

Business for Social Responsibility and Subsidiaries

Consolidated Financial Statements

December 31, 2021
(With Comparative Totals for 2020)



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Business for Social Responsibility and Subsidiaries
San Francisco, California

Opinion

We have audited the accompanying consolidated financial statements of Business for Social Responsibility (a Washington, DC corporation) and Subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Business for Social Responsibility and Subsidiaries as of December 31, 2021, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Business for Social Responsibility 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 these consolidated 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 consolidated 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 Business for Social Responsibility's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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, including omissions, 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.

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 consolidated 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 consolidated 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 Business for Social Responsibility'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Business for Social Responsibility'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.

Report on Summarized Comparative Information

We have previously audited Business for Social Responsibility (a Washington, DC corporation) and Subsidiaries's 2020 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated June 30, 2021 . In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Armanino^{LLP}
Dallas, Texas

April 18, 2022

Business for Social Responsibility and Subsidiaries
Consolidated Statement of Financial Position
December 31, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 13,423,457	\$ 11,010,779
Accounts and grants receivables, net	7,912,365	8,714,962
Prepaid expenses and other current assets	<u>569,540</u>	<u>403,021</u>
Total current assets	21,905,362	20,128,762
Accounts and grants receivables, non-current	246,500	271,800
Lease deposits	649,291	641,841
Fixed assets, net	<u>482,472</u>	<u>451,736</u>
Total assets	<u>\$ 23,283,625</u>	<u>\$ 21,494,139</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 360,499	\$ 491,290
Accrued salaries and related benefits	2,563,717	2,505,708
Accrued liabilities	68,775	483,095
Deferred revenue	9,462,394	9,396,832
Deferred rent, current	<u>83,327</u>	<u>141,027</u>
Total current liabilities	<u>12,538,712</u>	<u>13,017,952</u>
Long-term liabilities		
Deferred rent, non-current	<u>173,088</u>	<u>263,353</u>
Total long-term liabilities	<u>173,088</u>	<u>263,353</u>
Total liabilities	<u>12,711,800</u>	<u>13,281,305</u>
Net assets		
Without donor restrictions	6,305,410	2,655,983
With donor restrictions	<u>4,266,415</u>	<u>5,556,851</u>
Total net assets	<u>10,571,825</u>	<u>8,212,834</u>
Total liabilities and net assets	<u>\$ 23,283,625</u>	<u>\$ 21,494,139</u>

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

Business for Social Responsibility and Subsidiaries
Consolidated Statement of Activities
For the Year Ended December 31, 2021
(With Comparative Totals for 2020)

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
Support and revenues				
Consulting revenues	\$ 22,392,274	\$ -	\$ 22,392,274	\$ 18,491,373
Conferences and seminars	-	-	-	326,523
Membership dues	7,035,605	-	7,035,605	6,004,164
Government funded contracts	993,490	-	993,490	616,144
Foundation grants	-	3,366,153	3,366,153	1,399,220
Contributions	34,066	-	34,066	7,911
Interest income	988	-	988	347
Other income	6,757	-	6,757	1,638,473
In-kind revenue	27,171	-	27,171	52,646
Net assets released from restriction	<u>4,680,810</u>	<u>(4,680,810)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>35,171,161</u>	<u>(1,314,657)</u>	<u>33,856,504</u>	<u>28,536,801</u>
Functional expenses				
Program services	21,895,062	-	21,895,062	20,150,545
Support services	<u>8,680,120</u>	<u>-</u>	<u>8,680,120</u>	<u>6,566,735</u>
Total functional expenses	<u>30,575,182</u>	<u>-</u>	<u>30,575,182</u>	<u>26,717,280</u>
Change in net assets from operations	<u>4,595,979</u>	<u>(1,314,657)</u>	<u>3,281,322</u>	<u>1,819,521</u>
Other nonoperating changes in net assets				
Cumulative translation adjustment	(114,496)	24,221	(90,275)	(92,927)
MACN spin-off (see Note 1)	<u>(832,056)</u>	<u>-</u>	<u>(832,056)</u>	<u>-</u>
Total other nonoperating changes in net assets	<u>(946,552)</u>	<u>24,221</u>	<u>(922,331)</u>	<u>(92,927)</u>
Change in net assets	3,649,427	(1,290,436)	2,358,991	1,726,594
Net assets, beginning of year	<u>2,655,983</u>	<u>5,556,851</u>	<u>8,212,834</u>	<u>6,486,240</u>
Net assets, end of year	<u>\$ 6,305,410</u>	<u>\$ 4,266,415</u>	<u>\$ 10,571,825</u>	<u>\$ 8,212,834</u>

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

Business for Social Responsibility and Subsidiaries
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2021
(With Comparative Totals for 2020)

	2021													2020
	Program Services											Support Services		
	Climate Change	DEI	HER Project	Human Rights	Inclusive Economy	Supply Chain Sustainability	Sustainability Management	Conference	Membership	General Program	Total Program Services	Management and General	2021 Total	2020 Total
Expenses														
Salaries	\$ 108,541	\$ 59,810	\$ 266,533	\$ 147,634	\$ 276,199	\$ 53,305	\$ 336,168	\$ 124,013	\$ 625,416	\$ 10,576,530	\$ 12,574,149	\$ 3,980,532	\$ 16,554,681	\$ 14,720,524
Payroll taxes and benefits	255,535	268,397	267,018	372,081	6,371	1,552	565,334	47,894	243,192	1,785,723	3,813,097	918,139	4,731,236	3,947,428
Personnel recruiting/development	-	-	-	-	-	-	-	-	-	182,817	182,817	43,777	226,594	80,407
Contractors/professional services	620,166	359,460	1,363,340	309,551	3,015	286,793	1,097,413	1,504	8,279	194,442	4,243,963	630,215	4,874,178	3,533,904
Travel	12,047	24,584	59,659	5,660	-	-	15,154	963	879	100,679	219,625	4,318	223,943	197,376
Marketing	10,696	-	-	-	-	-	-	1,800	386	-	12,882	42,666	55,548	96,812
Production	13,428	-	75,148	1,608	-	-	30	37,645	-	-	127,859	-	127,859	115,680
Conferences and workshops	-	5,340	115	-	-	-	1,469	3,738	-	70,134	80,796	21,921	102,717	371,164
Rent and occupancy	-	-	-	-	-	-	-	-	-	6,873	6,873	1,614,460	1,621,333	1,615,442
Office expenses	4,068	28	8,105	1,619	-	-	21,278	-	85	39,874	75,057	155,150	230,207	185,298
Information systems	16,115	725	25,811	14,199	4,279	-	14,758	1,692	-	104,935	182,514	730,108	912,622	802,622
Postage and delivery	5	676	1,428	44	-	-	1,686	-	27	1,264	5,130	12,357	17,487	29,023
Taxes and fees	1,742	280	87	1,884	14	2,551	3,525	13	5,848	222,741	238,685	74,555	313,240	494,064
General insurance	-	-	600	-	-	-	-	-	-	128	728	191,885	192,613	164,980
Miscellaneous	8,827	-	18,820	5,317	-	10,074	74,914	-	3,374	9,561	130,887	37,822	168,709	150,516
Total expenses	1,051,170	719,300	2,086,664	859,597	289,878	354,275	2,131,729	219,262	887,486	13,295,701	21,895,062	8,457,905	30,352,967	26,505,240
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-	222,215	222,215	212,040
	\$ 1,051,170	\$ 719,300	\$ 2,086,664	\$ 859,597	\$ 289,878	\$ 354,275	\$ 2,131,729	\$ 219,262	\$ 887,486	\$ 13,295,701	\$ 21,895,062	\$ 8,680,120	\$ 30,575,182	\$ 26,717,280

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

Business for Social Responsibility and Subsidiaries
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 2,358,991	\$ 1,726,594
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	222,215	212,040
Loss on fixed asset disposals	82	-
Changes in operating assets and liabilities		
Accounts and grants receivables, net	827,897	3,840,440
Prepaid expenses and other current assets	(166,519)	(10,247)
Lease deposits	(7,450)	(34,101)
Accounts payable	(130,791)	(165,829)
Accrued salaries and related benefits	58,009	735,390
Accrued liabilities	(414,320)	746,092
Deferred revenue	65,562	159,054
Deferred rent	(147,965)	(80,495)
Net cash provided by operating activities	<u>2,665,711</u>	<u>7,128,938</u>
Cash flows from investing activities		
Purchases of fixed assets	<u>(253,033)</u>	<u>(71,078)</u>
Net cash used in investing activities	<u>(253,033)</u>	<u>(71,078)</u>
Net increase in cash and cash equivalents	2,412,678	7,057,860
Cash and cash equivalents, beginning of year	<u>11,010,779</u>	<u>3,952,919</u>
Cash and cash equivalents, end of year	<u><u>\$ 13,423,457</u></u>	<u><u>\$ 11,010,779</u></u>

Supplemental disclosures of cash flow information

Cash paid during the year for		
Taxes	\$ 157,416	\$ 332,309

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

Business for Social Responsibility and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

1. NATURE OF OPERATIONS

Business for Social Responsibility and Subsidiaries ("BSR") is a global nonprofit organization that works with its network of more than 300 global member companies to develop sustainable business strategies and solutions through consulting, research, and cross sector collaboration. With 8 offices in Asia, Europe, and North America, BSR uses its expertise in environment, climate, human rights, economic development, and governance and accountability to guide global companies toward creating a just and sustainable world. Visit www.bsr.org for more information about BSR's more than 20 years of leadership in corporate responsibility.

The Maritime Anti-Corruption Network ("MACN") was established as a division under BSR in 2012. During 2021, MACN registered as a not-for-profit member organization in Denmark and separated from BSR. Accordingly BSR assigned, and MACN assumed, all of the assets and liabilities of MACN effective June 30, 2021. The total impact on BSR net assets from this transaction amounted to a reduction of \$832,056, and is reflected as a nonoperating change in net assets on the consolidated statement of activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include Business for Social Responsibility and its wholly-owned subsidiaries in China, France, Denmark, Japan, its branch in Hong Kong, and Singapore (together, "BSR"). All significant intercompany transactions have been eliminated in consolidation.

The financial statements of the foreign subsidiaries are translated into U.S. dollars using the current rate method. Balance sheet accounts are translated into U.S. dollars at the rate of exchange in effect at period end, and revenue and expenses are translated at average rates of exchange in effect during the period. The effects of the foreign currency translation are included in other nonoperating changes in net assets.

Basis of accounting and financial statement presentation

The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Financial accounting standards require nonprofit organizations to classify net assets in the accompanying consolidated statement of financial position and consolidated statement of activities in two classes of net assets based on the existence or absence of donor imposed restrictions.

- *Net assets without donor restrictions* - represent the portion of net assets that are not subject to donor-imposed stipulations. These net assets are intended for use by management and the Board of Directors for general operations.

Business for Social Responsibility and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

- *Net assets with donor restrictions* - represent the portion of net assets for which use is limited by donor-imposed stipulations that either expire by passage of time and/or can be fulfilled and removed by actions of BSR. Contributions to be held in perpetuity as directed by the donors are also included if applicable. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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

Cash and cash equivalents

Cash and cash equivalents consist of funds for operations held in bank accounts.

Accounts and grants receivable

Accounts receivable consist of amounts due from consulting contracts, conferences and membership. Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is maintained based on past experiences and other known circumstances. Account balances are charged off against the allowance for doubtful accounts after all means of collection have been exhausted and the potential for recovery is considered remote. The allowance for doubtful accounts was \$96,622 as of December 31, 2021.

Grants receivable consist of amounts due from foundations and government entities. Grants receivable amounted to \$1,625,884 and is included as part of accounts and grants receivable, net within the consolidated statement of financial position. Management believes this amount is fully collectible; therefore, no allowance for doubtful accounts has been recorded.

Fixed assets

BSR capitalizes additions of fixed assets on the date of acquisition with a cost in excess of \$1,000 or at fair value, if donated. Depreciation is computed on the straight-line method over estimated useful lives of three to five years for IT equipment and software, and seven years for furniture and fixtures. Leasehold improvements are amortized over the lesser of the estimated useful life of the respective assets or the related lease term.

Business for Social Responsibility and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition and deferred revenue

Consulting revenue is recognized when services are provided. On fixed fee contracts, if billings are submitted prior to the revenue being earned, the amount is recorded as deferred revenue and recognized when earned. Revenues for contracts that contain multiple performance obligations are allocated upon the full contract value as BSR measures deliverables in units of consulting time on a percentage of completion basis towards the final product delivered to the customer.

Conference and seminar revenue is recognized on the date the event is held. Amounts received prior to the events are recorded as deferred revenue.

Revenue from membership dues is initially deferred and then recognized on a straight-line basis over the periods to which the dues relate.

Government funded contracts are recognized as revenue as the related expenses are incurred. Cash received in advance of expenditures made is classified as deferred revenue.

Grants and contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Grants and contributions received are reported as net assets with or without donor restrictions, depending upon the existence of any donor restrictions.

Donated services

Non-cash donations are recorded as contributions at the fair value of the gift at the date of the donation. Contributed services are reflected in the financial statements at the fair value of the services received if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise need to be purchased if not donated. In-kind revenues amounted to \$27,171 during the year ended December 31, 2021 and consisted primarily of donated professional services.

Functional allocation of expenses

The costs of providing BSR's various programs and other activities have been presented in the consolidated statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Direct costs associated with specific programs are recorded as program expenses. Program expenses may include allocable management and general expenses. Indirect or share costs are allocated among program and support services by a method that measures the relative degree of benefit. BSR uses actual salary dollars to allocate any indirect costs.

Business for Social Responsibility and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

BSR has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code, under Section 1(d) of Title II of the District of Columbia Department of Finance and Revenue Code, and under Section 23701(d) of the California Revenue and Taxation Code and generally is not subject to state or federal income taxes. Taxes are paid on unrelated business income that arises from certain consulting services.

The subsidiaries and Hong Kong branch of BSR are all subject to income taxes in foreign jurisdictions. The Chinese subsidiary is a wholly-foreign-owned enterprise and the French subsidiary is a 1901 Association. Income tax expense is recorded based on management's estimates of tax liability in those jurisdictions. Tax expense recorded for foreign jurisdictions during the year ended December 31, 2021 amounted to \$157,416.

BSR reviews and assesses tax positions taken or expected to be taken against the more-likely-than-not recognition threshold and measurement attributes for recognition in the consolidated financial statements. BSR's policy for evaluating uncertain tax positions is a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more-likely-than-not that the position will be sustained upon audit, including resolution of related appeals or litigations processes, if any. The second step is to measure the tax benefit or liability as the largest amount that is more than 50% likely to be realized or incurred upon settlement. As BSR is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and is generally not subject to federal or state income taxes, the tax positions taken or expected to be taken by BSR have not had a material impact on the consolidated financial statements. Tax expense recorded for unrelated business income tax ("UBIT") during the year ended December 31, 2021 amounted to \$(19,219), which represents a refund received.

Foreign currency exchange rate risk

In the normal course of business, BSR is subject to risk from adverse fluctuations in foreign currency exchange rates with the U.S. dollar. BSR does not use derivative financial instruments to manage its risks associated with foreign currency exchange fluctuations.

Concentration of credit risk

BSR maintains the majority of its cash deposits with one financial institution. Such amounts may at times exceed Federal Deposit Insurance Corporation limits. To date, BSR has not experienced any losses in these accounts.

Receivables consist primarily of unsecured amounts due from companies and foundations. Approximately 14% of BSR's outstanding accounts receivable was due from one customer and 55% of BSR's outstanding grants receivable balance was due from two grantors as of December 31, 2021. Credit risk is mitigated by the number of companies and foundations comprising the receivable balance. An allowance for doubtful accounts is also maintained.

Business for Social Responsibility and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of credit risk (continued)

Three government entities comprised approximately 87% of government contract revenues and three grantors comprised approximately 59% of BSR's grants revenue for the year ended December 31, 2021.

Use of estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and revenue and expenses, as well as contingent assets and liabilities during the reporting period. Actual results could differ from those estimates. The key estimates that require significant judgment by management include the allocation of functional expenses, allowance for doubtful accounts, and useful lives of fixed assets.

Prior year information

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with BSR's consolidated financial statements for December 31, 2020 from which the summarized information was derived.

Reclassifications

Certain amounts presented in the 2020 consolidated financial statements have been reclassified to conform to the current year presentation. Such reclassifications had no effect on total assets, liabilities, net assets, changes in net assets, or cash flows from the amounts previously presented.

Subsequent events

BSR evaluated subsequent events for recognition and disclosure through April 18, 2022, the date the consolidated financial statements were available to be issued. No subsequent events have occurred that would have a potential material impact on the presentation of BSR's consolidated financial statements.

Business for Social Responsibility and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

3. FIXED ASSETS

Fixed assets consist of the following:

Software development	\$ 345,820
IT equipment	791,974
Furniture and fixtures	752,702
Leasehold improvements	<u>279,656</u>
	2,170,152
Accumulated depreciation and amortization	<u>(1,687,680)</u>
	<u><u>\$ 482,472</u></u>

Depreciation and amortization expense for the year ended December 31, 2021 amounted to \$222,215.

4. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

HER Project	\$ 3,036,854
Climate Change	570,220
Women's Empowerment	408,546
Sustainability Management	176,276
Human Rights	30,000
Other	<u>44,519</u>
	<u><u>\$ 4,266,415</u></u>

Net assets with donor restrictions released from restriction during the year were as follows:

HER Project	\$ (2,084,040)
Sustainability Management	(1,068,395)
Climate Change	(952,490)
Women's Empowerment	(458,813)
Inclusive Economy	(60,541)
Human Rights	(43,178)
Supply Chain Sustainability	<u>(13,353)</u>
	<u><u>\$ (4,680,810)</u></u>

Business for Social Responsibility and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

5. LINE OF CREDIT

BSR maintains a line of credit arrangement with a financial institution with a maximum borrowing limit of \$500,000 that renews annually. The line of credit bears interest at the Prime Rate plus 0.50% (3.75% as of December 31, 2021). There were no borrowings under the line during the year ended December 31, 2021. BSR is required to maintain compliance with certain financial and reporting covenants under the terms of the agreement; BSR was in compliance with such covenants at December 31, 2021.

6. OPERATING LEASES

BSR recognizes all rent expense on a straight-line basis. BSR maintains offices and leases in the United States, China, Denmark, France, its branch in Hong Kong, and Singapore. The lease agreements require monthly payments ranging from \$3,514 to \$39,007, with annual increases built over the lease terms, and expire at various dates through March 2026.

Future minimum lease payments under operating leases, having remaining non-cancelable lease terms are as follows:

Year ending December 31,

2022	\$ 902,149
2023	683,911
2024	507,759
2025	522,992
2026	<u>131,707</u>
	<u><u>\$ 2,748,518</u></u>

Rental expense under all operating leases for the year ended December 31, 2021 amounted to \$1,567,069.

7. COMMITMENTS AND CONTINGENCIES

Certain grants and contracts require compliance with various requirements. Failure to comply with these requirements could result in disallowance of costs and potential repayment to the sponsor(s). However, management considers the likelihood of a need to return funds to sponsors to be remote.

8. RELATED PARTY TRANSACTIONS

BSR receives revenues from companies that employ members of the Board of Directors. During the year ended December 31, 2021, BSR recognized revenues amounting to \$205,389 in membership dues and \$1,056,584 in consulting fees from such companies. Total amounts receivable from these companies was \$993,100 as of December 31, 2021.

Business for Social Responsibility and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

9. RETIREMENT PLANS

The Organization sponsors a 401(k) salary deferral plan for eligible U.S. employees. Participants may make contributions to the plan. During the year ended December 31, 2021, contributions to the plan amounted to \$622,586.

On August 1, 2004, BSR established a voluntary salary deferral plan for the Chief Executive Officer ("Participant") under IRC Section 457(b). During the year ended December 31, 2021, there were no employer contributions to the plan. The Participant is immediately vested in employer contributions.

10. LIQUIDITY AND FUNDS AVAILABLE

The following reflects BSR's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

BSR's financial assets are made available to meet its general expenditures, liabilities, and other obligations as they come due. BSR has cash and cash equivalents available to meet liquidity needs. Contributions and accounts receivable that are considered current will be collected from customers or donors within one year. Monthly, management reviews BSR's financial position and ensures that a reasonable cash position is being maintained. BSR maintains 45 days in cash as a minimum.

The following is a quantitative disclosure which describes assets that are available within one year of December 31, 2021 to fund general expenditures and other obligations when they become due:

Cash and cash equivalents	\$ 13,423,457
Accounts and grants receivables, net	<u>8,158,865</u>
	21,582,322
Less: Donor restricted funds	<u>(4,266,415)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 17,315,907</u>
Funds available - line of credit	<u>\$ 500,000</u>

BSR has financial assets available as of December 31, 2021 to cover approximately 163 days of operating expenses, excluding depreciation and amortization, based on budgeted operating expenses, excluding depreciation and amortization, as approved by the Board, for the year ended December 31, 2022.

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11. RISKS AND UNCERTAINTIES

In December 2019, an outbreak of a novel strain of coronavirus ("COVID-19") spread to a number of countries, including the U.S., resulting in the World Health Organization declaring it a global pandemic on March 11, 2020. In addition, several states in the U.S., including California, where BSR is located, have declared a state of emergency. In response, the U.S. Government enacted the Coronavirus Aid Relief and Economic Security ("CARES") Act, which includes significant provisions to provide relief and assistance to affected organizations. COVID-19 could adversely affect the economies and financial markets of many countries, namely the U.S., resulting in an economic downturn that could affect BSR in a variety of ways. BSR cannot anticipate all of the ways in which COVID-19 could adversely impact its operations. Although BSR is continuing to monitor and assess the effects of the COVID-19 pandemic on its operations, the ultimate impact of the COVID-19 outbreak, the CARES Act and other governmental initiatives is highly uncertain and subject to change.