TRANSFAIR USA

FINANCIAL STATEMENTS

For the Years Ended
December 31, 2008 and 2007

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Bregante + Company LLP
CERTIFIED PUBLIC ACCOUNTANTS
Building Service Partnerships Since 1976

Independent Auditors' Report

Board of Directors
TransFair USA

We have audited the accompanying statements of financial position of TransFair USA as of December 31, 2008 and 2007, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of TransFair USA'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 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 TransFair USA as of December 31, 2008 and 2007, 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 of America.

Bregante + Company LLP

May 22, 2009

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TRANSFAIR USA

STATEMENTS OF FINANCIAL POSITION

December 31, 2008 and 2007

	2008	2007
ASSETS		
Current assets:		
Cash	$ 2,243,986	$ 1,143,742
Investments, at market value	310,898	635,278
License fees receivable, net of allowance for doubtful accounts of $71,341 and $71,438	1,261,467	1,223,470
Grants receivable	1,027,500	902,749
Other receivables	547	1,666
Prepaid expenses	180,465	123,351
Total current assets	5,024,863	4,030,256
Property and equipment, net	278,443	273,768
Other assets:		
Grants receivable, long-term	505,000	-
Deposits	50,820	50,000
Prepaid supplies	25,967	5,000
Total other assets	581,787	55,000
Total assets	$ 5,885,093	$ 4,359,024
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 226,115	$ 144,034
Accrued liabilities	544,349	453,040
Current portion of notes payable	54,000	52,000
Total current liabilities	824,464	649,074
Long-term liabilities:		
Notes payable, net of current portion	5,290,000	4,292,000
Deferred lease incentive	191,478	85,789
Total long-term liabilities	5,481,478	4,377,789
Net assets surplus (deficit):		
Unrestricted	(2,278,656)	(1,963,607)
Temporarily restricted	1,857,807	1,295,768
Total net assets surplus (deficit)	(420,849)	(667,839)
Total liabilities and net assets	$ 5,885,093	$ 4,359,024

See accompanying notes and auditors' report.

TRANSFAIR USA

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2008 and 2007

	2008			2007		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Revenue and support:						
License fees	$ 5,757,709	$ -	$ 5,757,709	$ 4,961,063	$ -	$ 4,961,063
Grants and contributions	714,186	2,559,326	3,273,512	329,674	2,060,606	2,390,280
In kind donations	189,288	-	189,288	209,966	-	209,966
Trade show support	41,348	-	41,348	46,280	-	46,280
Other income	8,388	-	8,388	210	-	210
Net assets released from restrictions	1,997,287	(1,997,287)	-	1,187,906	(1,187,906)	-
Total revenue and support	8,708,206	562,039	9,270,245	6,735,099	872,700	7,607,799
Expenses:						
Program	7,275,627	-	7,275,627	6,174,640	-	6,174,640
Management and general	1,155,191	-	1,155,191	940,379	-	940,379
Fundraising	635,687	-	635,687	481,784	-	481,784
Total expenses	9,066,505	-	9,066,505	7,596,803	-	7,596,803
(Deficiency) excess of revenues over (under) expenses before other changes in net assets	(358,299)	562,039	203,740	(861,704)	872,700	10,996
Other changes in net assets:						
Interest income	62,285	-	62,285	72,620	-	72,620
Net unrealized/realized loss on investments	(19,035)	-	(19,035)	(15,233)	-	(15,233)
Total other changes in net assets	43,250	-	43,250	57,387	-	57,387
Changes in net assets	(315,049)	562,039	246,990	(804,317)	872,700	68,383
Net assets surplus (deficit), beginning of year	(1,963,607)	1,295,768	(667,839)	(1,159,290)	423,068	(736,222)
Net assets surplus (deficit), end of year	$ (2,278,656)	$ 1,857,807	$ (420,849)	$ (1,963,607)	$ 1,295,768	$ (667,839)

See accompanying notes and auditors' report.

TRANSFAIR USA

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Changes in net assets	$ 246,990	$ 68,383
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	54,750	29,715
Net unrealized/realized loss on investments	19,035	15,233
Change in allowance for doubtful accounts	(97)	43,138
Loss on disposal of equipment	-	999
(Increase) decrease in assets:		
License fees receivable	(37,900)	(140,733)
Grants receivable	(629,751)	(769,497)
Other receivables	1,119	17,343
Prepaid expenses	(57,114)	(50,793)
Deposits	(820)	(39,815)
Prepaid supplies	(20,967)	9,168
Increase (decrease) in liabilities:		
Accounts payable	82,081	81,716
Fiscal sponsorship liability	-	(2,845)
Accrued liabilities	91,309	96,297
Deferred lease incentive	105,689	85,789
Total adjustments	(392,666)	(624,285)
Net cash used by operating activities	(145,676)	(555,902)
Cash flows from investing activities:		
Purchases of property and equipment	(59,425)	(247,507)
Proceeds from sale of investments	319,873	550,000
Purchases of investments	(14,528)	(566,717)
Net cash provided (used) by investing activities	245,920	(264,224)

See accompanying notes and auditors' report.

TRANSFAIR USA

STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended December 31, 2008 and 2007

	2008	2007
Cash flows from financing activities:		
Net decrease in line of credit	-	(50,000)
Proceeds from notes payable	1,000,000	1,000,000
Principal payments on notes payable	-	(81,004)
Net cash provided by financing activities	1,000,000	868,996
Net increase in cash	1,100,244	48,870
Cash, beginning of year	1,143,742	1,094,872
Cash, end of year	$ 2,243,986	$ 1,143,742

See accompanying notes and auditors' report.

TRANSFAIR USA

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended December 31, 2008 and 2007

	2008				2007			
	Program Expenses	Management and General	Fundraising	Total Expenses	Program Expenses	Management and General	Fundraising	Total Expenses
Personnel expenses	$ 3,496,970	$ 823,751	$ 415,392	$ 4,736,113	$ 3,098,896	$ 662,006	$ 315,022	$ 4,075,924
Professional fees	1,075,077	104,641	61,795	1,241,513	756,967	99,185	53,007	909,159
FLO membership fees	707,830	-	-	707,830	544,105	-	-	544,105
FLO certification fees	60,000	-	-	60,000	60,000	-	-	60,000
Travel	440,580	10,098	45,561	496,239	397,936	10,256	24,681	432,873
Occupancy	413,629	89,149	42,547	545,325	246,961	65,210	28,417	340,588
Conferences and conventions	115,528	977	1,650	118,155	107,460	812	5,807	114,079
Promotional activities and materials	271,930	1,127	15,112	288,169	379,867	2,833	17,276	399,976
Computer equipment and services	110,301	24,966	10,756	146,023	110,719	24,789	10,992	146,500
Office supplies and equipment	63,273	14,349	7,058	84,680	55,063	15,844	4,811	75,718
Producer grants	152,644	-	-	152,644	73,265	-	-	73,265
Bad debt expense	10,305	7	3	10,315	88,020	-	-	88,020
Telecommunications	61,088	12,133	6,277	79,498	52,155	7,031	4,370	63,556
Postage and shipping	46,426	3,017	3,709	53,152	54,429	3,744	1,970	60,143
Interest expense	131,679	21,454	11,248	164,381	91,460	13,964	7,057	112,481
Board of Directors' expense	471	33,885	95	34,451	164	25,522	161	25,847
Miscellaneous expense	76,015	6,934	10,318	93,267	34,915	3,990	5,949	44,854
Depreciation expense	41,881	8,703	4,166	54,750	22,258	5,193	2,264	29,715
Total expenses	$ 7,275,627	$ 1,155,191	$ 635,687	$ 9,066,505	$ 6,174,640	$ 940,379	$ 481,784	$ 7,596,803

See accompanying notes and auditors' report.

NOTE A -- Nature of organization

TransFair USA (the Organization) was incorporated in Minnesota under 501(c)(3) status in April 1996. The principal office for the transaction of its business is located in Oakland, California.

The Organization 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. As a member of the Fair Trade Labeling Organization (FLO), the international standards body for Fair Trade products based in Bonn, Germany, the Organization verifies that farmers and farm workers who produce Fair Trade Certified™ (FTC) products are paid a fair price for their products. The Organization communicates on a regular basis with producers in developing countries, and licenses 779 participating companies (manufacturers and importers) in the United States to offer FTC products that have met the criteria set by FLO, providing these licensees permission to use the FTC label on product packaging.

The Organization's vision is to build on current market momentum and expand into new product lines and distribution channels to reach a broader mainstream consumer audience. 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 licenses include coffee, tea, cocoa, fresh fruit and sugar. The Organization's licensees' volume in 2008 and 2007 is shown below:

	U.S. Fair Trade Pounds Certified (1)	
	2008	2007
Coffee	87,773,000	66,339,000
Tea	1,372,000	1,135,000
Cocoa	3,848,000	1,085,000
Fresh Fruit	25,493,000	7,250,000
Sugar	8,696,000	8,931,000

(1) Represents pounds purchased by importers for resale

NOTE A -- Nature of organization (continued)

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

NOTE B -- Summary of significant accounting policies

Basis of accounting

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

License fees receivable

License fees are billed monthly/quarterly based on either purchases and/or sales of FTC products reported by licensees. The Organization has established an allowance for uncollectible license fees based on historical experience. The allowance for doubtful accounts reserve at December 31, 2008 and 2007 is $71,341 and $71,438, respectively.

Property and equipment

Property and equipment, if purchased, are recorded at cost or, if donated, at the estimated 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.

Net assets

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

Unrestricted: Those net assets and activities which represent the portion of expendable funds available to support operations. A portion of these net assets may be designated by the Board of Directors for specific purposes.

NOTE B -- Summary of significant accounting policies (continued)

Net assets (continued)

Temporarily restricted: 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.

Permanently restricted: Those net assets and activities which are permanently donor-restricted for holdings of: (a) assets donated with stipulations that they be preserved and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income.

The expiration of a donor-imposed restriction on a contribution is recognized in the period in which the restriction expires. This occurs by increasing unrestricted net assets and decreasing temporarily restricted net assets in the Statements of Activities, and the release from restrictions is reported separately from other transactions.

Revenue recognition

The Organization records license fee revenue in the period in which participating companies either purchase and/or sell FTC products per their license agreements.

The Organization recognizes grants and donor contributions upon the earlier of receipt or when an agreement has been executed. Contributions without donor-imposed restrictions are reported as unrestricted support. Contributions with donor-imposed restrictions are reported as either temporarily restricted or permanently restricted support, depending upon the type of restriction.

Donated goods and services are recorded as contributions at their estimated value on the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted support.

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. Therefore, no provision for federal, Minnesota or California income tax is reflected in the financial statements.

NOTE B -- Summary of significant accounting policies (continued)

Functional allocation of expenses

The costs of providing the program services and supporting activities of the Organization are shown on 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

The Organization recognizes the estimated value of goods and services received as both revenue and an offsetting expense or an asset. During the year ended December 31, 2008, the Organization received contributed legal services and software licenses valued at $85,210 and $104,078, respectively. During the year ended December 31, 2007, the Organization received contributed legal and technical services valued at $121,646 and $88,320, respectively.

Concentration of credit risk

Cash, short-term investments and license fees receivable are financial instruments which potentially subject the Organization to a concentration of credit risk. Cash in bank accounts may at times exceed federally insured limits. Short-term investments consist of funds invested in Calvert Insured Plus Money Market Fund, which is federally insured. The Organization grants credit to participating Fair Trade companies throughout the world and requires no collateral. The Organization has experienced minimal losses with respect to these accounts and management believes it is not exposed to any significant credit risk.

Reclassification of financial statements

Certain reclassifications have been made to the financial statements for the year ended December 31, 2007 to conform to the year ended December 31, 2008 financial statement presentation. Such reclassifications have no effect on net assets as previously reported.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

NOTE C -- Supplemental cash flow information

Cash paid for interest during the years ended December 31, 2008 and 2007 was $163,380 and $109,761, respectively. The Organization disposed of equipment costing $22,827 in 2007 with a net book value of $999. During 2008, the Organization renewed four notes payable totaling $4,050,000 extending the due dates as follows: one note of $50,000 to 2011 and three notes of $1,000,000, $1,000,000 and $2,000,000 to 2015.

NOTE D -- Investments

The Organization has categorized all investment assets on an individual security basis according to the fair value hierarchy as Level 1 under FASB No. 157, *Fair Value Measurements.*

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

	2008	2007
Money market	$ 310,898	$ 307,620
Mutual funds	-	327,658
	$ 310,898	$ 635,278

NOTE E -- Grants receivable

Grants receivable at December 31 are as follows:

	2008			2007		
	Unrestricted	Temporary Restricted	Total	Unrestricted	Temporary Restricted	Total
General support	$ 313,500	$ 1,015,000	$ 1,328,500	$ 596,254	$ -	$ 596,254
Expanding producer and marketing capacity in Brazil	-	200,000	200,000	-	200,000	200,000
Training and technical assistance in marketing cooperatives in Bahia	-	-	-	-	6,495	6,495
Garments study	-	4,000	4,000	-	-	-
Building TransFair's marketing capacity	-	-	-	-	100,000	100,000
Total grants receivable	$ 313,500	$ 1,219,000	$ 1,532,500	$ 596,254	$ 306,495	$ 902,749

NOTE F -- Property and equipment

Property and equipment at December 31 consist of the following:

	2008	2007
Furniture and fixtures	$ 160,606	$ 159,137
Machinery and equipment	184,121	126,165
Leasehold improvements	46,263	46,263
	390,990	331,565
Less accumulated depreciation	(112,547)	(57,797)
Property and equipment, net	$ 278,443	$ 273,768

Depreciation expense for the years ended December 31, 2008 and 2007 was $54,750 and $29,715, respectively.

NOTE G -- Notes payable

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

Lender	Maturity Date	Rate	Payments Nature	Payments Frequency	Payments Amount		Balance 12/31/2008	Balance 12/31/2007
St. Joseph Female Ursuline Academy, Inc.	06/15/11	1%	I	annually	$ 500	(a)	$ 50,000	$ 50,000
Idyll Development Foundation	12/31/09	2%	P	annually	$ 2,000	(a)	4,000	4,000
Catholic Healthcare West	04/19/10	3%	I	quarterly	$ 750	(b)	100,000	100,000
Sisters of Charity of New York	07/15/10	3%	I	semi-annually	$ 300	(a)	20,000	20,000
Sisters of Saint Francis of Philadelphia	02/06/11	2%	I	quarterly	$ 250	(a)	50,000	50,000
Sisters, Servants of the Immaculate Heart of Mary	06/27/11	2.50%	I	semi-annually	$ 250	(a)	20,000	20,000
Sisters of Charity of Saint Elizabeth	04/15/12	2%	I	annually	$ 1,000	(a)	50,000	50,000
Viva Investments Company SA	01/26/15	5.51%	I	quarterly	$ 13,775	(c)	1,000,000	1,000,000
Sisters of the Holy Names	02/01/13	3%	I	annually	$ 1,500	(a)	50,000	50,000
Nonprofit Finance Fund	04/01/15	Prime + .5%	I	monthly	Various	(e)	2,000,000	1,000,000
Ford Foundation	04/09/15	1%	I	quarterly	$ 5,000	(d)	2,000,000	2,000,000
							5,344,000	4,344,000
Current portion							(54,000)	(52,000)
							$ 5,290,000	$ 4,292,000

[a] Remaining principal and unpaid interest due upon maturity.
[b] Principal due in annual installments of $50,000 beginning in 2009. Remaining principal and unpaid interest due upon maturity.
[c] Principal will be paid in installments of $250,000 from 2013 through 2014, and $500,000 in 2015. Remaining principal and unpaid interest due upon maturity.
[d] Principal will be paid in installments of $250,000 from 2011 through 2012, and $500,000 from 2013 through 2015. Remaining principal and unpaid interest due upon maturity.
[e] Principal will be paid in installments of $150,000 in 2011, $275,000 in 2012, $450,000 in 2013, $725,000 in 2014 and $400,000 in 2015.

NOTE G -- Notes payable (continued)

Scheduled maturities are as follows:

Years Ending December 31,	
2009	$ 54,000
2010	70,000
2011	520,000
2012	575,000
2013	1,250,000
Thereafter	2,875,000
	$ 5,344,000

NOTE H -- Fiscal sponsorship liability

On occasion, the Organization serves as a fiscal sponsor for funds designated by the donor to be passed through to specific recipients. There was no fiscal sponsorship liability balance at December 31, 2008 and 2007.

NOTE I -- Temporarily restricted net assets

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

	2008	2007
Time restricted:		
General support	$ 1,030,000	$ 583,000
Program restricted:		
Research fair trade standards for garments and diamonds	106,586	180,000
Enhancement of TransFair's business processes	-	100,000
Producer capacity building and market linkage	454,736	332,768
Building TransFair's Marketing Capacity	211,485	100,000
Salesforce.com enhancements	55,000	-
Total temporarily restricted net assets	$ 1,857,807	$ 1,295,768

NOTE J -- **Program services**

Business development

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

Certification

The Certification Department audits transactions between United States 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.

Category Management

The Category Management Department manages categories as strategic business units, and produce 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 category management department brings together cross-departmental teams to solve problems and drive growth.

Global Producer Services

The Global Producer Services coordinates technical assistance services including market linkage and capacity-building designed to empower Fair Trade farmers and farm workers to maximize the benefits received from Fair Trade.

NOTE J -- Program services (continued)

Program services incurred for the years ended December 31, 2008 and 2007 were comprised of the following:

	2008	2007
Business development	$ 1,565,062	$ 1,328,427
Marketing communications and education	2,000,229	1,976,123
Certification	1,705,862	1,274,877
Category management	844,536	455,320
Global producer services	1,159,938	1,139,893
	$ 7,275,627	$ 6,174,640

NOTE K -- Lease obligations

The Organization leases its operating facilities in Oakland, California under a lease agreement which expires December 1, 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 total monthly rent expense under the facility lease for the years ended December 31, 2008 and 2007 was $43,296. Rent expense included in occupancy cost for the years ended December 31, 2008 and 2007 was $522,776 and $315,789, respectively.

The Organization leases office equipment under two leasing agreements with a combined monthly cost of $2,115 and expiration dates of August 2009 and December 2011, respectively.

NOTE K -- Lease obligations (continued)

Future minimum lease payments under the lease commitments are as follows:

Years Ending December 31,	
2009	$ 543,092
2010	557,372
2011	527,554
2012	566,712
2013	583,716
Thereafter	601,224
	$ 3,379,670

NOTE L -- Concentrations

During the years ended December 31, 2008 and 2007, two customers accounted for approximately 36% of total license fees.

NOTE M -- Retirement plan

In 2008, the Organization established 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 $41,617 to the plan for the year ended December 31, 2008.