

FORESTETHICS

**Financial Statements and Independent Auditor's Report for the
Years Ended December 31, 2013 and 2012**

FORESTETHICS

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
of Forestethics
San Francisco, California**

I have audited the accompanying financial statements of Forestethics (a California non-profit public benefit corporation), which comprise the statements of financial position as of December 31, 2013, and the related statements of activities, 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

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

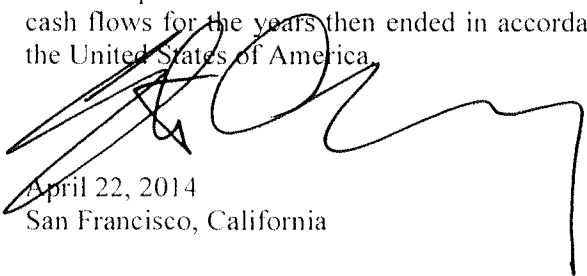
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my audit, the financial statements referred to above present fairly, in all material respects, the financial position of Forestethics as of December 31, 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

April 22, 2014
San Francisco, California



FORESTETHICS
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 WITH COMPARATIVE TOTALS FOR 2012

	2013	2012
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 433,532	\$ 190,561
Investment - Short term	282,118	171,886
Grants and pledges receivable	554,144	797,323
Contracts and other receivables	28,070	75,159
Prepaid expenses	96,931	10,275
Due from Tides Canada Initiative	4,263	4,263
Total Current Assets	1,399,058	1,249,467
Other Assets		
Grants and pledges receivable-long-term portion	-	100,198
Deposits	5,825	5,825
Other Asset	225	158
Total Other Assets	6,050	106,181
Fixed Assets		
Property and Equipment (net)	19,141	19,072
TOTAL ASSETS	\$ 1,424,249	\$ 1,374,720
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 37,449	\$ 31,570
Accrued vacation	42,186	52,759
Total Current Liabilities	79,635	84,329
TOTAL LIABILITIES	79,635	84,329
Net Assets		
Temporarily restricted	1,075,203	1,155,137
Unrestricted	269,411	135,254
Total Net Assets	1,344,614	1,290,391
TOTAL LIABILITIES AND NET ASSETS	\$ 1,424,249	\$ 1,374,720

The accompanying notes are an integral part of the financial statements.

FORESTETHICS
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2013 WITH COMPARATIVE TOTALS FOR 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2013</u>	<u>2012</u>
REVENUES AND SUPPORTS				
Foundation grants	\$ 585,000	\$ 1,574,670	\$ 2,159,670	\$ 2,356,457
Contributions	223,356	-	223,356	409,410
In-kind Contributions	-	-	-	4,500
Contract revenue	228,721	-	228,721	78,000
Other event revenue	-	-	-	21,023
Interest income	274	-	274	195
Other income	8,785	-	8,785	19,751
Unrealize capital gain (loss)	67	-	67	117
Net assets released from restrictions	1,654,604	(1,654,604)	-	-
Total Revenues and Support	<u>2,700,807</u>	<u>(79,934)</u>	<u>2,620,873</u>	<u>2,889,453</u>
EXPENSES				
Program services	2,123,625	-	2,123,625	2,178,759
General and administrative	191,601	-	191,601	175,755
Development	251,424	-	251,424	392,619
Total Expenses	<u>2,566,650</u>	<u>-</u>	<u>2,566,650</u>	<u>2,747,133</u>
CHANGE IN NET ASSETS	134,157	(79,934)	54,223	142,320
NET ASSETS, beginning of year	<u>135,254</u>	<u>1,155,137</u>	<u>1,290,391</u>	<u>1,148,071</u>
NET ASSETS, end of year	<u>\$ 269,411</u>	<u>\$ 1,075,203</u>	<u>\$ 1,344,614</u>	<u>\$ 1,290,391</u>

The accompanying notes are an integral part of the financial statements.

FORESTETHICS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2013 WITH COMPARATIVE TOTALS FOR 2012

	Boreal Forest	BC Forest	Greenwash SFI	Climate - TS US	Climate - SHW	Climate - TS CA	2013 Program Services	2012 Program Services
Wages	\$ 179,411	\$ 18,688	\$ 162,725	\$ 287,183	\$ 111,082	\$ 141,193	\$ 900,282	\$ 794,481
Payroll taxes	15,635	1,719	15,261	26,805	9,720	12,401	81,541	73,100
Other benefits	30,490	3,365	36,919	55,272	19,016	23,923	168,985	140,031
Contract services	36,432	59,676	42,891	62,075	159,388	370,899	731,361	671,142
Fiscal agent fees	-	-	-	-	-	-	-	11,959
Rent	11,462	11,588	13,176	15,672	11,745	13,209	76,852	81,426
Utilities	1,430	1,444	1,641	1,952	1,464	1,647	9,578	7,414
Repair & maintenance	-	-	-	-	-	-	-	-
Office supplies	215	90	4,522	3,083	194	508	8,612	11,566
Telephone, fax & internet	2,980	2,895	3,469	4,624	3,028	3,643	20,639	15,715
Postage & delivery	20	13	323	42	67	29	494	1,485
Printing & photocopy	3	1	279	278	135	10	706	14,545
Advertising & promotion	-	-	-	6,942	400	7,147	14,489	27,703
Travel	7,547	4,988	8,014	14,429	5,425	8,384	48,787	46,490
Food and reception	1,300	472	1,397	3,753	548	1,456	8,926	4,949
Staff development & recognition	94	35	98	508	74	156	965	899
Fundraising & special events	372	435	426	1,106	380	428	3,147	11,924
Meetings	3,057	3,041	3,534	5,252	3,132	4,062	22,078	24,229
Dues & subscriptions	303	121	704	536	264	866	2,794	3,868
Insurance	789	798	907	1,079	809	909	5,291	4,572
Bank fee & charges	-	-	20	-	-	-	20	748
Miscellaneous	5,184	382	1,630	584	422	737	8,939	15,429
Depreciation	1,373	1,377	1,560	1,854	1,401	1,574	9,139	5,849
Agency shared cost allocation	-	-	-	-	-	-	-	209,235
Total	\$ 298,097	\$ 111,128	\$ 299,496	\$ 493,029	\$ 328,694	\$ 593,181	\$ 2,123,625	\$ 2,178,759

The accompanying notes are an integral part of the financial statements.

FORESTETHICS
STATEMENT OF FUNCTIONAL EXPENSES (continued)
YEAR ENDED DECEMBER 31, 2013 WITH COMPARATIVE TOTALS FOR 2012

	Support			
	General & Administrative	Development	2013 Total Support	
	2013 Expense	2012 Expense	2012 Expense	
Wages	\$ 64,876	\$ 132,069	\$ 196,945	\$ 1,195,638
Payroll taxes	5,874	11,804	17,678	110,636
Other benefits	10,579	23,642	34,221	199,645
Contract services	36,236	18,129	54,365	734,299
Fiscal agent fees	-	-	-	11,963
Rent	8,844	18,009	26,853	130,188
Utilities	1,102	2,243	3,345	11,863
Repair & maintenance	1,762	-	1,762	2,096
Office supplies	11,362	2,229	13,591	25,432
Telephone, fax & internet	3,321	7,301	10,622	30,680
Postage & delivery	1,048	3,504	4,552	6,116
Printing & photocopy	2,395	1,082	3,477	22,739
Advertising & promotion	-	-	-	27,703
Travel	4,128	7,594	11,722	80,175
Food and reception	4,543	7,784	12,327	12,763
Staff development & recognition	-	67	67	899
Fundraising & special events	286	3,540	3,826	22,666
Meetings	2,297	5,625	7,922	36,662
Dues & subscriptions	7,418	142	7,560	11,720
Insurance	609	1,295	1,904	7,315
Bank fee & charges	17,299	54	17,353	23,811
Miscellaneous	6,567	3,181	9,748	32,864
Depreciation	1,055	2,130	3,185	9,260
Agency shared cost allocation	-	-	-	-
Total	\$ 191,601	\$ 251,424	\$ 443,025	\$ 2,747,133

The accompanying notes are an integral part of the financial statements.

FORESTETHICS
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 WITH COMPARATIVE TOTALS FOR 2012

	2013	2012
Cash Flows from Operating Activities		
Change in Net Assets	\$ 54,223	\$ 142,320
Adjustments from Operating Activities		
Depreciation	12,324	9,260
Realized/Unrealized (gain) loss on investment	(274)	(177)
(Increase) Decrease in Operating Assets		
Grants and pledges receivable	243,179	(430,180)
Contract and other receivable	47,089	29,245
Prepaid expenses	(86,656)	(3,511)
Due from Tides Canada Initiate	-	81,403
Grants and pledges receivable - Long-term portion	100,198	240,233
Other asset	(67)	(158)
Increase (Decrease) in Operating Liabilities		
Accounts payable	5,877	2,666
Accrued vacation	(10,573)	(21,106)
	365,320	49,995
Net Cash Provided (Used) by Operating Activities		
Cash Flows from Investing Activities		
Purchase of Investments	(109,958)	(100,000)
Fixed asset acquisitions	(12,391)	(3,804)
	(122,349)	(103,804)
Net Cash (Used) by Investing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	242,971	(53,809)
CASH, beginning of year	190,561	244,370
	\$ 433,532	\$ 190,561
Unrestricted Cash and Cash Equivalents at End of Year		
Supplemental Cash Flow Information		
Interest paid	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.

FORESTETHICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 1 - NATURE OF ORGANIZATION

ForestEthics' mission is to protect Endangered Forests, wildlife, and human well-being. We believe that protecting our planet is everyone's business. Because of our work, environmentally responsible corporations and governments will thrive, natural systems will be protected, the people and wildlife that depend on them will prosper, and markets will be more transparent and ethical. Our mission is realized through our campaigns, which seek to:

- Protect and preserve vital endangered forests and pristine wild places such as Canada's vast Boreal Forest and British Columbia's iconic Great Bear Rainforest and Sacred Headwaters region.
- Halt the expansion of extreme energy production in Canada's Tar Sands and stop dangerous means of oil transportation including pipelines, tankers, and oil by rail
- Expose and curb the worst abuses of "greenwashing" as it relates to forest products, and
- Transform corporate practices and policies to support a more ethical and respectful relationship with the natural environment.

ForestEthics' campaigns consider all of the issues that affect wild places and the wildlife and people that depend on them—from biodiversity to air and water quality to climate change. We expand our work to new regions or issue areas when we can bring the leverage and power needed to win.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Descriptions of net assets

Unrestricted Net Assets

The portion of net assets that is neither temporarily restricted nor permanently restricted by donor restriction.

FORESTETHICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Temporarily Restricted Net Assets

The portion of net assets for which use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization.

Permanently Restricted Net Assets

The portion of net assets for which use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can otherwise be removed by actions of the Organization.

Basis of accounting

The Organization maintains its records using the accrual method of accounting.

Cash and cash equivalents

For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

The Organization maintains its cash balances at several financial institutions located in the San Francisco Bay Area. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. All funds in a noninterest-bearing transaction account are insured in full by the FDIC through December 31, 2013. At various times during the year the Organization had cash balances in excess of insured amounts.

Property and equipment

All acquisitions of property and equipment in excess of \$500 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are depreciated using the straight-line method over their estimated useful lives, generally 3 to 7 years.

Functional allocation of expense

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

FORESTETHICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Income taxes

The Internal Revenue Service and the California Franchise Tax Board have determined that the Organization is exempt from federal and state income taxes under Internal Revenue Code Section 501 (c) (3) and the California Revenue and Taxation code Section 23701(d). The Organization has evaluated its current tax positions as of December 31, 2013 and is not aware of any significant uncertain tax positions for which a reserve would be necessary.

Promise to give

The Organization recognizes all unconditional gifts and pledges in the period notified. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Amounts that are restricted by the donor/grantor are reported as increases in temporarily restricted net assets or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Receivables

Grants and pledges receivable represent unconditional promises to give at December 31, 2013 and 2012 as follows:

	2013	2012
Foundation and corporate grants receivable	\$ 485,001	\$ 685,076
Individual pledges receivable	69,143	112,274
Current grants and individual pledges receivable	554,144	797,323
Grants and pledges receivable, one to five years	-	100,198
Total grants and pledges receivable	\$ 554,144	\$ 897,521

FORESTETHICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comparative financial information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2013, from which the summarized information was derived.

Accounting for restricted support

The Organization report gifts of cash and other assets as restricted support if they are received with donor's stipulation limiting the use of the donated assets. When a donor's restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Pledges received

Pledges of grants or donations are recorded as revenue when they are received in writing. The receivables are recorded net of allowance for estimated uncollectible amounts.

Allocation of expenses

Shared expenses are allocated to programs and supporting services based on the ratio of each activity's direct salary cost to total salary expense.

Reclassifications

Certain accounts in the prior's year's summarized information have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Subsequent events

Management has evaluated subsequent events through the date the financial statements are available to be issued, April 22, 2014.

FORESTETHICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 3 – CASH AND CASH EQUIVALENTS

Investments in certificate deposits, money market fund, treasury bills, and commercial paper with original maturities of three months or less are considered cash equivalents.

NOTE 4 – INVESTMENT – SHORT TERM

	2013	2012
Business Money Market	\$ 210,223	\$ 100,060
Certificates of Deposit	71,895	71,826
	\$ 282,118	\$ 171,886

The certificates of deposit earned interest income of \$67 and \$117 respectively and have varying maturity dates during 2013 and 2012.

NOTE 5 – FAIR VALUE MEASUREMENTS

Fair value of financial instruments

In conformity with accounting principles generally accepted in the United States of America, the Organization established a hierarchal disclosure framework that prioritizes and ranks the level of market price observability used in measuring assets and liabilities reported at fair value. The estimated fair value amounts have been determined using available market information, assumptions, estimates and valuation methodologies. When determining fair value, the Organization considers the principal or most advantageous market in which it would transact, and considers assumptions that market participants would use when pricing the asset or liability.

The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

FORESTETHICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 5 – FAIR VALUE MEASUREMENTS (continued)

Level 1 – Unadjusted quoted prices in active markets that are readily accessible at the measurement date for identical, unrestricted net assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities. Valuations for assets and liabilities traded in less active dealer or broker markets are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 – Inputs that are both significant to the fair value measurement and unobservable. Valuations for assets and liabilities are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The following tables present the Organization’s assets and liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of December 31, 2013 and 2012:

	December 31, 2013			
	Level 1	Level 2	Level 3	Fair Value Measurements
Other Asset/Investment	\$ 225	\$ -	\$ -	\$ 225
Total Other Assets/Investments	\$ 225	\$ -	\$ -	\$ 225

	December 31, 2012			
	Level 1	Level 2	Level 3	Fair Value Measurements
Other Asset/Investment	\$ 158	\$ -	\$ -	\$ 158
Total Other Assets/Investments	\$ 158	\$ -	\$ -	\$ 158

FORESTETHICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 6 – PROPERTY AND EQUIPMENT

	<u>Depreciable Life</u>	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Computer Equipment	3 years	\$ 31,996	\$ 20,524
Furniture & Fixture	7 years	15,089	14,170
Less: Accumulated Depreciation		<u>27,944</u>	<u>15,622</u>
Net Property and Equipment		<u>\$ 19,141</u>	<u>\$ 19,072</u>

NOTE 7 – COMMITMENTS

Minimum annual rental payments required under the leases in effect on December 31, 2013 (exclusive of month to month agreements) are as follows:

Year ending December 31,

	<u>San Francisco, CA</u>	<u>Bellingham, WA</u>
2014	\$ 78,931	\$ -
2015	76,046	-
2016	78,327	-
2017	80,677	-
2018	47,875	-
Thereafter	<u>-</u>	<u>-</u>
	<u>\$ 361,856</u>	<u>\$ -</u>

For the years ended December 31, 2013 and 2012, rent expense amounted to \$130,188 and \$103,705 respectively.

The lease for Bellingham Washington was expired during 2013 and the office is now under month to month.

**FORESTETHICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2013, temporarily restricted net assets are restricted for the following purposes:

	<u>2013</u>	<u>2012</u>
Climate Campaign	\$ 940,399	\$ 982,137
Boreal Forest Campaign	49,804	103,000
Stop SFI Greenwash	35,000	-
Business Ethics	50,000	-
Administration	-	70,000
Total	<u>\$ 1,075,203</u>	<u>\$ 1,155,137</u>

Net assets of \$1,654,604 were released from donor restrictions by incurring expenditures satisfying the restricted purposes.

NOTE 9 – RETIREMENT PLAN

The Organization has a defined contribution plan covering employees with at least 1,000 hours of service in the initial 12 months of employment or in any subsequent plan year. The Organization matches participants' contributions to the plan equal to 70% of the first 6% of before-tax savings. Participants can contribute before-tax contributions of 1 to 15% of their total compensation, up to the IRS indexed maximum for a calendar year. The total 2013 and 2012 employer's contribution was \$0 and \$0, respectively. Employer contribution plan is on hold since January 2009.

NOTE 10 – FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are recorded at the rates of exchange in effect on the transaction date. Assets and liabilities denominated in foreign currencies other than the U.S. dollar are translated at rates of exchange in effect at the balance sheet date. The resulting foreign currency transaction loss for 2013 is \$4,811, for 2012 was \$3,792.

FORESTETHICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 11 – CONCENTRATIONS

Financial instruments that potentially subject the Organization to concentrations of credit risk are primarily cash, short term investments and accounts receivable. The Organization places its cash in financial institutions that are insured in limited amounts by the Securities Investor Protection Corporation and the Federal Deposit Insurance Corporation. Cash balances at December 31, 2013 and 2012 exceed the balances covered by such insurance by \$103,534 and \$0, respectively.