

Consolidated Financial Statements of

**INTERNATIONAL INSTITUTE FOR SUSTAINABLE
DEVELOPMENT**

March 31, 2003

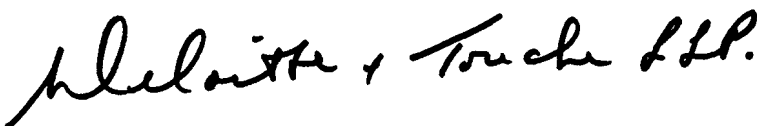
AUDITORS' REPORT

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, 2003 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, 2003 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
May 7, 2003

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INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Consolidated Statement of Financial Position
March 31, 2003

	<u>2003</u>	<u>2002</u>
ASSETS		
CURRENT		
Cash (Note 7(b))	\$ 1,309,524	\$ 1,293,208
Marketable securities (Note 4)	5,855,308	5,491,789
Accounts receivable	6,390,612	6,644,663
Prepaid expenses and deposits	160,733	119,934
	<u>13,716,177</u>	<u>13,549,594</u>
CAPITAL ASSETS (Note 5)	240,749	283,288
	\$ 13,956,926	\$ 13,832,882
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 1,412,338	\$ 1,108,924
Deferred revenue (Note 6)	5,866,580	5,749,768
	<u>7,278,918</u>	<u>6,858,692</u>
NET ASSETS		
Net assets invested in capital assets	240,749	283,288
Reserve for program development	3,808,618	3,835,165
Reserve for long-term development	1,462,490	1,616,471
Unrestricted net operating assets	1,166,151	1,239,266
	<u>6,678,008</u>	<u>6,974,190</u>
	\$ 13,956,926	\$ 13,832,882

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Consolidated Statement of Changes in Net Assets

For the Year Ended March 31, 2003

	Net Assets Invested in Capital Assets	Reserve for Program Development	Reserve for Long-Term Development	Unrestricted Net Operating Assets	Total 2003	Total 2002
BALANCE, BEGINNING OF YEAR	\$ 283,288	\$ 3,835,165	\$ 1,616,471	\$ 1,239,266	\$ 6,974,190	\$ 7,305,934
Excess of expenses over revenue	(169,194)	-	-	(126,988)	(296,182)	(331,744)
Investment in capital assets	126,655	-	-	(126,655)	-	-
Internally imposed restriction	-	(26,547)	(153,981)	180,528	-	-
BALANCE, END OF YEAR	\$ 240,749	\$ 3,808,618	\$ 1,462,490	\$ 1,166,151	\$ 6,678,008	\$ 6,974,190

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Consolidated Statement of Operations
For the Year Ended March 31, 2003

	2003	2002
REVENUE (Notes 2(b) and 3)		
Designated grants	\$ 8,331,750	\$ 7,694,117
Operating grants	2,162,556	2,259,958
Interest	263,622	283,026
Other revenue	261,429	153,853
TOTAL REVENUE	11,019,357	10,390,954
EXPENSES (Schedule 1)		
Projects		
Reporting Services	2,652,806	2,472,707
Trade and Investment	2,374,372	1,639,464
Climate Change and Energy	1,400,921	1,166,182
Knowledge Communications	1,067,401	1,124,075
Economic Policy	981,516	1,185,634
Natural Resources Management	821,112	1,255,132
Measurement and Indicators	619,295	536,802
New Project Development	41,723	63,860
	9,959,146	9,443,856
Administration	736,062	593,267
Fund Development and Outreach	417,898	547,384
Board	202,433	138,191
TOTAL EXPENSES	11,315,539	10,722,698
EXCESS OF EXPENSES OVER REVENUE	(296,182)	(331,744)
APPROPRIATION FROM NET ASSETS		
Net assets invested in capital assets	42,539	19,455
Reserve for program development	26,547	34,933
Reserve for long-term development	153,981	258,299
DECREASE IN NET OPERATING ASSETS	(73,115)	(19,057)
NET OPERATING ASSETS, BEGINNING OF YEAR	1,239,266	1,258,323
NET OPERATING ASSETS, END OF YEAR	\$ 1,166,151	\$ 1,239,266

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Consolidated Statement of Cash Flows
For the Year Ended March 31, 2003

	<u>2003</u>	<u>2002</u>
CASH PROVIDED BY OPERATIONS		
Designated Grants (Schedule 2)		
Government of Canada	\$ 3,136,307	\$ 2,334,116
Governments of provinces	225,298	50,693
Governments of other nations	3,346,832	2,634,363
United Nations agencies	471,051	529,653
International organizations	923,491	639,950
Philanthropic foundations	223,631	58,324
Private sector and other	404,678	420,808
Reduction in previously reported commitments	(282,726)	-
Operating Grants		
Government of Canada		
Environment Canada	200,000	200,000
Canadian International Development Agency	1,000,000	1,000,000
Government of Manitoba	962,556	1,059,958
Total Operating and Designated Grants	10,611,118	8,927,865
Decrease in accounts receivable	254,051	1,907,955
Other Revenue	261,429	153,853
	11,126,598	10,989,673
Cash used in operating activities	(10,883,730)	(10,393,512)
NET CASH PROVIDED		
 BY OPERATING ACTIVITIES	242,868	596,161
CASH PROVIDED BY INVESTMENTS		
Interest for long-term development	263,622	283,026
Purchase of capital assets	(126,655)	(206,395)
NET CASH PROVIDED BY INVESTING ACTIVITIES	136,967	76,631
NET INCREASE IN CASH AND		
 MARKETABLE SECURITIES	379,835	672,792
CASH AND MARKETABLE SECURITIES,		
 BEGINNING OF YEAR	6,784,997	6,112,205
CASH AND MARKETABLE SECURITIES, END OF YEAR	\$ 7,164,832	\$ 6,784,997
Represented by:		
Cash	\$ 1,309,524	\$ 1,293,208
Marketable securities	5,855,308	5,491,789
	\$ 7,164,832	\$ 6,784,997

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT

Notes to the Consolidated Financial Statements

March 31, 2003

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, 2003

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, 2003

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:

	<u>Funding Commitments</u>	
	<u>2003</u> (\$000's)	<u>2002</u> (\$000's)
Governments and agencies		
Canada	\$ 3,361	\$ 2,385
International	3,347	2,634
	<u>6,708</u>	<u>5,019</u>
United Nations agencies	471	530
International organizations	923	640
Philanthropic foundations	224	58
Private sector and other	405	421
	<u>\$ 8,731</u>	<u>\$ 6,668</u>

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Notes to the Consolidated Financial Statements
March 31, 2003

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>Other Revenue</u> (\$000's)	<u>Designated Grants</u> (\$000's)	<u>Total</u> (\$000's)
Reporting Services	\$ -	\$ 2,681	\$ 2,681
Trade and Investment	61	2,010	2,071
Climate Change and Energy	66	1,078	1,144
Knowledge Communications	5	782	787
Economic Policy	16	752	768
Natural Resources Management	68	688	756
Measurement and Indicators	33	314	347
Administration, Fund Development and Outreach	12	12	24
New Project Development	-	15	15
	\$ 261	\$ 8,332	\$ 8,593

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> 2003 Prior years		<u>Funding Commitment Remaining</u> (\$000's)
		(\$000's)		
Government of Canada				
Environment Canada	\$ 1,000	\$ 200	\$ 400	\$ 400
Canadian International Development Agency	5,000	1,000	2,000	2,000
Government of Manitoba	4,584	963	1,060	2,561
Operating grant revenue (Note 2(b)(i))	\$ 10,584	\$ 2,163	\$ 3,460	\$ 4,961

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Notes to the Consolidated Financial Statements
 March 31, 2003

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 forty-three 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)
2003	\$ 3,005	\$ 2,998
2004	988	1,001
2005	1,507	1,535
2006	355	351
	<u>\$ 5,855</u>	<u>\$ 5,885</u>

5. CAPITAL ASSETS

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

	<u>2003</u>		<u>2002</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Cost</u>	<u>Accumulated Amortization</u>
	(\$000's)		(\$000's)	
Computer systems	\$ 1,749	\$ 1,603	\$ 1,630	\$ 1,448
Equipment	645	550	637	536
Leaseholds	82	82	82	82
	<u>2,476</u>	<u>2,235</u>	<u>2,349</u>	<u>2,066</u>
Net book value	<u>\$ 241</u>		<u>\$ 283</u>	

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
Notes to the Consolidated Financial Statements
March 31, 2003

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>2003</u> (\$000's)	<u>2002</u> (\$000's)
Designated grants		
Government agencies		
Canada	\$ 2,556	\$ 2,481
International	2,260	2,098
United Nations agencies	38	94
International organizations	504	263
Philanthropic foundations	432	617
Private sector and other	77	197
	<hr/> \$ 5,867	<hr/> \$ 5,750

7. COMMITMENTS

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

	(\$000's)
2004	\$ 113
2005	87

- b) IISD has guaranteed an operating line of credit for IISD Solutions in the maximum amount of \$250,000. At March 31, 2003 there was a balance of \$60,759 (2002 - \$93,475) 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, 2003

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.

During the year IISD provided \$114,000 in its accounts for doubtful collection of receivables resulting from projects performed for a European based private sector entity which had subsequently gone into reorganization and a United Nations agency. Collection efforts continue and settlement negotiations may result in collection of a portion of the amount provided. The amount which may eventually be recovered is not yet determinable.

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 Operations By Activity Area (\$000's)
For the Year Ended March 31, 2003

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

	Climate Change										Fund Development and Outreach	Board	2003 Total	2002 Total
	Reporting Services	Trade and Investment	Energy	Knowledge Communications	Economic Policy	Natural Resource Management	Measurement and Indicators	New Development Project	Administration	Outreach				
Revenue (Note 3)	\$ 2,681	\$ 2,071	\$ 1,144	\$ 787	\$ 768	\$ 756	\$ 347	\$ 15	\$ 22	\$ 2	\$ -	\$ 8,593	\$ 7,848	
Personnel	402	1,107	685	403	421	546	368	24	601	253	-	4,810	4,221	
Consulting	988	615	337	438	332	68	67	12	1	18	-	2,876	2,951	
Travel	975	263	199	125	115	97	86	6	30	31	-	1,927	1,896	
Rent	61	81	37	25	25	25	22	-	35	16	-	327	316	
Supplies and other	55	82	34	20	14	22	27	-	29	26	-	309	288	
Publishing	43	56	25	12	11	37	20	-	1	34	-	239	234	
Amortization of capital assets	50	29	16	10	18	10	8	-	13	16	-	170	226	
Meetings	4	92	14	13	18	2	3	-	1	12	-	159	209	
Telecommunications	75	43	47	15	22	10	14	-	17	6	-	249	187	
Board	-	-	-	-	-	-	-	-	-	-	202	202	138	
Research materials	-	6	7	6	6	4	5	-	8	6	-	48	57	
Total expenses	2,653	2,374	1,401	1,067	982	821	620	42	736	418	202	11,316	10,723	
Excess of expenses over designated grants and other revenue	\$ 28	\$ (303)	\$ (257)	\$ (280)	\$ (214)	\$ (65)	\$ (273)	\$ (27)	\$ (714)	\$ (416)	\$ (202)	\$ (2,723)	\$ (2,875)	

Excess of expenses over designated grants and other revenue funded by:

Operating grants	2,163	2,260
Interest	264	283
Excess of expenses over revenue	\$ (296)	\$ (332)

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT

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

Year Ended March 31, 2003

Government of Canada (and Agencies)	
Canadian International Development Agency (CIDA)	1,406
International Development Research Centre (IDRC)	\$ 650
Department of Foreign Affairs and International Trade	527
China Council for International Cooperation on Environment and Development (CIDA)	283
Human Resources Development Canada	81
Environment Canada	78
Indian & Northern Affairs	24
Health Canada	23
Natural Resources Canada	20
National Round Table on Environment and Economy	19
Industry Canada	17
Department of Fisheries and Oceans	5
Other	3
	3,136
Governments of provinces	
Manitoba	203
Other	22
	225
Governments of other nations	
Switzerland	1,189
United Kingdom	809
Denmark	320
Norway	300
European Commission	147
France	143
Japan	112
Spain	83
Australia	65
Austria	57
China	56
Finland	39
Other	27
	3,347
United Nations agencies	
United Nations Office for Project Services (UNOPS)	144
United Nations Development Programme (UNDP)	93
United Nations Environment Programme (UNEP)	90
United Nations Food and Agriculture Organization (FAO)	77
United Nations Framework Convention on Climate Change (UNFCCC)	54
United Nations Industrial Development Organization (UNIDO)	13
	471

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT**Schedule of Designated Grants Committed (\$000's)****Year Ended March 31, 2003**

International organizations	
Earth Council	452
International Tropical Timber Organization	94
The World Conservation Union (IUCN)	84
Secretariat of the 3rd World Water Forum	78
World Bank	78
Royal Institute for International Affairs (RIIA)	47
The AVINA Group	32
Commission for Environmental Cooperation (CEC)	25
Nautilus Institute for Security and Sustainable Development	19
International Institute for Environment and Development (IIED)	10
World Wildlife Fund (WWF)	4
	923
Philanthropic foundations	
Mott Foundation	112
Winslow Foundation	77
Loewen Foundation	21
Winnipeg Foundation	10
Rockefeller Foundation	4
	224
Private sector and other	
University of Rhode Island	70
Manitoba Hydro	60
Climate Change Central	50
Institute of Economic Growth	23
INAB	21
Crea Consulting	18
McCarthy Tetrault	16
Bechtel Corporation	16
Golder Associates	16
Secretariat of the Basel Convention	16
Tan Range Exploration Corporation	16
World Business Council for Sustainable Development	15
Business Action for Sustainable Development	14
Centre for Global Dialogue	12
GKP Secretariat	9
Trans Canada Pipelines	6
North American Metals	5
Friedrich - Ebert Stiftung	4
United Way of Winnipeg	4
York University (Sustainable Enterprise Academy)	4
Consensus Building Institute	3
ESG International	3
Canada Life Securities	2
Institute of Global Environment	1
Shell Canada	1
	405
	\$ 8,731