

Rare and Affiliates

Consolidated Financial Statements
September 30, 2023 and 2022

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Independent Auditor's Report

Board of Trustees
Rare

Opinion

We have audited the consolidated financial statements of Rare and Affiliates (Rare), which comprise the consolidated balance sheets as of September 30, 2023 and 2022, the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, financial statements).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rare as of September 30, 2023 and 2022, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of The Meloy Fund I, L.P. (the Fund), whose statements reflect total assets constituting 38% of total consolidated assets at September 30, 2023, and total support and revenue constituting 12% of consolidated total support and revenue for the year then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Fund, is based solely on the report of the other auditors.

Basis for Opinion

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

Emphasis of Matter

As disclosed in Note 1 to the financial statements, Rare adopted Accounting Standards Update 2016-02, *Leases (Topic 842)*, as of October 1, 2022. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Rare's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Rare's ability to continue as a going concern for a reasonable period of time.

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

RSM US LLP

Washington, D.C.
September 9, 2024

Rare and Affiliates

Consolidated Balance Sheets September 30, 2023 and 2022

	2023	2022
Assets		
Operating assets:		
Cash and cash equivalents	\$ 9,796,745	\$ 11,243,556
Grants and contributions receivable, net	17,033,866	15,102,662
Prepaid expenses and other assets	667,288	1,022,655
Program-related investment loan	-	228,619
Investments	9,023,202	8,782,745
Assets held for deferred compensation	1,344,193	1,313,153
Right-of-use—office and equipment lease, net	2,616,311	-
Property and equipment, net	13,114	39,938
Total operating assets	40,494,719	37,733,328
Portfolio assets—Meloy Fund I, L.P. (Notes 1 and 3):		
Cash and cash equivalents	1,215,177	2,821,377
Other assets	472,903	419,638
Investment in privately held securities, at fair value (cost \$14,720,903 and \$3,895,016, respectively)	21,687,633	13,898,733
Total portfolio assets	23,375,713	17,139,748
Total assets	\$ 63,870,432	\$ 54,873,076
Liabilities and Net Assets		
Operating liabilities:		
Accounts payable and accrued expenses	\$ 4,066,518	\$ 3,530,005
Refundable advances	5,027,332	4,433,527
Deferred rent	-	797,958
Lease liabilities, net	3,062,972	-
Deferred compensation liabilities	1,344,193	1,313,153
Total operating liabilities	13,501,015	10,074,643
Portfolio liabilities—Meloy Fund I, L.P. (Notes 1 and 3):		
Accounts payable and accrued expenses	265,750	200,977
Capital paid in advance	772,865	2,646,537
Line of credit	-	1,000,000
Total portfolio liabilities	1,038,615	3,847,514
Total liabilities	14,539,630	13,922,157
Commitments and contingencies (Notes 10 and 12)		
Net assets:		
Without donor restrictions:		
Undesignated	891,683	3,060,288
Designated by the board of trustees	9,408,931	8,877,970
Total Rare net assets without donor restrictions	10,300,614	11,938,258
Noncontrolling interest in Meloy Fund I, L.P. (Note 3)	22,304,220	12,701,590
Total net assets without donor restrictions	32,604,834	24,639,848
With donor restrictions	16,725,968	16,311,071
Total net assets	49,330,802	40,950,919
Total liabilities and net assets	\$ 63,870,432	\$ 54,873,076

See notes to consolidated financial statements.

Rare and Affiliates

Consolidated Statements of Activities Years Ended September 30, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restriction	With Donor Restrictions	Total
Operating support and revenue:						
Grants and contributions	\$ 1,628,584	\$ 27,095,607	\$ 28,724,191	\$ 6,663,215	\$ 15,589,441	\$ 22,252,656
Paycheck Protection Program loan forgiveness (Note 6)	-	-	-	1,683,088	-	1,683,088
Program service revenue	399,709	-	399,709	478,555	-	478,555
Contributions of nonfinancial assets	1,127,347	-	1,127,347	83,276	-	83,276
Other income	21,204	-	21,204	2,491	-	2,491
Net assets released from purpose restrictions	21,420,710	(21,420,710)	-	17,054,335	(17,054,335)	-
Net assets released from time restrictions	5,260,000	(5,260,000)	-	4,660,000	(4,660,000)	-
Total operating support and revenue	29,857,554	414,897	30,272,451	30,624,960	(6,124,894)	24,500,066
Operating expenses:						
Sustainable fisheries	10,762,968	-	10,762,968	12,185,030	-	12,185,030
Climate change	7,771,912	-	7,771,912	6,456,417	-	6,456,417
Conservation finance	4,849,236	-	4,849,236	3,804,787	-	3,804,787
Center for behavior and environment	4,620,649	-	4,620,649	3,702,031	-	3,702,031
Administrative	3,368,408	-	3,368,408	2,878,872	-	2,878,872
Fundraising	2,884,350	-	2,884,350	2,766,738	-	2,766,738
Total operating expenses	34,257,523	-	34,257,523	31,793,875	-	31,793,875
Other (loss) income:						
Rental income	105,368	-	105,368	156,401	-	156,401
Investment income (loss)	637,584	-	637,584	(466,433)	-	(466,433)
	742,952	-	742,952	(310,032)	-	(310,032)
Gain on insurance claim	1,000,000	-	1,000,000	-	-	-
Contingent loss	(235,716)	-	(235,716)	(982,024)	-	(982,024)
Changes in net assets before noncontrolling interest	(2,892,733)	414,897	(2,477,836)	(2,460,971)	(6,124,894)	(8,585,865)
Meloy Fund, I L.P.:						
Portfolio interest	415,621	-	415,621	831,355	-	831,355
Realized loss on privately held security	(13,158)	-	(13,158)	(600,000)	-	(600,000)
Change in unrealized gain on privately held securities	3,767,684	-	3,767,684	3,726,264	-	3,726,264
	4,170,147	-	4,170,147	3,957,619	-	3,957,619
Changes in net assets before contributions by limited partners	1,277,414	414,897	1,692,311	1,496,648	(6,124,894)	(4,628,246)
Contributions by limited partners	6,687,572	-	6,687,572	847,613	-	847,613
Change in net assets	7,964,986	414,897	8,379,883	2,344,261	(6,124,894)	(3,780,633)
Net assets:						
Beginning	24,639,848	16,311,071	40,950,919	22,295,587	22,435,965	44,731,552
Ending	\$ 32,604,834	\$ 16,725,968	\$ 49,330,802	\$ 24,639,848	\$ 16,311,071	\$ 40,950,919

See notes to consolidated financial statements.

Rare and Affiliates

Consolidated Statement of Functional Expenses Year Ended September 30, 2023

	Program Services				Total Program Services	Supporting Services		
	Sustainable Fisheries	Climate Change	Conservation Finance	Center for Behavior and the Environment		Administrative	Fundraising	Total
Salaries and benefits	\$ 6,688,447	\$ 3,899,545	\$ 2,378,327	\$ 3,519,107	\$ 16,485,426	\$ 2,155,439	\$ 2,341,481	\$ 20,982,346
Consulting and professional fees	2,220,446	3,151,199	2,131,683	578,902	8,082,230	739,610	252,565	9,074,405
Travel and meetings	1,097,790	231,615	87,858	176,239	1,593,502	30,913	74,573	1,698,988
Subgrants and awards	167,358	122,199	10,204	25,499	325,260	-	-	325,260
Occupancy costs	340,381	241,782	137,457	286,168	1,005,788	218,151	179,393	1,403,332
Supplies	49,942	38,917	7,921	4,578	101,358	11,881	2,155	115,394
Professional development	20,063	6,526	5,124	9,794	41,507	4,395	13,741	59,643
Equipment and materials	91,966	40,629	10,349	11,427	154,371	40,733	11,101	206,205
Communications	43,598	5,075	4,030	3,512	56,215	36,126	5,051	97,392
Depreciation and amortization	-	-	-	-	-	26,824	-	26,824
Postage and printing	13,210	7,069	294	2,859	23,432	10,257	2,278	35,967
Bank and other fees	28,650	19,576	9,709	2,455	60,390	30,146	2,012	92,548
Insurance	1,117	7,780	66,280	109	75,286	63,933	-	139,219
Total	\$ 10,762,968	\$ 7,771,912	\$ 4,849,236	\$ 4,620,649	\$ 28,004,765	\$ 3,368,408	\$ 2,884,350	\$ 34,257,523

See notes to consolidated financial statements.

Rare and Affiliates

Consolidated Statement of Functional Expenses Year Ended September 30, 2022

	Program Services				Total Program Services	Supporting Services		
	Sustainable Fisheries	Climate Change	Conservation Finance	Center for Behavior and the Environment		Administrative	Fundraising	Total
Salaries and benefits	\$ 7,351,009	\$ 3,461,386	\$ 1,034,551	\$ 2,499,843	\$ 14,346,789	\$ 2,015,168	\$ 2,207,586	\$ 18,569,543
Consulting and professional fees	2,381,988	2,140,933	2,471,357	606,707	7,600,985	325,924	225,499	8,152,408
Travel and meetings	1,029,109	175,061	20,264	109,810	1,334,244	106,373	118,241	1,558,858
Subgrants and awards	581,347	244,198	104,663	149,763	1,079,971	-	-	1,079,971
Occupancy costs	484,393	251,973	79,903	287,111	1,103,380	153,872	164,950	1,422,202
Supplies	189,774	103,437	1,091	1,114	295,416	6,302	4,342	306,060
Professional development	17,863	6,221	9,288	8,578	41,950	18,522	11,009	71,481
Equipment and materials	51,906	20,372	3,258	23,207	98,743	56,099	10,687	165,529
Communications	60,023	7,194	1,527	3,744	72,488	29,974	4,661	107,123
Depreciation and amortization	-	-	-	-	-	22,173	-	22,173
Postage and printing	18,910	14,564	114	2,587	36,175	11,356	3,397	50,928
Bank and other fees	16,985	30,769	9,624	9,258	66,636	82,644	16,366	165,646
Insurance	1,723	309	69,147	309	71,488	50,465	-	121,953
Total	\$ 12,185,030	\$ 6,456,417	\$ 3,804,787	\$ 3,702,031	\$ 26,148,265	\$ 2,878,872	\$ 2,766,738	\$ 31,793,875

See notes to consolidated financial statements.

Rare and Affiliates

Consolidated Statements of Cash Flows Years Ended September 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets before contributions by limited partners	\$ 1,692,311	\$ (4,628,246)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Gain on loan forgiveness	-	(1,683,088)
Depreciation and amortization	26,824	22,173
Increase (decrease) in the allowance for doubtful accounts	4,083	(35,359)
Increase (decrease) in discount on pledges	484,956	(17,562)
Net realized and unrealized (gains) losses	(122,202)	811,703
Deferred rent	-	(180,394)
Amortization of right-of-use office and equipment lease	(472,233)	
Change in unrealized gain on privately held securities	(3,767,684)	(3,726,264)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Grants and contributions receivable, net	(1,931,204)	4,127,067
Prepaid expenses and other assets	355,367	(654,101)
Program related investment loan	228,619	154,288
Increase (decrease) in:		
Accounts payable and accrued expenses	536,513	367,658
Refundable advances	593,805	103,822
Deferred compensation liabilities	31,040	(120,405)
Net cash used in operating activities	(2,339,805)	(5,458,708)
Cash flows from investing activities:		
Purchase of investments	(812,809)	(1,388,991)
Proceeds from sale of investments	866,324	1,329,195
Purchase of property and equipment	-	(13,933)
Purchases of privately held securities	(4,501,998)	(5,324,076)
Net cash used in investing activities	(4,448,483)	(5,397,805)
Cash flows from financing activities:		
Changes in operating assets and liabilities for Meloy Fund I, L.P.	(546,247)	1,221,097
Principal repayments related to privately held securities	467,624	3,017,054
Contribution by limited partners	6,687,572	847,613
Capital contributions received in advance	(1,873,672)	(300,213)
Repayments on line of credit	(1,000,000)	-
Net cash provided by financing activities	3,735,277	4,785,551
Net decrease in cash and cash equivalents	(3,053,011)	(6,070,962)
Cash and cash equivalents:		
Beginning	14,064,933	20,135,895
Ending	\$ 11,011,922	\$ 14,064,933
Cash and cash equivalents—operating	\$ 9,796,745	\$ 11,243,556
Cash and cash equivalents—portfolio	1,215,177	2,821,377
	\$ 11,011,922	\$ 14,064,933
Supplemental schedule of noncash financing activities:		
Reduction of Small Business Administration loan via forgiveness	\$ -	\$ 1,683,088

See notes to consolidated financial statements.

Rare and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Rare and Affiliates (Rare) is a nonprofit conservation organization that is solution-oriented, and committed to 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 (IRC), and a public charity under Sections 509(a)(1) and 170(b)(1)(A)(vi).

Rare has offices in the United States of America, Brazil, China, Philippines, Mozambique, Indonesia, Colombia, Germany, Honduras and Mexico.

Rare is a global leader in driving social change to protect the environment. Rare has helped thousands of people across hundreds of communities in over 60 countries shift their behaviors and practices to protect the nature that sustains their lives, livelihoods and communities.

Rare inspires change so people and nature thrive. Using insights from behavioral and social science and design thinking, Rare empowers shifts in individual and community behavior that benefit people and nature. Rare trains local leaders to lead change, leaving a legacy of increased capacity and a sense of ownership, responsibility and pride in the protection of our shared environment.

Today, Rare is merging decades of experience from the frontlines of conservation, strong global partnerships and expertise in translating behavioral research into action to build the social, ecological and political networks to scale our impact across regions, nations and the world.

Unique Impact, LLC (the Management Company) (formerly Rare Ventures, LLC), Meloy Fund I, G.P., LLC (the General Partner) and Meloy Fund I, L.P. (the Fund):

The Management Company, a Delaware limited liability company, was formed in 2010 as a wholly owned subsidiary of Rare, to manage for-profit affiliated entities whose purpose is consistent with Rare's charitable purpose.

The General Partner, a Delaware limited liability company, was formed in 2017 as a wholly owned subsidiary of Rare, to serve as the General Partner of the Fund. Under the management agreement, the General Partner utilizes Rare's expertise in the development, support and management of marine common pool resources and sustainable fisheries, to provide management services to the Fund. For the purposes of financial reporting, the General Partner, the Fund and the Management Company are consolidated with Rare.

During 2017, Rare authorized the formation of the Fund, a Delaware limited partnership, as an independent entity. The Fund was formed to generate measurable social and environmental outcomes, and to provide financial returns for investors by making debt and equity investments in fishing and fisheries-related enterprises that have operations in Indonesia and the Philippines.

A summary of Rare's significant accounting policies follows:

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.

Basis of presentation: The consolidated financial statement presentation follows the recommendation of the Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Under this ASC, Rare is required to report information regarding its financial position and activities according to the two classes of net assets, net assets without donor restrictions and with donor restrictions.

Rare and Affiliates

Notes to Consolidated Financial Statements

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

Net assets: Net assets without donor restrictions consists of net assets that are available for general purpose activities of Rare. Contributions are reported as increases in net assets without donor restrictions unless their use is limited by donor-imposed restrictions.

The board of trustees has designated a portion the net assets without donor restrictions, the Board Designated Fund (BDF), as a reserve for contingencies or, in the event of exigent circumstances. Earnings from the BDF are reinvested. The board-designated fund totaled \$9,408,931 and \$8,877,970 at September 30, 2023 and 2022, respectively.

Net assets with donor restrictions consist of net assets whose use is subject to donor-imposed restrictions that expire by the passage of time or through specific actions of Rare. The time and purpose restrictions require that resources be used for specific purposes and/or in a specific period or after a specified date. Net assets with donor restrictions become net assets without donor restrictions when the time restrictions expire, or when the funds are used for their restricted purposes, at which time they are reported in the consolidated statements of activities as net assets released from restrictions. There are no permanently restricted net assets.

Although the noncontrolling interest in the Fund is shown on the consolidated balance sheets as part of net assets without donor restrictions, these funds are not the property of and cannot be used by Rare.

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, 2023 and 2022, this balance included cash and demand bank deposits.

Foreign operations: The accompanying consolidated financial statements include the worldwide operations of Rare and other entities owned and/or controlled by Rare. At September 30, 2023 and 2022, assets held in non-U.S. countries totaled \$537,586 and \$754,394, 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. Management considers the financial risk exposure on cash to be minimal.

Grants, contributions and contributions receivable: Grants and contributions are recognized as revenue and receivables in the year unconditional promises to give are received, and increase 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 promised, based upon anticipated payment dates. Rare has established an allowance for uncollectible grants and contributions receivable in the amount of \$196,373 and \$192,290 at September 30, 2023 and 2022, respectively. Conditional promises to give are not reported as revenue until the conditions are substantially met.

Revenue: Revenue is recorded based on the accrual basis of accounting. Unconditional contributions are recorded in the period received as with or without donor restrictions. Unconditional contributions that are received with donor restrictions are reported as an increase in net assets with donor restrictions until the restriction expires and are then reclassified to net assets without donor restrictions. Conditional contributions are not recorded as support until the condition(s) have been substantially met.

Rare and Affiliates

Notes to Consolidated Financial Statements

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

Rare receives funding under grants and contracts from the U.S. government and other grantors for direct and indirect program costs. This funding is subject to contractual restrictions which must be met through incurring qualifying expenses for particular programs. Such grants are considered conditional contributions due to these imposed barriers and right of return or release and are recorded as revenue without donor restrictions to the extent that related conditions are met.

Rare's contract services that fall within the scope of ASC 606 are included in program service fees on the consolidated statements of activities. Program service fees represent performance obligations where the customer has contracted with Rare to provide a service in exchange for a transaction fee. Rare allocates the transaction fee to the performance obligations and recognizes the revenue when each performance obligation is met. Current contracts include services to develop programs, manuals, feasibility studies and training materials and have a duration of less than one year.

For the years ended September 30, 2023 and 2022, \$208,473 and \$350,629, respectively, was recognized as program service fees. Revenue is recognized over the period the services are provided in an amount that reflects the consideration Rare is entitled to in exchange for those services. Typically, services are billed monthly based on either a contracted fixed fee schedule or actual expense incurred.

Rare records deferred revenue when amounts are invoiced or received, but the performance obligation is not met. Such revenue is recognized when the performance obligation is subsequently met. Rare did not have any deferred revenue related to program services as of September 30, 2023 and 2022.

Rare did not have any impairment or credit losses on any receivables or contract assets arising from contracts with customers.

Finally, there are no significant changes in the judgements affecting the determination of the amount and timing of revenue from contracts with customers.

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

Allowable investments are specified 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.

The Meloy Fund I, L.P. invests in privately held debt and equity securities. Securities for which no public market exists are valued at fair value. The fair value is generally cost until events indicate that cost is no longer the best measure of fair value. The inherent uncertainty in the process of valuing securities for which a ready market does not exist may cause the estimated values of these securities to differ significantly from the values that would have been derived had a ready market existed, and those differences could be material. As of September 30, 2023, the change in unrealized gain was \$3,767,684 and realized loss was \$(13,158). As of September 30, 2022, the change in unrealized loss was \$(811,703) and realized loss of \$(600,000).

Rare and Affiliates

Notes to Consolidated Financial Statements

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

Property and equipment: Property and equipment with a unit cost greater than \$5,000 is 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 10 years. The cost of maintenance and repairs is recorded as an expense.

Subgrants and awards: Rare recognizes expenses for subgrants and awards at the time the subgrantee meets the conditions of the grant agreement and submits a request for payment. Conditions of a grant agreement include program milestones and documented expenses.

Refundable advances: Represents cash received on grants and contributions for which some condition was not yet met. Conditions of a grant or contribution may include future funds availability, matching funding or the completion of project tasks and related expenditures.

Contributions of nonfinancial assets: Contributions of nonfinancial assets consist of services and 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 nonfinancial assets 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 in conformity with generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. 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 non-U.S. country operations are maintained in the local currency.

Foreign currency translation: Where local currencies are used, assets and liabilities are translated into U.S. Dollars at the consolidated balance sheets dates, 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 in local currency and then translated into U.S. Dollars at the rate of exchange in effect during the month of the transaction. Foreign currency translation loss for the years ended September 30, 2023 and 2022, was \$27,340 and \$51,922, respectively. Gains and losses from foreign currency translation are included in the bank and other fees in the consolidated statements of functional expenses.

Rare and Affiliates

Notes to Consolidated Financial Statements

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

Leases: In February 2016, the FASB issued ASC Topic 842 Leases, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their balance sheets as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, Leases) and operating leases, with classification affecting the pattern of expense recognition in the statement of activities. Rare adopted Topic 842 on October 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, Rare has applied Topic 842 to reporting periods beginning on October 1, 2022, while prior periods continue to be reported and disclosed in accordance with Rare's historical accounting treatment under ASC Topic 840, Leases.

Rare elected the "package of practical expedients" under the transition guidance within Topic 842, in which Rare does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. Rare has not elected to adopt the "hindsight" practical expedient and, therefore, will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on October 1, 2022.

Rare determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) Rare obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. Rare also considers whether its service arrangements include the right to control the use of an asset.

Rare made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease. The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date, and are reduced by any lease incentives. To determine the present value of lease payments, Rare made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

Rare has made an accounting policy election to account for lease and nonlease components in its contracts as a single lease component for its real estate, vehicle and equipment asset classes. The nonlease components typically represent additional services transferred to Rare, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

Rare and Affiliates

Notes to Consolidated Financial Statements

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

Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to Rare's operating leases of approximately \$4,517,567 and \$5,315,525, respectively, at October 1, 2022. The adoption of the new lease standard did not materially impact consolidated net assets or consolidated cash flows, and did not result in a cumulative-effect adjustment to the opening balance of net assets.

Allocation of functional expenses: The costs of providing 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. Expenses related to subscription and travel are allocated based on the activities performed by the staff members within each area. Other expenses that require allocation such as rent, utilities and supplies are allocated based on headcount.

Capital paid in advance: Capital paid in advance consists of payments received from the Meloy Fund I, L.P. investors in advance of a capital call. The Meloy Fund I, L.P., recognizes capital paid in advance as a liability when the payment is received. Capital paid in advance funds are held by the Fund until a subsequent capital call event whereby funds held are drawn to meet the investment obligation.

Noncontrolling interest: Rare follows Accounting Standards Update (ASU) 2010-07, which provides guidance related to not-for-profit mergers and acquisitions. In addition, ASU 2010-07 provides accounting guidance on how a not-for-profit parent organization accounts for noncontrolling interests in the equity (net assets) of consolidated subsidiaries. The guidance requires: (i) noncontrolling interest to be reported as a separate component of the appropriate class of net assets in the consolidated balance sheets and (ii) a not-for-profit (parent) that has one or more consolidated subsidiaries with a noncontrolling interest shall provide a schedule of changes in consolidated net assets attributable to the parent and the noncontrolling interest, either in the notes of the consolidated financial statements, or on the face of the consolidated financial statements, if practicable. That schedule shall reconcile beginning and ending balances of the parent's controlling interest and the noncontrolling interests for each class of net assets for which a noncontrolling interest exists during the reporting period. This standard also requires that the noncontrolling interests continue to be attributed their share of losses even if that attribution results in a deficit noncontrolling interest balance. Rare is required to consolidate with the Meloy Fund I, L.P. because the Meloy Fund I, G.P. cannot be removed as the general partner with a simple majority vote by the limited partners and the Meloy Fund I, G.P. is wholly owned by Rare.

Through the Meloy Fund I, G.P., Rare has certain management responsibilities for the Meloy Fund I, L.P. but has no voting rights and no capital account partnership interest. For this reason, Rare is considered to have a noncontrolling interest in the limited partnership.

Tax-exempt status: Rare is exempt from income taxes under Section 501(c)(3) of the IRC. Rare is subject to unrelated business income taxes under Section 511 of the IRC; however, in the opinion of management, no provision for income taxes is required to be made.

Rare and Affiliates

Notes to Consolidated Financial Statements

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

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 derecognition, classification, interest and penalties on income taxes and accounting in interim periods. As of September 30, 2023, Rare had no cumulative unrelated business taxable loss.

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 2019.

The Meloy Fund I, G.P., LLC (the General Partner) is a limited liability company, and the Fund is a limited partnership, registered in the state of Delaware. For federal 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.

Adopted accounting pronouncement: In February 2016, the FASB issued ASU 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 sheets 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 statements of activities. The new standard is effective for fiscal years beginning after December 15, 2021, 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. The update was applied on a retrospective basis to the contributions recognized in the years ended September 30, 2023 and 2022.

Subsequent events: Rare has evaluated subsequent events through September 9, 2024, the date on which the consolidated financial statements were available to be issued.

Rare and Affiliates

Notes to Consolidated Financial Statements

Note 2. Investments and Fair Value Measurements

Investments at September 30, 2023 and 2022, consist of the following:

	2023	2022
Corporate bonds	\$ 2,514,566	\$ 2,461,777
Equity	980,782	835,114
Mutual funds—fixed income	5,527,854	5,485,854
	<u>9,023,202</u>	<u>8,782,745</u>
Investments held for Meloy Fund I, L.P.	21,687,633	13,898,733
	<u>\$ 30,710,835</u>	<u>\$ 22,681,478</u>

Investment income for the years ended September 30, 2023 and 2022, consists of the following:

	2023	2022
Dividends and interest	\$ 940,998	\$ 1,189,572
Net realized and unrealized gain (loss)	122,202	(811,703)
Unrealized gain on privately held securities	3,767,684	3,726,264
Investment fees	(9,995)	(12,947)
	<u>\$ 4,820,889</u>	<u>\$ 4,091,186</u>

The ASC Topic on Fair Value Measurement establishes a framework for measuring fair value in accordance with U.S. GAAP, and expands disclosures about fair value measurements. This enables the reader of the consolidated 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, 2023 and 2022.

Rare and Affiliates

Notes to Consolidated Financial Statements

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 at September 30, 2023 and 2022:

Description	2023			
	Total	Level 1	Level 2	Level 3
Corporate bonds	\$ 4,644,463	\$ -	\$ 4,644,463	\$ -
Equity	980,783	980,783	-	-
Mutual funds	3,397,956	3,397,956	-	-
Private held securities	21,687,633	-	-	21,687,633
	<u>30,710,835</u>	<u>4,378,739</u>	<u>4,644,463</u>	<u>21,687,633</u>
Employee benefit plan:				
Mutual funds	1,344,193	1,344,193	-	-
Total assets	<u>\$ 32,055,028</u>	<u>\$ 5,722,932</u>	<u>\$ 4,644,463</u>	<u>\$ 21,687,633</u>
Deferred compensation liabilities	<u>\$ 1,344,193</u>	<u>\$ -</u>	<u>\$ 1,344,193</u>	<u>\$ -</u>
Description	2022			
	Total	Level 1	Level 2	Level 3
Corporate bonds	\$ 2,461,888	\$ -	\$ 2,461,888	\$ -
Equity	835,114	835,114	-	-
Mutual funds	5,485,743	5,485,743	-	-
Private held securities	13,898,733	-	-	13,898,733
	<u>22,681,478</u>	<u>6,320,857</u>	<u>2,461,888</u>	<u>-</u>
Employee benefit plan:				
Mutual funds	1,313,153	1,313,153	-	-
Total assets	<u>\$ 23,994,631</u>	<u>\$ 7,634,010</u>	<u>\$ 2,461,888</u>	<u>\$ -</u>
Deferred compensation liabilities	<u>\$ 1,313,153</u>	<u>\$ -</u>	<u>\$ 1,313,153</u>	<u>\$ -</u>

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

Corporate bonds are included in Level 2 assets, as they are not actively traded. The fair 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.

Rare and Affiliates

Notes to Consolidated Financial Statements

Note 2. Investments and Fair Value Measurements (Continued)

Rare's Level 3 assets, are all with the Meloy Fund I, L.P. The following table summarizes the valuation techniques and significant unobservable inputs for the investments in securities that are categorized in Level 3 of their fair value hierarchy as of September 30, 2023.

Investment Type	Fair Value at September 30, 2023	Valuation Technique	Unobservable Inputs	Range of Inputs
Debt Securities	\$ 6,273,431	Amortized Cost	Cost of Debt	5% - 15%
Equity Securities	4,414,255	Market Approach	Revenue Multiple	0.2x - 0.5x

Investment Type	Fair Value at September 30, 2022	Valuation Technique	Unobservable Inputs	Range of Inputs
Debt Securities	\$ 6,273,541	Amortized Cost	Cost of Debt	5% - 15%
Equity Securities	4,414,255	Market Approach	Revenue Multiple	0.5x - 3.0x

These assets have been valued using unadjusted inputs that have not been internally developed by the Meloy Fund I, L.P., including third party transactions and quotations. As a result, assets of approximately \$10,999,948 as of September 30, 2023, and \$3,210,937 as of September 30, 2022, have been excluded from the preceding table. During the years ended September 30, 2023 and 2022, the Meloy Fund I, L.P. made purchases of Level 3 investments in debt and equity securities in the amount of \$4,501,998 and \$5,324,076, respectively. There were no transfers in or out of Level 3 during the years ended September 30, 2023 and 2022.

Note 3. Meloy Fund I, L.P.

Investments in privately held securities: 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.

Management reviewed the collectability of the investment in privately held securities and increased the FY22 bad debt allowance from \$240,310 to \$872,237 in FY23. The fair value of the investment in privately held securities on September 30, 2023 and 2022, was \$21,687,634 and \$13,898,733, respectively. The balance consists of \$6,273,431 of debt securities and \$4,414,255 of equity securities.

Rare and Affiliates

Notes to Consolidated Financial Statements

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

The following is a reconciliation of the beginning and ending balances of private investments in securities measured at fair value.

	2023	2022
Balance, October 1	\$ 13,898,733	\$ 8,509,439
New investments	4,501,998	5,280,084
Principal repayments	(467,624)	(3,017,054)
Realized loss	(13,158)	(600,000)
Unrealized gain	3,767,684	3,726,264
Balance, September 30	<u>\$ 21,687,633</u>	<u>\$ 13,898,733</u>

Interest income on debt investments is recognized when earned. During the years ended September 30, 2023 and 2022, interest earned on debt investments was \$415,619 and \$831,355, respectively.

Capital paid in advance—Meloy Fund I, L.P.: The Fund received capital contributions in advance in the amount of \$5,328,750 as of September 30, 2018. \$180,000 was called during 2019, \$582,000 during 2020, \$1,620,000 during 2021, \$300,213 during 2022 and \$1,873,672 in 2023, leaving a balance of \$772,865. The capital paid in advance is shown on the consolidated balance sheets as a portfolio liability of the Meloy Fund I, L.P.

Contribution by limited partners to the Meloy Fund I, L.P.: The changes in the noncontrolling partners' interests in the Fund at September 30, 2023 and 2022, are as follows:

	2023	2022
Beginning balance—noncontrolling limited partners' interest in the Meloy Fund I, L.P.	\$ 12,701,590	\$ 9,136,785
Capital contribution by noncontrolling limited partners	6,687,572	847,613
Net income attributed to noncontrolling limited partners	2,915,058	2,717,192
Noncontrolling limited partners' interest in the Meloy Fund I, L.P.	<u>\$ 22,304,220</u>	<u>\$ 12,701,590</u>

The schedule of changes in consolidated net assets without donor restrictions related to Rare and noncontrolling interest in Meloy Fund I, L.P. is as follows:

	Rare	Noncontrolling Interest	Total
Net assets without donor restrictions:			
Balance, September 30, 2021	\$ 13,158,802	\$ 9,136,785	\$ 22,295,587
Change in net assets without donor restrictions	(1,220,544)	3,564,805	2,344,261
Balance, September 30, 2022	11,938,258	12,701,590	24,639,848
Change in net assets without donor restrictions	(1,637,644)	9,602,630	7,964,986
Balance, September 30, 2023	<u>\$ 10,300,614</u>	<u>\$ 22,304,220</u>	<u>\$ 32,604,834</u>

Rare and Affiliates

Notes to Consolidated Financial Statements

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

Although the noncontrolling interest in the Meloy Fund I, L.P. is shown on the consolidated balance sheets as part of net assets without donor restrictions, these funds are designated for the Meloy Fund I, L.P., and cannot be used for Rare unrestricted expenditures.

Note 4. Property and Equipment

Property and equipment, net of accumulated depreciation, at September 30, 2023 and 2022, consists of the following:

	2023	2022
Office furniture and equipment	\$ 445,989	\$ 445,989
Leasehold improvements	258,514	258,515
Website	413,340	413,340
	1,117,843	1,117,844
Less accumulated depreciation and amortization	(1,104,729)	(1,077,906)
	<u>\$ 13,114</u>	<u>\$ 39,938</u>

Note 5. Grants and Contributions Receivable

As of September 30, 2023 and 2022, grants and contributions receivable are due as follows:

	2023	2022
Within one year	\$ 9,340,750	\$ 8,431,663
One to two years	8,467,726	6,956,570
Gross grants and contributions receivable	17,808,476	15,388,233
Less present value discount at 1.3%	(578,237)	(93,281)
Less allowance for doubtful accounts	(196,373)	(192,290)
Net grants and contributions receivable	<u>\$ 17,033,866</u>	<u>\$ 15,102,662</u>

Conditional grants: In addition to the above balances, Rare received conditional promises to give that have not yet been recognized as of the end of the year. Those promises were \$28,767,000 and \$8,900,100, as of September 30, 2023 and 2022, respectively. 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.

Rare and Affiliates

Notes to Consolidated Financial Statements

Note 6. Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following at September 30, 2023 and 2022:

	2023	2022
Program restricted:		
Sustainable fisheries	\$ 3,548,096	\$ 2,174,973
Climate change	1,746,702	4,231,229
Innovative finance	313,686	98,929
Center for behavior and the environment	637,491	576,515
Time-restricted	10,479,993	9,229,425
	<u>\$ 16,725,968</u>	<u>\$ 16,311,071</u>

During the years ended September 30, 2023 and 2022, net assets with donor restrictions were released from restriction as follows:

	2023	2022
Program restricted:		
Sustainable fisheries	\$ 10,009,254	\$ 8,448,334
Center for behavior and the environment	7,658,314	5,480,106
Climate change	673,998	635,973
Innovative finance	3,079,144	2,489,922
Time-restricted	5,260,000	4,660,000
	<u>\$ 26,680,710</u>	<u>\$ 21,714,335</u>

Note 7. Board-Designated Fund

The primary investment objective of the Board Designated Fund (BDF) is capital preservation. The board of trustees reviews the performance of related investments on a quarterly basis and all investment earnings are reinvested in the BDF.

Under the terms of the investment policy, the board of trustees can allocate a portion of net assets without donor restrictions to the Board Designated Fund (BDF). The board of trustees may also approve distribution from the BDF. As a result of the ability to distribute corpus, all contributions that are deemed board-designated are classified as net assets without donor restrictions for consolidated financial statement purposes.

Changes in the board-designated fund are as follows for the years ended September 30, 2023 and 2022:

	2023	2022
Board-designated fund, beginning of year	\$ 8,877,970	\$ 9,415,545
Investment income	364,905	160,467
Management account fees	(9,995)	(12,947)
Net unrealized gain (loss)	176,051	(685,095)
Board-designated fund, end of year	<u>\$ 9,408,931</u>	<u>\$ 8,877,970</u>

Rare and Affiliates

Notes to Consolidated Financial Statements

Note 8. Line of Credit

During January 2021, Rare and JPM entered an evergreen contract for a \$3,000,000 line of credit with a variable interest rate equal to London Interbank Offered Rate, plus 1.35%. Investments are used as collateral for this line of credit. As of September 30, 2023 and 2022, there were no balances due on the line of credit.

Note 9. Leases

Rare leases real estate, including office space and equipment under operating lease agreements that have initial terms ranging from one to 10 years. Some leases include one or more options to renew, generally at Rare's sole discretion, with renewal terms that can extend the lease term indefinitely. In addition, certain leases contain termination options where the rights to terminate are held by either Rare, the lessor, or both parties. These options to extend or terminate a lease are included in the lease terms when it is reasonably certain that Rare will exercise that option. Rare's operating leases generally do not contain any material restrictive covenants or residual value guarantees. Operating lease cost is recognized on a straight-line basis over the lease term.

Future undiscounted cash flows for each of the next four years, and a reconciliation to the lease liabilities recognized on the consolidated balance sheets, are as follows as of September 30, 2023:

Years ending September 30:	
2024	\$ 1,514,372
2025	1,536,146
2026	551,824
2027	269
Total lease payments	<u>3,602,611</u>
Less imputed interest	<u>(539,639)</u>
Total present value of lease liabilities	<u>\$ 3,062,972</u>

Future minimum lease commitments, as determined under Topic 840, for all noncancelable leases are as follows as of September 30, 2022:

Years ending September 30:	
2023	\$ 1,402,263
2024	1,437,319
2025	1,473,252
2026	246,544
Total minimum lease payments	<u>\$ 4,559,378</u>

Rare and Affiliates

Notes to Consolidated Financial Statements

Note 9. Leases (Continued)

The components of lease expense are as follows for the year ended September 30, 2023:

Cash paid for amounts included in measurement of lease liabilities:	
Operating cash outflows—payments on operating leases	\$ 1,476,101
Right-of-use assets obtained in exchange for new lease obligations:	
Operating leases	\$ 4,517,567
Weighted-average remaining lease term:	
Operating leases	3.2 years
Weighted-average discount rate:	
Operating leases	4.2%

During the years ended September 30, 2023 and 2022, rent expense was \$1,403,332 and \$1,408,565, respectively. The Arlington headquarters office rent charges include standard operating expenses.

Note 10. Employee Benefit Plans

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 2023 and 2022, Rare contributed 3% of base salary for all eligible employees, and matched employee contribution up to 4% of base salary. Employees are vested in the employer contributions after two years of service. Retirement plan expense for the years ended September 30, 2023 and 2022, was \$1,055,745 and \$903,355, 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, 2023 and 2022, the value of the IRSP was \$1,036,819 and \$960,780, 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, 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, 2023 and 2022, \$104,249 and \$118,973, respectively, was approved and funded. During 2020, one of the participants exited Rare, and the accumulated balance was forfeited. As of September 30, 2023 and 2022, the 457(f) liability amounted to \$232,050 and \$276,962, 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 \$0 at September 30, 2023 and 2022. As of September 30, 2023 and 2022, the 457(b) liability amounted to \$75,324 and \$75,411, respectively.

Rare and Affiliates

Notes to Consolidated Financial Statements

Note 10. Employee Benefit Plans (Continued)

The assets held for deferred compensation and the deferred compensation liabilities at September 30, 2023 and 2022, are as follows:

	2023	
	Asset	Liability
IRSP Plan	\$ 1,036,819	\$ 1,036,819
457(b) Plan	75,324	75,324
457(f) Plan	232,050	232,050
	<u>\$ 1,344,193</u>	<u>\$ 1,344,193</u>
	2022	
	Asset	Liability
IRSP Plan	\$ 960,780	\$ 960,781
457(b) Plan	75,411	75,411
457(f) Plan	276,962	276,961
	<u>\$ 1,313,153</u>	<u>\$ 1,313,153</u>

Note 11. Contributed Nonfinancial Assets

Rare reports contributions of nonfinancial assets as contribution revenue and program expense upon receipt. U.S. GAAP allows recognition of contributed services only if: (a) the services create or enhance nonfinancial assets or (b) the services would have been purchased if not provided by contribution, require specialized skills and are provided by individuals possessing those skills. Rare reports contributions of nonfinancial assets as restricted support if they are received with donor-imposed time or purpose restrictions. When a donor restriction expires, or is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the accompanying consolidated statements of activities as net assets released from restrictions. None of the contributed nonfinancial assets received were restricted in use. All contributed nonfinancial assets are used in programmatic activities.

During the years ended September 30, 2023 and 2022, the value of contributed nonfinancial assets were related to services of \$1,127,347 and \$83,276, respectively. These contributed services were included in the consulting and contract fee line on the accompanying consolidated statements of functional expense.

Note 12. Contingencies

Rare participates in a number of federally assisted grant programs which are subject to financial and compliance audits by the federal government or its representatives. As such, there exists a contingent liability for potential questioned costs that may result from such audits. Management does not anticipate any significant adjustments as a result of such audits.

From time to time, Rare may be subject to various legal proceedings which are incidental to the ordinary course of business. In the opinion of the management of Rare, there are no material liabilities for Rare for any of these proceedings.

Rare and Affiliates

Notes to Consolidated Financial Statements

Note 13. Liquidity

As of September 30, 2023 and 2022, the following assets are available to meet annual operating costs for the following fiscal year:

	<u>2023</u>	<u>2022</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 9,796,745	\$ 11,243,556
Grants and contributions receivable, net	17,033,866	15,102,662
Investments	<u>9,023,202</u>	<u>8,782,745</u>
Total financial assets available	35,853,813	35,128,963
Less amounts not available to be used within one year:		
Refundable advances	(5,027,332)	(4,433,527)
Net assets with donor restrictions for specific programs	(6,245,975)	(7,081,646)
Net assets with donor restrictions for time over one year	<u>-</u>	<u>(5,469,425)</u>
Financial assets available to meet operating needs within one year	<u>\$ 24,580,506</u>	<u>\$ 18,144,365</u>

Rare's support includes restricted contributions. Because donor restrictions require resources to be used in a particular manner, or in a future period, Rare must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditures. Rare regularly monitors liquidity required to meet its needs for general expenditures, liabilities and other obligations. Rare has net assets without donor restrictions that are used as reserves to fund program opportunities that are not currently in the budget, and to cover unexpected expenses. Additionally, as described in Note 9, Rare has a \$3,000,000 line of credit available to draw on to meet its needs for general expenditures, liabilities and other obligations due.

Independent Auditor's Report on the Supplementary Information

Board of Trustees
Rare

We have audited the consolidated financial statements of Rare and Affiliates as of and for the years ended September 30, 2023, and have issued our report thereon, which contains an unmodified opinion on those consolidated financial statements. See pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating and other supplementary information is presented for purposes of additional analysis rather than to present the financial position, changes in net assets and cash flows of the individual entities and is not a required part of the consolidated 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 consolidated financial statements. The consolidating and other supplementary information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Washington, D.C.
September 9, 2024

Rare and Affiliates

Consolidating Balance Sheet September 30, 2023

	Rare	Unique Impact (Formally, Rare Ventures, LLC)	Meloy Fund I, G.P.	Meloy Fund I, L.P.	Elimination	Total
Assets						
Operating assets:						
Cash and cash equivalents	\$ 9,560,044	\$ 10,333	\$ 226,368	\$ -	\$ -	\$ 9,796,745
Grants and contributions receivable, net	16,862,216	66,667	104,983	-	-	17,033,866
Related party receivables	413,151	121,096	44,953	-	(579,200)	-
Prepaid expenses and other assets	667,288	-	-	-	-	667,288
Program related investment loan	-	-	-	-	-	-
Investments	9,023,202	-	-	-	-	9,023,202
Assets held for deferred compensation	1,344,193	-	-	-	-	1,344,193
Right-of-use—office and equipment lease, net	2,616,311	-	-	-	-	2,616,311
Property and equipment, net	13,114	-	-	-	-	13,114
Total operating assets	40,499,519	198,096	376,304	-	(579,200)	40,494,719
Portfolio assets—Meloy Fund I, L.P.:						
Cash and cash equivalents	-	-	-	1,215,177	-	1,215,177
Other assets	-	-	-	472,903	-	472,903
Debt investment receivables, at fair value	-	-	-	21,687,633	-	21,687,633
Total portfolio assets	-	-	-	23,375,713	-	23,375,713
Total assets	\$ 40,499,519	\$ 198,096	\$ 376,304	\$ 23,375,713	\$ (579,200)	\$ 63,870,432
Liabilities and Net Assets						
Operating liabilities:						
Accounts payable and accrued expenses	\$ 3,979,003	\$ -	\$ 87,515	\$ -	\$ -	\$ 4,066,518
Refundable advances	4,899,249	-	128,083	-	-	5,027,332
Lease liabilities, net	3,062,972	-	-	-	-	3,062,972
Related party transactions	121,096	286,464	138,762	-	(546,322)	-
Deferred compensation liabilities	1,344,193	-	-	-	-	1,344,193
Total operating liabilities	13,406,513	286,464	354,360	-	(546,322)	13,501,015
Portfolio liabilities—Meloy Fund I, L.P.:						
Accounts payable and accrued expenses	-	-	-	298,628	(32,878)	265,750
Capital paid in advance	-	-	-	772,865	-	772,865
Line of credit payable	-	-	-	-	-	-
Total portfolio liabilities	-	-	-	1,071,493	(32,878)	1,038,615
Total liabilities	13,406,513	286,464	354,360	1,071,493	(579,200)	14,539,630
Net assets (deficit):						
Without donor restrictions:						
Undesignated	958,107	(88,368)	21,944	-	-	891,683
Designated by the board of trustees	9,408,931	-	-	-	-	9,408,931
Total Rare net assets without donor restrictions	10,367,038	(88,368)	21,944	-	-	10,300,614
Noncontrolling interest in Meloy Fund I, L.P. (Note 3)	-	-	-	22,304,220	-	22,304,220
Total net assets without donor restrictions	10,367,038	(88,368)	21,944	22,304,220	-	32,604,834
With donor restrictions	16,725,968	-	-	-	-	16,725,968
Total net assets	27,093,006	(88,368)	21,944	22,304,220	-	49,330,802
Total liabilities and net assets	\$ 40,499,519	\$ 198,096	\$ 376,304	\$ 23,375,713	\$ (579,200)	\$ 63,870,432

Rare and Affiliates

Consolidating Statement of Activities Year Ended September 30, 2023

	Rare	Unique Impact (Formally, Rare Ventures, LLC)	Meloy Fund I, G.P.	Meloy Fund I, L.P.	Elimination	Total
Operating support and revenue:						
Grants and contributions	\$ 28,724,191	\$ -	\$ -	\$ -	\$ -	\$ 28,724,191
Contributions of nonfinancial assets	1,127,347	-	-	-	-	1,127,347
Program service revenue	138,469	-	305,219	-	(43,979)	399,709
Management fees and other revenue	21,204	-	822,304	-	(822,304)	21,204
Total operating support and revenue	30,011,211	-	1,127,523	-	(866,283)	30,272,451
Operating expenses:						
Sustainable fisheries and agriculture	10,762,968	-	-	-	-	10,762,968
Climate change	7,771,912	-	-	-	-	7,771,912
Conservation finance	3,294,441	69,398	1,096,591	1,255,089	(866,283)	4,849,236
Center for behavior and environment	4,620,649	-	-	-	-	4,620,649
Administrative	3,368,408	-	-	-	-	3,368,408
Fundraising	2,884,350	-	-	-	-	2,884,350
Total operating expenses	32,702,728	69,398	1,096,591	1,255,089	(866,283)	34,257,523
Other income:						
Rental income	105,368	-	-	-	-	105,368
Investment income	578,853	-	58,731	-	-	637,584
	684,221	-	58,731	-	-	742,952
Gain on insurance claim	1,000,000	-	-	-	-	1,000,000
Contingent loss	(235,716)	-	-	-	-	(235,716)
Changes in net assets before noncontrolling interest	(1,243,012)	(69,398)	89,663	(1,255,089)	-	(2,477,836)
Other:						
Meloy Fund I, L.P.:						
Portfolio interest	-	-	-	415,621	-	415,621
Realized loss on privately held security	-	-	-	(13,158)	-	(13,158)
Change in unrealized loss on privately held securities	-	-	-	3,767,684	-	3,767,684
	-	-	-	4,170,147	-	4,170,147
Changes in net assets before contributions by limited partners	(1,243,012)	(69,398)	89,663	2,915,058	-	1,692,311
Carried interest to General Partner	-	-	-	-	-	-
Contributions by limited partners	-	-	-	6,687,572	-	6,687,572
Change in net assets	(1,243,012)	(69,398)	89,663	9,602,630	-	8,379,883
Net assets (deficit):						
Beginning	28,336,018	(18,970)	(67,719)	12,701,590	-	40,950,919
Ending	\$ 27,093,006	\$ (88,368)	\$ 21,944	\$ 22,304,220	\$ -	\$ 49,330,802

Rare and Affiliates

Rare Standalone Balance Sheet September 30, 2023 and 2022

	2023	2022
Assets		
Cash and cash equivalents	\$ 9,560,044	\$ 11,044,660
Grants and contributions receivable, net	16,862,216	14,905,449
Contracts receivable	413,151	731,606
Prepaid expenses and other assets	667,288	1,022,655
Investments	9,023,202	228,619
Assets held for deferred compensation	1,344,193	8,782,745
Right-of-use—office and equipment lease, net	2,616,311	1,313,153
Property and equipment, net	13,114	39,938
	<hr/>	<hr/>
Total assets	\$ 40,499,519	\$ 38,068,825
	<hr/> <hr/>	<hr/> <hr/>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 3,979,003	\$ 3,393,810
Refundable advances	4,899,249	4,091,557
Related party transactions	121,096	136,329
Lease liability	3,062,972	797,958
Deferred compensation liabilities	1,344,193	1,313,153
	<hr/>	<hr/>
Total liabilities	13,406,513	9,732,807
	<hr/>	<hr/>
Net assets:		
Without donor restrictions:		
Undesignated	958,107	3,146,977
Designated by the board of trustees	9,408,931	8,877,970
	<hr/>	<hr/>
Total net assets without donor restrictions	10,367,038	12,024,947
	<hr/>	<hr/>
With donor restrictions	16,725,968	16,311,071
	<hr/>	<hr/>
Total net assets	27,093,006	28,336,018
	<hr/>	<hr/>
Total liabilities and net assets	\$ 40,499,519	\$ 38,068,825
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Rare and Affiliates

Rare Standalone Statement of Activities Years Ended September 30, 2023 and 2022

	2023	2022
Support and revenue:		
Grants and contributions	\$ 28,724,191	\$ 22,252,656
Paycheck Protection Program loan forgiveness	-	1,683,088
Contributed services and materials	1,127,347	83,276
Program service revenue	138,469	137,257
Management fees and other revenue	21,204	2,491
Total support and revenue	30,011,211	24,158,768
Operating expenses:		
Sustainable fisheries and agriculture	10,762,968	12,185,030
Climate change	7,771,912	6,456,417
Conservation finance	3,294,441	1,923,825
Center for behavior and environment	4,620,649	3,702,031
Administrative	3,368,408	2,766,738
Fundraising	2,884,350	2,878,872
Total operating expenses	32,702,728	29,912,913
Other income:		
Rental income	105,368	156,401
Investment gain (loss)	578,853	(481,061)
	684,221	(324,660)
Gain from insurance proceeds	1,000,000	-
Contingent loss	(235,716)	(982,024)
Change in net assets	(1,243,012)	(7,060,829)
Net assets:		
Beginning	28,336,018	35,396,847
Ending	\$ 27,093,006	\$ 28,336,018