

BUSINESS FOR SOCIAL RESPONSIBILITY

DECEMBER 31, 2007



INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Business for Social Responsibility

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Independent Auditors' Report

THE BOARD OF DIRECTORS
BUSINESS FOR SOCIAL RESPONSIBILITY
San Francisco, California

We have audited the accompanying statement of financial position of *Business for Social Responsibility (BSR)* as of December 31, 2007 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of BSR's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from BSR's December 31, 2006 financial statements, and, in our report dated July 2, 2007, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides 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 Business for Social Responsibility as of December 31, 2007, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Hood & Strong LLP

September 17, 2008

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Business for Social Responsibility

Statement of Financial Position

<i>December 31,</i>	2007	2006
Assets		
Current Assets:		
Cash and cash equivalents	\$ 2,384,937	\$ 753,298
Receivables, net of allowance for doubtful accounts of \$77,000 and \$84,000 at December 31, 2007 and 2006, respectively	2,013,391	1,393,096
Contributions receivable	227,002	231,204
Prepaid expenses	240,772	64,434
Total current assets	4,866,102	2,442,032
Investment in Certificate of Deposit , at fair value		126,136
Equipment, Furniture and Leasehold Improvements , at cost, less accumulated depreciation of \$122,134 and \$74,613 at December 31, 2007 and 2006, respectively	180,526	225,429
Total assets	\$ 5,046,628	\$ 2,793,597
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 995,531	\$ 429,835
Deferred revenues	2,735,440	1,969,208
Total liabilities	3,730,971	2,399,043
Net Assets:		
Unrestricted	983,367	231,209
Temporarily restricted	332,290	163,345
Total net assets	1,315,657	394,554
Total liabilities and net assets	\$ 5,046,628	\$ 2,793,597

Business for Social Responsibility

Statement of Activities

Year Ended December 31, 2007 (with comparative totals for the year ended December 31, 2006)

	2007			2006
	Unrestricted	Temporarily Restricted	Total	Total
Support and Revenues:				
Consulting revenues	\$ 4,959,133		\$ 4,959,133	\$ 3,583,586
Conferences and seminars	2,036,507		2,036,507	1,889,338
Membership dues	2,066,593		2,066,593	1,847,688
Government grants	439,030		439,030	199,822
Contributions	60,426	\$ 414,247	474,673	177,885
Subscription revenue	114,750		114,750	131,248
Product sales	12,219		12,219	70,517
Interest income	25,262		25,262	19,749
Other	194,667	1,841	196,508	190,096
	9,908,587	416,088	10,324,675	8,109,929
Net Assets Released from Restrictions:				
Satisfaction of program restrictions	247,143	(247,143)		
Total support and revenue	10,155,730	168,945	10,324,675	8,109,929
Expenses:				
Program services	7,635,952		7,635,952	6,528,230
Management and general	1,711,654		1,711,654	1,688,744
Fundraising	55,966		55,966	69,449
Total expenses	9,403,572		9,403,572	8,286,423
Change in Net Assets	752,158	168,945	921,103	(176,494)
Net Assets, beginning of year	231,209	163,345	394,554	571,048
Net Assets, end of year	\$ 983,367	\$ 332,290	\$ 1,315,657	\$ 394,554

Business for Social Responsibility

Statement of Functional Expenses

Year Ended December 31, 2007 (with comparative totals for the year ended December 31, 2006)

	2006				2005
	Program Services	Management and General	Fundraising	Total	Total
Salaries	\$ 3,968,997	\$ 842,784	\$ 41,873	\$ 4,853,654	\$ 4,200,604
Payroll taxes and benefits	870,072	196,359	9,279	1,075,710	953,454
Conferences/workshops	668,915	8,628		677,543	704,787
Contractors/professional services	520,115	85,205		605,320	586,419
Travel	479,462	46,737	2,878	529,077	371,940
Information systems	26,017	177,191		203,208	363,153
Production costs	201,530	23,229		224,759	340,430
Rent and occupancy	300,256	53,695	1,936	355,887	333,306
Hiring	38,018	43,267		81,285	126,522
Office expense	110,122	83,149		193,271	80,725
Taxes on unrelated business income	90,638	2,667		93,305	55,927
Bad debts	28,138	840		28,978	31,760
Staff development	6,386	2,238		8,624	18,102
Postage and delivery	13,919	2,265		16,184	18,023
Temporary help	109,226	106,374		215,600	5,048
Marketing	19,035			19,035	4,685
General insurance	18,003	3,943		21,946	3,864
Miscellaneous	119,583	33,083		152,666	62,701
Total expenses before depreciation	7,588,432	1,711,654	55,966	9,356,052	8,261,450
Depreciation expense	47,520			47,520	24,973
Total expenses	\$ 7,635,952	\$ 1,711,654	\$ 55,966	\$ 9,403,572	\$ 8,286,423

Business for Social Responsibility

Statement of Cash Flows

<i>Years Ended December 31,</i>	2007	2006
Cash Flows from Operating Activities:		
Change in net assets	\$ 921,103	\$ (176,494)
Adjustments to reconcile change in net assets to cash provided by operations:		
Depreciation	47,520	24,973
Changes in operating assets and liabilities:		
Receivables	(616,093)	(158,949)
Prepaid expenses	(176,338)	(25,828)
Accounts payable and accrued expenses	565,696	(206,573)
Deferred revenue	766,232	737,356
Cash provided by operations	1,508,120	194,485
Cash Flows from Investing Activities:		
Purchases of equipment and furniture	(2,617)	(162,583)
Sale (purchase) of investments	126,136	(4,935)
Cash provided by (used in) investing activities	123,519	(167,518)
Net Increase in Cash and Cash Equivalents	1,631,639	26,967
Cash and Cash Equivalents, beginning of year	753,298	726,331
Cash and Cash Equivalents, end of year	\$ 2,384,937	\$ 753,298
Supplemental Disclosure of Cash Flow Information:		
Cash paid for taxes on unrelated business income	\$ 66,656	\$ 44,429

Business for Social Responsibility

Notes to Financial Statements

Note 1 - Description of the Organization:

Since 1992, Business for Social Responsibility (BSR), a nonprofit organization, has been a leading provider of innovative business solutions to many of the world's leading corporations. Headquartered in San Francisco and with offices in Guangzhou, China, and Paris, BSR is a nonprofit business association that serves its 250 member companies and other Global 1000 enterprises. Through advisory services, convening and research, BSR works with corporations and concerned stakeholders of all types to create a more just and sustainable global economy. For more information, visit www.bsr.org.

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Accounting

BSR's financial statements are prepared on the accrual basis of accounting.

b. Description of Net Assets

Unrestricted Net Assets - the portion of net assets that is neither temporarily nor permanently restricted by donor-imposed stipulations. These net assets are intended for use by management and the Board of Directors for general operations. BSR reports as an increase in unrestricted net assets, any temporarily restricted revenue or support received in the same period in which the restrictions have been met.

Temporarily Restricted Net Assets - the portion of net assets which use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of BSR.

Permanently Restricted Net Assets - the portion of net assets which use is permanently limited by donor-imposed stipulations that neither expire by passage of time nor can be removed by actions of BSR. There are no permanently restricted net assets at December 31, 2007 and 2006.

c. Cash and Cash Equivalents

Cash and cash equivalents consist of funds in checking accounts, money market accounts, and short-term certificates of deposit with original maturities of three months or less.

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Notes to Financial Statements

d. Receivables

Receivables 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 circumstances.

e. Equipment, Furniture and Leasehold Improvements

Property and equipment are recorded at cost at the date of acquisition or fair value at the date of donation, if donated. Depreciation is computed on the straight-line method over estimated useful lives of three years for equipment and seven years for furniture. Depreciation is provided on leasehold improvements over the remaining life of the lease.

f. Revenue Recognition

Consulting revenue is recognized as earned. 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.

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

Revenue from membership dues is deferred and recognized over the periods to which the dues relate. Membership dues are available for the general programs of BSR unless specified for company member credit. Member credit is offered to certain member categories that entitles members to tailored benefits up to 30% of their dues. Unused member credit is recognized as dues revenue at the end of the member's dues year.

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

Contributions are recorded at their fair value and are recognized as revenue when the donor makes an unconditional promise to give to BSR. Unconditional promises to give are recognized as revenue and receivables in the period that BSR is notified of the promise. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a 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.

Non-cash donations are recorded at the fair value of the gift at the date of the donation.

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Notes to Financial Statements

BSR records contribution revenue and a related expense for certain donated services, at the fair value of those services, only if the services create or enhance nonfinancial assets or require specialized skills that would need to be purchased if not donated. No such contributions were recorded in 2007 and 2006.

Revenue from subscriptions is recognized in the period which it is earned. Unearned portions of subscriptions are recorded as deferred revenue.

g. Income Taxes

BSR has been granted tax-exempt status under Section 501(c)(3) by the Internal Revenue Service, under Section 1(d) of Title II of the District of Columbia Department of Finance and Revenue and under Section 23701(d) of the California Franchise Tax Board. Taxes are paid on unrelated business income which arises from certain consulting services.

h. Functional Expenses

Expenses have been charged to program or supporting service classifications based on direct expenditures incurred. Any expenditure not directly chargeable is allocated among program or support service classifications based upon management's assertions.

i. Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as revenues and expenses during the reporting period. Actual results could differ from those estimates.

j. Prior Year Information

The 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with BSR's statements for December 31, 2006 from which the summarized information was derived.

Business for Social Responsibility

Notes to Financial Statements

k. New Accounting Pronouncements

In June 2006, Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and provides guidance on the recognition, de-recognition and measurement of benefits related to an entity's uncertain income tax position. This guidance will apply to fiscal years beginning after December 15, 2007. BSR is currently evaluating the effect that FIN 48 will have on its financial position and results of operations, but does not believe that the adoption of FIN 48 will have a material impact on its financial position and results of operations.

Note 3 - **Temporarily Restricted Net Assets:**

Temporarily restricted net assets are available for the following programs at December 31:

	2007	2006
China Training Institute	\$ 44,152	\$ 70,378
MBA Curriculum Initiative	35,390	43,297
Ford Foundation, Human Rights	184,906	42,714
IBLF Voluntary Principles		6,956
Packard Foundation, Women's Health	57,941	
Levi's Foundation, HER Project	6,000	
Corporate Managers Guide Environment Market	3,901	
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	\$ 332,290	\$ 163,345

Business for Social Responsibility

Notes to Financial Statements

Note 4 - Operating Leases:

BSR conducts its operations in a leased facility located in San Francisco, California under a noncancelable operating lease expiring in 2010. BSR also maintains various equipment leases that extend through 2008.

In connection with the office lease, BSR is maintaining a revocable letter of credit issued by and drawable upon a financial institution in the amount of \$47,500. The balance in this account was \$47,500 and is included in cash at December 31, 2007.

Future minimum lease payments under operating leases having remaining terms in excess of one year as of December 31, 2006 are as follows:

2008	\$	287,735
2009		285,994
2010		72,849
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Total minimum operating lease payments	\$	646,578

Rental expense under all operating leases for the year ended December 31, 2007 and 2006 was \$355,887 and \$333,306, respectively.

Note 5 - Pension Plan:

BSR sponsors a 401(k) salary deferral plan for eligible employees. Participants may make contributions to the plan. BSR matches 100% of participant contributions up to 2% of eligible compensation. BSR made matching contributions of \$49,372 for the year ended December 31, 2007.

Note 6 - Related Party Transactions:

BSR receives revenues from companies over which members of the Board of Directors exert significant control. For the year ended December 31, 2007, these revenues totaled approximately \$181,000 in membership fees, \$20,000 in contributions, \$332,878 in consulting fees and \$90,000 in conference sponsorships. Total accounts receivable outstanding at December 31, 2007 from these companies is approximately \$43,454.

Business for Social Responsibility

Notes to Financial Statements

Note 7 - Concentration of Credit Risk:

BSR has identified its financial instruments which are potentially subject to credit risk as cash and receivables.

BSR maintains most of its cash and cash equivalents with a major financial institution. The Federal Deposit Insurance Corporation (FDIC) insures balances up to \$100,000. At December 31, 2007, BSR held cash balances in excess of the FDIC limit.

Receivables consist primarily of unsecured amounts due from companies and foundations. Credit risk is mitigated by the number of companies and foundations comprising the receivable balance. An allowance for doubtful accounts is also maintained.