

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, 2005 and 2004

# World Resources Institute and Subsidiary

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## Report of Independent Certified Public Accountants



### Accountants and Business Advisors

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, 2005 and 2004, and the related consolidated statements of activities, the consolidated changes in net assets, and 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 Auditing Standards Board of 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 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 financial statements, assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Institute as of September 30, 2005 and 2004, and the consolidated changes in its net assets and 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 December 2, 2005, 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 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 audit was performed for the purpose of forming an opinion on the 2005 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 on pages 25-31 are also presented for purposes of additional analysis, and are not a required part of the consolidated financial statements. This information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2005 consolidated financial statements taken as a whole.

Vienna, Virginia  
December 2, 2005

A handwritten signature in cursive script that reads "Grant Thornton LLP".

# World Resources Institute and Subsidiary

## Consolidated Statements of Financial Position

<i>September 30,</i>	2005	2004
<b>Assets</b>		
Cash and cash equivalents	\$ 1,843,784	\$ 1,743,424
Cash restricted—held for others	1,306,407	1,281,835
<b>Total cash and cash equivalents</b>	<b>3,150,191</b>	<b>3,025,259</b>
Grants, pledges and contracts receivable, net of allowance for doubtful accounts of \$161,695 and \$111,695 for 2005 and 2004, respectively (Note C)	6,705,998	7,239,924
Investments (Note B)	39,503,429	36,661,135
Other assets	394,367	225,046
Furniture, fixtures, and equipment, net (Note D)	544,498	664,658
<b>Total Assets</b>	<b>\$ 50,298,483</b>	<b>\$ 47,816,022</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 1,161,850	\$ 858,867
Accrued salaries and benefits	419,998	413,773
Obligation under capital leases (Note E)	65,923	100,843
Deferred rent	33,794	43,932
Deferred revenue	826,328	234,380
Funds held for others	1,306,407	1,281,835
<b>Total Liabilities</b>	<b>3,814,300</b>	<b>2,933,630</b>
<b>Net Assets</b>		
Unrestricted:		
Operating	111,630	202,518
Designated—working capital reserve	2,375,504	2,108,790
Designated—other	9,848,299	7,497,325
	<b>12,335,433</b>	<b>9,808,633</b>
Temporarily restricted	9,048,750	9,973,759
Permanently restricted	25,100,000	25,100,000
<b>Total Net Assets</b>	<b>46,484,183</b>	<b>44,882,392</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 50,298,483</b>	<b>\$ 47,816,022</b>

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

# World Resources Institute and Subsidiary

## Consolidated Statements of Activities

Year ended September 30, 2005

	Unrestricted		Temporarily Restricted	Permanently Restricted	Total
	Operating	Designated			
<b>Revenues</b>					
Grants/contributions and contracts	\$ 6,843,685	\$ —	\$ 5,479,655	\$ —	\$ 12,323,340
Federal grants and cooperative agreements	3,954,631	—	—	—	3,954,631
Investment return, net (Note B)	39,008	5,348,203	—	—	5,387,211
Support from endowment income	2,730,515	(2,730,515)	—	—	—
Publications	36,227	—	—	—	36,227
Other	8,769	—	—	—	8,769
Net assets released from program restrictions	6,404,664	—	(6,404,664)	—	—
<b>Total Revenue</b>	20,017,499	2,617,688	(925,009)	—	21,710,178
<b>Expenses</b>					
Policy research, technical support, and communications programs	16,364,463	—	—	—	16,364,463
Administration	2,161,034	—	—	—	2,161,034
Development	1,582,890	—	—	—	1,582,890
<b>Total Expenses</b>	20,108,387	—	—	—	20,108,387
<b>Change in Net Assets</b>	(90,888)	2,617,688	(925,009)	—	1,601,791
Net Assets, beginning of year	202,518	9,606,115	9,973,759	25,100,000	44,882,392
<b>Net Assets, end of year</b>	\$ 111,630	\$ 12,223,803	\$ 9,048,750	\$ 25,100,000	\$ 46,484,183

The accompanying notes are an integral part of these statements.

# World Resources Institute and Subsidiary

## Consolidated Statements of Activities—Continued

Year ended September 30, 2004

	Unrestricted		Total	Temporarily Restricted	Permanently Restricted	Total
	Operating	Designated				
<b>Revenues</b>						
Grants/contracts and contributions	\$ 4,839,866	\$ —	\$ 4,839,866	\$ 4,877,047	\$ —	\$ 9,716,913
Federal grants and cooperative agreements	3,622,641	—	3,622,641	—	—	3,622,641
Investment return, net (Note B)	7,693	3,887,036	3,894,729	—	—	3,894,729
Support from endowment income	2,671,408	(2,671,408)	—	—	—	—
Publications	81,515	—	81,515	—	—	81,515
Other	9,982	—	9,982	—	—	9,982
Net assets released from program restrictions	9,731,373	—	9,731,373	(9,731,373)	—	—
<b>Total Revenue</b>	20,964,478	1,215,628	22,180,106	(4,854,326)	—	17,325,780
<b>Expenses</b>						
Policy research, technical support, and communications programs	17,162,228	—	17,162,228	—	—	17,162,228
Administration	2,049,506	—	2,049,506	—	—	2,049,506
Development	1,752,744	—	1,752,744	—	—	1,752,744
<b>Total Expenses</b>	20,964,478	—	20,964,478	—	—	20,964,478
<b>Change in Net Assets</b>	—	1,215,628	1,215,628	(4,854,326)	—	(3,638,698)
<b>Net Assets, beginning of year</b>	202,518	8,390,487	8,593,005	14,828,085	25,100,000	48,521,090
<b>Net Assets, end of year</b>	\$ 202,518	\$ 9,606,115	\$ 9,808,633	\$ 9,973,759	\$ 25,100,000	\$ 44,882,392

The accompanying notes are an integral part of these statements.

# World Resources Institute and Subsidiary

## Consolidated Statements of Cash Flows

<i>Year ended September 30,</i>	<b>2005</b>	<b>2004</b>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>		
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 1,601,791	\$ (3,638,698)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	236,612	268,131
Bad debt expense	50,000	(30,710)
Realized gain from sale of investments	(2,247,635)	(2,695,880)
Unrealized gain on investments	(3,063,803)	(1,146,611)
Changes in operating assets and liabilities:		
Grants and contracts receivable	483,926	5,905,088
Other assets	(169,321)	34,059
Accounts payable	302,983	309,014
Accrued salaries and benefits	6,225	(50,915)
Funds held for others	24,572	4,724
Deferred rent	(10,138)	(23,967)
Deferred revenue	591,948	192,174
<b>Net Cash Used in Operating Activities</b>	<b>(2,192,840)</b>	<b>(873,591)</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales of investments	18,977,563	25,058,995
Purchase of investments	(16,508,419)	(21,002,939)
Purchase of furniture, fixtures, and equipment	(116,452)	(185,397)
<b>Net Cash Provided by Investing Activities</b>	<b>2,352,692</b>	<b>3,870,659</b>
<b>Cash Flows from Financing Activities</b>		
Payments on capital lease obligations	(34,920)	(29,528)
Payments on loan payable	—	(240,221)
Payments on line-of-credit	—	(2,000,000)
<b>Net Cash Used in Financing Activities</b>	<b>(34,920)</b>	<b>(2,269,749)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>124,932</b>	<b>727,319</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>3,025,259</b>	<b>2,297,940</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 3,150,191</b>	<b>\$ 3,025,259</b>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for interest	\$ 5,872	\$ 7,785

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

# World Resources Institute and Subsidiary

## Notes to Consolidated Financial Statements

September 30, 2005 and 2004

### 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 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 goals: (1) Access, (2) Ecosystems & People, (3) Climate, and (4) Markets & 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 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 record investment activities for the African Centre for Technology Studies (ACTS) endowment (see note G). 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.

# World Resources Institute and Subsidiary

## Notes to Consolidated Financial Statements—Continued

September 30, 2005 and 2004

### 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, except for limited liability partnerships, which are recorded at estimated values.

#### *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, 2005 and 2004

### 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, 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*

Cash is held at financial institutions in excess of federally insured amounts. At September 30, 2005 and 2004, \$2,737,633 and \$1,797,943, respectively, was held at these institutions. The Institute has not incurred any losses on these funds.

### NOTE B—INVESTMENTS

Investments were as follows as of September 30:

	2005	2004
Short-term investments	\$ 599,814	\$ 1,196,818
Limited liability partnerships	16,697,933	14,804,108
Equities	22,205,682	20,660,209
Total	\$ 39,503,429	\$ 36,661,135

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

	2005	2004
Realized gains	\$ 2,247,635	\$ 2,695,880
Unrealized gains	3,063,803	1,146,611
Dividends and interest	290,294	321,774
Investment management fees and foreign taxes	(214,521)	(269,536)
Total	\$ 5,387,211	\$ 3,894,729

## World Resources Institute and Subsidiary

### Notes to Consolidated Financial Statements—Continued

September 30, 2005 and 2004

#### 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 was as follows:

	2005	2004
U.S. government	9%	11%
Foundations	23%	18%
Foreign governments	29%	7%
International organizations	7%	10%
Corporations, individuals, and others	32%	54%
	100%	100%

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

	2005	2004
Less than one year	\$ 5,877,913	\$ 5,861,916
One to four years	1,041,410	1,553,894
Allowance for doubtful accounts	(161,695)	(111,695)
Unamortized discount on receivables	(51,630)	(64,191)
Grants, pledges and contracts receivable, net	\$ 6,705,998	\$ 7,239,924

#### NOTE D—FURNITURE, FIXTURES, AND EQUIPMENT

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

	2005	2004
Furniture and equipment	\$ 1,735,145	\$ 1,620,486
Leasehold improvements	803,806	802,012
Equipment under capital lease agreements	170,675	170,676
Artwork	8,825	8,825
	2,718,451	2,601,999
Less: accumulated depreciation and amortization	(2,173,953)	(1,937,341)
Furniture, fixtures, and equipment, net	\$ 544,498	\$ 664,658

## World Resources Institute and Subsidiary

### Notes to Consolidated Financial Statements—Continued

*September 30, 2005 and 2004*

#### 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, were as follows:

	2005	2004
Equipment under capital lease	\$ 170,676	\$ 170,676
Less: accumulated amortization	(113,974)	(79,505)
Equipment under capital lease, net	\$ 56,702	\$ 91,171

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

<i>September 30,</i>	
2006	\$ 40,792
2007	23,992
2008	5,393
Total future minimum lease payments	70,177
Less: amount representing interest	(4,254)
Present value of minimum lease payments	\$ 65,923

Interest expense related to the capital leases was \$5,872 and \$7,785, respectively, for the years ended September 30, 2005 and 2004.

#### 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, 2005 and 2004*

#### NOTE F—OFFICE LEASE COMMITMENTS AND RENT ABATEMENT—Continued

The future minimum lease payments as of September 30, 2005, are as follows:

<i>September 30,</i>	
2006	\$ 1,439,742
2007	1,468,509
2008	1,497,909
2009	502,598
Total	\$ 4,908,758

Rental expense for these leases was \$1,595,688 and \$1,489,065 for the years ended September 30, 2005 and 2004, respectively.

#### NOTE G—FUNDS HELD FOR OTHERS

The Ford Foundation gave a grant (for endowment) of \$1,200,000 to 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 \$105,407 as of September 30, 2005.

In addition, \$1,000 is being held for Millennium Ecosystem Assessment as of September 30, 2005.

#### NOTE H—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.

