

**RIGHTS AND RESOURCES INSTITUTE, INC.
(DBA RIGHTS AND RESOURCES GROUP)**

AUDITED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

**Rights and Resources Institute, Inc.
(DBA Rights and Resources Group)**

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Independent Auditor's Report

Board of Directors
Rights and Resources Institute, Inc.
(DBA Rights and Resources Group)
Washington, DC

We have audited the accompanying Statements of Financial Position of the **Rights and Resources Institute, Inc. (DBA Rights and Resources Group) (RRG)** as of December 31, 2009 and 2008, and the related Statements of Activities and Changes in Net Assets and Cash Flows for the years then ended. These financial statements are the responsibility of RRG'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 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 the **Rights and Resources Institute, Inc.** as of December 31, 2009 and 2008, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Rockville, Maryland
March 31, 2010

Rights and Resources Institute, Inc. (DBA Rights and Resources Group)

Statements of Financial Position

| <i>December 31,</i> | 2009 | 2008 |
|---|---------------------|--------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 1,109,286 | \$ 637,754 |
| Accounts receivable | 711,866 | 448,087 |
| Contributions receivable | - | 200,000 |
| Advances to local partners | 237,030 | 83,328 |
| Prepaid expenses | 16,692 | 16,592 |
| Total current assets | 2,074,874 | 1,385,761 |
| Net property and equipment | 65,748 | 57,805 |
| Deposits | 12,353 | 12,353 |
| Total assets | \$ 2,152,975 | \$ 1,455,919 |
| Liabilities and Net Assets | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 348,776 | \$ 238,315 |
| Deferred revenue | 1,715,404 | 728,271 |
| Total current liabilities | 2,064,180 | 966,586 |
| Deferred rent | 35,831 | 31,910 |
| Total liabilities | 2,100,011 | 998,496 |
| Net assets | | |
| Board designated unrestricted | - | 27,831 |
| Unrestricted | (34,320) | 229,592 |
| Total unrestricted | (34,320) | 257,423 |
| Temporarily restricted | 87,284 | 200,000 |
| Total net assets | 52,964 | 457,423 |
| Total liabilities and net assets | \$ 2,152,975 | \$ 1,455,919 |

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Rights and Resources Institute, Inc. (DBA Rights and Resources Group)

Statements of Activities and Changes in Net Assets

| <i>Years Ended December 31,</i> | 2009 | | | 2008 | | |
|--|--------------------|---------------------------|------------------|-------------------|---------------------------|-------------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| Revenue | | | | | | |
| Grants and contracts | \$ 1,870,418 | \$ - | \$ 1,870,418 | \$ 1,514,536 | \$ - | \$ 1,514,536 |
| Dept for International Development grant | 1,561,921 | - | 1,561,921 | 1,280,107 | - | 1,280,107 |
| Contributions | - | 125,000 | 125,000 | - | 500,000 | 500,000 |
| Interest | 3,807 | - | 3,807 | 1,046 | - | 1,046 |
| Other revenue | 17,010 | - | 17,010 | 8,949 | - | 8,949 |
| Release from restriction | 237,716 | (237,716) | - | 300,000 | (300,000) | - |
| Total revenue | 3,690,872 | (112,716) | 3,578,156 | 3,104,638 | 200,000 | 3,304,638 |
| Expenses | | | | | | |
| Programs | 3,622,969 | - | 3,622,969 | 2,824,954 | - | 2,824,954 |
| Management and general | 314,459 | - | 314,459 | 232,858 | - | 232,858 |
| Fundraising | 45,187 | - | 45,187 | 40,538 | - | 40,538 |
| Total expenses | 3,982,615 | - | 3,982,615 | 3,098,350 | - | 3,098,350 |
| Change in net assets | (291,743) | (112,716) | (404,459) | 6,288 | 200,000 | 206,288 |
| Net assets, beginning of year | 257,423 | 200,000 | 457,423 | 251,135 | - | 251,135 |
| Net assets, end of year | \$ (34,320) | \$ 87,284 | \$ 52,964 | \$ 257,423 | \$ 200,000 | \$ 457,423 |

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Rights and Resources Institute, Inc. (DBA Rights and Resources Group)

Statements of Cash Flows

| <i>Years Ended December 31,</i> | 2009 | 2008 |
|---|---------------------|-------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ (404,459) | \$ 206,288 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation | 16,677 | 15,767 |
| Loss on disposal of asset | 234 | - |
| (Increase) decrease in: | | |
| Accounts receivable | (263,779) | (324,918) |
| Contributions receivable | 200,000 | (200,000) |
| Advances to local partners | (153,702) | (83,328) |
| Prepaid expenses | (100) | (2,476) |
| Deposits | - | 6,177 |
| Increase in: | | |
| Accounts payable and accrued expenses | 110,461 | 71,962 |
| Deferred revenue | 987,133 | 604,370 |
| Deferred rent | 3,921 | 6,246 |
| Net cash provided by operating activities | 496,386 | 300,088 |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (24,854) | (6,049) |
| Net cash used by investing activities | (24,854) | (6,049) |
| Net increase in cash and cash equivalents | 471,532 | 294,039 |
| Cash and cash equivalents, beginning of year | 637,754 | 343,715 |
| Cash and cash equivalents, end of year | \$ 1,109,286 | \$ 637,754 |

The accompanying Notes to Financial Statements are an integral part of these financial statements.

**Rights and Resources Institute, Inc.
(DBA Rights and Resources Group)**

Notes to Financial Statements

1. Organization and significant accounting policies

Organization: Rights and Resources Institute, Inc. (DBA Rights and Resources Group) (RRG) is a non-profit organization incorporated on October 26, 2005, under the laws of the District of Columbia. RRG coordinates the Rights and Resources Initiative, a global coalition dedicated to advancing forest tenure, policy and market reforms. The goals of the initiative are to reduce rural poverty, strengthen forest governance, conserve and restore forest ecosystems, and achieve sustainable, forest-based economic growth. RRG also conducts strategic global analyses and collaborates with local partners to advance domestic reform, strengthen community networks, and convenes global and regional dialogues.

Basis of presentation: Net assets and revenues are classified based on the existence or absence of donor-imposed restrictions and reported as follows:

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

Board designated net assets – unrestricted net assets that have been set aside as a reserve fund for three months of operating expenses.

Temporarily restricted net assets – net assets subject to donor-imposed stipulations that will be met either by actions of RRG and/or the passage of time.

Cash and cash equivalents: RRG considers all highly liquid investments and debt instruments whose original maturity is 90 days or less to be cash equivalents. RRG maintains balances which may exceed federally insured limits. Management does not believe that this results in any significant credit risk.

Revenue recognition:

Grants and contracts: Revenue is recognized for exchange transactions as the funds are expended.

Revenue recognized on contracts for which billings have not presented to customers at year end are included in accounts receivable. Unbilled receivables were \$173,761 and \$420,093 at December 31, 2009 and 2008, respectively.

Rights and Resources Institute, Inc.
(DBA Rights and Resources Group)

Notes to Financial Statements

1. Organization and significant accounting policies (continued)

Contributions: RRG recognizes all unconditional contributions received as income in the period received or pledged. Unconditional contributions are reported as unrestricted, temporarily restricted or permanently restricted depending on the absence or existence of donor stipulations that limit the use of the contributions.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions and accounts receivable and allowance for doubtful accounts: Receivables consist primarily of amounts due for contributions, grants and contracts. The face amount of accounts receivable is reduced by an allowance for doubtful accounts. The allowance for doubtful accounts reflects the best estimate of probable losses determined principally on the basis of historical experience and specific allowances for known troubled accounts. All accounts or portions thereof that are deemed to be uncollectible or that require an excessive collection cost are written off to the allowance for doubtful accounts. Management considers all amounts to be collectible at December 31, 2009 and 2008; as such, no allowance for doubtful accounts is recorded.

Advances to local partners: Amounts advanced to local partner collaborators for projects.

Property and equipment: RRG capitalizes fixed assets over \$1,000 at cost. Donated equipment is recorded at its estimated value on the date of the donation. Depreciation is recorded using the straight-line method over estimated useful lives of three to seven years for furniture and fixtures and computer hardware and software. Leasehold improvements are depreciated over the life of the lease.

Functional allocation of expenditures: The costs of providing various programs and other activities of RRG have been summarized on a functional basis in the accompanying Statements of Activities and Changes in Net Assets. Costs that can be identified with particular programs or support functions are charged directly to the program or function. Salaries and related costs have been allocated among the programs and supporting services based on actual time charged. Other allocable costs have been allocated to program services and to support services based upon management's estimates.

**Rights and Resources Institute, Inc.
(DBA Rights and Resources Group)**

Notes to Financial Statements

**1. Organization and significant accounting policies
(continued)**

Use of accounting 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tax status: RRG has been determined to be exempt from federal income tax pursuant to Internal Revenue Code Section 501(c)(3), and is classified as an organization that is not a private foundation.

Uncertainties in income taxes: RRG evaluates uncertainty in income tax positions based on the more-likely-than-not recognition standard, effective January 1, 2009. If that threshold is met, the tax position is then measured at the largest amount that is greater than 50% likely of being realized upon ultimate settlement. Prior to January 1, 2009, RRG evaluated uncertain tax positions such that the effects of tax positions were generally recognized in the financial statements consistent with amounts reflected in returns filed, or expected to be filed, with taxing authorities. For tax positions that RRG considered to be uncertain, current and deferred tax liabilities were recognized, or assets derecognized, when it was probable that an income tax liability had been incurred and the amount of the liability was reasonably estimable, or when it was probable that a tax benefit, such as a tax credit or loss carryforward, would be disallowed by a taxing authority.

There was no impact on the financial statements of the adoption of the revised standard for uncertain tax positions. As of December 31, 2009, there are no accruals for uncertain tax positions. If applicable, RRG records interest and penalty as a component of income tax expense. Tax years from December 31, 2006 through the current year remain open for examination by Federal and state authorities.

Subsequent events: Management has evaluated subsequent events for disclosure in these financial statements through March 31, 2010, which is the date the financial statements are available to be issued.

**Rights and Resources Institute, Inc.
(DBA Rights and Resources Group)**

Notes to Financial Statements

- 2. Property and equipment** Property and equipment consists of the following at December 31:

| | 2009 | 2008 |
|-------------------------------------|------------------|-----------|
| Leasehold improvements | \$ 53,363 | \$ 50,778 |
| Furniture and fixtures | 14,313 | 14,633 |
| Computer hardware and software | 47,114 | 24,845 |
| Total property and equipment | 114,790 | 90,256 |
| Less: Accumulated depreciation | (49,042) | (32,451) |
| Net property and equipment | \$ 65,748 | \$ 57,805 |

Depreciation expense for the years ended December 31, 2009 and 2008 was \$16,677 and \$15,767, respectively.

- 3. Commitments** RRG leases office space under a lease beginning July 1, 2006, for a period of 10 years. Initial rent payments are \$6,177 per month, with an escalation of 3% annually. RRG received an abatement of two months rent as an inducement to enter into the lease. Rent expense is recorded on a straight-line basis, and the difference between cash paid and recorded rent is reflected as deferred rent on the accompanying statements of financial position. Rent expense for 2009 and 2008 under the lease was \$83,734.

RRG leases a postage meter under an operating lease agreement. The lease requires monthly payments of approximately \$20 per month.

The following is a schedule of future minimum lease payments under the operating leases as of December 31, 2009:

| | | |
|------------|----|---------|
| 2010 | \$ | 82,207 |
| 2011 | | 84,674 |
| 2012 | | 87,214 |
| 2013 | | 89,830 |
| 2014 | | 92,525 |
| Thereafter | | 143,655 |
| | \$ | 580,105 |

**Rights and Resources Institute, Inc.
(DBA Rights and Resources Group)**

Notes to Financial Statements

4. Deferred revenue As of December 31, 2009 and 2008, deferred revenue represents grants and contracts received in advance for the following:

| | 2009 | 2008 |
|---|---------------------|-------------------|
| Norwegian Agency for Development Cooperation, Government of Norway – Supporting Effective Investments and Interventions in Climate Change Mitigation in Forest Areas While Promoting Rights and Development | \$ 843,768 | \$ - |
| Swiss Agency for Development and Cooperation, Government of Switzerland – Core Contribution to the Rights and Resources Initiative | 73,935 | - |
| Swedish International Development Cooperation Agency – Accelerating Reforms in Forest Tenure and Governance to Meet Priority Global Challenges: Strategic Analysis, Narratives and Networks to Advance Local Rights and Development | 791,797 | 683,202 |
| Forests Monitor – Community Forestry Management | 5,904 | - |
| International Research Development Centre – Key Trends and Drivers in Indian Forestry | - | 45,069 |
| Total deferred revenue | \$ 1,715,404 | \$ 728,271 |

5. Temporarily restricted net assets As of December 31, RRG has the following temporarily restricted net assets:

| | 2009 | 2008 |
|--------------------------------------|------------------|-------------------|
| Time restricted – Ford Foundation | \$ - | \$ 200,000 |
| Purpose restricted – Ford Foundation | 87,284 | - |
| | \$ 87,284 | \$ 200,000 |

**Rights and Resources Institute, Inc.
(DBA Rights and Resources Group)**

Notes to Financial Statements

- 6. Employee retirement plan** RRG provides a tax-deferred annuity plan for employees under Internal Revenue Code Section 401(k). Employees are eligible to defer a portion of their compensation immediately upon beginning employment, not to exceed statutory limits. Employees who are at least 18 years of age and who have been employed for at least one year are eligible to receive employer discretionary contributions. The percentage for matching contributions is determined annually at the discretion of RRG. As of January 2009, employees are immediately vested in a portion of employer contributions equal to 3% of salaries and wages, and become vested in the remainder of employer contributions upon completion of 1,000 hours of service within a 12-month period. For the year ending December 31, 2008, employees were vested in employer contributions upon completion of 1,000 hours of service within a 12-month period. RRG's contributions for the years ended December 31, 2009 and 2008 were \$68,269 and \$61,812, respectively.
- 7. Board designated net assets** The Board of Directors directed management to establish a designated balance using unrestricted net assets which are not required to be expended in connection with any particular grant. The intention is to accumulate a reserve to cover three months of general operating expenses. As of December 31, 2008, management had identified and accumulated \$27,831 in such funds, which are reported as Board designated unrestricted net assets in the accompanying Statements of Financial Position. None were designated as of December 31, 2009.
- 8. Concentration** RRG received grants from three organizations that comprised 94% and 93% of total revenue during 2009 and 2008, respectively, and a receivable from one organization that comprised 98% and 100% of accounts receivable at December 31, 2009 and 2008, respectively.
- 9. Line of credit** During 2009, RRG obtained a revolving line of credit of \$100,000. The purpose of this facility is to provide short term funding when operating funds are found to be insufficient. The line of credit bears a fluctuating interest rate at prime and expires in one year. This line of credit was not used at any time during 2009.

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Independent Auditor's Report on Other Financial Information

Board of Directors
Rights and Resources Institute, Inc.
(DBA Rights and Resources Group)
Washington, DC

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information on pages 12 and 13 provide additional analysis which is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.

Aronson & Company

Rockville, Maryland
March 31, 2010

Rights and Resources Institute, Inc. (DBA Rights and Resources Group)

Schedule of Functional Expenses

Year Ended December 31, 2009

| | Global Campaign | Country Initiatives | Networks | Strategic Analysis | Total Programs | Management and General | Fundraising | Total |
|-------------------------------|----------------------------|--------------------------------|-------------------|-------------------------------|---------------------------|-----------------------------------|--------------------|---------------------|
| Salaries and related expenses | \$ 389,384 | \$ 398,257 | \$ 55,491 | \$ 316,209 | \$ 1,159,341 | \$ 126,134 | \$ 29,061 | \$ 1,314,536 |
| Consultants | 170,399 | 98,106 | 3,915 | 92,500 | 364,920 | 62,868 | 2,000 | 429,788 |
| Publications | 10,054 | 7,833 | - | 981 | 18,868 | 640 | - | 19,508 |
| Office expenses | 16,247 | 4,439 | 658 | 3,593 | 24,937 | 68,372 | 864 | 94,173 |
| Occupancy | 29,687 | 30,363 | 4,230 | 24,108 | 88,388 | 9,616 | 2,216 | 100,220 |
| Staff travel | 48,093 | 90,597 | 22,463 | 41,293 | 202,446 | 10,081 | 4,682 | 217,209 |
| Participant travel | 50,836 | 25,603 | 53,920 | 27,130 | 157,489 | - | - | 157,489 |
| Conference | 25,238 | 585 | 5,505 | 33,755 | 65,083 | 3,069 | - | 68,152 |
| Depreciation | 4,940 | 5,052 | 704 | 4,012 | 14,708 | 1,600 | 369 | 16,677 |
| Miscellaneous | 3,312 | - | - | 5 | 3,317 | 32,079 | - | 35,396 |
| Grants | 85,184 | 1,393,512 | 25,300 | 19,476 | 1,523,472 | - | 5,995 | 1,529,467 |
| Total Expenses | \$ 833,374 | \$ 2,054,347 | \$ 172,186 | \$ 563,062 | \$ 3,622,969 | \$ 314,459 | \$ 45,187 | \$ 3,982,615 |

Refer to accompanying Independent Auditor's Report on Other Financial Information.

Rights and Resources Institute, Inc. (DBA Rights and Resources Group)

Schedule of Functional Expenses

Year Ended December 31, 2008

| | Global Campaign | Country Initiatives | Networks | Strategic Analysis | Total Programs | Management and General | Fundraising | Total |
|-------------------------------|----------------------------|--------------------------------|-------------------|-------------------------------|---------------------------|-----------------------------------|--------------------|---------------------|
| Salaries and related expenses | \$ 264,003 | \$ 278,782 | \$ 74,448 | \$ 392,255 | \$ 1,009,488 | \$ 94,277 | \$ 23,764 | \$ 1,127,529 |
| Consultants | 40,000 | 46,158 | 41,770 | 86,212 | 214,140 | 42,751 | 13,168 | 270,059 |
| Publications | 85,487 | - | - | 1,417 | 86,904 | 739 | - | 87,643 |
| Office expenses | 14,983 | 225 | - | 2,026 | 17,234 | 52,894 | 1,288 | 71,416 |
| Occupancy | 22,054 | 23,288 | 6,219 | 32,767 | 84,328 | 7,629 | 1,985 | 93,942 |
| Staff travel | 66,470 | 26,493 | 28,487 | 53,838 | 175,288 | 3,460 | - | 178,748 |
| Participant travel | 26,677 | 18,135 | 73,754 | 87,441 | 206,007 | 3,738 | - | 209,745 |
| Conference | 36,386 | 164 | 3,543 | 26,972 | 67,065 | 3,298 | - | 70,363 |
| Depreciation | 3,701 | 3,909 | 1,044 | 5,500 | 14,154 | 1,280 | 333 | 15,767 |
| Miscellaneous | 124 | 78 | - | 19 | 221 | 22,792 | - | 23,013 |
| Grants | 23,802 | 676,620 | 101,444 | 148,259 | 950,125 | - | - | 950,125 |
| Total Expenses | \$ 583,687 | \$ 1,073,852 | \$ 330,709 | \$ 836,706 | \$ 2,824,954 | \$ 232,858 | \$ 40,538 | \$ 3,098,350 |

Refer to accompanying Independent Auditor's Report on Other Financial Information.