



**PAPER AND PACKAGING BOARD**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2017 AND 2016**

PAPER AND PACKAGING BOARD

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DECEMBER 31, 2017 AND 2016

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## Independent Auditors' Report

Paper and Packaging Board  
McLean, Virginia

### Report on the Financial Statements

We have audited the accompanying financial statements of Paper and Packaging Board (P+PB) which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and 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.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paper and Packaging Board as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Paper and Packaging Board  
McLean, Virginia

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2018, on our consideration of Paper and Packaging Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Paper and Packaging Board's internal control over financial reporting and compliance.

*Councilor, Buchanan + Mitchell, P.C.*

Bethesda, Maryland  
March 16, 2018

Certified Public Accountants

**PAPER AND PACKAGING BOARD**

**STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 6,346,890	\$ 8,345,469
Assessments Receivable	6,160,365	6,150,756
Prepaid Expenses	179,185	26,553
Total Current Assets	12,686,440	14,522,778
<b>Property and Equipment, Net</b>	<b>164,722</b>	<b>237,464</b>
<b>Total Assets</b>	<b>\$ 12,851,162</b>	<b>\$ 14,760,242</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts Payable and Accrued Expenses	\$ 822,567	\$ 746,169
Deferred Rent	4,215	-
Total Current Liabilities	826,782	746,169
<b>Net Assets</b>		
Unrestricted - Board Designated	924,722	425,000
Unrestricted	11,099,658	13,589,073
Total Net Assets	12,024,380	14,014,073
<b>Total Liabilities and Net Assets</b>	<b>\$ 12,851,162</b>	<b>\$ 14,760,242</b>

*See accompanying Notes to Financial Statements.*

PAPER AND PACKAGING BOARD

STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>Revenue</b>		
Assessments	\$ 24,503,962	\$ 24,281,600
Interest Income	<u>42,156</u>	<u>12,327</u>
Total Revenue	24,546,118	24,293,927
<b>Expenses</b>		
Program Expenses	25,370,669	25,531,988
General and Administration	1,074,623	1,119,395
Federal Government User Fees	<u>90,519</u>	<u>128,690</u>
Total Expenses	<u>26,535,811</u>	<u>26,780,073</u>
Change in Net Assets	(1,989,693)	(2,486,146)
Net Assets at Beginning of Year	<u>14,014,073</u>	<u>16,500,219</u>
<b>Net Assets at End of Year</b>	<u><u>\$ 12,024,380</u></u>	<u><u>\$ 14,014,073</u></u>

See accompanying Notes to Financial Statements.

**PAPER AND PACKAGING BOARD**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>Cash Flows from Operating Activities</b>		
Change in Net Assets	<b>\$ (1,989,693)</b>	\$ (2,486,146)
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities		
Depreciation and Amortization	<b>140,052</b>	129,548
<u>(Increase) Decrease in Assets</u>		
Assessments Receivable	<b>(9,609)</b>	(406,274)
Prepaid Expenses	<b>(152,632)</b>	2,899
<u>Increase (Decrease) in Liabilities</u>		
Accounts Payable and Accrued Expenses	<b>76,398</b>	349,625
Deferred Rent	<b>4,215</b>	-
Net Cash Used in Operating Activities	<b>(1,931,269)</b>	<b>(2,410,348)</b>
<b>Cash Flows from Investing Activities</b>		
Purchases of Property and Equipment	<b>(67,310)</b>	(3,690)
Net Cash Used in Investing Activities	<b>(67,310)</b>	<b>(3,690)</b>
Net Decrease in Cash	<b>(1,998,579)</b>	(2,414,038)
Cash at Beginning of Year	<b>8,345,469</b>	10,759,507
<b>Cash at End of Year</b>	<b>\$ 6,346,890</b>	<b>\$ 8,345,469</b>

*See accompanying Notes to Financial Statements.*

## PAPER AND PACKAGING BOARD

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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#### 1. ORGANIZATION

Paper and Packaging Board (P+PB) establishes and guides promotions designed to grow demand for paper and paper-based packaging products. Manufacturers and importers of these products participate in the Paper Checkoff, an industry-funded promotion program.

The Paper and Paper-Based Packaging Promotion, Research, and Information Order (Order) was issued by the U.S. Department of Agriculture (USDA) for the purpose of maintaining and expanding markets for paper and paper-based packaging. The program is financed by an assessment on paper and paper-based packaging manufacturers (domestic producers) and importers and administered by an elected board of industry members. The assessment rate is \$0.35 per short ton. (One short ton equals 2,000 pounds).

The program covers four types of paper and paper-based packaging - printing, writing and related paper (used to make products for printing, writing, and other communication purposes), Kraft packaging paper (used for products like grocery bags and sacks), containerboard (used to make corrugated boxes, shipping containers, and related products), and paperboard (used for food and beverage packaging, tubes, and other miscellaneous products). Entities that domestically manufacture or import less than 100,000 short tons per marketing year are exempt from the payment of assessments.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### *Basis of Presentation*

P+PB uses the accrual basis of accounting. Under that basis, revenues are recognized when earned and expenses are recognized when liabilities are incurred.

As an instrumentality of a U.S. Federal Government Department, P+PB is subject to Statements of Federal Financial Accounting Concepts and Standards and other pronouncements of the Federal Accounting Standards Advisory Board (FASAB). *Statement of Federal Financial Accounting Standards 34: The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board* (SFFAS 34) provides that bodies with oversight authority, such as AMS, may determine that the needs of a reporting entity's primary users would be best met through the application of FASB (Financial Accounting Standards Board) standards. AMS has determined that the needs of the primary users of P+PB's financial statements would best be met through the application of FASB standards. Accordingly, P+PB presents its financial statements in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 958, Subtopic 205, *Not-for-Profit Entities - Presentation of Financial Statements* (FASB ASC 958-205).

Under FASB ASC 958-205, P+PB presents the statements of financial position, activities, and cash flows. In addition, P+PB reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of December 31, 2017 and 2016, P+PB had only unrestricted net assets.

**PAPER AND PACKAGING BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Use of 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 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.

*Assessments Receivable*

Assessments receivable are reported at their unpaid balances, reduced by an allowance for doubtful accounts, if necessary.

Management periodically evaluates the adequacy of the allowance for doubtful accounts by considering P+PB's past receivables loss experience, known and inherent risks in the assessments receivable population, adverse situations that may affect a manufacturer's or importers ability to pay, and current economic conditions.

The allowance for doubtful accounts is increased by charges to bad debts expense and decreased by charge offs of the assessments receivable balances. Assessments receivable are considered past due after the 30th calendar day of the month following the end of the quarter in which the paper and paper-based packaging was manufactured or imported. Assessments receivable are charged off based on management's case-by-case determination that they are uncollectible, subject to approval by USDA. As of December 31, 2017 and 2016, there was no allowance for doubtful accounts.

As of January 25, 2016, a late payment charge was imposed on any manufacturer or importer who fails to make timely remittance to P+PB of the total assessments for which the manufacturer or importer is liable.

*Property and Equipment*

P+PB capitalizes expenditures over \$5,000 for property and equipment. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the assets (three years for website development, three years for computer equipment and five years for other equipment and furniture). When assets are retired or sold, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is reflected in the statements of activities.

*Revenue Recognition*

P+PB recognizes revenue from assessments based on the volume of short tons of paper and paper-based packaging manufactured domestically in the United States and imported into the United States by each manufacturer and importer subject to P+PB's assessments.

PAPER AND PACKAGING BOARD

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Board Designated Net Assets*

P+PB has established a reserve for future use that represents remaining lease payments, one month of budgeted general and administrative expenses, and net property and equipment. As of December 31, 2017 and 2016, this reserve amounted to \$924,722 and \$425,000, respectively, and is listed as a Board Designated Net Asset.

*Functional Allocation of Expenses*

The costs of providing the programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among programs and supporting services benefited.

*Income Taxes*

Based on P+PB's status as an instrumentality of USDA, P+PB is exempt from income taxes.

3. CUSTODIAL CREDIT RISK

Custodial credit risk for cash is the risk that P+PB will not be able to recover deposits in the event of the failure of a depository financial institution or will not be able to recover collateral securities that are in the possession of an outside party. At December 31, 2017 and 2016, P+PB's bank deposits totaled \$6,394,314 and \$8,399,688, respectively. Of these amounts, \$250,000 was insured by the Federal Deposit Insurance Corporation (FDIC) and \$6,143,331 and \$7,985,066, respectively, were exposed to custodial credit risk as follows:

	<u>2017</u>	<u>2016</u>
Uninsured and Collateral Held by Pledging Bank	\$ 6,143,331	\$ 7,985,066
Uninsured	-	-

For investment of P+PB's funds collected from assessments, P+PB is required to select depository financial institutions that are designated by the U.S. Department of Treasury as depository and financial agents for the U.S. Federal Government. P+PB has entered into a memorandum of understanding with one of its depository financial institutions to aid in complying with the regulations concerning deposits and/or investments of public funds. The financial institution pledges acceptable securities at the Federal Reserve as specified in the Code of Federal Regulations. The amount pledged is an amount sufficient to cover all of P+PB's deposits at the institution in excess of \$250,000. P+PB would have access to the pledged securities should the institution be unable to return P+PB's deposits. At December 31, 2017 and 2016, the pledged securities consisted of Federal National Mortgage Association and Federal Home Loan Bank interest-bearing securities.

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**NOTES TO FINANCIAL STATEMENTS  
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**4. PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
Consumer Website	\$ 295,329	\$ 295,329
Board Website	96,775	96,775
Equipment	13,966	13,966
Furniture and Fixtures	47,624	7,920
Leasehold Improvements	27,606	8,797
Less Accumulated Depreciation and Amortization	<u>(316,578)</u>	<u>(185,323)</u>
Net	<u>\$ 164,722</u>	<u>\$ 237,464</u>

Depreciation and amortization expense amounted to approximately \$140,000 and \$130,000 in 2017 and 2016, respectively.

**5. COMMITMENTS AND CONTINGENCIES**

In 2014, P+PB entered into a three-year lease for office space in McLean, Virginia, that expired in December 2017. The lease escalated by 3% each year and had a tenant option for two additional years. Effective December 15, 2017, P+PB entered into a five-year non-cancellable operating lease for new office space in Tysons, Virginia, that expires in November 2022. The lease provided for six months free rent and a construction allowance totaling \$16,860. The lease escalates by 3% each year and has an option to extend for four additional years. The minimum payments required under the lease are expensed on a straight-line basis over the term of the lease. The difference between amounts expensed and the required payments is reflected as deferred rent in the statements of financial position.

Future minimum payments for the office lease is as follows:

For the Years Ending December 31,

2018	\$ 116,233
2019	119,436
2020	122,724
2021	126,096
2022	<u>129,547</u>
	<u>\$ 614,036</u>

Rent expense under the lease for the years ended December 31, 2017 and 2016, was approximately \$66,000 and \$68,000, respectively.

**6. RETIREMENT PLAN**

P+PB has a defined contribution retirement plan (the Plan) open to all employees. Under the Plan, P+PB makes contributions to the Plan, based on a percentage of the payroll for employees who participate in the Plan upon completion of three months of service and 500 hours. These contributions, together with voluntary employee contributions, are used to purchase mutual

**PAPER AND PACKAGING BOARD**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

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**6. RETIREMENT PLAN (CONTINUED)**

funds, the rights to which are subsequently vested in the employees according to the Plan document timeline. The cost to P+PB under the Plan was approximately \$98,000 and \$82,000 for the years ended December 31, 2017 and 2016, respectively.

**7. SUBSEQUENT EVENTS**

P+PB has evaluated subsequent events through March 16, 2018, the date on which the financial statements were available to be issued.

**Independent Auditors' Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Paper and Packaging Board  
McLean, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Paper and Packaging Board (P+PB), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 16, 2018.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered P+PB's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of P+PB's internal control. Accordingly, we do not express an opinion on the effectiveness of P+PB's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of P+PB's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether P+PB's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Paper and Packaging Board  
McLean, Virginia

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of P+PB's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering P+PB's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Councilor, Buchanan + Mitchell, P.C.*

Bethesda, Maryland  
March 16, 2018

Certified Public Accountants