

Consolidated Financial Statements of

**INTERNATIONAL INSTITUTE FOR
SUSTAINABLE DEVELOPMENT**

March 31, 2004

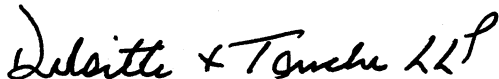
AUDITORS' REPORT

To the Members of
International Institute for Sustainable Development

We have audited the consolidated statement of financial position of International Institute for Sustainable Development as at March 31, 2004 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, 2004 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
May 7, 2004

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INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Consolidated Statement of Financial Position
March 31, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
CURRENT		
Cash (Note 7(b))	\$ 1,350,169	\$ 1,309,524
Marketable securities (Note 4)	6,456,049	5,855,308
Accounts receivable	5,107,736	6,390,612
Prepaid expenses and deposits	132,529	160,733
	<u>13,046,483</u>	<u>13,716,177</u>
CAPITAL ASSETS (Note 5)	231,222	240,749
	<u>\$ 13,277,705</u>	<u>\$ 13,956,926</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 1,105,660	\$ 1,412,338
Deferred revenue (Note 6)	5,491,513	5,866,580
	<u>6,597,173</u>	<u>7,278,918</u>
COMMITMENTS (Note 7)		
NET ASSETS		
Net assets invested in capital assets	231,222	240,749
Reserve for program development	3,730,280	3,808,618
Reserve for long-term development	1,479,372	1,462,490
Unrestricted net operating assets	1,239,658	1,166,151
	<u>6,680,532</u>	<u>6,678,008</u>
	<u>\$ 13,277,705</u>	<u>\$ 13,956,926</u>

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Consolidated Statement of Changes in Net Assets
For the Year Ended March 31, 2004

	Net Assets Invested in Capital Assets	Reserve for Program Development	Reserve for Long-Term Development	Unrestricted Net Operating Assets	Total 2004	Total 2003
BALANCE, BEGINNING OF YEAR	\$ 240,749	\$ 3,808,618	\$ 1,462,490	\$ 1,166,151	\$ 6,678,008	\$ 6,974,190
Excess of revenue over expenses (expenses over revenue)	(170,291)	-	-	172,815	2,524	(296,182)
Investment in capital assets	160,764	-	-	(160,764)	-	-
Internally imposed restriction	-	(78,338)	16,882	61,456	-	-
BALANCE, END OF YEAR	\$ 231,222	\$ 3,730,280	\$ 1,479,372	\$ 1,239,658	\$ 6,680,532	\$ 6,678,008

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Consolidated Statement of Operations
For the Year Ended March 31, 2004

	<u>2004</u>	<u>2003</u>
REVENUE (Notes 2(b) and 3)		
Designated grants	\$ 9,569,403	\$ 8,331,750
Operating grants	2,105,261	2,162,556
Interest	291,065	263,622
Other revenue	29,422	261,429
TOTAL REVENUE	11,995,151	11,019,357
EXPENSES (Schedule 1)		
Projects		
Trade and Investment	3,786,269	2,374,372
Reporting Services	2,503,410	2,652,806
Climate Change and Energy	1,724,923	1,400,921
Knowledge Communications	983,475	1,067,401
Measurement and Indicators	754,315	619,295
Natural Resources Management	558,682	821,112
Economic Policy	516,728	981,516
New Project Development	78,338	41,723
	10,906,140	9,959,146
Administration	671,213	736,062
Fund Development and Outreach	275,297	417,898
Board	139,977	202,433
TOTAL EXPENSES	11,992,627	11,315,539
EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE)	2,524	(296,182)
APPROPRIATION FROM (TO) NET ASSETS		
Net assets invested in capital assets	9,527	42,539
Reserve for program development	78,338	26,547
Reserve for long-term development	(16,882)	153,981
INCREASE (DECREASE) IN NET OPERATING ASSETS	73,507	(73,115)
NET OPERATING ASSETS, BEGINNING OF YEAR	1,166,151	1,239,266
NET OPERATING ASSETS, END OF YEAR	\$ 1,239,658	\$ 1,166,151

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Consolidated Statement of Cash Flows
For the Year Ended March 31, 2004

	<u>2004</u>	<u>2003</u>
CASH PROVIDED BY OPERATIONS		
Designated Grants (Schedule 2)		
Government of Canada	\$ 1,607,337	\$ 3,136,307
Governments of provinces	137,940	225,298
Governments of other nations	4,777,967	3,346,832
United Nations agencies	961,597	471,051
International organizations	781,902	923,491
Philanthropic foundations	247,621	223,631
Private sector and other	429,972	404,678
Reduction in previously reported commitments	-	(282,726)
Operating Grants		
Government of Canada		
Environment Canada	200,000	200,000
Canadian International Development Agency	1,250,000	1,000,000
Government of Manitoba	905,261	962,556
Total Operating and Designated Grants	11,299,597	10,611,118
Decrease in accounts receivable	1,282,876	254,051
Other Revenue	25,146	261,429
	12,607,619	11,126,598
Cash used in operating activities	(12,100,810)	(10,883,730)
NET CASH PROVIDED		
 BY OPERATING ACTIVITIES	506,809	242,868
CASH PROVIDED BY INVESTMENTS		
Interest for long-term development	291,065	263,622
Purchase of capital assets	(160,764)	(126,655)
Proceeds from disposal of capital assets	4,276	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	134,577	136,967
NET INCREASE IN CASH AND		
 MARKETABLE SECURITIES	641,386	379,835
CASH AND MARKETABLE SECURITIES,		
 BEGINNING OF YEAR	7,164,832	6,784,997
CASH AND MARKETABLE SECURITIES, END OF YEAR	\$ 7,806,218	\$ 7,164,832
Represented by:		
Cash	\$ 1,350,169	\$ 1,309,524
Marketable securities	6,456,049	5,855,308
	\$ 7,806,218	\$ 7,164,832

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Notes to the Consolidated Financial Statements
March 31, 2004

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

These 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, 2004

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, 2004

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	
	<u>2004</u> (\$000's)	<u>2003</u> (\$000's)
Governments and agencies		
Canada	\$ 1,745	\$ 3,361
International	4,778	3,347
	<u>6,523</u>	<u>6,708</u>
United Nations agencies	962	471
International organizations	782	923
Philanthropic foundations	248	224
Private sector and other	430	405
	<u>\$ 8,945</u>	<u>\$ 8,731</u>

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Notes to the Consolidated Financial Statements
March 31, 2004

3. FUNDING ARRANGEMENTS (Continued)

Designated grants and other revenue which includes publication sales, cost recoveries and, in the case of Administration, Fund Development and Outreach the unrealized foreign exchange loss recognized at March 31 in the amount of \$174 thousand, are summarized by activity area as follows:

<u>Activity Area</u>	<u>Other Revenue</u> (\$000's)	<u>Designated Grants</u> (\$000's)	<u>Total</u> (\$000's)
Trade and Investment	\$ 22	\$ 3,670	\$ 3,692
Reporting Services	9	2,505	2,514
Climate Change and Energy	56	1,348	1,404
Knowledge Communications	25	768	793
Measurement and Indicators	12	619	631
Natural Resources Management	62	377	439
Economic Policy	10	281	291
Administration, Fund Development and Outreach	(167)	2	(165)
	\$ 29	\$ 9,570	\$ 9,599

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. IISD also entered into a renewed five-year funding agreement with the Government of Manitoba which 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> 2004 Prior years		<u>Funding Commitment Remaining</u> (\$000's)
		(\$000's)		
Government of Canada				
Environment Canada	\$ 1,000	\$ 200	\$ 600	\$ 200
Canadian International Development Agency	5,000	1,000	3,000	1,000
Government of Manitoba	4,584	905	2,023	1,656
Operating grant revenue (Note 2(b)(i))	\$ 10,584	\$ 2,105	\$ 5,623	\$ 2,856

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Notes to the Consolidated Financial Statements
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4. 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-five 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)
2005	\$ 3,565	\$ 3,510
2006	1,946	2,059
2007	945	976
	<u>\$ 6,456</u>	<u>\$ 6,545</u>

5. CAPITAL ASSETS

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

	<u>2004</u>		<u>2003</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Cost</u>	<u>Accumulated Amortization</u>
	(\$000's)		(\$000's)	
Computer systems	\$ 1,882	\$ 1,736	\$ 1,749	\$ 1,603
Equipment	645	560	645	550
Leaseholds	82	82	82	82
	<u>2,609</u>	<u>2,378</u>	<u>2,476</u>	<u>2,235</u>
Net book value	\$ 231		\$ 241	

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Notes to the Consolidated Financial Statements
March 31, 2004

6. DEFERRED REVENUE

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

	2004 (\$000's)	2003 (\$000's)
Designated grants		
Government agencies		
Canada	\$ 923	\$ 2,556
International	3,382	2,260
United Nations agencies	288	38
International organizations	271	504
Philanthropic foundations	225	432
Private sector and other	153	77
	5,242	5,867
Operating grants		
Government agencies		
Canada	250	-
	\$ 5,492	\$ 5,867

7. COMMITMENTS

- a) IISD is obligated to make payments under various operating leases expiring up to March 31, 2005 as follows:

	(\$000's)
2005	\$ 92

- b) IISD Solutions has an operating line of credit in the maximum amount of \$250,000. At March 31, 2004 there was a balance of \$18,963 (2003 - \$60,759) outstanding against this credit facility which has been consolidated in the accounts of the Institute.

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
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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 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 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.

Fair value

The carrying values of cash, accounts receivable and accounts payable and accrued liabilities approximates their fair values due to their short-term to maturity. The fair value of marketable securities is disclosed in Note 4.

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT

Schedule of Designated Grants Committed (\$000's)

Year Ended March 31, 2004

Government of Canada (and Agencies)		
Department of Foreign Affairs and International Trade	\$	521
Canadian International Development Agency (CIDA)		402
Agriculture and Agri-Food Canada		167
International Development Research Centre (IDRC)		94
Western Economic Diversification		89
Environment Canada		68
China Council for International Cooperation on Environment and Development (CIDA)		59
Human Resources Development Canada		57
Natural Resources Canada		41
Department of Fisheries and Oceans		35
Indian & Northern Affairs		33
Other		41
		<u>1,607</u>
Governments of provinces		
Manitoba		119
British Columbia		19
		<u>138</u>
Governments of other nations		
Switzerland		
State Secretariat for Economic Affairs (SECO)	1,192	
Swiss Agency for Development and Cooperation (SDC)	392	
Swiss Agency for the Environment, Forests and Landscape	184	1,768
Sweden		
Swedish International Development Agency	843	
Ministry of Foreign Affairs	73	
Ministry of Environment	18	934
Norway		
Ministry of Foreign Affairs	465	
Ministry of the Environment	68	
Directorate for Nature Management	16	549
Netherlands		
Ministry of Foreign Affairs	393	
Ministry of Housing	75	468
France		
Ministry of Foreign Affairs	207	
Institut de l' Energie et de l' Environnement de la Francophonie	125	332
United Kingdom		
British Embassy Beijing	130	
Department for International Development	128	258
Germany		
Ministry of Environment	110	
German Society for Technical Cooperation (GTZ)	25	
Ministry for Economic Cooperation and Development (BMZ)	18	153
Japan		99
Australia		87
Spain		78
Austria		31
Other		21
	\$	<u>4,778</u>

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

Year Ended March 31, 2004

United Nations agencies	
United Nations Environment Programme (UNEP)	\$ 833
United Nations Framework Convention on Climate Change (UNFCCC)	76
United Nations Development Programme (UNDP)	36
Other	17
	962
International organizations	
The World Conservation Union (IUCN)	240
International Tropical Timber Organization	106
The Global Action Network Net (GAN-Net)	88
Secretariat of the World Forestry Council	86
International Finance Corporation	73
Shastri Indo-Canadian Institute	61
Royal Institute for International Affairs (RIIA)	33
World Bank	32
International Institute for Environment and Development (IIED)	25
Other	38
	782
Philanthropic foundations	
Mott Foundation	73
Rockefeller Foundation	71
The Swedish Foundation for Strategic Environmental Research (MISTRA)	38
Other	36
Winnipeg Foundation	30
	248
Private sector and other	
Other (sum of amounts under \$25 thousand)	190
Manitoba Hydro	80
Econoler International	50
Climate Change Central	42
Experco International Ltd.	41
Global Knowledge Partnership Secretariat	27
	430
	\$ 8,945