

**ASSOCIATION FOR
SPECIALTY COFFEE
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT**

**YEAR ENDED
SEPTEMBER 30, 2019**

ASSOCIATION FOR SPECIALTY COFFEE AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Association for Specialty Coffee
Santa Ana, California**

We have audited the accompanying financial statements of Association for Specialty Coffee and Subsidiaries which comprise the consolidated statement of financial position as of September 30, 2019, and the related consolidated statement of activities, functional expenses, and of cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements based on our audit. We did not audit the financial statements of World Coffee Events Limited (WCE) and the Specialty Coffee Association - Europe (SCAE), wholly-owned subsidiaries, for the year ended September 30, 2019, which statements reflect total assets constituting 7 and 73 percent, respectively, of consolidated total assets at September 30, 2019, and total revenues constituting 9 and 45 percent, respectively, of consolidated revenues for the year then ended. Those statements, which were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, were audited by other auditors, whose report has been furnished to us. We have applied audit procedures on the conversion adjustments to the financial statements of WCE and SCAE, which conform those financial statements to accounting principles generally accepted in the United States of America. Our opinion, insofar as it relates to the amounts included for WCE and SCAE, prior to these conversion adjustments, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Association for Specialty Coffee and Subsidiaries as of September 30, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Gilbert CPAs

**GILBERT CPAs
Sacramento, California**

August 12, 2020

ASSOCIATION FOR SPECIALTY COFFEE AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2019

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 6,939,286
Accounts receivable, net	771,536
Inventory	446,156
Prepaid expenses	434,180
Total current assets	<u>8,591,158</u>

NONCURRENT ASSETS:

Property and equipment, net	149,681
Intangible assets	17,439
Security deposit	<u>9,167</u>

TOTAL ASSETS \$ 8,767,445

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Deferred revenue	\$ 4,935,567
Accrued expenses	1,551,804
Accounts payable	1,517,138
Corporation taxes and VAT payable	302,675
Deferred rent	<u>35,084</u>
Total current liabilities	8,342,268

NET ASSETS 425,177

TOTAL LIABILITIES AND NET ASSETS \$ 8,767,445

ASSOCIATION FOR SPECIALTY COFFEE AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES YEAR ENDED SEPTEMBER 30, 2019

REVENUES:

Exposition and events	\$ 11,474,489
Education programs	5,016,747
Membership dues	1,965,206
Resource center sales, net of cost of sales of \$621,338	266,063
Other programs	253,659
Publications	107,287
Other	139,271
Total revenues	<u>19,222,722</u>

EXPENSES:

Program Services:	
Exposition and events	9,387,124
Education	1,736,048
Membership	1,726,687
Price Crisis Response Initiative	737,121
Publications	462,037
Research	377,677
Resource center	214,884
Advocacy	215,721
Sustainability	142,889
Total program expenses	<u>15,000,188</u>
Supporting Services:	
Management and general	<u>3,476,873</u>
Total operating expenses	<u>18,477,061</u>

INCREASE IN NET ASSETS	745,661
NET ASSETS (DEFICIT), Beginning of Year	<u>(320,484)</u>
NET ASSETS, End of Year	<u>\$ 425,177</u>

ASSOCIATION FOR SPECIALTY COFFEE AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED SEPTEMBER 30, 2019

	Program Services									Supporting Services	Total
	Exposition and Events	Education	Membership	Price Crisis Response Initiative	Publications	Research	Resource Center	Advocacy	Sustainability	Management and General	
Salaries and benefits	\$ 2,806,209	\$ 920,542	\$ 804,417	\$ 488,117	\$ 187,576	\$ 203,131	\$ 135,817	\$ 123,238	\$ 59,223	\$ 1,875,726	\$ 7,603,996
Event costs	4,287,989	109,569	92,777	1,355	93,834	1,648	6,672	17,456	2,113	23,319	4,636,732
Travel and entertainment	680,784	173,211	176,742	37,603	9,579	10,026	14,053	54,115	16,369	527,340	1,699,822
Professional services	600,598	59,358	115,855	208,166	50,151	68,540	3,305	10,595	20,477	427,823	1,564,868
Office expenses	308,619	145,537	108,030	956	48,207	8,013	27,947	2,097	18,894	110,056	778,356
Software license and fees	250,586	98,398	113,554	49	7,499	7,070	8,690	1,322	5,571	83,253	575,992
Taxes	686	80,381	1,418				40			332,883	415,408
Licenses and memberships	3,618	40,920	152,929		11,738	13,538			1,700	350	224,793
Marketing and promotion	115,890	17,899	29,778		23,340	6,013	213		1,602	4,843	199,578
Rent expense	77,629	30,186	37,691			5,954		1,995	6,278	37,355	197,088
Postage and delivery	80,653	21,866	48,416		25,810	38	15,531		160	4,361	196,835
Telephone and internet	60,649	17,118	18,029	875	4,200	2,488	2,078	2,503	3,273	14,646	125,859
Depreciation and amortization	53,386	12,439	16,423			4,559		1,594	4,763	18,438	111,602
Leases - operating	37,668	4,022	4,194			1,036		355	1,088	5,059	53,422
Insurance expense	23,647	4,881	6,792		103	2,777	538	500	1,524	8,627	49,389
Grant expense						42,986					42,986
Bad debt expense	(1,487)	(279)	(358)			(140)		(49)	(146)	2,690	231
Interest expense										104	104
Total expenses	<u>\$ 9,387,124</u>	<u>\$ 1,736,048</u>	<u>\$ 1,726,687</u>	<u>\$ 737,121</u>	<u>\$ 462,037</u>	<u>\$ 377,677</u>	<u>\$ 214,884</u>	<u>\$ 215,721</u>	<u>\$ 142,889</u>	<u>\$ 3,476,873</u>	<u>\$ 18,477,061</u>

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

ASSOCIATION FOR SPECIALTY COFFEE AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED SEPTEMBER 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase in net assets	\$ 745,661
Reconciliation to net cash provided by operating activities:	
Depreciation and amortization	111,602
Loss on disposal of property and equipment	53,280
Changes in:	
Accounts receivable, net	(58,934)
Inventory	(33,181)
Prepaid expenses	(241,830)
Intangible assets	349,959
Security deposit	(167)
Deferred revenue	564,129
Accrued expenses	(89,004)
Accounts payable	193,188
Corporation taxes and VAT payable	302,675
Deferred rent	<u>(5,303)</u>
Net cash provided by operating activities	<u>1,892,075</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Acquisition of intangible assets	(26,540)
Purchases of property and equipment	<u>(95,720)</u>
Net cash used by investing activities	<u>(122,260)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Principal payments on note payable	<u>(14,668)</u>
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NET INCREASE IN CASH AND EQUIVALENTS 1,755,147

CASH AND CASH EQUIVALENTS, Beginning of Year 5,184,139

CASH AND CASH EQUIVALENTS, End of Year \$ 6,939,286

SUPPLEMENTAL ACTIVITY:

Corporation taxes and VAT paid	<u><u>\$ 415,408</u></u>
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ASSOCIATION FOR SPECIALTY COFFEE AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of operations – The Specialty Coffee Association of America (the Association) was incorporated on December 27, 1991 as a nonprofit trade association and is headquartered in Santa Ana, California. Effective August 2017, the Association changed its name to Association for Specialty Coffee.

The purpose of the Association is to promote international public interest regarding coffee and coffee beverages of the highest quality, provide education about cultivation, processing, preparation, and marketing of specialty coffee, establish a common forum for discussion among industry members, ensure a sense of industry, purpose and cooperation, and to enhance the unified character of the industry.

The accompanying financial statements reflect the consolidation of Association for Specialty Coffee, Specialty Coffee Association – Europe (SCAE), World Coffee Events Limited (WCE), SCA Germany Chapter, and SCA Korea Chapter. Effective October 1, 2018, the Association and SCAE completed a unification, with SCAE established as a wholly-owned subsidiary of the Association. WCE is an events management company for the worldwide specialty coffee community based in Dublin, Ireland. WCE was 50% owned by the Association prior to June 7, 2017, at which time it became 100% owned (see Note 2). SCA Korea Chapter is a wholly-owned subsidiary created by the Association on June 20, 2018. SCA Germany Chapter is a wholly owned subsidiary created by SCAE on November 27, 2018. Material transactions between entities have been eliminated in the consolidation.

Basis of accounting and financial statement presentation – The consolidated financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities. The Association reports information regarding its financial position and activities according to two classes of net assets; net assets without donor restrictions and net assets with donor restrictions. The Association currently has no net assets with donor restrictions.

Foreign currency translation – Foreign operations of WCE, SCAE, SCA Germany Chapter, and SCA Korea Chapter have been translated into U.S. dollars in accordance with professional standards. All assets and liabilities are translated at period-end exchange rates and revenue and expense are translated at the average rate of exchange prevailing throughout the period. Translation adjustments as of September 30, 2019 are not significant to the financial statements.

Revenue recognition – Membership dues are recognized based on the subscription year to which the dues relate. Exposition and events revenue are recognized in the fiscal year in which the related event occurs. Education training program and event fees are recognized in the fiscal year in which the training occurs. Resource center sales are recognized when the inventory is shipped to the customer. Directory publication revenue is recognized in the fiscal year in which the directory is published. Contributions, including grants, are recognized in full when received or unconditionally promised, in accordance with professional standards.

ASSOCIATION FOR SPECIALTY COFFEE AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019

Functional expenses – The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, benefits and taxes, travel and entertainment, office expenses, marketing and promotion, utilities, and licenses and memberships. These expenses are allocated on the basis of estimates of time and effort.

Cash and cash equivalents – For financial statement purposes, the Association considers all investments with an initial maturity of three months or less to be cash equivalents.

The Association minimizes credit risk associated with cash by periodically evaluating the credit quality of their primary financial institution. The balance at times may exceed statutorily insured limits. Cash balances held by the Association at US institutions in excess of insured limited at September 30, 2019 were \$212,490. The Association has not experienced any losses in such accounts and management believes the Association is not exposed to any significant credit risk related to cash.

Accounts receivable – Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management has estimated an allowance for doubtful accounts based on historical performance. As of September 30, 2019, the allowance for doubtful accounts was \$94,327.

Inventory – Inventory consists of educational materials and promotional items related to the specialty coffee industry. Inventory is stated at the lower of cost or market value on an average cost basis.

Property and equipment is stated at cost. The Association capitalizes all expenditures of property and equipment in excess of \$500. Depreciation is computed using the straight-line method over estimated useful lives of individual assets ranging from 3 to 10 years.

Deferred rent – The Association records rent expense on a straight-line basis, and a deferred rent liability pertaining to free rent and future rent increases has been accrued.

Income taxes – The Association is exempt from income taxes under Section 501(c)(6) of the Internal Revenue Code. The Association has applied the accounting principles related to accounting for uncertainty in income taxes and has determined that there is no material impact on the financial statements. With some exceptions, the Association is no longer subject to U.S. federal and state income tax examinations by tax authorities for years prior to 2015.

WCE is a company limited by shares incorporated in the Republic of Ireland, SCA Korea Chapter is incorporated in Korea, SCA Germany Chapter is incorporated in Germany, and SCAE is a private company limited by guarantee incorporated in England and Wales. These entities are subject to taxation in their respective jurisdictions.

Recent accounting pronouncements – On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, information about liquidity and available resources, and the type of information provided about expenses and investment return. The Association has adjusted the presentation of these statements accordingly.

ASSOCIATION FOR SPECIALTY COFFEE AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019

In May 2014, the FASB issued ASU No. 2014-09, *Revenue with Contract from Customers (Topic 606)*. The new accounting standard develops a common revenue standard that will remove inconsistencies and weaknesses in revenue requirements, provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices, provide more useful information to users of financial statements and simplify the preparation of financial statements. Application of this statement is effective for the year ending September 30, 2021, but early adoption is permitted. The Association is currently evaluating the impact this pronouncement will have on its financial statements.

In June 2018, the FASB issued ASU 2018-08, Topic 958, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new accounting standard clarifies and improves the guidance for (1) evaluating whether transactions should be accounted for as contributions within the scope of Topic 958 or as exchange transactions subject to other guidance and (2) determining whether a contribution is conditional. Application of this statement is effective for transactions in which the entity serves as the resource recipient for the year ending September 30, 2020. The Association is currently evaluating the impact this pronouncement will have on the financial statements.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent events have been reviewed through August 12, 2020, the date the financial statements were available to be issued. Refer to Note 9.

2. CHANGE IN REPORTING ENTITY

During 2015, the Association committed resources to explore the potential combination of the Association and SCAE. The Association's Board and Management collectively believed that such a combination would allow for international growth, greater influence on policy, research alignment, and provide for a unified set of standards and definitions for the specialty industry. The unification of the organizations was completed effective October 1, 2018, with SCAE established as a wholly-owned subsidiary of the Association. No consideration was transferred as part of the transaction. The activity of SCAE has been consolidated in the financial statements of the Association as of the unification date.

ASSOCIATION FOR SPECIALTY COFFEE AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019

Assets and liabilities of SCAE acquired by the Association as of the date of acquisition are as follows:

Cash	\$ 3,288,637
Accounts receivable	294,240
Other assets	255,157
Inventory	125,436
Prepaid expenses	45,281
Property and equipment, net	<u>35,767</u>
Total assets	<u>\$ 4,654,225</u>
Deferred revenue	\$ 2,019,826
Accounts payable	1,246,215
Accrued expenses	<u>1,065,104</u>
Total liabilities	<u>\$ 4,331,145</u>
Net assets	<u>\$ 323,080</u>

On November 27, 2018, SCAE invested €25,000 to register their German national chapter (SCA German Chapter) as a business certified to operate in Germany. The SCA German Chapter had no other assets or liabilities at the time of the SCAE's investment. The activity of SCA Germany Chapter has been consolidated in the financial statements of the Association as of the investment date.

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Association had \$7,710,822 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures consisting of cash of \$6,939,286 and accounts receivable of \$771,536. None of the above financial assets are subject to contractual restrictions that make them unavailable for general expenditures within one year of the balance sheet date. Accounts receivable are expected to be collected within one year.

It is the Association's primary financial objective to maintain a minimum liquidity level to add stability and further the organization's potential for future mission achievement.

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

Office furniture and equipment	\$ 291,189
Leasehold improvements	77,278
Computer and hardware	<u>342,188</u>
	710,655
Less: accumulated depreciation and amortization	<u>(560,974)</u>
Property and equipment, net	<u>\$ 149,681</u>

ASSOCIATION FOR SPECIALTY COFFEE AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019

5. DEFERRED REVENUE

Deferred revenue is comprised of the following activities:

Expo and event	\$ 1,702,721
Educational licenses	1,627,893
Membership dues	1,116,015
Other programs	<u>488,938</u>
Total deferred revenue	<u>\$ 4,935,567</u>

6. OPERATING LEASES

The Association leases office space for their headquarters locations in Santa Ana, California and Chelmsford, England under a long-term agreements. Rental expense for the year ended September 30, 2019 was \$197,091. Future minimum payments under the leases are as follows:

Fiscal year ending September 30:

2020	\$ 162,682
2021	165,927
2022	157,669
2023	<u>11,140</u>
Total	<u>\$ 467,418</u>

7. NOTE PAYABLE

Related to the headquarters lease described above, the Association entered into a note payable agreement with their lessor to finance leasehold improvements. The note bore interest at a rate of 3.5% per annum with monthly payments, including accrued interest, of \$689. The note was repaid in full during 2018.

8. SIMPLIFIED EMPLOYEE PENSION PLAN

The Association has different defined contribution retirement plans for each of its entities. In the U.S., the Association has a defined contribution Simplified Employee Pension Plan (SEP) covering all U.S. based employees with at least one year of service. Contributions to the plan are at the Association's discretion. In the UK, the Association contributes to the NEST UK Government plan based on statutory requirements. During the year ended September 30, 2019, the Association elected to fund the SEP \$209,417 and made required contributions to the UK plan of \$46,366. Unpaid contributions to the plans are included in accrued liabilities.

ASSOCIATION FOR SPECIALTY COFFEE AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019

9. SUBSEQUENT EVENT

The Association evaluated its September 30, 2019 consolidated financial statements for subsequent events through the date the consolidated financial statements were issued. As a result of the spread of the COVID-19, economic uncertainties have arisen which are likely to negatively impact operations, including the annual coffee exposition, which has been postponed due to governmental restrictions on large gatherings. The potential financial impact of COVID-19 is unknown at this time.