Business for Social Responsibility

Consolidated Financial Statements

December 31, 2013
(With Comparative Totals for 2012)

armanino

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Business for Social Responsibility
San Francisco, California

We have audited the accompanying consolidated financial statements of Business for Social Responsibility and subsidiaries ("BSR"), which comprise the consolidated statement of financial position as of December 31, 2013, and the related consolidated statements of activities, functional expenses and 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 consolidated 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 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 consolidated 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Business for Social Responsibility and subsidiaries as of December 31, 2013, 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.

Report on Summarized Comparative Information

We have previously audited BSR's 2012 consolidated financial statements, and our report dated May 30, 2013 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Armanino LLP

Armanino LLP
San Ramon, California

September 30, 2014

BUSINESS FOR SOCIAL RESPONSIBILITY
Consolidated Statement of Financial Position
December 31, 2013
(With Comparative Totals for 2012)

ASSETS

	2013	2012
Current assets		
Cash and cash equivalents	$ 4,088,237	$ 2,379,362
Restricted cash	85,915	232,276
Accounts receivables, net of allowance for doubtful accounts of $31,580 and $42,569 at December 31, 2013 and 2012, respectively	3,868,657	3,783,873
Prepaid expenses	162,076	227,821
Total current assets	8,204,885	6,623,332
Lease deposits	404,408	427,819
Fixed assets, net	1,107,906	1,297,735
Total assets	$ 9,717,199	$ 8,348,886

LIABILITIES AND NET ASSETS

	2013	2012
Current liabilities		
Accounts payable	$ 423,429	$ 443,601
Accrued salaries and related benefits	620,058	686,935
Accrued liabilities	240,481	114,467
Deferred revenues	4,274,517	4,266,864
Deferred rent, current	8,527	64,326
Capital lease obligations, current	30,683	61,960
Total current liabilities	5,597,695	5,638,153
Deferred rent, non-current	658,386	556,339
Capital lease obligations, non-current	24,254	29,906
Total liabilities	6,280,335	6,224,398
Net assets		
Unrestricted	436,631	1,048,233
Temporarily restricted	3,000,233	1,076,255
Total net assets	3,436,864	2,124,488
Total liabilities and net assets	$ 9,717,199	$ 8,348,886

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

BUSINESS FOR SOCIAL RESPONSIBILITY
Consolidated Statement of Activities
For the Year Ended December 31, 2013
(With Comparative Totals for 2012)

	2013			2012
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenues				
Consulting revenues	$ 10,960,081	$ -	$ 10,960,081	$ 12,968,462
Conferences and seminars	1,531,084	-	1,531,084	2,029,800
Membership dues	3,385,897	-	3,385,897	3,366,937
Government grants	1,075,600	-	1,075,600	904,299
Foundation grants	-	2,227,443	2,227,443	1,043,047
Contributions	88,453	881,825	970,278	257,765
Interest income	2,399	-	2,399	2,428
Other income	136,255	-	136,255	15,085
Donated services	459,270	-	459,270	652,753
	17,639,039	3,109,268	20,748,307	21,240,576
Net assets released from restrictions	1,185,290	(1,185,290)	-	-
Total support and revenues	18,824,329	1,923,978	20,748,307	21,240,576
Expenses				
Program services	14,818,736	-	14,818,736	15,382,881
Management and general	4,178,077	-	4,178,077	5,203,348
Fundraising	439,118	-	439,118	141,599
Total expenses	19,435,931	-	19,435,931	20,727,828
Change in net assets	(611,602)	1,923,978	1,312,376	512,748
Net assets, beginning of year	1,048,233	1,076,255	2,124,488	1,611,740
Net assets, end of year	$ 436,631	$ 3,000,233	$ 3,436,864	$ 2,124,488

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

BUSINESS FOR SOCIAL RESPONSIBILITY
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2013
(With Comparative Totals for 2012)

	2013				2012
	Program Services	Management and General	Fundraising	Total	Total
Salaries	$ 6,704,572	$ 1,875,222	$ 321,996	$ 8,901,790	$ 8,653,982
Payroll taxes and benefits	1,770,646	859,299	46,251	2,676,196	2,533,780
Personnel recruiting/development	83,667	16,271	3,099	103,037	293,771
Contractors/professional services	1,944,472	269,400	15,855	2,229,727	3,090,218
Travel	995,811	91,465	21,407	1,108,683	1,246,452
Marketing	46	3,985	-	4,031	56,083
Production costs	263,721	59,531	136	323,388	643,669
Conferences/workshops	812,561	7,220	349	820,130	661,748
Rent and occupancy	827,180	387,003	289	1,214,472	1,073,069
Office expense	125,126	87,176	6,114	218,416	233,367
Information systems	340,985	108,842	17,102	466,929	651,316
Postage and delivery	22,717	8,808	151	31,676	31,470
Taxes and fees	206,625	23,478	65	230,168	191,783
General insurance	24,416	59,222	868	84,506	89,140
Bad debt expense	26,178	-	-	26,178	37,333
Miscellaneous	45,506	69,601	195	115,302	185,150
Donated services	459,270	-	-	459,270	652,753
Total expenses before depreciation and amortization	14,653,499	3,926,523	433,877	19,013,899	20,325,084
Depreciation and amortization expense	165,237	251,554	5,241	422,032	402,744
Total expenses	$ 14,818,736	$ 4,178,077	$ 439,118	$ 19,435,931	$ 20,727,828

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

BUSINESS FOR SOCIAL RESPONSIBILITY
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2013
(With Comparative Totals for 2012)

	2013	2012
Cash flows from operating activities		
Change in net assets	$ 1,312,376	$ 512,748
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	422,032	402,744
Loss on disposal of property and equipment	1,414	6,798
Changes in operating assets and liabilities		
Receivables, net	(84,784)	477,941
Prepaid expenses	65,745	70,056
Lease deposits	23,411	(49,884)
Accounts payable and accrued liabilities	105,842	(610,053)
Accrued salaries and related benefits	(66,877)	(603,943)
Deferred revenues	7,653	564,425
Deferred rent	46,248	463,722
Net cash provided by operating activities	1,833,060	1,234,554
Cash flows from investing activities		
Change in restricted cash	146,361	(89,489)
Purchase of fixed assets	(201,184)	(1,181,043)
Net cash used in investing activities	(54,823)	(1,270,532)
Cash flows from financing activities		
Principal payments on capital lease obligations	(69,362)	(71,182)
Increase (decrease) in cash and cash equivalents	1,708,875	(107,160)
Cash and cash equivalents, beginning of the year	2,379,362	2,486,522
Cash and cash equivalents, end of the year	$ 4,088,237	$ 2,379,362
Supplemental disclosure of cash flow information		
Interest paid	$ 3,940	$ 4,123
Taxes paid	$ 244,502	$ 146,991
Non-cash investing and financing activities		
Acquisition of property and equipment through capital lease	$ 32,433	$ 87,970

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

1. Description of the Organization

Business for Social Responsibility ("BSR") is a global nonprofit organization that works with its network of more than 250 member companies to build a just and sustainable world. From its offices in Asia, Europe, and North and South America, BSR develops sustainable business strategies and solutions through consulting, research, and cross-sector collaboration. Visit www.bsr.org for more information about BSR's more than 20 years of leadership in sustainability.

2. Summary of Significant Accounting Policies

Basis of consolidation

The consolidated financial statements include the Organization and its wholly-owned subsidiaries in Guangzhou, China, Paris, France and Copenhagen, Denmark, and its branch in Hong Kong (together, "BSR"). Transactions from all entities have been properly reflected in the consolidated financial statements. All significant intercompany transactions have been eliminated in consolidation.

Basis of accounting

The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America applicable to nonprofit organizations.

Basis of presentation

Financial accounting standards require nonprofit organizations to classify net assets in the accompanying consolidated statement of financial position and consolidated statement of activities in three classes of net assets based on the existence or absence of donor imposed restrictions.

Unrestricted Net Assets represent the portion of net assets that is neither temporarily nor permanently restricted by donor-imposed stipulations. These net assets are intended for use by management and the Board of Directors for general operations. BSR reports temporarily restricted revenue or support received in the same period in which the restrictions have been met as temporarily restricted revenue and a release from restriction.

Temporarily Restricted Net Assets represent the portion of net assets for which use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of BSR.

2. Summary of Significant Accounting Policies (continued)

Basis of presentation (continued)

Permanently Restricted Net Assets represent the portion of net assets for which use is permanently limited by donor-imposed stipulations that neither expire by passage of time nor can be removed by actions of BSR. There are no permanently restricted net assets at December 31, 2013.

Cash and cash equivalents

Cash and cash equivalents consist of funds in checking accounts, money market accounts, and short-term certificates of deposit with original maturities of three months or less.

Cash of $85,915 was restricted at December 31, 2013.

Receivables

Receivables are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is maintained, based on past experiences and other known circumstances. Account balances are charged off against the allowance for doubtful accounts after all means of collection have been exhausted and the potential for recovery is considered remote.

Grants receivable

Grants receivable consist of amounts due from foundations and government entities under cost-reimbursable agreements. At December 31, 2013, grants receivable amounted to $168,026 and is included as part of accounts receivables. Management believes this amount is collectible; therefore, no allowance for doubtful accounts has been provided on grants receivable.

Fixed assets

BSR capitalizes additions of fixed assets on the date of acquisition in excess of $1,000 cost or fair value, if donated. Depreciation is computed on the straight-line method over estimated useful lives of two to three years for IT equipment and software, and seven years for furniture. Leasehold improvements are amortized over the lesser of the estimated useful life of the respective assets or the related lease term.

Revenue recognition

Consulting revenue is recognized as earned. On fixed fee contracts, if billings are submitted prior to the revenue being earned, the amount is recorded as deferred revenue and recognized when earned.

2. Summary of Significant Accounting Policies (continued)

Revenue recognition (continued)

Conference and seminar revenue is recognized when the event is held. Amounts received prior to the events are recorded as deferred revenue.

Revenue from membership dues is deferred and recognized over the periods to which the dues relate. Membership dues are available for the general programs of BSR unless specified for company member credit. Member credit is offered to certain member categories that entitles members to tailored benefits up to 30% of their dues. Unused member credit is recognized as dues revenue at the end of the member's dues year.

Government funded contracts are recognized as revenue as related expenses are incurred. Cash received in advance of expenditures is classified as deferred revenue.

Contributions are recorded at their fair value and are recognized as revenue when the donor makes an unconditional promise to give. Unconditional promises to give are recognized as revenue and receivables in the period in which notification of the promise is received. Donor-restricted contributions are reported as increases in temporarily 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 and reported in the consolidated statement of activities as net assets released from restrictions.

Donated services

Non-cash donations are recorded as contributions at the fair value of the gift at the date of the donation.

Contribution revenue and a related expense is recorded for donated services at the fair value of those services if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise need to be purchased if not donated. Noncash contributions received during the year ended December 31, 2013 consist primarily of donated professional services.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services based on management's estimates. The remaining costs are charged directly to the appropriate functional category.

2. Summary of Significant Accounting Policies (continued)

Income taxes

The Organization has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code, under Section 1(d) of Title II of the District of Columbia Department of Finance and Revenue Code, and under Section 2370l(d) of the California Revenue and Taxation Code and generally is not subject to state or federal income taxes. Taxes are paid on unrelated business income which arises from certain consulting services. The Organization had no engagements that qualified as unrelated business in 2013.

The subsidiaries and Hong Kong branch of the Organization are all subject to income taxes in foreign jurisdictions. The Chinese subsidiary is a wholly-foreign-owned enterprise and the French subsidiary is a 1901 Association. Income tax expense is provided for based on management's estimates of tax liability in those jurisdictions. Tax expense recorded for foreign jurisdictions during 2013 was $192,760.

In 2011, BSR began reviewing and assessing tax positions taken or expected to be taken against the more-likely-than-not recognition threshold and measurement attributes for recognition on the consolidated financial statements. BSR's policy for evaluating uncertain tax positions is a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more-likely-than-not that the position will be sustained upon audit, including resolution of related appeals or litigations processes, if any. The second step is to measure the tax benefit or liability as the largest amount that is more than 50% likely to be realized or incurred upon settlement. As the Organization is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and is generally not subject to federal or state income taxes, the tax positions taken or expected to be taken by the Organization have not had a material impact on the consolidated financial statements.

Concentrations of credit risk

BSR maintains the majority of its cash deposits with one financial institution. Such amounts may at times exceed Federal Deposit Insurance Corporation limits. To date, BSR has not experienced any losses in these accounts.

Receivables consist primarily of unsecured amounts due from companies and foundations. Credit risk is mitigated by the number of companies and foundations comprising the receivable balance. An allowance for doubtful accounts is also maintained.

2. Summary of Significant Accounting Policies (continued)

Use of estimates

The preparation of the consolidated 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 amount of assets and liabilities, and revenue and expenses, as well as contingent assets and liabilities during the reporting period. Actual results could differ from those estimates. The key estimates that require significant judgment by management include the allocation of functional expenses, allowance for doubtful accounts, useful lives of long-lived assets, and the short term and long term nature of assets and liabilities.

Prior year information

The consolidated 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with BSR's consolidated financial statements for December 31, 2012 from which the summarized information was derived.

Certain amounts in the prior year have been reclassified to conform to the current year financial statement presentation. These reclassifications have no effect on previously reported changes in net assets.

Subsequent events

BSR evaluated subsequent events for recognition and disclosure through September 30, 2014, the date the consolidated financial statements were available to be issued. No subsequent events have occurred that would have a material impact on the presentation of BSR's financial statements.

3. Fixed Assets

Fixed assets consisted of the following at December 31, 2013:

Software development	$ 197,942
IT equipment	553,773
Furniture and fixtures	516,641
Leasehold improvements	834,567
	2,102,923
Less: accumulated depreciation and amortization	(995,017)
	$1,107,906

3. Fixed Assets (continued)

Depreciation and amortization expense for the year ended December 31, 2013 was $422,032.

Included in IT equipment are assets under capital leases amounting to $177,882 and the related accumulated amortization of $125,753 as of December 31, 2013.

4. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following programs at December 31, 2013:

Funder	Grant Description	
Disney	HERfinance	$ 12,578
Rockefeller Brothers Fund	Supply Chains for Carbon Breakthroughs	92,048
Rockefeller Foundation	Idea Generation for a Sustainable Future	26,944
GE Foundation	HERfinance	49,200
GE Foundation	Conflict Minerals Local Dev	28,002
Levi Strauss Foundation	HERhealth	35,000
Levi Strauss Foundation	Worker Prof Development	10,775
Levi Strauss Foundation	HERfinance	8,125
Levi Strauss Foundation	Measurement Convening	3,087
Levi Strauss Foundation	HERproject India	2,073
Levi Strauss Foundation	HERhealth	19,363
Robert Wood Johnson Foundation	CSR and Health and Wellness	71,452
The Walmart Foundation	Women Factory Training Program	1,953,749
The Walt Disney Foundation	HERfinance Support	579,039
Various Contributors	HERHealth	108,798
		$3,000,233

5. Capital Leases

During 2012, the Company entered into additional long term capital lease agreements to finance the acquisition of additional capital equipment (primarily computer hardware) valued at $87,970 based upon the present value of future minimum lease payments. In February 2013, the Company entered into another capital lease agreement to finance the acquisition of a capital equipment valued at $32,433 based upon the present value of future minimum lease payments. The capital lease agreements require monthly payments ranging from $50 to $2,260, including interest rates ranging from 3.13% to 4.17%, and expire at various dates through January 2017. The related assets secure these capital lease agreements. As of December 31, 2013, the Company had outstanding borrowings of $54,937 relating to these capital lease agreements. Interest expense on the capital lease agreements amounted to $3,940 for the year ended December 31, 2013.

5. Capital Leases (continued)

Future payments required under the capital leases at December 31, 2013 are as follows:

Years Ending December 31:	
2014	$30,683
2015	19,808
2016	5,977
2017	826
	57,294
Less: interest portion	(2,357)
	54,937
Less: current portion	(30,683)
	$24,254

6. Operating Leases

BSR recognizes all rent expense on a straight line basis. BSR maintains offices and leases in San Francisco, California, U.S.; New York, New York, U.S.; Guangzhou, China; Beijing, China; Hong Kong; Copenhagen, Denmark; and Paris, France.

In April 2013, BSR entered into a noncancelable office space lease for its office located in Copenhagen, Denmark. The lease has a term of 18 months, beginning April 1, 2013, and expiring September 30, 2014. The lease calls for monthly payments of $2,689 during the initial five months, $3,629 for months seven through twelve, and increases to $4,032 per month on the anniversary of the rent commencement date.

In May 2013, BSR exercised the lease renewal option for the office located in Guangzhou, China. The lease renewal has a term of 1 year, beginning May 1, 2013, and expiring April 30, 2014. The lease calls for monthly payments of $2,883 for the duration of the lease.

In October 2013, BSR exercised the lease renewal option for the office located in Hong Kong. The lease renewal has a term of 2 years, beginning October 17, 2013, and expiring October 16, 2014. The lease calls for monthly payments of $9,177 for the duration of the lease.

In November 2013, BSR amended the office space lease for its office located in New York, New York. The lease has expanded the rental area and extended the term by 9 years, now expiring February 28, 2022. The lease expansion calls for additional monthly payments of $21,383 during the initial year and increases annually by an average of $904 per month on the anniversary of the rent commencement date.

6. Operating Leases (continued)

Future minimum lease payments under operating leases, having remaining non-cancellable lease terms in excess of one year as of December 31, 2013, are as follows:

2014	$ 1,143,000
2015	1,188,097
2016	1,126,565
2017	1,080,534
2018	966,723
Thereafter	1,920,081
Total minimum operating lease payments	$ 7,425,000

Rental expense under all operating leases for the year ended December 31, 2013 was $1,148,220.

7. Retirement Plans

The Organization sponsors a 401(k) salary deferral plan for eligible U.S. employees. Participants may make contributions to the plan. There were no contributions to this plan made by the Organization in 2013.

On August 1, 2004, BSR established a voluntary salary deferral plan for the Chief Executive Officer ("Participant") under IRC Section 457(b). During 2013, employer contributions to the plan totaled $15,927. The Participant is immediately vested in employer contributions.

8. Related Party Transactions

BSR receives revenues from companies that employ members of the Board of Directors. For the year ended December 31, 2013, BSR recognized revenues that totaled $160,239 in membership fees, $1,173,014 in consulting fees, $6,250 in conference registration and $60,000 in contributions from such companies. Total amounts receivable from these companies was $211,900 at December 31, 2013.

9. Commitments and Contingencies

Certain grants and contracts require compliance with various requirements. Failure to comply with these requirements could result in disallowance of costs and potential repayment to the sponsor(s). However, management considers the likelihood of a need to return funds to sponsors to be remote.