

RIGHTS AND RESOURCES INSTITUTE, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2006

RIGHTS AND RESOURCES INSTITUTE, INC.

FINANCIAL STATEMENTS

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E. COHEN

AND COMPANY, CPAs

Building Profitable Ideas

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rights and Resources Institute, Inc.
Washington, DC

We have audited the accompanying statement of financial position of Rights and Resources Institute, Inc. ("RRI"), as of December 31, 2006, and the related statements of activities, changes in net assets, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of RRI's management. Our responsibility is to express an opinion on the financial statements based on our audit.

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 financial statements referred to above present fairly, in all material respects, the financial position of Rights and Resources Institute, Inc., as of December 31, 2006, and its activities, changes in net assets, cash flows, and functional expenses for the year then ended in conformity with accounting principles generally accepted in the United States of America.

E. Cohen and Company, CPAs

September 28, 2007

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RIGHTS AND RESOURCES INSTITUTE, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2006

ASSETS

Current assets:	
Cash	\$ 398,487
Accounts receivable	197,972
Grants receivable	78,365
Prepaid expenses	<u>8,107</u>
Total current assets	<u>682,931</u>
Property and equipment:	
Leasehold improvements	50,778
Furniture and fixtures	13,476
Computer hardware and software	<u>11,178</u>
Total property and equipment	75,432
Less: accumulated depreciation	<u>(4,113)</u>
Net property and equipment	71,319
Deposits	<u>18,530</u>
Total assets	<u>\$ 772,780</u>

See auditor's report and accompanying notes to financial statements.

RIGHTS AND RESOURCES INSTITUTE, INC.
STATEMENT OF FINANCIAL POSITION (continued)

DECEMBER 31, 2006

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 110,262
Accrued payroll	28,977
Accrued vacation	10,403
Due to Forest Trends	<u>8,000</u>
Total current liabilities	157,642
Deferred rent	17,161
Commitments	<u>-</u>
Total liabilities	174,803
Net assets:	
Unrestricted	294,487
Temporarily restricted	<u>303,490</u>
Total net assets	<u>597,977</u>
Total liabilities and net assets	<u><u>\$ 772,780</u></u>

See auditor's report and accompanying notes to financial statements.

RIGHTS AND RESOURCES INSTITUTE, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2006

	Unrestricted	Temporarily Restricted	Total
REVENUE			
Contributions	\$ 9,500	\$ -	\$ 9,500
Grants and contracts	589,340	1,215,843	1,805,183
Conference revenue	11,317		11,317
Other income	1,000		1,000
Releases from restriction	912,353	(912,353)	-
TOTAL REVENUE	1,523,510	303,490	1,827,000
EXPENSES			
Program	1,020,074		1,020,074
Management and General	196,639		196,639
Fundraising	12,310		12,310
TOTAL EXPENSES	1,229,023	-	1,229,023
NET INCOME	294,487	303,490	597,977
NET ASSETS, JANUARY 1, 2006 (INCEPTION)	-	-	-
NET ASSETS, DECEMBER 31, 2006	\$ 294,487	\$ 303,490	\$ 597,977

See auditor's report and accompanying notes to financial statements.

RIGHTS AND RESOURCES INSTITUTE, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$ 597,977
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation expense	4,565
(Increase) decrease in assets:	
Accounts receivable	(197,972)
Grants receivable	(78,365)
Prepaid expenses	(8,107)
Deposits	(18,530)
Increase (decrease) in liabilities:	
Accounts payable	110,262
Accrued expenses	39,380
Due to Forest Trends	8,000
Deferred rent	17,161
	<hr/>
CASH PROVIDED BY OPERATING ACTIVITIES	474,371
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash paid for purchases of fixed assets	<hr/> (75,884)
CASH USED FOR INVESTING ACTIVITIES	<hr/> (75,884)
NET INCREASE IN CASH	398,487
CASH AT BEGINNING OF YEAR	<hr/> -
CASH AT END OF YEAR	<hr/> <u>\$ 398,487</u>

CASH PAID DURING THE YEAR FOR:

Interest	\$ 208
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See auditor's report and accompanying notes to the financial statements.

RIGHTS AND RESOURCES INSTITUTE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

DECEMBER 31, 2006

	Global Campaign	Country Initiatives	Networks	Strategic Analysis	Total Programs	Management & General	Fundraising	Total
Salaries and related expenses	\$ 91,215	\$ 202,952	\$ 98,605	\$ 90,148	\$ 482,920	\$ 99,191	\$ 11,025	\$ 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

See auditor's report and accompanying notes to the financial statements.

RIGHTS AND RESOURCES INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2006

1. Organization:

Rights and Resources Institute, Inc. ("RRI") is a non-profit organization incorporated on October 26, 2005, under the laws of the District of Columbia. RRI 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. RRI also conducts strategic global analyses and collaborates with local partners to advance domestic reform, strengthen community networks, and convenes global and regional dialogues.

RRI has been determined to be exempt from federal income tax pursuant to Internal Revenue Code Section 501(c)(3).

2. Summary of significant accounting policies:

Basis of presentation:

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS 117, RRI is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Revenue recognition:

RRI accounts for contributions in accordance with the recommendations of SFAS 116, *Accounting for Contributions Received and Contributions Made*. Under the guidelines of SFAS 116, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

RIGHTS AND RESOURCES INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2006

2. Summary of significant accounting policies (continued):

Revenue recognition (continued):

Support that is restricted by the donor, including pledges, is reported as an increase in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction. 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. However, if a restriction is fulfilled in the same time period in which the support is received, RRI reports the support as unrestricted.

RRI reports gifts of equipment as unrestricted support unless explicit stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit stipulations about how long those long-lived assets must be maintained, RRI reports expirations of restrictions when the assets are placed in service.

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 deferred conference costs.

Contributions, grants and accounts receivable and allowance for doubtful accounts:

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Unconditional contributions receivable are recognized as revenues in the period the pledge is received. Conditional contributions receivable are recognized when the conditions on which they depend are substantially met. All contributions and accounts receivable are expected to be collected within one year.

RIGHTS AND RESOURCES INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2006

2. Summary of significant accounting policies (continued):

Contributions, grants and accounts receivable and allowance for doubtful accounts (continued):

Accounts and grants receivable are recorded at the lower of cost or fair value. The risk of loss on the receivables is the balance due at the time of default. All receivables are unsecured. RRI uses the allowance method to determine uncollectible contributions and other receivables. The allowance is based upon experience, management's analysis of specific promises made, and other historical factors that pertain to the receivables. As of December 31, 2006, management considers all receivables to be collectible; therefore no allowance for uncollectible accounts is reflected in the accompanying financial statements. No interest is accrued on receivables.

Donations in-kind have been received from members of the Board of Directors for out-of-pocket expenses including travel, telephone, postage, etc. The value of such donations is not reflected in the accompanying financial statements as it does not meet the requirements for recording donated services as detailed by SFAS 116.

Property and equipment and depreciation:

RRI capitalizes fixed assets with an original cost of over \$1,000. Furniture, equipment and leasehold improvements are recorded at cost. Donated equipment is reflected in the accompanying financial statements at its estimated value at the date of receipt. Depreciation is provided for in amounts sufficient to relate the cost of the depreciable assets to operations using the straight-line method over estimated useful lives of: three to seven years for furniture and equipment. Leasehold improvements are depreciated over the life of the lease. Depreciation expense for the year ended December 31, 2006 was \$4,113.

Cash equivalents:

For purposes of the statement of cash flows, RRI considers all highly liquid short term debt instruments whose maturity dates do not extend past three months from the original date of purchase to be cash equivalents. As of December 31, 2006, RRI held no such investments.

RIGHTS AND RESOURCES INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2006

2. Summary of significant accounting policies (continued):

Functional allocation of expenditures:

The costs of providing various programs and other activities of RRI have been summarized on a functional basis in the accompanying financial statements. 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 timesheets prepared by the employees and management's best estimates of the proportion of these costs applicable to each program. 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.

3. Leases payable:

RRI leases office space under a lease beginning July 1, 2006, for a period of 10 years. Initial rent payments are \$6,176.63 per month, with an escalation of 3% annually. RRI received an abatement of three 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 financial statements. Rent expense for 2006 under the lease was \$41,867.

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

RIGHTS AND RESOURCES INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2006

3. Leases payable (continued):

The following is a schedule of the future minimum lease payments under the operating leases.

Year ending December 31,	
2007	\$ 75,471
2008	77,488
2009	79,813
2010	82,207
2011	84,674
Thereafter	<u>413,224</u>
Total minimum lease payments	<u>\$ 812,877</u>

4. Temporarily restricted assets:

As of December 31, 2006, RRI has the following temporarily restricted net assets:

Global Campaign	\$ 74,837
Country Initiatives	33,429
Strategic Analysis	<u>195,224</u>
Total temporarily restricted net assets	<u>\$ 303,490</u>

5. Concentrations of credit risk:

RRI maintains its cash balances in financial institutions in the Washington, DC metropolitan area. The balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$100,000. RRI consistently maintains cash balances significantly in excess of the FDIC insurable amount.

6. Employee retirement plan:

Effective January 1, 2006, RRI 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 \$15,000 for the year. 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 RRI. Employees become vested in employer contributions upon

RIGHTS AND RESOURCES INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2006

6. Employee retirement plan (continued):

Completion of 1,000 hours of service within a 12-month period. RRI's contributions for the year ended December 31, 2006 were \$34,092.