BUSINESS FOR SOCIAL RESPONSIBILITY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

ARMANINO McKENNA LLP
Certified Public Accountants & Consultants

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statement of financial position of Business for Social Responsibility and subsidiaries ("BSR") as of December 31, 2011, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of BSR's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from BSR's 2010 consolidated financial statements and, in our report dated May 18, 2011, we expressed an unqualified opinion on those consolidated financial 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 consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 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, 2011 and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Armanino McKenna LLP
ARMANINO McKENNA LLP

July 16, 2012

BUSINESS FOR SOCIAL RESPONSIBILITY
Consolidated Statement of Financial Position
December 31, 2011
(With Comparative Totals for 2010)

ASSETS

	2011	2010
Current assets		
Cash and cash equivalents	$ 2,629,309	$ 2,054,182
Receivables, net of allowance for doubtful accounts of $60,432 and $58,340 at December 31, 2011 and 2010, respectively	4,095,232	3,543,581
Grants receivable	166,584	361,127
Prepaid expenses	297,878	244,784
Total current assets	7,189,003	6,203,674
Lease deposits	377,936	118,390
Fixed assets, net	438,264	369,070
Total assets	$ 8,005,203	$ 6,691,134

LIABILITIES AND NET ASSETS

	2011	2010
Current liabilities		
Accounts payable and accrued liabilities	$ 1,168,121	$ 1,002,540
Accrued salaries and related benefits	1,290,878	898,992
Deferred revenues	3,702,439	3,088,636
Deferred rent, current	20,346	-
Capital lease obligations, current	40,512	44,800
Total current liabilities	6,222,296	5,034,968
Deferred rent, non-current	136,596	75,887
Capital lease obligations, non-current	34,566	18,683
Total liabilities	6,393,458	5,129,538
Net assets		
Unrestricted	1,121,377	1,065,173
Temporarily restricted	490,368	496,423
Total net assets	1,611,745	1,561,596
Total liabilities and net assets	$ 8,005,203	$ 6,691,134

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, 2011
(With Comparative Totals for 2010)

	2011			2010
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenues				
Consulting revenues	$ 11,399,898	$ -	$ 11,399,898	$ 7,835,071
Conferences and seminars	1,982,191	-	1,982,191	1,928,225
Membership dues	3,055,843	-	3,055,843	2,808,222
Government grants	1,088,076	-	1,088,076	1,832,717
Foundation grants	-	653,552	653,552	653,631
Contributions	2,100	-	2,100	200
Interest income	1,180	-	1,180	2,100
Other income	11,430	-	11,430	37,306
Donated services	652,134	-	652,134	-
	18,192,852	653,552	18,846,404	15,097,472
Net assets released from restrictions	659,607	(659,607)	-	-
Total support and revenues	18,852,459	(6,055)	18,846,404	15,097,472
Expenses				
Program services	15,393,255	-	15,393,255	12,563,177
Management and general	3,351,524	-	3,351,524	2,079,536
Fundraising	51,476	-	51,476	60,671
Total expenses	18,796,255	-	18,796,255	14,703,384
Change in net assets	56,204	(6,055)	50,149	394,088
Net assets, beginning of year	1,065,173	496,423	1,561,596	1,167,508
Net assets, end of year	$ 1,121,377	$ 490,368	$ 1,611,745	$ 1,561,596

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, 2011
(With Comparative Totals for 2010)

	2011				2010
	Program Services	Management and General	Fundraising	Total	Total
Salaries	$ 6,478,897	$ 1,995,019	$ 41,088	$ 8,515,004	$ 7,052,336
Payroll taxes and benefits	1,541,862	474,779	9,778	2,026,419	1,614,765
Temporary help	15,935	48,902	-	64,837	50,494
Hiring	16,849	12,943	-	29,792	64,382
Staff development	25,591	11,882	-	37,473	62,367
Contractors/professional services	2,342,595	396,864	-	2,739,459	1,356,980
Travel	944,427	79,793	-	1,024,220	969,355
Marketing	44,432	-	-	44,432	67,737
Production costs	404,635	934	-	405,569	766,596
Conferences/workshops	643,730	18,419	-	662,149	748,181
Rent and occupancy	661,031	338,397	-	999,428	803,383
Office expense	161,775	393,668	-	555,443	415,674
Information systems	29,249	382,364	-	411,613	310,970
Postage and delivery	23,299	12,205	-	35,504	32,549
Taxes and fees	162,089	67,146	-	229,235	97,713
General insurance	8,525	82,265	-	90,790	79,023
Bad debts expense	27,372	280	-	27,652	20,352
Miscellaneous	16,780	3,063	-	19,843	35,313
Donated services	652,134	-	-	652,134	-
Indirect expenses	1,019,158	(1,019,158)	-	-	-
Total expenses before depreciation and amortization	15,220,365	3,299,765	50,866	18,570,996	14,548,170
Depreciation and amortization expense	172,890	51,759	610	225,259	155,214
Total expenses	$ 15,393,255	$ 3,351,524	$ 51,476	$ 18,796,255	$ 14,703,384

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, 2011
(With Comparative Totals for 2010)

	2011	2010
Cash flows from operating activities		
Change in net assets	$ 50,149	$ 394,088
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	225,259	155,214
Loss on disposal of property and equipment	13,314	-
Changes in operating assets and liabilities		
Receivables, net	(551,651)	(932,908)
Grants receivable	194,543	(361,127)
Prepaid expenses	(53,094)	84,989
Lease deposits	(259,546)	(37,003)
Accounts payable and accrued liabilities	165,581	270,723
Accrued salaries and related benefits	391,886	288,632
Deferred revenues	613,803	68,193
Deferred rent	81,055	66,520
Net cash provided by (used in) operating activities	871,299	(2,679)
Cash flows used in investment activities		
Purchase of fixed assets	(236,201)	(162,498)
Cash flows used in financing activities		
Principal payments on capital lease obligations	(59,971)	(25,840)
Net increase (decrease) in cash and cash equivalents during the year	575,127	(191,017)
Cash and cash equivalents, beginning of the year	2,054,182	2,245,199
Cash and cash equivalents, end of the year	$ 2,629,309	$ 2,054,182
Non-cash investing and financing activities		
Acquisition of property and equipment through capital lease	$ 71,566	$ 89,223

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 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 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 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, 2011.

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 $92,686 was restricted at December 31, 2011.

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 government entities under cost-reimbursable agreements. At December 31, 2011, 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, 2011 consist primarily of donated professional services. Noncash contributions received during 2010 consisted primarily of donated professional services and were not significant to the consolidated financial statements taken as a whole.

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 one engagement that qualified as unrelated business in 2011 and accordingly, a provision for unrelated business income taxes of approximately $15,000 has been made in the accompanying consolidated financial statements.

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 2011 is approximately $101,000.

During 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, 2010 from which the summarized information was derived.

Certain amounts in the 2010 comparative totals have been reclassified to conform to the 2011 consolidated financial statement presentation.

Subsequent events

BSR evaluated subsequent events for recognition and disclosure through July 16, 2012, the date the consolidated financial statements were available to be issued. Management concluded that no material subsequent events have occurred since December 31, 2011 that required recognition or disclosure in such consolidated financial statements.

3. Fixed Assets

Fixed assets consisted of the following at December 31, 2011:

IT equipment	$502,633
Furniture and fixtures	178,568
Leasehold improvements	176,574
	857,775
Less: accumulated depreciation and amortization	(426,711)
Plus: work in process	7,200
	$438,264

3. Fixed Assets (continued)

Depreciation and amortization expense for the year ended December 31, 2011 was $225,259.

Included in IT equipment are assets under capital leases amounting to $160,889 and the related accumulated amortization of $78,783 as of December 31, 2011.

4. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following programs at December 31, 2011:

Funder	Grant Description	
Walmart Stores	Farmer Training Initiative	$166,577
GE Foundation	Conflict Minerals Local Dev	62,788
MacArthur Foundation	International Labor Migration	46,079
Levi Strauss Foundation	HERproject Curriculum	76,861
Levi Strauss Foundation	HERproject Pakistan	20,349
Levi Strauss Foundation	HERproject India	15,833
Levi Strauss Foundation	Worker Prof Development	56,000
Levi Strauss Foundation	Taking Human Rights to Scale	1,980
Rockefeller Brothers Fund	Ports and Energy Efficiency	12,781
Hewlett-Packard	China Philanthropy	30,000
Japan Foundation	Sustainability Initiative	1,120
		$490,368

5. Operating Leases

BSR headquarters is located in a leased facility located in San Francisco, California under a non-cancellable operating lease expiring in 2019. 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.

5. Operating Leases (continued)

Future minimum lease payments under operating leases, having remaining non-cancellable lease terms in excess of 1 year as of December 31, 2011, are as follows:

2012	$ 934,793
2013	979,605
2014	892,459
2015	810,452
2016	810,452
Thereafter	1,556,499
Total minimum operating lease payments	$5,984,260

Rental expense under all operating leases for the year ended December 31, 2011 was $940,457. Current exchange rates were used to calculate U.S. dollar obligations for foreign leases.

6. Capital Leases

During 2011, the Company entered into additional long term capital lease agreements to finance the acquisition of additional capital equipment (primarily computer hardware) valued at $71,566 based upon the present value of future minimum lease payments. The capital lease agreements require monthly payments ranging from $50 to $1,183, 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, 2011, the Company had outstanding borrowings of $75,078 relating to these capital lease agreements. Interest expense on the capital lease agreements amounted to $2,773 for the year ended December 31, 2011.

Future payments required under the capital leases at December 31, 2011 are as follows:

Years Ending December 31:	
2012	$43,698
2013	19,091
2014	5,655
2015	5,655
2016	5,017
Thereafter	826
	79,942
Less: interest portion	(4,864)
	75,078
Less: current portion	(40,512)
	$34,566

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 2011.

On August 1, 2004 BSR established a voluntary salary deferral plan for the Chief Executive Officer ("Participant") under IRC Section 457(b). During 2011, employer contributions to the plan totaled $16,715, including $215 of catch up payments related to 2010. 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, 2011, BSR recognized revenues that totaled approximately $104,000 in membership fees, $331,000 in consulting fees, $54,000 in conference sponsorships, and $25,000 in conference registrations from such companies. Total amounts receivable from these companies was $78,600 at December 31, 2011.

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.