

**Business for Social Responsibility and
Subsidiaries**

Consolidated Financial Statements

December 31, 2022
(With Comparative Totals for 2021)



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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 nonprofit corporation) and Subsidiaries (collectively, "BSR"), which comprise the consolidated statement of financial position as of December 31, 2022, 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 BSR as of December 31, 2022, 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 for Opinion

We conducted our audit 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 BSR and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, BSR adopted FASB Topic 842, Leases. Our opinion is not modified with respect to that matter.

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 consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about BSR's ability to continue as a going concern within one year after the date that the consolidated 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 consolidated 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 BSR'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 BSR'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 BSR's 2021 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 18, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Armanino^{LLP}
Dallas, Texas

April 17, 2023

Business for Social Responsibility and Subsidiaries
Consolidated Statement of Financial Position
December 31, 2022
(With Comparative Totals for 2021)

	2022	2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 13,466,588	\$ 13,423,457
Accounts and grants receivables, net	8,824,640	7,912,365
Prepaid expenses and other current assets	<u>332,422</u>	<u>569,540</u>
Total current assets	22,623,650	21,905,362
Accounts and grants receivables net, non-current	4,260,000	246,500
Operating lease right-of-use assets, net	4,411,860	-
Lease deposits	760,724	649,291
Property and equipment, net	<u>379,525</u>	<u>482,472</u>
Total assets	<u>\$ 32,435,759</u>	<u>\$ 23,283,625</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 291,629	\$ 360,499
Accrued salaries and related benefits	2,030,869	2,563,717
Accrued liabilities - other	239,273	68,775
Deferred revenue	9,274,481	9,462,394
Deferred rent, current	-	83,327
Operating lease liabilities, current portion	<u>869,336</u>	<u>-</u>
Total current liabilities	<u>12,705,588</u>	<u>12,538,712</u>
Long-term liabilities		
Deferred rent, non-current	-	173,088
Operating lease liabilities, net of current portion	<u>3,893,020</u>	<u>-</u>
Total long-term liabilities	<u>3,893,020</u>	<u>173,088</u>
Total liabilities	<u>16,598,608</u>	<u>12,711,800</u>
Net assets		
Without donor restrictions	5,158,431	6,305,410
With donor restrictions	<u>10,678,720</u>	<u>4,266,415</u>
Total net assets	<u>15,837,151</u>	<u>10,571,825</u>
Total liabilities and net assets	<u>\$ 32,435,759</u>	<u>\$ 23,283,625</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, 2022
(With Comparative Totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
Support and revenues				
Consulting revenues	\$ 23,453,763	\$ -	\$ 23,453,763	\$ 22,392,274
Conferences and seminars	40,000	-	40,000	-
Membership dues	8,039,285	-	8,039,285	7,035,605
Government funded contracts	879,181	-	879,181	993,490
Foundation grants	-	9,959,776	9,959,776	3,366,153
Contributions	209	-	209	34,066
Interest income	4,954	-	4,954	988
Other income	1,149	-	1,149	6,757
In-kind revenue	-	-	-	27,171
Net assets released from restriction	<u>3,547,471</u>	<u>(3,547,471)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>35,966,012</u>	<u>6,412,305</u>	<u>42,378,317</u>	<u>33,856,504</u>
Functional expenses				
Program services	26,923,447	-	26,923,447	21,895,062
Support services	<u>10,063,400</u>	<u>-</u>	<u>10,063,400</u>	<u>8,680,120</u>
Total functional expenses	<u>36,986,847</u>	<u>-</u>	<u>36,986,847</u>	<u>30,575,182</u>
Change in net assets from operations	<u>(1,020,835)</u>	<u>6,412,305</u>	<u>5,391,470</u>	<u>3,281,322</u>
Other nonoperating changes in net assets				
Cumulative foreign currency translation adjustment	(126,144)	-	(126,144)	(90,275)
MACN spin-off (see Note 1)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(832,056)</u>
Total other nonoperating changes in net assets	<u>(126,144)</u>	<u>-</u>	<u>(126,144)</u>	<u>(922,331)</u>
Change in net assets	(1,146,979)	6,412,305	5,265,326	2,358,991
Net assets, beginning of year	<u>6,305,410</u>	<u>4,266,415</u>	<u>10,571,825</u>	<u>8,212,834</u>
Net assets, end of year	<u>\$ 5,158,431</u>	<u>\$ 10,678,720</u>	<u>\$ 15,837,151</u>	<u>\$ 10,571,825</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, 2022
(With Comparative Totals for 2021)

	2022												2021		
	Program Services											Support Services			
	Climate Change	Nature	EIJ	Human Rights	Inclusive Economy	Supply Chain Sustainability	Sustainability Management	HERproject	Conference	Membership	General Program	Total Program Services	Management and General	2022 Total	2021 Total
Expenses															
Salaries	\$ 661,497	\$ 52,292	\$ 587,557	\$ 1,206,278	\$ 163	\$ 5,664	\$ 1,255,681	\$ 583,533	\$ 147,603	\$ 767,885	\$ 10,591,410	\$ 15,859,563	\$ 4,547,061	\$ 20,406,624	\$ 16,554,681
Payroll taxes and benefits	266,571	27,808	256,814	511,227	-	3,249	544,163	320,045	63,136	320,711	2,349,509	4,663,233	1,256,169	5,919,402	4,731,236
Personnel recruiting/development	-	-	-	-	-	-	-	25	-	-	246,402	246,427	66,239	312,666	226,594
Contractors/professional services	372,448	416,902	208,790	441,105	-	92,025	877,556	1,878,538	33,397	3,258	259,832	4,583,851	720,615	5,304,466	4,874,178
Travel	35,516	6,320	21,070	99,785	-	879	27,217	122,698	12,265	1,871	449,774	777,395	19,648	797,043	223,943
Marketing	12,989	-	-	-	-	-	-	-	157	-	125	13,271	20,058	33,329	55,548
Production	-	-	325	15,404	33	-	-	30,283	20,821	-	-	66,866	92	66,958	127,859
Conferences and workshops	-	1,497	227	11,838	-	-	71	15,855	63,093	-	26,055	118,636	344,534	463,170	102,717
Rent and occupancy	-	-	-	-	-	-	-	11,782	-	-	62,456	74,238	1,366,497	1,440,735	1,621,333
Office expenses	5,970	14	888	768	1,559	500	1,044	2,587	573	160	35,213	49,276	168,905	218,181	230,207
Information systems	302	60	491	13,426	170	-	138	11,191	4,679	-	7,469	37,926	946,452	984,378	912,622
Postage and delivery	-	-	-	85	-	-	133	1,082	4,359	-	1,973	7,632	11,381	19,013	17,487
Taxes and fees	1,152	-	334	911	-	460	6,052	147	101	3,477	140,613	153,247	116,609	269,856	313,240
General insurance	-	-	-	-	-	-	-	609	-	-	(1,023)	(414)	189,542	189,128	192,613
Miscellaneous	(17,567)	21,398	(3,902)	(5,954)	-	258	217,138	(4,687)	171	4,612	60,833	272,300	55,436	327,736	168,709
Total expenses	<u>1,338,878</u>	<u>526,291</u>	<u>1,072,594</u>	<u>2,294,873</u>	<u>1,925</u>	<u>103,035</u>	<u>2,929,193</u>	<u>2,973,688</u>	<u>350,355</u>	<u>1,101,974</u>	<u>14,230,641</u>	<u>26,923,447</u>	<u>9,829,238</u>	<u>36,752,685</u>	<u>30,352,967</u>
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-	-	234,162	234,162	222,215
	<u>\$ 1,338,878</u>	<u>\$ 526,291</u>	<u>\$ 1,072,594</u>	<u>\$ 2,294,873</u>	<u>\$ 1,925</u>	<u>\$ 103,035</u>	<u>\$ 2,929,193</u>	<u>\$ 2,973,688</u>	<u>\$ 350,355</u>	<u>\$ 1,101,974</u>	<u>\$ 14,230,641</u>	<u>\$ 26,923,447</u>	<u>\$ 10,063,400</u>	<u>\$ 36,986,847</u>	<u>\$ 30,575,182</u>

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, 2022
(With Comparative Totals for 2021)

	2022	2021
Cash flows from operating activities		
Change in net assets	\$ 5,265,326	\$ 2,358,991
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	234,162	222,215
Amortization of operating lease right-of-use asset	652,696	-
Loss on fixed asset disposals	3,708	82
Changes in operating assets and liabilities		
Accounts and grants receivables, net	(4,925,775)	827,897
Prepaid expenses and other current assets	237,118	(166,519)
Lease deposits	(111,433)	(7,450)
Accounts payable	(68,870)	(130,791)
Accrued salaries and related benefits	(532,848)	58,009
Accrued liabilities - other	170,497	(414,320)
Deferred revenue	(187,913)	65,562
Deferred rent	(256,414)	(147,965)
Operating lease liability	(302,200)	-
Net cash provided by operating activities	178,054	2,665,711
Cash flows from investing activities		
Purchases of property and equipment	(134,923)	(253,033)
Net cash used in investing activities	(134,923)	(253,033)
Net increase in cash and cash equivalents	43,131	2,412,678
Cash and cash equivalents, beginning of year	13,423,457	11,010,779
Cash and cash equivalents, end of year	\$ 13,466,588	\$ 13,423,457

Supplemental disclosures of cash flow information

Cash paid during the year for		
Taxes	\$ 138,885	\$ 157,416

Supplemental schedule of noncash investing and financing activities

Right-of-use asset obtained in exchange for lease liability	\$ 5,064,556	\$ -
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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, 2022

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 30 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 was reflected as a nonoperating change in net assets on the consolidated statement of activities in the December 31, 2021 financial statements.

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 BSR's 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, 2022

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 \$35,873 as of December 31, 2022.

Grants receivable consist of amounts due from foundations and government entities. Grants receivable amounted to \$6,859,500 and is included as part of accounts and grants receivable, net within the consolidated statement of financial position. Certain grants receivable are expected to be collected during the years 2024 and 2025 as follows: 2024 - \$1,980,000, 2025 - \$2,280,000 and are classified as long-term receivables in the consolidated statement of financial position.

Management believes the grants receivable are fully collectible and therefore no allowance for doubtful accounts has been recorded.

Business for Social Responsibility and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

BSR capitalizes additions of property and equipment 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.

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. There was no in-kind revenue recognized during the year ended December 31, 2022.

Business for Social Responsibility and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2022 amounted to \$138,885.

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. There was no tax expense recorded for unrelated business income tax ("UBIT") during the year ended December 31, 2022.

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.

Business for Social Responsibility and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 15% of BSR's outstanding accounts receivable was due from three customers and 88% of BSR's outstanding grants receivable balance was due from two grantors as of December 31, 2022. Credit risk is mitigated by the number of companies and foundations comprising the receivable balance. An allowance for doubtful accounts is also maintained.

Two government entities comprised approximately 100% of government contract revenues and two grantors comprised approximately 76% of BSR's grants revenue for the year ended December 31, 2022.

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, 2021 from which the summarized information was derived.

Subsequent events

BSR evaluated subsequent events for recognition and disclosure through April 17, 2023, 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, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle - leases

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification ("ASC") 842 Leases, to increase transparency and comparability among organizations by requiring the recognition of right-of-use ("ROU") assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

BSR implemented the new lease standard by electing the effective date method as January 1, 2022 with no adjustments to any prior year information. BSR recognized and measured leases existing at, or entered into after, January 1, 2022.

BSR maintains leases for office space in San Francisco, California, New York, New York and Paris, France that required the recognition of ROU assets and liabilities under the new lease guidance. As a result of the new lease guidance, BSR recognized on January 1, 2022, ROU assets of \$5,064,556, along with amortization of the ROU assets of \$652,696 for 2022. As of January 1, 2022, lease liabilities of \$5,308,622 were recognized which represent the present value of the remaining operating lease payments of \$6,705,803, discounted using the Organization's estimated incremental borrowing rate of 7.5%.

The standard had a material impact on BSR's consolidated statement of financial position, but did not have a material impact on the consolidated statement of activities, or consolidated statement of cash flows for the year ending December 31, 2022. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases on the consolidated statement of financial position.

3. FIXED ASSETS

Fixed assets consist of the following:

Software development	\$ 349,155
IT equipment	686,309
Furniture and fixtures	549,664
Leasehold improvements	<u>288,192</u>
	1,873,320
Accumulated depreciation and amortization	<u>(1,493,795)</u>
	<u>\$ 379,525</u>

Depreciation and amortization expense for the year ended December 31, 2022 amounted to \$234,162.

Business for Social Responsibility and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2022

4. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

HER Project	\$ 2,544,123
Climate Change	602,213
Women's Empowerment	5,945,808
Sustainability Management	1,512,057
Human Rights	30,000
Other	<u>44,519</u>
	<u>\$ 10,678,720</u>

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

HER Project	\$ (1,782,507)
Sustainability Management	(127,219)
Climate Change	(793,007)
Women's Empowerment	(814,738)
Human Rights	<u>(30,000)</u>
	<u>\$ (3,547,471)</u>

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, 2022). There were no borrowings under the line during the year ended December 31, 2022. 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, 2022.

6. LEASES

BSR has operating leases for offices in the United States and France that meet the requirements for applying the new lease standard. These leases have remaining lease terms of from three years to six years.

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6. LEASES (continued)

Supplemental cash flow information related to operating leases was as follows:

New York Lease	
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 70,198
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 2,408,100
Weighted average remaining lease term	6.92 years
Weighted average discount rate	7.5%
Paris Lease	
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 1,304,188
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 988,246
Weighted average remaining lease term	3.58 years
Weighted average discount rate	7.5%
San Francisco Lease	
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 1,615,025
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 1,668,210
Weighted average remaining lease term	3.25 years
Weighted average discount rate	7.5%

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year ending December 31,</u>	
2023	\$ 1,194,744
2024	1,203,765
2025	1,212,229
2026	787,315
2027	465,884
Thereafter	<u>925,280</u>
	5,789,217
Less: imputed interest	<u>(1,026,861)</u>
Long-term operating lease liabilities	<u>\$ 4,762,356</u>

The following summarizes the line items in the income statements which include the components of lease expense for the year ended December 31:

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6. LEASES (continued)

Lease expense included in rent and occupancy expense :

Operating lease expense	\$ 945,721
Short-term lease expense	<u>404,414</u>
	<u><u>\$ 1,350,135</u></u>

7. COMMITMENTS AND CONTINGENCIES

Some of the Organization's grants and contracts require compliance with certain terms and conditions. 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 such 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, 2022, BSR recognized revenues amounting to \$238,167 in membership dues and \$1,544,765 in consulting fees from such companies. Total amounts receivable from these companies was \$507,000 as of December 31, 2022.

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, 2022, employer contributions to the plan amounted to \$767,273.

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, 2022, 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.

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10. LIQUIDITY AND FUNDS AVAILABLE (continued)

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	\$ 13,466,588
Accounts and grants receivables, net	<u>8,824,640</u>
	22,291,228
Less: Donor restricted funds	<u>(10,678,720)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 11,612,508</u>
Funds available - line of credit	<u>\$ 500,000</u>

BSR has financial assets available as of December 31, 2022 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.