

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

AUDITED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

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

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Independent Auditor's Report

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

We have audited the accompanying Statements of Financial Position of the **Rights and Resources Institute, Inc. (D/B/A Rights and Resources Group)** (a nonprofit organization) as of December 31, 2010 and 2009, 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 the Organization'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of **Rights and Resources Institute, Inc. (D/B/A Rights and Resources Group)**'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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. (D/B/A Rights and Resources Group)** as of December 31, 2010 and 2009, 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 22, 2011

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

Statements of Financial Position

<i>December 31,</i>	2010	2009
Assets		
Current assets		
Cash and cash equivalents	\$ 3,110,200	\$ 1,109,286
Accounts receivable	75,323	711,866
Advances to local partners	435,907	237,030
Prepaid expenses	34,554	16,692
Total current assets	3,655,984	2,074,874
Net property and equipment	117,013	65,748
Deposits	9,677	12,353
Total assets	\$ 3,782,674	\$ 2,152,975
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 758,418	\$ 348,776
Deferred revenue	2,649,925	1,715,404
Total current liabilities	3,408,343	2,064,180
Deferred rent	37,358	35,831
Total liabilities	3,445,701	2,100,011
Net assets		
Board designated unrestricted	58,696	-
Unrestricted	237,002	(34,320)
Total unrestricted	295,698	(34,320)
Temporarily restricted	41,275	87,284
Total net assets	336,973	52,964
Total liabilities and net assets	\$ 3,782,674	\$ 2,152,975

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>	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue						
Grants and contracts	\$ 4,407,284	\$ 100,000	\$ 4,507,284	\$ 1,870,418	\$ -	\$ 1,870,418
Dept for International Development grant	1,866,318	-	1,866,318	1,561,921	-	1,561,921
Contributions	-	8,000	8,000	-	125,000	125,000
Interest	7,943	-	7,943	3,807	-	3,807
Other revenue	11,467	-	11,467	17,010	-	17,010
Release from restriction	154,009	(154,009)	-	237,716	(237,716)	-
Total revenue	6,447,021	(46,009)	6,401,012	3,690,872	(112,716)	3,578,156
Expenses						
Programs	5,565,881	-	5,565,881	3,622,969	-	3,622,969
Management and general	545,871	-	545,871	314,459	-	314,459
Fundraising	5,251	-	5,251	45,187	-	45,187
Total expenses	6,117,003	-	6,117,003	3,982,615	-	3,982,615
Change in net assets	330,018	(46,009)	284,009	(291,743)	(112,716)	(404,459)
Net assets, beginning of year	(34,320)	87,284	52,964	257,423	200,000	457,423
Net assets, end of year	\$ 295,698	\$ 41,275	\$ 336,973	\$ (34,320)	\$ 87,284	\$ 52,964

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>	2010	2009
Cash flows from operating activities		
Change in net assets	\$ 284,009	\$ (404,459)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	25,653	16,677
Loss on disposal of asset	1,020	234
Provision for doubtful accounts	(27,677)	-
(Increase) decrease in:		
Accounts receivable	664,220	(263,779)
Contributions receivable	-	200,000
Advances to local partners	(198,877)	(153,702)
Prepaid expenses	(17,862)	(100)
Deposits	2,676	-
Increase in:		
Accounts payable and accrued expenses	409,642	110,461
Deferred revenue	934,521	987,133
Deferred rent	1,527	3,921
Net cash provided by operating activities	2,078,852	496,386
Cash flows from investing activities		
Purchase of property and equipment	(77,938)	(24,854)
Net increase in cash and cash equivalents	2,000,914	471,532
Cash and cash equivalents, beginning of year	1,109,286	637,754
Cash and cash equivalents, end of year	\$ 3,110,200	\$ 1,109,286

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, 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. 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 \$67,646 and \$173,761 at December 31, 2010 and 2009, respectively.

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

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

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 was \$27,677 at December 31, 2010. All outstanding balances at December 31, 2009 were considered fully collectible.

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 lesser of the life of the lease or the life of the asset.

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.
(D/B/A 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 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, 2010 and 2009 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, 2007 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 22, 2011, which is the date the financial statements are available to be issued.

2. Property and equipment

Property and equipment consists of the following at December 31:

	2010	2009
Leasehold improvements	\$ 53,363	\$ 53,363
Furniture and fixtures	19,689	14,313
Computer hardware and software	93,358	47,114
Total property and equipment	166,410	114,790
Less: Accumulated depreciation	(49,397)	(49,042)
Net property and equipment	\$ 117,013	\$ 65,748

Depreciation expense for the years ended December 31, 2010 and 2009 was \$25,653 and \$16,677, respectively.

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

Notes to Financial Statements

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. Subsequent to year end, RRG negotiated a lease for office space on the third floor. RRG will pay a relocation fee of \$30,000 and will be released from the obligations for the second floor space. RRG will move to the new space on May 1, 2011, the date that the revised lease terms begin. The new agreement expires April 30, 2017 with initial rent payments of \$11,391 per month. 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 2010 and 2009 under the lease was \$82,207 and \$79,813, 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 future minimum lease payments under the operating leases as of December 31, 2010:

2011	\$	138,932
2012		149,433
2013		143,625
2014		147,926
2015		152,361
Thereafter		209,770
	\$	<u>942,047</u>

4. Deferred revenue As of December 31, 2010 and 2009, deferred revenue represents grants and contracts received in advance for the following:

	2010	2009
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	\$ 881,246	\$ 843,768
Norwegian Agency for Development Cooperation, Government of Norway – Core Contribution to the Rights and Resources Initiative	115,344	-

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

Notes to Financial Statements

4. Deferred revenue (continued)	Swiss Agency for Development and Cooperation, Government of Switzerland – Core Contribution to the Rights and Resources Initiative	268,435	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	1,240,141	791,797
	The Ministry for Foreign Affairs of Finland – Accelerating Reforms in Forest Tenure and Governance in West and Central Africa	4,815	
	Forests Monitor – Community Forestry Management	-	5,904
	Department for International Development – Accelerating Reforms in Forest Tenure and Governance to Meet Priority Global Challenges: Strategic Analysis, Narratives and Networks to Advance Local Rights and Development	139,944	-
	Total deferred revenue	\$ 2,649,925	\$ 1,715,404

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. 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, 2010 and 2009 were \$91,317 and \$68,269, respectively.

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

Notes to Financial Statements

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- 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, 2010 management had identified and accumulated \$58,696 in such funds, which are reported as Board designated unrestricted net assets in the accompanying Statements of Financial Position.
- 8. Concentration** RRG received grants from three organizations that comprised 67% and 94% of total revenue during 2010 and 2009, respectively, and a receivable from one organization comprised 100% and 98% of accounts receivable at December 31, 2010 and 2009, respectively.
- 9. 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 which was 3.25% and 3% at December 31, 2010 and 2009, respectively. The line 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 2010 and 2009.



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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, 2010 and 2009, and our report thereon dated March 22, 2011, which expressed an unqualified opinion on those financial statements, appears on page 1. 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
March 22, 2011

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

Schedule of Functional Expenses

Year Ended December 31, 2010

	Global Campaign	Country Initiatives	Networks	Strategic Analysis	Total Programs	Management and General	Fundraising	Total
Salaries and related expenses	\$ 317,828	\$ 509,798	\$ 90,876	\$ 328,333	\$ 1,246,835	\$ 236,123	\$ 4,833	\$ 1,487,791
Consultants	199,904	66,142	67,598	239,463	573,107	113,204	-	686,311
Publications	77,650	-	-	1,840	79,490	2,448	-	81,938
Office expenses	3,026	4,308	1,422	5,852	14,608	86,428	-	101,036
Occupancy	22,044	35,358	6,303	22,772	86,477	16,377	335	103,189
Staff travel	30,834	121,628	46,774	64,676	263,912	3,127	-	267,039
Participant travel	75,058	37,163	163,285	108,327	383,833	12,831	-	396,664
Conference	64,881	114	24,280	72,793	162,068	14,331	-	176,399
Depreciation	5,480	8,791	1,567	5,661	21,499	4,071	83	25,653
Miscellaneous	151	218	57	53	479	56,376	-	56,855
Grants	12,080	2,423,769	25,000	272,724	2,733,573	555	-	2,734,128
Total Expenses	\$ 808,936	\$ 3,207,289	\$ 427,162	\$ 1,122,494	\$ 5,565,881	\$ 545,871	\$ 5,251	\$ 6,117,003

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, 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 Supplementary Information.