

SUSTAINABLE FORESTRY INITIATIVE, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012



NED MARINI & ASSOCIATES INC.

Certified Public Accountants

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report.....	3
Statement of Financial Position.....	4
Statement of Activities	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 14
Statement of Functional Expenses.....	15

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Independent Auditor's Report

To the Board of Directors of
Sustainable Forestry Initiative Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Sustainable Forestry Initiative, Inc. which comprise the statement of financial position as of December 31, 2013 and 2012, and the related statement of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes 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 the significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sustainable Forestry Initiative Inc. as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

SUSTAINABLE FORESTRY INITIATIVE INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2013 and 2012

ASSETS	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash and cash equivalents	\$ 239,288	\$ 694,362
Accounts receivable	956,850	869,697
Short term investments	920,000	440,000
Other receivables	0	16,995
Prepaid expenses	<u>43,432</u>	<u>64,530</u>
TOTAL CURRENT ASSETS	<u>2,159,570</u>	<u>2,085,584</u>
Long Term Assets:		
Long term investments	460,000	0
Furniture and equipment (Net of accumulated depreciation)	<u>75,687</u>	<u>71,354</u>
TOTAL LONG-TERM ASSETS	<u>535,687</u>	<u>71,354</u>
TOTAL ASSETS	<u>\$ 2,695,257</u>	<u>\$ 2,156,938</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 425,757	\$ 265,768
Deferred revenue	<u>1,025,205</u>	<u>988,709</u>
TOTAL CURRENT LIABILITIES	<u>1,450,962</u>	<u>1,254,477</u>
Long Term Liabilities:		
TOTAL LONG TERM LIABILITIES	<u>0</u>	<u>0</u>
TOTAL LIABILITIES	<u>1,450,962</u>	<u>1,254,477</u>
NET ASSETS		
Unrestricted	953,035	793,975
Temporarily restricted	291,260	108,486
Permanently restricted	<u>0</u>	<u>0</u>
TOTAL NET ASSETS	<u>1,244,295</u>	<u>902,461</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,695,257</u>	<u>\$ 2,156,938</u>

See accompanying notes.

SUSTAINABLE FORESTRY INITIATIVE INC.
STATEMENT OF ACTIVITIES
DECEMBER 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
REVENUE		
Program participant licenses	\$ 5,159,410	\$ 4,912,323
Contribution income	993,400	999,385
Meetings income	154,950	132,965
Publication revenue	11,619	870
Investment income	274	189
PEFC income	<u>188,810</u>	<u>211,978</u>
TOTAL REVENUE	<u>6,508,463</u>	<u>6,257,710</u>
 EXPENSES		
Program Services	5,201,019	4,915,378
Management and general	<u>965,610</u>	<u>857,612</u>
TOTAL EXPENSES	<u>6,166,629</u>	<u>5,772,990</u>
CHANGE IN NET ASSETS	341,834	484,720
NET ASSETS AT BEGINNING OF YEAR	<u>902,461</u>	<u>417,741</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,244,295</u>	<u>\$ 902,461</u>

See accompanying notes.

SUSTAINABLE FORESTRY INITIATIVE INC.
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 and 2012

CASH FLOWS FROM OPERATING ACTIVITIES

	<u>2013</u>	<u>2012</u>
Increase (decrease) in net assets	\$ 341,834	\$ 484,720
Depreciation	21,250	19,704
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
(Increase) decrease in accounts receivable	(87,153)	62,116
(Increase) decrease in other receivables	16,995	46,574
(Increase) decrease in prepaid expenses	21,098	(21,399)
Increase (decrease) in accounts payable & accrued expenses	159,989	72,640
Increase (decrease) in deferred revenue	<u>36,496</u>	<u>42,338</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>510,509</u>	<u>706,693</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase fixed assets	(25,583)	(60,335)
Purchase of short term investments	(480,000)	(440,000)
Purchase of long term investments	<u>(460,000)</u>	<u>0</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(965,583)</u>	<u>(500,335)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

NET CASH EFFECT OF FINANCING ACTIVITIES	<u>0</u>	<u>0</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(455,074)	206,358
BEGINNING CASH AND CASH EQUIVALENTS	<u>694,362</u>	<u>488,004</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 239,288</u>	<u>\$ 694,362</u>
Taxes Paid	<u>\$ 0</u>	<u>\$ 0</u>
Interest Paid	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying notes.

SUSTAINABLE FORESTRY INITIATIVE INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 and 2012

1. Nature of Organization:

Nature of Activities

The Sustainable Forestry Initiative, Inc. (the Organization) is a non-profit corporation established in the District of Columbia on November 3, 2006. The purpose for which the corporation is organized and operated are charitable and educational purposes within the meaning of Section 501 (c) (3) of the Internal Revenue Code of 1986, as amended (or the corresponding provision of any future United States Revenue Code), as stated in the Articles of Incorporation, to ensure the environmental, social, and economic sustainable development of the nation's forests, for the benefit of public and private stakeholders. The corporation shall have sole responsibility for all activities necessary for the development, maintenance, implementation, promotion, and continual improvement of the Sustainable Forestry Initiative ® Standard and Program.

2. Summary of Significant Accounting Policies:

Significant accounting policies followed by the Organization in preparation of its financial statements are summarized below. Preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Financial Statement Presentation

In accordance with accounting principles generally accepted in the United States of America, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Uncertain Tax Positions as Defined in FIN No. 48 (Now Part of ASC 740):

The Organization complies with the accounting standards generally accepted in the United States of America requirement of "Accounting for Uncertainty in Income Taxes which prescribes a new threshold for determining when an income tax benefit can be recognized, this requirement is a higher threshold than the one imposed for claiming deductions on income tax returns. This requirement did not have any impact on the Organization's financial statements. The Organization's federal and state income tax returns are subject to possible examination by the taxing authorities until the expiration of the related statutes of limitations on those tax returns. In general, the federal and state income tax returns have a three year statute of limitations. The Organization would recognize accrued interest and penalties associated with uncertain tax provisions, if any, as part of the income tax provision.

SUSTAINABLE FORESTRY INITIATIVE INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 and 2012

2. Summary of Significant Accounting Policies (continued):

Subsequent Events:

Management has evaluated subsequent events through March 3, 2014, the date on which the financial statements were available to be issued. Management is aware of only one subsequent event that requires recognition or disclosure in the financial statements. The Organization is currently relocating their main office facilities to a new location. The operating lease for the new facility has not been executed at the time of this report. Management expects to have the new lease commitment executed in the first half of 2014.

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is provided using the straight-line method for financial reporting purposes at rates based on an estimated useful life of:

Furniture and equipment	3 – 5 years
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Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Net Assets

Unrestricted

Unrestricted net assets represent resources over which the organization has discretionary control and are used to carry out the Organization's operations in accordance with its bylaws and exempt purposes.

Temporarily restricted

Temporarily restricted net assets represents resources stipulated by donors for specific operating purposes or those not currently available for use until commitments regarding their use have been fulfilled.

Permanently restricted

Permanently restricted net assets represent resources stipulated by a donor requiring the contribution be maintained in perpetuity with use of income for temporarily restricted and unrestricted purposes.

SUSTAINABLE FORESTRY INITIATIVE INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 and 2012

2. Summary of Significant Accounting Policies (continued):

Cash and Cash Equivalents

For purposes of the statements of financial position and cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Contributions

In accordance with accounting principles generally accepted in the United States of America, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Investments

The Organization carries investments in marketable securities at fair value in the statement of financial position. Investment income includes interest, dividends, and realized gains and losses on investments. See note 9 for more information on the carrying value of investment securities. The carrying value of all financial instruments equals fair value.

Short Term Investments

For purposes of the statements of financial position and cash flows, the Organization considers short term investments to be certificates of deposit with a duration of twelve months or less.

Long Term Investments

For the purposes of the statements of financial position and cash flows, the Organization considers long term investments to be any investment that matures in excess of twelve months.

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

3. Furniture & Equipment

The following is a summary of furniture and equipment at cost, less accumulated depreciation.

Furniture and equipment consist of the following:

	2013	2012
Furniture & Equipment	\$ 193,681	\$ 168,098
	193,681	168,098
Accumulated depreciation	(117,994)	(96,744)
Net Furniture & Equipment	\$ 75,687	\$ 71,354

Depreciation expense for the years ended December 31, 2013 and 2012 was \$21,250 and \$19,704, respectively.

SUSTAINABLE FORESTRY INITIATIVE INC.
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2013 and 2012

4. Lease Commitments

The organization has commitment for various operating leases. Future minimum payments under these leases are as follows.

2014	\$88,987
2015	\$41,320
2016	\$41,320
2017	\$41,320
2018	\$41,320

The organization is currently negotiating a new lease for their Washington D.C. office facilities and expects execution of such in the first half of 2014. The current draft of this new lease requires a commitment as follows:

<u>Year</u>	<u>Base Rent Annual Amount</u>
2014	\$ 82,000 *
2015	166,000
2016	170,500
2017	179,000
2018	183,500

*Rent amount based upon a six (6) month period commencing on July 1, 2014.

5. Future Commitments

During 2010 the Organization established a Conservation and Community Partnership Grant Program.

Every year Sustainable Forestry Initiative, Inc. commits approximately \$400,000 to the Conservation and Community Partnership Grant Program which is reflected in temporarily restricted net assets. As the grants are expended from temporarily restricted net assets the usage is reflected in the statement of activities. The Conservation and Community Partnership Grant Program involves prospective multiyear commitments.

During 2013 and 2012 the Organization executed grants to various recipients (grantees) to the extent of \$233,810 and \$411,000 respectively (of which \$143,740 and \$205,500 was expended outside the United States of America respectively).

The Organization has committed as of December 31, 2013 to grant funding of \$238,760 and \$52,500 for 2014 and 2015 respectively (of which \$123,160 and \$30,000 was committed to grantees outside the United States of America in 2014 and 2015 respectively).

SUSTAINABLE FORESTRY INITIATIVE INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 and 2012

6. Temporary Restricted Net Assets

The Organization board of directors has temporarily restricted net assets as of December 31, 2013 and 2012 as follows:

	2013	2012
Conservation and Community Partnership Grant Program	\$ 291,260	\$ 74,000
PEFC Promotion	0	34,486
Temporarily restricted net assets at December 31.	\$ 291,260	\$ 108,486

7. Usage of Temporary Restricted Net Assets

	2013	2012
Temporary restricted net assets at beginning of year	\$ 108,486	\$ 81,910
Additions to temporary restricted net assets during the year	450,000	42,000
Less usage of temporary restricted net assets during the year for program expenses	(267,226)	(15,424)
Temporary restricted net assets at end of year.	\$ 291,260	\$ 108,486

8. Employee Leave Policy

The Organization's sick leave policy allows for unused sick time to be transferred to the following year up to a max of 90 days. As of December 31, 2013 the Organization's sick time has accrued to 2,807 hours. However, unused sick time is not a monetary obligation and will be forfeited by employees if not used during their employment.

9. Investments

Investments are presented at fair market value and consist of the following at December 31:

	2013	2012
Investments:		
Short term certificates of deposit	\$ 920,000	\$ 440,000
Long term certificates of deposit	460,000	0
Total investments	\$1,380,000	\$ 440,000

Investment income was as follows:

Interest and dividends	\$ 274	\$ 189
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SUSTAINABLE FORESTRY INITIATIVE INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 and 2012

10. Investments Greater Than 5% Of Fair Value Of Net Assets

Individual investments that represent 5% or more of the fair value of net assets were as follows:

<u>Investment</u>	<u>Rate</u>	<u>Maturity Date</u>	<u>2013</u>	<u>2012</u>
Certificate of Deposit	0.60%	04/30/2015	\$ 230,000	
Certificate of Deposit	0.25%	09/22/2014	230,000	
Certificate of Deposit	0.40%	05/07/2014	230,000	
Certificate of Deposit	0.45%	07/09/2014	230,000	
Certificate of Deposit	0.50%	11/03/2014	230,000	
Certificate of Deposit	0.40%	02/02/2015	230,000	
Certificate of Deposit	0.25%	04/24/2013		\$ 230,000
Certificate of Deposit	0.45%	05/01/2013		210,000

All of the above certificates of deposit are FDIC insured.

11. Risks and Uncertainties

The Organization's investments are in various securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and it is management's opinion that such change would be considered immaterial and therefore not affect the amounts reported in the statement of net assets.

12. Fair Value Adjustment To Net Assets

The Organization invests in various funds and is required to disclose the difference in value between the contract value and the fair value of the various funds.

The Organization is invested in various funds whose fair value is equal to the contract value. There is no allocated monetary effect adjustment to the Organization.

SUSTAINABLE FORESTRY INITIATIVE INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 and 2012

13. Assets Measured At Fair Value On A Recurring Basis

Description 12/31/2013	Fair Value Measurements at Reporting Date Using:			
	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	<u>Total</u>
Held to Maturity Securities	\$ 1,380,000	\$ 0	\$ 0	\$ 1,380,000
Trading Securities Available	\$ 0	\$ 0	\$ 0	\$ 0
Available For-Sale Securities	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Securities Available	<u>\$ 1,380,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,380,000</u>

SUSTAINABLE FORESTRY INITIATIVE INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 and 2012

14. Assets Measured At Fair Value On A Recurring Basis

Description 12/31/2012	Fair Value Measurements at Reporting Date Using:			
	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	<u>Total</u>
Held to Maturity Securities	\$ 440,000	\$ 0	\$ 0	\$ 440,000
Trading Securities Available	\$ 0	\$ 0	\$ 0	\$ 0
Available For-Sale Securities	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Securities Available	<u>\$ 440,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 440,000</u>

SUSTAINABLE FORESTRY INITIATIVE INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2013 & 2012

	<u>December 31, 2013</u>		
	<u>Program Services</u>	<u>Management & General</u>	<u>Total</u>
EXPENSES:			
Staff Costs	\$ 1,987,908	\$ 459,040	\$ 2,446,948
Meetings	486,671	171,460	658,131
Office & Administration	420,727	208,808	629,535
Fundraising	0	34,637	34,637
Grants & Partnerships	266,751	0	266,751
PEFC Endorsements & Expenses	324,434	0	324,434
Promotion & Marketing	269,263	0	269,263
Outsourced Work	<u>1,445,265</u>	<u>91,665</u>	<u>1,536,930</u>
TOTAL	<u>\$ 5,201,019</u>	<u>\$ 965,610</u>	<u>\$ 6,166,629</u>

	<u>December 31, 2012</u>		
	<u>Program Services</u>	<u>Management & General</u>	<u>Total</u>
EXPENSES:			
Staff Costs	\$ 1,730,054	\$ 501,009	\$ 2,231,063
Meetings	333,752	116,338	450,090
Office & Administration	394,041	152,501	546,542
Fundraising	0	32,965	32,965
Grants & Partnerships	449,833	0	449,833
PEFC Endorsements & Expenses	318,793	0	318,793
Promotion & Marketing	197,504	0	197,504
Outsourced Work	<u>1,491,401</u>	<u>54,799</u>	<u>1,546,200</u>
TOTAL	<u>\$ 4,915,378</u>	<u>\$ 857,612</u>	<u>\$ 5,772,990</u>