

Consolidated Financial Statements of

**INTERNATIONAL INSTITUTE FOR
SUSTAINABLE DEVELOPMENT**

March 31, 2012

INDEPENDENT AUDITOR'S REPORT

To the Members of
the International Institute for Sustainable Development

We have audited the accompanying consolidated financial statements of the International Institute for Sustainable Development, which comprise the consolidated statement of financial position as at March 31, 2012, and the consolidated statements of operations, changes in net assets, cash flows, and the notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the International Institute for Sustainable Development as at March 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Winnipeg, Manitoba
June 28, 2012

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INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Consolidated Statement of Financial Position
March 31, 2012

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT		
Cash (Note 9(b))	\$ 3,545,374	\$ 1,063,546
Marketable securities (Note 5)	7,592,158	8,104,934
Accounts receivable	9,628,547	9,790,219
Prepaid expenses and deposits	196,190	161,970
	20,962,269	19,120,669
CAPITAL ASSETS (Note 6)	264,497	244,301
	\$ 21,226,766	\$ 19,364,970
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 1,954,611	\$ 1,440,861
Deferred revenue (Note 7)	12,051,617	10,302,168
	14,006,228	11,743,029
COMMITMENTS (Note 9)		
NET ASSETS		
Net assets invested in capital assets	264,497	244,301
Reserve for program development (Note 3(h))	4,349,930	4,445,049
Innovation Fund (Note 4)	9,972	5,972
Campaign Fund (Note 4)	7,165	26,242
Unrestricted net operating assets	2,588,974	2,900,377
	7,220,538	7,621,941
	\$ 21,226,766	\$ 19,364,970

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Consolidated Statement of Changes in Net Assets
For the Year Ended March 31, 2012

	Net Assets Invested in Capital Assets	Reserve for Program Development	Innovation Fund	Campaign Fund	Unrestricted Net Operating Assets	Total 2012	Total 2011
BALANCE, BEGINNING OF YEAR	\$ 244,301	\$ 4,445,049	\$ 5,972	\$ 26,242	\$ 2,900,377	\$ 7,621,941	\$ 7,129,711
Contributions to approved projects	-	-	-	(125,077)	-	(125,077)	(486,620)
Contributions received	-	-	4,000	106,000	-	110,000	432,201
Excess of (expenses over revenue) revenue over expenses	(94,402)	-	-	-	(291,924)	(386,326)	546,649
Investment in capital assets	114,598	-	-	-	(114,598)	-	-
Internally imposed restriction (Note 3(h))	-	(95,119)	-	-	95,119	-	-
BALANCE, END OF YEAR	\$ 264,497	\$ 4,349,930	\$ 9,972	\$ 7,165	\$ 2,588,974	\$ 7,220,538	\$ 7,621,941

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Consolidated Statement of Operations
For the Year Ended March 31, 2012

	<u>2012</u>	<u>2011</u>
REVENUE (Notes 3(b) and 4)		
Designated grants	\$ 13,079,799	\$ 12,618,357
Operating grants	2,888,530	3,111,467
Innovation Fund	6,667	32,664
Interest	185,751	267,633
Other revenue	84,387	282,681
TOTAL REVENUE	16,245,134	16,312,802
EXPENSES (Note 8 and Schedule 1)		
Projects		
Trade and Investment	5,462,245	5,210,805
Reporting Services	3,641,792	3,296,281
Climate Change and Energy	2,674,874	2,167,190
Natural and Social Capital	1,761,254	2,045,370
Global Connectivity	848,037	727,376
New Project Development	95,772	91,088
Innovation Fund	7,496	33,671
	14,491,470	13,571,781
Administration	1,403,953	1,229,383
Fund Development and Publishing and Communications	599,415	850,937
Board	136,622	114,052
TOTAL EXPENSES	16,631,460	15,766,153
EXCESS OF (EXPENSES OVER REVENUE) REVENUE OVER EXPENSES	(386,326)	546,649
APPROPRIATION (FROM) TO UNRESTRICTED NET OPERATING ASSETS		
Net assets invested in capital assets	(20,196)	50,487
Reserve for program development	95,119	78,269
(DECREASE) INCREASE IN UNRESTRICTED NET OPERATING ASSETS	(311,403)	675,405
UNRESTRICTED NET OPERATING ASSETS, BEGINNING OF YEAR	2,900,377	2,224,972
UNRESTRICTED NET OPERATING ASSETS, END OF YEAR	\$ 2,588,974	\$ 2,900,377

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Consolidated Statement of Cash Flows
For the Year Ended March 31, 2012

	<u>2012</u>	<u>2011</u>
OPERATING ACTIVITIES		
Excess of (expenses over revenue) revenue over expenses for the year	\$ (386,326)	\$ 546,649
Items not affecting cash		
(Gain) loss on disposal of capital assets	-	(1,225)
Contributions to approved projects	(125,077)	(486,620)
Contributions received for approved projects	110,000	432,201
Amortization of fixed assets	94,402	133,716
	(307,001)	624,721
Changes in non-cash operating working capital items		
Accounts receivable	161,672	(1,181,655)
Prepaid expenses and deposits	(34,220)	120,848
Accounts payable and accrued liabilities	513,750	(665,558)
Deferred revenue	1,749,449	(416,662)
	2,083,650	(1,518,306)
INVESTING ACTIVITIES		
Purchases of capital assets	(114,598)	(83,386)
Proceeds from disposal of capital assets	-	1,383
Purchases and maturities of investments - net	512,776	176,468
	398,178	94,465
NET INCREASE (DECREASE) IN CASH	2,481,828	(1,423,841)
CASH POSITION, BEGINNING OF YEAR	1,063,546	2,487,387
CASH POSITION, END OF YEAR	\$ 3,545,374	\$ 1,063,546

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT

Notes to the Consolidated Financial Statements

March 31, 2012

1. INCORPORATION, MANDATE AND TAX STATUS

The International Institute for Sustainable Development (IISD or the “Institute”) was incorporated on March 15, 1990 as a corporation without share capital under Part II of the Canada Corporations Act. It commenced operations shortly thereafter at its head office in Winnipeg, Manitoba, Canada.

IISD is a registered charity in Canada. It is also exempt from U.S. income tax under paragraph 501(c)(3) of the Internal Revenue Code.

The vision of IISD is better living for all – sustainably. Its mission is to champion innovation, enabling societies to live sustainably.

2. CHANGES IN ACCOUNTING POLICIES

New accounting framework

In December 2010, the CICA issued a new accounting framework applicable to not-for-profit organizations in the private sector. Effective for fiscal years beginning on or after January 1, 2012, not-for-profit organizations in the private sector will have to choose between International Financial Reporting Standards and Accounting Standards for Not-for-Profit organizations, whichever suits them best. The Institute currently plans to adopt Accounting Standards for Not-for-Profit Organizations for its fiscal year beginning on April 1, 2012. The impact of this transition is not expected to be significant.

3. SIGNIFICANT ACCOUNTING POLICIES

The Institute has elected to use the exemption provided by the Canadian Institute of Chartered Accountants (CICA) permitting not-for-profit organizations not to apply Sections 3862 and 3863 of the CICA Handbook which would otherwise have applied to the financial statements of the Institute for the year ended March 31, 2012. The Institute applies the requirements of Section 3861 of the CICA Handbook.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

a) *Principles of consolidation*

These consolidated financial statements include the assets, liabilities, net assets, revenues, expenses, and other transactions of IISD Business Trust, IISD Solutions and International Institute for Sustainable Development – Europe (IISD – Europe); all of which are controlled by IISD. All material inter-company transactions and balances have been eliminated upon consolidation.

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Notes to the Consolidated Financial Statements
March 31, 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Principles of consolidation (continued)

IISD Business Trust carries on consulting and other business activities consistent with the mandate of IISD. IISD Solutions is a corporation without share capital incorporated under Part II of the Canada Corporations Act and is the trustee of IISD Business Trust. IISD appoints the members of IISD Solutions and, according to the terms of the IISD Business Trust, all resources of the Trust must be provided to IISD as the Trust's sole beneficiary. International Institute for Sustainable Development Europe (IISD – Europe) was established as an association under the Swiss Civil Code on June 13, 2008 to meet eligibility criteria established by certain potential European based funders. It is being activated in a three stage process. Bank accounts in its name are used under an agreement for IISD – Europe to act as a disbursing agent for IISD. During the year, select Geneva-based employees were transferred to IISD – Europe to provide services to IISD projects.

b) Revenue recognition

i) Operating grant revenue

Operating grants are subject to the condition that they must be expended in accordance with the mandate of IISD. Operating grant revenue is recorded in the annual amounts prescribed in the funding agreements. Any additional amounts received under current grant agreements are reflected as deferred revenue.

ii) Designated grant revenue

Designated grants must be expended in accordance with the donor's designation. Revenue for grants designated for specific current activities is recorded in the accounts as the related expenses are incurred using the deferral method of accounting. Designated grant commitments for specific future activities are reflected as deferred revenue. Revenue for grants designated generally for use in program or long-term development activities is recorded in the accounts in the year in which the grant is awarded.

iii) Innovation Fund revenue

Revenue for Innovation Fund projects is recorded in the accounts as the related expenses are incurred.

iv) Campaign Fund revenue

Revenue for projects supported from the Campaign Fund is recorded in the accounts as the related expenses are incurred.

v) Interest income

Interest income is recorded on an accrual basis, net of amortization of discounts or premiums on the purchase of bonds.

vi) Other revenue

Other revenue is recorded in the accounts when the service has been provided and amounts are determined and collection is probable.

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Notes to the Consolidated Financial Statements
March 31, 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and IISD's designation of such instruments.

Classification

Cash	Held for trading
Accounts receivable	Loans and receivables
Marketable securities	Held to maturity
Accounts payable and accrued liabilities	Other liabilities

Held for trading

Held for trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held for trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in interest revenue.

Loans and receivables

Loans and receivables are accounted for at amortized cost using the effective interest method.

Held-to-maturity

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables that an entity has the positive intention and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest method.

Other liabilities

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

Effective interest method

IISD uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments.

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Notes to the Consolidated Financial Statements
March 31, 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Capital assets

Capital asset expenditures are recorded at cost. Amortization, which is based on the cost less the residual value over the useful life of the asset, is computed using the straight-line method over the following terms:

Computer systems	3 years, no residual
Equipment	10 years, 5% residual
Leaseholds	Initial term plus one renewal

e) Publication production costs

Publication production costs are expensed in the year in which the publication is printed.

f) Foreign currencies

Amounts denominated in a foreign currency are translated to Canadian dollars as follows:

Monetary balances, including cash, marketable securities, accounts receivable and accounts payable and accrued liabilities are translated at the year-end exchange rate.

Non-monetary balances, including prepaid expenses and deposits, deferred revenue and capital assets are translated at the exchange rate prevailing at the date of the transaction.

Revenue and expenses are translated at the rate of exchange prevailing at the time of the transaction. Exchange gains or losses on translation of foreign currencies are included in other revenue.

g) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates include revenue recognized based on the estimated percentage of completion. Actual results could differ from these estimates.

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Notes to the Consolidated Financial Statements
 March 31, 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Reserves

The Board of Directors has imposed internal restrictions on the Institute's net assets as follows:

Reserve for program development was established with the unexpended balance of Environment Canada's initial grant (1990-1995), for eventual use in accordance with IISD's mandate. It is used to finance the costs of the Institute's New Project Development activities as well as any additional initiatives the Board may authorize from time to time.

i) Allocation of expense

IISD allocates expenses from overhead accounts on a monthly basis to programs based on an allocation percentage that is the total direct labour in a project relative to the total direct labour for the Institute in that month. The required disclosures are included in Note 8.

4. FUNDING ARRANGEMENTS

Designated grants

IISD receives funding from a variety of public and private sources to finance specific projects relating to its strategic objectives. Projects may carry on over more than one year. The related designated grants are recorded when the funding commitment is made and recognized in revenue as the projects progress. A comparative summary of designated grant funding committed during the year is as follows:

	<u>Funding Commitments (Schedule 2)</u>	
	<u>2012</u>	<u>2011</u>
	(\$000's)	(\$000's)
Governments and agencies		
Canada	\$ 1,465	\$ 1,901
International	6,623	7,253
	8,088	9,154
United Nations agencies	1,105	1,009
International organizations	1,025	901
Philanthropic foundations	233	585
Private sector and other	2,741	767
	\$ 13,192	\$ 12,416

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Notes to the Consolidated Financial Statements
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4. FUNDING ARRANGEMENTS (continued)

Designated grants and other revenue are summarized by activity area as follows. Other revenue includes publication sales, cost recoveries and, in the case of Administration, New Project Development, Fund Development and Publishing and Communications the net foreign exchange gain recognized at March 31, 2012 in the amount of \$9 thousand (2011 – \$147 thousand):

<u>Activity Area</u>	<u>Other Revenue</u> ((\$000's))	<u>Innovation Funds</u> ((\$000's))	<u>Designated Grants</u> ((\$000's))	<u>Total</u> ((\$000's))
Trade and Investment	\$ 5	\$ -	\$ 4,911	\$ 4,916
Reporting Services	-	-	3,413	3,413
Climate Change and Energy	23	-	2,264	2,287
Natural and Social Capital	35	-	1,603	1,638
Global Connectivity	8	-	775	783
Administration, New Project Development, Fund Development and Publishing and Communications	13	-	114	127
	84	-	13,080	13,164
Innovation Fund	-	7	-	7
	\$ 84	\$ 7	\$ 13,080	\$ 13,171

Innovation Fund

In 2005, the Board of Directors established the IISD Innovation Fund to receive contributions from donors, which are to be used in developing new ideas for a better world and to meet the needs of the future. The Innovation Fund provides IISD's researchers with "intellectual venture capital" to push the boundaries of innovation with a flexibility that is typically not present in conventional funding mechanisms. Grants are awarded to specific Innovation Fund projects through a formal review process using pre-set criteria.

Summary of Innovation Fund activity from inception to March 31, 2012

	(\$000's)
Contributions received:	
Alcan Inc.	\$ 90
The Kathleen M. Richardson Foundation	75
The Great West Life Assurance Company	75
Investors Group	75
Manitoba Hydro	75
JFC Burns Investment	35
E. I. du Pont Canada Company	20
Others (under \$10,000)	18
	463
Appropriation from Reserve for Program Development	20
	483

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Notes to the Consolidated Financial Statements
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4. FUNDING ARRANGEMENTS (continued)

Grants awarded to projects:

Prior years

Human Development and Ecosystem Report	\$	17
Identify Environment and Security Challenges in China		14
Governance and Accountability Challenges for Non-Legal Entities		13
Natural Disasters and Resource Rights		13
Building Capacity for Sustainable Development in North Korea		7
Climate Change, Resources & Conflict: Understanding the Links Between Environment & Security in Sudan		25
Realizing the Budapest Advantage: Institutionalizing IISD's Presence in the European Union		9
An Electronic and Updatable Digest of International Investment Law Arbitration Decisions		34
An Ecosystem Approach to the Millennium Development Goals and Multilateral Environmental Agreements		26
Health Dimensions of Climate Change		17
Advisory Centre for International Investment Law		29
Sustainable Procurement		25
Commonwealth and Francophonie Dialogue		30
Building Next-Generation Stakeholder Information Systems for Integrated Indicator/Future Scenario Projects		30
Cold Fusion/Open Source Software: IISD's Communications Lab		23
GreenSpace Feasibility Study		19
Promoting Sustainable Investment in the Water Sector: Refocusing the OECD Cross-Division Project on Water		40
Private Social Equity		31
Gender Impacts of Regional Trade Agreements		29
Gender Equity in Commodity Sustainability Standards		13
Promoting Gender Equity in Sustainable Commodity Standards		38
Recovery of prior years grants under expended		(9)
		473

Current year

Innovation Fund balance at March 31, 2012	\$	10
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INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Notes to the Consolidated Financial Statements
March 31, 2012

4. FUNDING ARRANGEMENTS (continued)

Campaign Fund

In 2007, the Board of Directors initiated a fundraising campaign to receive contributions from donors, which are to be used for projects involving young professionals in sustainable development, climate change related initiatives, community initiatives and other program needs. Grants are awarded to specific projects which meet the Campaign criteria.

Summary of Campaign Fund activity from inception to March 31, 2012

	(\$000's)
Contributions received:	
Manitoba Hydro	\$ 500
McCall MacBain Foundation	237
RBC Foundation	301
Individuals	110
JFC Burns Investment	35
Stewards Edge	25
Winnipeg Foundation	25
CP Loewen Family Foundation	20
HSBC Bank of Canada	13
Delmar Global Trusts	12
Lake Winnipeg Foundation	10
Gold Coast Securities	5
Ghana Growth Fund	5
Assiniboine Credit Union	2
Export Development Canada	1
	1,301

Grants awarded to projects:

Prior years

Water Innovation Centre	675
Clean Energy and Climate Change	248
Sustainable Leadership Innovation Centre – Domestic Winnipeg Pilot	50
Canadian Sustainability Indicators Network Conference:	
Accountability through Measurement	39
Leaders for a Sustainable Future/Trade Knowledge Network Internship	39
Assessment of Microbial Genomics for Bio-refining	34
Linkages between Poverty and Ecosystem Services	25
Manitoba Eco Tender	25
Intern Community Training Platform	20
IISD Board Youth Consultation	13
Building Alliance of Institutions Training Young Professionals	10
Winnipeg Community Indicator System – United Way Pilot	10
Recovery of Prior Year Grants Under Expended	(19)
	1,169

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Notes to the Consolidated Financial Statements
March 31, 2012

4. FUNDING ARRANGEMENTS (continued)

Campaign Fund (continued)

Current year

Water Innovation Centre	\$	100
Sustainable Leadership Innovation Centre – Domestic Winnipeg Pilot		17
Impact Planning Tool		5
Canadian Sustainability Indicators Network Secretariat		3
		125
Campaign Fund balance at March 31, 2012	\$	7

Operating grants

In April 2011, a one year agreement was reached with Canadian International Development Agency (CIDA) for a total of \$1.672 million. The full amount attributed to the 2011-12 fiscal year has been received and is included in revenue for the year. In March 2012 the agreement was amended to extend it for a further 9 months to December 31, 2012 and funded in the amount of \$1.254 million for the extension period. The funding for the extension period is included in deferred revenue at March 31, 2012. The arrangement with CIDA provides operating grants. IISD has funding agreements with the Government of Manitoba and the International Development Research Centre (IDRC) for five and six year periods ending March 31, 2016 and June 30, 2012 respectively. Both of these arrangements provide for a blend of operating grants and contributions in support of research that is consistent with the interests and priorities of the funders. In March 2012 the IDRC agreement was amended to extend it for a further 12 months to June 30, 2013 and funded in the amount of \$1 million for the extension period. The funding for the extension period is included in deferred revenue at March 31, 2012.

A summary of the operating grant funding is as follows:

	<u>Funding Commitment</u> (\$000's)	<u>Funding Recorded</u>		<u>Funding Remaining</u> (\$000's)
		2012	Prior years	
Government of Canada				
Canadian International Development Agency	\$ 2,926	\$ 1,672	\$ -	\$ 1,254
Government of Manitoba	4,186	837	-	3,349
International Development Research Centre	2,422	379	1,643	400
Operating grant revenue (Note 3(b)(i))	\$ 9,534	\$ 2,888	\$ 1,643	\$ 5,003

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Notes to the Consolidated Financial Statements
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5. MARKETABLE SECURITIES

Marketable securities include investments in fixed rate debt instruments having a credit rating which is comparable to those issued or guaranteed by the governments of Canada, its provinces, or large Canadian chartered banks. Maturities range from one month to thirty months based on expected future cash flow requirements.

A summary of marketable securities is as follows:

<u>Maturity</u>	<u>Carrying Value</u> (\$000's)	<u>Market Value</u> (\$000's)
2013	\$ 4,222	\$ 4,221
2014	3,370	3,370
	<u>\$ 7,592</u>	<u>\$ 7,591</u>

6. CAPITAL ASSETS

The categories of capital assets and components of net assets invested in capital assets are summarized as follows:

	<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Cost</u>	<u>Accumulated Amortization</u>
	(\$000's)		(\$000's)	
Computer systems	\$ 2,811	\$ 2,703	\$ 2,710	\$ 2,637
Equipment	751	645	737	633
Leaseholds	245	195	245	178
	<u>3,807</u>	<u>3,543</u>	<u>3,692</u>	<u>3,448</u>
Net book value	<u>\$ 264</u>		<u>\$ 244</u>	

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Notes to the Consolidated Financial Statements
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7. DEFERRED REVENUE

The amount by which recorded funding commitments exceed the revenue recognized as Designated or Operating grants is reflected as deferred revenue. Innovation Fund deferred revenue is the difference between the amount of the grants awarded (Note 4) and the eligible costs incurred to March 31, 2012. The principal components of deferred revenue are summarized below:

	<u>2012</u> (\$000's)	<u>2011</u> (\$000's)
Designated grants		
Government agencies		
Canada	\$ 1,116	\$ 1,653
International	6,985	6,363
United Nations agencies	312	1,266
International organizations	75	264
Philanthropic foundations	1,774	278
Private sector and other	81	392
	<u>10,343</u>	<u>10,216</u>
Operating grants		
Government agencies		
Canada	1,654	25
Innovation Fund	54	61
	<u>\$ 12,051</u>	<u>\$ 10,302</u>

8. ALLOCATED EXPENSES

The categories of allocated expenses are summarized as follows:

	<u>2012</u> (\$000's)	<u>2011</u> (\$000's)
Personnel	\$ 1,174	\$ 1,199
Travel	-	15
Collaborators	6	2
Supplies and others	214	217
Research materials	60	54
Telecommunications	121	116
Rent	516	483
Amortization of capital assets	70	90
	<u>\$ 2,161</u>	<u>\$ 2,176</u>

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Notes to the Consolidated Financial Statements
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9. COMMITMENTS

- a) IISD is obligated to make payments under various operating leases over the next three years as follows:

	(\$000's)
2013	\$ 241
2014	191
2015	144
	<hr/> \$ 576 <hr/>

- b) IISD Solutions has an operating line of credit with a maximum amount of \$250,000 bearing interest at prime rate. As at March 31, 2012, there was a balance of \$Nil (2011 - Nil) outstanding against this credit facility.

10. FINANCIAL INSTRUMENTS

Interest rate risk

IISD is exposed to fluctuations in interest rates that could affect the cash flows from term deposits and marketable securities at the time of maturity and reinvestment of individual instruments. These fluctuations could affect the fair values of financial assets. IISD does not use derivative financial instruments to manage interest rate risk. This risk is addressed by staggering investment terms to correlate with expected future cash flow requirements.

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. IISD's credit risk is managed through an investment policy which restricts its investment to fixed rate debt instruments having a credit rating which is comparable to those issued or guaranteed by the government of Canada, its provinces, or large Canadian chartered banks. Credit risk related to IISD's accounts receivable is mitigated by the fact that the receivables are comprised of amounts due from numerous public and private sector entities which are identified in Schedule 2.

Currency risk

Currency risk is the risk that arises from fluctuations in currency exchange rates, and the degree of volatility of these rates. A significant portion of IISD's revenue and expenditures are in other currencies, thus reducing its exposure to anticipated levels of net foreign currency inflow and outflow. IISD does not use derivative instruments to reduce its exposure to foreign currency risk.

Fair value

The carrying values of accounts receivable and accounts payable and accrued liabilities approximate their fair values due to their short-term to maturity. The fair value of marketable securities is disclosed in Note 5.

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
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11. CAPITAL MANAGEMENT

The Institute relies on government grants, private contributions and investment income to finance its operations. The funds available are allocated to the various programs based on the priorities identified by the Board of Directors and contributors' designations.

The Board of Directors has internally restricted net assets in the Reserve for program development of \$4,349,930. These Internally restricted amounts are not available for other purposes without approval of the Board of Directors. The Innovation Fund of \$9,972 and Campaign Fund of \$7,165 are externally restricted by contributors.

Capital management objectives, policies and procedures are unchanged from the prior year.

12. COMPARATIVE FIGURES

Certain prior year comparatives have been reclassified to conform to the current year's presentation.

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Consolidated Schedule of Operations By Activity Area (\$000's)
For the Year Ended March 31, 2012

The following table summarizes expenses incurred in each of the IISD's activity areas:

	Trade and Investment	Reporting Services	Climate Change and Energy	Natural and Social Capital	Global Connectivity	Innovation Fund	New Project Development	Publishing and Communications	Fund Development	Administration	Board	2012 Total	2011 Total
Revenue (Note 4)	\$ 4,916	3,413	2,287	1,638	783	7	1	-	46	80	-	\$ 13,171	\$ 12,934
Personnel	3,097	916	1,604	1,222	503	4	59	229	169	1,003	-	8,806	8,154
Collaborators	987	1,348	449	161	179	3	9	50	7	73	-	3,266	3,382
Travel	453	1,071	279	100	80	-	28	-	14	94	-	2,119	1,859
Rent	183	112	97	73	29	-	-	14	11	61	-	580	546
Supplies and other	128	87	50	55	20	-	-	24	10	132	-	506	560
Meetings	337	1	103	42	9	-	-	1	7	3	-	503	391
Publishing	170	31	30	54	5	1	-	28	15	-	-	334	346
Telecommunications	54	60	36	30	14	-	-	5	3	24	-	226	221
Amortization of capital assets	32	10	16	15	5	-	-	6	2	8	-	94	134
Board	-	-	-	-	-	-	-	-	-	-	137	137	114
Research materials	21	6	11	9	4	-	-	2	2	6	-	61	59
Total expenses	5,462	3,642	2,675	1,761	848	8	96	359	240	1,404	137	16,632	15,766
Excess of expenses over designated grants and other revenue	\$ (546)	\$ (229)	\$ (388)	\$ (123)	\$ (65)	\$ (1)	\$ (95)	\$ (359)	\$ (194)	\$ (1,324)	\$ (137)	\$ (3,461)	\$ (2,832)

Excess of expenses over designated grants funded by:

Operating grants	2,889	3,111
Interest	186	268
Excess of (expenses over revenue) revenue over expenses	\$ (386)	\$ 547

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Consolidated Schedule of Designated Grants Committed (\$000's)

For the Year Ended March 31, 2012

Government of Canada (and Agencies)		
International Development Research Centre (IDRC)	\$	622
Natural Resources Canada		100
Environment Canada		42
Canadian International Development Agency (CIDA)		41
National Round Table on the Environment and the Economy (NRTEE)		27
Health Canada		13
Department of Indian and Northern Affairs Canada (INAC)		10
Department of Foreign Affairs and International Trade (DFAIT)		4
Auditor General of Canada		3
		862
Governments of provinces		
Manitoba		459
British Columbia		92
Alberta		27
Newfoundland and Labrador		6
Nova Scotia		6
Ontario		6
Quebec		5
Saskatchewan		2
		603
Governments of other nations		
Switzerland		
State Secretariat for Economic Affairs (SECO)	1,195	
Swiss Agency for Development and Cooperation (SDC)	1,011	
Federal Office for the Environment (FOEN)	<u>231</u>	2,437
European Commission		
DG Environment		1,874
United Kingdom		
Foreign and Commonwealth Office (FCO)		484
Norway		
Norwegian Agency for Development Cooperation (NORAD)	349	
Ministry of Environment	<u>37</u>	386
Germany		
Federal Ministry for the Environment (BMU)	256	
Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ)	<u>93</u>	349
Denmark		
Danish Ministry of Foreign Affairs		280
Japan		
Institute for Global Environmental Strategies (IGES)	169	
Global Industrial and Social Progress Research Institute (GISPRI)	<u>34</u>	203
Sweden		
Ministry of the Environment	76	
Swedish International Development Cooperation Agency (SIDA)	<u>59</u>	135
Spain		
Ministry of the Environment		117
Korea		
Korea Forest Services (KFS)	83	
Ministry of Environment	<u>14</u>	97
New Zealand		
Ministry of Foreign Affairs and Trade		66

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Consolidated Schedule of Designated Grants Committed (\$000's)

For the Year Ended March 31, 2012

Taiwan		
Taipei Economic and Cultural Office in Canada (TECO)	\$	48
Namibia		
Ministry of Trade and Industry		45
Finland		
Ministry of Agriculture and Forestry	35	
Ministry of Foreign Affairs	6	41
Abu Dhabi		
Environment Agency		35
United States of America		
U.S. Department of State		10
Austria		
Austrian Energy Agency		10
Mexico		
Ministry of Foreign Affairs		5
Singapore		
Permanent Representative of Singapore to the UN		1
		6,623
United Nations agencies		
United Nations Environment Programme (UNEP)		718
United Nations Department of Economic and Social Affairs (UN/DESA)		148
United Nations Development Programme (UNDP)		54
United Nations Office at Nairobi (UNON)		49
United Nations Office at Geneva (UNOG)		37
United Nations Economic Commission for Latin America and The Caribbean (UN/ECLAC)		22
United Nations Industrial Development Organization (UNIDO)		18
Food and Agriculture Organization of the United Nations (FAO)		18
United Nations Economic Commission for Europe (UNECE)		17
United Nations Framework Convention on Climate Change (UNFCCC)		12
United Nations Office for Project Services (UNOPS)		9
United Nations Economic and Social Commission for Western Asia (UN/ESCWA)		3
		1,105
International organizations		
International Renewable Energy Agency	\$	479
World Wildlife Federation South Africa (WWF-SA)		80
Asia Pacific Economic Cooperation		77
World Bank		70
International Council on Mining and Metals		38
International Institute for Environment and Development (IIED)		38
Commission for Environmental Cooperation (CEC)		37
Conservation International Liberia		33
Wildlife Conservation Society (WCS)		31
Asian Development Bank		31
Caribbean Community Secretariat (CARICOM)		19
Organization of the Petroleum Exporting Countries (OPEC)		19
Center for International Forestry Research		15
International Union for Conservation of Nature (IUCN)		15
World Business Council for Sustainable Development (WBCSD)		13
International Centre for Integrated Mountain Development (ICIMOD)		13
Organisation for Economic Co-operation and Development (OECD)		11
Others (under \$10,000)		6
		1,025

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Consolidated Schedule of Designated Grants Committed (\$000's)

For the Year Ended March 31, 2012

Philanthropic foundations		
Rockefeller Brothers Fund	\$	145
United Way of Winnipeg		85
Others (under \$10,000)		3
		233
Private sector and other		
PricewaterhouseCoopers Services Ltd. (PwCS)		1,469
Manitoba Lotteries Corporation		300
Manitoba Hydro		268
Masdar		174
Oxford Policy Management Limited		97
IVL Swedish Environmental Research Institute		65
Nunavut Tunngavik Incorporated		38
International Hydrower Association (IHA)		31
University of Manitoba		27
Pimachiowin Aki Corporation		25
EZ pmp Inc. - Republic of Korea		21
EnviroEconomics		20
Rights and Resources Initiative		19
Norwegian Refugee Council (NRC)		17
Enbridge		15
Industry Provincial Offset Group (IPOG)		15
Forest Europe LUO c/o Gyro AS		15
University of Delaware		13
University of Leeds		13
Simon Fraser University		13
Lynne Mackenzie & Partners (Pty) Ltd		12
ESSA Technologies Ltd.		11
Suncor		10
TransCanada Energy		10
Others (under \$10,000)		43
		2,741
	\$	13,192