Business for Social Responsibility

Consolidated Financial Statements

December 31, 2012
(With Comparative Totals for 2011)

armanino

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Business for Social Responsibility
San Francisco, California

We have audited the accompanying consolidated financial statements of Business for Social Responsibility and subsidiaries ("BSR"), which comprise the consolidated statement of financial position as of December 31, 2012, 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.

Management's Responsibility 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; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Business for Social Responsibility and subsidiaries as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited BSR's 2011 consolidated financial statements, and our report dated July 16, 2012 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Armanino LLP

Armanino LLP

San Ramon, California

May 30, 2013

BUSINESS FOR SOCIAL RESPONSIBILITY
Consolidated Statement of Financial Position
December 31, 2012
(With Comparative Totals for 2011)

ASSETS

	2012	2011
Current assets		
Cash and cash equivalents	$ 2,379,363	$ 2,486,522
Restricted cash	232,276	142,787
Receivables, net of allowance for doubtful accounts of $42,569 and $60,432 at December 31, 2012 and 2011, respectively	3,617,821	4,095,232
Grants receivable	166,053	166,584
Prepaid expenses	227,822	297,878
Total current assets	6,623,335	7,189,003
Lease deposits	427,820	377,936
Fixed assets, net	1,297,736	438,264
Total assets	$ 8,348,891	$ 8,005,203

LIABILITIES AND NET ASSETS

	2012	2011
Current liabilities		
Accounts payable and accrued liabilities	$ 443,602	$ 1,168,121
Accrued salaries and related benefits	686,935	1,290,878
Deferred revenues	4,381,331	3,702,439
Deferred rent, current	64,325	20,346
Capital lease obligations, current	61,960	40,512
Total current liabilities	5,638,153	6,222,296
Deferred rent, non-current	556,339	136,596
Capital lease obligations, non-current	29,906	34,566
Total liabilities	6,224,398	6,393,458
Net assets		
Unrestricted	1,048,238	1,121,377
Temporarily restricted	1,076,255	490,368
Total net assets	2,124,493	1,611,745
Total liabilities and net assets	$ 8,348,891	$ 8,005,203

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

BUSINESS FOR SOCIAL RESPONSIBILITY
Consolidated Statement of Activities
For the Year Ended December 31, 2012
(With Comparative Totals for 2011)

	2012			2011
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenues				
Consulting revenues	$ 12,968,462	$ -	$ 12,968,462	$ 11,399,898
Conferences and seminars	2,029,800	-	2,029,800	1,982,191
Membership dues	3,366,937	-	3,366,937	3,055,843
Government grants	904,298	-	904,298	1,088,076
Foundation grants	-	1,043,048	1,043,048	653,552
Contributions	-	257,765	257,765	2,100
Interest income	2,428	-	2,428	1,180
Other income	15,085	-	15,085	11,430
Donated services	652,753	-	652,753	652,134
	19,939,763	1,300,813	21,240,576	18,846,404
Net assets released from restrictions	714,926	(714,926)	-	-
Total support and revenues	20,654,689	585,887	21,240,576	18,846,404
Expenses				
Program services	15,382,881	-	15,382,881	15,393,255
Management and general	5,203,348	-	5,203,348	3,351,524
Fundraising	141,599	-	141,599	51,476
Total expenses	20,727,828	-	20,727,828	18,796,255
Change in net assets	(73,139)	585,887	512,748	50,149
Net assets, beginning of year	1,121,377	490,368	1,611,745	1,561,596
Net assets, end of year	$ 1,048,238	$ 1,076,255	$ 2,124,493	$ 1,611,745

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

BUSINESS FOR SOCIAL RESPONSIBILITY
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2012
(With Comparative Totals for 2011)

	2012				2011
	Program Services	Management and General	Fundraising	Total	Total
Salaries	$ 6,300,695	$ 2,257,686	$ 95,602	$ 8,653,983	$ 8,515,004
Payroll taxes and benefits	1,907,182	619,854	16,192	2,543,228	2,026,419
Temporary help	17,674	302,051	-	319,725	64,837
Hiring costs	167,967	58,060	2,440	228,467	29,792
Staff development	31,705	30,441	-	62,146	37,473
Contractors/professional services	2,081,254	685,258	-	2,766,512	2,739,459
Travel	1,095,917	164,064	15,222	1,275,203	1,024,220
Marketing	15,802	40,281	-	56,083	44,432
Production costs	535,605	58,703	-	594,308	405,569
Conferences/workshops	642,174	33,403	-	675,577	662,149
Rent and occupancy	932,252	148,940	6,212	1,087,404	999,428
Office supplies and equipment	108,545	427,395	132	536,072	555,443
Information systems	243,577	76,173	2,995	322,745	411,613
Copying, postage and delivery	14,529	25,256	39	39,824	35,504
Taxes	189,879	9,629	-	199,508	229,235
Insurance	5,708	83,432	-	89,140	90,790
Bad debts expense	37,332	-	-	37,332	27,652
Miscellaneous	74,116	117,743	14	191,873	19,843
Donated services	652,753	-	-	652,753	652,134
Total expenses before depreciation and amortization	15,054,666	5,138,369	138,848	20,331,883	18,570,996
Depreciation and amortization expense	328,215	64,979	2,751	395,945	225,259
Total expenses	$ 15,382,881	$ 5,203,348	$ 141,599	$ 20,727,828	$ 18,796,255

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

BUSINESS FOR SOCIAL RESPONSIBILITY
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2012
(With Comparative Totals for 2011)

	2012	2011
Cash flows from operating activities		
Change in net assets	$ 512,748	$ 50,149
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	395,945	225,259
Loss on disposal of property and equipment	6,798	13,314
Changes in operating assets and liabilities		
Receivables, net	477,411	(551,651)
Grants receivable	531	194,543
Prepaid expenses	70,056	(53,094)
Lease deposits	(49,884)	(259,546)
Accounts payable and accrued liabilities	(724,519)	165,581
Accrued salaries and related benefits	(603,943)	391,886
Deferred revenues	678,892	613,803
Deferred rent	463,722	81,055
Net cash provided by operating activities	1,227,757	871,299
Cash flows from investing activities		
Change in restricted cash	(89,489)	(142,787)
Purchase of fixed assets	(1,174,245)	(236,201)
Net cash used in investing activities	(1,263,734)	(378,988)
Cash flows from financing activities		
Principal payments on capital lease obligations	(71,182)	(59,971)
Increase (decrease) in cash and cash equivalents	(107,159)	432,340
Cash and cash equivalents, beginning of the year	2,486,522	2,054,182
Cash and cash equivalents, end of the year	$ 2,379,363	$ 2,486,522
<u>Supplemental disclosure of cash flow information</u>		
Interest paid	$ 4,123	$ 2,791
Taxes paid	$ 146,991	$ 62,443
Non-cash investing and financing activities		
Acquisition of property and equipment through capital lease	$ 87,970	$ 71,566

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

1. Description of the Organization

A leader in corporate responsibility since 1992, Business for Social Responsibility, Inc. ("the Organization"), a nonprofit organization, works with its global network of more than 250 member companies to develop sustainable business strategies and solutions through consulting, research, and cross-sector collaboration. With six offices in Asia, Europe, and North America, the Organization uses its expertise in the environment, 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.

2. Summary of Significant Accounting Policies

Basis of consolidation

The consolidated financial statements include the Organization and its wholly-owned subsidiaries in Guangzhou, China and Paris, France and its branch in Hong Kong (together, "BSR"). Transactions from all entities have been properly reflected in the consolidated financial statements. All significant intercompany transactions have been eliminated in consolidation.

Basis of accounting

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 applicable to nonprofit organizations.

Basis of presentation

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

Unrestricted Net Assets represent 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 temporarily restricted revenue or support received in the same period in which the restrictions have been met as temporarily restricted revenue and a release from restriction.

Temporarily Restricted Net Assets represent the portion of net assets for 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.

2. Summary of Significant Accounting Policies (continued)

Basis of presentation (continued)

Permanently Restricted Net Assets represent the portion of net assets for 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, 2012.

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.

Cash of $232,276 was restricted at December 31, 2012.

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 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.

Grants receivable

Grants receivable consist of amounts due from foundations and government entities under cost-reimbursable agreements. At December 31, 2012, management believes this amount is collectible; therefore, no allowance for doubtful accounts has been provided on grants receivable.

Fixed assets

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

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.

2. Summary of Significant Accounting Policies (continued)

Revenue recognition (continued)

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. Unconditional promises to give are recognized as revenue and receivables in the period in which notification of the promise is received. 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 consolidated statement of activities as net assets released from restrictions.

Donated services

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

Contribution revenue and a related expense is recorded for donated services at the fair value of those services 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. Noncash contributions received during the year ended December 31, 2012 consist primarily of donated professional services.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services based on management's estimates. The remaining costs are charged directly to the appropriate functional category.

2. Summary of Significant Accounting Policies (continued)

Income taxes

The Organization 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 2370l(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 which arises from certain consulting services. The Organization had no engagements that qualified as unrelated business in 2012.

The subsidiaries and Hong Kong branch of the Organization 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 provided for based on management's estimates of tax liability in those jurisdictions. Tax expense recorded for foreign jurisdictions during 2012 was $168,022.

In 2011, BSR began reviewing and assessing tax positions taken or expected to be taken against the more-likely-than-not recognition threshold and measurement attributes for recognition on 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 the Organization 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 the Organization have not had a material impact on the consolidated financial statements.

Concentrations of credit risk

BSR deposits cash 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. Credit risk is mitigated by the number of companies and foundations comprising the receivable balance. An allowance for doubtful accounts is also maintained.

2. Summary of Significant Accounting Policies (continued)

Use of estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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, useful lives of long-lived assets, and the short term and long term nature of assets and liabilities.

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with BSR's consolidated financial statements for December 31, 2011 from which the summarized information was derived.

Certain amounts in the 2011 comparative totals have been reclassified to conform to the 2012 consolidated financial statement presentation.

Subsequent events

BSR evaluated subsequent events for recognition and disclosure through May 30, 2013, the date the consolidated financial statements were available to be issued.

3. Fixed Assets

Fixed assets consisted of the following at December 31, 2012:

Software development	$ 121,150
IT equipment	518,399
Furniture and fixtures	418,413
Leasehold improvements	815,626
	1,873,588
Less: accumulated depreciation and amortization	(575,852)
	$1,297,736

Depreciation and amortization expense for the year ended December 31, 2012 was $395,945.

3. Fixed Assets (continued)

Included in IT equipment are assets under capital leases amounting to $159,536 and the related accumulated amortization of $53,637 as of December 31, 2012.

4. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following programs at December 31, 2012:

Funder	Grant Description	
Disney	HERfinance	$ 210,019
Rockefeller Brothers Fund	Supply Chains for Carbon Breakthroughs	188,947
Rockefeller Foundation	Idea Generation for a Sustainable Future	145,052
GE Foundation	Various grants	240,452
Avery Dennison Foundation	Community Engagement Support	39,630
Levi Strauss Foundation	Various grants	95,430
Primark	HERfinance	12,500
LiFung	HERfinance	12,500
Various contributors	HERhealth	131,725
		$1,076,255

5. Capital Leases

During 2012, the Company entered into additional long term capital lease agreements to finance the acquisition of additional capital equipment (primarily computer hardware) valued at $87,970 based upon the present value of future minimum lease payments. The capital lease agreements require monthly payments ranging from $50 to $2,260, including interest rates ranging from 3.13% to 4.17%, and expire at various dates through January 2017. The related assets secure these capital lease agreements. As of December 31, 2012, the Company had outstanding borrowings of $91,866 relating to these capital lease agreements. Interest expense on the capital lease agreements amounted to $4,123 for the year ended December 31, 2012.

5. Capital Leases (continued)

Future payments required under the capital leases at December 31, 2012 are as follows:

Years Ending December 31:	
2013	$64,492
2014	19,163
2015	5,931
2016	5,017
2017	826
	95,429
Less: interest portion	(3,563)
	91,866
Less: current portion	(61,960)
	$29,906

6. Operating Leases

In April 2012, BSR entered into a noncancelable office space lease for its headquarters located in San Francisco California. The lease has a term of 7 years, beginning April 1, 2012, and expiring March 31, 2019. The lease calls for monthly payments of $32,610 during the initial year and increases annually by $858 per month on the anniversary of the rent commencement date. As part of the lease agreement, the landlord has provided BSR with tenant improvement allowances of $388,800. BSR recognizes rent expense on a straight line basis.

BSR also maintains additional offices and leases in New York, New York; Washington D.C.; Guangzhou, China; Beijing, China; Shanghai, China; Shenzhen, China; Hong Kong; and Paris, France.

Future minimum lease payments under operating leases, having remaining non-cancellable lease terms in excess of one year as of December 31, 2012, are as follows:

2013	$ 926,715
2014	836,917
2015	754,909
2016	754,909
2017	686,894
Thereafter	754,634
Total minimum operating lease payments	$4,714,978

Rental expense under all operating leases for the year ended December 31, 2012 was $1,057,491.

7. Retirement Plans

The Organization sponsors a 401(k) salary deferral plan for eligible U.S. employees. Participants may make contributions to the plan. There were no contributions to this plan made by the Organization in 2012.

On August 1, 2004 BSR established a voluntary salary deferral plan for the Chief Executive Officer ("Participant") under IRC Section 457(b). During 2012, employer contributions to the plan totaled $22,398, including $5,398 of catch up payments related to 2010. The Participant is immediately vested in employer contributions.

8. Related Party Transactions

BSR receives revenues from companies that employ members of the Board of Directors. For the year ended December 31, 2012, BSR recognized revenues that totaled approximately $126,000 in membership fees, $635,000 in consulting fees, $125,000 in conference sponsorships, and $22,000 in conference registrations from such companies. Total amounts receivable from these companies was $95,000 at December 31, 2012.

9. Commitments and Contingencies

Certain grants and contracts require compliance with various requirements. Failure to comply with these requirements could results 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.

10. Subsequent Events

Subsequent to year end, BSR and another organization established a limitada in Brazil. The limitada is expected to operate as a joint venture between BSR and its partner.