LANDESA
Rural Development Institute

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2012

C O N T E N T S

PETERSON SULLIVAN LLP

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, 2012 and 2011, 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, 2012 and 2011, 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Peterson Sullivan LLP

November 1, 2012

Tel 206.382.7777 • Fax 206.382.7700 • www.pscpa.com

LANDESA

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2012 and 2011

ASSETS	2012	2011
Current Assets		
Cash and cash equivalents	$ 3,548,521	$ 1,287,699
Investments (Note 2)	800,000	3,585,032
Pledges and grants receivable (Note 3)	1,107,282	1,918,417
Contracts receivable	309,485	668,193
Prepaid expenses and other	269,851	287,204
Total current assets	6,035,139	7,746,545
Long-term Pledges and Grants Receivable, less discount (Note 3)	637,890	407,689
Long-term Investments (Note 2)	300,000	753,190
Property and Equipment, at cost, less accumulated depreciation (Note 5)	175,055	191,983
Total assets	$ 7,148,084	$ 9,099,407

LIABILITIES AND NET ASSETS	2012	2011
Current Liabilities		
Accounts payable	$ 121,511	$ 183,714
Accrued payroll and related expenses	293,506	202,062
Accrued expenses	492,209	286,788
Total current liabilities	907,226	672,564
Net Assets		
Unrestricted	1,849,982	2,396,609
Temporarily restricted (Note 6)	4,390,876	6,030,234
Total net assets	6,240,858	8,426,843
Total liabilities and net assets	$ 7,148,084	$ 9,099,407

See Notes to Consolidated Financial Statements

LANDESA

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2012 and 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Grants and contributions	$ 4,995,199	$ 2,708,901	$ 7,704,100	$ 4,404,945	$ 2,280,382	$ 6,685,327
Contract revenue	982,352		982,352	1,201,932		1,201,932
In-kind contributions (Note 1)	155,928		155,928	158,671		158,671
Special events revenue	261,160		261,160	229,558		229,558
Special events expenses	(66,590)		(66,590)	(110,325)		(110,325)
Interest and other revenue	22,705	1,262	23,967	53,128	3,326	56,454
Net assets released from restrictions	4,349,521	(4,349,521)		4,142,905	(4,142,905)	
Total support and revenue	10,700,275	(1,639,358)	9,060,917	10,080,814	(1,859,197)	8,221,617
Expenses						
Salaries and related payroll costs	7,191,117		7,191,117	5,751,815		5,751,815
Project operations cost	1,615,133		1,615,133	1,277,118		1,277,118
Program consulting	695,150		695,150	818,110		818,110
Occupancy and related costs	664,739		664,739	430,543		430,543
Consulting and professional fees	222,235		222,235	349,044		349,044
Other office expenses	195,091		195,091	277,256		277,256
Information technology	176,057		176,057	268,138		268,138
Media, on-line, and print material	127,871		127,871	191,297		191,297
In-kind expenses	155,928		155,928	158,671		158,671
Domestic and international human resource costs	77,133		77,133	111,563		111,563
Telecommunications	61,818		61,818	49,346		49,346
Depreciation	64,630		64,630	47,035		47,035
Total expenses	11,246,902		11,246,902	9,729,936		9,729,936
Change in net assets	**(546,627)**	**(1,639,358)**	**(2,185,985)**	**350,878**	**(1,859,197)**	**(1,508,319)**
Net Assets, beginning of year	2,396,609	6,030,234	8,426,843	2,045,731	7,889,431	9,935,162
Net Assets, end of year	$ 1,849,982	$ 4,390,876	$ 6,240,858	$ 2,396,609	$ 6,030,234	$ 8,426,843

See Notes to Consolidated Financial Statements

LANDESA

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Change in net assets	$ (2,185,985)	$ (1,508,319)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	64,630	47,035
Change in discounts on pledges and grants receivable	3,226	(105,060)
Change in operating assets and liabilities		
Pledges and grants receivable	577,708	1,056,031
Contracts receivable	358,708	(511,759)
Prepaid expenses and other	17,353	(99,987)
Accounts payable	(62,203)	63,246
Accrued payroll and related expenses	91,444	42,588
Accrued expenses	205,421	84,389
Net cash flows from operating activities	(929,698)	(931,836)
Cash Flows from Investing Activities		
Purchase of investments		(3,027,253)
Proceeds from sale of investments	3,238,222	3,445,000
Purchase of property and equipment	(47,702)	(114,825)
Net cash flows from investing activities	3,190,520	302,922
Net change in cash and cash equivalents	**2,260,822**	**(628,914)**
Cash and Cash Equivalents, beginning of year	1,287,699	1,916,613
Cash and Cash Equivalents, end of year	$ 3,548,521	$ 1,287,699

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 or "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, non-governmental organizations, 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, 2012 and 2011. During the years ended June 30, 2012 and 2011, $3,931,767 and $3,541,431, respectively, 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 majority 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. After suspending attempts to register in China as a wholly foreign owned enterprise, Landesa is currently researching other registration alternatives.

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, 2012 or 2011.

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.

Basis of Consolidation

These consolidated financial statements include the accounts of Landesa, RDI India Trust, and Landesa Consulting LLC. 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.

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 Receivable/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. Landesa charges off receivables against the allowance when management determines that a receivable is not collectible. No allowance has been recorded for the years ended June 30, 2012 or 2011, based on historical collection trends.

Pledges and grants receivable that are expected to be collected within one year are recorded at net realizable value. Pledges and grants receivable that are expected to be collected in future years are initially recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in grants and contributions revenue in the consolidated statements of activities. Conditional promises to give are not included as support until the conditions are substantially met.

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 $155,928 and $158,671 during fiscal year 2012 and 2011, 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, 2012, 70% of Landesa's revenues were from three private foundations. For the year ended June 30, 2011, 57% of Landesa's revenues were from two private foundations. At June 30, 2012, 68% of total receivables were due from two private foundations. At June 30, 2011, 71% of total receivables were due from three private foundations.

Landesa received 39% and 37% of total revenue for the years ended June 30, 2012 and 2011, 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, 2009 through 2012 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, 2009 through 2012 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 $800,000 and $3,585,032 as of June 30, 2012 and 2011, respectively. No individual certificate of deposit exceeded $250,000 at June 30, 2012 or 2011, 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, 2012 and 2011, long-term investments consisted of certificates of deposit held at Wells Fargo Bank for $300,000 and $753,190, respectively. No individual certificate of deposit exceeded $250,000 at June 30, 2012 or 2011, 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:

	2012	2011
Amounts due in:		
One to five years	$ 662,529	$ 437,529
Less unamortized discount to present value	(24,639)	(29,840)
Net long-term pledges and grants receivable	637,890	407,689
Amounts due in:		
Less than one year	1,107,282	1,918,417
Total pledges and grants receivable	$ 1,745,172	$ 2,326,106

The effective interest rate used to discount pledges and grants receivable was 3.25% for amounts pledged prior to fiscal year 2012 and 0.5% for amounts pledged in fiscal year 2012 (no long-term pledges were received in 2011).

Note 4. Conditional Awards

Landesa was awarded a conditional $6,728,806 grant during the year ended June 30, 2009, and payments are conditional based on Landesa meeting outlined milestones. The purpose of the award was to help landless women agriculture laborers and their families in rural India to obtain secure rights to land. During the year ended June 30, 2012, $1,136,114 of the total grant amount was received and is recognized as grants and contributions revenue in the statement of activities. As of June 30, 2012, Landesa has recognized as revenue a total of $5,884,367 related to this award. The remaining $844,439 is contingent upon the Landesa meeting certain required expectations in the future. As such, no revenue related to the unpaid portion of the grant has been recognized in the statement of activities for the year ended June 30, 2012, and no receivable has been recorded.

In 2012, Landesa was awarded another conditional grant of $575,763. Payments are conditional based on Landesa satisfactorily meeting project deliverables in support of a sustainable web-based education tool on land tenure (focused on Africa). As of June 30, 2012, $61,406 had been recognized as revenue under this award.

Note 5. Property and Equipment

Property and equipment consists of the following at June 30:

	2012	2011
Furniture and equipment	$ 214,439	$ 189,821
Leasehold improvements	22,157	22,157
Software	82,874	51,321
Construction in progress	27,398	41,648
	346,868	304,947
Less accumulated depreciation	(171,813)	(112,964)
	$ 175,055	$ 191,983

Note 6. Temporarily Restricted Net Assets

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

	2012	2011
General support in future years	$ 852,767	$ 291,573
Program expenses in India	2,658,682	4,243,012
Program expenses in China	23,275	708,276
Program expenses in Africa	274,145	100,323
Program expenses for Landesa Center for Women's Land Rights	582,007	662,050
Program expenses in Pakistan		25,000
	$ 4,390,876	$ 6,030,234

Note 7. 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:

	2012	2011
Program services	$ 8,833,427	$ 8,094,968
Fundraising	978,849	849,920
Management and general	1,434,626	785,048
	$ 11,246,902	$ 9,729,936

Note 8. Leases

Landesa leases two office spaces in Seattle, Washington, and one in Beijing, China. The first Seattle lease is a five-year non-cancelable operating lease agreement which expires October 31, 2012. The second Seattle lease is a seven-year non-cancelable operating lease agreement which expires December 31, 2017. The Beijing lease is a three-year non-cancelable operating lease agreement which expires April 30, 2015. Total rent expense for the fiscal years ended June 30, 2012 and 2011, was $643,707 and $405,817, respectively.

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

2013	$ 491,528
2014	523,654
2015	494,002
2016	310,440
2017	319,266
Thereafter	161,838
	$ 2,300,728

Landesa subleased 4,890 square feet of the total 6,762 square feet related to the first Seattle lease.

Note 9. Retirement Plan

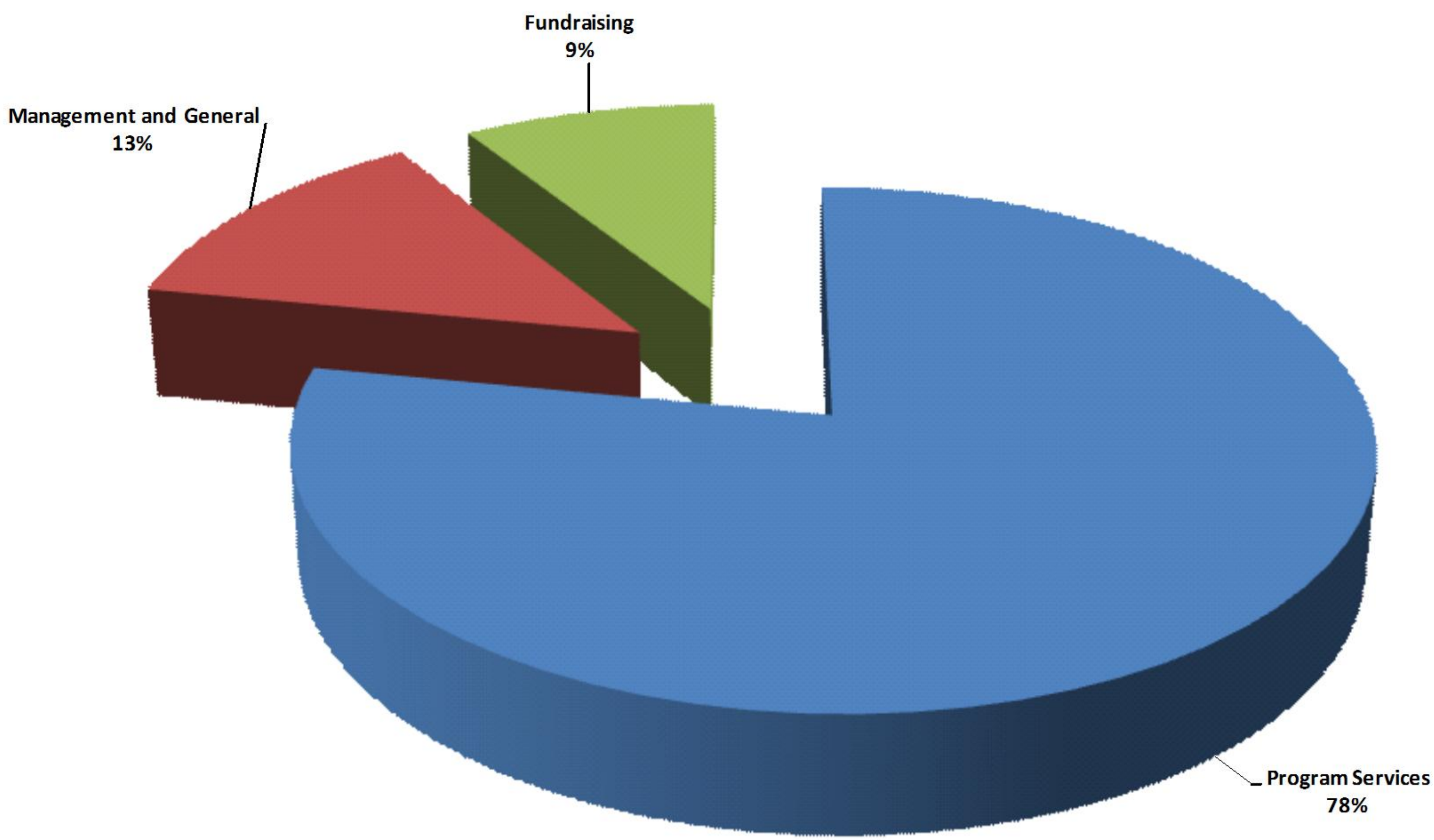
Landesa has a 401(k) retirement plan ("the Plan") for its employees. Participants elect to make contributions to the Plan, and Landesa contributes 3% of an employee's gross wages to the plan regardless of any employee contribution. Total expenses related to the plan were $134,541 and $111,966 for the years ended June 30, 2012 and 2011, respectively.

SUPPLEMENTARY INFORMATION

LANDESA

FUNCTIONAL ALLOCATION OF EXPENSES

For the Year Ended June 30, 2012



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ALLOCATION OF RESOURCES BY PROGRAM AREA

For the Year Ended June 30, 2012