

LANDESA
Rural Development Institute
CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2011

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CERTIFIED PUBLIC ACCOUNTANTS
601 UNION STREET, SUITE 2300
SEATTLE, WASHINGTON 98101

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Landesa
Seattle, Washington

We have audited the accompanying consolidated statements of financial position of Landesa as of June 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of Landesa's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide 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 Landesa as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplementary information (pages 13 and 14) is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Peterson Sullivan LLP

November 10, 2011

LANDESA

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2011 and 2010

ASSETS	<u>2011</u>	<u>2010</u>
Current Assets		
Cash and cash equivalents	\$ 1,287,699	\$ 1,916,613
Investments (Note 2)	3,585,032	3,339,949
Pledges and grants receivable (Note 3)	1,918,417	1,575,470
Contracts receivable	668,193	156,434
Prepaid expenses	<u>287,204</u>	<u>187,217</u>
Total current assets	7,746,545	7,175,683
Long-term Pledges and Grants Receivable, less discount (Note 3)		
	407,689	1,701,607
Long-term Investments (Note 2)		
	753,190	1,416,020
Property and Equipment, at cost, less accumulated depreciation (Note 4)		
	<u>191,983</u>	<u>124,193</u>
Total assets	<u>\$ 9,099,407</u>	<u>\$ 10,417,503</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 385,776	\$ 279,942
Accrued expenses	<u>286,788</u>	<u>202,399</u>
Total current liabilities	672,564	482,341
Net Assets		
Unrestricted	2,396,609	2,045,731
Temporarily restricted (Note 5)	<u>6,030,234</u>	<u>7,889,431</u>
Total net assets	<u>8,426,843</u>	<u>9,935,162</u>
Total liabilities and net assets	<u>\$ 9,099,407</u>	<u>\$ 10,417,503</u>

See Notes to Consolidated Financial Statements

LANDESA

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2011 and 2010

	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Contract revenue	\$ 1,201,932	\$ -	\$ 1,201,932	\$ 786,538	\$ -	\$ 786,538
Grants and contributions	4,404,945	2,280,382	6,685,327	3,365,704	5,295,467	8,661,171
In-kind contributions (Note 1)	158,671		158,671	198,995		198,995
Special events revenue	229,558		229,558	226,500		226,500
Special events expenses	(110,325)		(110,325)	(84,591)		(84,591)
Interest and other revenue	53,128	3,326	56,454	97,504	13,061	110,565
Net assets released from restrictions	4,142,905	(4,142,905)		2,795,461	(2,795,461)	
Total support and revenue	10,080,814	(1,859,197)	8,221,617	7,386,111	2,513,067	9,899,178
Expenses						
Salaries and related payroll costs	5,751,815		5,751,815	3,603,083		3,603,083
Travel, program partner, and project operations cost	2,095,228		2,095,228	1,258,041		1,258,041
Occupancy and related costs	430,543		430,543	260,298		260,298
Consulting and professional fees	349,044		349,044	165,955		165,955
Other office expenses	277,256		277,256	183,115		183,115
Information technology	268,138		268,138	231,874		231,874
Media, on-line, and print material	191,297		191,297	187,590		187,590
In-kind expenses	158,671		158,671	198,995		198,995
Domestic and international human resource costs	111,563		111,563	227,375		227,375
Telecommunications	49,346		49,346	31,035		31,035
Depreciation	47,035		47,035	14,668		14,668
Total expenses	9,729,936		9,729,936	6,362,029		6,362,029
Change in net assets	350,878	(1,859,197)	(1,508,319)	1,024,082	2,513,067	3,537,149
Net Assets, beginning of year	2,045,731	7,889,431	9,935,162	1,021,649	5,376,364	6,398,013
Net Assets, end of year	\$ 2,396,609	\$ 6,030,234	\$ 8,426,843	\$ 2,045,731	\$ 7,889,431	\$ 9,935,162

See Notes to Consolidated Financial Statements

LANDESA

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Cash received from contract revenue	\$ 690,173	\$ 946,067
Cash received from grants and contributions	7,636,298	6,401,376
Cash received from interest	56,454	110,565
Cash received from special events	229,558	226,500
Cash paid to employees	(5,658,218)	(3,548,136)
Cash paid for other operating activities	(3,886,101)	(2,548,206)
	(931,836)	1,588,166
Net cash flows from operating activities	(931,836)	1,588,166
Cash Flows from Investing Activities		
Purchase of investments	(3,027,253)	(3,326,969)
Proceeds from sale of investments	3,445,000	2,956,000
Purchase of property and equipment	(114,825)	(130,693)
	302,922	(501,662)
Net cash flows from investing activities	302,922	(501,662)
Net change in cash and cash equivalents	(628,914)	1,086,504
Cash and Cash Equivalents, beginning of year	1,916,613	830,109
Cash and Cash Equivalents, end of year	\$ 1,287,699	\$ 1,916,613
Reconciliation of change in net assets to cash flows from operating activities		
Change in net assets	\$ (1,508,319)	\$ 3,537,149
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	47,035	14,668
Change in discounts on pledges and grants receivable	(105,060)	68,015
Change in operating assets and liabilities		
Pledges and grants receivable	1,056,031	(2,327,810)
Contracts receivable	(511,759)	159,529
Prepaid expenses	(99,987)	(56,968)
Accounts payable	105,834	125,811
Accrued expenses	84,389	67,772
	(931,836)	1,588,166
Net cash flows from operating activities	\$ (931,836)	\$ 1,588,166

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

Landesa (formerly Rural Development Institute ["RDI"]) is a Washington nonprofit corporation founded in 1981. Landesa is an international organization working to secure land rights for the world's poorest people. Landesa professionals have worked in over 40 developing countries in partnership with governments, NGOs, numerous foreign aid agencies, and other partners to design and implement laws, policies, and programs that provide opportunity, further economic growth, and promote social justice.

Landesa has offices in:

- Seattle, United States
- Beijing, China
- Bangalore, India
- Hyderabad, India
- Kolkata, India
- Delhi, India
- Bhubaneswar, India

Landesa does not hold significant amounts of assets or liabilities denominated in non-United States currency at June 30, 2011 and 2010. During the year ended June 30, 2011, \$3,541,431 of expenses were incurred outside the United States.

Landesa receives significant revenues from multi-year grants. If the grant award is not contingent upon future actions, accounting principles generally accepted in the United States ("GAAP") require Landesa to recognize the entire grant (all years) in the year the grant was awarded. This accounting requirement may account for large annual increases or decreases in total revenue and support and net assets. Landesa's operations generally reflect the multi-year nature of the grant (only expending a year at a time) regardless of the particular revenue recognition principle.

Landesa operates significant Indian program activities through an organization called the RDI India Trust. The RDI India Trust is a public charitable trust recognized by the government of India. Landesa is the sole financial supporter of the RDI India Trust. The mission of the RDI India Trust is to undertake the Indian program activities of Landesa. All activities of the RDI India Trust are included in these consolidated financial statements.

In February 2011, Landesa incorporated the limited liability corporation Landesa Consulting LLC ("the LLC") with Landesa being the sole member. As an LLC, the liability of the members is generally limited to amounts invested. The LLC was incorporated for the purpose of continuing current operations in China and does not have a termination date. The LLC is currently registering an entity in China as a wholly owned foreign enterprise. The LLC will be the sole owner of the new Chinese enterprise. The registration application is currently pending with the Chinese government.

Basis of Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions and include Landesa's foreign and domestic activities. Accordingly, the net assets of Landesa and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that will be met either by actions of Landesa or the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that must be maintained permanently by Landesa. Landesa had no permanently restricted net assets at June 30, 2011 or 2010.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. If temporary restrictions are met in the same period as contributions and grants are received, then they are shown as unrestricted net assets.

Basis of Consolidation

These consolidated financial statements include the accounts of Landesa, RDI India Trust, and Landesa Consulting LLC, a wholly owned entity of Landesa. All intra-entity balances and transactions have been eliminated. All amounts in these consolidated financial statements are in United States dollars.

Cash and Cash Equivalents

Landesa considers highly liquid investments with original maturities of three months or less to be cash equivalents. Landesa maintains its cash and cash equivalents in bank deposit accounts and interest-bearing money market funds which, at times, may exceed federally insured limits.

Investments

Investments represent certificates of deposit and are stated at cost plus accrued interest (which approximates fair value).

Contract Receivables/Revenue

Support from cost-reimbursable contracts is recognized when eligible costs are incurred. Support from performance-based contracts is recognized when performance is completed. If support recognized exceeds cash advances received, then a receivable is recorded. However, if cash advances exceed support recognized, then a liability, unearned contract support, is recorded. Landesa has received grants for specific purposes that are open to review and audit by the grantor agencies.

Pledge and Grant Receivables/Revenue

Pledges and grants receivable consist primarily of unconditional promises to give. Unconditional promises to give are recognized as revenues and support in the period received. Landesa records an estimated allowance for uncollectible pledges and grants receivable based on its assessment of uncollectible pledges and grants. No allowance has been recorded for the years ended June 30, 2011 or 2010, based on historical collection trends.

Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discount is included in grants and contributions revenue in the consolidated statements of activities.

Property and Equipment

Property and equipment purchases greater than \$5,000 are capitalized and are recorded at cost or, in the case of donated fixed assets, at estimated fair value at the time of donation. Depreciation of fixed assets is provided for over the estimated useful lives of the assets for three to seven years on a straight-line basis. For leasehold improvements, depreciation is calculated using the shorter of the lease term or the useful life of the asset, also on the straight-line basis.

In-Kind Contributions

In-kind contributions represent contributed website services and legal services. These services were valued at fair value and amounted to \$158,671 and \$198,995 during fiscal year 2011 and 2010, respectively. In-kind services are only recognized if the services require a specialized skill that would otherwise be purchased by Landesa.

Vulnerability from Certain Concentrations

For the year ended June 30, 2011, 57% of Landesa's revenues were from two private foundations. For the year ended June 30, 2010, 76% of Landesa's revenues were from four private foundations. At June 30, 2011, 71% of total receivables were due from three private foundations. At June 30, 2010, 90% of total receivables were due from three private foundations.

Landesa received 37% and 25% of total revenue for the years ended June 30, 2011 and 2010, respectively, from a private foundation. A member of Landesa's Board of Directors is a key member of management at this private foundation.

Management of Landesa is aware of the related vulnerability, but does not anticipate any losses in connection with these concentrations.

Income Tax Status

Landesa is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Tax returns for the years ended June 30, 2008 through 2011 are open to examination by the Internal Revenue Service.

RDI India Trust is exempt from income taxes under Section 12AA(1)(b)(i) of the Income Tax Act. Tax returns for the years ended March 31, 2008 through 2011 are open to examination by the Indian taxing authorities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation.

Subsequent Events

Landesa has evaluated subsequent events through the date these financial statements were available to be issued, which was the same date as the independent auditors' report.

Note 2. Investments

Short-Term

Short-term investments consisted of certificates of deposit held at Wells Fargo Bank for \$3,585,032 and \$3,339,949 as of June 30, 2011 and 2010, respectively. No individual certificate of deposit exceeded \$200,000 at June 30, 2011, or \$100,000 at June 30, 2010, and all investments are federally insured.

Long-Term

The Landesa Board of Directors designates money advanced to Landesa for future programs beyond one year as long-term investments. These funds are to be used only for the specific, expressed purpose of the related programs. This designation does not dictate how the money should be invested, but rather that the money should be appropriately segregated for financial statement purposes. As of June 30, 2011 and 2010, long-term investments consisted of certificates of deposit held at Wells Fargo Bank for \$753,190 and \$1,416,020, respectively. No individual certificate of deposit exceeded \$200,000 at June 30, 2011 or \$100,000 at June 30, 2010, and all investments are federally insured.

Note 3. Pledges and Grants Receivable

Included in pledges and grants receivable are the following unconditional promises to give at June 30:

	<u>2011</u>	<u>2010</u>
Amounts due in:		
One to five years	\$ 437,529	\$ 1,836,507
Less unamortized discount to present value	<u>(29,840)</u>	<u>(134,900)</u>
Net long-term pledges and grants receivable	407,689	1,701,607
Amounts due in:		
Less than one year	<u>1,918,417</u>	<u>1,575,470</u>
Total pledges and grants receivable	<u><u>\$ 2,326,106</u></u>	<u><u>\$ 3,277,077</u></u>

The effective interest rate used to discount pledges and grants receivable was 4.5% for amounts pledged prior to fiscal year 2010 and 3.25% for amounts pledged in fiscal year 2010 (no long-term pledges were received in 2011).

Note 4. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2011</u>	<u>2010</u>
Furniture and equipment	\$ 189,821	\$ 116,644
Leasehold improvements	22,157	22,157
Software	51,321	51,321
Construction in progress	41,648	-
	<u>304,947</u>	<u>190,122</u>
Less accumulated depreciation	<u>(112,964)</u>	<u>(65,929)</u>
	<u><u>\$ 191,983</u></u>	<u><u>\$ 124,193</u></u>

Note 5. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at June 30:

	<u>2011</u>	<u>2010</u>
General support in future years	\$ 291,573	\$ 607,350
Program expenses in India	4,243,012	5,187,795
Program expenses in China	708,276	961,379
Program expenses in Africa	100,323	172,281
Program expenses in Pakistan	25,000	-
Program expenses for Landesa Center for Women's Land Rights	662,050	960,626
	<u><u>\$ 6,030,234</u></u>	<u><u>\$ 7,889,431</u></u>

Note 6. Functional Allocation of Expenses

The cost of providing the various programs and other activities has been allocated to the program and supporting services benefited as follows at June 30:

	<u>2011</u>	<u>2010</u>
Program services	\$ 8,094,968	\$ 5,122,650
Fundraising	849,920	649,900
Management and general	785,048	589,479
	<u><u>\$ 9,729,936</u></u>	<u><u>\$ 6,362,029</u></u>

Note 7. Leases

Landesa leases two office spaces in Seattle, Washington. The first lease is a five-year non-cancelable operating lease agreement which expires October 31, 2012. The second lease is a seven-year non-cancelable operating lease agreement which expires December 31, 2017. Total rent expense for the fiscal years ended June 30, 2011 and 2010, was \$405,817 and \$260,298, respectively.

Future minimum lease payments for the Seattle offices under non-cancelable operating lease are as follows for the years ending June 30:

2012	\$ 329,731
2013	260,655
2014	292,782
2015	301,608
2016	310,440
Thereafter	481,104
	<hr/>
	\$ 1,976,320
	<hr/>

Landesa intends to sublease the first Seattle lease in 2012. As of the date of the independent auditors' report, Landesa has secured sublease agreements for 4,614 square feet of the total square feet 6,762.

Note 8. Retirement Plan

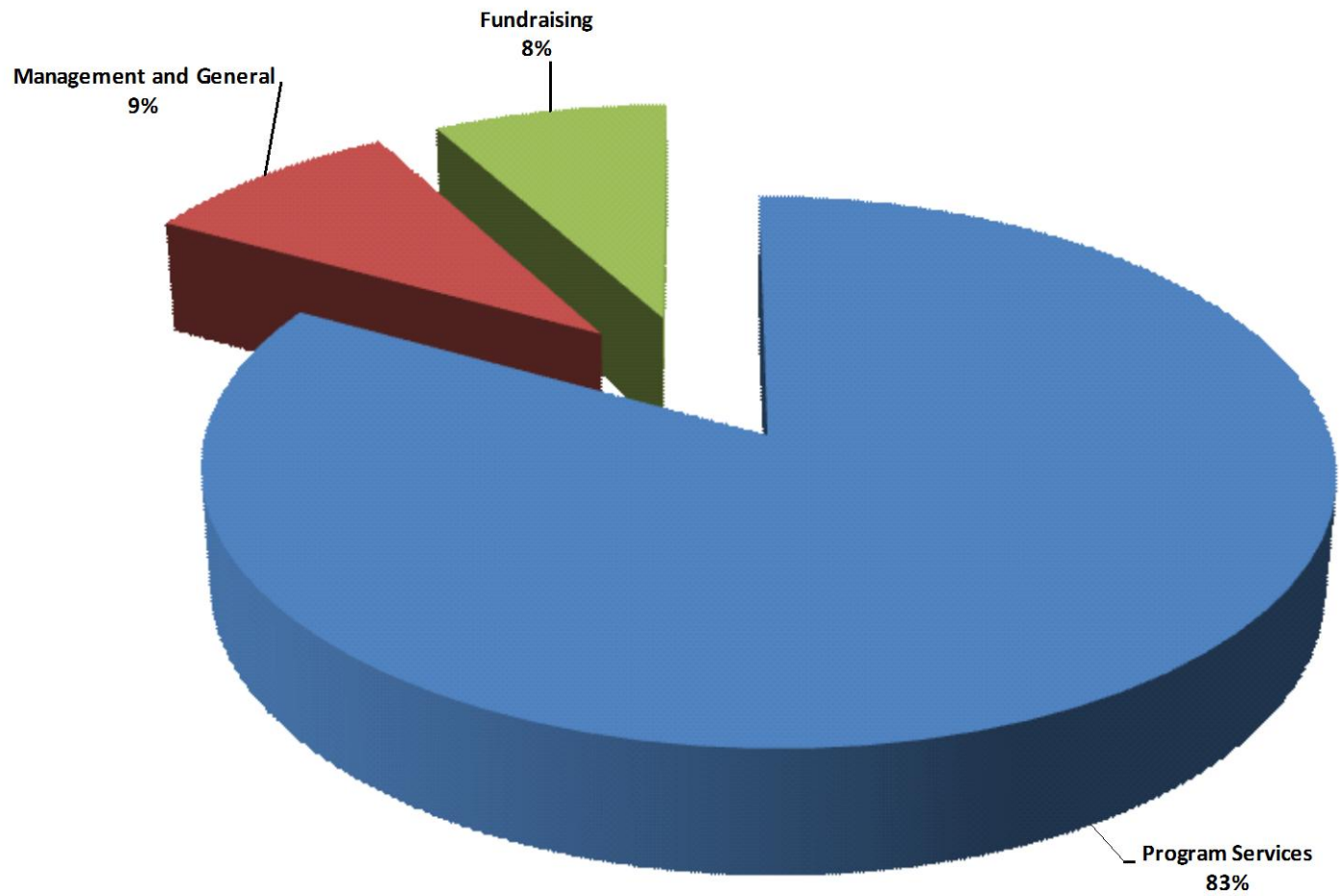
Landesa has a 401(k) retirement plan ("the Plan") for its employees. Participants elect to make contributions to the Plan, and Landesa contributes 3% of an employee's gross wages to the plan regardless of any employee contribution. Total expenses related to the plan were \$111,966 and \$73,162 for the years ended June 30, 2011 and 2010, respectively.

S U P P L E M E N T A R Y I N F O R M A T I O N

LANDESA

FUNCTIONAL ALLOCATION OF EXPENSES

For the Year Ended June 30, 2011



LANDESA

ALLOCATION OF RESOURCES BY PROGRAM AREA

For the Year Ended June 30, 2011

