

Consolidated Financial Statements and Report of Independent
Certified Public Accountants and Reports in Compliance with
OMB Circular A-133

World Resources Institute and Subsidiary

September 30, 2003 and 2002

World Resources Institute and Subsidiary

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Accountants and Business Advisors

Report of Independent Certified Public AccountantsBoard of Directors
World Resources Institute and Subsidiary

We have audited the accompanying consolidated statement of financial position of the World Resources Institute and Subsidiary (the Institute) as of September 30, 2003, and the related consolidated statements of activities, the consolidated changes in net assets and consolidated cash flows for the year then ended. These consolidated financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of World Resources Institute as of and for the year ended September 30, 2002, were audited by other auditors whose report dated December 3, 2002 expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 2003 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Institute as of September 30, 2003, and the consolidated changes in its net assets and consolidated cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 4, 2003, on our consideration of the Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the 2003 basic consolidated financial statements of the Institute taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. The accompanying supplemental schedules of functional expenses, indirect cost rate and fringe benefits rate calculations are also presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

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World Resources Institute and Subsidiary

Consolidated Statements of Financial Position

<i>September 30,</i>	2003	2002
Assets		
Cash and cash equivalents	\$ 1,020,829	\$ 2,683,228
Cash restricted—held for others	1,277,111	1,269,840
Total cash and cash equivalents	2,297,940	3,953,068
Grants, pledges and contracts receivable, net of allowance for doubtful accounts of \$142,405 and \$132,375 for 2003 and 2002, respectively (Note C)	13,114,302	16,305,557
Investments (Note B)	36,874,700	32,216,371
Other assets	259,105	436,546
Furniture, fixtures, and equipment, net (Note D)	747,392	973,807
Total Assets	\$ 53,293,439	\$ 53,885,349
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 549,853	\$ 532,741
Accrued salaries and benefits	464,688	442,090
Line-of-credit (Note G)	2,000,000	1,500,000
Loan payable (Note G)	240,221	290,715
Obligation under capital leases (Note E)	130,371	127,677
Deferred rent	67,899	91,423
Deferred revenue	42,206	187,943
Funds held for others	1,277,111	1,269,840
Total Liabilities	4,772,349	4,442,429
Net Assets		
Unrestricted		
Operating	202,518	202,518
Designated—working capital reserve	1,988,478	1,925,718
Designated—other	6,402,009	3,323,048
	8,593,005	5,451,284
Temporarily restricted	14,828,085	18,991,636
Permanently restricted	25,100,000	25,000,000
Total Net Assets	48,521,090	49,442,920
Total Liabilities and Net Assets	\$ 53,293,439	\$ 53,885,349

The accompanying notes are an integral part of this statement.

World Resources Institute and Subsidiary

Consolidated Statements of Activities

Year ended September 30, 2003

	Unrestricted		Total	Temporarily Restricted	Permanently Restricted	Total
	Operating	Designated				
Revenues						
Grants and contributions	\$ 4,304,653	\$ —	\$ 4,304,653	\$ 4,957,714	\$ 100,000	\$ 9,362,367
Federal grants and cooperative agreements	2,743,558	—	2,743,558	—	—	2,743,558
Investment return, net (Note B)	12,917	6,522,914	6,535,831	—	—	6,535,831
Support from endowment income	3,381,193	(3,381,193)	—	—	—	—
Publications	93,160	—	93,160	—	—	93,160
Other	34,696	—	34,696	—	—	34,696
Net assets released from program restrictions	9,121,265	—	9,121,265	(9,121,265)	—	—
Total Revenue	19,691,442	3,141,721	22,833,163	(4,163,551)	100,000	18,769,612
Expenses						
Policy research, technical support, and communications programs	16,078,713	—	16,078,713	—	—	16,078,713
Administration	1,704,548	—	1,704,548	—	—	1,704,548
Development	1,908,181	—	1,908,181	—	—	1,908,181
Total Expenses	19,691,442	—	19,691,442	—	—	19,691,442
Change in Net Assets	—	3,141,721	3,141,721	(4,163,551)	100,000	(921,830)
Net Assets, beginning of year	202,518	5,248,766	5,451,284	18,991,636	25,000,000	49,442,920
Net Assets, end of year	\$ 202,518	\$ 8,390,487	\$ 8,593,005	\$ 14,828,085	\$ 25,100,000	\$ 48,521,090

The accompanying notes are an integral part of this statement.

World Resources Institute and Subsidiary

Consolidated Statements of Activities—Continued

Year ended September 30, 2002

	Unrestricted		Temporarily Restricted	Permanently Restricted	Total
	Operating	Designated			
Revenues					
Grants and contributions	\$ 7,226,245	\$ —	\$ 14,500,434	\$ —	\$ 21,726,679
Federal grants and cooperative agreements	3,410,834	—	—	—	3,410,834
Investment return, net (Note B)	23,851	(2,160,835)	—	—	(2,136,984)
Support from endowment income	3,179,690	(3,179,690)	—	—	—
Publications	112,717	—	—	—	112,717
Other	76,171	—	—	—	76,171
Net assets released from program restrictions	6,011,218	—	(6,011,218)	—	—
Total Revenue	20,040,726	(5,340,525)	8,489,216	—	23,189,417
Expenses					
Policy research, technical support, and communications programs	16,597,759	—	—	—	16,597,759
Administration	1,673,288	—	—	—	1,673,288
Development	1,769,947	—	—	—	1,769,947
Total Expenses	20,040,994	—	—	—	20,040,994
Change in Net Assets	(268)	(5,340,525)	8,489,216	—	3,148,423
Net Assets, beginning of year	202,786	10,589,291	10,502,420	25,000,000	46,294,497
Net Assets, end of year	\$ 202,518	\$ 5,248,766	\$ 18,991,636	\$ 25,000,000	\$ 49,442,920

The accompanying notes are an integral part of this statement.

World Resources Institute and Subsidiary

Consolidated Statements of Cash Flows

<i>Year ended September 30,</i>	2003	2002
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows from Operating Activities		
Change in net assets	\$ (921,830)	\$ 3,148,423
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	331,386	367,719
Bad debt expense	10,030	132,375
Net gain on early termination of capital leases	—	(17,757)
Realized loss from sale of investments	331,621	4,875,009
Unrealized gain on investments	(6,753,880)	(2,655,498)
Changes in operating assets and liabilities:		
Grants and contracts receivable	3,181,225	(7,519,904)
Other assets	177,441	(137,582)
Accounts payable	17,112	(10,588)
Accrued salaries and benefits	22,598	68,328
Funds held for others	7,271	1,269,840
Deferred rent	(23,524)	(23,940)
Deferred revenue	(145,737)	142,469
Net Cash Used in Operating Activities	(3,766,287)	(361,106)
Cash Flows from Investing Activities		
Proceeds from sales of investments	14,534,655	22,569,583
Purchase of investments	(12,770,725)	(19,610,042)
Purchase of furniture, fixtures, and equipment	(73,307)	(49,427)
Net Cash Provided by Investing Activities	1,690,623	2,910,114
Cash Flows from Financing Activities		
Proceeds from line-of-credit borrowings	2,000,000	2,500,000
Payments on capital lease obligations	(28,970)	(58,865)
Payments on loan payable	(50,494)	(51,083)
Payments on line-of-credit	(1,500,000)	(2,000,000)
Net Cash Provided by Financing Activities	420,536	390,052
Net (Decrease) Increase in Cash and Cash Equivalents	(1,655,128)	2,939,060
Cash and Cash Equivalents, beginning of year	3,953,068	1,014,008
Cash and Cash Equivalents, end of year	\$ 2,297,940	\$ 3,953,068
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 9,907	\$ 63,104
Assets purchased under capital leases	\$ 31,664	\$ 139,012

The accompanying notes are an integral part of these statements.

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements

September 30, 2003 and 2002

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Principles of Consolidation

World Resources Institute (the Institute) is an independent research and policy institute founded in 1982 to help governments, environmental and development organizations, and private businesses address a fundamental question as to how societies can meet basic human needs and nurture economic growth without undermining the natural resource base and environmental integrity.

The Institute's work is carried out by an approximately 140-member interdisciplinary staff, strong in the sciences and economics and augmented by a network of advisors, collaborators, international fellows, and cooperating institutes in more than 50 countries. The Institute currently focuses on four broad themes: (1) promoting new paths for development, (2) halting the degradation of biological resources, (3) preventing dangerous human-caused change in the earth's climate, and (4) fostering sustainable enterprises.

The Internal Revenue Service (IRS) has classified the Institute as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC), as a publicly supported not-for-profit organization.

The World Resources Institute Fund (WRIF) is a not-for-profit organization created in 1986 as a supporting organization to the World Resources Institute and is included in these consolidated financial statements. Prior to fiscal year 2002, WRIF had no activities. Commencing in 2002, WRIF activities include the operation of a capital campaign. The IRS has classified WRIF as exempt from federal income taxes under Section 501(c)(3) of the IRC. WRIF is an entity described under Section 509(a)(3) of the IRC and therefore not a private foundation.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Classification of Net Assets

Activities of the Institute are recorded in the following net asset categories:

Unrestricted Funds:

Operating—Unrestricted revenues and operating expenses of the Institute. Current investment earnings are available to support current operations.

Designated—Working Capital Reserve—Amounts designated by the Board of Directors of the Institute to be maintained as part of a reserve and used to support certain specific future activities as defined by the Board of Directors.

Designated—Other—Amounts designated by the Board of Directors to be used in a manner similar to an endowment.

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2003 and 2002

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Classification of Net Assets—Continued

Temporarily Restricted—Contributions restricted, as to time or purpose, by the donor. When the purpose or time period restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Permanently Restricted—Funds that are restricted by donors requiring that the principal be invested in perpetuity. The earnings on these funds are unrestricted and are used for operations in accordance with a spending policy approved by the Board of Directors.

Revenue Recognition

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Contributions are reported as increases in the appropriate category of net assets, except for the contributions that impose restrictions that are met in the same fiscal year they are received, which are included in unrestricted revenues.

Income from grants and contracts is currently recorded as unrestricted revenue when the costs are incurred. Amounts received that have not been expended are recorded as deferred revenue. The amount of expenses incurred in excess of funds received is included in grants and contracts receivable.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Institute considers all highly liquid investment instruments purchased with an initial maturity of three months or less to be cash equivalents.

Investments

The Institute records its investments at fair market value based on quoted market prices.

Furniture, Fixtures and Equipment

Furniture, fixtures, and equipment are recorded at cost. Depreciation is recorded on the straight-line basis over estimated useful lives that range from three to five years. Leasehold improvements are amortized over the shorter of their useful lives or the lease term. Assets purchased under a capital lease are recorded as an asset and a corresponding obligation at the beginning of the lease term. The recorded amount is equal to the present value of the minimum lease payments. Leased assets are amortized over the shorter of their useful lives or the lease term. When assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss arising from such disposition is included in the consolidated statement of activities.

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2003 and 2002

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Costs Subject to Audit

The Institute's costs under its government grants and cooperative agreements are subject to audit by the awarding agencies. Management of the Institute does not believe that the results of such audits would have a material impact on the financial position and operating results of the Institute.

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 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.

Concentration of Credit Risk

Cash is held at one financial institution in excess of federally insured amounts. At September 30, 2003 and 2002, \$1,020,820 and \$2,683,228, respectively, was held at that institution. The Institute has not incurred any losses on these funds.

NOTE B—INVESTMENTS

As of September 30, 2003 and 2002, investments were as follows:

	2003	2002
Short-term investments	\$ 1,284,694	\$ 9,941,997
Limited liability partnerships	13,828,937	10,925,238
Equities	21,761,069	11,349,136
Total	\$ 36,874,700	\$ 32,216,371

Investment return consists of the following for the years ended September 30, 2003 and 2002:

	2003	2002
Realized losses	\$ (331,621)	\$ (4,875,009)
Unrealized gains	6,753,880	2,655,498
Dividends and interest	320,930	345,888
Investment management fees/foreign taxes	(207,358)	(263,361)
Total	\$ 6,535,831	\$ (2,136,984)

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2003 and 2002

NOTE C—GRANTS, PLEDGES AND CONTRACTS RECEIVABLE

Grants, pledges and contracts receivable are recorded at their net realizable values. The mix of receivables as of September 30, 2003 and 2002, were as follows:

	2003	2002
U.S. government	4%	3%
Foundations	25%	22%
Foreign governments	23%	11%
International organizations	25%	41%
Corporations, individuals and others	23%	23%
	<u>100%</u>	<u>100%</u>

As of September 30, 2003 and 2002, the Institute's receivables were due as follows:

	2003	2002
Less than one year	\$ 8,839,779	\$ 11,404,292
One to three years	4,543,088	5,377,383
Allowance for doubtful accounts	(142,505)	(132,375)
Unamortized discount on receivables	(126,060)	(343,743)
	<u>\$ 13,114,302</u>	<u>\$ 16,305,557</u>

NOTE D—FURNITURE, FIXTURES, AND EQUIPMENT

Furniture, fixtures, and equipment consist of the following at September 30, 2003 and 2002:

	2003	2002
Furniture and equipment	\$ 1,532,422	\$ 1,604,808
Leasehold improvements	802,012	802,013
Equipment under capital lease agreements	170,676	139,012
Artwork	8,825	8,825
	<u>2,513,935</u>	<u>2,554,658</u>
Less accumulated depreciation and amortization	(1,766,543)	(1,580,851)
	<u>\$ 747,392</u>	<u>\$ 973,807</u>

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2003 and 2002

NOTE E—OBLIGATIONS UNDER CAPITAL LEASES

The Institute is obligated under capital lease agreements for certain copy equipment. The aggregate discounted lease payments are recorded as a liability. Obligations under capital leases and the fair market values of the related leased assets are capitalized and amortized over the related lease periods. Total assets capitalized pursuant to such agreements, and the related accumulated amortization at September 30, 2003 and 2002, were as follows:

	2003	2002
Equipment under capital lease	\$ 170,676	\$ 139,012
Less accumulated amortization	(45,037)	(13,901)
Equipment under capital lease, net	\$ 125,639	\$ 125,111

The future minimum lease payments under the capital lease agreements and the present value of the minimum lease payments are as follows:

September 30,

2004	\$ 40,792
2005	40,792
2006	40,792
2007	23,992
2008	1,798
Total future minimum lease payments	\$ 148,166
Less: amount representing interest	(17,795)
Present value of minimum lease payments	\$ 130,371

Interest expense related to the capital leases was \$9,907 and \$46,529, respectively, for the years ended September 30, 2003 and 2002.

NOTE F—OFFICE LEASE COMMITMENTS AND RENT ABATEMENT

The Institute has entered into various operating lease agreements. During 1999, the Institute relocated to a new office building, under a lease which expires in February 2009. As part of the office building lease, the Institute received one month of free rent. This rent abatement is being amortized on a straight-line basis over the life of the lease as a reduction of rent expense.

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2003 and 2002

NOTE F—OFFICE LEASE COMMITMENTS AND RENT ABATEMENT—Continued

The future minimum lease payments are as follows as of September 30, 2003:

September 30,

2004	\$	1,367,634
2005		1,411,482
2006		1,439,742
2007		1,468,509
2008		1,497,909
Thereafter		502,598
Total	\$	7,687,874

Rental expense for these leases was \$1,390,198 and \$1,316,934 for the years ended September 30, 2003 and 2002, respectively.

NOTE G—LOANS PAYABLE

During fiscal year 1999, the Institute obtained a \$500,000 loan at Bank of America, NA, with a maturity date of March 31, 2004. The balance outstanding on this loan at September 30, 2003 and 2002, was \$240,221 and \$290,715, respectively. The interest rate on the loan is 6.55 percent. Interest expense for the years ending September 30, 2003 and 2002, was \$17,787 and \$21,023, respectively. The loan agreement contains a covenant that requires the Institute to maintain a minimum balance of \$720,000 in a collateral bank account.

To manage short-term cash flow effectively, the Institute maintains a line-of-credit. During fiscal year 2001, the Institute obtained a \$3,000,000 line-of-credit at Bank of America, NA with a maturity date of April 30, 2004. The balance outstanding on this line-of-credit at September 30, 2003 and 2002, was \$2,000,000 and \$1,500,000, respectively. The interest rate on the line-of-credit is based on London Interbank Offered Rate (LIBOR) plus 1.5 percent (2.6200 percent and 3.3137 percent at September 30, 2003 and 2002, respectively). The loan agreement contains a covenant which requires the Institute to maintain unrestricted, unencumbered liquid assets (marketable securities, cash and cash equivalents) of not less than \$3,000,000.

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2003 and 2002

NOTE H—FUNDS HELD FOR OTHERS

The Ford Foundation gave a grant (for endowment) of \$1,200,000 to the African Centre for Technology Studies (ACTS) (an unrelated organization) in Nairobi, Kenya. ACTS requested the Institute to hold the funds in an interest-bearing account until further notice, earning interest of \$77,111 as of September 30, 2003.

NOTE I—PERMANENTLY RESTRICTED NET ASSETS

In 1987, the MacArthur Foundation gave the Institute a challenge loan of \$12,516,000 with the understanding that it would forgive this loan to the extent that the Institute raised qualifying matching funds under a comprehensive development program. The purpose of the challenge loan was to facilitate the establishment of a permanent endowment for the Institute.

After the Institute successfully met the terms of the loan agreement, an endowment was formally established at the level of \$25 million (cost basis) on January 1, 1991, with earnings on the corpus expendable to support any activities of the Institute. The Institute's Board of Directors adopted a policy statement entitled Endowment Fund: Purposes, Goals, and Policies, which establishes spending rules for future withdrawals of earnings to cover portions of the Institute's annual operating budget while protecting the value of the endowment against inflation. Investment earnings from the endowment (net of investment expenses) are recognized as unrestricted designated revenue. During 2003 and 2002, \$2,397,064 and \$2,378,042, respectively, of these earnings were transferred from unrestricted designated to unrestricted operating net assets in accordance with the policy statement referred to above. The Board of Directors also authorized management to draw down an additional amount to cover capital campaign expenses during the period January 1, 2002 to December 31, 2005. As of September 30, 2003, \$1,785,777 was drawn down for this purpose.

In 2003, an individual contributed \$100,000 for the purpose of creating an endowment to enable the Institute to have interns. Investment earnings from the endowment are recognized as unrestricted designated revenue.

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2003 and 2002

NOTE J—TEMPORARILY RESTRICTED NET ASSETS

As of September 30, 2003 and 2002, temporarily restricted net assets are restricted for the following programs:

	2003	2002
Climate, energy and pollution	\$ 2,437,951	\$ 3,357,543
Biological resources	1,372,520	677,587
Economics program	—	359,940
World Resources report	—	50,322
Institutions and governance	905,994	1,034,095
Sustainable enterprise	1,767,910	2,019,615
Information	4,191,732	6,978,376
Special studies	4,151,978	3,395,788
Forest	—	1,118,370
Total	\$ 14,828,085	\$ 18,991,636

Net assets released from restrictions by incurring expenses satisfying their restricted purposes during the years ended September 30, 2003 and 2002, are as follows:

	2003	2002
Climate, energy and pollution	\$ 1,305,202	\$ 341,419
Biological resources	484,812	528,917
Economics program	296,213	479,751
World Resources report	50,321	381,786
Institutions and governance	767,275	1,040,539
Sustainable enterprise	1,159,326	945,551
Information	2,998,594	1,032,172
Special studies	1,407,922	311,673
Forest	651,600	949,410
Total	\$ 9,121,265	\$ 6,011,218

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2003 and 2002

NOTE K—SIGNIFICANT CONTRACT

The Institute initiates and completes a substantial portion of its projects within the Institutions and Governance and Information Programs pursuant to a single cooperative agreement from the U.S. Agency for International Development. The revenue pursuant to this cooperative agreement was \$1,987,174 for the year ended September 30, 2003 and \$2,559,521 for the year ended September 30, 2002. Such revenue accounted for approximately 17 percent of total federal and non-federal grants, contributions, and cooperative agreement revenues during the year ended September 30, 2003, and approximately 10 percent for the year ended September 30, 2002.

NOTE L—EMPLOYEE BENEFITS

The Institute contributes either 5 percent or 8 percent (based on years of service) of eligible employees' annual earnings, as defined in Plan agreements, to individually owned tax-deferred annuity contracts under a defined contribution annuity plan. The amount contributed to the Plan for the years ended September 30, 2003 and 2002, was \$550,588 and \$528,527, respectively.

NOTE M—RELATED-PARTY TRANSACTION

The Institute provides bookkeeping services for a foundation from which the Institute receives grant awards for research studies. During fiscal 2003 and 2002, the Institute recorded grant revenue of \$378,362 and \$281,473, respectively, from the foundation. In addition, the Institute received \$8,382 and \$15,925, respectively, from the foundation for bookkeeping services.

Supplemental Information



World Resources Institute and Subsidiary

Schedule of Expenditures of Federal Awards

Year ended September 30, 2003

Federal Grantor Program Title	Federal Contract Number	Federal CFDA Number	2003 Expenses
U.S. Agency for International Development			
Forest Policy and Environmental Governance*	AOT-A-00-00-00241-00	02	\$ 1,260,285
Environmental Accountability in Tanzania*	623-A-00-01-0054-00	02	240,109
Reefs at Risk in the Caribbean*	EDG-G-00-00016-00	02	51,957
Governing Ecosystems*	EEE-A-00-02-00056-00	02	428,775
Pass-through from Organization of the American States*	LAC-G-00-01-00008-01	02	5,969
Pass-through from Institute for Sustainable Communities*	121-A-00-00-00830-00	02	79
Total for U.S. Agency for International Development			1,987,174
U.S. Environmental Protection Agency			
Global Change Research Program Report*	QT-DC-01-002331	66.606	14,229
Carbon Sequestration*	CX 82914501-0	66.606	128,304
Material Flows: Stat. Analysis and Indicators Res.*	R-82904601-0	66.606	251,353
Combating Global Climate Change: Flexibility with Integrity*	X-82924001-0	66.606	83,290
Nutrient Net: Taking Trading On-line for the Chesapeake Bay Assessing Mexico's Interest and Potential for Cap and Trade Emissions*	CB-98367001-0	66.466	78,748
Dev. Of Market Based Mechanisms for Climate Protection	XA-83049701-0	66.606	1,149
Special Studies--Rob Wollcot	XA-83051501-0	66.034	7
Preparation/Report for the EPA's Global Change Research Prgm	HQ-433-99-01M 2001-16	66.HQ-433-99-01M 66.2001-16	90,941 15,561
Total U.S. Environmental Protection Agency			663,582
National Science Foundation			
Pass-through from University of Washington	CMS-0349873	47.041	824
U.S. Department of Agriculture			
Transparency in the Forest Sector/Brazil	03-DG-11132762-192	10.03-DG-11132762-192	35,247
Pass-through from Texas A&M	2003-38411-13493	10.217	7
Total U.S. Department of Energy			35,254
U.S. Department of State			
Develop Congo Basin Forest Partnership Website	S-LMAQM-03-H-0068	19.SLMAQM-03-H-0068	11,997
Support the Partnership for Principle 10	S-LMAQM-02-H-0076	19.SLMAQM-02-H-0076	2
Total U.S. Department of State			11,999
U.S. Forest Service			
Management of Semiarid Watersheds--Pass-through from University of Arizona	00DG11130149064	10.904	3,775
National Aeronautics and Space Administration			
U.S. National Committee for Scope	NAG5-8754	43.001	34,950
U.S. Geological Survey/U.S. Dept. of the Interior			
Documenting WRI's Metadata: Making Our Data Available to the World	02HQAG0123	15.809	6,000
Total Federal Expenditures			\$ 2,743,558

*Major Program

World Resources Institute and Subsidiary

Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2003

NOTE A—BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes all federal grants to the Institute that had expenditure activity during the year ended September 30, 2003. This schedule has been prepared on the accrual basis of accounting for expenditures in accordance with accounting principles generally accepted in the United States of America. Grant revenues and expenditures are recorded for financial reporting purposes when the Institute has met the qualifications for the respective grants. Grant revenues are equivalent to grant expenditures. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations Receiving Federal Awards*.

NOTE B—SUBRECIPIENTS

Of the federal expenditures presented in this schedule, the Institute provided federal awards to subrecipients under the U.S. Agency for International Development grants totaling \$636,351.

NOTE C—CATALOG OF FEDERAL DOMESTIC ASSISTANCE

Catalog of Federal Domestic Assistance (CFDA) numbers are not assigned to the U.S. Agency for International Development grants and contracts.

**Report of Independent Certified Public Accountants on
Compliance and on Internal Control over Financial
Reporting Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Directors
World Resources Institute

We have audited the consolidated financial statements of the World Resources Institute (the Institute) as of and for the year ended September 30, 2003, and have issued our report thereon dated December 4, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Institute's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Institute's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Institute's Board, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Grant Thornton LLP

Vienna, Virginia
December 4, 2003

**Report of Independent Certified Public Accountants on
Compliance with Requirements Applicable to Each
Major Program and Internal Control over Compliance in
Accordance with OMB Circular A-133**

Board of Directors
World Resources Institute

Compliance

We have audited the compliance of the World Resources Institute (the Institute) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal programs for the year ended September 30, 2003. The Institute's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Institute's management. Our responsibility is to express an opinion on the Institute's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements, and performing such other procedures as we considered necessary under the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Institute's compliance with those requirements.

In our opinion, the Institute complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2003.

Internal Control over Compliance

The management of the Institute is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Institute's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Institute's Board, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Grant Thornton" followed by a stylized flourish.

Vienna, Virginia
December 4, 2003

World Resources Institute and Subsidiary

Schedule of Findings and Questioned Costs

Year ended September 30, 2003

Section I

Summary of Auditor's Results

Financial Statements

- | | |
|---|---------------|
| 1. Type of auditor's report issued | Unqualified |
| 2. Internal control over financial reporting | |
| a. Material weaknesses identified? | None |
| b. Reportable conditions identified not considered to be material weaknesses? | None reported |
| c. Non-compliance material to the financial statements noted? | No |

Federal Awards

- | | |
|---|---------------|
| 1. Internal control over major programs: | |
| a. Material weaknesses identified? | None |
| b. Reportable conditions identified not considered to be material weaknesses? | None reported |
| 2. Type of auditor's report issued on compliance for major programs: | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)? | No |
| 4. Identification of major programs: | |
| U.S. Agency for International Development | 02.various |
| U.S. Environmental Protection Agency | 66.606 |
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
| 6. Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530? | Yes |

Section II

Financial Statements Findings	None
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Section III

Federal Award Findings and Questioned Costs	None
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Section IV

Status of Prior Year Audit Findings and Questioned Costs	None
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World Resources Institute and Subsidiary

Schedule of Functional Expenses

Year ended September 30, 2003

	Climate Energy and Pollution	Biological Resources	World Resources Report	Institutions and Governance	Sustainable Enterprise	Information	Special Studies	External Relations	Total Program Expenses	Administration	Development	Total Expenses
Salaries and stipends	\$ 560,657	\$ 937,218	\$ 221,207	\$ 825,051	\$ 1,213,348	\$ 1,001,178	\$ 796,096	\$ 351,860	\$ 5,846,615	\$ 880,525	\$ 816,406	\$ 7,543,546
Benefits	166,267	287,360	67,824	247,561	351,206	301,648	220,199	106,352	1,748,417	261,336	243,302	2,253,055
Research and conferences	50,627	239,436	32,022	189,568	101,381	176,370	82,477	5,343	877,224	40,767	278,210	1,196,201
Communication expenses	5,195	19,675	200	20,000	11,099	57,855	820	7,711	122,555	—	22,626	145,181
Institutional co-op agreements/subgrants	403,000	388,891	—	520,846	91,875	2,185,802	30,000	—	3,620,414	—	84,770	3,705,184
Publication expenses	40,880	20,896	140,774	111,830	114,848	75,539	9,354	92,512	606,633	2,015	94,945	703,593
Staff and board travel	144,689	123,033	1,091	100,921	71,594	88,905	35,280	15,267	582,780	57,438	52,096	692,314
Other direct expenses	25,338	81,106	5,063	38,839	60,541	25,912	11,391	30,458	278,648	462,467	104,679	845,794
Rent	126,938	218,343	59,810	195,937	245,791	220,674	139,964	77,863	1,285,520	—	8,463	1,293,983
Library and information services	10,263	17,669	4,836	15,841	19,872	17,841	11,316	6,295	103,933	—	34,476	138,409
Indirect salaries and benefits	41,806	71,976	19,698	64,531	80,950	72,678	46,096	25,644	423,379	—	—	423,379
Subgrant pool salaries and benefits	9,248	15,922	4,357	14,275	17,907	16,077	10,197	5,673	93,656	—	7,627	101,283
Supplies and materials	5,786	9,962	2,726	8,931	11,204	10,059	6,380	3,549	58,597	—	4,772	63,369
Postage	575	989	271	887	1,112	999	633	352	5,818	—	474	6,292
Telephone and cables	7,900	13,601	3,722	12,194	15,297	13,734	8,711	4,846	80,005	—	6,515	86,520
Equipment rental and maintenance	11,670	20,092	5,499	18,014	22,397	20,288	12,868	7,159	118,187	—	9,624	127,811
Other	(8,442)	(14,534)	(3,978)	(13,031)	(16,346)	(14,676)	(9,308)	(5,178)	(85,493)	—	119,635	34,142
Depreciation	31,691	48,530	11,177	46,915	47,748	84,466	26,748	14,550	311,825	—	19,561	331,386
Total expenses	1,634,088	2,502,365	576,299	2,419,110	2,462,024	4,355,349	1,379,222	750,256	16,078,713	1,704,548	1,908,181	19,691,442
Allocation of administration costs	154,918	237,235	54,636	229,342	233,410	412,906	130,756	71,127	1,524,330	(1,704,548)	180,218	—
Total	\$ 1,789,006	\$ 2,739,600	\$ 630,935	\$ 2,648,452	\$ 2,695,434	\$ 4,768,255	\$ 1,509,978	\$ 821,383	\$ 17,603,043	\$ —	\$ 2,088,399	\$ 19,691,442

World Resources Institute and Subsidiary

Schedule of Functional Expenses--Continued

Year ended September 30, 2002

	Climatic Energy and Pollution	Biological Resources	Economics Program	World Resources Report	Institutions and Governance	Sustainable Enterprise	Information	Special Studies	Forest	Communications	Administration	Development	Total Program Expenses	Total Expenses
Salaries and stipends	\$ 500,342	\$ 295,778	\$ 380,902	\$ 348,524	\$ 846,248	\$ 899,633	\$ 569,528	\$ 911,098	\$ 705,011	\$ 379,803	\$ 874,486	\$ 714,267	\$ 5,837,057	\$ 7,425,820
Benefits	145,162	90,148	111,664	105,170	250,473	255,551	170,047	273,165	213,404	115,661	256,913	212,763	1,730,445	2,200,121
Research and conferences	92,698	78,684	49,349	12,415	359,300	205,870	147,262	102,527	123,324	24,225	67,203	352,847	1,195,654	1,615,764
Communication expenses	9,721	66	18,901	800	6,691	6,997	41,488	3,273	4,962	49,178	185	18,950	1,413,377	1,650,512
Institutional co-op agreements/subgrants	68,500	105,845	36,152	—	1,151,816	154,391	1,778,816	95,716	259,473	—	—	—	3,680,709	3,650,709
Publication expenses	17,373	29,843	32,664	60,306	193,516	100,857	1,777,566	25,707	82,515	62,510	2,985	54,013	719,747	716,745
Staff and board travel	63,554	72,357	15,768	16,501	147,139	55,339	69,196	66,344	131,685	6,702	78,026	45,804	644,805	768,635
Other direct expenses	16,494	13,421	28,335	4,865	53,257	52,385	33,216	21,433	46,752	14,986	393,490	73,022	285,344	751,856
Rent	96,194	67,395	74,061	63,722	215,314	183,107	133,407	163,034	151,895	75,859	—	165,149	1,225,988	1,391,137
Library and information services	8,588	5,894	6,477	5,573	18,831	16,014	11,668	14,259	13,285	6,635	—	14,444	107,224	121,668
Reproduction	34,244	23,503	25,828	22,222	75,088	63,856	46,524	56,856	52,971	26,455	—	—	427,547	485,141
Supplies and materials	6,799	4,667	5,128	4,412	14,909	12,679	9,237	11,289	10,518	5,253	—	—	84,891	96,326
Postage	757	520	571	491	1,660	1,412	1,028	1,257	1,171	585	—	—	9,452	10,725
Telephone and cables	4,498	3,087	3,392	2,919	9,863	8,387	6,111	7,468	3,475	3,475	—	—	56,158	63,722
Equipment rental and maintenance	10,186	6,991	7,682	6,610	22,335	18,994	13,838	16,912	15,756	7,869	—	—	127,173	144,304
Other	539	370	406	350	1,182	1,065	732	895	834	416	—	—	6,729	10,150
Depreciation	23,041	17,072	17,047	14,002	71,939	43,536	67,347	37,871	38,925	16,669	—	20,270	347,449	367,719
Total expenses	1,100,690	815,241	814,327	668,882	3,436,561	2,079,733	3,217,201	1,809,104	1,859,439	796,281	1,673,288	1,769,947	16,597,759	20,040,994
Allocation of administration costs	104,848	77,686	77,570	63,716	327,356	198,109	306,461	172,330	171,124	75,851	(1,673,288)	92,237	1,581,051	2,040,994
Total	\$ 1,205,538	\$ 893,227	\$ 891,897	\$ 732,598	\$ 3,763,917	\$ 2,277,842	\$ 3,523,662	\$ 1,981,434	\$ 2,030,563	\$ 872,132	\$ —	\$ 1,862,184	\$ 18,178,810	\$ 20,040,994

World Resources Institute and Subsidiary

Schedule of Indirect Cost Rate Calculation (Facility Costs)

Year ended September 30, 2003

Direct Expenses	Programs	Fundraising	Total Expenses
Salaries and stipends	\$ 5,846,615	\$ 816,406	\$ 6,663,021
Fringe benefits	1,748,417	243,302	1,991,719
Research expenses/conferences	877,224	278,210	1,155,434
Communication expenses	122,555	22,626	145,181
Institutional cooperative agreements/subgrants	3,620,414	—	3,620,414
Publications	606,633	84,770	691,403
Staff and Board travel	582,780	94,945	677,725
Other direct costs	278,648	52,096	330,744
Total direct expenses	13,683,286	1,592,355	15,275,641
Less: Costs of institutional cooperative agreements/subgrants	(3,620,414)	—	(3,620,414)
Total Allowable Direct Expenses (Allocation Base)	\$ 10,062,872	\$ 1,592,355	\$ 11,655,227

Facility Costs	Total Facility Cost
Rent	\$ 1,390,199
Salaries	355,791
Fringe benefits	102,062
Library and information services	112,396
Reproduction	7,929
Supplies and materials	63,369
Postage	6,292
Telephone and cables	86,520
Equipment rental and maintenance	127,811
Interest/offsite storage/miscellaneous expenses	26,216
Depreciation and amortization	331,387
Total facility costs	2,609,972
Less unbillable depreciation	(110,208)
Total Allowable Facility Costs	\$ 2,499,764

Calculation of Facility Cost Rate:

Total allowable facility costs/total allowable direct expenses (\$2,499,764/\$11,655,227)

21.45%

World Resources Institute and Subsidiary

Schedule of Fringe Benefit Rate Calculation

Year ended September 30, 2003

Fringe Benefits	Regular and Term Staff	Temporary Staff	Total Benefits
FICA	\$ 559,254	\$ 16,935	\$ 576,189
Group health	548,281	—	548,281
Retirement	550,588	—	550,588
Unemployment	21,033	2,966	23,999
Workers' compensation	23,505	448	23,953
Other	655,861	—	655,861
Total allocable costs	<u>\$ 2,358,522</u>	<u>\$ 20,349</u>	<u>\$ 2,378,871</u>

Regular and Term Staff Labor	Programs	Fundraising	Facility	Subgrant	Administration	Total Labor
Salaries	\$ 5,846,615	\$ 816,406	\$ 355,791	\$ 77,531	\$ 880,525	\$ 7,976,868
Less excluded salaries expense*	(198,338)	(9,924)	(26,054)	—	(35,392)	(269,708)
Total allowable labor base	<u>\$ 5,648,277</u>	<u>\$ 806,482</u>	<u>\$ 329,737</u>	<u>\$ 77,531</u>	<u>\$ 845,133</u>	<u>\$ 7,707,160</u>

Calculation of fringe benefit for regular and term staff:

Total allocable costs/total allowable labor base (\$2,358,522/\$7,707,160)	<u>30.60%</u>
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Temporary Staff Labor	Programs	Fundraising	Facility	Subgrant	Administration	Total Labor
Salaries and stipends	\$ 191,597	\$ 6,625	\$ 11,099	\$ —	\$ 25,522	\$ 234,843
Less excluded salaries expense*	—	—	—	—	—	—
Total allowable labor base	<u>\$ 191,597</u>	<u>\$ 6,625</u>	<u>\$ 11,099</u>	<u>\$ —</u>	<u>\$ 25,522</u>	<u>\$ 234,843</u>

Calculation of fringe benefit for temporary staff:

Total allocable costs/total allowable labor base (\$20,349/\$234,843)	<u>8.66%</u>
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*Excluded salary expenses are fellowship stipends, intern programs and outside temporary help. These expenditures are excluded because they do not have a relationship to fringe benefit costs.

World Resources Institute and Subsidiary

Schedule of Indirect Cost Rate Calculation (General and Administration)

Year ended September 30, 2003

	Programs	Fundraising	Total
Allowable total direct per page 26	\$ 10,062,872	\$ 1,592,355	\$ 11,655,227
Total allocation base for general and administrative	\$ 10,062,872	\$ 1,592,355	\$ 11,655,227

General and Administrative Expenses

Salaries	\$	880,525
Benefits		261,336
Research expenses		14,795
Conference expenses		25,972
Publications expenses		2,015
Travel		57,438
Professional services		161,979
Memberships/fees/dues		19,079
Non-project related meals		2,512
Recruitment/relocation		77,104
Staff meals/kitchen		23,657
Training and career development		31,557
Telephone		11,165
Postage		2,125
Reproduction		(8,542)
Miscellaneous		72,461
Non-billable unallowable		69,370
Total general and administrative expenses		1,704,548
Less: non-billable unallowable		(69,370) *
Total allowable general and administrative expenses	\$	1,635,178
Calculation of general and administrative rate:		
Total general and administrative/total allocation base for general and administrative (\$1,635,178/\$11,655,227)		14.03%

*Excluded unallowable expenses that are not chargeable to funders.

World Resources Institute and Subsidiary

Schedule of Indirect Cost Rate Calculation (Subgrant)

Year ended September 30, 2003

	Programs	Fundraising	Total
Total subgrant costs	\$ 3,620,414	\$ —	\$ 3,620,414
Total allocation base for general and administrative	\$ 3,620,414	\$ —	\$ 3,620,414

General and Administrative Expenses

Salaries		\$ 77,531	
Benefits		23,753	
Total general and administrative expenses		\$ 101,284	
Calculation of subgrant rate:			
Total subgrant costs/total allocation base for general and administrative (\$101,284/\$3,620,414)			2.80%

