

RAINFOREST FOUNDATION FUND, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED DECEMBER 31, 2007

RAINFOREST FOUNDATION FUND, INC.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Rainforest Foundation Fund, Inc.

We have audited the accompanying statement of financial position of Rainforest Foundation Fund, Inc. ("the Organization") as of December 31, 2007, and the related statements of activities, functional expenses, and cash flows for the year 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 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 Rainforest Foundation Fund, Inc. as of December 31, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

DDK & Company LLP

September 23, 2008

**We Succeed
Together**

*Member Firm
American Institute
of Certified Public
Accountants &
The Center for Public
Company Audit Firms*

RAINFOREST FOUNDATION FUND, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2007

ASSETS

Cash and cash equivalents	\$ 3,245,434
Investments	7,002,796
Prepaid expenses	<u>381,486</u>
 Total assets	 <u><u>\$ 10,629,716</u></u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	<u>\$ 86,693</u>
 Total liabilities	 <u>86,693</u>
 Contingencies	
Net Assets	
Unrestricted	<u>10,543,023</u>
 Total net assets	 <u>10,543,023</u>
 Total liabilities and net assets	 <u><u>\$ 10,629,716</u></u>

RAINFOREST FOUNDATION FUND, INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support			
Contributions	\$ 5,000	\$ -	\$ 5,000
Interest and dividends	185,042	-	185,042
Gain on sale of investments	429,179	-	429,179
Net unrealized gain on investments	728,118	-	728,118
Net assets released from restriction	113,564	(113,564)	-
Total revenue and support	<u>1,460,903</u>	<u>(113,564)</u>	<u>1,347,339</u>
Expenses			
Program services:			
Project support	1,125,145	-	1,125,145
Supporting services:			
General and administrative	95,944	-	95,944
Total expenses	<u>1,221,089</u>	<u>-</u>	<u>1,221,089</u>
Change in net assets	239,814	(113,564)	126,250
Net assets at beginning of year	<u>10,303,209</u>	<u>113,564</u>	<u>10,416,773</u>
Net assets at end of year	<u>\$ 10,543,023</u>	<u>\$ -</u>	<u>\$ 10,543,023</u>

The accompanying notes are an integral part of these financial statements.

RAINFOREST FOUNDATION FUND, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2007

	Program Services - Project Support	General and Administrative	Total
Consulting	\$ 3,368	\$ 9,963	\$ 13,331
Support to related national organizations	1,119,010	-	1,119,010
Foreign taxes	-	8,808	8,808
Investment fees	-	23,272	23,272
Office	-	3,611	3,611
Professional fees	-	10,000	10,000
Rent	-	3,200	3,200
Storage	-	2,260	2,260
Taxes	-	-	-
Travel and entertainment	-	34,830	34,830
Website development	2,767	-	2,767
	<u>\$ 1,125,145</u>	<u>\$ 95,944</u>	<u>\$ 1,221,089</u>

The accompanying notes are an integral part of these financial statements.

RAINFOREST FOUNDATION FUND, INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2007

Cash Flows From Operating Activities

Change in net assets	\$ 126,250
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Net realized gain on sale of investments	(429,179)
Net unrealized gain on investments	(728,118)
Changes in operating assets and liabilities:	
Unconditional promises to give	116,714
Prepaid expenses	(376,986)
Accounts payable and accrued expenses	<u>76,693</u>
 Net cash used in operating activities	 <u>(1,214,626)</u>

Cash Flows From Investing Activities

Purchases of investments	<u>(23,208)</u>
 Net cash used in investing activities	 <u>(23,208)</u>

Net decrease in cash and cash equivalents	(1,237,834)
Cash and cash equivalents at beginning of year	<u>4,483,268</u>
Cash and cash equivalents at end of year	<u><u>\$ 3,245,434</u></u>

Supplemental Disclosure of Cash Flow Information

Interest paid	\$ 27,360
Income taxes paid	\$ 8,808

RAINFOREST FOUNDATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Rainforest Foundation Fund, Inc. ("the Organization"), formerly known as the Rainforest Foundation International, Inc., is a charitable foundation; its mission is to protect and support indigenous peoples and traditional populations of the Rainforest in their efforts to protect their environment and defend their rights, to promote a sustainable development of their communities, and to challenge government practices which have a damaging effect on their environment.

The Organization carries out its mission by funding programs and projects aimed at supporting indigenous peoples and traditional populations of the Rainforest to assert and defend their rights, to fight against development program which have the damaging effects on their environment, and to carry out various projects promoting the governance and the economic development of their communities.

The Organization provides financial support for projects in the field undertaken by related national organizations called Rainforest Foundation Norway, Rainforest Foundation UK, and Rainforest Foundation US; other organizations working in the field of human rights and the environment can seek support from the Organization.

Basis of Accounting

The Company's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which involve the application of accrual accounting; accordingly, the financial statements reflect all material receivables, payables, and other liabilities.

Basis of Presentation

In accordance with SFAS No. 117, "*Financial Statements of Not-for-Profit Organizations*," net assets and revenues, expenses, gains and losses are classified on the basis of the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

- 1) Unrestricted net assets include assets, revenues, and gains that are available for support of the Organization's general operations.
- 2) Temporarily restricted net assets include contributions that are donor restricted for uses which have not yet been fulfilled either by the passage of time or by purpose. When a time restriction ends or a purpose restriction is accomplished, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. The Organization has no temporarily restricted net assets at December 31, 2007.

RAINFOREST FOUNDATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

3) Permanently restricted net assets represent endowments which are subject to restrictions requiring that the principal be invested in perpetuity and only the income be used for specified or general purposes. The Organization has no permanently restricted net assets at December 31, 2007.

Cash Equivalents

Cash equivalents include certain investments in highly liquid instruments with original maturities of three months or less.

Investments

Investments in marketable securities are carried at fair value based on market quotes, with unrealized and realized gains and/or losses included in earnings along with charges for impairments that are other than temporary. All other investments are carried at fair value based on management's estimate.

Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. The fair value of promises to give that are due in more than one year is estimated by discounting the future cash flows using a current risk free rate of return based on the yield of a U.S. Treasury security with a maturity date similar to the expected collection period.

The Organization provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Organization's estimate is based on historical collection experience and a review of the current status of unconditional promises to give. It is reasonably possible that the Organization's estimate of the allowance for doubtful accounts will change. As of December 31, 2007, the Organization did not have unconditional promises to give; therefore, no allowance for uncollectible unconditional promises to give has been made.

RAINFOREST FOUNDATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property and Equipment

Property and equipment are stated at cost, less depreciation. The costs of additions and improvements are capitalized and expenditures for repairs and maintenance are expensed as incurred. Fully depreciated assets are retained in property and depreciation accounts until they are removed from service. When assets are retired or otherwise disposed, their costs and related accumulated depreciation and amortization are removed from the accounts and the resulting gains or losses are included in operations. Depreciation of property and equipment is accounted for on the straight-line method over the estimated useful lives of the assets.

Donated Assets

Donated marketable securities and other non-cash donations, if any, are recorded as contributions at their estimated fair value at the date of the donation.

Donated Services

Donated services, if any, are recognized as contributions in accordance with SFAS No. 116, "Accounting for Contributions Received and Contributions Made," if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Volunteers do provide services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria under SFAS No. 116 were not met.

Income Taxes

The Organization is a not-for-profit organization that is exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code; the Organization is also exempt from state and local income taxes. Accordingly, no provision for income taxes has been made in the financial statements.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

RAINFOREST FOUNDATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2007

NOTE 2 - INVESTMENTS

Investments as of December 31, 2007 are reported at fair value and are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>
<u>Unrestricted</u>		
Equity securities	\$ 1,000,000	\$ 1,780,368
Limited partnership	<u>2,124,257</u>	<u>5,222,428</u>
	<u>\$ 3,124,257</u>	<u>\$ 7,002,796</u>

Investments in securities are generally exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risks associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term.

The following schedule summarizes the related investment return and its classification in the statement of activities for the year ended December 31, 2007:

	<u>Amount</u> <u>(Unrestricted)</u>
Interest and dividends (inclusive of \$97,853 on US Treasury money market)	\$ 185,042
Net realized gain on sale of investments	429,179
Net unrealized gain	<u>728,118</u>
	<u>\$ 1,342,339</u>

RAINFOREST FOUNDATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2007

NOTE 3 - PROPERTY AND EQUIPMENT

Major classes of property and equipment are summarized as follows:

	Estimated Useful Lives - Years		
Equipment	5	\$	47,362
Furniture and fixtures	7		1,669
Total cost			49,031
Less: Accumulated depreciation			49,031
Property and equipment, net		\$	-

Property and equipment was fully depreciated at December 31, 2006 and there were no purchases in 2007.

NOTE 4 - RISKS AND UNCERTAINTIES

At December 31, 2007, the bank balance at one commercial bank exceeded the \$100,000 insured FDIC limit by approximately \$2,121,000. In addition, at December 31, 2007, the Organization has approximately \$1,031,000 in brokerage cash accounts.

NOTE 5 - DESCRIPTION OF PROGRAMS

The following summarizes the Organization's programs during the year ended December 31, 2007.

Papua New Guinea - The Forest Law Enforcement and Governance

The Forest Law Enforcement and Governance proposal from Papua New Guinea funds the legal costs related to the court case through which the Papua New Guinea Eco-Forestry Forum is trying to curb illegal logging and enforce forestry and environmental laws and regulations.

