

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

FINANCIAL STATEMENTS

DECEMBER 31, 2011 and 2010

**STOCKHOLM ENVIRONMENT INSTITUTE U.S., INC.
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011 AND 2010**

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INDEPENDENT AUDITORS' REPORT

Sondi B. Stanton, CPA
John M. Stanton, CPA, MST

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

We have audited the accompanying statements of financial position of Stockholm Environment Institute U.S., Inc. (a nonprofit organization) as of December 31, 2011 and 2010 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2012, on our consideration of Stockholm Environment Institute U.S., Inc.'s internal control over financial reporting and 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* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 12 and 13 is 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.

Stanton & Co.

Stanton & Co.
June 22, 2012

STOCKHOLM ENVIRONMENT INSTITUTE U.S., INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

ASSETS

CURRENT ASSETS:	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 1,232,118	\$ 875,144
Short-term investments	255,186	254,785
Contracts receivable, net of allowance	298,467	654,461
Grants receivable	84,138	134,985
Unbilled work in progress	250,119	94,111
Prepaid expenses	24,549	18,706
TOTAL CURRENT ASSETS	<u>2,144,577</u>	<u>2,032,192</u>
PROPERTY & EQUIPMENT:		
Property & equipment, net	<u>51,253</u>	<u>51,319</u>
TOTAL ASSETS	<u>\$ 2,195,830</u>	<u>\$ 2,083,511</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 90,275	\$ 144,654
Accrued expenses	119,260	118,888
Rental deposits	6,575	-
Unearned revenue	242,446	115,941
TOTAL LIABILITIES	<u>458,556</u>	<u>379,483</u>
NET ASSETS:		
Unrestricted net assets	1,735,579	1,630,072
Temporarily restricted net assets	1,695	73,956
TOTAL NET ASSETS	<u>1,737,274</u>	<u>1,704,028</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 2,195,830</u>	 <u>\$ 2,083,511</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, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE:			
Contract revenue	\$ 2,377,937		\$ 2,377,937
Grant revenue	872,964	\$ 1,695	874,659
License revenue	110,841		110,841
Interest income	3,742		3,742
Sub lease income	25,100		25,100
Satisfaction of program restrictions	<u>73,956</u>	<u>(73,956)</u>	<u>-</u>
TOTAL REVENUE	<u>3,464,540</u>	<u>(72,261)</u>	<u>3,392,279</u>
EXPENSES AND LOSSES:			
Program services	2,176,396		2,176,396
Management and general	<u>1,182,637</u>		<u>1,182,637</u>
TOTAL EXPENSES	<u>3,359,033</u>	<u>-</u>	<u>3,359,033</u>
Change in net assets	105,507	(72,261)	33,246
Net assets, beginning of period	<u>1,630,072</u>	<u>73,956</u>	<u>1,704,028</u>
Net assets, end of period	<u>\$ 1,735,579</u>	<u>\$ 1,695</u>	<u>\$ 1,737,274</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, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE:			
Contract revenue	\$ 2,274,252		\$ 2,274,252
Grant revenue	816,337	\$ 15,363	831,700
License revenue	86,975		86,975
Interest income	7,081		7,081
Sub lease income	11,561		11,561
Loss on sale of computer equipment	(343)		(343)
Satisfaction of program restrictions	293,481	(293,481)	-
TOTAL REVENUE	<u>3,489,344</u>	<u>(278,118)</u>	<u>3,211,226</u>
EXPENSES AND LOSSES:			
Program services	2,354,852		2,354,852
Management and general	957,916		957,916
TOTAL EXPENSES	<u>3,312,768</u>	<u>-</u>	<u>3,312,768</u>
Change in net assets	176,576	(278,118)	(101,542)
Net assets, beginning of period	<u>1,453,496</u>	<u>352,074</u>	<u>1,805,570</u>
Net assets, end of period	<u>\$ 1,630,072</u>	<u>\$ 73,956</u>	<u>\$ 1,704,028</u>

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

**STOCKHOLM ENVIRONMENT INSTITUTE , INC.
STATEMENTS OF CASH FLOWS YEARS
ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ 33,246	\$ (101,542)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	21,101	20,534
Loss on sale of computer equipment		343
(Increase) decrease in operating assets:		
Contracts receivable	355,994	(144,185)
Grants receivable	50,847	129,385
Other receivables		2,902
Unbilled work in progress	(156,008)	9,577
Prepaid expenses	(5,843)	2,611
Increase (decrease) in operating liabilities:		
Accounts payable	(54,379)	(8,060)
Accrued expenses	372	(3,857)
Rental deposits	6,575	
Unearned revenue	126,505	18,384
	<u>378,410</u>	<u>(73,908)</u>
Net cash (used) provided by operating activities		
Cash flows from investing activities:		
Proceeds from sale of computer equipment		550
Purchase of short-term investments	(401)	(254,785)
Purchase of equipment	(21,035)	(20,012)
Net cash used by investing activities	<u>(21,436)</u>	<u>(274,247)</u>
Net (decrease) increase in cash	356,974	(348,155)
Cash and cash equivalents:		
Beginning of Year	<u>875,144</u>	<u>1,223,299</u>
End of Year	<u>\$ 1,232,118</u>	<u>\$ 875,144</u>

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

STOCKHOLM ENVIRONMENT INSTITUTE U.S., INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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. Accounts receivable are shown net of an allowance for doubtful accounts of \$29,976 at December 31, 2010. The Organization deemed no allowance for doubtful accounts necessary at December 31, 2011.

STOCKHOLM ENVIRONMENT INSTITUTE U.S., INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

**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, 2011 AND 2010**

**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, 2011. 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, 2009, 2010 and 2011.

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.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year's presentation.

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2011</u>	<u>2010</u>
Computer equipment	\$85,037	\$72,359
Office furniture & equipment	36,100	27,743
Software	4,156	4,156
Less accumulated depreciation	<u>(74,040)</u>	<u>(52,939)</u>
Net	<u>\$51,253</u>	<u>\$51,319</u>

NOTE D – COMMITMENTS

The Organization leases three of its facilities under three rental agreements that expire in February 2013, 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, 2011 AND 2010

NOTE D – COMMITMENTS (continued)

Future minimum rentals for the next five years are as follows:

Year Ending December 31,	
2012	\$120,467
2013	103,832
2014	101,531
2015	81,031
2016	38,267

The Organization has two subleases at its Seattle office from May 2010 to April 2012. In addition the Organization has a sublease at its Davis office from August 2011 to February 2013. Rental income for the years ended December 31, 2012 and 2013 total \$34,291 and \$5,000, respectively.

Rental income for the years ended December 31, 2011 and 2010 was \$25,100 and \$11,561, respectively.

Total occupancy expense, including rent and utilities, for the years ended December 31, 2011 and 2010 was \$171,812 and \$162,037, respectively.

NOTE E – CONCENTRATIONS

Cash

The Organization maintains several bank accounts at one bank. The total account balances at December 31, 2011 and 2010 exceeded the federally insured limit of \$250,000 by \$997,492 and \$644,978, respectively. However, the Organization has not experienced any such losses and management does not believe that there is a significant risk of loss.

In 2011 the Organization transferred its funds to banks that are members 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, 2011 all of the \$997,492 is insured by the DIF

Grants

Major grants are those \$50,000 or more. Eight major grants in 2011 and seven major grants in 2010 accounted for 80% and 74% of grant income, respectively.

STOCKHOLM ENVIRONMENT INSTITUTE U.S., INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE F – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted assets are available for the following purposes at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
SEI Core Funds	\$ -	\$ 15,363
Kresge Western Water	-	18,234
Kresge Program Support	-	16,624
Energy Foundation International	-	23,735
Kresge Water in Warming World	<u>1,695</u>	<u>-</u>
	<u>\$ 1,695</u>	<u>\$ 73,956</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.

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 \$73,123 and \$73,194 for the years ended December 31, 2011 and 2010, respectively.

NOTE I – SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 22, 2012 the date the financial statements were available to be issued.

STOCKHOLM ENVIRONMENT INSTITUTE U.S, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2011

	<u>Programs</u>	<u>Management and General</u>	<u>Total</u>
Payroll	\$ 1,394,569	\$ 561,235	\$ 1,955,804
Payroll taxes	106,058	45,047	151,105
Employee benefits	176,661	121,486	298,147
Professional and consulting fees	360,916	46,192	407,108
Travel	110,433	108,960	219,393
Occupancy		171,812	171,812
Depreciation		21,101	21,101
Professional development	640	7,683	8,323
Foreign exchange loss	18,451		18,451
Insurance		22,131	22,131
Internet services		15,257	15,257
Office supplies and costs		20,401	20,401
Printing and publication costs	1,828	356	2,184
Postage		3,107	3,107
Banking charges	8	3,040	3,048
Telephone		14,838	14,838
Bad debt		7,873	7,873
Miscellaneous	6,832	12,118	18,950
TOTAL	<u>\$ 2,176,396</u>	<u>\$ 1,182,637</u>	<u>\$ 3,359,033</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, 2010

	<u>Programs</u>	<u>Management and General</u>	<u>Total</u>
Payroll	\$ 1,471,336	\$ 462,535	\$ 1,933,871
Payroll taxes	114,551	37,999	152,550
Employee benefits	210,961	65,273	276,234
Professional and consulting fees	400,887	24,710	425,597
Travel	117,862	71,987	189,849
Occupancy		162,037	162,037
Depreciation		20,534	20,534
Professional development	570	6,980	7,550
Foreign exchange loss	23,244		23,244
Insurance		22,717	22,717
Internet services		11,479	11,479
Office supplies and costs		24,882	24,882
Printing and publication costs	2,357	3,123	5,480
Postage	48	2,527	2,575
Banking charges	16	2,665	2,681
Telephone		15,486	15,486
Bad debt		3,000	3,000
Miscellaneous	13,020	19,982	33,002
TOTAL	<u>\$ 2,354,852</u>	<u>\$ 957,916</u>	<u>\$ 3,312,768</u>

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