

STOCKHOLM ENVIRONMENT INSTITUTE U.S., INC.

FINANCIAL STATEMENTS

with

INDEPENDENT AUDITORS' REPORT

YEAR ENDED DECEMBER 31, 2022

Smith  Sullivan
& Brown PC

CERTIFIED PUBLIC ACCOUNTANTS

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STOCKHOLM ENVIRONMENT INSTITUTE U.S., INC.

REPORT ON FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2022



Mission Statement

Stockholm Environment Institute is an international nonprofit research and policy organization that tackles environment and development challenges.

STOCKHOLM ENVIRONMENT INSTITUTE U.S., INC.

REPORT ON FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2022

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of Stockholm Environment Institute U.S., Inc. (a Massachusetts nonprofit organization), which comprise the statement of financial position as of December 31, 2022 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Stockholm Environment Institute U.S., Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Stockholm Environment Institute U.S., Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Stockholm Environment Institute U.S., Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Stockholm Environment Institute U.S., Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Smith, Sullivan & Brown, PC

Westborough, Massachusetts
June 13, 2023

STOCKHOLM ENVIRONMENT INSTITUTE U.S., INC.

STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2022

ASSETS

CURRENT ASSETS:

Cash	\$ 1,534,040
Short-Term Investments	1,163,686
Contracts Receivable	864,168
Grants Receivable	562,746
Accrued Receivables	17,890
Prepaid Expenses	68,258
Total Current Assets	<u>4,210,788</u>

NON-CURRENT ASSETS:

Investments	900,610
Operating Right of Use Asset	491,772
Total Non-Current Assets	<u>1,392,382</u>

TOTAL ASSETS

\$ 5,603,170

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts Payable and Accrued Expenses	\$ 205,535
Accrued Payroll and Fringe Benefits	198,277
Accrued Vacation	333,991
Deferred Revenue	896,379
Operating Lease Liability, Short-Term	149,038
Total Current Liabilities	<u>1,783,220</u>

NON-CURRENT LIABILITIES:

Operating Lease Liability, Long-Term	357,942
Total Non-Current Liabilities	<u>357,942</u>

TOTAL LIABILITIES

2,141,162

NET ASSETS:

Net Assets Without Donor Restrictions:	
Board Designated Operating Reserve	900,610
Operating	1,971,783
Total Net Assets Without Donor Restrictions	2,872,393
Net Assets With Donor Restrictions	589,615
Total Net Assets	<u>3,462,008</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 5,603,170

STOCKHOLM ENVIRONMENT INSTITUTE U.S., INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>WITHOUT</u> <u>DONOR</u> <u>RESTRICTIONS</u>	<u>WITH</u> <u>DONOR</u> <u>RESTRICTIONS</u>	<u>TOTAL</u>
<u>SUPPORT, REVENUES AND RECLASSIFICATIONS:</u>			
<i>Support and Revenues:</i>			
Contract Revenue	\$ 2,887,429	\$ -	\$ 2,887,429
Grant Revenue	1,740,083	720,441	2,460,524
License Revenue	496,027	-	496,027
Investment and Interest Income	28,931	-	28,931
Sublease Income	13,000	-	13,000
Miscellaneous Income	311	-	311
Total Support and Revenues	<u>5,165,781</u>	<u>720,441</u>	<u>5,886,222</u>
<i>Reclassification of Net Assets - Released from Restrictions:</i>			
Satisfaction of Time and Purpose Restrictions	<u>826,408</u>	<u>(826,408)</u>	<u>-</u>
<u>TOTAL SUPPORT, REVENUES AND RECLASSIFICATIONS</u>	<u>5,992,189</u>	<u>(105,967)</u>	<u>5,886,222</u>
<u>FUNCTIONAL EXPENSES AND LOSSES:</u>			
<i>Functional Expenses:</i>			
Program Services	4,706,329	-	4,706,329
Administrative	845,869	-	845,869
Development	566,964	-	566,964
Total Functional Expenses	<u>6,119,162</u>	<u>-</u>	<u>6,119,162</u>
<i>Losses:</i>			
Foreign Currency Translation Loss	<u>232,150</u>	<u>-</u>	<u>232,150</u>
<u>TOTAL FUNCTIONAL EXPENSES AND LOSSES</u>	<u>6,351,312</u>	<u>-</u>	<u>6,351,312</u>
<u>CHANGE IN NET ASSETS</u>	<u>(359,123)</u>	<u>(105,967)</u>	<u>(465,090)</u>
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>3,231,516</u>	<u>695,582</u>	<u>3,927,098</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 2,872,393</u>	<u>\$ 589,615</u>	<u>\$ 3,462,008</u>

STOCKHOLM ENVIRONMENT INSTITUTE U.S., INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>PROGRAM</u> <u>SERVICES</u>	<u>ADMIN-</u> <u>ISTRATIVE</u>	<u>DEVELOPMENT</u>	<u>TOTAL</u> <u>FUNCTIONAL</u> <u>EXPENSES</u>
<i><u>Personnel and Related Expenses :</u></i>				
Salaries and Wages	\$ 2,930,072	\$ 462,568	\$ 432,814	\$ 3,825,454
Payroll Taxes	236,041	37,264	34,866	308,171
Employee Benefits	442,081	69,791	65,302	577,174
Total Personnel and Related Expenses	<u>3,608,194</u>	<u>569,623</u>	<u>532,982</u>	<u>4,710,799</u>
<i><u>Operating Expenses :</u></i>				
Professional and Consulting Fees	616,998	125,025	11,000	753,023
Travel	182,257	10,867	-	193,124
Occupancy	155,584	24,562	22,982	203,128
Depreciation Expense	-	8,390	-	8,390
Professional Development	17,660	5,585	-	23,245
Insurance	-	29,031	-	29,031
Telephone and Communications	56,061	27,007	-	83,068
Office Supplies and Expenses	25,306	34,303	-	59,609
Miscellaneous	44,269	11,476	-	55,745
Total Operating Expenses	<u>1,098,135</u>	<u>276,246</u>	<u>33,982</u>	<u>1,408,363</u>
Total Functional Expenses	<u>\$ 4,706,329</u>	<u>\$ 845,869</u>	<u>\$ 566,964</u>	<u>\$ 6,119,162</u>

STOCKHOLM ENVIRONMENT INSTITUTE U.S., INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in Net Assets	\$ (465,090)
<i>Adjustments to Reconcile the Above to Net Cash Used by Operating Activities:</i>	
Depreciation Expense	8,390
Investment Income	(25,114)
<i>(Increase) Decrease in Current Assets:</i>	
Contracts Receivable	616,742
Grants Receivable	(447,103)
Accrued Receivables	84,965
Prepaid Expenses	(31,743)
<i>Increase (Decrease) in Current Liabilities:</i>	
Accounts Payable and Accrued Expenses	(8,157)
Accrued Payroll and Fringe Benefits	54,779
Accrued Vacation	(66,962)
Deferred Revenue	240,163
Conditional Grant Advances	(47,817)
Operating Lease Liability, Short-Term	5,648
<i>(Increase) Decrease in Non-Current Assets:</i>	
Operating Right of Use Asset	21,951
<i>Increase (Decrease) in Non-Current Liabilities:</i>	
Operating Lease Liability, Long-Term	(12,392)
Net Adjustment	<u>393,350</u>
<u>NET CASH USED BY OPERATING ACTIVITIES</u>	<u>(71,740)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Investment Purchases	<u>(2,000,000)</u>
Net Cash Flows from Investing Activities	<u>(2,000,000)</u>

NET DECREASE IN CASH BALANCES **(2,071,740)**

CASH BALANCES - BEGINNING OF YEAR **3,605,780**

CASH BALANCES - END OF YEAR **\$ 1,534,040**

STOCKHOLM ENVIRONMENTAL INSTITUTE U.S., INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

NOTE 1 ORGANIZATION AND AFFILIATIONS

Organization:

Stockholm Environmental Institute U.S., Inc. (the “Center” or “SEI US”) is a nonprofit research organization with offices in California, Massachusetts and Washington State. The Center conducts research and engages with decision-makers on energy, water and climate policy. SEI US was incorporated in 2006 under the provisions of Massachusetts General Laws Chapter 180 and qualifies as a tax-exempt nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code (“IRC”). Stockholm Environmental Institute U.S., Inc. is not classified as a private foundation under IRC Section 509(a); accordingly, contributions made to this Center qualify for the maximum charitable deduction for federal income tax purposes.

Affiliations:

SEI US is an affiliate of the Stockholm Environment Institute, a nonprofit organization based in Stockholm, Sweden, referred to in these financial statements as SEI Global. SEI Global has seven centers around the world in the UK, the US, Thailand, Kenya, Estonia and Colombia. The headquarters are located in Sweden.

All Centers of SEI Global are dedicated to providing scientifically-based policy analysis, decision support and capacity development on issues related to environmental sustainability.

The Executive Director of SEI Global serves as the Chair of the Board of Directors of SEI US.

SEI US is an independent research affiliate of Tufts University (“Tufts”). SEI US and Tufts collaborate on research, publications and events. SEI US staff teach classes and offer internships to Tufts students. Tufts provides SEI US with certain administrative support and access to certain campus facilities.

NOTE 2 PROGRAM SERVICES

SEI US has offices in Somerville, Massachusetts; Davis, California; and Seattle, Washington. The Center conducts research and engages with decision-makers and civil society on energy, water, and climate policy as well as on broader dimensions of development, sustainability, and equity. It builds capacity through training and collaboration, and its decision-support tools are used widely around the globe.

SEI US supports decision-making and inducing change toward 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.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting:

The financial statements of the Stockholm Environmental Institute U.S., Inc. have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables and other liabilities.

STOCKHOLM ENVIROMENTAL INSTITUTE U.S., INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 3 (Continued)

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles (“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; however, adherence to generally accepted accounting principles, has in management’s opinion, resulted in reliable and consistent financial reporting by the Center.

Fair Value of Financial Instruments:

The Center reports its fair value measures by using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by generally accepted accounting principles, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are defined as follows:

- Level 1 - Quoted prices for identical assets or liabilities in active markets to which the Organization has access at the measurement date.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in markets that are not active; observable inputs other than quoted prices for the asset or liability (for example, interest rate and yield curves); and inputs derived principally from, or corroborated by, observable market data by correlation or by other means.
- Level 3 - Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

The primary use of fair value measures in the Center’s financial statements is the initial and recurring measurement of its investments.

Financial Statement Presentation:

The Center reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. These classifications are related to the existence or absence of donor-imposed restrictions as defined below.

Net Assets Without Donor Restrictions - Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. In addition, net assets within this classification include funds which represent resources designated by the Board of Directors for specific purposes.

STOCKHOLM ENVIROMENTAL INSTITUTE U.S., INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 3 (Continued)

Net Assets With Donor Restrictions - Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature, such as those that are restricted by a donor that the resources be maintained in perpetuity. As of December 31, 2022, the Center has no net assets that are required to be maintained in perpetuity. The Center's unspent contributions are reported in net assets with donor restrictions if the donor limited their use, as are promised contributions that are not yet due. Contributions of property and equipment or cash restricted to acquisition of property and equipment are reported as net assets with donor restrictions if the donor has restricted the use of the property or equipment to a particular program. These restrictions expire when the assets are placed in service.

Investments:

The Center invested its excess cash in U.S. Treasury Bills with maturities of less than one year in 2022. Investment purchases are recorded at cost, or if donated at fair value on the date of donation. Thereafter, investments are reported at their fair values in the Statement of Financial Position. Net investment return (loss) is reported in the Statement of Activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses. Cash held in brokerage accounts is reported as investments for purposes of these financial statements. Investments are classified as either short-term or long-term, depending upon the underlying intentions.

Contracts and Grants Receivable:

Contracts Receivable represent earned contract revenues invoiced and due from contracts, as well as amounts recognized as revenue based on the six-step process described in Revenue Recognition below but not yet billed under the terms of the contract. SEI US carries its *Contracts Receivable* at net realizable value. Management periodically reviews specific receivables to determine if any balances are uncollectible. As of December 31, 2022, all receivables were considered fully collectible; accordingly, there is no provision for uncollectible receivables and there was no bad debt expense for the year then ended. SEI US does not accrue interest on its receivables. A receivable is considered past due if payment has not been received within the stated terms. SEI US will then exhaust all methods to collect the receivable.

For the year ended December 31, 2022, unbilled revenue from contract agreements is summarized below:

	<u>Unearned Contract Revenue</u>
Unbilled Receivables, December 31, 2021	\$ 311,055
2021 Unbilled Receivables Billed in 2022	(311,055)
New 2022 Unbilled Revenue	<u>208,200</u>
Unbilled Receivables, December 31, 2022	<u>\$ 208,200</u>

STOCKHOLM ENVIROMENTAL INSTITUTE U.S., INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 3 (Continued)

Grants Receivable reflect the balance due on grant commitments which represent unconditional promises to give. The portion of grants receivable which is scheduled for payment in the coming year is classified as current, while commitments that exceed one year are classified as non-current. As of December 31, 2022, all grants receivable were classified as current. Management considers these grant commitments to be fully collectible and therefore, has not established a reserve for uncollectible grants. For the year presented, the Center did not report any losses on unpaid grant commitments.

Property and Equipment:

The Center records all property and equipment at cost, if purchased (exceeding \$5,000), or if donated, at the fair value on the date of receipt. Expenditures for maintenance, repairs and renewals are charged to expense as incurred, whereas major betterments are capitalized as additions to property and equipment. Depreciation is computed using the straight-line method, and is charged against activities over the estimated useful lives of the assets, which is typically three to five years.

Leases:

The Center determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, other current liabilities, and operating lease liabilities in the Statement of Financial Position. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term.

The operating lease ROU asset includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The weighted-average discount rate is based on the discount rate implicit in each lease. The Center has elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. The Center has applied the weighted average risk-free rate option for all leases which are subject to the standard.

The Center has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on straight-line basis. For the year presented, the Center did not have any short-term leases.

Revenue Recognition:

Revenue from grants and contracts is recognized as eligible expenditures are incurred or as deliverable services are provided under the terms of the grant or contract. Services provided but not yet invoiced under the terms of the contract are included in *Contracts Receivable*, an asset in the accompanying Statement of Financial Position. Under the provisions of certain grants and contracts, the Center may receive payments in advance of services rendered and/or costs incurred. Funds received in excess of amounts earned are recorded as *Deferred Revenue*, a contract liability in the accompanying Statement of Financial Position.

STOCKHOLM ENVIROMENTAL INSTITUTE U.S., INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 3 *(Continued)*

The Center follows the below six-step process for revenue recognition for its Contract and Grant Funded Research:

1. Ensure a contract exists for each project, with defined fee and payment terms.
2. Identify the period of performance.
3. Identify the performance obligations.
4. Determine the overall fee for the agreement.
5. Allocate the fee to the performance obligations.
6. Recognize revenue when performance obligations are satisfied.

Performance obligations are either satisfied over time or at a point in time, in accordance with the contract terms and conditions. Revenue for performance obligations satisfied over time is recognized ratably over the period based on time elapsed. The Center believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation. Revenue for performance obligations satisfied at a point in time is generally recognized when deliverables, milestones, or tasks are achieved. For the year presented, the Center's revenue from contracts was recognized over a period of time that coincides with the corresponding service delivery.

The Center determines the transaction price based on rates for services provided as defined in the contract. The Center's revenue streams do not have significant financing components or contract costs.

Future performance obligations are the estimated future amounts not yet invoiced for a contract with a client. As of December 31, 2022, management has estimated the aggregate future performance obligation research contracts to be approximately \$3,225,375, substantially all of which is anticipated to occur within 2023.

Gifts, Grants and Contributions:

The Center is the beneficiary of contributions in the form of grants from other organizations and governmental agencies. Contributions, including promises to give, without donor conditions are recognized as revenue at their estimated fair value at the date of donation and classified as either with or without donor restrictions depending on the donor's stipulations or lack thereof. Unconditional, multi-year commitments are recognized in the year during which the initial commitment is made at the amount that the Organization reasonably expects to collect. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved when such amounts are considered material. Amounts receivable from donors are evaluated yearly for collectability and an allowance for uncollectible pledges is recorded as necessary.

Conditional donations are those that have a measurable performance or other barrier and include a right of return of the assets or right of release of the donor from further obligation if the conditions are not met. Conditional donations are not recognized until the associated barriers are met. Any cash received before the conditions or barriers are met is reported as a refundable grant advance. When the conditions are met the revenue is reported as contributions without donor restrictions unless there are further restrictions over and above those associated with the donor conditions.

Support that is restricted by the donor is reported as an increase in net assets with donor restrictions until the restrictions are met, at which time the net assets are reclassified to net assets without donor restrictions.

STOCKHOLM ENVIRONMENTAL INSTITUTE U.S., INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 3 (Continued)

Functional Expenses:

The Center allocates its expenses on a functional basis among various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expense classification. Other expenses that are common to several functions are allocated using formulas derived from the level of effort worked. For the year presented, *Salaries and Wages*, *Payroll Taxes*, *Employee Benefits* and *Occupancy* are allocated based on employee time and effort.

Program expenses include the cost of program implementation and the related planning and project management. Supporting services are those costs related to operating and managing the Center as well as those costs related to procuring contracts and grants.

Supporting services have been sub-classified as follows:

Administrative - includes all activities related to the Center's finance department, contract management, human resources, information technology, legal, board, office management and Center leadership.

Development - includes time spent by program staff related to responding to requests for proposals, and other similar activities related to the procurement of funds.

Recent Accounting Guidance:

Recently Implemented Standards

In February 2016, the FASB issued ASC Update No. 2016-02, (Topic 842) *Leases* which establishes a comprehensive new lease accounting model. The new standard clarifies the definition of a lease and causes lessees to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset for leases with a lease term of more than one year. This standard was adopted by the Center effective January 1, 2022.

NOTE 4 INVESTMENTS

Investments are intended to provide short-term liquidity and working capital as well as long-term stability. Consistent with the intentions of management, the investments are presented as both short-term and long-term in the accompanying Statement of Financial Position. As of December 31, 2022, investments consisted of the following components:

<u>Investment Type</u>	<u>Total</u>	<u>Significant</u>
	<u>Fair</u> <u>Value</u>	<u>Other Observable</u> <u>Inputs</u> (Level 2)
Money Market Funds	\$ 1,308	\$ -
United States Treasury Bills	<u>2,062,988</u>	<u>2,062,988</u>
Total	<u>\$2,064,296</u>	<u>\$2,062,988</u>

STOCKHOLM ENVIRONMENTAL INSTITUTE U.S., INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 4 (Continued)

The Center uses the following ways to determine the fair value of its investments:

United States Treasury Bills: Valued at the market quotations provided by brokers and dealers who used quotations for similar securities in active markets, which represents a market approach.

NOTE 5 DEFERRED REVENUE FROM CONTRACTS AND LICENSE AGREEMENTS

For the year ended December 31, 2022, deferred revenue from contracts and WEAP and LEAP license agreements is summarized below:

	<u>Unearned Contract Revenue</u>	<u>Unearned License Revenue</u>	<u>Total</u>
Deferred Revenue, December 31, 2021	\$ 214,409	\$ 441,806	\$ 656,215
Revenue Recognized that was Included in Deferred Revenue at the Beginning of the Year	(211,909)	(328,495)	(540,404)
Increase in Deferred Revenue Due to Cash Received During the Year	<u>436,770</u>	<u>343,798</u>	<u>780,568</u>
Deferred Revenue, December 31, 2022	<u>\$ 439,270</u>	<u>\$ 457,109</u>	<u>\$ 896,379</u>

NOTE 6 NET ASSETS

Net Assets with Donor Restrictions:

As of December 31, 2022, net assets with donor restrictions consists of unexpended donor designated grants and contributions for specific research programs and projects in the aggregate amount of \$589,615.

Net assets released from restrictions by incurring expenses for research programs and projects which satisfied the purposes or by occurrence of events specified by the donors totaled \$826,408 for the year ended December 31, 2022.

Board Designated Operating Reserve:

The Board of Directors approved an Operating Reserve Policy to ensure an adequate level of net assets without donor restrictions to support the Center's day-to-day administrative costs in the event of unforeseen financial shortfalls, including temporary cash flow shortages that may result from delayed payments from funders. The reserve may also be used for one-time, nonrecurring expenses that build the Center's long-term capacity. As of December 31, 2022, the *Board Designated Operating Reserve* balance was \$900,610.

NOTE 7 LEASE COMMITMENTS

The Center leases three facilities under rental agreements in Seattle, Washington; Somerville, Massachusetts; and Davis, California that expire December 2023, November 2025 and November 2027, respectively.

STOCKHOLM ENVIRONMENTAL INSTITUTE U.S., INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 7 (Continued)

The accompanying financial statements include an operating right-of-use asset in the amount of \$491,772 and an operating lease liability in the amount of \$506,980, of which amount \$149,038 represents the current obligation at present value for the year ended December 31, 2023. The Center used a weighted-average discount rate of 3.79% to approximate the remaining lease terms, including options to extend when such options are reasonably certain to be exercised. Pursuant to the guidance, the Center did not include options to extend its Seattle office in the calculation of the lease asset and obligation. The right-of-use asset obtained in exchange for operating lease liabilities was \$513,723 and the operating lease expense recognized for the year ended December 31, 2022 was \$196,927.

The future minimum financial obligation arising from these commitments is scheduled below:

<u>Year Ending</u>	<u>Amount</u>
December 31, 2023	\$164,831
December 31, 2024	135,040
December 31, 2025	126,411
December 31, 2026	60,338
December 31, 2027	<u>56,827</u>
Total Undiscounted Cash Flows	543,447
Less: Present Value Discount	<u>(36,467)</u>
Total Lease Liabilities	<u>\$506,980</u>

In December 2022, the Center entered into a sublease agreement to lease space to Massachusetts Rivers Alliance at its Somerville, Massachusetts office pursuant to a sublease agreement that commences February 1, 2023 and expires November 14, 2025. The annual base rent is \$20,000, subject to 5% annual increases.

The Center also subleases space to Clean Energy Transition Institute at its Seattle, Washington office pursuant to a sublease agreement that expires December 31, 2023, with monthly rental payments of \$1,000 through October 31, 2022 and \$1,500 thereafter.

The sublease rental income is presented as *Sublease Income* in the accompanying Statement of Activities. The future minimum sublease payments due under the above sublease agreements is scheduled below:

<u>Year Ending</u>	<u>Amount</u>
December 31, 2023	\$30,833
December 31, 2024	20,917
December 31, 2025	<u>19,206</u>
Total	<u>\$70,956</u>

NOTE 8 RETIREMENT PLAN

The Center has a defined contribution plan under the IRC Section 403(b) and substantially all employees of the Center may participate in this plan. The Center provides a maximum matching contribution of up to 5% of gross salary invested in the plan by a participant. For the year ended December 31, 2022, the Center made contributions to the plan totaling \$186,989. The amount is included in the *Employee Benefits* line on the Statement of Functional Expenses.

STOCKHOLM ENVIRONMENTAL INSTITUTE U.S., INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 9 FOREIGN CURRENCY TRANSACTIONS

The Center receives payments on grants and contracts from SEI Global and other funders in currencies other than the U.S. Dollar, the Center's functional currency. For stable budget management, the Center budgets and records expenses on each grant or contract using an exchange rate based on when the agreement was established. Differences resulting from fluctuations in the exchange rate are recognized as gains and losses on foreign currency and are included in the Statement of Activities for the period. As reported in the accompanying Statement of Activities, foreign currency exchange losses totaled \$232,150 for the year ended December 31, 2022.

NOTE 10 CONCENTRATIONS

Cash:

The Center maintains several bank accounts at Cambridge Savings Banks and an account at Fidelity Investments. Cambridge Savings Bank is insured by the Federal Deposit Insurance Corporation ("FDIC") up to the federally insured limit of \$250,000. The Center had \$1,294,696 in excess of federally insured limits as of December 31, 2022. The Organization has not experienced any losses on uninsured cash balances.

Revenue and Receivables:

Revenue agreements with SEI Global represent approximately 29% of total *Support and Revenues* and 39% of *Contracts Receivable* as of and for the year ended December 31, 2022.

NOTE 11 CONTINGENCIES

The Center receives funding under cost-reimbursement agreements that are subject to audit by the appropriate governmental agency. In the opinion of management, the results of such audits, if any, will not have a significant impact on the financial position of the Center as of December 31, 2022, or its changes in net assets for the year then ended.

NOTE 12 RELATED PARTY TRANSACTIONS

Due to its research affiliation with SEI Global, SEI US often collaborates with SEI Global on projects. Usually, SEI Global is the contract administrator, but sometimes it is SEI US. For the year ended December 31, 2022, *Grant Revenue* includes \$1,711,646 from SEI Global of which amount, \$475,284 is included in *Grants Receivable*. For the year ended December 31, 2022, *Professional and Consulting Fees* includes agreements with SEI Global totaling \$55,022, of which amount, \$21,473 is included within *Accounts Payable and Accrued Expenses*.

NOTE 13 LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following table reflects the Center's financial assets as of December 31, 2022, reduced by amounts which are not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year of the Statement of Financial Position date or because the governing board has set aside the funds for a specific contingency reserve or a long-term investment.

STOCKHOLM ENVIROMENTAL INSTITUTE U.S., INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 13 (Continued)

	<u>Amount</u>
Financial Assets:	
Cash	\$1,534,040
Investments	2,064,296
Contracts Receivable	864,168
Grants Receivable	562,746
Accrued Receivables	<u>17,890</u>
Total Financial Assets	5,043,140
Less Amounts Not Available To Be Used Within One Year:	
Board Designated Operating Reserve	<u>(900,610)</u>
Total Financial Assets Available To Meet	
General Expenditures Within One Year	<u>\$4,142,530</u>

As part of the Center'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. To help manage unanticipated liquidity needs, the Center has Board-Designated reserve funds that, while the Center does not intend to spend these for general operating purposes within the next year, these amounts could be made available for current operations, if necessary.

For purposes of analyzing resources available to meet general expenditures over a twelve-month period, the Center considers all expenditures related to its ongoing activities of research programs as well as the conduct of services undertaken to support those activities to be general expenditures.

NOTE 14 SUBSEQUENT EVENTS

Management is required to consider events subsequent to the financial statement date for potential adjustment to or disclosure in the financial statements. Therefore, Management has evaluated subsequent events through June 13, 2023, the date which the financial statements were available for issue, and noted no events which met the criteria for recognition or disclosure.