

*Consolidated Financial Statements of*

**INTERNATIONAL INSTITUTE FOR SUSTAINABLE  
DEVELOPMENT**

*March 31, 2002*

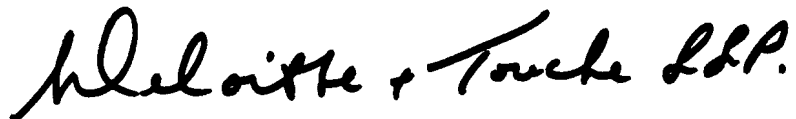
## AUDITORS' REPORT

To the Members of  
International Institute for Sustainable Development

We have audited the consolidated statement of financial position of the International Institute for Sustainable Development as at March 31, 2002 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Institute as at March 31, 2002 and the results of its operations and the cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Winnipeg, Manitoba  
April 26, 2002

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**INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT**  
**Consolidated Statement of Financial Position**  
**March 31, 2002**

	<u>2002</u>	<u>2001</u>
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash (Note 7(b))	\$ 1,293,208	\$ 474,090
Marketable securities (Note 4)	5,491,789	5,638,115
Accounts receivable	6,644,663	8,552,618
Prepaid expenses and deposits	119,934	107,987
	<u>13,549,594</u>	<u>14,772,810</u>
<b>CAPITAL ASSETS (Note 5)</b>	<b>283,288</b>	<b>302,743</b>
	<b>\$ 13,832,882</b>	<b>\$ 15,075,553</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 1,108,924	\$ 1,006,481
Deferred revenue (Note 6)	5,749,768	6,763,138
	<u>6,858,692</u>	<u>7,769,619</u>
<b>NET ASSETS</b>		
Net assets invested in capital assets	283,288	302,743
Reserve for program development	3,835,165	3,870,098
Reserve for long-term development	1,616,471	1,874,770
Unrestricted net operating assets	1,239,266	1,258,323
	<u>6,974,190</u>	<u>7,305,934</u>
	<b>\$ 13,832,882</b>	<b>\$ 15,075,553</b>

**INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT**

**Consolidated Statement of Changes in Net Assets**

For the Year Ended March 31, 2002

	Net Assets Invested in Capital Assets	Reserve for Program Development	Reserve for Long-Term Development	Unrestricted Net Operating Assets	Total 2002	Total 2001
BALANCE, BEGINNING OF YEAR	\$ 302,743	\$ 3,870,098	\$ 1,874,770	\$ 1,258,323	\$ 7,305,934	\$ 7,797,028
Excess of expenses over revenue	(225,850)	-	-	(105,894)	(331,744)	(491,094)
Investment in capital assets	206,395	-	-	(206,395)	-	-
Internally imposed restriction	-	(34,933)	(258,299)	293,232	-	-
<b>BALANCE, END OF YEAR</b>	<b>\$ 283,288</b>	<b>\$ 3,835,165</b>	<b>\$ 1,616,471</b>	<b>\$ 1,239,266</b>	<b>\$ 6,974,190</b>	<b>\$ 7,305,934</b>

**INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT**  
**Consolidated Statement of Operations**  
**For the Year Ended March 31, 2002**

	2002	2001
REVENUE (Notes 2(b) and 3)		
Designated grants	\$ 7,694,117	\$ 6,433,600
Operating grants	2,259,958	2,116,669
Interest	283,026	383,408
Other revenue	153,853	237,158
<b>TOTAL REVENUE</b>	<b>10,390,954</b>	<b>9,170,835</b>
EXPENSES (Schedule 1)		
Projects		
Reporting Services	2,472,707	2,342,323
Trade and Investment	1,639,464	997,294
Natural Resources Management	1,255,132	901,735
Economic Policy	1,185,634	1,047,276
Climate Change and Energy	1,166,182	1,046,569
Knowledge Communications	1,124,075	1,158,750
Measurement and Indicators	536,802	442,199
New Project Development	63,860	320,541
	<b>9,443,856</b>	<b>8,256,687</b>
Administration	593,267	583,843
Fund Development and Outreach	547,384	684,191
Board	138,191	137,208
<b>TOTAL EXPENSES</b>	<b>10,722,698</b>	<b>9,661,929</b>
EXCESS OF EXPENSES OVER REVENUE	(331,744)	(491,094)
APPROPRIATION FROM NET ASSETS		
Net assets invested in capital assets	19,455	96,288
Reserve for program development	34,933	309,858
Reserve for long-term development	258,299	299,302
(DECREASE) INCREASE IN NET OPERATING ASSETS	(19,057)	214,354
NET OPERATING ASSETS, BEGINNING OF YEAR	1,258,323	1,043,969
<b>NET OPERATING ASSETS, END OF YEAR</b>	<b>\$ 1,239,266</b>	<b>\$ 1,258,323</b>

**INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT**  
**Consolidated Statement of Cash Flows**  
For the Year Ended March 31, 2002

	<u>2002</u>	<u>2001</u>
<b>CASH PROVIDED BY OPERATIONS</b>		
Designated Grants (Schedule 2)		
Government of Canada	\$ 2,334,116	\$ 3,004,095
Governments of provinces	50,693	64,807
Governments of other nations	2,634,363	2,218,144
United Nations agencies	529,653	208,042
International organizations	639,950	751,977
Philanthropic foundations	58,324	1,219,652
Private sector and other	420,808	764,843
Operating Grants		
Government of Canada		
Environment Canada	200,000	200,000
Canadian International Development Agency	1,000,000	1,000,000
Government of Manitoba	1,059,958	1,145,833
Total Operating and Designated Grants	8,927,865	10,577,393
Decrease (Increase) in accounts receivable	1,907,955	(3,009,720)
Other Revenue	153,853	237,158
	<u>10,989,673</u>	<u>7,804,831</u>
Cash used in operating activities	(10,393,512)	(9,464,647)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>596,161</u>	<u>(1,659,816)</u>
<b>CASH PROVIDED BY INVESTMENTS</b>		
Interest for long-term development	283,026	383,408
Purchase of capital assets	(206,395)	(248,516)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>76,631</u>	<u>134,892</u>
<b>NET INCREASE IN CASH AND MARKETABLE SECURITIES</b>	<u>672,792</u>	<u>(1,524,924)</u>
<b>CASH AND MARKETABLE SECURITIES, BEGINNING OF YEAR</b>	<u>6,112,205</u>	<u>7,637,129</u>
<b>CASH AND MARKETABLE SECURITIES, END OF YEAR</b>	<u>\$ 6,784,997</u>	<u>\$ 6,112,205</u>
<b>Represented by:</b>		
Cash	\$ 1,293,208	\$ 474,090
Marketable securities	5,491,789	5,638,115
	<u>\$ 6,784,997</u>	<u>\$ 6,112,205</u>

# INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT

## Notes to the Consolidated Financial Statements

March 31, 2002

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### 1. INCORPORATION, MANDATE AND TAX STATUS

The International Institute for Sustainable Development (IISD) 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. SIGNIFICANT ACCOUNTING POLICIES

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*

The consolidated financial statements include the assets, liabilities, net assets, revenues, expenses, and other transactions of IISD Business Trust and IISD Solutions, both of which are controlled by IISD. All material inter-company transactions and balances and results of operations have been eliminated upon consolidation.

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.

#### 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 from the Government of Canada is recorded annually in the accounts in an amount equivalent to one fifth of the total funding commitment over the period April 1, 2000 to March 31, 2005. Operating grant revenue from the Province of Manitoba is recorded in the annual amounts prescribed in the funding agreement. Any additional amounts received under current grant agreements are reflected as deferred revenue.



**INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT**  
**Notes to the Consolidated Financial Statements**  
March 31, 2002

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*b) Revenue recognition (continued)*

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. 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) Interest income

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

*c) Marketable securities*

Marketable securities are carried at amortized cost plus accrued interest. Discounts or premiums on the purchase of bonds are amortized on a straight-line basis over the investment's remaining term.

*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.

**INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT**  
**Notes to the Consolidated Financial Statements**  
 March 31, 2002

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*f) Foreign currencies*

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

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

Non-monetary balances, including prepaid expenses 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 net income.

**3. 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:

	Funding Commitments	
	2002 (\$000's)	2001 (\$000's)
Governments and agencies		
Canada	\$ 2,385	\$ 3,069
International	2,634	2,218
	5,019	5,287
United Nations agencies	530	208
International organizations	640	752
Philanthropic foundations	58	1,220
Private sector and other	421	765
	\$ 6,668	\$ 8,232

**INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT**  
**Notes to the Consolidated Financial Statements**  
 March 31, 2002

**3. FUNDING ARRANGEMENTS (Continued)**

Designated grants and other revenue which includes publication sales and cost recoveries are summarized by activity area as follows:

<u>Activity Area</u>	<u>Sales and Cost Recovery</u> (\$000's)	<u>Designated Grants</u> (\$000's)	<u>Total</u> (\$000's)
Reporting Services	\$ -	\$ 2,492	\$ 2,492
Trade and Investment	26	1,252	1,278
Natural Resources Management	19	1,068	1,087
Knowledge Communications	7	916	923
Economic Policy	8	835	843
Climate Change and Energy	21	763	784
Measurement and Indicators	25	311	336
Administration, Fund Development and Outreach	48	28	76
New Project Development	-	29	29
	<u>\$ 154</u>	<u>\$ 7,694</u>	<u>\$ 7,848</u>

**Operating grants**

IISD has entered into renewed funding arrangements with the Government of Canada (Environment Canada and the Canadian International Development Agency (CIDA)). The arrangement with CIDA provides operating grants for the five year period April 1, 2000 to March 31, 2005. Environment Canada renews its contribution annually. A renewed five-year funding agreement with the Government of Manitoba has also been concluded. It covers the period from April 2001 to March 31, 2006. It includes a core operating grant component aggregating \$4,583,600 plus specific project funding of up to an additional \$1,145,900 over the period.

A summary of the operating grant funding is as follows:

	<u>Funding Commitment</u> (\$000's)	<u>Funding Recorded</u> 2002      Prior years (\$000's)		<u>Funding Commitment Remaining</u> (\$000's)
Government of Canada				
Environment Canada	\$ 1,000	\$ 200	\$ 200	\$ 600
Canadian International Development Agency	5,000	1,000	1,000	3,000
Government of Manitoba	4,584	1,060	-	3,524
Operating grant revenue (Note 2(b)(i))	<u>\$ 10,584</u>	<u>\$ 2,260</u>	<u>\$ 1,200</u>	<u>\$ 7,124</u>

**INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT**  
**Notes to the Consolidated Financial Statements**  
 March 31, 2002

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**4. MARKETABLE SECURITIES**

Marketable securities include investments in Canadian dollar denominated, fixed rate debt instruments issued or guaranteed by the governments of Canada, its provinces, or large Canadian chartered banks. Maturities range from one month to twenty-seven months based on expected future cash flow requirements. Investments are normally held to maturity.

A summary of marketable securities is as follows:

<u>Maturity</u>	<u>Carrying Value</u> (\$000's)	<u>Market Value</u> (\$000's)
2002	\$ 1,854	\$ 1,861
2003	1,870	1,904
2004	1,768	1,776
	<u>\$ 5,492</u>	<u>\$ 5,541</u>

**5. CAPITAL ASSETS**

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

	<u>2002</u>		<u>2001</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Cost</u>	<u>Accumulated Amortization</u>
	(\$000's)		(\$000's)	
Computer systems	\$ 1,630	\$ 1,448	\$ 1,588	\$ 1,407
Equipment	637	536	684	563
Leaseholds	82	82	99	98
	<u>2,349</u>	<u>2,066</u>	<u>2,371</u>	<u>2,068</u>
Net book value	<u>\$ 283</u>		<u>\$ 303</u>	

**INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT**  
**Notes to the Consolidated Financial Statements**  
 March 31, 2002

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**6. DEFERRED REVENUE**

The amount by which recorded commitments exceed the revenue recognized as Designated or Operating grants is reflected as deferred revenue. The principal components of deferred revenue are summarized below:

	<u>2002</u> (\$000's)	<u>2001</u> (\$000's)
Designated grants		
Government agencies		
Canada	\$ 2,481	\$ 3,457
International	2,098	1,438
United Nations agencies	94	-
International organizations	263	474
Philanthropic foundations	617	1,157
Private sector and other	197	237
	<u>\$ 5,750</u>	<u>\$ 6,763</u>

**7. COMMITMENTS**

- a) IISD is obligated to make payments under various leases expiring up to March 31, 2007 as follows:

	(\$000's)
2003	\$ 118
2004	113
2005	108
2006	87
2007	84

- b) IISD has guaranteed an operating line of credit for IISD Solutions in the maximum amount of \$250,000. At March 31, 2002 there was a balance of \$93,475 (2001 - \$92,075) outstanding against this credit facility which has been consolidated in the accounts of the Institute.

**INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT**  
**Notes to the Consolidated Financial Statements**  
March 31, 2002

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**8. FINANCIAL INSTRUMENTS**

*Interest rate risk*

Interest rate risk is the risk that arises from fluctuations in interest rates, and the degree of volatility of these rates. This risk is addressed by staggering investment terms to correlate with expected future cash flow requirements. IISD does not use derivative instruments to manage its exposure to interest rate risk.

*Credit risk*

Credit risk arises from the potential that a counterparty will fail to perform its obligations. IISD's credit risk is managed through a Board approved investment policy which restricts its investment to Canadian dollar denominated, fixed rate debt instruments 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 expenditures are in U.S. and other currencies, thus reducing its exposure to anticipated levels of net foreign currency inflow. IISD does not use derivative instruments to manage its exposure to currency risk.

**INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT**  
**Schedule of Expenses (\$000's)**  
**For the Year Ended March 31, 2002**

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

	Climate										Fund		2001 Total	2002 Total	2001 Total
	Reporting Services	Knowledge Communications	Economic Policy	Change and Energy	Trade and Investment	Natural Resource Management	Measurement and Indicators	New Project Development	Administration	Development and Outreach	Board				
Personnel	\$ 442	\$ 466	\$ 486	\$ 633	\$ 633	\$ 451	\$ 309	\$ 15	\$ 462	\$ 324	\$ -	\$ 4,221	\$ 3,779		
Consulting	911	375	437	186	463	464	43	34	3	35	-	2,951	2,456		
Travel	848	142	136	160	242	182	108	10	35	33	-	1,896	1,768		
Rent	62	32	30	46	49	25	19	-	30	23	-	316	310		
Supplies and other	47	21	15	35	53	28	24	-	26	39	-	288	262		
Publishing	48	23	4	20	54	26	5	5	-	49	-	234	245		
Amortization of capital assets	60	20	36	23	25	14	10	-	16	22	-	226	345		
Meetings	-	24	9	25	93	46	4	-	-	8	-	209	124		
Telecommunications	55	12	25	28	22	13	10	-	13	9	-	187	183		
Board	-	-	-	-	-	-	-	-	-	-	138	138	137		
Research materials	-	9	8	10	6	6	5	-	8	5	-	57	53		
	\$ 2,473	\$ 1,124	\$ 1,186	\$ 1,166	\$ 1,640	\$ 1,255	\$ 537	\$ 64	\$ 593	\$ 547	\$ 138	\$ 10,723	\$ 9,662		

**INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT**  
**Schedule of Designated Grants Committed (\$000's)**  
**Year Ended March 31, 2002**

Government of Canada (and Agencies)	
International Development Research Centre (IDRC)	\$ 627
Department of Foreign Affairs and International Trade	440
Environment Canada	327
Canadian International Development Agency (CIDA)	283
China Council for International Cooperation on Environment and Development (CIDA)	243
Natural Resources Canada	132
National Round Table on Environment and Economy	99
Human Resources Development Canada	60
Indian & Northern Affairs	43
Western Economic Diversification	40
Consulting and Audit Canada	25
Climate Change Secretariat	8
Department of Fisheries and Oceans	7
	<b>2,334</b>
Governments of provinces	
Manitoba	21
Ontario and other	30
	<b>51</b>
Governments of other nations	
Switzerland	600
Norway	582
European Commission	396
Germany	312
Sweden	173
France	144
New Zealand	97
Australia	81
Finland	51
United Kingdom	48
China	39
Austria	34
Japan	34
Netherlands	25
Iceland	15
Belgium	3
	<b>2,634</b>
United Nations agencies	
United Nations Environment Programme (UNEP)	186
United Nations Framework Convention on Climate Change (UNFCCC)	127
United Nations Other	105
United Nations University	49
United Nations Educational, Scientific and Cultural Organization (UNESCO)	26
United Nations Food and Agriculture Organization (FAO)	24
United Nations Industrial Development Organization (UNIDO)	7
United Nations Development Programme (UNDP)	6
	<b>530</b>



**INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT**  
**Schedule of Designated Grants Committed (\$000's)**  
**Year Ended March 31, 2002**

International organizations	
International Institute for Environment and Development (IIED)	204
World Bank	149
Earth Council	102
Commission for Environmental Cooperation (CEC)	59
The World Conservation Union (IUCN)	29
Nautilus Institute for Security and Sustainable Development	28
Institute for International Education	24
World Wildlife Fund (WWF)	19
International Food Policy Research Institute (IFPRI)	13
World Trade Organization	13
	<b>640</b>
Philanthropic foundations	
Loewen Foundation	45
PEW Charitable Trusts	10
The Swedish Foundation for Strategic Environmental Research (MISTRA)	3
	<b>58</b>
Private sector and other	
Climate Change Central	144
Pan Canadian Petroleum Limited	30
Shell Canada	26
URS Corporation	16
AMEC Simons Mining and Metals	16
Coudert Freres	16
Gallagher & Kennedy	16
North American Palladium	16
Newmont Mining Corporation	16
York University (Sustainable Enterprise Academy)	14
Inuit Tapiriit Kanatami (ITK)	11
Alcan	10
Forest Products Association	10
Cullbridge Marketing	10
World Business Council for Sustainable Development	8
Mining Association of Canada	8
Geomega	8
Council of Yukon First Nations	7
ESG International	5
Institute for Media, Policy and Civil Society (IMPACS)	4
African Centre for Technology Studies	4
Stratos Inc.	4
Mountain Institute	3
Beak International	3
Trans Canada Pipelines	3
Dofasco Inc.	1
Other	12
	<b>421</b>
	<b>\$ 6,668</b>