

**STOCKHOLM ENVIRONMENT
INSTITUTE U.S., INC.**

FINANCIAL STATEMENTS

DECEMBER 31, 2013 and 2012

STOCKHOLM ENVIRONMENT INSTITUTE U.S., INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Stockholm Environment Institute U.S., Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Stockholm Environment Institute U.S., Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2013 and 2012, 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 audit 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 Stockholm Environment Institute U.S., Inc. as of December 31, 2013 and 2012, 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.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on pages 12 and 13 are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2014, on our consideration of Stockholm Environment Institute U.S., Inc.'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 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 Stockholm Environment Institute U.S., Inc.'s internal control over financial reporting and compliance.


Stanton & Co.
September 24, 2014

STOCKHOLM ENVIRONMENT INSTITUTE U.S., INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012

ASSETS

CURRENT ASSETS:	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 1,061,561	\$ 1,027,949
Short-term investments	255,438	255,313
Contracts receivable, net of allowance	413,319	485,673
Grants receivable	320,490	283,605
Unbilled work in progress	556,799	461,033
Prepaid expenses	30,303	28,926
TOTAL CURRENT ASSETS	<u>2,637,910</u>	<u>2,542,499</u>
PROPERTY & EQUIPMENT:		
Property & equipment, net	<u>49,573</u>	<u>41,677</u>
TOTAL ASSETS	<u>\$ 2,687,483</u>	<u>\$ 2,584,176</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 207,790	\$ 132,958
Accrued expenses	157,151	155,644
Rental deposits	150	5,000
Unearned revenue	235,234	294,959
TOTAL LIABILITIES	<u>600,325</u>	<u>588,561</u>
NET ASSETS:		
Unrestricted net assets	1,878,699	1,924,870
Temporarily restricted net assets	208,459	70,745
TOTAL NET ASSETS	<u>2,087,158</u>	<u>1,995,615</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 2,687,483</u>	 <u>\$ 2,584,176</u>

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

STOCKHOLM ENVIRONMENT INSTITUTE U.S., INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE:			
Contract revenue	\$ 2,798,063		\$ 2,798,063
Grant revenue	1,226,810	\$ 186,053	1,412,863
License revenue	132,271		132,271
Interest income	2,398		2,398
Sub lease income	23,000		23,000
Miscellaneous income	45		45
Satisfaction of program restrictions	48,339	(48,339)	-
TOTAL REVENUE	<u>4,230,926</u>	<u>137,714</u>	<u>4,368,640</u>
EXPENSES AND LOSSES:			
Program services	3,273,293		3,273,293
Management and general	1,003,804		1,003,804
TOTAL EXPENSES	<u>4,277,097</u>	<u>-</u>	<u>4,277,097</u>
Change in net assets	(46,171)	137,714	91,543
Net assets, beginning of period	1,924,870	70,745	1,995,615
Net assets, end of period	<u>\$ 1,878,699</u>	<u>\$ 208,459</u>	<u>\$ 2,087,158</u>

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

STOCKHOLM ENVIRONMENT INSTITUTE U.S., INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE:			
Contract revenue	\$ 2,933,505		\$ 2,933,505
Grant revenue	1,058,825	\$ 70,745	1,129,570
License revenue	140,567		140,567
Interest income	3,196		3,196
Sub lease income	42,600		42,600
Satisfaction of program restrictions	1,695	(1,695)	-
TOTAL REVENUE	<u>4,180,388</u>	<u>69,050</u>	<u>4,249,438</u>
EXPENSES AND LOSSES:			
Program services	2,833,779		2,833,779
Management and general	1,157,318		1,157,318
TOTAL EXPENSES	<u>3,991,097</u>		<u>3,991,097</u>
Change in net assets	189,291	69,050	258,341
Net assets, beginning of period	1,735,579	1,695	1,737,274
Net assets, end of period	<u>\$ 1,924,870</u>	<u>\$ 70,745</u>	<u>\$ 1,995,615</u>

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

STOCKHOLM ENVIRONMENT INSTITUTE , INC.
STATEMENTS OF CASH FLOWS YEARS
ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ 91,543	\$ 258,341
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation	18,369	19,515
Bad debt expense	8,826	
(Increase) decrease in operating assets:		
Contracts receivable	63,528	(187,206)
Grants receivable	(36,885)	(199,467)
Unbilled work in progress	(95,766)	(210,914)
Prepaid expenses	(1,377)	(4,377)
Increase (decrease) in operating liabilities:		
Accounts payable	74,832	42,683
Accrued expenses	1,507	36,384
Rental deposits	(4,850)	(1,575)
Unearned revenue	(59,725)	52,513
	60,002	(194,103)
Net cash provided (used) by operating activities		
Cash flows from investing activities:		
Proceeds from sale of computer equipment	1,086	1,625
Purchase of short-term investments	(125)	(127)
Purchase of equipment	(27,351)	(11,564)
	(26,390)	(10,066)
Net cash used by investing activities		
Net increase (decrease) in cash	33,612	(204,169)
Cash and cash equivalents:		
Beginning of Year	1,027,949	1,232,118
End of Year	\$ 1,061,561	\$ 1,027,949

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

STOCKHOLM ENVIRONMENT INSTITUTE U.S., INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE A – NATURE OF ACTIVITIES

Nature of Activities

Stockholm Environment Institute U.S., Inc. supports decision-making and inducing change towards sustainable development around the world by providing knowledge that bridges science and policy in the fields of environment and development, and by conducting innovative, integrated applied systems research, which forms the basis for policy advice, capacity building, decision support, and policy implementation.

Stockholm Environment Institute U.S., Inc. is an independent research affiliate of Tufts University. The Organization does not provide services or conduct activities other than those directly related to its stated purpose.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

Cash Equivalents

Cash equivalents include all highly liquid investments with maturities of three months or less.

Investments:

Short-term investments consist of certificates of deposits with terms longer than ninety days but less than one year. Investments are stated at cost, which approximates market.

Receivables

Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual receivables. 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. The Organization deemed no allowance for doubtful accounts necessary at December 31, 2013 and 2012.

STOCKHOLM ENVIRONMENT INSTITUTE U.S., INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
CONTINUED**

Property and equipment

Property and equipment purchased in excess of \$1,000 are recorded at cost at the date of acquisition. Contributed assets are capitalized at their fair values at the date of contribution. Proceeds from the sale of assets, if unrestricted, are transferred to unrestricted net assets or, if restricted, restricted for future acquisitions. Depreciation of property and equipment is provided on a straight-line basis over the estimated useful lives of the assets.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board *Financial Statements of Not-for-Profit Organizations*. Under these professional standards, the Organization is required to report 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.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted contributions whose restrictions are met in the same reporting period are classified as unrestricted.

Revenue Recognition

Revenue from contracted services is recognized as the services are performed and specific benchmarks are achieved. Unbilled work in progress represents revenue that has been earned but will be billed at a future date. Funds received in advance of work performed are recorded as unearned revenue until the work is complete or specific benchmarks are achieved.

Functional Allocation of Expenses

Expenses that can be identified with a specific program or supporting service are allocated directly to those classifications. Other expenses that are common to several functions are allocated based on salary expenditures.

STOCKHOLM ENVIRONMENT INSTITUTE U.S., INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Income Taxes

The Organization is exempt from federal and state income tax under Section 501c (3) of the Internal Revenue Code and has been classified as an entity that is not a private foundation. Contributions to the Organization are tax deductible.

The Organization has evaluated its tax positions against the criteria established by professional standards and believes there are no such tax positions requiring accounting recognition in the financials statements. The Organization does not believe their evaluation of tax positions will significantly change within twelve months of December 31, 2013. Any changes in tax position will be recorded when the ultimate outcome becomes known. The Organization's tax returns are subject to examination by taxing authorities generally for the years ended December 31, 2011, 2012 and 2013.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2013</u>	<u>2012</u>
Computer equipment	\$109,672	\$89,002
Office furniture & equipment	41,133	38,756
Software	5,214	4,156
Less accumulated depreciation	<u>(106,446)</u>	<u>(90,238)</u>
Net	<u>\$ 49,573</u>	<u>\$41,677</u>

NOTE D – COMMITMENTS

The Organization leases two of its facilities under two rental agreements that expire July 2015 and September 2016, respectively. The agreements require monthly minimum lease payments.

STOCKHOLM ENVIRONMENT INSTITUTE U.S., INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE D – COMMITMENTS (continued)

Future minimum rental expense for the next three years is as follows:

Year Ending December 31,	
2014	\$101,531
2015	81,031
2016	<u>38,267</u>
Total	<u>\$220,829</u>

The Organization has two subleases at its Seattle office from May 2013 to June 2015. In addition the Organization had a sublease at its Davis office from August 2011 to February 2013. This lease was not renewed. Rental income for the years ended December 31, 2013 and 2012 was \$23,000 and \$42,600, respectively.

Rental income for the years ended December 31, 2014 and 2015 will be \$13,200, and \$6,600, respectively.

Total occupancy expense, including rent and utilities, for the years ended December 31, 2013 and 2012 was \$183,750 and \$202,136, respectively.

NOTE E – CONCENTRATIONS

Cash

The Organization maintains several bank accounts at one bank, as well as an account at two other banks. Both banks are insured by the FDIC up to the federally insured limit of \$250,000. One of the banks is also a member of the Depositors Insurance Fund (DIF). The DIF is a private, industry-sponsored excess deposit insurance company. It insures all deposits above the FDIC limit in eighty Massachusetts chartered savings banks. All banks that are members of the DIF are also members of the FDIC. DIF deposit insurance is backed solely by its own assets. At December 31, 2013 and 2012 \$5,438 and \$5,313, respectively, of the Organization's cash is uninsured.

Grants and Contracts

Major grants and contracts are those \$50,000 or more. Four grantors in 2013 and six grantors in 2012 accounted for 96% and 89% of grant income, respectively. One grantor accounted for 42% and 34% of total grant income in 2013 and 2012, respectively. Twelve clients in 2013 and fifteen clients in 2012 accounted for 79% and 77% of contract income, respectively. Six clients comprise 65% of contracts receivable at December 31, 2013.

STOCKHOLM ENVIRONMENT INSTITUTE U.S., INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE F – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted assets are available for the following purposes at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Blue Moon Ayeyarwady River Basin	\$124,500	
Colombia Matching Funds	45,741	
Rockefeller Foundation Aosis	16,652	\$ 54,560
SEI - Core	14,789	-
CV Reservoir Operations	5,755	16,185
US AID Colombia	<u>1,022</u>	<u>-</u>
	<u>\$208,459</u>	<u>\$ 70,745</u>

NOTE G – FOREIGN CURRENCY TRANSACTIONS

The Organization has grants and contracts with foreign agencies that pay the Organization in currencies other than the entity's functional currency (foreign currencies). Exchange differences arising on the settlement of receivables are included in the Statement of Activities for the period. Foreign currency loss for the years ended December 31, 2013 and 2012 totaled \$15,444 and \$26,094, respectively.

NOTE H – EMPLOYEE BENEFIT PLAN

The Organization has a defined contribution profit sharing plan under Internal Revenue Code Section 401 (k) and substantially all eligible employees of the Organization may participate in this plan. The Organization provides a maximum matching contribution 100% of the first 4% of salary invested in the plan by a participant. The Organization made contributions of \$72,303 and \$75,884 for the years ended December 31, 2013 and 2012, respectively.

NOTE I – SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 24, 2014 the date the financial statements were available to be issued.

STOCKHOLM ENVIRONMENT INSTITUTE U.S, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2013

	<u>Programs</u>	<u>Management and General</u>	<u>Total</u>
Payroll	\$ 1,500,070	\$ 440,433	\$ 1,940,503
Payroll taxes	111,319	33,837	145,156
Employee benefits	162,710	74,193	236,903
Professional and consulting fees	1,093,044	72,017	1,165,061
Travel	365,916	50,187	416,103
Occupancy		183,750	183,750
Depreciation		18,369	18,369
Professional development	1,925	6,291	8,216
Foreign currency loss	15,444		15,444
Insurance		28,200	28,200
Internet services		14,386	14,386
Office supplies and costs		31,692	31,692
Printing and publication costs	5,480	2,764	8,244
Postage		4,054	4,054
Banking charges	5	7,009	7,014
Telephone		14,974	14,974
Bad debt expense		8,826	8,826
Foreign taxes	6,665		6,665
Miscellaneous	10,715	12,822	23,537
TOTAL	<u>\$ 3,273,293</u>	<u>\$ 1,003,804</u>	<u>\$ 4,277,097</u>

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

STOCKHOLM ENVIRONMENT INSTITUTE U.S., INC.
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2012

	<u>Programs</u>	<u>Management and General</u>	<u>Total</u>
Payroll	\$ 1,528,713	\$ 518,526	\$ 2,047,239
Payroll taxes	113,175	41,028	154,203
Employee benefits	208,064	105,000	313,064
Professional and consulting fees	621,656	88,808	710,464
Travel	319,551	71,103	390,654
Occupancy		202,136	202,136
Depreciation		19,515	19,515
Professional development	4,783	13,572	18,355
Foreign currency loss	26,094		26,094
Insurance		23,241	23,241
Internet services		14,771	14,771
Office supplies and costs		20,711	20,711
Printing and publication costs	1,286	2,572	3,858
Postage		3,354	3,354
Banking charges	23	6,467	6,490
Telephone		14,286	14,286
Miscellaneous	10,434	12,228	22,662
TOTAL	<u>\$ 2,833,779</u>	<u>\$ 1,157,318</u>	<u>\$ 3,991,097</u>

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