

**FAIR TRADE USA**  
**AND GOOD WORLD SOLUTIONS**

**CONSOLIDATED**  
**FINANCIAL STATEMENTS**

**DECEMBER 31, 2011 AND 2010**

**ARMANINO MCKENNA** <sup>LLP</sup>  
Certified Public Accountants & Consultants



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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Fair Trade USA and Good World Solutions  
Oakland, California

We have audited the accompanying consolidated statements of financial position of Fair Trade USA and Good World Solutions (collectively the "Organization") as of December 31, 2011 and 2010, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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 of America. Those standards require that we plan and perform the audits 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 the effectiveness of the Organization'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 presentation. We believe 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 Fair Trade USA and Good World Solutions as of December 31, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*ARMANINO McKENNA LLP*  
ARMANINO McKENNA LLP

June 19, 2012



FAIR TRADE USA AND  
GOOD WORLD SOLUTIONS  
Consolidated Statements of Financial Position  
December 31, 2011 and 2010

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ASSETS

	2011	2010
Current assets		
Cash and cash equivalents	\$ 2,998,463	\$ 1,423,852
Investments	258,324	284,247
Service fees receivable, net of allowance for doubtful accounts of \$60,000 at 2011 and \$70,000 at 2010	2,426,191	1,615,064
Grants receivable, current	969,694	1,032,882
Note receivable, current	14,632	2,350
Other receivables	7,080	10,000
Prepaid expenses	91,710	75,272
Total current assets	6,766,094	4,443,667
Property and equipment, net	311,150	418,779
Deposits	37,302	58,474
Grants receivable, long term	114,654	592,500
Note receivable, long term	7,765	-
Total assets	\$ 7,236,965	\$ 5,513,420

LIABILITIES AND NET ASSETS (DEFICIT)

Current liabilities		
Accounts payable	\$ 232,091	\$ 138,168
Accrued liabilities	1,260,573	947,566
Deferred revenue	-	26,400
Notes payable, current portion	575,000	470,000
Total current liabilities	2,067,664	1,582,134
Notes payable, net of current portion	4,325,000	4,750,000
Accrued lease incentive	145,826	177,784
Total liabilities	6,538,490	6,509,918
Net assets (deficit)		
Unrestricted	(709,202)	(2,331,326)
Temporarily restricted	1,407,677	1,334,828
Total net assets (deficit)	698,475	(996,498)
Total liabilities and net assets (deficit)	\$ 7,236,965	\$ 5,513,420

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

FAIR TRADE USA AND  
GOOD WORLD SOLUTIONS  
Consolidated Statement of Activities  
For the Year Ended December 31, 2011

	2011		
	Unrestricted	Temporarily Restricted	Total
Revenue and support			
Service fees, net	\$ 8,602,088	\$ -	\$ 8,602,088
Grants and contributions	688,310	821,333	1,509,643
In-kind donations	950,875	-	950,875
Trade show support	25,423	-	25,423
Other income	140,718	-	140,718
Net assets released from restrictions	860,484	(860,484)	-
Total revenue and support	<u>11,267,898</u>	<u>(39,151)</u>	<u>11,228,747</u>
Expenses			
Program	8,134,540	-	8,134,540
Supporting services			
General and administrative	1,073,219	-	1,073,219
Fundraising	584,315	-	584,315
Total expenses	<u>9,792,074</u>	<u>-</u>	<u>9,792,074</u>
(Deficiency) excess of revenues over expenses before other changes in net assets	<u>1,475,824</u>	<u>(39,151)</u>	<u>1,436,673</u>
Other changes in net assets			
Interest income	3,173	-	3,173
Foreign currency translation	(3,075)	-	(3,075)
Unrestricted net assets received in acquisition	146,202	-	146,202
Restricted net assets received in acquisition	-	112,000	112,000
Total other changes in net assets	<u>146,300</u>	<u>112,000</u>	<u>258,300</u>
Change in net assets	1,622,124	72,849	1,694,973
Net assets (deficit), beginning of year	<u>(2,331,326)</u>	<u>1,334,828</u>	<u>(996,498)</u>
Net assets (deficit), end of year	<u>\$ (709,202)</u>	<u>\$ 1,407,677</u>	<u>\$ 698,475</u>

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FAIR TRADE USA AND  
GOOD WORLD SOLUTIONS  
Consolidated Statement of Activities  
For the Year Ended December 31, 2010

	2010		
	Unrestricted	Temporarily Restricted	Total
Revenue and support			
Service fees, net	\$ 6,701,496	\$ -	\$ 6,701,496
Grants and contributions	895,119	736,878	1,631,997
In-kind donations	609,570	-	609,570
Trade show support	21,240	-	21,240
Other income	104,622	-	104,622
Net assets released from restrictions	<u>1,670,315</u>	<u>(1,670,315)</u>	<u>-</u>
Total revenue and support	<u>10,002,362</u>	<u>(933,437)</u>	<u>9,068,925</u>
Expenses			
Program	8,165,045	-	8,165,045
Supporting services			
General and administrative	1,285,871	-	1,285,871
Fundraising	<u>624,297</u>	<u>-</u>	<u>624,297</u>
Total expenses	<u>10,075,213</u>	<u>-</u>	<u>10,075,213</u>
Deficiency of revenues over expenses before other changes in net assets	<u>(72,851)</u>	<u>(933,437)</u>	<u>(1,006,288)</u>
Other changes in net assets			
Interest income	7,175	-	7,175
Foreign currency translation	<u>81,829</u>	<u>-</u>	<u>81,829</u>
Total other changes in net assets	<u>89,004</u>	<u>-</u>	<u>89,004</u>
Change in net assets	16,153	(933,437)	(917,284)
Net assets (deficit), beginning of year	<u>(2,347,479)</u>	<u>2,268,265</u>	<u>(79,214)</u>
Net assets (deficit), end of year	<u>\$ (2,331,326)</u>	<u>\$ 1,334,828</u>	<u>\$ (996,498)</u>

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

FAIR TRADE USA AND  
GOOD WORLD SOLUTIONS  
Consolidated Statements of Functional Expenses  
For the Years Ended December 31, 2011 and 2010

	2011			2010				
	Program Expenses	Management and General	Fundraising	Total Expenses	Program Expenses	Management and General	Fundraising	Total Expenses
Expense								
Personnel	\$ 3,701,496	\$ 697,987	\$ 352,843	\$ 4,752,326	\$ 3,785,398	\$ 857,990	\$ 452,200	\$ 5,095,588
Professional fees	1,420,178	137,834	43,905	1,601,917	1,060,419	171,026	18,296	1,249,741
FLO Membership fees	833,807	-	-	833,807	1,304,142	-	-	1,304,142
FLO Certification fees	-	-	-	-	220,579	-	-	220,579
Facility	398,820	82,590	70,273	551,683	422,163	93,674	51,935	567,772
Travel expenses	404,154	19,136	45,703	468,993	353,798	26,401	23,316	403,515
Promotional activities and materials	190,524	91	7,474	198,089	91,634	116	2,331	94,081
Note receivable, current	278,725	62,264	17,151	358,140	268,885	64,758	27,186	360,829
Conferences, conventions and trade shows	243,367	4,675	5,677	253,719	112,598	139	1,812	114,549
Telecommunications	69,672	5,974	8,551	84,197	70,609	7,374	5,782	83,765
Equipment	23,979	7,584	2,889	34,452	22,684	8,468	2,261	33,413
Third-party	145,322	21	67	145,410	105,048	72	52	105,172
Other	152,901	11,350	11,596	175,847	155,785	17,216	24,330	197,331
Loan interest	191,881	22,084	11,900	225,865	153,207	22,374	11,105	186,686
Depreciation and amortization	79,714	21,629	6,286	107,629	38,096	16,263	3,691	58,050
Total expenses	<u>\$ 8,134,540</u>	<u>\$ 1,073,219</u>	<u>\$ 584,315</u>	<u>\$ 9,792,074</u>	<u>\$ 8,165,045</u>	<u>\$ 1,285,871</u>	<u>\$ 624,297</u>	<u>\$ 10,075,213</u>

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

FAIR TRADE USA AND  
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Consolidated Statements of Cash Flows  
For the Years Ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Change in net assets	\$ 1,694,973	\$ (917,284)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	107,629	58,050
Change in allowance for doubtful accounts	(10,000)	(52,653)
Changes in operating assets and liabilities		
Service fees receivable	(801,127)	192,559
Grants receivable, current	541,034	327,290
Other receivables	2,920	77,471
Prepaid expenses	(16,438)	61,926
Deposits	21,172	-
Accounts payable	93,923	(73,001)
Accrued liabilities	313,007	131,884
Deferred revenue	(26,400)	24,450
Accrued lease incentive	(31,958)	(14,623)
Net cash provided by (used in) operating activities	1,888,735	(183,931)
Cash flows from investing activities		
Purchases of property and equipment	-	(190,405)
Proceeds from sales of investments	27,574	536,737
Purchases of investments	(1,651)	(55,163)
Issuance of note receivable	(26,925)	-
Collection of note receivable	6,878	87,445
Net cash provided by investing activities	5,876	378,614
Cash flows from financing activities		
Principal payments on notes payable	(320,000)	(70,000)
Net cash used in financing activities	(320,000)	(70,000)
Net increase in cash and cash equivalents	1,574,611	124,683
Cash and cash equivalents, beginning of year	1,423,852	1,299,168
Cash and cash equivalents, end of year	\$ 2,998,463	\$ 1,423,852
<u>Supplemental disclosures of cash flow information</u>		
Cash paid for interest	\$ 168,497	\$ 182,339
Conversion of license fee receivable to note receivable	\$ 26,925	\$ -
Contribution received in acquisition of GWS	\$ 258,202	\$ -

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



FAIR TRADE USA AND  
GOOD WORLD SOLUTIONS  
Notes to Consolidated Financial Statements  
December 31, 2011 and 2010

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1. Organization

On October 1, 2010, Transfair USA began doing business as Fair Trade USA. Incorporated in Minnesota under 501(c)(3) status in April 1996, the Organization's principal place of business is in Oakland, California.

Fair Trade USA enables sustainable development and community empowerment by cultivating a more equitable global trade model that benefits farmers, workers, consumers, industry and the earth. The Organization achieves its mission by certifying and promoting Fair Trade products.

In addition to promoting successful empowering relationships between farmers and businesses, the Organization educates American consumers about Fair Trade and economic development. The Organization also verifies that farmers and farm workers who produce Fair Trade Certified™ ("FTC") products are paid a fair price for their products, receive a social premium, and adhere to the Fair Trade environmental, labor, and governance standards. The Organization communicates on a regular basis with producers in developing countries and provides support for producers entering the system and those working to stay in the system. The Organization has service agreements with more than 700 participating companies (manufacturers, retailers and importers) in the United States and around the world to offer FTC products that have met the Fair Trade criteria, providing these companies permission to use the FTC label on product packaging.

Ultimately, the Organization envisions a day when Fair Trade products are readily available in mainstream stores across the country, when U.S. consumers can opt for a "Fair Trade Lifestyle" and shop responsibly in every product category. FTC products under the Organization's service agreements include coffee, tea, fresh fruit, wine, flowers, and consumer packaged goods in which Fair Trade ingredients are used.

The Organization's major sources of revenue are service fees, foundation and corporate grants and contributions. The Organization holds exclusive rights to engage in service agreements to allow for the use of the "Fair Trade Certified™" trademark in the United States of America and select foreign countries. Service fees are received from participating companies (roasters for coffee, and importers and retailers for other products) and are based on the amount of Fair Trade products either purchased and/or sold per the service agreements.

During 2011 the Organization resigned its membership in the Fair Trade Labeling Organization. The resignation had no effect on the Organization's corporate or tax status. Also during 2011, the Organization acquired Good World Solutions, Inc. (GWS) a California non-profit public benefit 501(c)(3) organization. See Footnotes 7 and 9, respectively, for discussion surrounding the resignation of membership and acquisition of GWS.

FAIR TRADE USA AND  
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Notes to Financial Statements  
December 31, 2011 and 2010

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2. Summary of Significant Accounting Policies

Basis of accounting

The financial statements are presented on the accrual basis of accounting.

Service fees receivable

Service fees are billed monthly or quarterly based on either purchases and/or sales of FTC products reported by licensees. The Organization has established an allowance for uncollectible service fees based on historical experience. The allowance for uncollectible service fees at December 31, 2011 and 2010 is \$60,000 and \$70,000 respectively. Uncollectible service fees receivable are written off when all collection efforts have been exhausted.

Property and equipment

Property and equipment, if purchased, are recorded at cost or, if donated, at the estimated fair value at the time of receipt. Software development costs (internal and external) incurred during the application development stage for new software and software enhancements are capitalized and depreciated, if the software's expected economic useful life is greater than one year. Property and equipment are depreciated over the estimated useful lives of three to eight years on the straight-line basis. The Organization capitalizes all expenditures for property and equipment with a cost basis of greater than \$2,000 and which have a useful life in excess of one year.

Net assets

The Organization classifies its net assets and activities into one of three categories:

*Unrestricted net assets*

Those net assets and activities which represent the portion of expendable funds available to support operations that are not subject to donor imposed stipulations. A portion of these net assets may be designated by the Board of Directors for specific purposes. There were no designated net assets at December 31, 2011 and 2010.

*Temporarily restricted net assets*

Those net assets and activities which are donor-restricted for: (a) support of specific operating activities; (b) investment for a specified term; (c) use in a specified future period; or (d) acquisition of long-lived assets. The expiration of a donor-imposed restriction may expire with time or may be satisfied by the actions of the Organization. Expiration of restrictions are recognized in the periods in which the restrictions expire. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

FAIR TRADE USA AND  
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Notes to Financial Statements  
December 31, 2011 and 2010

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2. Summary of Significant Accounting Policies (continued)

Net assets (continued)

*Permanently restricted net assets*

Those contributions which are to be held in perpetuity as directed by the donor. The income from these contributions is available to support activities of the Organization as designated by the donor. There were no permanently restricted net assets at December 31, 2011 and 2010.

Revenue recognition

The Organization records service fee revenue in the period in which participating companies either purchase and/or sell FTC products as defined in the service agreement. Service fee revenue is shown net of discounts provided to companies.

The Organization recognizes grant and donor contributions upon the earlier of receipt or when an agreement has been executed. Contributions received without donor-imposed restrictions are reported as increases in unrestricted support. Contributions received with donor-imposed restrictions which are received and spent in the same year are reported as an increase in unrestricted support. Contributions received with donor-imposed restrictions that are not satisfied in the same year as received are reported as increases in either temporarily restricted or permanently restricted support, depending on the type of restriction.

Donated goods and services are recorded as contributions at their estimated fair value on the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the use of the asset for a specific purpose for which the asset is reported as an increase in restricted support.

Deferred revenue

Service revenue that is received, but not yet earned, is recorded as deferred revenue.

Income taxes

The Organization is a qualified organization exempt from federal, Minnesota and California income taxes under the provisions of Sections 501(c)(3) of the Internal Revenue Code, Chapter 317A of the Minnesota Statutes and 23701d of the California Revenue and Taxation Code. Accordingly, no provision for federal, Minnesota or California income tax is reflected in the accompanying financial statements.

FAIR TRADE USA AND  
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2. Summary of Significant Accounting Policies (continued)

Income taxes (continued)

The Organization recognizes the effects of its income tax positions only if those positions are more likely than not of being sustained. The Organization has evaluated its tax positions and has concluded as of December 31, 2011 and 2010, that the Organization does not have any significant uncertain tax positions for which a reserve would be necessary.

Functional allocation of expenses

The costs of providing the program services and supporting activities of the Organization are shown in the statements of functional expenses. Expenses that can be directly identified with a specific function are allocated directly to that function. Expenses that cannot be directly identified with a specific function are allocated among the program services and the supporting activities benefited based on allocation methods and estimates made by the Organization's management.

Contributed goods and services

Contributed services are recognized if they create or enhance non-financial assets or require specialized skills, which are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donations. During the years ended December 31, 2011 and 2010, the Organization received contributed professional legal services valued at \$737,719 and \$399,706 and software licenses valued at \$213,156 and \$209,864, respectively.

Cash and cash equivalents

The Organization places its cash and cash equivalents with high credit quality institutions. Cash and cash equivalents include highly liquid investments which are readily convertible to known amounts of cash that present insignificant risk of changes in value because of changes in interest rates. The Organization maintains its cash in bank deposit accounts which, at times, may be in excess of federally insured limits. Management believes it is not exposed to any significant risks on cash accounts.

Investments

Investments in certificates of deposit with an original maturity of greater than three months are stated at their fair values in the statements of financial position. These certificates of deposit are held at amounts not to exceed federally insured limits. Earnings are included in the statements of activities as either unrestricted or temporarily restricted depending upon donor stipulations, if any. Investment earnings that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the earnings are recognized.

FAIR TRADE USA AND  
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Notes to Financial Statements  
December 31, 2011 and 2010

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2. Summary of Significant Accounting Policies (continued)

Reclassification

Certain reclassifications have been made to the financial statements for the year ended December 31, 2010 to conform to the year ended December 31, 2011 financial statement presentation. Such reclassifications have no effect on net assets or change in net assets as previously reported.

Use of estimates

The preparation of 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 amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of consolidation

The accompanying consolidated financial statements present the consolidated financial position and changes in net assets and cash flows of the Organization. The consolidated financial statements include all the net assets of Good Word Solutions, Inc. and the operations after being acquired by the Organization on May 9, 2011. All intra-organizational accounts and transactions have been eliminated. See Footnote 9 for discussion of acquisition.

3. Investments and Fair Value

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Organization determines the fair values of its assets and liabilities based on a fair value hierarchy that includes three levels of inputs that may be used to measure fair value (Level 1, Level 2 and Level 3):

*Level 1* - Quoted prices are available in active markets for identical investments as of the reporting date. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

*Level 2* - Pricing inputs are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date.

*Level 3* - Pricing inputs are unobservable for the investment. The inputs into the determination of fair value require significant management judgment about the assumptions market participants would use in pricing the investment.

FAIR TRADE USA AND  
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Notes to Financial Statements  
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3. Investments and Fair Value (continued)

The Organization has categorized all investment assets on an individual security basis according to the fair value hierarchy as Level 1.

The fair value of the investments is as follows at December 31:

	<u>2011</u>	<u>2010</u>
Certificates of deposit	\$258,324	\$284,247

4. Grants Receivable

Combined short-term and long-term grants receivables at December 31 are as follows:

	<u>2011</u>			<u>2010</u>		
	<u>Unrestricted</u>	<u>Temporary Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporary Restricted</u>	<u>Total</u>
General support	\$20,000	\$ -	\$ 20,000	\$35,338	\$150,000	\$ 185,338
Fair Trade Towns and University Initiatives	-	255,000	255,000	-	565,000	565,000
Sustainable sourcing practices for Brazilian coffee producers	-	93,178	93,178	-	320,000	320,000
Building Fair Trade USA's Marketing Capacity	-	-	-	-	55,044	55,044
Capacity Building for Indonesian Coffee Co-ops	-	251,170	251,170	-	-	-
Latin American Fair Trade expansion project	-	250,000	250,000	-	500,000	500,000
Latin American Farmer Technical Assistance	-	125,000	125,000	-	-	-
Market Linkage and Supply Chain Support for Indonesian Tea Producers	-	90,000	90,000	-	-	-
	<u>\$20,000</u>	<u>\$1,064,348</u>	<u>\$1,084,348</u>	<u>\$35,338</u>	<u>\$1,590,044</u>	<u>\$1,625,382</u>

Grants receivable that are expected to be collected in subsequent years are computed using a risk adjusted market interest rate applicable to the years in which the grants are expected to be received or when the promise is made. At December 31, 2011 and 2010, management has not adjusted grants receivable using the applicable interest rate as they have deemed any adjustment immaterial. Grants receivable at December 31, 2011 are to be received as follows:

2012	\$ 969,694
2013	<u>114,654</u>
	<u>\$1,084,348</u>

FAIR TRADE USA AND  
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5. Notes Receivable

The Organization has a note receivable with a customer with an original principal balance of \$26,925. The note has a maturity of July 2013 and bears interest at 3%. As of December 31, 2011 the outstanding balance is \$22,397. As of December 31, 2010 the Organization had a note receivable of \$2,350 with a customer that was paid in full in January of 2011.

6. Property and Equipment

Property and equipment at December 31 consisted of the following:

	<u>2011</u>	<u>2010</u>
Furniture and fixtures	\$163,212	\$163,212
Machinery and equipment	363,772	363,772
Leasehold improvements	<u>50,440</u>	<u>50,440</u>
	577,424	577,424
Less accumulated depreciation and amortization	<u>(266,274)</u>	<u>(158,645)</u>
	<u>\$311,150</u>	<u>\$418,779</u>

Depreciation and amortization expense for the years ended December 31, 2011 and 2010 was \$107,629 and \$58,050 respectively.

7. Fair Trade Labeling Organization Membership Dues Liability

In 2011 the Organization resigned from its membership in Fair Trade Labeling Organizations International e.V. (FLO). The Organization and FLO are negotiating the terms of the separation, including a financial settlement that would resolve membership dues owed to FLO for 2011. Included in accrued liabilities is \$900,000, which represents management's best estimate of the amount that is likely to be paid in settlement.

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8. Notes Payable

The following is a summary of unsecured notes payable at December 31:

Lender	Interest Rate	Maturity Date	Principal Payments					Balance 12/31/11	Balance 12/31/10
			2012	2013	2014	2015	2016		
Ford Foundation	1%	4/9/2015	\$250,000	\$500,000	\$ 500,000	\$600,000	\$ -	\$1,850,000	\$2,000,000
NFF	Prime +.5 or 5%	4/1/2015	275,000	450,000	725,000	400,000	-	1,850,000	2,000,000
Viva Investments Company SA	5.51%	1/26/2015	-	250,000	250,000	500,000	-	1,000,000	1,000,000
Sisters of St. Francis of Philadelphia	2%	2/6/2016	-	-	-	-	50,000	50,000	50,000
Sister of The Holy Names	3%	2/1/2013	-	50,000	-	-	-	50,000	50,000
Sisters of Charity of St. Elizabeth	2%	4/15/2012	50,000	-	-	-	-	50,000	50,000
Heart of Mary	3%	6/27/2011	-	-	-	-	-	-	20,000
St. Joseph Fem. Ursuline Academy, Inc.	1%	6/15/2014	-	-	50,000	-	-	50,000	50,000
			<u>\$575,000</u>	<u>\$1,250,000</u>	<u>\$1,525,000</u>	<u>\$1,500,000</u>	<u>\$50,000</u>	4,900,000	5,220,000
Current portion								<u>575,000</u>	<u>470,000</u>
								<u>\$4,325,000</u>	<u>\$4,750,000</u>

Some agreements contain certain covenants and restrictions. The Organization was in compliance with all covenants and restrictions as of December 31, 2011 and 2010.

Principal payments on the notes payable are due as follows at December 31:

2012	\$ 575,000
2013	1,250,000
2014	1,525,000
2015	1,500,000
2016	<u>50,000</u>
	<u>\$4,900,000</u>



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9. Good World Solutions, Inc. Acquisition

On May 9, 2011 the Fair Trade USA acquired World of Good: Development Organization, Inc, a California non-profit public benefit 501(c)(3) organization. On August 15, 2011 the name of the acquired organization was changed to Good World Solutions, Inc. (GWS). GWS is a member organization and as a result of the acquisition Fair Trade USA became the sole member of GWS. There was no monetary consideration other than the transfer of assets and liabilities from GWS to the Organization. GWS's net assets on the date of the transaction were recognized as a contribution, a portion was temporarily restricted (\$112,000) and a portion was unrestricted (\$146,202). The expenses related to the transaction were immaterial and were all donated in-kind legal expenses and donations. The activities of GWS from May 9, 2011 through December 31, 2011, including a release of restricted assets of \$95,156, are consolidated with Fair Trade USA's activities. The statement of financial position as of December 31, 2011 is consolidated and includes the assets, liabilities and net assets of both organizations.

GWS's technology, in the form of its principal tools, the Fair Wage Guide and Labor Link, offers the Organization new quantitative tools to assess the impact of Fair Trade certification on farmers and workers, and potentially to enhance the credibility and/or reduce the cost of producer certification. The benefit of the merger to GWS is a ready network of over a million farmers and workers that could become users and beneficiaries of its technology platforms. The relationship helps both organizations advance their respective missions.

Details of the transaction are as follows:

Cash received	\$263,452
Other assets	700
Liabilities assumed	<u>(5,950)</u>
Net assets contributed	<u>\$258,202</u>
Net assets restricted	\$112,000
Net assets unrestricted	<u>146,202</u>
Net assets	<u>\$258,202</u>

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10. Temporarily Restricted Net Assets

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

	<u>2011</u>	<u>2010</u>
Time restricted		
General support	\$ 20,000	\$ -
Program restricted		
Development of grassroots support of Fair Trade in U.S. towns and universities and consumer markets	451,835	605,246
Sustainable sourcing practices for Brazilian coffee producers	124,072	339,055
Latin America Fair Trade expansion project	90,548	374,808
Latin America farmer technical assistance	246,376	
Market linkage and capacity building for Indonesian coffee and tea co-ops	405,944	-
Latin American co-op support and farm training pilot projects	52,057	-
Labor Link technology reporting tool	16,845	
Production of micro-documentaries	-	10,000
Capacity building, travel and promotional materials	<u>-</u>	<u>5,719</u>
Total temporarily restricted net assets	<u>\$1,407,677</u>	<u>\$1,334,828</u>

11. Program Services

Business development

The Business Development Department works with companies to increase sales of Fair Trade Certified coffee, cocoa, fresh fruit, consumer packaged goods and other products in the market.

Marketing communications and education

The Organization executes a broad range of marketing and public relations programs whose goal is to raise consumer awareness of international trade issues in general, and Fair Trade concerns in particular. The resulting increase in consumer awareness leads directly to an increase in consumer demand.

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11. Program Services (continued)

Certification

The Certification Department audits transactions between companies offering FTC products and their international suppliers, to guarantee that the farmers and farm workers who produce FTC goods were paid a fair price for their products, receive a social premium, and adhere to the Fair Trade environmental, labor and governance standards.

Supply Chain Management

The Supply Chain Management Department manages categories as strategic business units, and produces enhanced business results by focusing on delivering quality products and programs that fit within the Organization's mission and are desired by retailers and consumers. The Supply Chain Development Department brings together cross-departmental teams to solve problems and drive growth. The department also provides and coordinates producer assistance services including; quality and environmental training, market data and linkage, access to capital, governance training and other technical assistance.

Good World Solutions

Good World Solutions technology, in the form of its principal tools the Fair Wage Guide and Labor Link, provides quantitative tools to assess the impact of Fair Trade certification on farmers and workers.

Program services incurred for the years ended December 31, 2011 and 2010 were comprised of the following:

	<u>2011</u>	<u>2010</u>
Business Development	\$2,255,529	\$2,133,846
Marketing communications and education	1,995,017	1,643,953
Certification	2,102,056	2,815,433
Supply Chain Development	1,596,579	1,571,813
Good World Solutions technology development	<u>185,359</u>	<u>-</u>
	<u>\$8,134,540</u>	<u>\$8,165,045</u>

12. Lease Commitments

The Organization leases its operating facilities in Oakland, California under a lease agreement which expires December 31, 2014. The lease allows for annual rent increases of 3 percent and adjustments for operating escalations starting in 2009. The lease is cancelable on the fifth anniversary of the lease term provided the Organization gives written notice and payment of a \$175,000 termination fee. The monthly rent expense under the facility lease for the years ended December 31, 2011 and 2010 was \$42,030 and \$44,515, respectively.

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12. Lease Commitments (continued)

The Organization leases office equipment under, long-term, non-cancelable operating leases with a combined monthly cost of \$1,672 expiring at various dates through October 2015.

Rent expense, included in facility expenses, for the years ended December 31, 2011 and 2010 was \$521,246 and \$542,258 respectively.

Future minimum lease commitments under these agreements are as follows:

2012	\$ 585,216
2013	601,438
2014	618,946
2015	<u>16,245</u>
	<u>\$1,821,845</u>

13. Concentrations

During the year ended December 31, 2011 and 2010, two customers accounted for approximately 43% and 35% of total service fees, respectively.

During the year ended December 31, 2011, two customers accounted for approximately 50% of total service fees receivable and at December 31, 2010 one customer accounted for approximately 21% of service fees receivable.

14. Retirement Plan

The Organization sponsors a 401(k) profit sharing plan covering all eligible employees who have completed six months of service. The Organization makes matching contributions up to 4% of the employee's eligible compensation. Employees are eligible to make elective contributions up to the maximum amount allowed by the Internal Revenue Code. The Organization contributed \$101,620 and \$120,609 to the plan for the years ended December 31, 2011 and 2010, respectively.

15. Subsequent Events

The Organization has evaluated subsequent events through June 19, 2012, the date the financial statements were available to be issued.