Affiliates

Consolidated Statements of Functional Expenses
Years Ended September 30, 2017 and 2016

	2017				2016			
	Program Services	**Fundraising**	**Administrative**	**Total**	Program Services	Fundraising	Administrative	Total
Salaries and benefits	**$ 11,686,866**	**$ 1,613,369**	**$ 1,350,052**	**$ 14,650,287**	$ 11,549,058	$ 1,564,449	$ 1,249,996	$ 14,363,503
Consulting and professional fees	**3,719,336**	**175,048**	**312,632**	**4,207,016**	2,919,515	36,764	253,960	3,210,239
Travel and meetings	**2,674,729**	**178,766**	**122,997**	**2,976,492**	2,292,697	293,522	75,239	2,661,458
Subgrants and awards	**1,152,246**	**-**	**-**	**1,152,246**	1,383,208	-	-	1,383,208
Occupancy costs	**1,112,804**	**164,946**	**168,799**	**1,446,549**	847,059	216,355	286,931	1,350,345
Supplies	**179,221**	**9,562**	**57,778**	**246,561**	187,289	29,688	29,763	246,740
Professional development	**123,046**	**14,298**	**15,911**	**153,255**	214,369	-	-	214,369
Equipment and materials	**90,731**	**8,881**	**56,109**	**155,721**	130,662	4,207	41,851	176,720
Communications	**67,214**	**4,292**	**40,002**	**111,508**	110,827	16,881	29,463	157,171
Depreciation and amortization	**57,992**	**-**	**127,072**	**185,064**	123,268	3,839	118,568	245,675
Miscellaneous	**122,208**	**796**	**38,681**	**161,685**	230	-	6,675	6,905
Postage and printing	**63,702**	**22,235**	**20,134**	**106,071**	28,872	11,497	15,526	55,895
Interest expense – Meloy Fund LP	**-**	**-**	**84,199**	**84,199**	-	-	-	-
Bank fees	**15,824**	**-**	**24,275**	**40,099**	5,126	-	11,177	16,303
Insurance	**7,401**	**-**	**9,231**	**16,632**	35,009	-	13,082	48,091
Subtotal	**21,073,320**	**2,192,193**	**2,427,872**	**25,693,385**	19,827,189	2,177,202	2,132,231	24,136,622
Allocation of administrative costs	**927,164**	**90,246**	**(1,017,410)**	**-**	441,296	44,130	(485,426)	-
Total	**$ 22,000,484**	**$ 2,282,439**	**$ 1,410,462**	**$ 25,693,385**	$ 20,268,485	$ 2,221,332	$ 1,646,805	$ 24,136,622

Organization: Rare, Inc.
Donor: C&A Foundation
Grant Purpose: Accelerating Organic Cotton in China by Replicating Behavioral Change
Grant Reference No.: 5412
Grant Duration: February 1, 2016 - February 15, 2019
Grant Amount: EUR 2,510,428
Financial Reporting Period: October 1, 2016 - September 30, 2017

	YEAR 1			YEAR 2			
	FY16 Feb 16 - Sept 16	**FY17 Oct 16 - Jan 17**	**YEAR 1 TOTAL Feb 16 - Jan 17**	**YEAR 2 BUDGET**	**FY17 Feb 17 - Sept 17**	**Variance**	**TOTAL FY17**
	Total (EUR)	**Total (EUR)**	**Total (EUR)**	**Total (EUR)**	**Total (EUR)**	**Total (EUR)**	**Total (EUR)**
DIRECT COSTS	**416,327**	**229,472**	**645,800**	**803,526**	**449,549**	**353,977**	**678,415**
Manpower Costs for Project Staff	**301,413**	**176,270**	**477,683**	**535,679**	**315,053**	**220,626**	**491,323**
Consultants & Contractors	**41,256**	**5,144**	**46,400**	**47,252**	**43,170**	**4,082**	**48,314**
Organic cotton expert	21,581	2,360	23,941	19,685	21,922	(2,237)	24,282
Monitoring & Evaluation	19,309	316	19,625	27,567	16,649	10,918	16,965
Senior Advisor, China: Government and Corp relations	-	-	-	-	-	-	-
Campaigning for Conservation (C4C) local marketing firm	367	2,467	2,834	-	4,599	(4,599)	7,067
Travel Expenses	**62,079**	**19,387**	**81,466**	**66,929**	**49,702**	**17,227**	**69,090**
Material Costs (Please provide details below)	**15,186**	**683**	**15,869**	**28,157**	**14,623**	**13,534**	**15,306**
Supplies and materials for local staff	107	233	340	2,698	1,152	1,546	1,384
Farming input costs and farming subsidies	8,815	348	9,163	7,087	5,141	1,945	5,489
Campaigning for Conservation (C4C) materials and logistics	6,263	103	6,366	18,373	8,330	10,043	8,433
Events (Please provide details below)	**1,609**	**15,486**	**17,095**	**94,074**	**37,607**	**56,468**	**53,093**
Government Engagement Workshops and Travel	1,553	12,784	14,337	52,493	7,337	45,156	20,122
Training of Trainers	-	2,700	2,700	-	0	(0)	2,700
Community trainings (FFS)/Farm Manager Training	57	1	58	6,000	2,787	3,213	2,789
Training network support	-	-	-	-	-	-	-
C4C campaigns	-	-	-	21,581	24,152	(2,571)	24,152
Brands site visits	-	-	-	5,000	3,330	1,670	3,330
Marketing		-	-	9,000	-	9,000	-
Certification	**6,583**	**5,980**	**12,563**	**26,247**	-	**26,247**	**5,980**
Organic certification	6,583	5,980	12,563	26,247	-	26,247	5,980
Payment to Local partners (if any)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Payments to GMO Testing Labs (if any)	**-**	**-**	**-**	**525**	**607**	(82)	**-**
Other Expenses (Please Specify Details)	**29,457**	**11,667**	**41,124**	**51,914**	**31,957**	**19,957**	**43,624**
In-country Office running costs	19,307	9,000	28,307	27,056	25,433	1,623	34,432
In-country Accountant	4,216	426	4,642	8,956	6,117	2,839	6,543
Legal fees for establishing an entity	351	719	1,070	13,488	349	13,139	1,068
current staff	5,148	1,268	6,416	-	-	-	1,268
Annual Software licenses	434	254	689	2,414	59	2,356	313
Total Direct Costs	**416,327**	**229,472**	**645,800**	**803,526**	**449,549**	**353,977**	**678,415**
INDIRECT COSTS at 10% of Total Direct Costs	**41,633**	**22,947**	**64,580**	**80,353**	**44,955**	**35,398**	**67,902**
Total (Direct + Indirect Costs)	**457,960**	**252,420**	**710,380**	**883,879**	**494,504**	**389,374**	**746,317**
Partners contribution/In-kind contributions	**-**	**97,778**	**97,778**	**220,747**	**108,858**	**111,890**	**206,636**
Orrick	-	44,720	44,720	44,720	24,208	20,511	68,928
Paper Stone Scissors	-	3,141	3,141	3,141	3,014	127	6,155
Albright Stonebridge Group advising	-	49,917	49,917	55,750	11,690	44,060	61,607
Ministry of Agriculture Extension Worker (time and expense)	-	-	-	52,393	-	52,393	-
Contributed farm input costs (e.g. fertilizers)	-	-	-	64,742	69,945	(5,203)	69,945
Total In-kind Contribution	**-**	**97,778**	**97,778**	**220,747**	**108,858**	**111,890**	**206,636**
Rare contribution	**82,867**	**56,332**	**139,199**	**325,342**	**325,342**	**188,497**	**193,177**
Rare inkind - additional staff time spent on project	2,367	9,555	11,922	125,608	39,225	86,383	48,780
Rare match (difference between Indirect rate of 29.17% and 10%)	80,500	46,777	127,277	199,734	97,620	102,114	144,398
Total Rare Contribution	**82,867**	**56,332**	**139,199**	**325,342**	**325,342**	**188,497**	**193,177**
Total (Direct Costs + Indirect + Partners contribution)	**540,827**	**406,530**	**947,357**	**1,429,968**	**928,704**	**689,761**	**1,146,130**