

FINANCIAL STATEMENTS

RARE

**FOR THE YEAR ENDED SEPTEMBER 30, 2006
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2005**

RARE

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GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Rare
Arlington, Virginia

We have audited the accompanying statement of financial position of Rare as of September 30, 2006, and the related statements of activities and change in net assets and cash flows for the year then ended. These financial statements are the responsibility of Rare's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the organization's financial statements for the year ended September 30, 2005, and in our report dated December 2, 2005 we 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 financial statements referred to above present fairly, in all material respects, the financial position of Rare as of September 30, 2006, and its change in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Gelman Rosenberg & Freedman

November 21, 2006

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RARE

STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2006
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2005

ASSETS

	<u>2006</u>	<u>2005</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,156,199	\$ 2,281,000
Investments (Note 2)	999,670	51,104
Grants and contributions receivable	1,915,060	924,845
Accrued interest	5,960	-
Prepaid expenses and other assets	<u>71,024</u>	<u>56,828</u>
Total current assets	<u>5,147,913</u>	<u>3,313,777</u>
FIXED ASSETS		
Furniture and computer equipment	202,848	175,560
Less: Accumulated depreciation and amortization	<u>(159,334)</u>	<u>(135,950)</u>
Net fixed assets	<u>43,514</u>	<u>39,610</u>
NON-CURRENT ASSETS		
Grants and contributions receivable, net of current maturities	450,000	600,000
Assets held for deferred compensation (Note 6)	<u>99,074</u>	<u>96,238</u>
Total non-current assets	<u>549,074</u>	<u>696,238</u>
TOTAL ASSETS	<u>\$ 5,740,501</u>	<u>\$ 4,049,625</u>

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

	<u>2006</u>	<u>2005</u>
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 307,733	\$ 193,251
Deferred revenue	<u>-</u>	<u>33,334</u>
Total current liabilities	<u>307,733</u>	<u>226,585</u>
NON-CURRENT LIABILITIES		
Deferred compensation liability (Note 6)	<u>99,074</u>	<u>96,238</u>
Total liabilities	<u>406,807</u>	<u>322,823</u>
NET ASSETS		
Unrestricted:		
Undesignated	1,881,728	805,863
Board designated - entrepreneur fund	23,583	21,583
Board designated - funds functioning as endowment	<u>80,613</u>	<u>80,613</u>
Total unrestricted	1,985,924	908,059
Temporarily restricted (Note 3)	<u>3,347,770</u>	<u>2,818,743</u>
Total net assets	<u>5,333,694</u>	<u>3,726,802</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,740,501</u>	<u>\$ 4,049,625</u>

RARE

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2005**

	2006			2005
	Unrestricted	Temporarily Restricted	Total	Total
REVENUE				
Grants and contributions	\$ 1,231,898	\$ 4,140,436	\$ 5,372,334	\$ 5,565,498
Tour and other income	19,242	-	19,242	4,046
Investment income	97,052	-	97,052	10,636
Contributed services and materials	1,208,118	-	1,208,118	393,265
Net assets released from restrictions (Note 4)	<u>3,611,409</u>	<u>(3,611,409)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>6,167,719</u>	<u>529,027</u>	<u>6,696,746</u>	<u>5,973,445</u>
EXPENSES				
Program Services	4,391,408	-	4,391,408	2,945,670
Administrative	62,555	-	62,555	44,677
Fundraising	<u>635,891</u>	<u>-</u>	<u>635,891</u>	<u>638,932</u>
Total expenses	<u>5,089,854</u>	<u>-</u>	<u>5,089,854</u>	<u>3,629,279</u>
Change in net assets	1,077,865	529,027	1,606,892	2,344,166
Net assets at beginning of year	<u>908,059</u>	<u>2,818,743</u>	<u>3,726,802</u>	<u>1,382,636</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,985,924</u>	<u>\$ 3,347,770</u>	<u>\$ 5,333,694</u>	<u>\$ 3,726,802</u>

See accompanying notes to financial statements.

RARE

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2005**

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,606,892	\$ 2,344,166
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	23,386	23,205
Donated investments	(91,918)	(299,637)
Unrealized (gain) loss on investments	330	(4,385)
Realized loss on sale of investment	74	-
(Increase) decrease in:		
Grants and contributions receivables	(840,215)	(156,345)
Accrued interest	(5,960)	-
Prepaid expenses and other assets	(14,196)	(16,674)
Increase (decrease) in:		
Accounts payable and accrued expenses	114,480	81,654
Deferred revenue	<u>(33,334)</u>	<u>(33,333)</u>
Net cash provided by operating activities	<u>759,539</u>	<u>1,938,651</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture and equipment	(27,288)	(26,229)
Purchase of investments	(1,000,000)	-
Proceeds from sale of investments	<u>142,948</u>	<u>252,914</u>
Net cash provided (used) by investing activities	<u>(884,340)</u>	<u>226,685</u>
Net increase (decrease) in cash and cash equivalents	(124,801)	2,165,336
Cash and cash equivalents at beginning of year	<u>2,281,000</u>	<u>115,664</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,156,199</u>	<u>\$ 2,281,000</u>

See accompanying notes to financial statements.

RARE

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Rare, formerly the Rare Center for Tropical Conservation, is a nonprofit organization located in Arlington, Virginia. Rare's mission is to conserve imperiled species and ecosystems by inspiring people to care about and protect nature. Rare, in partnership with local communities, non-governmental organizations, and other stakeholders throughout the world, is actively working in 43 countries to establish protected wildlife areas, adopt sustainable livelihood practices and raise awareness of local threats.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-for-Profit Organizations".

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended September 30, 2005, from which the summarized information was derived.

For the years ending September 30, 2006 and 2005, Gelman, Rosenberg & Freedman performed the annual audit and issued the audited financial reports.

Cash and cash equivalents -

Rare considers all cash and other highly liquid investments with initial maturities of three months or less and present significant risk of change in value to be cash equivalents. As of September 30, 2006, this balance included cash, money market funds and demand deposits with the bank.

At times during the year, Rare maintains cash balances at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are carried at market value. Realized and unrealized gains and losses are included in the Statement of Activities and Change in Net Assets. Rare invests cash in excess of daily requirements in short and medium-term (less than 18 months) U.S. government backed securities or certificates of deposit.

Fixed assets -

Fixed assets are stated at cost. Fixed assets purchased with a unit cost greater than \$500 are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to ten years. The cost of maintenance and repairs is recorded as expenses are incurred.

RARE

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Income taxes -

Rare is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. Rare is not a private foundation.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. Any funds internally restricted by rare or rare's Board are also included in unrestricted net assets. These net assets are available for the operation of Rare and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of Rare and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.

Contributions and grants -

Contributions and grants are recorded as revenue in the year notification is received from the donor. Contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements. Contributions and grants received without donor restriction are recognized as unrestricted revenue. In addition, conditional promises to give are not reported as revenue until the conditions are substantially met.

Use of 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 at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

RARE

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

2. INVESTMENTS

Investments at September 30, 2006 consisted of one Federal Home Loan Bank Bond due February 15, 2007 and a yield to maturity of 5.052% as follows:

	<u>Cost</u>	<u>Market Value</u>
Government Bond	<u>\$1,000,000</u>	<u>\$ 999,670</u>

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at September 30, 2006:

Program Restricted:	
Pride	\$ 1,605,768
Radio	204,903
Enterprises	322,405
Fisheries Fellows	<u>314,694</u>
	2,447,770
Time Restricted	<u>900,000</u>
	<u>\$ 3,347,770</u>

Of the total amount, \$2,897,770 is available to spend in FY07, \$250,000 in FY08 and \$200,000 in FY09.

4. NET ASSETS RELEASED FROM RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions by incurring expenses which satisfied the restricted purposes or by meeting the stipulated time restriction specified by the donors:

Pride	\$ 1,283,361
Radio	445,283
Fisheries Fellows	278,299
Enterprises	<u>659,672</u>
	2,666,615
Passage of time	<u>944,794</u>
	<u>\$ 3,611,409</u>

RARE

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

5. LEASE COMMITMENT

Rare leases office space in Arlington, Virginia under an operating lease expiring in May 2008. In addition to base rent, Rare is responsible for its proportionate share of the building's operating expenses.

Rare also leases office space at other locations, as well as storage space and miscellaneous furnishings and equipment under various non-cancelable operating leases. Other office space for certain field offices is leased under month-to-month agreements.

Future minimum lease payments are as follows:

<u>Year Ended September 30,</u>	
2007	\$ 81,564
2008	<u>54,376</u>
	<u>\$ 135,940</u>

During the year ended September 30, 2006, rent expense was \$88,541.

6. EMPLOYEE BENEFIT PLAN

Rare sponsors a defined-contribution retirement plan under Section 401(k) of the Internal Revenue Code for all employees who meet certain service requirements. The plan provides for employee contributions not to exceed annual limits as determined by the IRS. Rare contributes 3% of base salary for all eligible employees and will match up to 4% of employees' contributions.

Employees are vested in the employer contributions after two years of service.

Rare also maintains non-qualified deferred compensation plans for key employees. During 2003, Rare established a second non-qualified deferred compensation plan, the International Retirement Savings Plan (IRSP), to cover all foreign employees who meet certain service requirements. There are no employee contributions allowed under the IRSP plan. Rare contributes 3% of compensation for all eligible employees and increases its contribution to 7% of compensation after completion of two years of service. New participants to the plan vest over 5 years.

At September 30, 2006, the value of these contracts, in addition to the IRSP was \$99,074. There is a corresponding deferred compensation liability in the same amount.

Retirement plan expense for the year ended September 30, 2006 was \$64,601.

Rare, upon Board approval, accrued an amount equal to 7% of salaries which is available for payment as employee performance-based bonuses. This amount is included in the Statement of Financial Position, Accounts payable and accrued expenses line item.

RARE

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

7. CONTRIBUTED GOODS AND SERVICES

Contributions of services are recognized when they are received if the services either (a) create or enhance non-financial assets, or (b) require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not donated. During the year ended September 30, 2006, the value of contributed services recognized as revenue in the accompanying Statement of Activities and Change in Net Assets was \$1,208,118.

Following is a summary of the contributed goods and services recorded as expenses in the Statement of Activities and Change in Net Assets:

	2006			2005
	Program Services	Administrative	Total	Total
Consulting and contract fees	\$ 437,944	\$ -	\$ 437,944	\$ 182,528
Professional services	297,900	-	297,900	3,560
Occupancy	80,000	-	80,000	77,600
Equipment and materials	71,611	-	71,611	78,327
Subgrants and awards	260,022	-	260,022	31,000
Travel	<u>60,394</u>	<u>247</u>	<u>60,641</u>	<u>20,250</u>
	<u>\$ 1,207,871</u>	<u>\$ 247</u>	<u>\$ 1,208,118</u>	<u>\$ 393,265</u>

Contributed non-cash goods and services are recognized at market value as per contracts with Rare partners, or as provided by donors. Of the \$1,208,118 recognized as in-kind donations during FY06, \$331,778 was a direct cash contribution from local partners to benefit Rare projects worldwide.

Consulting and contract fees include donations for local Pride campaign manager salaries and training and university instructor fees. Sub awards include core funds for Pride campaigns and other grants for Rare projects.

8. CONDITIONAL PROMISES TO GIVE

In years ending FY04 and FY05, Rare recorded multi-year conditional promises to give of \$1,427,500 and \$1,125,000, respectively. In both years, Rare met the conditions in full for the applicable year and was awarded the amount of the conditional promise.

During the year ended September 30, 2006, Rare received certain promises to give that were contingent upon raising matching funds. At September 30, 2006, these conditional promises to give totaled \$2,800,000. In accordance with generally accepted accounting principles, these promises to give are not reported as revenue until the conditions are substantially met.

9. GRANTS AND CONTRIBUTIONS RECEIVABLE

At September 2007, 2008 and 2009, grants and contributions receivable consisted of \$2,365,060.

RARE

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

9. GRANTS AND CONTRIBUTIONS RECEIVABLE (Continued)

Following is a schedule of maturities by year of the grants and contributions receivable.

Year Ended September 30,

2007	\$ 1,915,060
2008	250,000
2009	<u>200,000</u>
	2,365,060
Less current maturities	<u>(1,915,060)</u>
TOTAL NONCURRENT GRANTS AND CONTRIBUTIONS RECEIVABLE	\$ <u>450,000</u>



GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTAL FINANCIAL INFORMATION**

To the Board of Directors
Rare
Arlington, Virginia

Our report on our audit of the basic financial statements of Rare as of September 30, 2006 appears on page two. The audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental financial information contained in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gelman Rosenberg & Freedman

November 21, 2006

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RARE

**SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2006
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2005**

	2006			2005	
	Program Services	Administrative	Fundraising	TOTAL	TOTAL
Salaries and benefits	\$ 1,306,466	\$ 418,725	\$ 441,850	\$ 2,167,041	\$ 1,908,815
Insurance	9,970	6,368	1,944	18,282	12,131
Supplies	114,936	7,105	5,700	127,741	249,320
Postage and printing	37,697	3,785	9,338	50,820	23,076
Occupancy costs	160,897	25,242	26,056	212,195	141,021
Telephone	46,303	3,411	6,548	56,262	62,500
Travel and meetings	488,596	34,881	57,774	581,251	381,846
Consulting and contract fees and professional services	1,063,906	44,261	16,692	1,124,859	20,352
Professional development	11,518	8,516	11,991	32,025	486,302
Equipment and materials	101,222	7,934	2,607	111,763	41,722
Bank fees	3,576	2,838	839	7,253	8,821
Sub-grants and awards	564,850	-	-	564,850	217,346
Depreciation and amortization	713	21,938	733	23,384	23,205
Public relations	181	168	462	811	31,761
Miscellaneous	9,120	1,721	476	11,317	21,061
Subtotal	3,919,951	586,893	583,010	5,089,854	3,629,279
Allocation of administrative costs	471,457	(524,338)	52,881	-	-
TOTAL	\$ 4,391,408	\$ 62,555	\$ 635,891	\$ 5,089,854	\$ 3,629,279