

RURAL DEVELOPMENT INSTITUTE

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2010 and 2009

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CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Rural Development Institute
Seattle, Washington

We have audited the accompanying statements of financial position of Rural Development Institute as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Rural Development Institute's management. Our responsibility is to express an opinion on these 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 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 audits provide 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 Rural Development Institute as of June 30, 2010 and 2009, 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 financial statements taken as a whole. The accompanying supplementary information (pages 12 and 13) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peterson Sullivan LLP

October 19, 2010

RURAL DEVELOPMENT INSTITUTE

STATEMENTS OF FINANCIAL POSITION

June 30, 2010 and 2009

ASSETS	2010	2009
Current Assets		
Cash and cash equivalents	\$ 1,916,613	\$ 830,109
Investments (Note 2)	3,339,949	1,944,445
Pledges and grants receivable (Note 3)	1,575,470	476,185
Contracts receivable	156,434	315,963
Prepaid expenses	187,217	130,249
Total current assets	7,175,683	3,696,951
Long-term Pledges and Grants Receivable (Note 3)	1,701,607	541,097
Long-term Investments (Note 2)	1,416,020	2,440,555
Property and Equipment, at cost, less accumulated depreciation (Note 4)	124,193	8,168
Total assets	<u>\$ 10,417,503</u>	<u>\$ 6,686,771</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 279,942	\$ 154,131
Accrued expenses	202,399	134,627
Total current liabilities	482,341	288,758
Net Assets		
Unrestricted	2,045,731	1,021,649
Temporarily restricted (Note 5)	7,889,431	5,376,364
Total net assets	9,935,162	6,398,013
Total liabilities and net assets	<u>\$ 10,417,503</u>	<u>\$ 6,686,771</u>

See Notes to Financial Statements

RURAL DEVELOPMENT INSTITUTE

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2010 and 2009

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Contract revenue	\$ 786,538	\$ -	\$ 786,538	\$ 862,223	\$ -	\$ 862,223
Grants and contributions	3,365,704	5,295,467	8,661,171	659,926	1,526,998	2,186,924
In-kind contributions (Note 1)	198,995		198,995	253,074		253,074
Special events, net of direct expenses of \$84,591 and \$82,606 in 2010 and 2009, respectively	141,909		141,909	155,004		155,004
Interest and other revenue	97,504	13,061	110,565	134,898	8,126	143,024
Net assets released from restrictions	2,795,461	(2,795,461)		2,487,622	(2,487,622)	
Total support and revenue	7,386,111	2,513,067	9,899,178	4,552,747	(952,498)	3,600,249
Expenses						
Salaries and related payroll costs	3,603,083		3,603,083	2,261,684		2,261,684
Travel, program operations, and strategic design	781,399		781,399	988,944		988,944
Foreign affiliate payments	476,642		476,642	292,846		292,846
Occupancy and related costs	260,298		260,298	184,332		184,332
Media, printing and print materials	187,590		187,590	80,345		80,345
Other office expenses	183,115		183,115	103,828		103,828
Domestic and international human resource costs	227,375		227,375	92,390		92,390
Accounting, legal, and other professional fees	165,955		165,955	21,233		21,233
Telecommunications	31,035		31,035	24,009		24,009
Information technology	231,874		231,874	95,625		95,625
In-kind expenses	198,995		198,995	253,074		253,074
Depreciation	14,668		14,668	1,638		1,638
Total expenses	6,362,029		6,362,029	4,399,948		4,399,948
Change in net assets	1,024,082	2,513,067	3,537,149	152,799	(952,498)	(799,699)
Net assets, beginning of year	1,021,649	5,376,364	6,398,013	868,850	6,328,862	7,197,712
Net assets, end of year	<u>\$ 2,045,731</u>	<u>\$ 7,889,431</u>	<u>\$ 9,935,162</u>	<u>\$ 1,021,649</u>	<u>\$ 5,376,364</u>	<u>\$ 6,398,013</u>

See Notes to Financial Statements

RURAL DEVELOPMENT INSTITUTE

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Cash received from contract revenue	\$ 946,067	\$ 793,304
Cash received from grants and contributions	6,401,376	2,943,899
Cash received from interest	110,565	143,024
Cash received from special events	226,500	237,610
Cash paid to employees	(3,548,136)	(2,213,849)
Cash paid for other operating activities	(2,548,206)	(2,052,155)
Net cash flows from operating activities	1,588,166	(148,167)
Cash Flows from Investing Activities		
Purchase of investments	(3,326,969)	(3,707,480)
Proceeds from sale of investments	2,956,000	2,465,000
Purchase of property and equipment	(130,693)	(9,806)
Net cash flows from investing activities	(501,662)	(1,252,286)
Net change in cash and cash equivalents	1,086,504	(1,400,453)
Cash and cash equivalents, beginning of year	830,109	2,230,562
Cash and cash equivalents, end of year	\$ 1,916,613	\$ 830,109
Reconciliation of change in net assets to cash flows from operating activities		
Change in net assets	\$ 3,537,149	\$ (799,699)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	14,668	1,638
Change in operating assets and liabilities		
Pledges and grants receivable	(2,259,795)	756,975
Contracts receivable	159,529	(68,919)
Prepaid expenses	(56,968)	(37,183)
Accounts payable	125,811	200
Accrued expenses	67,772	(1,179)
Net cash flows from operating activities	\$ 1,588,166	\$ (148,167)

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

The Rural Development Institute ("RDI") is a Washington nonprofit corporation founded in 1981. RDI is an international organization working to secure land rights for the world's poorest people. RDI 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.

RDI has offices in:

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

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

RDI does not hold significant amounts of assets or liabilities denominated in non-United States currency at June 30, 2010 and 2009. RDI incurs significant expenses for services provided outside the United States.

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 RDI's foreign and domestic activities. Accordingly, the net assets of RDI 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 RDI or the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that must be maintained permanently by RDI. RDI had no permanently restricted net assets at June 30, 2010 or 2009.

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.

Cash and Cash Equivalents

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

Contract Support

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. RDI has received grants for specific purposes that are open to review and audit by the grantor agencies.

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

RDI receives contributed website, legal, and communications services. In addition, in 2008, RDI occupied certain premises owned by others without charge. These services and facilities were recorded at fair values at the time of donation as follows:

	<u>2010</u>	<u>2009</u>
Contributed services	\$ 198,995	\$ 244,214
Contributed facilities		8,860
	<u>\$ 198,995</u>	<u>\$ 253,074</u>

Vulnerability from Certain Concentrations

For the year ended June 30, 2010, 76% of RDI's revenues were from four private foundations. For the year ended June 30, 2009, 40% of RDI's revenues were from one private foundation. At June 30, 2010, 90% of total receivables were due from three private foundations. At June 30, 2009, 81% of total receivables were due from one private foundation and one contract agency. Management is aware of the related vulnerability, but does not anticipate any losses in connection with these concentrations.

Income Tax Status

Effective July 1, 2001, the IRS determined RDI can operate as a public charity under Section 501(c)(3) of the Internal Revenue Code. Tax returns for the years ended June 30, 2007 through 2010, are open to examination by federal 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

RDI 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 \$3,339,949 and \$1,944,445 as of June 30, 2010 and 2009, respectively, and are stated at cost which approximates fair value. No individual certificate of deposit exceeded \$100,000, and all investments are federally insured.

Long-Term

The RDI Board of Directors designates money advanced to RDI 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, 2010 and 2009, long-term investments consisted of certificates of deposit held at Wells Fargo Bank for \$1,416,020 and \$2,440,555, respectively. Certificates of deposit are stated at cost, which approximates fair value. No individual certificate of deposit exceeds \$100,000, 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>2010</u>	<u>2009</u>
Amounts due in:		
One to five years	\$ 1,836,507	\$ 607,982
Less unamortized discount to present value	<u>(134,900)</u>	<u>(66,885)</u>
Net long-term pledges and grants receivable	1,701,607	541,097
Amounts due in:		
Less than one year	<u>1,575,470</u>	<u>476,185</u>
Total pledges and grants receivable	<u><u>\$ 3,277,077</u></u>	<u><u>\$ 1,017,282</u></u>

The effective interest rate used to discount pledges and grants receivable was 4.50% for amounts pledged prior to fiscal year 2010 and 3.25% for amounts pledged in fiscal year 2010.

Note 4. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2010</u>	<u>2009</u>
Furniture and equipment	\$ 116,644	\$ 21,335
Leasehold improvements	22,157	17,157
Software	51,321	20,937
	<u>190,122</u>	<u>59,429</u>
Less accumulated depreciation	<u>(65,929)</u>	<u>(51,261)</u>
	<u><u>\$ 124,193</u></u>	<u><u>\$ 8,168</u></u>

Note 5. Temporarily Restricted Net Assets

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

	<u>2010</u>	<u>2009</u>
General support in future years	\$ 607,350	\$ 933,115
Program expenses in India	5,187,795	4,435,675
Program expenses in China	961,379	7,574
Program expenses in Africa	172,281	
Program expenses for Women's Land Rights	960,626	
	<u><u>\$ 7,889,431</u></u>	<u><u>\$ 5,376,364</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>2010</u>	<u>2009</u>
Program services	\$ 5,122,650	\$ 3,579,541
Fundraising	649,900	434,557
Management and general	589,479	385,850
	<u><u>\$ 6,362,029</u></u>	<u><u>\$ 4,399,948</u></u>

Note 7. Leases

RDI leases office space in Seattle, Washington, under a five-year non-cancelable operating lease agreement which expires October 31, 2012. Total rent expense for the fiscal years ended June 30, 2010 and 2009, was \$243,800 and \$182,967, respectively.

On August 13, 2010, RDI entered into an agreement to lease new facilities. The lease term is for six years commencing January 1, 2011, and provides for annual rental payments between \$271,000 and \$324,000.

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

2011	\$ 293,000
2012	440,000
2013	339,000
2014	293,000
2015	302,000
Thereafter	<u>792,000</u>
	<u>\$ 2,459,000</u>

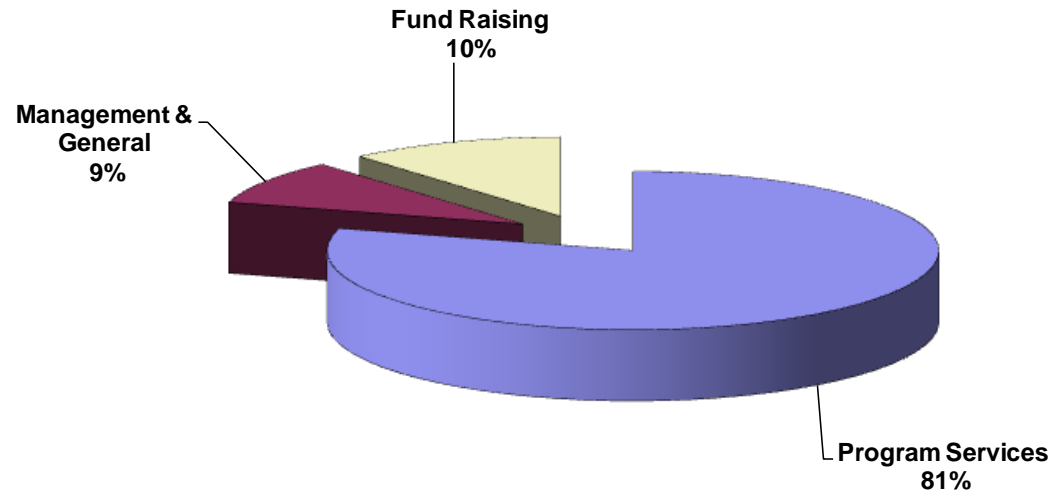
RDI intends to sub-lease its current facilities once the new space is occupied. RDI has not entered into a sub-lease agreement as of the date of the independent auditors' report.

Note 8. Retirement Plan

RDI has a 401(k) retirement plan ("the Plan") for its employees. Participants elect to make contributions to the Plan, and RDI contributes 3% of an employee's gross wages to the plan regardless of any employee contribution. Total expenses related to the plan were \$73,162 and \$45,962 for the years ended June 30, 2010 and 2009, 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

RURAL DEVELOPMENT INSTITUTE
FUNCTIONAL ALLOCATION OF EXPENSES
For the Year Ended June 30, 2010



RURAL DEVELOPMENT INSTITUTE

ALLOCATION OF RESOURCES BY PROGRAM AREA

For the Year Ended June 30, 2010

