Consolidated Financial Statements and Independent Auditor's Report and Reports in Compliance with OMB Circular A-133

World Resources Institute and Subsidiary

September 30, 2010 and 2009

World Resources Institute and Subsidiary

Contents

Grant Thornton

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Report of Independent Certified Public Accountants

Board of Directors
World Resources Institute and Subsidiary

We have audited the accompanying consolidated statements of financial position of the World Resources Institute and Subsidiary (the Institute) as of September 30, 2010 and 2009, and the related consolidated statements of activities and changes in net assets, and consolidated cash flows for the years then ended. These consolidated financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Institute as of September 30, 2010 and 2009, and the consolidated changes in its net assets and consolidated cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 23, 2010 on our consideration of the Institute's internal control over financial reporting, and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. The accompanying supplemental schedules on pages 38-44 are also presented for purposes of additional analysis, and are not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly presented in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Grant Thornton LLP

McLean, Virginia
December 23, 2010

World Resources Institute and Subsidiary

Consolidated Statements of Financial Position

Year ended September 30,	2010	2009
Assets		
Cash and cash equivalents	$ 2,551,049	$ 1,019,836
Cash restricted–held for others (Note H)	20,280	1,488,865
Total cash and cash equivalents	2,571,329	2,508,701
Grants, pledges and contracts receivable, net (Note D)	16,342,077	13,981,372
Investments (Note B)	37,118,015	35,017,435
Other assets	606,441	538,936
Furniture, fixtures, software, and equipment, net (Note E)	1,167,495	1,177,216
Total Assets	57,805,357	53,223,660
Liabilities and Net Assets		
Liabilities		
Accounts payable	2,076,453	1,266,879
Accrued salaries and benefits	1,205,593	710,148
Obligation under capital leases (Note F)	35,705	34,973
Deferred rent	206,293	231,048
Deferred revenue	825,983	63,208
Funds held for others	20,280	1,488,865
Total Liabilities	4,370,307	3,795,121
Net Assets		
Unrestricted:		
Operating	508,797	109,105
Designated–working capital reserve	2,627,607	2,443,320
	3,136,404	2,552,425
Temporarily restricted	24,960,880	21,538,348
Permanently restricted	25,337,766	25,337,766
Total Net Assets	53,435,050	49,428,539
Total Liabilities and Net Assets	$ 57,805,357	$ 53,223,660

The accompanying notes are an integral part of these statements.

World Resources Institute and Subsidiary

Consolidated Statements of Activities and Changes in Net Assets

Year ended September 30, 2010

	Unrestricted					
	Operating	Designated	Total	Temporarily Restricted	Permanently Restricted	Total
Revenues						
Grants/contributions and contracts	$ 17,595,655	$ —	$ 17,595,655	$ 16,882,290	$ —	$ 34,477,945
Federal grants and cooperative agreements	4,397,908	—	4,397,908	—	—	4,397,908
Investment return, net (Note B)	—	184,287	184,287	2,382,014	—	2,566,301
Publications	7,277	—	7,277	—	—	7,277
Other	(66,971)	—	(66,971)	—	—	(66,971)
Support from endowment income	1,379,407	—	1,379,407	(1,379,407)	—	—
Net assets released from program restrictions	14,062,365	—	14,062,365	(14,062,365)	—	—
Total Revenue	37,375,641	184,287	37,559,928	3,822,532	—	41,382,460
Expenses						
Policy research, technical support, and communications programs	31,471,899	—	31,471,899	—	—	31,471,899
Administration	3,570,559	—	3,570,559	—	—	3,570,559
Development	2,333,491	—	2,333,491	—	—	2,333,491
Total Expenses	37,375,949	—	37,375,949	—	—	37,375,949
Change in Net Assets from Operations	(308)	184,287	183,979	3,822,532	—	4,006,511
Non Operating Activity						
Amounts returned to donors	400,000	—	400,000	(400,000)	—	—
Net Assets, beginning of year	109,105	2,443,320	2,552,425	21,538,348	25,337,766	49,428,539
Net Assets, end of year	$ 508,797	$ 2,627,607	$ 3,136,404	$ 24,960,880	$ 25,337,766	$ 53,435,050

The accompanying notes are an integral part of this statement.

World Resources Institute and Subsidiary

Consolidated Statements of Activities and Changes in Net Assets

Year ended September 30, 2009

	Unrestricted					
	Operating	Designated	Total	Temporarily Restricted	Permanently Restricted	Total
Revenues						
Grants/contributions and contracts	$ 13,690,080	$ —	$ 13,690,080	$ 13,973,604	$ —	$ 27,663,684
Federal grants and cooperative agreements	2,542,707	—	2,542,707	—	—	2,542,707
Investment return, net (Note B)	1,860	(44,822)	(42,962)	(609,863)	—	(652,825)
Publications	9,563	—	9,563	—	—	9,563
Other	8,799	—	8,799	—	—	8,799
Support from endowment income	1,869,320	—	1,869,320	(1,869,320)	—	—
Net assets released from program restrictions	9,790,975	—	9,790,975	(9,790,975)	—	—
Total Revenue	27,913,304	(44,822)	27,868,482	1,703,446	—	29,571,928
Expenses						
Policy research, technical support, and communications programs	23,452,089	—	23,452,089	—	—	23,452,089
Administration	2,498,386	—	2,498,386	—	—	2,498,386
Development	1,990,680	—	1,990,680	—	—	1,990,680
Total Expenses	27,941,155	—	27,941,155	—	—	27,941,155
Change in Net Assets	(27,851)	(44,822)	(72,673)	1,703,446	—	1,630,773
Net Assets, beginning of year	136,956	7,225,254	7,362,210	15,097,790	25,337,766	47,797,766
Net assets reclassification based on change in law	—	(4,737,112)	(4,737,112)	4,737,112	—	—
Net Assets, end of year	$ 109,105	$ 2,443,320	$ 2,552,425	$ 21,538,348	$ 25,337,766	$ 49,428,539

The accompanying notes are an integral part of this statement.

World Resources Institute and Subsidiary

Consolidated Statements of Cash Flows

Year ended September 30,		2010		2009
Cash Flows from Operating Activities				
Change in net assets	$	4,006,511	$	1,630,773
Adjustments to reconcile change in net assets to net cash from operating activities:				
Depreciation and amortization		447,870		473,564
Loss from disposal of equipment		70,552		16,359
Realized (gain) loss from sale of investments		(974,032)		2,801,633
Unrealized gain on investments		(1,234,961)		(1,964,846)
Changes in operating assets and liabilities:				
Cash restricted - held for others		1,468,585		(17,915)
Grants and contracts receivable		(2,360,705)		(939,620)
Other assets		(67,505)		105,870
Accounts payable		809,574		(37,446)
Accrued salaries and benefits		495,445		(131,725)
Funds held for others		(1,468,585)		17,915
Deferred rent		(24,755)		(28,136)
Deferred revenue		762,775		(347,213)
Accrued interest on line-of-credit		—		(12,018)
Net Cash Provided by Operating Activities		1,930,769		1,567,195
Cash Flows from Investing Activities				
Proceeds from sales of investments		18,576,934		9,364,497
Purchase of investments		(18,468,521)		(8,875,940)
Purchase of furniture, fixtures, and equipment		(471,030)		(372,227)
Net Cash (Used in) Provided by Investing Activities		(362,617)		116,330
Cash Flows from Financing Activities				
Payments on line-of-credit		—		(2,000,000)
Payments on capital lease obligations		(36,939)		(48,145)
Net Cash Used in Financing Activities		(36,939)		(2,048,145)
Net Increase (Decrease) in Cash and Cash Equivalents		1,531,213		(364,620)
Cash and Cash Equivalents, beginning of year		1,019,836		1,384,456
Cash and Cash Equivalents, end of year	$	2,551,049	$	1,019,836
Supplemental Disclosure of Cash Flow Information				
Cash paid for interest	$	5,236	$	23,898
Non Cash Investing and Financing Activities				
Equipment acquired under capital lease	$	(37,671)	$	—
Capital lease obligation		37,671		—

The accompanying notes are an integral part of these statements.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Principles of Consolidation

World Resources Institute (the Institute) is an independent research and policy institute founded in 1982 to help governments, environmental and development organizations, and private businesses address a fundamental question as to how societies can meet basic human needs and nurture economic growth without undermining the natural resource base and environmental integrity.

The Institute's work is carried out by an approximately 200-member interdisciplinary staff, strong in sciences, and augmented by a network of advisors, collaborators, international fellows, and cooperating institutes in more than 50 countries. The Institute currently focuses on four goals: (1) Governance & Access, (2) People & Ecosystems , (3) Climate & Energy, and (4) Markets & Enterprise.

The Internal Revenue Service (IRS) has classified the Institute as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC), as a publicly supported not-for-profit organization.

The World Resources Institute Fund (WRIF) is a not-for-profit organization created in 1986 as a supporting organization to the Institute, and is included in these consolidated financial statements. Prior to fiscal year 2002, and after 2003, WRIF had no activities. In 2002 and 2003, WRIF activities included the operation of a capital campaign. Such activities have been shifted to the Institute since. WRIF is currently used to record investment activities for the African Centre for Technology Studies (ACTS) endowment (see note H). The IRS has classified WRIF as exempt from federal income taxes under Section 501(c)(3) of the IRC. WRIF is an entity described under Section 509(a)(3) of the IRC and, therefore, not a private foundation.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Classification of Net Assets

Activities of the Institute are recorded in the following net asset categories:

Operating–Unrestricted revenues and operating expenses of the Institute. Current investment earnings are available to support current operations.

Designated–Working Capital Reserve–Amounts designated by the Board of Directors of the Institute to be maintained as part of a reserve and used to support certain specific future activities as defined by the Board of Directors.

Designated–Other–Amounts designated by the Board of Directors to be used in a manner similar to an endowment. No amounts have been designated to this category as of September 30, 2010 and 2009.

Temporarily Restricted–Contributions restricted, as to time or purpose, by the donor. When the purpose or time period restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Permanently Restricted–Funds that are restricted by donors requiring that the principal be invested in perpetuity. The earnings on these funds are unrestricted and are used for operations in accordance with a spending policy approved by the Board of Directors.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Revenue Recognition

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Contributions are reported as increases in the appropriate category of net assets, except for the contributions that impose restrictions that are met in the same fiscal year they are received, which are included in unrestricted revenues.

Income from grants and contracts is currently recorded as unrestricted revenue when the costs are incurred. Amounts received that have not been expended are recorded as deferred revenue. The amount of expenses incurred in excess of funds received is included in grants and contracts receivable.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Institute considers all highly liquid investment instruments purchased with an initial maturity of three months or less to be cash equivalents except for cash and cash equivalents held in investment accounts

The Institute has cash in foreign accounts totaling $61,880 and $19,245 in 2010 and 2009, respectively.

Investments

The Institute records investments that qualify as securities as defined in FASB Accounting Standards Codification™ (ASC) 320, *Investments – Debt and Equity Securities* at fair value. Gains and losses on investments, realized and unrealized, are recorded as of trade date.

The Institute's cash and money market accounts held in its investment portfolio are carried at amortized cost. These investments do not qualify as securities as defined in ASC 320, *Investments – Debt and Equity Securities*, thus the fair value disclosures required by ASC 820, *Fair Value Measurements and Disclosures*, are not provided.

Fair Value

ASC 820, *Fair Value Measurements and Disclosures*, establishes a single authoritative definition of fair value, sets a framework for measuring fair value, and requires additional disclosures about fair value measurements. In accordance with ASC 820, the Institute classifies its assets and liabilities into Level 1 (securities valued using quoted prices from active markets for identical assets), Level 2 (securities not traded on an active market for which observable market inputs are readily available), and Level 3 (securities valued based on significant unobservable inputs). Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Fair Value—Continued

The following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value, as well as the general classification pursuant to the valuation hierarchy.

Equity Securities

Investments in equity securities valued at the quoted prices in an active market are classified within Level 1 of the fair value hierarchy.

Debt Securities

When quoted prices are available in an active market, debt securities are classified within Level 1 of the fair value hierarchy. Quoted prices in inactive markets are classified within Level 2. As of September 30, 2010 and 2009, all debt securities were valued using quoted prices in an active market.

Alternative Investments

Alternative investments consist of investments in various funds. These investments are aggregated into hedge, equity, fixed income, emerging market and real estate funds based on their underlying investments. The fair value of such investments is determined using the net asset value (NAV) per share as a practical expedient. The investments, which are redeemable at or near year-end at NAV per share, are classified within Level 2 of the fair value hierarchy; otherwise, they are classified within Level 3 of the fair value hierarchy.

Furniture, Fixtures and Equipment

Furniture, fixtures, and equipment are recorded at cost. Depreciation is recorded on the straight-line basis over estimated useful lives that range from three to five years. Leasehold improvements are amortized over the shorter of their useful lives or the lease term. Assets purchased under a capital lease are recorded as an asset and a corresponding obligation at the beginning of the lease term. The recorded amount is equal to the present value of the minimum lease payments. Leased assets are amortized over the shorter of their useful lives or the lease term. When assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss arising from such disposition is included in the consolidated statement of activities.

The Institute has capitalized its collections. Collections consist of artwork that is held for public exhibition. Collections purchased are capitalized at cost, collections donated are capitalized at appraised value as of the date of the acceptance of the donation. Collections are not depreciated.

Costs Subject to Audit

The Institute's costs under its government grants and cooperative agreements are subject to audit by the awarding agencies. Management of the Institute does not believe that the results of such audits would have a material impact on the financial position and operating results of the Institute.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

To stabilize the financial markets, congress provided unlimited federal guarantees on all deposits held in non-interest bearing accounts. This guarantee expired on December 31, 2009. As a result, the Institute moved $3,000,000 to a secure savings account at Merrill Lynch. The balance in the secure savings account on September 30, 2010 was $2,001,407. The Institute has not incurred any losses on these funds.

Impact of Recent Accounting Standards/Pronouncements

Effective for the year ended September 30, 2010, the Institute adopted new guidance that creates a single model to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in its financial statements. Under the requirements of this guidance, organizations could now be required to record an obligation as the result of tax positions they have historically taken on various tax exposure items. The impact of the adoption of this guidance did not have a material effect on the financial statements of the Institute. Prior to the adoption of this guidance, the determination of when to record a liability for a tax exposure was based on whether a liability was considered probable and reasonably estimable in accordance with guidance concerning recording contingencies.

In April 2009, the FASB issued guidance on estimating fair value when the volume and level of activity for an asset or liability have significantly decreased, including guidance on identifying circumstances that indicate a transaction is not orderly. The guidance emphasizes that, regardless of whether the volume and level of activity for an asset or liability have decreased significantly and which valuation technique was used, the objective of a fair value measurement under ASC 820, Fair Value Measurements and Disclosures, remains the same—to estimate the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The guidance includes expanded disclosure requirements and requires that entities determine the major categories for debt and equity securities in the fair value hierarchy table on the basis of the nature and risks of the investments. The Institute adopted this guidance effective for the year ended September 30, 2010. The adoption did not have a material impact on the Institute's financial statements. The additional disclosures required by the guidance are included in Note C – Fair Value Measurements.

In January 2010, the FASB issued guidance that clarifies existing disclosures and requires new disclosures about fair value measurements. The clarifications and the requirement to disclose the amounts and reasons for significant transfers between Level 1 and Level 2 and significant transfers into and out of Level 3 of the fair value hierarchy are effective for periods beginning after December 15, 2009. The new requirement that purchases, sales, issuances, and settlements be presented gross in the Level 3 reconciliation is effective for fiscal years beginning after December 15, 2010 and for interim periods within those years, with early adoption permitted. Since this new guidance only amends the disclosure requirements, it will not have any impact on the Institute's financial statements.

NOTE B—INVESTMENTS

Investments were as follows as of September 30:

	2010	2009
Equity securities	$ 11,792,538	$ 12,398,887
Debt securities	1,675,773	874,776
Alternative investments		
Hedge funds	13,771,960	15,081,810
Fixed income fund	1,075,714	—
Emerging market fund	2,220,156	2,100,524
Real estate fund	4,952,724	—
Equity fund	—	4,427,348
Subtotal	$ 35,488,865	$ 34,883,345
Money market funds	1,629,150	134,090
	$ 37,118,015	$ 35,017,435

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

	2010	2009
Realized gains (losses)	$ 974,032	$ (2,801,633)
Unrealized gains	1,234,961	1,964,846
Dividends and interest	505,839	282,440
Investment management fees and foreign taxes	(148,531)	(98,478)
Total	$ 2,566,301	$ (652,825)

NOTE C—FAIR VALUE

The following table summarizes the valuation of financial instruments at fair value on a recurring basis in the Statement of Financial Position at September 30, 2010, including the additional requirement to classify securities by major category which is defined as the major security type classification.

	Level 1	Level 2	Level 3	Total
Equity securities	$ 11,792,538	$ —	$ —	$ 11,792,538
Debt securities	1,675,773	—	—	1,675,773
Alternative investments:				
Directional/absolute hedge funds	—	—	13,771,960	13,771,960
Inflation hedge fund	—	4,952,724	—	4,952,724
Fixed income fund	—	1,075,714	—	1,075,714
Emerging market fund	—	2,220,156	—	2,220,156
	$ 13,468,311	$ 8,248,594	$ 13,771,960	$ 35,488,865

The following table summarizes the valuation of financial instruments at fair value on a recurring basis in the Statement of Financial Position at September 30, 2009, including the additional requirement to classify securities by major category which is defined as the major security type classification.

	Level 1	Level 2	Level 3	Total
Equity securities	$ 12,398,887	$ —	$ —	$ 12,398,887
Debt securities	874,776	—	—	874,776
Alternative investments:				
Directional/absolute hedge funds	—	—	15,081,810	15,081,810
Equity fund	—	—	4,427,348	4,427,348
Emerging market fund	—	—	2,100,524	2,100,524
	$ 13,273,663	$ —	$ 21,609,682	$ 34,883,345

NOTE C—FAIR VALUE—Continued

The following table summarizes the changes in fair value of assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended September 30, 2010, including the additional requirement to classify securities by major category defined as the major security type classifications within ASC 320.

	Beginning Balance at 10/1/09	Total Realized/ Unrealized Gains	Purchases, Issuances, and Sales (Net)	Ending Balance at 9/30/10
Hedge funds	$ 15,081,810	$ 703,088	$ (2,012,938)	$ 13,771,960
Equity fund	4,427,348	354,431	(4,781,779)	—
Emerging market fund	2,100,524	382,643	(2,483,167)	—
	$ 21,609,682	$ 1,440,162	$ (9,277,884)	$ 13,771,960

The following table summarizes the changes in fair value of assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended September 30, 2009.

	Beginning Balance at 10/1/2008	Total Realized/ Unrealized Losses	Purchases, Issuances, and Sales (Net)	Ending Balance at 9/30/09
Alternative investments	$ 22,269,290	$ (29,077)	$ (630,531)	$ 21,609,682
	$ 22,269,290	$ (29,077)	$ (630,531)	$ 21,609,682

NOTE C—FAIR VALUE—Continued

The table below presents additional information for the Institute's investments, as of September 30, 2010, whose fair value is estimated using the practical expedient of reported net asset value (NAV). These disclosures are required for all investments that are eligible to be valued using the practical expedient as defined in ASU 2009-12, regardless of whether the practical expedient has been applied.

	Fair Value	Unfunded Commitments	Expected Liquidation Term	Redemption Terms	Redemption Restrictions	Redemption Restrictions at 9/30/10
Hedge funds	$ 13,771,960	None	Not applicable	Annually (1 fund), Quarterly (3 funds), and Closed for Redemption (1 fund)	Between 60 - 105 days notice (3 funds) and Gated (2 funds)	2 funds are Gated
Inflation hedge fund	4,952,724	None	Not applicable	Monthly	None	None
Fixed income fund	1,075,714	None	Not applicable	Monthly	15 days notice	None
Emerging market fund	2,220,156	None	Not applicable	Monthly	30 days notice	None
	$ 22,020,554					

(a) This class includes several hedge funds and funds of funds that invest primarily in debt and equity securities. The fair values of the investments have been estimated by using the NAV per share of the funds.

(b) This class includes investments in funds that invest primarily in international bonds. The fair values of these investments have been estimated using the NAV per share of the funds.

(c) This class includes investments in funds that invest primarily in equity stock and debt securities in emerging economies. The fair values of the investments have been estimated using the NAV per share of the fund.

(d) This class includes an investment in an inflation hedge fund whose objective is long-term total return in excess of a customized blended benchmark. The fair value of this investment has been estimated using the NAV per share of the fund.

NOTE D—GRANTS, PLEDGES, AND CONTRACTS RECEIVABLE

Grants, pledges and contracts receivable are recorded at their net realizable values. The mix of receivables as of September 30 was as follows:

	2010	2009
U.S. government	4%	4%
Foundations	38%	19%
Foreign governments	20%	24%
International organizations	17%	8%
Corporations, individuals, and others	21%	45%
	100%	100%

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

	2010	2009
Less than one year	$ 14,395,141	$ 11,297,574
One to five years	2,168,864	2,908,924
Allowance for doubtful accounts	(156,973)	(124,260)
Unamortized discount on receivables	(64,955)	(100,867)
Grants, pledges, and contracts receivable, net	$ 16,342,077	$ 13,981,372

Contributions that are to be received over multiple years are discounted to present value using the risk free rate of return, for the year in which the contributions were pledged.

NOTE E—FURNITURE, FIXTURES, AND EQUIPMENT

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

	2010	2009
Furniture and equipment	$ 3,403,404	$ 3,068,115
Leasehold improvements	1,033,171	1,002,500
Equipment under capital lease agreements	123,233	85,562
Artwork	8,825	8,825
	4,568,633	4,165,002
Less: accumulated depreciation and amortization	(3,401,138)	(2,987,786)
Furniture, fixtures, and equipment, net	$ 1,167,495	$ 1,177,216

NOTE F—OBLIGATIONS UNDER CAPITAL LEASES

The Institute is obligated under capital lease agreements for certain copy equipment. The aggregate discounted lease payments are recorded as a liability. Obligations under capital leases and the fair market values of the related leased assets are capitalized and amortized over the related lease periods. Total assets capitalized pursuant to such agreements, and the related accumulated amortization at September 30, were as follows:

	2010	2009
Equipment under capital lease	$ 123,233	$ 85,562
Less: accumulated amortization	(69,115)	(57,360)
Equipment under capital lease, net	$ 54,118	$ 28,202

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

September 30,	
2011	$ 14,203
2012	6,928
2013	6,928
2014	6,928
2015	3,464
Total future minimum lease payments	38,451
Less: amount representing interest	(2,746)
Present value of minimum lease payments	$ 35,705

Interest expense related to the capital leases was $5,236 and $4,496 respectively, for the years ended September 30, 2010 and 2009.

NOTE G—OFFICE LEASE COMMITMENTS AND RENT ABATEMENT

The Institute has entered into various operating lease agreements. During 2007, the Institute renegotiated and extended its current lease, under an agreement which expires in February 2019. As part of the office building lease, the Institute received two months of free rent. This rent abatement is being amortized on a straight-line basis over the life of the lease as a reduction of rent expense.

The future minimum lease payments as of September 30, 2010, are as follows:

September 30,	
2011	$ 2,573,272
2012	2,596,751
2013	2,655,166
2014	2,714,894
2015	2,775,971
2016 and thereafter	9,718,169
Total	$ 23,034,223

Rental expense for these leases was $2,219,540 and $2,147,654 for the years ended September 30, 2010 and 2009, respectively.

NOTE H—FUNDS HELD FOR OTHERS

The Ford Foundation gave a grant (for endowment) of $1,200,000 to ACTS (an unrelated organization) in Nairobi, Kenya. ACTS requested the Institute to hold the funds in an interest-bearing account until further notice. The funds were returned in July 2010 per the request of ACTS' Board of Directors.

The Institute also holds $14,347 of pass-through funding for another Organization and $5,933 of earnings on funds received from a donor reflected as funds held for others as of September 30, 2010. As of September 30, 2010, the Institute held $288,865 of pass-through funding for another Organization.

NOTE I—TEMPORARILY RESTRICTED NET ASSETS

As of September 30, temporarily restricted net assets are restricted for the following programs:

	2010	2009
Embarq	$ 9,349,498	$ 3,213,081
Climate, energy, and pollution	2,244,746	4,381,866
People & Ecosystems	4,695,460	5,371,017
Institutions and governance	3,514,231	2,442,839
Market & Enterprise	657,636	1,691,577
Special studies	764,045	1,081,358
Communication/World Resources Report	474,728	1,098,681
Unspent earnings on endowment	3,260,536	2,257,929
Total	$ 24,960,880	$ 21,538,348

Net assets released from restrictions by incurring expenses satisfying their restricted purposes during the years ended September 30, are as follows:

	2010	2009
Embarq	$ 1,707,147	$ 2,257,927
Climate, Energy, and Pollution	3,746,694	2,388,810
People & Ecosystems	3,312,206	2,218,311
Institutions and Governance	2,193,026	785,261
Market & Enterprise	1,649,167	939,460
Special studies/Innovation	832,196	172,007
Development	—	60,633
Communication & World Resources Report	621,929	968,566
Total	$ 14,062,365	$ 9,790,975

NOTE J—PERMANENTLY RESTRICTED NET ASSETS

In 1987, the MacArthur Foundation gave the Institute a challenge loan of $12,516,000 with the understanding that it would forgive this loan to the extent that the Institute raised qualifying matching funds under a comprehensive development program. The purpose of the challenge loan was to facilitate the establishment of a permanent endowment for the Institute.

After the Institute successfully met the terms of the loan agreement, an endowment was formally established at the level of $25 million (cost basis) on January 1, 1991, with earnings on the corpus expendable to support any activities of the Institute. The Institute's Board of Directors adopted a policy statement entitled *Endowment Fund: Purposes, Goals, and Policies*, which establishes spending rules for future withdrawals of earnings to cover portions of the Institute's annual operating budget while protecting the value of the endowment against inflation. Investment earnings from the endowment (net of investment expenses) are recognized as unrestricted designated revenue.

In 2003 and 2007, two individuals contributed $100,000 and $250,000 respectively for the purpose of creating endowment funds to enable the Institute to hire interns. Investment earnings from the endowment funds are recognized as unrestricted designated revenue and used to pay for interns.

Interpretation of Relevant Law

The Management and Board of Directors of the Institute have interpreted Delaware's "Uniform Prudent Management of Institutional Funds Act of 2007" (the Act), absent explicit donor stipulations to the contrary, to require the Institute to act in good faith and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances in making determinations to appropriate or accumulated endowment funds, taking into account both its obligation to preserve the value of the endowment and its obligation to use the endowment to achieve the purposes for which it was donated. The Institute classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment required by the applicable donor gift instrument, if applicable.

Endowment Investment Policies

The Institute's investments are managed in accordance with the Board adopted Investment Policy Statement. The investment strategy of the the Institute is to emphasize total return; that is, the aggregate returns from capital appreciation and dividend and interest income.

Specifically, the primary objective in the investment management for Endowment assets shall be:

> Long-term growth of capital, emphasizing long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of a comparable market index.

NOTE J—PERMANENTLY RESTRICTED NET ASSETS—Continued

Endowment Investment Policies—Continued

The secondary objective in the investment management of Endowment assets shall be:

Preservation of Purchasing Power After Spending - To achieve net returns (after management and custodial fees) in excess of the rate of inflation plus our spending guideline (see below) over the investment horizon in order to preserve purchasing power of Endowment assets. Risk control is an important element in the investment of Endowment assets.

Over the established investment horizon of 10 years or longer, it is the goal of the aggregate Endowment assets to significantly exceed the rate of inflation (as measured by the Consumer Price Index) plus 1.0% over a market cycle.

The investment allocation is shown in footnote B.

Endowment Spending Policy

The Board of Directors approves an operating budget and associated endowment draw annually. The Institute spending guideline shall normally be 5% of the trailing 12 quarter average market value of the investments. The Board may approve a deviation from the 5% guideline if deemed prudent.

During 2010 and 2009, respectively, $1,379,407 and $1,869,320 of these earnings were transferred from temporarily restricted to unrestricted operating net assets in accordance with the policy statement referred to above.

Funds with Deficiencies

From time to time, the fair value of assets associated with the individual donor restricted endowment funds may fall below the level that the donor requires the Institute to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2010 and 2009, the Institute had no deficiencies of this nature reported in unrestricted net assets.

NOTE J—PERMANENTLY RESTRICTED NET ASSETS—Continued

Endowment Net Asset Composition by Type of Fund as of September 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 2,627,607	$ 3,260,536	$ 25,337,766	$ 31,225,909

Changes in Endowment Net Assets for the Year Ended September 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 2,443,320	$ 2,257,929	$ 25,337,766	$ 30,039,015
Investment return				
Investment income	29,411	388,354	—	417,775
Net appreciation (realized and unrealized)	154,876	1,993,660	—	2,148,536
Total investment return	184,287	2,382,014	—	2,566,301
Appropriation of endowment assets for expenditure	—	(1,379,407)	—	(1,379,407)
Endowment net assets, end of year	$ 2,627,607	$ 3,260,536	$ 25,337,766	$ 31,225,909

NOTE J—PERMANENTLY RESTRICTED NET ASSETS—Continued

Endowment Net Asset Composition by Type of Fund as of September 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 2,443,320	$ 2,257,929	$ 25,337,766	$ 30,039,015

Changes in Endowment Net Assets for the Year Ended September 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 7,225,254	$ —	$ 25,337,766	$ 32,563,020
Net asset reclassification based on change in law	(4,737,112)	4,737,112	—	—
Endowment net assets beginning of year after reclassification	2,488,142	4,737,112	25,337,766	32,563,020
Investment return				
Investment income	19,209	261,371	—	280,580
Net appreciation (realized and unrealized)	(64,031)	(871,234)	—	(935,265)
Total investment return	(44,822)	(609,863)	—	(654,685)
Appropriation of endowment assets for expenditure	—	(1,869,320)	—	(1,869,320)
Endowment net assets, end of year	$ 2,443,320	$ 2,257,929	$ 25,337,766	$ 30,039,015

NOTE K—SIGNIFICANT CONTRACTS

The Institute was awarded a four-year $4,900,000 grant on December 11, 2008, by the Netherlands Ministry of Foreign Affairs for core funding in response to their proposal *Leveraging Change at the Nexus of Poverty, Ecosystem and Governance.* WRI has received $4,760,000 as of September 30, 2010. A total of $4,900,000 of this grant has been spent as of September 30, 2010.

The Institute initiates and completes a substantial portion of its projects within the Institutions & Governance and People & Ecosystems Programs pursuant to couple of cooperative agreements from the U.S. Agency for International Development. The revenue pursuant to these cooperative agreements was $3,410,818 and $1,713,415 for the years ended September 30, 2010 and 2009, respectively. Such revenue accounted for approximately 77.6 percent and 8.9 percent of total federal and non-federal grants, contributions, and cooperative agreement revenues during the years ended September 30, 2010 and 2009, respectively.

NOTE L—EMPLOYEE BENEFITS

The Institute contributes either 5 percent or 8 percent (based on years of service) of eligible employees' annual earnings, as defined in Plan agreements under a defined contribution plan. The amount contributed to the Plan for the years ended September 30, 2010 and 2009, was $849,765 and $752,865, respectively.

NOTE M—SUBSEQUENT EVENTS

The Institute evaluated its September 30, 2010 financial statements for subsequent events through December 23, 2010, the date the financial statements were available to be issued. The Institute is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

Supplemental Information

World Resources Institute and Subsidiary

Supplemental Schedule of Expenditures of Federal Awards

Year ended September 30, 2010

Federal Grantor Program Title	Federal Contract Number	Federal CFDA Number	Expenses
U.S. Agency for International Development:			
Governing Ecosystems*	EEE-A-00-02-00056-00	98.000	$ 300,368
Mrkt Initiatives/Adv Clean Energy & Sustn Grn Busn Dev in India*	386-A-00-05-00199-00	98.000	126,040
Improved Governance & Sustainable Use of Forest Resources*	623-A-00-06-00048-00	98.000	1,229,146
Forestry Legality Alliance*	EEM-A-00-09-0012-00	98.000	890,159
Pass-through from ARD, Inc.*	EPP-I-00-06-00008-00	98.000	1
Pass-through from ARD, Inc.*	EPP-I-00-06-00008-00	98.000	51,509
Pass-through from ARD, Inc.*	EPP-I-00-06-00008-00	98.000	11,338
Pass-through from ARD, Inc.*	EPP-I-03-06-00008-00	98.000	72,155
Pass-through from ARD, Inc.*	EEP-I-03-06-00008-00	98.000	45,584
Pass-through from ARD, Inc.*	EEP-I-02-06-00008-00	98.000	892
Pass-through from ISC*	486-A-09-00007	98.000	650,000
Pass-through from TNC*	RLA-A-00-07-00043	98.000	33,626
Total for U.S. Agency for International Development			3,410,818
U.S. Environmental Protection Agency:			
Taking Renewable Energy to Scale*	XA-83420501-0	66.034	107,020
Product Lifecycle, Supply Chain Standards & Emissions Mgmt tools*	XA-83420601-0	66.034	208,219
Targeted Watershed Initiative	WS95438209-0	66.439	118,463
Development and Application of Infrastructure for a Model Trading	WS96569601-0	66.000	81
Total for U.S. Environmental Protection Agency			433,783
U.S. Department of Agriculture			
Pass through from West Virginia University	68-3A75-6-185	10.912	44,110
Enhancing Capacity of REAP	58-3000-7-0103	10.250	22,086
Pass-through from Conservation Innovation Grant from NRCS-USDA	2008-0110-007	10.912	66,360
			132,556
U.S. Department of the Interior			
Support U.S. efforts to map & identify causes of reef degradation	CRI-WRI-2	15.000	42,466
			42,466
U.S. Dept. of State			
Accelerating Clean Energy Markets in India	S-LMAQM-07-CA-337	19.000	86,968
Guidelines for Safe & Effective Carbon Capture & Storage	S-LMAQM-08-GR-135	19.000	168,882
			255,850
U.S. Dept. of Energy			
Pass through from The Regents of the Univ. of CA L. Berkeley National Laboratory	DE-AC02-05CH11231	81.000	93,367
U.S. Fish & Wildlife Service			
Capacity Bldg for Protected Areas in Hoima District - Uganda	98210-8-G727	15.651	5,908
National Oceanic & Atompspheric Administration (NOAA)			
Pass through from National Fish & Wildlife Foundation	FR.2129 (NOAA)	11.463	23,160
Total Federal Expenditures			$ 4,397,908

*Major Program

Year ended September 30, 2010

NOTE A—BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes all federal grants to the Institute that had expenditure activity during the year ended September 30, 2010. This Schedule has been prepared on the accrual basis of accounting for expenditures in accordance with accounting principles generally accepted in the United States of America. Grant revenues and expenditures are recorded for financial reporting purposes when the Institute has met the qualifications for the respective grants. Grant revenues are equivalent to grant expenditures. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations Receiving Federal Awards.*

NOTE B—SUBRECIPIENTS

Of the federal expenditures presented in this Schedule, the Institute provided federal awards to subrecipients in the following areas:

		2010
U.S. Agency for International Development: Governing Ecosystems	$	25,000
U.S Agency for International Development Clean Energy & Sustn Grn Busn Dev in India		40,000
U.S. Agency for International Development: Improved Governance & Sustainable Use of Forest Resources		512,235
Forestry Legality Alliance		445,000
U.S. Agency for International Development: Pass-through from ISC		25,000
U.S. Agency for International Development: Pass-through from ISC		16,500
U.S. Department of State: Guidelines for Safe & Effective Carbon Capture & Storage		137,768
U.S. Fish & Wildlife Service: Capacity Bldg for Protected Areas in Hoima District – Uganda		6,310
U.S. Department of the Interior: Support U.S. Efforts to Map & Identify Causes of Reef Degradation		10,000
Total subrecipient payments	$	1,217,813

NOTE C—CATALOG OF FEDERAL DOMESTIC ASSISTANCE

Catalog of Federal Domestic Assistance (CFDA) numbers are not assigned to the U.S. Agency for International Development grants and contracts. However, because of their similarities, we have considered all such contracts as one program for determination in applying OMB Circular A-133.

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Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters–Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
World Resources Institute and Subsidiary

We have audited the financial statements of World Resources Institute and Subsidiary (The Institute) as of and for the year ended September 30, 2010, and have issued our report thereon dated December 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Institute's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control over financial reporting. Accordingly, we express no such opinion.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control that might be material weaknesses in the Institute's internal control over financial reporting. Given these limitations, during our audit we did not identify any deficiencies in the Institute's internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Our audit was also not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 10-01 that we consider to be significant deficiencies in the Institute's internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We did not audit the Institute's written response to the matters described in the accompanying Schedule of Findings and Questioned Costs and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, Audit Committee, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

McLean, Virginia
December 23, 2010

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Report of Independent Certified Public Accountants on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Board of Directors
World Resources Institute and Subsidiary

Compliance

We have audited the compliance of World Resources Institute and Subsidiary (the Institute) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have direct and material effect on each of its major federal programs for the year ended September 30, 2010. The Institute's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Institute's management. Our responsibility is to express an opinion on the Institute's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Institute's compliance with those requirements.

In our opinion, the Institute complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2010. However, the results of our audit procedures disclosed an instance of noncompliance, described in the accompanying Schedule of Findings and Questioned Costs as item 10-02, that is required to be reported in accordance with OMB Circular A-133.

Grant Thornton

Internal Control Over Compliance

Management of the Institute is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Institute's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing audit procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion of the effectiveness of the Institute's internal control over compliance. Accordingly, we express no such opinion.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance on a timely basis with a type of compliance requirement of a federal program on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in the Institute's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Our audit was also not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified a deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item 10-02, that we consider to be a significant deficiency in the Institute's internal control over compliance.

We did not audit the Institute's written response to the matters described in the accompanying Schedule of Findings and Questioned Costs and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, Audit Committee, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

McLean, Virginia
December 23, 2010

Section I	*Summary of Auditor's Results*
Financial Statements	
1. Type of auditor's report issued	Unqualified
2. Internal control over financial reporting	
a. Material weaknesses identified?	No
b. Significant deficiencies identified not considered to be material weaknesses?	Yes
c. Noncompliance material to the financial statements noted?	No
Federal Awards	
1. Internal control over major programs:	
a. Material weaknesses identified?	No
b. Significant deficiencies identified not considered to be material weaknesses?	Yes
2. Type of auditor's report issued on compliance for major programs:	Unqualified
3. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, *Section 510(a)?*	Yes
4. Identification of major program:	
Federal Agency/Program Title	**CFDA**
U.S. Agency for International Development	98.various
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034
5. Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
6. Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530?	Yes

Section II—Financial Statements Findings

Finding 10-01

Criteria: The financial statement close process includes preparing the trial balance; accumulating, preparing, reviewing and posting journal entries; drafting the financial statements and related disclosures and preparing management's internal analysis of the financial statements and related disclosures. The process also includes analyzing accounts to ensure the accuracy of balances and amounts and understanding related fluctuations between the current and prior year.

Condition: We noted errors in the Institute schedule of accounts receivable and deferred revenue that required an adjustment of approximately $529,000. We noted several wire transfers totaling approximately $104,000 included on the bank reconciliation as outstanding transactions as of year end that were not initiated until FY 2011.

Effect: The Institute's accounts receivable and deferred revenue balances were overstated by $529,000. The Institute's cash balance was overstated by $104,000 and accounts payable balance was understated by $104,000 as of year end.

Cause: The Institute currently records several post closing entries outside of its accounting system to conform its financial statements to generally accepted accounting principles, principally in the area of accounting for contributions. During the review of the cash reconciliation, errors identified were brought to the attention of the accounting staff to be corrected. However, the reconciliation was not reviewed a second time after the correction is made.

Recommendation: Management should perform a more robust review of the accounts receivable and deferred revenue schedules to ensure post closing entries are accurate. Management should also continue to explore ways of incorporating these post closing entries into their accounting system. We recommend that all reconciliation schedules be reviewed a second time after a reviewer provides the preparer with corrections to ensure corrections are reflected.

Management Response and Corrective Action Plan: Over the last five years, WRI has nearly doubled in size (from $20m to nearly a $40m in expenses). With the increased volume of transactions, it has become more difficult to manually calculate the deferred revenue and then adjust accounts receivable accordingly, as we had done in the past. We have commissioned a consultant to write a program in Cognos 8 (our new business intelligence tool) to help us calculate the deferred revenue and resultant accounts receivable adjustment. Early versions of the report presented by the consultant had some errors and we were still working with the consultant to fine tune the report when the auditors arrived. In the end we had to abandon the report and manually recalculate the deferred revenue and accounts receivable. We believe that when this report is finalized and we have time to properly quality assure the results of the report that it will create a good foundation to reduce the workload and better assure that these errors are not repeated.

As it relates to the bank reconciliation, we actually detected this error and tried to fix it before the auditors came in. In the process of fixing it, the problem was compounded when it was fixed in the wrong accounting period. From there on, we needed technical help from Deltek (accounting software company) to fix it. The process took longer than expected. The audit had begun by the time it was corrected. There is enough documentation indicating that we had controls in place to detect the error and that the controls work. However, we acknowledge that this was an unusual and confusing issue that required additional follow through to ensure it was reflected correctly in the trial balance.

Section III—Federal Award Findings and Questioned Costs

Finding 10-02

Program: All federal awards.

Criteria: The allowability of costs incurred by non-profit organization is determined in accordance with the provisions of OMB Circular A-122, "Cost Principles for Non-Profit Organizations." (CFR Title 2 Section 215 Para. 27)

Condition: During our testing of the indirect cost pool activity of the Institute, we noted two instances of unallowable costs charged to the indirect cost pool as general and administrative cost.

Questioned Costs: Questioned costs of $83 were identified.

Effect: The matter noted could lead to additional questioned costs.

Cause: Invoices received for purchases of both alcoholic and non alcoholic beverages did not clearly identify alcoholic beverages as such. Therefore, staff responsible for posting charges to the indirect cost pools was not aware that the purchase was for alcohol. In addition, the staff was not aware that delivery charges for alcoholic beverages are considered unallowable.

Recommendation: We recommend unallowable costs be clearly identified on invoices and purchase orders in order for staff unfamiliar with the purchase to appropriately record charges. In addition, we recommend that management communicate to the staff that delivery charges for alcohol only deliveries be charged to unallowable costs.

Management Response and Corrective Action Plan: Recommendation accepted. We plan to separate alcohol from non-alcohol from the invoice so that unallowable charges are easily identifiable to facilitate proper recording. Staff members have been notified that delivery charges for alcohol only deliveries should be charged to unallowable costs.

World Resources Institute and Subsidiary

Status of Prior Year Findings

Year ended September 30, 2010

There were no prior year findings.

Supplemental Schedules

World Resources Institute and Subsidiary

Schedule of Functional Expenses

Year ended September 30, 2010

	Climate, Energy and Pollution	People & Ecosystems	Embarq Safe Urban Transport	Institutions and Governance	Markets and Enterprise	Special Studies/ Innovations	External Relations	Total Program Expenses	Administration	Development	Total Expenses
Salaries	$ 3,514,607	$ 2,512,959	$ 1,639,663	$ 1,442,253	$ 751,401	$ 70,058	$ 1,049,352	$ 10,980,293	$ 1,895,999	$ 1,153,741	$ 14,030,033
Fringe Benefits	851,565	616,827	402,844	354,099	175,530	10,879	260,388	2,672,132	455,200	291,598	3,418,930
Research Expenses	477,758	496,611	1,152,364	140,051	198,706	10,440	68,125	2,544,055	17,635	1,500	2,563,190
Conference Expenses	222,161	67,540	129,307	189,568	44,489	29,636	24,767	707,468	34,014	85,055	826,537
Publication Expenses	137,136	242,436	51,759	142,661	99,120	16,154	240,727	929,993	31,257	87,086	1,048,336
Communication Expenses	57,791	30,261	73,369	17,936	50,572	6,000	85,907	321,836	499	46,895	369,230
Travel	507,146	367,449	431,783	266,070	74,795	45,610	54,392	1,747,245	237,545	181,350	2,166,140
Other Direct Costs	49,759	44,385	62,321	33,748	19,327	13,320	6,703	229,563	898,410	56,842	1,184,815
Subgrants	497,683	2,131,705	1,864,656	1,730,680	534,194	—	39,885	6,798,803	—	—	6,798,803
Rent	585,983	441,001	397,182	260,502	142,413	20,355	180,326	2,027,762	—	191,778	2,219,540
Library and Information Services	39,800	29,953	26,977	17,693	9,673	1,383	12,248	137,727	—	13,026	150,753
Indirect Salaries	157,746	118,717	106,921	70,127	38,337	5,480	48,543	545,871	—	51,626	597,497
Indirect Benefits	35,292	26,560	23,921	15,689	8,577	1,226	10,860	122,125	—	11,550	133,675
Subgrant Pool Salaries	42,515	31,996	28,817	18,900	10,333	1,477	13,083	147,121	—	13,914	161,035
Subgrant Pool Benefits	10,870	8,180	7,367	4,832	2,642	378	3,345	37,614	—	3,557	41,171
Supplies and Materials	28,949	21,787	19,622	12,870	7,036	1,006	8,909	100,179	—	9,474	109,653
Postage	(1,166)	(878)	(791)	(519)	(283)	(41)	(359)	(4,037)	—	(382)	(4,419)
Telephone and Cables	60,019	45,169	40,681	26,682	14,587	2,085	18,470	207,693	—	19,643	227,336
Equipment Rental and Maintenance	217,360	163,581	147,327	96,628	52,825	7,550	66,888	752,159	—	71,137	823,296
Other Indirect	16,508	12,424	11,189	7,339	4,012	573	5,080	57,125	—	5,403	62,528
Depreciation	118,243	88,988	80,145	52,565	28,737	4,107	36,387	409,172	—	38,698	447,870
Total Expenses	7,627,725	7,497,651	6,697,424	4,900,374	2,267,023	247,676	2,234,026	31,471,899	3,570,559	2,333,491	37,375,949
Allocation of administration costs	942,668	709,435	638,944	419,067	229,098	32,745	290,089	3,262,046	(3,570,559)	308,513	—
Total Expenses After G&A Allocations	$ 8,570,393	$ 8,207,086	$ 7,336,368	$ 5,319,441	$ 2,496,121	$ 280,421	$ 2,524,115	$ 34,733,945	$ —	$ 2,642,004	$ 37,375,949

World Resources Institute and Subsidiary

Schedule of Functional Expenses

Year ended September 30, 2009

	Climate, Energy and Pollution	People & Ecosystems	Embarq Safe Urban Transport	Institutions and Governance	Markets and Enterprise	Special Studies/ Innovations	External Relations	Total Program Expenses	Administration	Development	Total Expenses
Salaries	$ 2,974,379	$ 1,869,094	$ 1,073,502	$ 1,105,538	$ 874,444	$ 115,324	$ 924,199	$ 8,936,480	$ 1,368,899	$ 1,074,518	$ 11,379,897
Fringe Benefits	814,557	514,588	301,551	309,255	232,415	25,960	256,678	2,455,004	385,160	300,432	3,140,596
Research Expenses	363,075	375,746	301,851	56,950	43,211	87,088	15,498	1,243,419	1,278	1,000	1,245,697
Conference Expenses	174,434	40,130	27,713	92,564	47,368	14,909	15,415	412,533	14,733	11,641	438,907
Publication Expenses	178,530	173,966	48,136	92,755	64,267	13,410	183,189	754,253	24,269	78,598	857,120
Communication Expenses	50,110	852	4,024	13,281	55	18,524	133,925	220,771	—	—	220,771
Travel	360,708	247,792	187,721	167,464	82,664	44,475	38,791	1,129,615	122,711	88,172	1,340,498
Other Direct Costs	80,880	62,741	116,760	27,362	15,499	149,031	12,446	464,719	581,336	49,106	1,095,161
Subgrants	318,133	1,447,920	463,545	1,262,498	316,333	—	146,291	3,954,720	—	—	3,954,720
Rent	623,169	409,683	257,073	232,618	169,605	58,457	197,070	1,947,675	—	199,979	2,147,654
Library and Information Services	38,057	25,020	15,700	14,206	10,358	3,570	12,035	118,946	—	12,213	131,159
Indirect Salaries	114,293	75,138	47,149	42,663	31,106	10,721	36,144	357,214	—	36,677	393,891
Indirect Benefits	31,278	20,563	12,903	11,676	8,513	2,934	9,891	97,758	—	10,037	107,795
Subgrant Pool Salaries	6,845	31,154	9,974	27,165	6,806	—	3,148	85,092	—	—	85,092
Subgrant Pool Benefits	1,947	8,862	2,837	7,727	1,936	—	895	24,204	—	—	24,204
Supplies and Materials	22,202	14,596	9,159	8,288	6,043	2,083	7,021	69,392	—	7,125	76,517
Postage	(63)	(41)	(26)	(24)	(17)	(6)	(20)	(197)	—	(20)	(217)
Telephone and Cables	53,476	35,156	22,060	19,962	14,554	5,016	16,911	167,135	—	17,161	184,296
Equipment Rental and Maintenance	178,887	117,604	73,796	66,775	48,687	16,781	56,571	559,101	—	57,406	616,507
Other Indirect	11,368	7,474	4,690	4,244	3,094	1,066	3,650	35,586	—	3,648	39,234
Depreciation	133,955	88,065	55,260	50,003	36,458	12,566	42,362	418,669	—	42,987	461,656
Total Expenses	6,530,220	5,566,103	3,035,378	3,612,970	2,013,399	581,909	2,112,110	23,452,089	2,498,386	1,990,680	27,941,155
Allocation of administration costs	724,938	476,588	299,056	270,606	197,303	68,004	229,253	2,265,749	(2,498,386)	232,637	—
Total Expenses After G&A Allocations	$ 7,255,158	$ 6,042,691	$ 3,334,434	$ 3,883,576	$ 2,210,702	$ 649,913	$ 2,341,363	$ 25,717,838	$ —	$ 2,223,317	$ 27,941,155

World Resources Institute and Subsidiary

Schedule of Indirect Cost Rate Calculation (Facility Costs)

Year ended September 30, 2010

Direct Expenses		Programs		Fundraising		Total Expenses
Salaries and Stipends	$	10,980,293	$	1,153,741	$	12,134,034
Fringe Benefits		2,672,132		291,598		2,963,730
Research & Conference Expenses		3,251,523		86,555		3,338,078
Publications Expenses		929,993		87,086		1,017,079
Communications Expenses		321,836		46,895		368,731
Travel		1,747,245		181,350		1,928,595
Misc. Costs		229,563		56,842		286,405
Subgrants		6,798,803		—		6,798,803
Total direct expenses		26,931,388		1,904,067		28,835,455
Less: Costs of institutional cooperative agreements/subgrants		(6,798,803)		—		(6,798,803)
Total Allowable Direct Expenses (Allocation Base)	$	20,132,585	$	1,904,067	$	22,036,652

Facility Costs		Total Facility Cost
Rent	$	2,219,540
Salaries		597,497
Fringe Benefits		133,675
Library and Information Services		150,753
Reproduction		4,033
Supplies and Materials		109,653
Postage		(4,419)
Telephone and Cables		227,336
Equipment Rental and Maintenance		823,296
Interest/Offsite storage/Misc. Exp.		58,495
Depreciation and Amortization		447,870
Total facility costs		4,767,729
Total Allowable Facility Costs	$	4,767,729

Calculation of Facility Cost Rate:

Total allowable facility costs/total allowable direct expenses ($4,767,728/$22,036,652)	21.64%

World Resources Institute and Subsidiary

Schedule of Fringe Benefit Rate Calculation

Year ended September 30, 2010

Fringe Benefits	Regular and Term Staff	Temporary Staff	Total Benefits
FICA	$ 929,018	$ 39,134	$ 968,152
Group health	1,177,019	—	1,177,019
Retirement	849,765	—	849,765
Unemployment	34,115	5,705	39,820
Workers' compensation	31,197	832	32,029
Other	526,991	—	526,991
Total allocable costs	$ 3,548,105	$ 45,671	$ 3,593,776

Regular and Term Staff Labor	Programs	Fundraising	Facility	Subgrant	Administration	Total Labor
Salaries	$ 10,478,052	$ 1,134,543	$ 597,497	$ 161,037	$ 1,846,442	$ 14,217,571
Less: excluded salaries expense*	(183,914)	—	(74,632)	—	(84,560)	(343,106)
Total allowable labor base	$ 10,294,138	$ 1,134,543	$ 522,865	$ 161,037	$ 1,761,882	$ 13,874,465

Calculation of fringe benefit for regular and term staff:
Total allocable costs/total allowable labor base
($3,548,105/$13,874,465) 25.57%

Temporary Staff Labor	Programs	Fundraising	Facility	Subgrant	Administration	Total Labor
Salaries and stipends	$ 502,241	$ 19,198	$ —	$ —	$ 49,557	$ 570,996
Total allowable labor base	$ 502,241	$ 19,198	$ —	$ —	$ 49,557	$ 570,996

Calculation of fringe benefit for temporary staff:
Total allocable costs/total allowable labor base
($45,671/$570,996) 8.00%

*Excluded salary expenses are fellowship stipends, intern programs and outside temporary help. Theses expenditures are excluded because they do not have a relationship to fringe benefit costs.

World Resources Institute and Subsidiary

Schedule of Indirect Cost Rate Calculation (General and Administration)

Year ended September 30, 2010

	Programs	Fundraising	Total
Allowable total direct	$ 20,132,585	$ 1,904,067	$ 22,036,652
Total allocation base for general and administrative	$ 20,132,585	$ 1,904,067	$ 22,036,652

General and Administrative Expenses	
Salaries	$ 1,895,999
Benefits	455,200
Research Expenses	17,635
Conference Expenses	34,014
Publications Expenses	31,257
Travel	237,545
Professional Services	125,401
Memberships/Fees/Dues	31,072
Recruitment/Relocation	366,119
Staff Meals/Kitchen	28,639
Training & Career Development	111,820
Postage	18
Reproduction	6,751
Miscellaneous	85,749
Non-billable unallowable	143,340
Total general and administrative expenses	3,570,559
Less: non-billable unallowable	(143,340) *
Total allowable general and administrative expenses	$ 3,427,219
Calculation of general and administrative rate: Total general and administrative/total allocation base for general and administrative ($3,427,219/$22,036,652)	15.55%

*Excluded unallowable expenses that are not chargeable to funders.

World Resources Institute and Subsidiary

Schedule of Indirect Cost Rate Calculation (Subgrant)

Year ended September 30, 2010

	Programs	Fundraising	Total
Total subgrant costs	$ 6,798,803	$ —	$ 6,798,803
Total allocation base for general and administrative	$ 6,798,803	$ —	$ 6,798,803

General and Administrative Expenses

Salaries	$ 161,037
Benefits	41,170
Total general and administrative expenses	$ 202,207
Calculation of subgrant rate:	
Total subgrant costs/total allocation base for general and administrative ($202,207/$6,798,804)	2.97%

NOTE A—BASIS OF ACCOUNTING

The calculation of allocation rates is prepared in accordance with the methodologies used by the Institute in negotiating its indirect facility cost, fringe benefit, and general and administrative cost rates with its oversight agency, the U.S. Agency for International Development. Revenue is recorded using provisional approved rates. The difference between actual and provisional rates is not material to the financial statements as a whole.

Facility Cost Rate--represents total indirect costs less unallowable costs as a percentage of total direct costs, which includes fringe benefit costs, less all charges representing costs incurred pursuant to subcontract or subgrant agreements and unallowable costs.

Fringe Benefit Rate–represents the cost of total fringe benefit expenses as a percentage of total salary and wage charges that result in related fringe benefit expenses. Fringe benefit costs are included as a direct cost in the calculation of both the overhead, and the general and administrative cost rates.

General and Administrative Rate–represents all general and administrative expenses as a percentage of direct costs incurred, less charges representing costs incurred pursuant to subcontract or subgrant agreements.

Subgrant Pool Rate–represents subgrant-related salaries as a percentage of total subgrant costs.