



Consolidated Financial Statements and Report of
Independent Certified Public Accountants

World Resources Institute and Subsidiary

September 30, 2012 and 2011

World Resources Institute and Subsidiary

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Report of Independent Certified Public Accountants

Board of Directors
World Resources Institute and Subsidiary

We have audited the accompanying consolidated statements of financial position of the World Resources Institute and Subsidiary (the Institute) as of September 30, 2012 and 2011, and the related consolidated statements of activities and changes in net assets, and the consolidated cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants 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 audits to obtain reasonable assurance about whether the consolidated 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 the Institute'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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Institute as of September 30, 2012 and 2011, and the consolidated changes in its net assets and its consolidated cash flows for the years 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 February 4, 2013 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the Institute's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Schedule of Functional Expenses is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.



McLean, Virginia
February 4, 2013

World Resources Institute and Subsidiary

Consolidated Statements of Financial Position

<i>Year ended September 30,</i>	2012	2011
Assets		
Cash and cash equivalents	\$ 3,650,034	\$ 3,078,140
Cash restricted—held for others (Note I)	101,100	18,677
Grants, pledges and contracts receivable, net (Note D)	30,485,518	25,149,178
Investments (Notes B and C)	36,655,471	34,914,357
Other assets	806,856	608,433
Furniture, fixtures, leases, and equipment, net (Note E)	1,316,997	1,455,786
Total Assets	73,015,976	65,224,571
Liabilities and Net Assets		
Liabilities		
Accounts payable	3,045,121	2,263,867
Accrued salaries and benefits	1,743,618	1,574,068
Obligation under capital leases (Note F)	16,456	22,618
Deferred rent	156,783	181,538
Deferred revenue	289,309	306,424
Funds held for others	15,687	18,677
Note payable	—	955,532
Line-of-credit	2,892,225	—
Total Liabilities	8,159,199	5,322,724
Net Assets		
Unrestricted:		
Operating	383,770	836,645
Designated—working capital reserve	3,056,328	2,627,607
	3,440,098	3,464,252
Temporarily restricted	36,078,913	31,099,829
Permanently restricted	25,337,766	25,337,766
Total Net Assets	64,856,777	59,901,847
Total Liabilities and Net Assets	\$ 73,015,976	\$ 65,224,571

The accompanying notes are an integral part of these statements.

World Resources Institute and Subsidiary

Consolidated Statements of Activities and Changes in Net Assets

Year ended September 30, 2012

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	Operating	Designated	Total			
Revenues						
Grants/contributions and contracts	\$ 20,236,525	\$ —	\$ 20,236,525	\$ 20,435,690	\$ —	\$ 40,672,215
Federal grants and cooperative agreements	4,389,651	—	4,389,651	—	—	4,389,651
Investment return, net (Note B)	—	428,721	428,721	3,657,574	—	4,086,295
Publications	14,765	—	14,765	—	—	14,765
Other	13,746	—	13,746	101,100	—	114,846
Support from endowment income	1,793,624	—	1,793,624	(1,793,624)	—	—
Net assets released from program restrictions	17,271,656	—	17,271,656	(17,271,656)	—	—
Total Revenue	43,719,967	428,721	44,148,688	5,129,084	—	49,277,772
Expenses						
Policy research, technical support, and communications programs	37,970,188	—	37,970,188	—	—	37,970,188
Administration	4,058,378	—	4,058,378	—	—	4,058,378
Development	2,294,276	—	2,294,276	—	—	2,294,276
Total Expenses	44,322,842	—	44,322,842	—	—	44,322,842
Change in Net Assets from Operations	(602,875)	428,721	(174,154)	5,129,084	—	4,954,930
Non Operating Activity Adjustment to Pledges Receivable	150,000	—	150,000	(150,000)	—	—
Net Assets, beginning of year	836,645	2,627,607	3,464,252	31,099,829	25,337,766	59,901,847
Net Assets, end of year	\$ 383,770	\$ 3,056,328	\$ 3,440,098	\$ 36,078,913	\$ 25,337,766	\$ 64,856,777

The accompanying notes are an integral part of this statement.

World Resources Institute and Subsidiary

Consolidated Statements of Activities and Changes in Net Assets

Year ended September 30, 2011

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	Operating	Designated	Total			
Revenues						
Grants/contributions and contracts	\$ 18,014,147	\$ —	\$ 18,014,147	\$ 25,075,965	\$ —	\$ 43,090,112
Federal grants and cooperative agreements	4,361,831	—	4,361,831	—	—	4,361,831
Investment return, net (Note B)	—	—	—	(589,847)	—	(589,847)
Publications	4,026	—	4,026	—	—	4,026
Other	23,185	—	23,185	—	—	23,185
Support from endowment income	2,213,309	—	2,213,309	(2,213,309)	—	—
Net assets released from program restrictions	16,133,860	—	16,133,860	(16,133,860)	—	—
Total Revenue	40,750,358	—	40,750,358	6,138,949	—	46,889,307
Expenses						
Policy research, technical support, and communications programs	34,831,173	—	34,831,173	—	—	34,831,173
Administration	3,597,694	—	3,597,694	—	—	3,597,694
Development	1,993,643	—	1,993,643	—	—	1,993,643
Total Expenses	40,422,510	—	40,422,510	—	—	40,422,510
Change in Net Assets from Operations	327,848	—	327,848	6,138,949	—	6,466,797
Net Assets, beginning of year	508,797	2,627,607	3,136,404	24,960,880	25,337,766	53,435,050
Net Assets, end of year	\$ 836,645	\$ 2,627,607	\$ 3,464,252	\$ 31,099,829	\$ 25,337,766	\$ 59,901,847

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>	2012	2011
Cash Flows from Operating Activities		
Change in net assets	\$ 4,954,930	\$ 6,466,797
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	588,335	502,999
Loss from disposal of equipment	3,799	1,276
Realized gain from sale of investments	(374,025)	(2,177,210)
Unrealized (gain) loss on investments	(3,403,647)	3,079,367
Changes in operating assets and liabilities:		
Cash restricted – held for others	(82,423)	1,603
Grants and contracts receivable	(5,336,340)	(8,807,101)
Other assets	(198,423)	(1,993)
Accounts payable	781,254	187,415
Accrued salaries and benefits	169,550	368,475
Funds held for others	(2,990)	(1,603)
Deferred rent	(24,755)	(24,755)
Deferred revenue	(17,115)	(519,559)
Net Cash Used in Operating Activities	(2,941,850)	(924,289)
Cash Flows from Investing Activities		
Proceeds from sales of investments	3,970,468	2,725,629
Purchase of investments	(1,933,910)	(1,424,128)
Purchase of furniture, fixtures, and equipment	(453,345)	(792,566)
Net Cash Provided by Investing Activities	1,583,213	508,935
Cash Flows from Financing Activities		
Advances on line-of-credit	2,892,225	2,000,000
Payments on note payable	(955,532)	(1,044,468)
Payments on capital lease obligations	(6,162)	(13,087)
Net Cash Provided by Financing Activities	1,930,531	942,445
Net Increase in Cash and Cash Equivalents	571,894	527,091
Cash and Cash Equivalents, beginning of year	3,078,140	2,551,049
Cash and Cash Equivalents, end of year	\$ 3,650,034	\$ 3,078,140
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 765	\$ 3,300
Non Cash Investing and Financing Activities		
Capital lease obligation	\$ 14,932	\$ 30,420

The accompanying notes are an integral part of these statements.

September 30, 2012 and 2011

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 200-member interdisciplinary staff, strong in sciences, and augmented by a network of advisors, collaborators, international fellows, and cooperating institutes in more than 50 countries. The Institute currently focuses on four goals: (1) Governance & Access, (2) People & Ecosystems, (3) Climate & Energy, and (4) Markets & Enterprise.

The World Resources Institute Fund (WRIF) is a not-for-profit organization created in 1986 as a supporting organization to the Institute, and is included in these consolidated financial statements. Prior to fiscal year 2002, and after 2003, WRIF had no activities. In 2002 and 2003, WRIF activities included the operation of a capital campaign. Such activities have been shifted to the Institute since. WRIF is currently used to handle Lee Schipper Scholarship Fund initiated by the Shell Foundation (see note I). 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:

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. No amounts have been designated to this category as of September 30, 2012 and 2011.

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.

September 30, 2012 and 2011

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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 are 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

The Institute considers all highly liquid investment instruments purchased with an initial maturity of three months or less to be cash equivalents except for cash and cash equivalents held in investment accounts.

Investments

Investments held by the Institute are presented at their fair market value. Purchases and sales of securities are recorded on a trade-date basis. Investment income is recorded on an accrual basis. Gains and losses on investments, realized and unrealized, are included in the statement of activities.

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 seven 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.

The Institute has capitalized its collections. Collections consist of artwork that is held for public exhibition. Collections purchased are capitalized at cost, collections donated are capitalized at appraised value as of the date of the acceptance of the donation. Collections are not depreciated.

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.

September 30, 2012 and 2011

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

As of September 30, 2012, all interest bearing U.S. deposit accounts maintained by the Institute were insured up to \$250,000 at each financial institution by the Federal Deposit Insurance Corporation. Additionally, all non-interest bearing U.S. deposit accounts were fully insured. This unlimited insurance coverage on non-interest bearing accounts expired on December 31, 2012. Beginning January 1, 2013, non-interest bearing account balances are now aggregated with any interest bearing deposits and are insured, in total, up to a maximum of \$250,000. The Institute's cash balances at times, may exceed federally insured limits. However, the Institute has not experienced any losses within these accounts and therefore believes it is not exposed to any significant credit risk associated with those deposits.

The Institute has cash in foreign accounts totaling \$565,172 and \$179,977 in 2012 and 2011, respectively.

Income Tax

The Institute is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. No material taxable unrelated business income was generated and, accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements.

The Institute follows the accounting guidance that creates a single model to address uncertainty in tax positions and clarifies accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in its consolidated financial statements. Under the requirements of this guidance, organizations could now be required to record an obligation as the result of tax positions they have historically taken on various tax exposure items. The Institute is not required to record such an obligation.

Adoption of New Accounting Standard

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-06, *Fair Value Measurements and Disclosures*, that amends Accounting Standards Codification ("ASC") 820 which clarifies existing disclosures and requires new disclosures about fair value measurements. The clarifications and the requirement to disclose the amounts and reasons for significant transfers between Level 1 and Level 2 and significant transfers into and out of Level 3 of the fair value hierarchy are effective for periods beginning after December 15, 2009. The new requirement that purchases, sales, issuances, and settlements be presented gross in the Level 3 reconciliation is effective for fiscal years beginning after December 15, 2010 and for interim periods within those years, with early adoption permitted. The Institute adopted the first part of this ASU effective October 1, 2010. The pending portion of this guidance was adopted on October 1, 2011. Since the new guidance only amends the disclosure requirements, it did not have a material impact on the Institute's financial statements. The additional disclosures required by the guidance are included in Note C – Fair Value.

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2012 and 2011

NOTE B—INVESTMENTS

Investments were as follows as of September 30:

	2012	2011
Money market funds	\$ 1,171,876	\$ 67,654
Equity securities	11,504,517	10,499,112
Debt securities	1,466,991	2,700,033
Alternative investments		
Hedge funds	14,889,175	13,786,341
Fixed income fund	1,162,203	1,119,013
Emerging market fund	2,038,184	1,846,791
Real estate fund	4,422,525	4,895,413
Total investments	\$ 36,655,471	\$ 34,914,357

Investment return consists of the following for the years ended September 30:

	2012	2011
Realized gains	\$ 374,025	\$ 2,177,210
Unrealized gains (loss)	3,403,647	(3,079,367)
Dividends and interest	413,759	422,812
Investment management fees and foreign taxes	(105,136)	(110,352)
Total	\$ 4,086,295	\$ (589,847)

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2012 and 2011

NOTE C—FAIR VALUE

ASC 820, *Fair Value Measurements and Disclosures*, establishes a single authoritative definition of fair value, sets a framework for measuring fair value, and requires additional disclosures about fair value measurements. In accordance with ASC 820, the Institute classifies its assets and liabilities into Level 1 (securities valued using quoted prices from active markets for identical assets), Level 2 (securities not traded on an active market for which observable market inputs are readily available), and Level 3 (securities valued based on significant unobservable inputs). Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value, as well as the general classification pursuant to the valuation hierarchy.

Equity Securities

Investments in equity securities valued at the quoted prices in an active market are classified within Level 1 of the fair value hierarchy.

Debt Securities

When quoted prices are available in an active market, debt securities are classified within Level 1 of the fair value hierarchy. Quoted prices in inactive markets are classified within Level 2. As of September 30, 2012 and 2011, all debt securities were valued using quoted prices in an active market.

Alternative Investments

Alternative investments consist of investments in various funds. These investments are aggregated into hedge, equity, fixed income, emerging market and real estate funds based on their underlying investments. The fair value of such investments is determined using the net asset value (NAV) per share as a practical expedient. The investments, which are redeemable at or near year-end at NAV per share, are classified within Level 2 of the fair value hierarchy; otherwise, they are classified within Level 3 of the fair value hierarchy.

The following table summarizes the valuation of financial instruments at fair value on a recurring basis in the Statement of Financial Position at September 30, 2012.

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 1,171,876	\$ —	\$ —	\$ 1,171,876
Equity securities	11,504,517	—	—	11,504,517
Debt securities	1,466,991	—	—	1,466,991
Alternative investments:				
Directional/absolute hedge funds	—	—	14,889,175	14,889,175
Inflation hedge fund	—	4,422,525	—	4,422,525
Fixed income fund	—	—	1,162,203	1,162,203
Emerging market fund	—	—	2,038,184	2,038,184
Total investments	\$ 14,143,384	\$ 4,422,525	\$ 18,089,562	\$ 36,655,471

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2012 and 2011

NOTE C—FAIR VALUE—Continued

The following table summarizes the valuation of financial instruments at fair value on a recurring basis in the Statement of Financial Position at September 30, 2011.

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 67,654	\$ —	\$ —	\$ 67,654
Equity securities	10,499,112	—	—	10,499,113
Debt securities	2,700,033	—	—	2,700,033
Alternative investments:				
Directional/absolute hedge funds	—	—	13,786,341	13,786,341
Inflation hedge fund	—	4,895,413	—	4,895,413
Fixed income fund	—	—	1,119,013	1,119,013
Emerging market fund	—	—	1,846,791	1,846,791
Total investments	\$ 13,266,799	\$ 4,895,413	\$ 16,752,145	\$ 34,914,357

The following table summarizes the changes in fair value of assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended September 30, 2012.

	Beginning Balance at 10/1/11	Total Realized/Unrealized Gains	Purchases	Sales Fees and Withdrawals	Ending Balance at 9/30/12
Hedge funds	\$ 13,786,341	\$ 487,869	\$ 1,000,000	\$ (385,035)	\$ 14,889,175
Fixed income fund	1,119,013	48,452	—	(5,262)	1,162,203
Emerging market fund	1,846,791	191,393	—	—	2,038,184
	\$ 16,752,145	\$ 364,167	\$ 1,000,000	\$ (390,297)	\$ 18,089,562

The following table summarizes the changes in fair value of assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended September 30, 2011.

	Beginning Balance at 10/1/10	Total Realized/Unrealized Gains	Purchases, Issuances, and Sales (Net)	Transfers Out to Level 2	Ending Balance at 9/30/11
Hedge funds	\$ 13,771,960	\$ 482,264	\$ (467,883)	\$ —	\$ 13,786,341
Inflation hedge fund	4,952,724	(57,311)	—	(4,895,413)	—
Fixed income fund	1,075,714	43,299	—	—	1,119,013
Emerging market fund	2,220,156	(373,365)	—	—	1,846,791
	\$ 22,020,554	\$ 948,887	\$ (467,883)	\$ (4,895,413)	\$ 16,752,145

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2012 and 2011

NOTE C—FAIR VALUE—Continued

The table below presents additional information for the Institute's investments, as of September 30, 2012, whose fair value is estimated using the practical expedient of reported net asset value (NAV). These disclosures are required for all investments that are eligible to be valued using the practical expedient regardless of whether the practical expedient has been applied.

	Fair Value at 9/30/2012	Fair Value at 9/30/2011	Unfunded Commitments	Expected Liquidation Term	Redemption Terms	Redemption Restrictions	Redemption Restrictions at 9/30/12
					Annually (1 fund), Quarterly (3 funds), and Closed for Redemption	Between 60 - 105 days notice (3 funds) and	2 funds are
Hedge funds (a)	\$ 14,889,175	\$ 13,786,341	None	Not applicable	(1 fund)	Gated (2 funds)	Gated
Inflation hedge fund (b)	4,422,525	4,895,413	None	Not applicable	Monthly	None	None
Fixed income fund (c)	1,162,203	1,119,013	None	Not applicable	Monthly	15 days notice	None
Emerging market fund (d)	2,038,184	1,846,791	None	Not applicable	Monthly	30 days notice	None
	<u>\$ 22,512,087</u>	<u>\$ 21,647,558</u>					

- (a) This class includes several hedge funds and funds of funds that invest primarily in debt and equity securities. The fair values of the investments have been estimated by using the NAV per share of the funds.
- (b) This class includes investments in funds that invest primarily in international bonds. The fair values of these investments have been estimated using the NAV per share of the funds.
- (c) This class includes investments in funds that invest primarily in equity stock and debt securities in emerging economies. The fair values of the investments have been estimated using the NAV per share of the fund.
- (d) This class includes an investment in an inflation hedge fund whose objective is long-term total return in excess of a customized blended benchmark. The fair value of this investment has been estimated using the NAV per share of the fund.

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2012 and 2011

NOTE D—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 was as follows:

	2012	2011
U.S. government	5%	4%
Foundations	34%	10%
Foreign governments	22%	37%
International organizations	13%	4%
Corporations, individuals, and others	26%	45%
	100%	100%

As of September 30 the Institute's receivables were due as follows:

	2012	2011
Due within one year	\$ 26,265,553	\$ 21,771,061
Due within two to five years	4,422,957	3,656,182
Total gross grants, pledges and contracts receivable	30,688,510	25,427,243
Less:		
Allowance for doubtful accounts	(117,874)	(204,062)
Unamortized discount on receivables	(85,118)	(74,003)
Grants, pledges, and contracts receivable, net	\$ 30,485,518	\$ 25,149,178

Contributions that are to be received over multiple years are discounted to present value using the risk free rate of return, for the year in which the contributions were pledged. Allowance for doubtful accounts is determined based on the average write-offs as a percentage of revenue over the last five years.

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2012 and 2011

NOTE E—FURNITURE, FIXTURES, LEASES AND EQUIPMENT

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

	2012	2011
Furniture and equipment	\$ 4,466,551	\$ 4,053,420
Leasehold improvements	1,188,944	1,188,944
Equipment under capital lease agreements	108,733	108,733
Artwork	8,825	8,825
	5,773,053	5,359,922
Less: accumulated depreciation and amortization	(4,456,056)	(3,904,136)
Furniture, fixtures, and equipment, net	\$ 1,316,997	\$ 1,455,786

NOTE F—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, were as follows:

	2012	2011
Equipment under capital lease	\$ 108,733	\$ 108,733
Less: accumulated amortization	(92,277)	(78,313)
Equipment under capital lease, net	\$ 16,456	\$ 30,420

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2012 and 2011

NOTE F—OBLIGATIONS UNDER CAPITAL LEASES—Continued

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

<i>September 30,</i>	
2013	\$ 6,928
2014	6,928
2015	3,494
	<hr/>
Total future minimum lease payments	17,350
Less: amount representing interest	(894)
	<hr/>
Present value of minimum lease payments	\$ 16,456

Interest expense related to the capital leases was \$765 and \$3,300 respectively, for the years ended September 30, 2012 and 2011.

NOTE G—OFFICE LEASE COMMITMENTS AND RENT ABATEMENT

The Institute has entered into various operating lease agreements. During 2007, the Institute renegotiated and extended its current lease, under an agreement which expires in February 2019. As part of the office building lease, the Institute received two months 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.

Minimum future rental payments under non-cancelable leases are as follows:

<i>September 30,</i>	
2013	\$ 2,691,408
2014	2,749,518
2015	2,700,755
2016	2,761,509
2017	2,823,629
Thereafter	3,862,639
	<hr/>
Total	\$ 17,589,458

Rental expense for these leases was \$2,704,931 and \$2,590,666 for the years ended September 30, 2012 and 2011, respectively.

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2012 and 2011

NOTE H—DEBT

The Institute entered into a margin loan of \$2 million secured by its investments in May 2011. This loan was paid off in August, 2012.

On July 2, 2012, the Institute entered into a revolving line-of-credit agreement with Bank of America, N.A. for \$3,000,000 which bears interest at the daily floating London Interbank Offered Rate (LIBOR) plus 1.60%. The agreement expires and is due in full on December 31, 2012. The interest rate on the line-of-credit was 1.81% as of September 30, 2012. There was an outstanding balance of \$2,892,225 as of September 30, 2012. The total outstanding balance was repaid in full in December 2012.

NOTE I—FUNDS HELD FOR OTHERS

During 2012, the Shell Foundation provided a grant of \$100,000 to EMBARQ, a WRI program in memory of the late Lee Schipper to establish a scholarship fund. Other smaller donors have also contributed an additional \$1,100 to this effort. As of September 30, 2012, this fund had a balance of \$101,100.

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2012 and 2011

NOTE J—TEMPORARILY RESTRICTED NET ASSETS

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

	2012	2011
Embarq	\$ 18,160,475	\$ 3,087,497
Climate, energy, and pollution	2,533,703	3,087,987
People & Ecosystems	5,947,581	6,492,485
Institutions and governance	2,540,759	2,451,180
Market & Enterprise	1,369,157	1,965,056
Special studies	3,873,025	13,514,645
Communication/World Resources Report	228,397	500,979
Cumulative unappropriated endowment earnings	1,425,816	—
Total	\$ 36,078,913	\$ 31,099,829

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

	2012	2011
Embarq	\$ 4,145,471	\$ 7,538,723
Climate, energy, and pollution	7,277,819	2,203,711
People & Ecosystems	2,417,266	3,143,890
Institutions and governance	1,476,751	1,895,498
Market & Enterprise	1,524,169	661,666
Special studies/Innovation	6,731	300,621
Communication & World Resources Report	423,449	389,751
Total	\$ 17,271,656	\$ 16,133,860

September 30, 2012 and 2011

NOTE K—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.

In 2003 and 2007, two individuals contributed \$100,000 and \$250,000 respectively for the purpose of creating endowment funds to enable the Institute to hire interns. Investment earnings from the endowment funds are recognized as unrestricted designated revenue and used to pay for interns.

Interpretation of Relevant Law

The Management and Board of Directors of the Institute have interpreted Delaware's "Uniform Prudent Management of Institutional Funds Act of 2007" (the Act), absent explicit donor stipulations to the contrary, to require the Institute to act in good faith and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances in making determinations to appropriate or accumulated endowment funds, taking into account both its obligation to preserve the value of the endowment and its obligation to use the endowment to achieve the purposes for which it was donated. The Institute classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment required by the applicable donor gift instrument, if applicable.

Endowment Investment Policies

The Institute's investments are managed in accordance with the Board adopted Investment Policy Statement. The investment strategy of the Institute is to emphasize total return; that is, the aggregate returns from capital appreciation and dividend and interest income.

Specifically, the primary objective in the investment management for Endowment assets shall be:

Long-term growth of capital, emphasizing long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of a comparable market index.

September 30, 2012 and 2011

NOTE L—PERMANENTLY RESTRICTED NET ASSETS—Continued

Endowment Investment Policies—Continued

The secondary objective in the investment management of Endowment assets shall be:

Preservation of Purchasing Power After Spending - To achieve net returns (after management and custodial fees) in excess of the rate of inflation plus our spending guideline (see below) over the investment horizon in order to preserve purchasing power of Endowment assets. Risk control is an important element in the investment of Endowment assets.

Over the established investment horizon of 10 years or longer, it is the goal of the aggregate Endowment assets to significantly exceed the rate of inflation (as measured by the Consumer Price Index) plus 1.0% over a market cycle.

The investment allocation is shown in Note B.

Endowment Spending Policy

The Board of Directors approves an operating budget and associated endowment draw annually. The Institute spending guideline shall normally be 5% of the trailing 12 quarter average market value of the investments. The Board may approve a deviation from the 5% guideline if deemed prudent.

During 2012 and 2011, respectively, \$1,793,624 and \$2,213,309 of these earnings were transferred from temporarily restricted to unrestricted operating net assets in accordance with the policy statement referred to above.

Funds with Deficiencies

From time to time, the fair value of assets associated with the individual donor restricted endowment funds may fall below the level that the donor requires the Institute to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2012 and 2011, the Institute had no deficiencies of this nature reported in unrestricted net assets.

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2012 and 2011

NOTE M—PERMANENTLY RESTRICTED NET ASSETS—Continued

Endowment Net Asset Composition by Type of Fund as of September 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ —	\$ 895,514	\$ 25,337,766	\$ 26,233,280
Board-designated endowment funds	3,056,328	—	—	3,056,328
Unappropriated endowment income	—	1,425,816	—	1,425,816
Total funds	\$ 3,056,328	\$ 2,321,330	\$ 25,337,766	\$ 30,715,424

Changes in Endowment Net Assets for the Year Ended September 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,627,607	\$ 457,380	\$ 25,337,766	\$ 28,422,753
Investment return				
Investment income	78,778	709,006	—	787,784
Net appreciation (realized and unrealized)	349,942	2,948,568	—	3,298,510
Total investment return	428,721	3,657,574	—	4,086,295
Appropriation of endowment assets for expenditure		(1,793,624)	—	—
Endowment net assets, end of year	\$ 3,056,328	\$ 2,321,330	\$ 25,337,766	\$ 30,715,424

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2012 and 2011

NOTE N—PERMANENTLY RESTRICTED NET ASSETS—Continued

Endowment Net Asset Composition by Type of Fund as of September 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ —	\$ 457,380	\$ 25,337,766	\$ 25,795,146
Board-designated endowment funds	2,627,607	—	—	2,627,607
Total funds	\$ 2,627,607	\$ 457,380	\$ 25,337,766	\$ 28,422,753

Changes in Endowment Net Assets for the Year Ended September 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,627,607	\$ 457,380	\$ 25,337,766	\$ 28,422,753
Investment return				
Investment income	—	312,310	—	312,310
Net appreciation (realized and unrealized)	—	(902,157)	—	(902,157)
Total investment return	—	(589,847)	—	(589,847)
Appropriation of endowment assets for expenditure	—	(2,213,309)	—	(2,213,309)
Endowment net assets, end of year	\$ 2,627,607	\$ 457,380	\$ 25,337,766	\$ 28,422,753

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2012 and 2011

NOTE O—SIGNIFICANT CONTRACTS

The Institute was awarded a two-year \$5,600,000 grant on October 1, 2010, by the Netherlands Ministry of Foreign Affairs awarding WRI a core funding grant for the program “Building a Low Carbon and Climate-Resilient Future”. WRI has received \$5,600,000 as of September 30, 2012. A total of \$5,599,818 of this grant has been spent as of September 30, 2012.

The Institute was awarded a two-year 14,000,000 SEK grant in fiscal 2010, by the Swedish International Development Cooperation Agency (SIDA) awarding WRI grant support to include poverty alleviation, effective management of natural resources and protection of the environment. WRI has received \$2,936,448 as of September 30, 2012. A total of \$2,935,342 of this grant has been spent as of September 30, 2012.

The Institute was awarded a 4,000,000 Danish Kroner grant in fiscal 2011, by the Danish Ministry of Foreign Affairs awarding WRI a grant that will support the institute’s core funding activities. WRI has received \$728,606 as of September 30, 2012. A total of \$557,153 of this grant has been spent as of September 30, 2012.

The Institute initiates and completes a substantial portion of its projects within the Institutions & Governance and People & Ecosystems Programs pursuant to cooperative agreements and contracts from the U.S. Agency for International Development. The revenue pursuant to these cooperative agreements and contracts was \$3,405,958 and \$3,677,655 for the years ended September 30, 2012 and 2011, respectively. Such revenue accounted for approximately 7.56 percent and 7.75 percent of total federal and non-federal grants, contributions, and cooperative agreement revenues during the years ended September 30, 2012 and 2011, respectively.

NOTE P—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 under a defined contribution plan. The amount contributed to the Plan for the years ended September 30, 2012 and 2011, was \$1,040,556 and \$972,496, respectively.

NOTE Q—SUBSEQUENT EVENTS

The Institute evaluated its September 30, 2012 financial statements for subsequent events through February 4, 2013, the date the financial statements were available to be issued and identified the following event.

The Institute was awarded a two-year grant for \$8,600,000 effective October 1, 2012 through September 30, 2014 by the Netherlands Ministry of Foreign Affairs. This core funding grant is for the implementation of the Institutes strategic plan.

Supplemental Information



World Resources Institute and Subsidiary

Schedule of Functional Expenses

Year ended September 30, 2012

	Climatic, Energy and Pollution	People & Ecosystems	Embarq Safe Urban Transport	Institutions and Governance	Markets and Enterprise	Special Studies/ Innovations	External Relations	Total Program Expenses	Administration	Development	Total Expenses
Salaries	\$ 3,521,844	\$ 2,513,378	\$ 1,866,586	\$ 1,539,579	\$ 1,093,150	\$ 415,549	\$ 793,940	\$ 11,744,026	\$ 1,557,244	\$ 1,023,635	\$ 14,324,905
Fringe Benefits	1,434,491	1,030,073	760,971	615,989	440,496	173,686	319,124	4,774,830	639,918	425,959	5,840,707
Research Expenses	412,653	857,930	1,392,781	112,289	402,690	266,622	108,500	3,553,465	32,200	763	3,586,428
Conference Expenses	146,832	83,859	60,931	115,963	31,544	229,804	18,911	687,844	38,257	148,548	874,649
Publication Expenses	125,673	515,650	117,923	60,628	89,985	19,603	139,458	1,068,920	38,126	112,313	1,219,359
Communication Expenses	28,862	—	9,099	138	—	86,012	76,656	200,767	—	2,517	203,284
Travel	417,237	419,584	584,871	235,448	77,426	136,838	46,110	1,917,514	128,515	114,224	2,160,253
Other Direct Costs	(35,202)	69,965	96,651	43,019	25,685	(52,215)	20,639	168,542	1,624,118	64,775	1,857,435
Subgrants	418,982	1,895,893	4,104,962	1,402,830	590,402	—	—	8,413,069	—	—	8,413,069
Rent	677,432	614,534	547,307	304,786	241,874	142,809	170,504	2,699,246	—	211,850	2,911,096
Library and information services	27,858	25,271	22,507	12,534	9,946	5,873	7,012	111,001	—	8,712	119,713
Indirect Salaries	130,364	118,260	105,323	58,652	46,546	27,482	32,811	519,438	—	40,768	560,206
Indirect Benefits	52,242	47,392	42,207	23,505	18,653	11,013	13,149	208,161	—	16,338	224,499
Subgrant Pool Salaries	11,340	51,316	111,108	37,970	15,980	—	—	227,714	—	—	227,714
Subgrant Pool Benefits	4,775	21,605	46,779	15,986	6,728	—	—	95,873	—	—	95,873
Subgrant Pool Other Costs	73	330	714	244	103	—	—	1,464	—	—	1,464
Supplies and materials	20,858	18,922	16,852	9,384	7,447	4,397	5,250	83,110	—	6,523	89,633
Postage	1,090	989	881	490	389	230	274	4,343	—	341	4,684
Telephone and cables	31,708	28,764	25,618	14,266	11,321	6,684	7,981	126,342	—	9,916	136,258
Equipment rental and maintenance	187,764	170,330	151,697	84,477	67,040	39,582	47,259	748,149	—	58,718	806,867
Other Indirect	17,782	16,130	14,366	8,000	6,349	3,748	4,475	70,850	—	5,561	76,411
Depreciation	136,909	124,198	110,611	61,598	48,883	28,862	34,459	545,520	—	42,815	588,335
Total Expenses	7,771,567	8,624,373	10,190,745	4,757,775	3,232,637	1,546,579	1,846,512	37,970,188	4,058,378	2,294,276	44,322,842
Allocation of administration costs	944,412	856,726	763,004	424,904	337,198	199,091	237,701	3,763,036	(4,058,378)	295,342	—
Total Expenses After G&A Allocations	\$ 8,715,979	\$ 9,481,099	\$ 10,953,749	\$ 5,182,679	\$ 3,569,835	\$ 1,745,670	\$ 2,084,213	\$ 41,733,224	\$ —	\$ 2,589,618	\$ 44,322,842

World Resources Institute and Subsidiary

Schedule of Functional Expenses

Year ended September 30, 2011

	Climate, Energy and Pollution	People & Ecosystems	Embarq Safe Urban Transport	Institutions and Governance	Markets and Enterprise	Special Studies/ Innovations	External Relations	Total Program Expenses	Administration	Development	Total Expenses
Salaries	\$ 3,998,164	\$ 2,994,373	\$ 2,211,054	\$ 1,605,915	\$ 798,027	\$ 316,620	\$ 1,050,126	\$ 12,974,279	\$ 1,864,099	\$ 1,148,589	\$ 15,986,967
Fringe Benefits	887,041	693,326	394,681	380,870	186,255	28,124	246,252	2,816,549	429,712	276,394	3,522,655
Research Expenses	452,549	519,052	949,693	177,340	293,758	314,973	120,352	2,827,717	11,683	6,350	2,845,750
Conference Expenses	121,498	79,699	25,406	105,979	25,632	30,740	43,517	432,471	36,982	14,491	483,944
Publication Expenses	267,164	338,538	137,382	66,355	81,420	6,255	115,165	1,012,279	12,509	37,058	1,061,846
Communication Expenses	6,058	7,821	(2,359)	6,251	8,165	20,549	111,187	157,672	35	18,230	175,937
Travel	394,028	396,408	363,738	261,126	119,664	137,180	63,532	1,735,676	149,771	83,755	1,969,202
Other Direct Costs	38,149	58,105	98,509	25,979	15,431	(9,190)	19,718	246,701	1,092,903	51,706	1,391,310
Subgrants	304,008	2,198,757	3,348,242	1,175,093	416,566	—	67,369	7,510,035	—	—	7,510,035
Rent	678,091	559,589	459,578	289,271	168,114	92,975	194,678	2,442,296	—	180,018	2,622,314
Library and Information Services	35,383	29,200	23,981	15,094	8,772	4,851	10,160	127,441	—	9,393	136,834
Indirect Salaries	180,207	148,714	122,136	76,876	44,677	24,709	51,737	649,056	—	47,841	696,897
Indirect Benefits	37,240	30,732	25,240	15,886	9,233	5,106	10,691	134,128	—	9,886	144,014
Subgrant Pool Salaries	8,930	64,588	98,354	34,518	12,237	—	1,979	220,606	—	—	220,606
Subgrant Pool Benefits	2,138	15,464	23,548	8,264	2,930	—	474	52,818	—	—	52,818
Supplies and Materials	21,315	17,590	14,446	9,093	5,284	2,923	6,120	76,771	—	5,659	82,430
Postage	177	146	120	76	44	24	52	639	—	47	686
Telephone and Cables	60,865	50,228	41,251	25,965	15,090	8,345	17,476	219,220	—	16,158	235,378
Equipment Rental and Maintenance	175,505	144,834	118,949	74,870	43,511	24,064	50,387	632,120	—	46,592	678,712
Other Indirect	17,030	14,054	11,542	7,265	4,222	2,335	4,889	61,337	—	4,521	65,858
Depreciation	139,201	114,874	94,344	59,383	34,511	19,086	39,963	501,362	—	36,955	538,317
Total Expenses	7,824,741	8,476,092	8,559,835	4,421,469	2,293,543	1,029,669	2,225,824	34,831,173	3,597,694	1,993,643	40,422,510
Allocation of administration costs	930,311	767,730	630,520	396,867	230,644	127,557	267,089	3,350,718	(3,597,694)	246,976	—
Total Expenses After G&A Allocations	\$ 8,755,052	\$ 9,243,822	\$ 9,190,355	\$ 4,818,336	\$ 2,524,187	\$ 1,157,226	\$ 2,492,913	\$ 38,181,891	\$ —	\$ 2,240,619	\$ 40,422,510