# Business for Social Responsibility

Consolidated Financial Statements

December 31, 2016
(With Comparative Totals for 2015)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Business for Social Responsibility
San Francisco, California

We have audited the accompanying consolidated financial statements of Business for Social Responsibility (a California nonprofit corporation) (collectively, the "BSR"), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (the "U.S."); 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 U.S. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 as of December 31, 2016, 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 U.S.

**Report on Summarized Comparative Information**

We have previously audited Business for Social Responsibility's 2015 consolidated financial statements, and our report dated April 1, 2016 expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Armanino LLP

Armanino[LLP]
San Francisco, California

March 29, 2017

Business for Social Responsibility
Consolidated Statement of Financial Position
December 31, 2016
(With Comparative Totals for 2015)

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 7,503,529 | $ 6,039,965 |
| Accounts and grants receivable, net | 8,418,197 | 10,340,108 |
| Prepaid expenses and other | 447,325 | 697,220 |
| Total current assets | 16,369,051 | 17,077,293 |
| Other assets | | |
| Grants receivable, net of current portion | 896,667 | - |
| Lease deposits | 444,543 | 461,738 |
| Fixed assets, net | 618,431 | 759,688 |
| Total other assets | 1,959,641 | 1,221,426 |
| Total assets | $ 18,328,692 | $ 18,298,719 |
| **LIABILITIES AND NET ASSETS** | | |
| Current liabilities | | |
| Accounts payable | $ 1,049,731 | $ 1,137,225 |
| Accrued salaries and related benefits | 951,491 | 947,390 |
| Accrued liabilities | 528,912 | 150,457 |
| Deferred revenue | 8,096,239 | 6,155,212 |
| Deferred rent, current | 103,866 | 84,057 |
| Capital lease obligations, current | 17,065 | 5,977 |
| Total current liabilities | 10,747,304 | 8,480,318 |
| Long-term liabilities | | |
| Deferred rent, non-current | 402,756 | 507,032 |
| Capital lease obligations, non-current | 8,968 | 826 |
| Total long-term liabilities | 411,724 | 507,858 |
| Total liabilities | 11,159,028 | 8,988,176 |
| Net assets | | |
| Unrestricted | (286,632) | (53,216) |
| Temporarily restricted | 7,456,296 | 9,363,759 |
| Total net assets | 7,169,664 | 9,310,543 |
| Total liabilities and net assets | $ 18,328,692 | $ 18,298,719 |

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, 2016
(With Comparative Totals for 2015)

| | Unrestricted | Temporarily Restricted | 2016 Total | 2015 Total |
|---|---|---|---|---|
| Support and revenues | | | | |
| Consulting revenues | $ 9,550,223 | $ - | $ 9,550,223 | $ 9,464,288 |
| Conferences and seminars | 1,392,311 | - | 1,392,311 | 1,499,538 |
| Membership dues | 4,906,264 | - | 4,906,264 | 4,612,583 |
| Government funded contracts | 1,005,506 | - | 1,005,506 | 859,077 |
| Foundation grants | - | 4,005,362 | 4,005,362 | 8,614,945 |
| Contributions | 106,675 | 29,278 | 135,953 | 987,331 |
| Interest income | 3,078 | - | 3,078 | 2,857 |
| Other income | 193,385 | - | 193,385 | 157,970 |
| In-kind revenue | 35,000 | - | 35,000 | 35,000 |
| Total support and revenues | 17,192,442 | 4,034,640 | 21,227,082 | 26,233,589 |
| Net assets released from restriction | 5,942,103 | (5,942,103) | - | - |
| Total support and revenues | 23,134,545 | (1,907,463) | 21,227,082 | 26,233,589 |
| Functional expenses | | | | |
| Program services | 17,522,805 | - | 17,522,805 | 18,456,407 |
| Management and General | 5,631,252 | - | 5,631,252 | 2,616,744 |
| Total functional expenses | 23,154,057 | - | 23,154,057 | 21,073,151 |
| Change in net assets from operations | (19,512) | (1,907,463) | (1,926,975) | 5,160,438 |
| Other nonoperating changes in net assets | | | | |
| Cumulative translation adjustment | 213,904 | - | 213,904 | (14,688) |
| Total other nonoperating changes in net assets | 213,904 | - | 213,904 | (14,688) |
| Change in net assets | (233,416) | (1,907,463) | (2,140,879) | 5,175,126 |
| Net assets (deficit), beginning of year | (53,216) | 9,363,759 | 9,310,543 | 4,135,417 |
| Net assets (deficit), end of year | $ (286,632) | $ 7,456,296 | $ 7,169,664 | $ 9,310,543 |

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, 2016
# (With Comparative Totals for 2015)

| | Program Services | | | | | | | | | | Support Services | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Climate Change | Human Rights | Inclusive Economy | Supply Chain Sustainability | Sustainability Management | Women's Empowerment | Conference | Membership | General Program | Total Program Services | Management and General | 2016 Total | 2015 Total |
| Expenses | | | | | | | | | | | | | |
| Salaries | $ 697,641 | $ 491,445 | $ 547,430 | $ 655,557 | $ 783,727 | $ 515,450 | $ 370,925 | $ 271,775 | $ 4,572,881 | $ 8,906,831 | $ 2,059,996 | $ 10,966,827 | $ 9,605,177 |
| Payroll taxes and benefits | 147,480 | 102,802 | 111,552 | 139,373 | 156,610 | 118,059 | 78,179 | 70,031 | 1,332,231 | 2,256,317 | 548,514 | 2,804,831 | 2,499,290 |
| Personnel Recruiting/development | 750 | 1,186 | 864 | 25 | - | - | - | 28 | 119,897 | 122,750 | 107,273 | 230,023 | 218,402 |
| Contractors/professional services | 121,832 | 184,931 | 272,943 | 381,559 | 277,933 | 1,240,446 | - | 8,002 | 191,008 | 2,678,654 | 416,477 | 3,095,131 | 2,207,191 |
| Travel | 213,172 | 128,473 | 75,061 | 244,093 | 167,611 | 148,262 | 64,109 | 2,839 | 416,906 | 1,460,526 | 164,325 | 1,624,851 | 1,939,351 |
| Marketing | 95 | 32 | 552 | - | 50 | - | 19,265 | - | 34,994 | 54,988 | 22,421 | 77,409 | 29,202 |
| Production | 103 | 2,368 | 512 | 17,813 | 24 | 26,456 | 435,307 | - | 55,451 | 538,034 | 6,458 | 544,492 | 513,555 |
| Conferences and workshops | 7,582 | 18,580 | 17,122 | 53,206 | 3,157 | 2,786 | 695,597 | - | 70,830 | 868,860 | 28,618 | 897,478 | 559,163 |
| Rent and occupancy | - | - | 41,519 | - | - | - | - | - | 303,768 | 345,287 | 1,007,928 | 1,353,215 | 1,329,272 |
| Office expense | 41 | 178 | 753 | 145 | 76 | 4,584 | 2,753 | - | 9,542 | 18,072 | 154,581 | 172,653 | 243,271 |
| Information systems | 10 | - | - | 288 | 82 | 2,677 | 14,908 | - | 311 | 18,276 | 545,697 | 563,973 | 627,284 |
| Postage and delivery | 94 | 339 | 1,250 | 1,544 | 475 | 607 | 12,495 | 112 | 1,029 | 17,945 | 13,926 | 31,871 | 46,387 |
| Taxes and Fees | - | - | 2,568 | 12,887 | 42,151 | 12,704 | 43,049 | 10,085 | 31,660 | 155,104 | 131,958 | 287,062 | 480,163 |
| General insurance | - | - | - | - | 59 | - | - | - | 44 | 103 | 128,215 | 128,318 | 151,897 |
| Bad debt expense | 13,068 | 4,150 | - | 9,246 | 3,626 | 11,554 | - | 4,414 | - | 46,058 | - | 46,058 | 4,392 |
| Miscellaneous | - | - | - | - | - | - | - | - | - | - | - | - | 288,864 |
| Donated Services | - | - | - | - | - | - | 35,000 | - | - | 35,000 | - | 35,000 | 35,000 |
| Total expenses | 1,201,868 | 934,484 | 1,072,126 | 1,515,736 | 1,435,581 | 2,083,585 | 1,771,587 | 367,286 | 7,140,552 | 17,522,805 | 5,336,387 | 22,859,192 | 20,777,861 |
| Depreciation and amortization | - | - | - | - | - | - | - | - | - | - | 294,865 | 294,865 | 295,290 |
| | $ 1,201,868 | $ 934,484 | $ 1,072,126 | $ 1,515,736 | $ 1,435,581 | $ 2,083,585 | $ 1,771,587 | $ 367,286 | $ 7,140,552 | $ 17,522,805 | $ 5,631,252 | $ 23,154,057 | $ 21,073,151 |

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, 2016
(With Comparative Totals for 2015)

| | 2016 | 2015 |
|---|---|---|
| Cash flows from operating activities | | |
| Change in net assets | $ (2,140,879) | $ 5,175,126 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 294,865 | 295,290 |
| Changes in operating assets and liabilities | | |
| Accounts and grants receivable, net | 1,025,244 | (4,761,833) |
| Prepaid expenses and other | 249,895 | (428,955) |
| Lease deposits | 17,195 | (57,773) |
| Accounts payable and accrued liabilities | 290,961 | (133,549) |
| Accrued salaries and related benefits | 4,101 | 207,896 |
| Deferred revenues | 2,343,783 | 2,012,605 |
| Deferred rent | (487,223) | (67,748) |
| Net cash provided by operating activities | 1,597,942 | 2,241,059 |
| Cash flows from investing activities | | |
| Purchase of fixed assets | (153,608) | (145,531) |
| Net cash used in investing activities | (153,608) | (145,531) |
| Cash flows from financing activities | | |
| Net proceeds (principal repayments) on capital leases | 19,230 | (16,609) |
| Net cash provided by (used in) financing activities | 19,230 | (16,609) |
| Net increase in cash and cash equivalents | 1,463,564 | 2,078,919 |
| Cash and cash equivalents, beginning of year | 6,039,965 | 3,961,046 |
| Cash and cash equivalents, end of year | $ 7,503,529 | $ 6,039,965 |

Supplemental disclosures of cash flow information

| | 2016 | 2015 |
|---|---|---|
| Cash paid during the year for | | |
| Interest | $ 23 | $ 385 |
| Tax | $ 166,359 | $ 367,121 |

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

1. NATURE OF OPERATIONS

Business for Social Responsibility ("BSR") is a global nonprofit organization that works with its network of more than 250 member companies to develop sustainable business strategies and solutions through consulting, research and cross sector collaboration. With seven offices in Asia, Europe and North America, BSR uses its expertise in environment, climate, human rights, economic development, and governance and accountability to guide global companies toward creating a just and sustainable world. Visit www.bsr.org for more information about BSR's more than 20 years of leadership in corporate responsibility.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the Organization and its wholly-owned subsidiaries in China, France, Denmark, Japan and its branch in Hong Kong (together, "BSR"). All significant intercompany transactions have been eliminated in consolidation.

Basis of accounting and financial statement presentation

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.

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.
- *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 and/or can be fulfilled and removed by actions of BSR. 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.
- *Permanently restricted net assets* - represent the portion of net assets for which use is permanently restricted 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, 2016.

Cash and cash equivalents

Cash and cash equivalents consist of funds in bank accounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts receivable

Accounts receivable consist of amounts due from consulting contracts, conferences and membership. Accounts receivable 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. At December 31, 2016, allowance for doubtful accounts amount to $78,536.

Grants receivable

Grants receivable consist of amounts due from foundations and government entities. At December 31, 2016, grants receivable amounted to $5,036,306 and is included as part of accounts and grants 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 with a cost in excess of $1,000 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 and deferred revenue

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.

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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition and deferred revenue (continued)

Contributions 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, 2016 amounted to $35,000 and consisted 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.

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 2016.

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 2016 was $143,347.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

BSR reviews and assesses 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.

Concentration 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.

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, 2015 from which the summarized information was derived.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassifications

Certain reclassifications have been made to the 2015 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

Subsequent events

BSR evaluated subsequent events for recognition and disclosure through March 29, 2017, 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 consist of the following:

| | |
|---|---|
| Software development | $ 107,015 |
| IT equipment | 523,455 |
| Furniture and fixtures | 549,823 |
| Leasehold improvements | 772,326 |
| | 1,952,619 |
| Accumulated depreciation | (1,334,188) |
| | $ 618,431 |

Depreciation and amortization expense for the year ended December 31, 2016 was $294,865.

Included in IT equipment are assets under capital leases amounting to $62,881 and the related accumulated amortization of $33,481 as of December 31, 2016.

## 4. CAPITAL LEASES

In previous fiscal years, BSR entered into long term capital lease agreements to finance the acquisition of capital equipment valued at $60,606 based upon the present value of future minimum lease payments. The capital lease agreements require monthly payments ranging from $53 to $901, and expire at various dates through July 2018. The related assets secure these capital lease agreements. As of December 31, 2016, the Company had outstanding borrowings of $26,033 relating to these capital lease agreements.

4. CAPITAL LEASES (continued)

Future maturities of capital lease obligations are as follows:

| Year ending December 31, | | |
|---|---|---|
| 2017 | $ | 15,774 |
| 2018 | | 10,259 |
| | | 26,033 |
| Present value of minimum lease payments | | 26,033 |
| Current portion | | (17,065) |
| | $ | 8,968 |

5. OPERATING LEASES

BSR recognizes all rent expense on a straight line basis. BSR maintains offices and leases in United States, China, Denmark, France, and Hong Kong. The operating leases range from September 2009 through February 2022. The monthly payments range from $4,178 to $37,759 per month.

Future minimum lease payments under operating leases, having remaining non-cancellable lease terms are as follows:

| Year ending December 31, | | |
|---|---|---|
| 2017 | $ | 1,269,800 |
| 2018 | | 966,723 |
| 2019 | | 667,261 |
| 2020 | | 569,002 |
| Thereafter | | 683,818 |
| | $ | 4,156,604 |

Rental expense under all operating leases for the year ended December 31, 2016 was $1,253,723.

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following:

| | Beginning Balance | Revenue | Released from Restriction | Ending Balance |
|---|---|---|---|---|
| Climate Change | $ 413,900 | $ 1,623,402 | $(1,212,109) | $ 825,193 |
| General Program | 75,838 | - | - | 75,838 |
| HER Project | 5,527,097 | 1,728,590 | (2,161,149) | 5,094,538 |
| Inclusive Economy | 1,667,980 | 462,000 | (1,100,345) | 1,029,635 |
| Supply Chain Sustainability | 1,678,944 | 220,648 | (1,468,500) | 431,092 |
| | $ 9,363,759 | $ 4,034,640 | $(5,942,103) | $ 7,456,296 |

7. RETIREMENT PLANS

The Organization sponsors a 401(k) salary deferral plan for eligible U.S. employees. Participants may make contributions to the plan. During 2016, employer match contributions to this plan totaled $31,219.

On August 1, 2004, BSR established a voluntary salary deferral plan for the Chief Executive Officer ("Participant") under IRC Section 457(b). During 2016, employer contributions to the plan totaled $20,334. 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, 2016, BSR recognized revenues that totaled $248,646 in membership fees, $201,146 in consulting fees and $70,000 in conference sponsorship from such companies. Total amounts receivable from these companies was $100,774 at December 31, 2016.

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.