



PACIFIC LUMBER INSPECTION BUREAU

Financial Statements

For the Years Ended December 31, 2018 and 2017

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Independent Accountant's Review Report

**To the Board of Directors
Pacific Lumber Inspection Bureau
Federal Way, Washington**

We have reviewed the accompanying statements of financial position of the Pacific Lumber Inspection Bureau (PLIB) as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of PLIB's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants (AICPA). Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.



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Accountant's Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standard

As discussed in Note 1, the Bureau adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. Our conclusion is not modified with respect to this matter.

Clark Nuber P.S.

Certified Public Accountants
June 25, 2019

PACIFIC LUMBER INSPECTION BUREAU

Statements of Financial Position
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 75,165	\$ 122,285
Accounts receivable-		
Member mills and subscribers, net of allowance of \$2,733 (\$2,797 - 2017)	196,714	168,676
Interest	335	205
Investments	396,839	543,900
Prepaid expenses	26,597	36,535
Total Current Assets	695,650	871,601
Furniture and Equipment:		
Furniture and fixtures	66,217	65,715
Automobiles	174,125	174,125
	240,342	239,840
Accumulated depreciation	(226,292)	(213,849)
Total Furniture and Equipment, Net	14,050	25,991
Total Assets	\$ 709,700	\$ 897,592
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 41,811	\$ 53,497
Accrued expenses and other liabilities	80,016	73,280
Current portion of capital lease	4,464	4,773
Total Current Liabilities	126,291	131,550
Capital lease, less current portion	9,373	13,812
Member mill and subscriber deposits	57,820	59,265
Total Liabilities	193,484	204,627
Net Assets:		
Net assets without donor restrictions-		
Undesignated	479,918	629,902
Board designated	36,298	63,063
Total Net Assets Without Donor Restrictions	516,216	692,965
Total Liabilities and Net Assets	\$ 709,700	\$ 897,592

See accompanying notes.

PACIFIC LUMBER INSPECTION BUREAU

**Statements of Activities
For the Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Operating Activities		
Revenues:		
Footage assessment	\$ 786,010	\$ 635,630
ALS/CLS/NLGA fees and assessments	276,074	205,885
WPM assessment	182,033	197,100
Supervisor fees	33,268	27,753
Certificate fees	2,139	1,350
Total Revenues	1,279,524	1,067,718
Expenses:		
Salaries	573,589	540,064
ALS/CLS/NLGA dues and expenses	319,139	223,381
Payroll taxes and employee benefits	134,974	130,186
Travel	84,942	74,918
Pension contribution	55,049	51,899
Professional fees	39,292	32,933
Rent	29,737	29,716
Insurance	28,945	27,484
Meetings	26,668	27,771
Miscellaneous	25,290	21,182
Dues and subscriptions	16,001	15,460
Depreciation	12,444	24,039
Telephone	10,714	8,927
Printing, office supplies and postage	10,710	6,210
Marketing and trade shows	9,570	7,362
Supervisory consulting fees	6,499	6,567
Business taxes	4,453	4,864
Research and development	3,866	5,782
Bad debt	826	1,841
Total Expenses	1,392,708	1,240,586
Change in Net Assets From Operating Activities	(113,184)	(172,868)

See accompanying notes.

PACIFIC LUMBER INSPECTION BUREAU

Statements of Activities (Continued)
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Nonoperating Activities		
Interest income	2,783	3,559
Realized/unrealized (loss) gain on investments	(14,985)	23,650
Other expense	<u>(4,741)</u>	<u>(989)</u>
Change in Net Assets From Nonoperating Activities	<u>(16,943)</u>	<u>26,220</u>
Change in Net Assets Before Foreign Currency Translation	(130,127)	(146,648)
Foreign currency translation (loss) gain	<u>(46,622)</u>	<u>41,663</u>
Total Change in Net Assets Without Donor Restrictions	<u>\$ (176,749)</u>	<u>\$ (104,985)</u>

See accompanying notes.

PACIFIC LUMBER INSPECTION BUREAU

**Statements of Functional Expenses
For the Year Ended December 31, 2018**

	<u>Program</u>	<u>Management and General</u>	<u>2018 Total</u>
Salaries	\$ 439,064	\$ 134,525	\$ 573,589
ALS/CLS/NLGA dues and expenses	319,139		319,139
Payroll taxes and employee benefits	109,147	25,827	134,974
Travel	79,952	4,990	84,942
Pension contribution	45,287	9,762	55,049
Professional fees	3,929	35,363	39,292
Rent		29,737	29,737
Insurance		28,945	28,945
Meetings	3,001	23,667	26,668
Miscellaneous	17,438	7,852	25,290
Dues and subscriptions	14,757	1,244	16,001
Depreciation	9,333	3,111	12,444
Telephone	9,107	1,607	10,714
Printing, office supplies and postage	1,069	9,641	10,710
Marketing and trade shows	9,570		9,570
Supervisory consulting fees	6,499		6,499
Business taxes		4,453	4,453
Research and development	3,866		3,866
Bad debt	826		826
Total Expenses	<u>\$ 1,071,984</u>	<u>\$ 320,724</u>	<u>\$ 1,392,708</u>

See accompanying notes.

PACIFIC LUMBER INSPECTION BUREAU

**Statements of Functional Expenses (Continued)
For the Year Ended December 31, 2017**

	<u>Program</u>	<u>Management and General</u>	<u>2017 Total</u>
Salaries	\$ 413,100	\$ 126,964	\$ 540,064
ALS/CLS/NLGA dues and expenses	223,381		223,381
Payroll taxes and employee benefits	99,733	30,453	130,186
Travel	70,399	4,519	74,918
Pension contribution	39,935	11,964	51,899
Professional fees	3,186	29,747	32,933
Rent		29,716	29,716
Meetings	3,972	23,799	27,771
Insurance		27,484	27,484
Depreciation	18,029	6,010	24,039
Miscellaneous	12,758	8,424	21,182
Dues and subscriptions	14,295	1,165	15,460
Telephone	7,550	1,377	8,927
Marketing and trade shows	7,362		7,362
Supervisory consulting fees	6,567		6,567
Printing, office supplies and postage	1,105	5,105	6,210
Research and development	5,782		5,782
Business taxes		4,864	4,864
Bad debt	1,841		1,841
Total Expenses	<u>\$ 928,995</u>	<u>\$ 311,591</u>	<u>\$ 1,240,586</u>

See accompanying notes.

PACIFIC LUMBER INSPECTION BUREAU

Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities:		
Change in net assets without donor restrictions	\$ (176,749)	\$ (104,985)
Adjustments to reconcile change in net assets without donor restrictions to net cash used in operating activities-		
Depreciation	12,444	24,039
Foreign currency translation loss (gain)	46,622	(41,663)
Realized/unrealized loss (gain) on investments	14,985	(23,650)
Changes in assets and liabilities:		
Accounts receivable	(39,055)	(1,787)
Prepaid expenses	9,938	2,037
Accounts payable	(11,686)	21,629
Accrued expenses and other liabilities	6,736	(1,852)
Member mill and subscriber deposits	(1,445)	(1,428)
Net Cash Used in Operating Activities	(138,210)	(127,660)
Cash Flows From Investing Activities:		
Purchase of investments	(18,909)	(3,559)
Proceeds from sale of investments	115,250	106,516
Purchase of equipment	(503)	(360)
Net Cash Provided by Investing Activities	95,838	102,597
Cash Flows From Financing Activities:		
Repayments on long-term debt and capital leases	(4,748)	(4,773)
Net Cash Used in Financing Activities	(4,748)	(4,773)
Net Change in Cash and Cash Equivalents	(47,120)	(29,836)
Cash and cash equivalents balance, beginning of year	122,285	152,121
Cash and Cash Equivalents Balance, End of Year	\$ 75,165	\$ 122,285

See accompanying notes.

PACIFIC LUMBER INSPECTION BUREAU

Notes to Financial Statements For the Years Ended December 31, 2018 and 2017

Note 1 - Nature of Operations and Significant Accounting Policies

The Bureau - Pacific Lumber Inspection Bureau (PLIB) is a nonprofit corporation. PLIB provides lumber product inspection and grading services to lumber manufacturers, wholesalers and specifiers or interested parties in lumber transactions. PLIB also provides quality control inspection at wood packaging manufacturing facilities and heat treating facilities that are required to comply with export phytosanitary regulations.

PLIB principally operates in the Pacific Northwest, including British Columbia and Alberta, Canada. Policies and procedures of PLIB are formulated by its Board of Directors. The Board of Directors is elected each year by PLIB's members. Each member is entitled to only one vote regardless of the member's mill size or volume of lumber production.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Federal Income Taxes - The Internal Revenue Service has determined PLIB is a tax-exempt organization under Internal Revenue Code Section 501(c)(6).

Cash and Cash Equivalents - PLIB considers all highly liquid debt instruments with an original maturity of three months or less, other than those held in the investment portfolio, to be cash equivalents.

Investments - Investments are reported at fair value based on quoted market prices, except for certificates of deposit and Government Investment Certificates, which are reported at cost plus accrued interest. Realized and unrealized gains and losses are reflected in the statements of activities.

Accounts Receivable - Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to change in net assets and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Furniture and Equipment - PLIB capitalizes office equipment and automobiles with a value greater than \$100, at cost. Depreciation is provided using the straight-line method. Estimated useful lives of office equipment and automobiles range from three to seven years.

PACIFIC LUMBER INSPECTION BUREAU

Notes to Financial Statements For the Years Ended December 31, 2018 and 2017

Note 1 - Continued

Accrued Expenses and Other Liabilities - Included in accrued expenses and other liabilities are the following balances at December 31:

	<u>2018</u>	<u>2017</u>
Accrued payroll, vacation and benefits	\$ 20,238	\$ 13,559
U.S. pension liability	54,699	52,113
Deferred lease liability	<u>5,079</u>	<u>7,608</u>
	<u><u>\$ 80,016</u></u>	<u><u>\$ 73,280</u></u>

Revenue Recognition - Revenues are recognized when earned based on the board footage shipments of its member companies or on a flat, monthly fee charged to subscribers of other programs.

Foreign Currency Translation - Assets and liabilities of PLIB's Canadian operations are translated at year end exchange rates of 0.7330 and 0.7971 at December 31, 2018 and 2017, respectively. The resulting adjustments are accumulated in a cumulative foreign currency translation adjustment account. Changes in this account are recognized as changes in net assets without donor restrictions. Revenues and expenses are translated at exchange rates prevailing during the year. All amounts in the accompanying financial statements are presented in U.S. dollars. PLIB had net assets of \$443,372 and \$618,020 in U.S. dollars invested in operations in Canada at December 31, 2018 and 2017, respectively. PLIB recorded foreign currency translation (losses)/gains of \$(46,622) and \$41,663 for the years ended December 31, 2018 and 2017, respectively, on the statements of activities. The cumulative foreign currency translation gain was \$171,703 and \$218,325 at December 31, 2018 and 2017, respectively.

Basis of Presentation - Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of PLIB and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations. Changes in this category of net assets include restricted contributions whose donor-imposed restrictions were met during the fiscal year.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that will be met either by actions of PLIB and/or the passage of time.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

PACIFIC LUMBER INSPECTION BUREAU

Notes to Financial Statements For the Years Ended December 31, 2018 and 2017

Note 1 - Continued

Allocation of Functional Expenses - The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of PLIB. Those expenses include the compensation expenses of certain shared staff, depreciation, and professional services. Shared services staff compensation expenditures are allocated based on time studies of where efforts are made. Depreciation and professional services are allocated based upon estimates of what function benefits from the natural expenditures incurred.

New Accounting Pronouncement - For the year ended December 31, 2018, PLIB adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return amongst not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

Subsequent Events - PLIB has evaluated subsequent events through June 25, 2019, the date on which the financial statements were available to be issued.

Note 2 - Member Mill and Subscriber Deposits

PLIB maintains a long-term liability related to deposits made by member mills and subscribers to be used for payment of inspection operating expenses in advance of inspection services provided. At December 31, 2018 and 2017, member mill and subscriber deposits were \$57,820 and \$59,265, respectively.

Note 3 - Gross Operating Revenues

The sources of gross operating revenue are as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Canada - fees and assessments	\$ 436,259	\$ 267,086
United States - fees and assessments	<u>843,265</u>	<u>800,632</u>
	<u><u>\$ 1,279,524</u></u>	<u><u>\$ 1,067,718</u></u>

Note 4 - Benefit Plans

PLIB maintains a defined contribution money purchase pension plan for its U.S. salaried employees in which contributions are self-directed by the participants. Employees are eligible to participate in the plan after three months of service. PLIB made contributions to the plan of \$48,158 and \$45,846 in 2018 and 2017, respectively. Expenses due under this plan were \$1,075 for each of the years ended December 31, 2018 and 2017.

PACIFIC LUMBER INSPECTION BUREAU

**Notes to Financial Statements
For the Years Ended December 31, 2018 and 2017**

Note 4 - Continued

On May 31, 2012, PLIB established a registered retirement savings plan (RRSP) account. Contributions for this Plan totaled \$6,891 and \$6,053 for the years ended December 31, 2018 and 2017, respectively.

Retired Canadian salaried employees also participate in a noncontributory post-retirement health insurance plan. Total premium payments under this plan were approximately \$5,690 and \$7,346 for the years ended December 31, 2018 and 2017, respectively. These premiums are funded and expensed as incurred.

Note 5 - Capital Lease

On November 22, 2016, PLIB entered into an arrangement to lease a vehicle for five years. The terms of the lease require monthly payments starting at \$521. The lease is cancelable by PLIB after 12 months, at which time the vehicle would be returned to the lessor. Under the terms of the lease, PLIB has guaranteed the residual value of the vehicle at \$23,862 less \$398 for each month that a lease payment has been made. Future minimum lease payments under this capital lease are as follows at December 31:

For the Year Ending December 31,

2019	\$	5,630
2020		5,297
2021		<u>4,444</u>
Less interest		<u>(1,534)</u>
	\$	<u><u>13,837</u></u>

Note 6 - Operating Lease

PLIB occupies and maintains its U.S. headquarters under an operating lease. During 2015, PLIB commenced an operating lease for office space for the U.S. headquarters for a five year and six month term through July 31, 2020. Rent is expensed on a straight-line basis over the lease term. Rent expense for all office leases was \$29,737 and \$29,716 in 2018 and 2017, respectively. Included in rent expense are payments to an employee for office space in British Columbia of \$6,377 and \$6,697, for the years ended December 31, 2018 and 2017, respectively.

Future minimum lease payments are as follows:

For the Year Ending December 31,

2019	\$	26,190
2020		<u>13,416</u>
	\$	<u><u>39,606</u></u>

PACIFIC LUMBER INSPECTION BUREAU

Notes to Financial Statements For the Years Ended December 31, 2018 and 2017

Note 7 - Concentrations

PLIB grants credit to customers, substantially all of whom are located in the U.S. Pacific Northwest region, British Columbia and Alberta, Canada. PLIB's revenues are recognized when earned based on the board footage shipments of its member companies or on a flat, monthly fee charged to subscribers of other programs. Accordingly, revenues and operating results of PLIB could be adversely affected if members were to reduce shipments due to economic conditions.

For the year ended December 31, 2018, PLIB had two member companies which accounted for \$589,433 or 46% of operating revenues, and one member company which accounted for \$40,229 or 20% of accounts receivable. For the year ended December 31, 2017, PLIB had two member companies which accounted for \$428,976 or 40% of operating revenues, and one member company which accounted for \$35,332 or 21% of accounts receivable.

Note 8 - Letter of Credit

PLIB utilizes two letters of credit issued by a Canadian bank to ensure payment of fees to the Canadian Lumber Standards Accreditation Board and National Lumber Grades Authority. As of December 31, 2018 and 2017, PLIB had no outstanding balances drawn on the letters of credit.

Note 9 - Investments and Fair Value Measurements

U.S. GAAP defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, U.S. GAAP uses a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Valuation Techniques - Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs are primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

Mutual funds and exchange traded funds are valued at quoted market prices in active markets, which represent the net asset value (NAV) of shares held by PLIB at year end and are considered Level 1 inputs.

PACIFIC LUMBER INSPECTION BUREAU

Notes to Financial Statements For the Years Ended December 31, 2018 and 2017

Note 9 - Continued

The valuation methodologies used by PLIB may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although PLIB believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investment balances were as follows at December 31:

	<u>2018</u>	<u>2017</u>
Investments at fair value (Level 1)-		
U.S. Exchange traded funds	\$ 48,909	\$ 51,043
Canadian mutual funds	<u>236,737</u>	<u>349,133</u>
Total investments at fair value	285,646	400,176
Investments at cost-		
Government investment certificates	68,271	105,071
Term deposits	<u>42,922</u>	<u>38,653</u>
Total investments at cost	<u>111,193</u>	<u>143,724</u>
Total Investments	<u>\$ 396,839</u>	<u>\$ 543,900</u>

Note 10 - Facility Commitments

PLIB has entered into contracts for facilities usage for various events taking place subsequent to year end. As of December 31, 2018 and 2017, the total estimated commitments are \$20,000 and \$15,000, respectively.

Note 11 - Board Designated Net Assets

As of December 31, 2018 and 2017, the Board has designated net assets in the amount of \$36,298 and \$63,063, respectively, to be used for ALS/CLS/NLGA dues expenses.

Note 12 - Liquidity and Availability of Financial Assets

As part PLIB's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, PLIB invests cash in excess of daily requirements in investments. To help manage unanticipated liquidity needs, PLIB has investments of \$396,839 and \$543,900 as of December 31, 2018 and 2017, respectively.

PACIFIC LUMBER INSPECTION BUREAU

Notes to Financial Statements
For the Years Ended December 31, 2018 and 2017

Note 12 - Continued

The following table shows the total financial assets held by PLIB and the amounts of those financial assets that could readily be made available within one year of the date of the statements of financial position at December 31, 2018 and 2017 to meet general expenditures:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 75,165	\$ 122,285
Accounts receivable	197,049	168,881
Investments	<u>396,839</u>	<u>543,900</u>
Total financial assets	669,053	835,066
Less amounts unavailable for general expenditure due to board designation	<u>(36,298)</u>	<u>(63,063)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 632,755</u>	<u>\$ 772,003</u>

Note 13 - Subsequent Event

Effective January 1, 2019, the West Coast Lumber Inspection Bureau merged into PLIB, the surviving entity.