

**RIGHTS AND RESOURCES INSTITUTE, INC.
(D/B/A RIGHTS AND RESOURCES GROUP)**

AUDITED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011



**Rights and Resources Institute, Inc.
(D/B/A Rights and Resources Group)**

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805 King Farm Boulevard
Suite 300
Rockville, Maryland 20850

☎ 301.231.6200
☎ 301.231.7630
www.aronsonllc.com
info@aronsonllc.com

Independent Auditor's Report

Board of Directors
Rights and Resources Institute, Inc.
(D/B/A Rights and Resources Group)
Washington, DC

We have audited the accompanying financial statements of the **Rights and Resources Institute, Inc. (D/B/A Rights and Resources Group)** (a nonprofit organization), which comprise the Statements of Financial Position as of December 31, 2012 and 2011, and the related Statements of Activities and Changes in Net Assets and Cash Flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

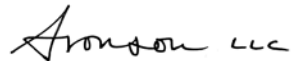
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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. (D/B/A Rights and Resources Group)** as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Rockville, Maryland
July 18, 2013

Rights and Resources Institute, Inc. (D/B/A Rights and Resources Group)

Statements of Financial Position

<i>December 31,</i>	2012	2011
Assets		
Current assets		
Cash and cash equivalents	\$ 2,755,693	\$ 3,397,823
Accounts receivable, net	677,357	778,860
Advances to local partners	70,501	77,102
Prepaid expenses	71,777	64,377
Total current assets	3,575,328	4,318,162
Net property and equipment	275,233	322,072
Deposits	10,642	9,677
Total assets	\$ 3,861,203	\$ 4,649,911
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 663,080	\$ 818,901
Deferred revenue	2,509,333	3,703,023
Total current liabilities	3,172,413	4,521,924
Total liabilities	3,172,413	4,521,924
Net assets		
Board designated unrestricted	108,696	83,696
Unrestricted	453,594	(16,566)
Total unrestricted	562,290	67,130
Temporarily restricted	126,500	60,857
Total net assets	688,790	127,987
Total liabilities and net assets	\$ 3,861,203	\$ 4,649,911

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

Rights and Resources Institute, Inc. (D/B/A Rights and Resources Group)

Statements of Activities and Changes in Net Assets

<i>Years Ended December 31,</i>	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue						
Grants and contracts	\$ 6,818,862	\$ 126,500	\$ 6,945,362	\$ 4,366,779	\$ 80,000	\$ 4,446,779
Dept for International Development grant	1,629,400	-	1,629,400	2,848,978	-	2,848,978
Contributions	100,000	-	100,000	25,000	-	25,000
Interest	3,602	-	3,602	4,422	-	4,422
Other (loss) revenue	(13,960)	-	(13,960)	27,461	-	27,461
Release from restriction	60,857	(60,857)	-	60,418	(60,418)	-
Total revenue	8,598,761	65,643	8,664,404	7,333,058	19,582	7,352,640
Expenses						
Programs	7,013,791	-	7,013,791	7,018,347	-	7,018,347
Management and general	1,053,418	-	1,053,418	514,095	-	514,095
Fundraising	36,392	-	36,392	29,184	-	29,184
Total expenses	8,103,601	-	8,103,601	7,561,626	-	7,561,626
Change in net assets	495,160	65,643	560,803	(228,568)	19,582	(208,986)
Net assets, beginning of year	67,130	60,857	127,987	295,698	41,275	336,973
Net assets, end of year	\$ 562,290	\$ 126,500	\$ 688,790	\$ 67,130	\$ 60,857	\$ 127,987

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

Rights and Resources Institute, Inc. (D/B/A Rights and Resources Group)

Statements of Cash Flows

<i>Years Ended December 31,</i>	2012	2011
Cash flows from operating activities		
Change in net assets	\$ 560,803	\$ (208,986)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	97,092	66,668
Loss on disposal of asset	221	30,013
Provision for doubtful accounts	(47,677)	(20,000)
(Increase) decrease in:		
Accounts receivable	149,180	(683,537)
Advances to local partners	6,601	358,805
Prepaid expenses	(7,400)	(29,823)
Deposits	(965)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	(155,821)	60,483
Deferred revenue	(1,193,690)	1,053,098
Deferred rent	-	(37,358)
Net cash (used in) provided by operating activities	(591,656)	589,363
Cash flows from investing activities		
Purchase of property and equipment	(50,474)	(301,740)
Net (decrease) increase in cash and cash equivalents	(642,130)	287,623
Cash and cash equivalents, beginning of year	3,397,823	3,110,200
Cash and cash equivalents, end of year	\$ 2,755,693	\$ 3,397,823

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

**Rights and Resources Institute, Inc.
(D/B/A Rights and Resources Group)**

Notes to Financial Statements

1. Organization and significant accounting policies

Organization: Rights and Resources Institute, Inc. (D/B/A 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, strengthens community networks, and convenes global and regional dialogues.

Basis of accounting: RRG maintains its records using the accrual basis of accounting.

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.

Accounts receivable and allowance for doubtful accounts: Receivables consist primarily of amounts due for unbilled 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. The balance of the allowance for the year ended December 31, 2011 was \$47,677. Management did not deem an allowance necessary for the year ended December 31, 2012.

Rights and Resources Institute, Inc.
(D/B/A Rights and Resources Group)

Notes to Financial Statements

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 ten years for furniture and fixtures and computer hardware and software. Leasehold improvements are depreciated over the lesser of the life of the lease or the life of the asset.

Advances to local partners: RRG gives advances to local partner collaborators for projects.

Revenue recognition:

Grants and contracts: Revenue is recognized for exchange transactions as the funds are expended. Amounts received in advance are deferred.

Revenue recognized on contracts for which billings have not been presented to customers at year end is included in accounts receivable on the statement of financial position. Unbilled receivables were \$143,524 and \$654,958 at December 31, 2012 and 2011, respectively.

Grants received from foundations are recognized as income in the period received or pledged and are reported according to any unrestricted or temporarily restricted stipulations.

Department for International Development (DFID): The DFID grant revenue is recognized as the funds are expended. Amounts received in advance are deferred.

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.

Rights and Resources Institute, Inc.
(D/B/A Rights and Resources Group)

Notes to Financial Statements

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.

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 taken or expected to be taken on a tax return based on the more-likely-than-not recognition standard. 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. As of December 31, 2012 and 2011 there are no accruals for uncertain tax positions. If applicable, RRG records interest and penalties as a component of income tax expense. Tax years from December 31, 2009 through the current year remain open for examination by Federal and state authorities.

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.

Subsequent events: Management has evaluated subsequent events for disclosure in these financial statements through July 18, 2013 which is the date the financial statements are available to be issued.

Rights and Resources Institute, Inc.
(D/B/A Rights and Resources Group)

Notes to Financial Statements

2. Property and equipment

Property and equipment consists of the following at December 31:

	2012	2011
Leasehold improvements	\$ 273,363	\$ 269,468
Furniture and fixtures	36,218	36,218
Computer hardware and software	148,152	107,248
Total property and equipment	457,733	412,934
Less: Accumulated depreciation	(182,500)	(90,862)
Net property and equipment	\$ 275,233	\$ 322,072

Depreciation expense for the years ended December 31, 2012 and 2011 were \$97,092 and \$66,668, respectively.

3. Commitments

RRG leased office space under a lease that began July 1, 2006, for a period of 10 years. Initial rent payments were \$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. Subsequently RRG negotiated a lease amendment for office space on the third floor to replace the initial space leased. RRG occupied the new space on May 1, 2011, the date that the amended lease terms began. The amended agreement expires June 30, 2016 with initial rent payments of \$11,391 per month, with an escalation of 3% annually. 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 the years ended December 31, 2012 and 2011 under the lease were \$151,388 and \$102,005, respectively.

The following is a schedule of future minimum lease payments under the operating lease as of December 31, 2012:

2013	143,625
2014	147,926
2015	152,361
2016	77,699
	\$ 521,611

**Rights and Resources Institute, Inc.
(D/B/A Rights and Resources Group)**

Notes to Financial Statements

4. Deferred revenue

As of December 31, 2012 and 2011, deferred revenue represents grants and contracts received in advance for the following:

	2012	2011
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	\$ 1,282,143	\$ 1,509,911
Norwegian Agency for Development Cooperation, Government of Norway – Core Contribution to the Rights and Resources Initiative	84,498	130,394
Swiss Agency for Development and Cooperation, Government of Switzerland – Core Contribution to the Rights and Resources Initiative	-	380,467
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	500,872	1,670,902
The Ministry for Foreign Affairs of Finland – Accelerating Reforms in Forest Tenure and Governance in West and Central Africa	127,178	11,349
Deutsche Gesellschaft für Internationale Zusammenarbeit – Global Support Initiative Forest Governance	514,642	-
Total deferred revenue	\$ 2,509,333	\$ 3,703,023

**Rights and Resources Institute, Inc.
(D/B/A Rights and Resources Group)**

Notes to Financial Statements

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- 5. 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. 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. RRG's contributions for the years ended December 31, 2012 and 2011 were \$114,379 and \$62,710, respectively.
- 6. 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, 2012 and 2011 management had identified and accumulated \$108,696 and \$83,696, respectively in such funds, which are reported as Board designated unrestricted net assets in the accompanying Statements of Financial Position.
- 7. Concentration** RRG received grants from five organizations that comprised 78% of total revenue during 2012 and four organizations that comprised 94% during 2011. A receivable from one organization comprised 80% and 98% of accounts receivable at December 31, 2012 and 2011, respectively.
- 8. Line of credit** During 2009, RRG obtained a revolving line of credit of \$100,000. The purpose of the line 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 plus 3.50% which was 6.75% at December 31, 2012 and 2011. The line expires October 9, 2013 and is automatically renewed on an annual basis barring termination from either party at will. This line of credit was not used at any time during 2012 and 2011.



Independent Auditor's Report on Supplementary Information

Board of Directors
Rights and Resources Institute, Inc.
(D/B/A Rights and Resources Group)
Washington, DC

We have audited the financial statements of **Rights and Resources Institute, Inc. (D/B/A Rights and Resources Group)** as of and for the years ended December 31, 2012 and 2011, and have issued our report thereon dated July 18, 2013, which contained an unmodified opinion on those financial statements. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Functional Expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Rockville, Maryland
July 18, 2013

805 King Farm Boulevard
Suite 300
Rockville, Maryland 20850

☎ 301.231.6200
☎ 301.231.7630
www.aronsonllc.com
info@aronsonllc.com

Rights and Resources Institute, Inc. (D/B/A Rights and Resources Group)

Schedule of Functional Expenses

Year Ended December 31, 2012

	Coordination	Communication & Outreach	Country Initiatives	Networks	Thematic Programs	Total Programs	Management and General	Fundraising	Total
Salaries and related expenses	\$ 235,232	\$ 244,406	\$ 562,390	\$ 88,714	\$ 240,732	\$ 1,371,474	\$ 587,436	\$ 21,515	\$ 1,980,425
Consultants	100,950	20,328	71,216	99,335	313,605	605,434	159,776	-	765,210
Publications	8,079	450,538	12,180	72	12,223	483,092	221	-	483,313
Office expenses	1,587	3,706	10,294	458	2,623	18,668	110,954	1,070	130,692
Occupancy	22,084	22,946	52,799	8,329	22,601	128,759	55,150	2,020	185,929
Staff travel	49,992	31,864	106,511	22,333	47,318	258,018	4,831	7,835	270,684
Participant travel	144,003	11,330	92,112	166,802	44,402	458,649	3,104	2,897	464,650
Conference	226,860	10,063	30,293	126,357	77,124	470,697	5,142	-	475,839
Depreciation	11,532	11,982	27,572	4,349	11,802	67,237	28,800	1,055	97,092
Miscellaneous	-	677	688	36	153	1,554	98,004	-	99,558
Grants	7,703	11,000	2,896,284	4,494	230,728	3,150,209	-	-	3,150,209
Total expenses	\$ 808,022	\$ 818,840	\$ 3,862,339	\$ 521,279	\$ 1,003,311	\$ 7,013,791	\$ 1,053,418	\$ 36,392	\$ 8,103,601

Refer to accompanying Independent Auditor's Report on Supplementary Information.

Rights and Resources Institute, Inc. (D/B/A Rights and Resources Group)

Schedule of Functional Expenses

Year Ended December 31, 2011

	Coordination	Communication & Outreach	Country Initiatives	Networks	Thematic Programs	Total Programs	Management and General	Fundraising	Total
Salaries and related expenses	\$ 308,602	\$ 183,581	\$ 646,776	\$ 80,946	\$ 313,618	\$ 1,533,523	\$ 81,017	\$ 18,949	\$ 1,633,489
Consultants	133,612	18,478	53,095	58,882	170,933	435,000	186,651	1,200	622,851
Publications	13,632	132,801	19,016	606	88,522	254,577	6,100	-	260,677
Office expenses	1,028	4,010	4,155	228	4,153	13,574	143,091	853	157,518
Occupancy	24,755	14,726	51,881	6,493	25,157	123,012	6,499	1,520	131,031
Staff travel	65,021	45,817	78,233	41,734	102,738	333,543	9,561	3,361	346,465
Participant travel	101,803	6,652	25,241	56,072	278,153	467,921	3,736	2,528	474,185
Conference	55,820	368	2,532	61,884	166,609	287,213	6,238	-	293,451
Depreciation	12,595	7,492	26,397	3,304	12,800	62,588	3,307	773	66,668
Miscellaneous	240	509	20,644	368	795	22,556	67,895	-	90,451
Grants	45,222	2,500	3,098,620	15,000	323,498	3,484,840	-	-	3,484,840
Total expenses	\$ 762,330	\$ 416,934	\$ 4,026,590	\$ 325,517	\$ 1,486,976	\$ 7,018,347	\$ 514,095	\$ 29,184	\$ 7,561,626

Refer to accompanying Independent Auditor's Report on Supplementary Information.