U.S. WORKING GROUP
(DBA FOREST STEWARDSHIP COUNCIL U.S.)

FINANCIAL STATEMENTS

Year Ended December 31, 2018
with Comparative Totals for 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors

U.S. WORKING GROUP (DBA FOREST STEWARDSHIP COUNCIL U.S.)

We have audited the accompanying financial statements of U.S. Working Group (dba Forest Stewardship Council U.S.) (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses and cash flows for the year 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.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of U.S. Working Group (dba Forest Stewardship Council U.S.) as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2018, the Organization adopted Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited U.S. Working Group's (dba Forest Stewardship Council U.S.) 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 14, 2018. In our opinion, the summarized comparative information presented herein as of and for the year end December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mayer Hoffman McCann P.C.

Minneapolis, Minnesota
July 25, 2019

U.S. WORKING GROUP (DBA FOREST STEWARDSHIP COUNCIL U.S.)

STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash	$ 283,741	$ 586,134
Contributions and grants receivable	327,138	167,567
Prepaid expenses	16,048	13,084
TOTAL CURRENT ASSETS	626,927	766,785
PROPERTY AND EQUIPMENT		
Office furniture and equipment	86,367	81,901
Less accumulated depreciation	(75,066)	(71,179)
NET PROPERTY AND EQUIPMENT	11,301	10,722
OTHER ASSETS		
Deposits	3,650	3,650
TOTAL ASSETS	$ 641,878	$ 781,157
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 75,206	$ 130,877
Accrued expenses	113,543	101,997
Deferred revenue	35,150	59,804
TOTAL CURRENT LIABILITIES	223,899	292,678
WITHOUT DONOR RESTRICTIONS		
Board designated operating reserve	100,040	50,011
Undesignated	178,538	337,223
TOTAL WITHOUT DONOR RESTRICTIONS	278,578	387,234
WITH DONOR RESTRICTIONS	139,401	101,245
TOTAL NET ASSETS	417,979	488,479
TOTAL LIABILITIES AND NET ASSETS	$ 641,878	$ 781,157

See Notes to Financial Statements

U.S. WORKING GROUP (DBA FOREST STEWARDSHIP COUNCIL U.S.)

STATEMENTS OF ACTIVITIES

For the Year Ended December 31, 2018 with Comparative Totals For 2017

	Without Donor Restrictions	With Donor Restrictions	Total 2018	Total 2017
SUPPORT AND REVENUE				
Accreditation revenue share	$ 880,780	$ -	$ 880,780	$ 905,000
Contributions and grants	43,731	120,000	163,731	147,634
Membership dues	254,719	-	254,719	213,372
Program service revenue	535,252	-	535,252	877,360
Sponsorships	-	-	-	5,000
Miscellaneous revenue	88	-	88	2,692
Net assets released from restriction	81,844	(81,844)	-	-
TOTAL SUPPORT AND REVENUE	$ 1,796,414	$ 38,156	$ 1,834,570	$ 2,151,058
EXPENSES				
Program services	$ 1,751,294	$ -	$ 1,751,294	$ 1,860,752
Management and general	150,898	-	150,898	158,037
Fund raising	2,878	-	2,878	4,938
TOTAL EXPENSES	1,905,070	-	1,905,070	2,023,727
CHANGE IN NET ASSETS	(108,656)	38,156	(70,500)	127,331
NET ASSETS, BEGINNING	387,234	101,245	488,479	361,148
NET ASSETS, END	$ 278,578	$ 139,401	$ 417,979	$ 488,479

See Notes to Financial Statements

U.S. WORKING GROUP (DBA FOREST STEWARDSHIP COUNCIL U.S.)

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2018 with Comparative Totals For 2017

	Program Services	Management and General	Fund Raising	Total 2018	Total 2017
Wages	$ 955,287	$ 61,813	$ 1,653	$ 1,018,753	$ 1,093,191
Payroll expenses	62,420	9,977	132	72,529	83,258
Employee benefits	100,286	24,692	245	125,223	131,911
Rent	50,041	5,376	124	55,541	66,260
Advertising	16,665	45	-	16,710	797
Bad debts	1,483	-	-	1,483	-
Bank and credit card fees	1,026	604	-	1,630	3,678
Meeting and conferences	73,785	19	-	73,804	73,649
Consultants	273,541	10,447	650	284,638	304,801
Copying and printing	3,189	-	-	3,189	4,866
Depreciation	-	3,887	-	3,887	3,994
Dues and subscriptions	25,673	1,063	11	26,747	28,874
Insurance	4,662	2,271	13	6,946	7,313
Interest expense	-	-	-	-	25
Travel	161,285	15,884	16	177,185	157,445
Merchant fees	-	1,723	-	1,723	2,085
Miscellaneous	555	(2,411)	-	(1,856)	227
Postage	1,945	110	-	2,055	2,873
Professional development	711	229	-	940	11,695
Professional fees	2,312	14,327	4	16,643	20,641
Repairs and maintenance	-	10	-	10	133
Supplies	6,907	174	4	7,085	14,664
Telephone	9,521	658	26	10,205	11,347
	$ 1,751,294	$ 150,898	$ 2,878	$ 1,905,070	$ 2,023,727

See Notes to Financial Statements

U.S. WORKING GROUP (DBA FOREST STEWARDSHIP COUNCIL U.S.)

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (70,500)	$ 127,331
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,887	3,994
Loss on disposal of assets	-	210
Change in operating assets and liabilities:		
Contributions and grants receivable	(159,571)	12,752
Prepaid expenses	(2,964)	7,376
Deposits	-	1,923
Accounts payable	(55,671)	72,186
Accrued expenses	11,546	(2,077)
Deferred revenue	(24,654)	(37,891)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(297,927)	185,804
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(4,466)	(4,447)
NET CASH USED IN INVESTING ACTIVITIES	(4,466)	(4,447)
NET INCREASE (DECREASE)	(302,393)	181,357
CASH AND CASH EQUIVALENTS		
BEGINNING OF YEAR	586,134	404,777
END OF YEAR	$ 283,741	$ 586,134
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ -	$ 25

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

(1) Description of Organization and summary of significant accounting policies

U.S. Working Group (dba Forest Stewardship Council U.S.) (FSC U.S. or the Organization), based in Minneapolis, Minnesota, is a 501(c)(3) non-profit organization and the legally independent U.S. national initiative of the Forest Stewardship Council A.C. (FSC A.C.), an international organization formed in 1993 and currently headquartered in Bonn, Germany. FSC-U.S. is a member driven organization dedicated to the environmentally responsible, socially beneficial and economically prosperous management of the world's forests through (1) the development of forest management and chain of custody leadership standards, (2) the evaluation and accreditation of independent third-party certifiers, and (3) public education and information about the environmental benefits of Forest Stewardship Council (FSC) certification. FSC U.S. is funded through a combination of foundation grants, corporate gifts, membership revenue, and income from a small portion of administrative fees received from certified companies by FSC A.C. and forwarded to FSC U.S.

FSC U.S. was launched in 1995 by several individuals who had been active in the formation of FSC A.C. These individuals, acting as independent contractors on behalf of the New England Environmental Policy Center (NEEPC), a Vermont non-profit environmental organization, solicited and obtained foundation grants to help establish the U.S. initiative and begin the work of regional standards development and public education. On January 1, 1998 the Organization was incorporated in Vermont as a non-profit organization. FSC A.C. owns the FSC trade name and logo and has allowed the Organization to use them under a formal agreement.

Description of programs - All FSC U.S. programmatic activity falls into one of the three following areas of work, which represent 'Critical Result Areas' for the Organization:

Enhance System Integrity - The Organization develops and maintains the FSC U.S. National Forest Management Standard, oversees application of FSC's global Chain of Custody standards in the U.S., and has primary responsibility for ensuring the integrity and consistent application of internationally applicable standards and policies throughout the U.S.

Increase Domestic Acreage - The core mission of FSC U.S. is to 'ensure forest stewardship' by increasing the acreage of forests certified to FSC's leadership standards. Given the diversity of forest ownership in the U.S., the Organization explicitly states that acreage growth be advanced across the full range of forest ownership classes.

Increase Consumer Demand - Through public education, corporate and non-profit partnerships, stakeholder outreach, and promotion in various media, the Organization seeks to educate the full range of professional purchasers and specifiers, as well as consumers, on the range of social, environmental and economic benefits of responsible forest management.

(1) Description of Organization and summary of significant accounting policies (continued)

Income tax status - The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization 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. Examples of tax positions include the tax exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for the years ended December 31, 2018 and 2017.

The Organization files Form 990 in the U.S. federal jurisdiction and the State of Minnesota. The Organization is generally no longer subject to examination by the Internal Revenue Service three years after the date of filing, including extensions.

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.

Financial statement presentation - The Organization reports information regarding its financial position and activities according to two classes of net assets:

- Net assets without donor restrictions – Net assets available for general use and not subject to donor-imposed restrictions. These may be used at the discretion of the Organization's management and board of directors. Designated amounts represent those revenues which the Board has set aside for a particular purpose.

- Net assets with donor restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by the passage of time or by actions of the Organization. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

(1) Description of Organization and summary of significant accounting policies (continued)

Revenue recognition – The Organization recognizes contributions, grants and sponsorships as revenue when they are received or unconditionally pledged.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Revenue from accreditation revenue sharing and program service revenue is recognized when earned. Payments received prior to the provision of services are classified as deferred revenue in the statement of financial position until such services have been provided.

Income from membership dues is recognized ratably throughout the year for which the dues were assessed. Membership dues received but not yet recognized as income are reflected as deferred revenue in the statement of financial position.

Cash and cash equivalents - The Organization considers cash in demand deposit accounts and temporary investments purchased with an original maturity of three months or less to be cash equivalents. The Organization maintains its cash and cash equivalents with high credit quality financial institutions. From time to time, the Organization's balances in its bank accounts exceed Federal Deposit Insurance Corporation limits. The Organization periodically evaluates the risk of exceeding insurance levels and may transfer funds as it deems appropriate. The Organization has not experienced any losses with regards to balances in excess of insured limits or as a result of other concentrations of credit risk.

Contributions and grants receivable - Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Promises to give represent amounts committed by donors that have not been received by the Organization. The Organization uses the allowance method to determine uncollectible promises to give (receivable). There were no allowances at December 31, 2018 and 2017, as management of the Organization expects all receivables to be collected.

Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their estimated future cash flows, discounted using risk-adjusted interest rates to the years in which the promises are to be received.

(1) Description of Organization and summary of significant accounting policies (continued)

Property and equipment – The Organization capitalizes all expenditures of property and equipment with a useful life of greater than one year, and a cost in excess of $500. Property and equipment are recorded at cost or in the case of contributed property at the fair market value at the date of contribution. Depreciation is computed using the straight line method over estimated useful lives of three to five years. When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to income as incurred, whereas significant improvements are capitalized. For the years ended December 31, 2018 and 2017, depreciation expense amounted to $3,900 and $4,000, respectively.

Functional allocation of expenses – The cost to the Organization of providing various programs has been presented on a functional basis. The Organization allocates all organizational expenses between fundraising, management and general and the 3 distinct program areas in which it works; System Integrity, Increase Acreage and Increase Demand. Where it is possible, the Organization allocates identifiable direct program expenses to each program area. Expenses related to more than one function are allocated to programs and supporting services based on the ratio of staff time spent in each program and support activity to total staff time.

For employee costs, such as salary, taxes and employee benefits, the portion of each employee's actual salary and benefits is allocated based on that individual's assignment of time between programs and supportive areas. This is assigned monthly to ensure the most accurate portrayal of expenses. Every employee, including the President, turns in a timesheet based on their allocation of time across all the difference functional areas of work.

For overhead and other shared expenses, each employee's time allocation is weighted equally at the end of the year and combined to determine an allocation of total full-time equivalent's dedicated to each program and supportive area. This is done on an annual basis after all expenses and time has been recorded for the previous 12 months.

Advertising - Advertising costs for the Organization are expensed as incurred and totaled approximately $16,700 and $800 for the years ended December 31, 2018 and 2017, respectively.

Adoption of accounting standards update - In August 2016, the Financial Accounting Standards Board (FASB) issued Audit 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, deficiencies in information about liquidity and availability of net resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

(1) Description of Organization and summary of significant accounting policies (continued)

New accounting pronouncements - In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* that will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle of the new guidance is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. Additionally, the guidance requires disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized. ASU 2014-09 is effective for annual periods beginning after December 15, 2018; early adoption is permitted. Transition to the new guidance may be done using either a full or modified retrospective method. The Organization is assessing the impact this standard will have on its financial statements.

In February 2016, FASB issued ASU 2016–02, *Leases* (*Topic 842*) that requires lessees to recognize a right-of-use asset and lease liability on the statement of financial position and disclose key information about leasing arrangements. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from current accounting principles generally accepted in the United States of America. ASU 2016-02 is effective for annual periods beginning after December 15, 2019. The Organization is assessing the impact this standard will have on its financial statements.

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The guidance clarifies and improves the scope and the accounting guidance for contributions received and contributions made by all entities that receive or make contributions of cash and other assets. The amendments in this update will assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of FASB Topic 958, Not-for-Profit Entities, or as exchange transactions (reciprocal transactions) subject to other guidance and by (2) providing a stronger framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018 in which the entity serves as the resource recipient, and for fiscal years beginning after December 15, 2019 in which the entity services as the resource provider. ASU 2018-08 is to be applied on a modified prospective basis. The Organization is assessing the impact this standard will have on its financial statements

(1) Description of Organization and summary of significant accounting policies (continued)

Subsequent events policy - Subsequent events have been evaluated through July 25, 2019 which is the date the financial statements were available to be issued.

(2) Liquidity and availability

The Organization strives to maintain liquid financial assets sufficient to cover at least 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in multiple designated savings accounts.

The following table reflects Forest Stewardship Councils financial assets as of December 31, 2018 and 2017. The Organization receives contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Organization has certain board-designated net assets for an operating reserve which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information below.

	2018	2017
Cash	$ 283,741	$ 586,134
Contributions and grants receivable	327,138	167,567
Financial assets available to meet cash needs for general expenditures within one year	$ 610,879	$ 753,701

(3) Net assets

At December 31, 2018 and 2017 net assets with donor restrictions are available for the following purposes:

	2018	2017
System integrity	$ 138,546	$ 57,374
Increase acreage	-	24,203
Increase demand	855	19,668
	$ 139,401	$ 101,245

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes, by the occurrence of the passage of time, or by the occurrence of other events specified by donors for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
System integrity	$ 23,829	$ 91,294
Increase acreage	24,203	21,149
Increase demand	33,812	5,213
	$ 81,844	$ 117,656

(4) Operating leases

The Organization entered into a lease agreement for office space starting March 2017. The lease expires in March 2024. Monthly base rent payments range from $2,000 to $2,400 over the term of the lease. Rent expense was approximately $51,000 and $52,000 for the years ended December 31, 2018 and 2017, respectively. Future minimum lease payments including the operating lease entered into subsequent to year end are as follows:

Years Ending December 31,	Amount
2019	$ 25,000
2020	26,000
2021	27,000
2022	28,000
2023	29,000
Thereafter	7,000
	$ 142,000

(5) Related party transactions

For the years ended December 31, 2018 and 2017, approximately 78% and 83%, respectively, of the Organization's total support and revenue was received from FSC A.C. The following is a summary of the balances and transactions with FSC A.C:

	2018	2017
Statements of Financial Position		
Contributions and grants receivable	$ 263,856	$ 112,194
Deferred revenue	$ -	$ 49,616
Statements of Activities and Change in Net Assets		
Accreditation revenue share	$ 880,780	$ 905,000
Contributions and grants	$ 95,000	$ 112,378
Program service revenue	$ 458,675	$ 769,042

(6) Retirement plan

The Organization maintains a 401(k) plan. Substantially all employees who have attained age 18 and have been employed by the Organization for at least six months are eligible to participate. The 401(k) plan allows eligible participants to defer a portion of their eligible compensation up to the maximum allowed by IRS regulations. The Organization provides an employer matching contribution of 100% of the eligible participant's salary reduction up to 3% of the participant's compensation. The participants are 100% vested in all participant and employer contributions. Employer matching contributions for both years ended December 31, 2018 and 2017 were approximately $28,000.