

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

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006



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**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 Statement of Financial Position of the **Rights and Resources Institute, Inc. (DBA Rights and Resources Group)** as of December 31, 2007, and the related Statements of Activities and Changes in Net Assets, Functional Expenses and Cash Flows for the year 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 audit. The financial statements of **Rights and Resources Institute, Inc.** as of and for the year ended December 31, 2006 were audited by other auditors whose report dated September 28, 2007 expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2007 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, 2007, and the changes in its net assets, functional expenses and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Rockville, Maryland
March 25, 2008

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

Statements of Financial Position

<i>December 31,</i>	2007	2006
Assets		
Current assets		
Cash and cash equivalents	\$ 343,715	\$ 398,487
Accounts receivable	12,872	197,972
Grants receivable	110,297	78,365
Prepaid expenses	14,116	8,107
Total current assets	481,000	682,931
Net property and equipment	67,523	71,319
Deposits	18,530	18,530
Total assets	\$ 567,053	\$ 772,780
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 166,353	\$ 149,642
Deferred revenue	123,901	-
Due to Forest Trends	-	8,000
Total current liabilities	290,254	157,642
Deferred rent	25,664	17,161
Total liabilities	315,918	174,803
Net assets		
Board designated unrestricted	27,831	-
Unrestricted	223,304	294,487
Total unrestricted	251,135	294,487
Temporarily restricted	-	303,490
Total net assets	251,135	597,977
Total liabilities and net assets	\$ 567,053	\$ 772,780

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>	<u>2007</u>			<u>2006</u>		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue						
Grants and contracts	\$ 1,472,156	\$ -	\$ 1,472,156	\$ 589,340	\$ 1,215,843	\$ 1,805,183
Contributions	5,000	-	5,000	9,500	-	9,500
Conference revenue	-	-	-	11,317	-	11,317
Other revenue	2,511	-	2,511	1,000	-	1,000
Releases from restriction	303,490	(303,490)	-	912,353	(912,353)	-
Total revenue	1,783,157	(303,490)	1,479,667	1,523,510	303,490	1,827,000
Expenses						
Program	1,551,971	-	1,551,971	1,020,074	-	1,020,074
Management and general	232,511	-	232,511	196,639	-	196,639
Fundraising	42,027	-	42,027	12,310	-	12,310
Total expenses	1,826,509	-	1,826,509	1,229,023	-	1,229,023
Change in net assets	(43,352)	(303,490)	(346,842)	294,487	303,490	597,977
Net assets, beginning	294,487	303,490	597,977	-	-	-
Net assets, end of year	\$ 251,135	\$ -	\$ 251,135	\$ 294,487	\$ 303,490	\$ 597,977

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

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

Statement of Functional Expenses

Year Ended December 31, 2007

	Global Campaign	Country Initiatives	Networks	Strategic Analysis	Total Programs	Management and General	Fundraising	Total
Salaries and related expenses	\$ 228,202	\$ 171,141	\$ 70,149	\$ 172,611	\$ 642,103	\$ 85,739	\$ 36,787	\$ 764,629
Consultants	40,871	138,236	33,013	34,446	246,566	44,603	-	291,169
Publications	9,180	4,160	738	-	14,078	884	-	14,962
Office expenses	5,514	574	2,659	1,919	10,666	52,816	-	63,482
Occupancy	26,957	20,217	8,287	20,390	75,851	10,128	4,346	90,325
Staff travel	29,984	32,715	30,743	30,532	123,974	17,025	234	141,233
Participant travel	12,014	18,759	127,514	21,527	179,814	7,263	-	187,077
Conference	397	16,568	55,253	1,008	73,226	1,471	-	74,697
Depreciation	3,752	2,814	1,153	2,838	10,557	1,409	605	12,571
Miscellaneous	252	-	988	100	1,340	11,173	55	12,568
Grants	47,400	85,903	40,493	-	173,796	-	-	173,796
Total Expenses	\$ 404,523	\$ 491,087	\$ 370,990	\$ 285,371	\$ 1,551,971	\$ 232,511	\$ 42,027	\$ 1,826,509

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

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

Statement of Functional Expenses

Year Ended December 31, 2006

	Global Campaign	Country Initiatives	Networks	Strategic Analysis	Total Programs	Management and General	Fundraising	Total
Salaries and related expenses	\$ 91,215	\$ 202,952	\$ 98,605	\$ 90,148	\$ 482,920	\$ 99,190	\$ 11,026	\$ 593,136
Consultants	12,901	147,085	61,624	12,000	233,610	18,727	-	252,337
Publications	576	-	-	4,400	4,976	6,361	-	11,337
Office expenses	2,107	1,974	4,777	73	8,931	39,569	-	48,500
Occupancy	9,993	22,233	10,803	9,876	52,905	10,867	1,208	64,980
Staff travel	24,832	22,820	24,634	-	72,286	226	-	72,512
Participant travel	3,507	7,213	58,048	-	68,768	4,125	-	72,893
Conference	774	17,954	715	-	19,443	11,357	-	30,800
Depreciation	633	1,407	684	625	3,349	688	76	4,113
Miscellaneous	80	-	476	-	556	5,347	-	5,903
Business expenses	-	-	-	-	-	182	-	182
Grants	25,054	47,276	-	-	72,330	-	-	72,330
Total Expenses	\$ 171,672	\$ 470,914	\$ 260,366	\$ 117,122	\$ 1,020,074	\$ 196,639	\$ 12,310	\$ 1,229,023

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>	2007	2006
Cash flows from operating activities		
Change in net assets	\$ (346,842)	\$ 597,977
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities		
Depreciation	12,571	4,113
(Increase) decrease in:		
Accounts receivable	185,100	(197,972)
Grants receivable	(31,932)	(78,365)
Prepaid expenses	(6,009)	(8,107)
Deposits	-	(18,530)
Increase (decrease) in:		
Accounts payable and accrued expenses	16,711	149,642
Deferred revenue	123,901	-
Due to Forest Trends	(8,000)	8,000
Deferred rent	8,503	17,161
Net cash (used) provided by operating activities	(45,997)	473,919
Cash flows from investing activities		
Purchase of property and equipment	(8,775)	(75,432)
Net cash used by investing activities	(8,775)	(75,432)
Net (decrease) increase in cash and cash equivalents	(54,772)	398,487
Cash and cash equivalents, beginning of year	398,487	-
Cash and cash equivalents, end of year	\$ 343,715	\$ 398,487

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 the Society and/or the passage of time.

Cash and cash equivalents: RRG considers all highly liquid investments and debt instruments whose original maturity of 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: Revenues are agency transactions that are recognized as the funds are expended. Agency funds received in advance are deferred.

Conference revenue: Conference revenue and costs are recognized on the date of the conference. Conference revenue received in advance is reflected as deferred revenue. Conference costs paid in advance are reflected as prepaid expenses.

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.

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

Notes to Financial Statements

1. Organization and significant accounting policies (continued)

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.

Grants and accounts receivable and allowance for doubtful accounts: Receivables are recorded at their net realizable value. Management considers all amounts to be collectible at December 31, 2007 and 2006; as such, no allowance for doubtful accounts is recorded.

Property and equipment: RRG capitalizes fixed assets over \$1,000 at cost. Donated equipment is recorded at its estimated value on the date of 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 Functional Expenses. Costs that can be identified with particular programs or support functions are charged directly to that program or function. Salaries and related costs have been allocated among the programs and supporting services based upon actual time charged. Other allocable costs have been allocated to program services and to support services based upon management's best estimates.

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 and contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported 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.

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:

	2007	2006
Leasehold improvements	\$ 50,778	\$ 50,778
Furniture and fixtures	14,633	13,476
Computer hardware and software	18,796	11,178
Total property and equipment	84,207	75,432
Less: Accumulated depreciation	(16,684)	(4,113)
Net property and equipment	\$ 67,523	\$ 71,319

Depreciation expense for the year ended December 31, 2007 and 2006 was \$12,571 and \$4,113, respectively.

- 3. Leases payable** 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 the recorded rent is reflected as deferred rent in the accompanying Statements of Financial Position. Rent expense for 2007 and 2006 under the lease was \$83,734 and \$41,867, respectively.

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 the future minimum lease payments under the operating leases as of December 31, 2007.

Year Ending December 31	Amount
2008	\$ 77,488
2009	79,813
2010	82,207
2011	84,674
2012	87,214
Thereafter	326,010
Total minimum lease payments	\$ 737,406

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

Notes to Financial Statements

- | 4. Deferred revenue | <p>As of December 31, 2007 and 2006, deferred revenue represents funds received in advance and consisted of the following:</p> <table border="0" style="width: 100%; margin-left: 20px;"> <thead> <tr> <th style="width: 80%;"></th> <th style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">2007</th> <th style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">2006</th> </tr> </thead> <tbody> <tr> <td>Department of International Development
MegaFlorestais</td> <td style="text-align: right;">\$ 35,364</td> <td style="text-align: right;">\$ -</td> </tr> <tr> <td>Department of International Development -
Alternative Forestry Tenure and Business
Models for Pro-Poor Growth in Central and
West Africa</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">88,537</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">-</td> </tr> <tr> <td>Total deferred revenue</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">\$ 123,901</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">\$ -</td> </tr> </tbody> </table> | | 2007 | 2006 | Department of International Development
MegaFlorestais | \$ 35,364 | \$ - | Department of International Development -
Alternative Forestry Tenure and Business
Models for Pro-Poor Growth in Central and
West Africa | 88,537 | - | Total deferred revenue | \$ 123,901 | \$ - | | | |
|---|---|-------------------|------|------|---|-----------|-----------|---|--------|--------|-------------------------------|-------------------|-------------|--|-------------|-------------------|
| | 2007 | 2006 | | | | | | | | | | | | | | |
| Department of International Development
MegaFlorestais | \$ 35,364 | \$ - | | | | | | | | | | | | | | |
| Department of International Development -
Alternative Forestry Tenure and Business
Models for Pro-Poor Growth in Central and
West Africa | 88,537 | - | | | | | | | | | | | | | | |
| Total deferred revenue | \$ 123,901 | \$ - | | | | | | | | | | | | | | |
| 5. Temporarily restricted assets | <p>As of December 31, RRG has the following temporarily restricted net assets:</p> <table border="0" style="width: 100%; margin-left: 20px;"> <thead> <tr> <th style="width: 80%;"></th> <th style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">2007</th> <th style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">2006</th> </tr> </thead> <tbody> <tr> <td>Global Campaign</td> <td style="text-align: right;">\$ -</td> <td style="text-align: right;">\$ 74,837</td> </tr> <tr> <td>Country Initiatives</td> <td style="text-align: right;">-</td> <td style="text-align: right;">33,429</td> </tr> <tr> <td>Strategic Analysis</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">-</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">195,224</td> </tr> <tr> <td>Total temporarily restricted net assets</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">\$ -</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">\$ 303,490</td> </tr> </tbody> </table> | | 2007 | 2006 | Global Campaign | \$ - | \$ 74,837 | Country Initiatives | - | 33,429 | Strategic Analysis | - | 195,224 | Total temporarily restricted net assets | \$ - | \$ 303,490 |
| | 2007 | 2006 | | | | | | | | | | | | | | |
| Global Campaign | \$ - | \$ 74,837 | | | | | | | | | | | | | | |
| Country Initiatives | - | 33,429 | | | | | | | | | | | | | | |
| Strategic Analysis | - | 195,224 | | | | | | | | | | | | | | |
| Total temporarily restricted net assets | \$ - | \$ 303,490 | | | | | | | | | | | | | | |
| 6. Employee retirement plan | <p>Effective January 2006, RRG implemented a tax-deferred annuity plan under Internal Revenue Code Section 401(k). Employees are eligible to defer a portion of their compensation immediately upon beginning employment up to a maximum of 90% of compensation, not to exceed statutory maximums. Employees who are at least 18 years of age and who have been employed for at least one year are eligible to receive employer matching contributions. The percentage for matching contributions is determined annually at the discretion of RRG. Employees become 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, 2007 and 2006 was \$46,597 and \$34,092, respectively.</p> | | | | | | | | | | | | | | | |
| 7. Board designated net assets | <p>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. These funds are a reserve to cover three months of operating expenses. As of December 31, 2007, management had identified \$27,831 in such funds, which are reported as Board-designated, unrestricted net assets in the accompanying Statement of Financial Position.</p> | | | | | | | | | | | | | | | |
| 8. Concentration | <p>RRG received grants from three organizations that comprised 66% of total revenue during 2007 and a receivable from one organization that comprised 98% of grants receivable at December 31, 2007.</p> | | | | | | | | | | | | | | | |