

SUSTAINABLE FORESTRY INITIATIVE, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011



MARINI & ASSOCIATES

Certified Public Accountants

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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 balance sheets as of December 31, 2012 and 2011, 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 audits. We conducted our audits 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, 2012 and 2011, 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.



MARINI & ASSOCIATES
February 15, 2013

SUSTAINABLE FORESTRY INITIATIVE INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012 and 2011

ASSETS	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash	\$ 1,134,362	\$ 488,004
Accounts receivable (net of allowance for doubtful accounts of \$10,663 in 2011)	869,697	931,813
Other receivables	16,995	63,569
Prepaid expenses	<u>64,530</u>	<u>43,131</u>
TOTAL CURRENT ASSETS	<u>2,085,584</u>	<u>1,526,517</u>
Long Term Assets:		
Furniture and equipment (Net of accumulated depreciation)	<u>71,354</u>	<u>30,724</u>
TOTAL LONG-TERM ASSETS	<u>71,354</u>	<u>30,724</u>
TOTAL ASSETS	<u>2,156,938</u>	<u>1,557,241</u>
 LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 265,768	\$ 193,129
Unearned revenue	946,226	816,228
Advance payments	<u>42,483</u>	<u>130,143</u>
TOTAL CURRENT LIABILITIES	<u>1,254,477</u>	<u>1,139,500</u>
Long Term Liabilities:		
TOTAL LONG TERM LIABILITIES	<u>0</u>	<u>0</u>
 NET ASSETS		
Unrestricted	793,975	335,831
Temporarily restricted	108,486	81,910
Permanently restricted	<u>0</u>	<u>0</u>
TOTAL NET ASSETS	<u>902,461</u>	<u>417,741</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,156,938</u>	<u>\$ 1,557,241</u>

See accompanying notes.

SUSTAINABLE FORESTRY INITIATIVE INC.
STATEMENT OF ACTIVITIES
DECEMBER 31, 2012 and 2011

UNRESTRICTED NET ASSETS

	<u>2012</u>	<u>2011</u>
Support:		
Revenue from membership dues	\$ 4,912,323	\$ 4,346,920
Contribution income	999,385	1,230,570
Meetings income	132,965	121,004
Publication revenue	870	4,140
Maine pilot project income	0	43,600
Investment income	189	3,550
PEFC income	211,978	239,030
Other income	<u>0</u>	<u>150</u>
TOTAL SUPPORT	<u>6,257,710</u>	<u>5,988,964</u>

EXPENSES

Program Services	4,915,378	5,208,784
Management and general	<u>857,612</u>	<u>883,516</u>
TOTAL EXPENSES	<u>5,772,990</u>	<u>6,092,300</u>
CHANGE IN UNRESTRICTED NET ASSETS	484,720	(103,336)

NET ASSETS AT BEGINNING OF YEAR	<u>417,741</u>	<u>521,077</u>
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NET ASSETS AT END OF YEAR	<u>\$ 902,461</u>	<u>\$ 417,741</u>
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See accompanying notes.

SUSTAINABLE FORESTRY INITIATIVE INC.
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 and 2011

CASH FLOWS FROM OPERATING ACTIVITIES

	<u>2012</u>	<u>2011</u>
Increase (decrease) in net assets	\$ 484,720	\$ (103,336)
Depreciation	19,704	21,553
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
(Increase) decrease in accounts receivable	62,116	(97,424)
(Increase) decrease in other receivables	46,574	(63,569)
(Increase) decrease in prepaid expenses	(21,399)	(5,696)
Increase (decrease) in accounts payable & accrued expenses	72,640	(272,408)
Increase (decrease) in unearned revenue	129,998	105,700
Increase (decrease) in advance payments	<u>(87,660)</u>	<u>130,143</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>706,693</u>	<u>(285,037)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase Fixed Assets	<u>(60,335)</u>	<u>(8,630)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(60,335)</u>	<u>(8,630)</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	646,358	(293,667)
BEGINNING CASH AND CASH EQUIVALENTS	<u>488,004</u>	<u>781,671</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 1,134,362</u>	<u>\$ 488,004</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, 2012 and 2011

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.

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.

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

The Organization adopted the provisions of Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109" (ASC 740). ASC 740 prescribes a new threshold for determining when an income tax benefit can be recognized, which is a higher threshold than the one imposed for claiming deductions on income tax returns. The adoption of ASC 740 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.

Subsequent Events:

The Organization adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 165, "Subsequent Events" (ASC 855). ASC 855 establishes new accounting and disclosure requirements for subsequent events. Management has evaluated subsequent events through February 15, 2013, the date on which the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.

SUSTAINABLE FORESTRY INITIATIVE INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 and 2011

2. **Summary of Significant Accounting Policies (continued):**

Use of Estimates

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

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, 2012 and 2011

3. Furniture & Equipment

Furniture and equipment consist of the following:

	2012	2011
Furniture & Equipment	\$ 168,098	\$ 107,764
	168,098	107,764
Accumulated depreciation	(96,744)	(77,040)
Net Furniture & Equipment	\$ 71,354	\$ 30,724

Depreciation expense for the years ended December 31, 2012 and 2011 was \$19,704 and \$21,553, respectively.

4. Lease Commitments

As of March 30, 2009 the organization had entered into a sub-lease agreement for rental of office space. The organization entered into an amendment of this original sub- lease agreement for expansion space expiring May 31, 2016. Future minimum payments under this lease are as follows:

2013	\$ 139,938
2014	141,061
2015	144,593
2016	61,578
2017	0

5. Future Commitments

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

The Organization has the right to terminate any grant program for any reason and at any time during the pendency of the agreement by giving 30 days written notice of termination to the Grantee (or in the event cancellation of the program by the organization, immediately upon written notice of termination to the grantee).

During 2012 and 2011 the Organization executed grants to various recipients (grantees) to the extent of \$411,000 and \$455,700 respectively (of which \$205,500 and \$210,000 was expended outside the United States of America respectively).

The Organization has committed to future grant funding of \$230,056 and \$290,000 for 2013 and 2014 respectively (of which \$144,056 and \$210,000 was committed to grantees outside the United States of America in 2013 and 2014 respectively.)

SUSTAINABLE FORESTRY INITIATIVE INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 and 2011

6. Temporary Restricted Net Assets

The Organization board of directors has temporarily restricted net assets as of December 31, 2012 and 2011 as follows:

	<u>2012</u>	<u>2011</u>
Conservation and Community Collaboration Grant Program	\$ 74,000	\$ 32,000
Outreach Campaign	0	0
PEFC Promotion	<u>34,486</u>	<u>49,910</u>
Temporarily restricted net assets at December 31.	<u>\$ 108,486</u>	<u>\$ 81,910</u>

7. Usage of Temporary Restricted Net Assets

	<u>2012</u>	<u>2011</u>
Temporary restricted net assets at beginning of year	\$ 81,910	\$ 230,028
Additions to temporary restricted net assets during the year	42,000	0
Less usage of temporary restricted net assets during the year for program expenses	<u>(15,424)</u>	<u>(148,118)</u>
Temporary restricted net assets at end of year.	<u>\$ 108,486</u>	<u>\$ 81,910</u>