

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

AUDITED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012



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 **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, 2013 and 2012, 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 from material misstatement.

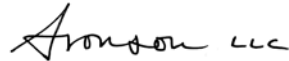
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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.

Independent Auditor's Report (Continued)

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 **Rights and Resources Institute, Inc. (D/B/A Rights and Resources Group)** as of December 31, 2013 and 2012, 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
April 30, 2014

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

Statements of Financial Position

<i>December 31,</i>	2013	2012
Assets		
Current assets		
Cash and cash equivalents	\$ 2,798,000	\$ 2,755,693
Accounts receivable, net	813,032	677,357
Advances to local partners	189,986	70,501
Prepaid expenses	74,603	71,777
Total current assets	3,875,621	3,575,328
Net property and equipment	240,724	275,233
Deposits	15,642	10,642
Total assets	\$ 4,131,987	\$ 3,861,203
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 770,984	\$ 663,080
Deferred revenue	1,869,543	2,509,333
Total current liabilities	2,640,527	3,172,413
Net assets		
Board designated unrestricted	358,696	108,696
Unrestricted	550,583	453,594
Total unrestricted	909,279	562,290
Temporarily restricted	582,181	126,500
Total net assets	1,491,460	688,790
Total liabilities and net assets	\$ 4,131,987	\$ 3,861,203

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>	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue						
Grants and contracts	\$ 5,107,172	\$ 974,482	\$ 6,081,654	\$ 6,818,862	\$ 126,500	\$ 6,945,362
Dept for International Development grant	4,256,558	-	4,256,558	1,629,400	-	1,629,400
Contributions	254,000	-	254,000	100,000	-	100,000
Interest	5,158	-	5,158	3,602	-	3,602
Other revenue (loss)	9,345	-	9,345	(13,960)	-	(13,960)
Release from restriction	518,801	(518,801)	-	60,857	(60,857)	-
Total revenue	10,151,034	455,681	10,606,715	8,598,761	65,643	8,664,404
Expenses						
Programs	8,433,927	-	8,433,927	7,013,791	-	7,013,791
Management and general	1,269,108	-	1,269,108	1,053,418	-	1,053,418
Fundraising	101,010	-	101,010	36,392	-	36,392
Total expenses	9,804,045	-	9,804,045	8,103,601	-	8,103,601
Change in net assets	346,989	455,681	802,670	495,160	65,643	560,803
Net assets, beginning of year	562,290	126,500	688,790	67,130	60,857	127,987
Net assets, end of year	\$ 909,279	\$ 582,181	\$ 1,491,460	\$ 562,290	\$ 126,500	\$ 688,790

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>	2013	2012
Cash flows from operating activities		
Change in net assets	\$ 802,670	\$ 560,803
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	94,168	97,092
Loss on disposal of asset	-	221
Provision for doubtful accounts	-	(47,677)
(Increase) decrease in:		
Accounts receivable	(135,675)	149,180
Advances to local partners	(119,485)	6,601
Prepaid expenses	(2,826)	(7,400)
Deposits	(5,000)	(965)
Increase (decrease) in:		
Accounts payable and accrued expenses	107,904	(155,821)
Deferred revenue	(639,790)	(1,193,690)
Net cash provided (used) by operating activities	101,966	(591,656)
Cash flows from investing activities		
Purchase of property and equipment	(59,659)	(50,474)
Net increase (decrease) in cash and cash equivalents	42,307	(642,130)
Cash and cash equivalents, beginning of year	2,755,693	3,397,823
Cash and cash equivalents, end of year	\$ 2,798,000	\$ 2,755,693

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 unrestricted net assets – unrestricted net assets that have been designated by the board 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. Management did not deem an allowance necessary as of December 31, 2013 and 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 statements of financial position. Unbilled receivables were \$792,364 and \$143,524 at December 31, 2013 and 2012, 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) grant: 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 statements 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, 2013 and 2012 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, 2010 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 April 30, 2014, which was the date the financial statements were 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:

	2013	2012
Leasehold improvements	\$ 294,939	\$ 273,363
Furniture and fixtures	57,223	36,218
Computer hardware and software	160,310	148,152
Total property and equipment	512,472	457,733
Less: Accumulated depreciation	(271,748)	(182,500)
Net property and equipment	\$ 240,724	\$ 275,233

Depreciation expense for the years ended December 31, 2013 and 2012 was \$94,168 and \$97,092, respectively.

3. Commitments

RRG leases office space under a lease that 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, and included in accounts payable and accrued expenses. Rent expense for the years ended December 31, 2013 and 2012 was \$173,584 and \$151,388, respectively.

The following is a schedule of future minimum lease payments under the operating lease as of December 31, 2013:

2014	\$ 251,262
2015	260,864
2016	133,744
	\$ 645,870

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

Notes to Financial Statements

4. Deferred revenue

As of December 31, 2013 and 2012, deferred revenue represents grants and contracts received in advance for the following:

	2013	2012
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	\$ 299,787	\$ 1,282,143
Norwegian Agency for Development Cooperation, Government of Norway – Core Contribution to the Rights and Resources Initiative	205	84,498
Swiss Agency for Development and Cooperation, Government of Switzerland – Core Contribution to the Rights and Resources Initiative	383,396	-
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	1,186,155	500,872
The Ministry for Foreign Affairs of Finland – Accelerating Reforms in Forest Tenure and Governance in West and Central Africa	-	127,178
Deutsche Gesellschaft für Internationale Zusammenarbeit – Global Support Initiative Forest Governance	-	514,642
Total deferred revenue	\$ 1,869,543	\$ 2,509,333

**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, 2013 and 2012 were \$121,191 and \$114,379, 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, 2013 and 2012 management had identified and accumulated \$358,696 and \$108,696, 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 three organizations that comprised 68% of total revenue during 2013 and five organizations that comprised 78% of total revenue during 2012. Amounts receivable from one organization comprised 98% and 80% of accounts receivable at December 31, 2013 and 2012, respectively.
- 8. Line of credit** RRG has access to a \$100,000 revolving line of credit. 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%, totaling 6.75% at December 31, 2013 and 2012. The line expires October 9, 2014 and is automatically renewed on an annual basis barring termination by either party at will. This line of credit was not used at any time during 2013 or 2012.



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, 2013 and 2012, and our report thereon dated April 30, 2014, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. 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
April 30, 2014

805 King Farm Boulevard
Suite 300
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Rights and Resources Institute, Inc. (D/B/A Rights and Resources Group)

Schedule of Functional Expenses

Year Ended December 31, 2013

	Coordination	Communication & Outreach	Country and Regional Programs	Networks	Strategic Analysis	Strategic Initiatives	Total Programs	Management and General	Fundraising	Total
Salaries and related expenses	\$ 187,702	\$ 201,011	\$ 530,882	\$ 82,661	\$ 239,710	\$ 182,108	\$ 1,424,074	\$ 814,538	\$ 96,955	\$ 2,335,567
Consultants	148,040	26,816	130,940	101,299	258,563	74,053	739,711	161,378	-	901,089
Publications	445	424,807	2	34,954	8,544	902	469,654	475	-	470,129
Office expenses	5,250	9,276	8,650	2,810	6,165	(919)	31,232	117,105	679	149,016
Occupancy	12,135	17,991	93,653	15,332	22,092	20,707	181,910	34,178	2,179	218,267
Staff travel	15,194	20,245	56,926	9,272	35,742	18,766	156,145	1,588	165	157,898
Participant travel	71,589	51,139	13,673	165,277	29,764	46,121	377,563	-	92	377,655
Conference	84,634	60,907	11,933	88,176	30,666	50,475	326,791	2,095	-	328,886
Depreciation	5,235	7,762	40,405	6,615	9,531	8,934	78,482	14,746	940	94,168
Miscellaneous	-	-	305	39	150	-	494	123,005	-	123,499
Grants	32,390	14,170	3,454,692	204,392	383,327	558,900	4,647,871	-	-	4,647,871
Total expenses	\$ 562,614	\$ 834,124	\$ 4,342,061	\$ 710,827	\$ 1,024,254	\$ 960,047	\$ 8,433,927	\$ 1,269,108	\$ 101,010	\$ 9,804,045

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, 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.