

Consolidated Financial Statements and Report of
Independent Certified Public Accountants

World Resources Institute and Subsidiary

September 30, 2010 and 2009

World Resources Institute and Subsidiary

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Report of Independent Certified Public Accountants

Board of Directors
World Resources Institute and Subsidiary

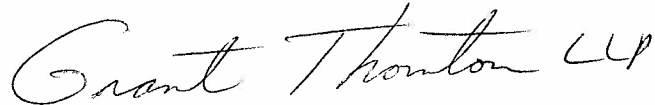
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We have audited the accompanying consolidated statements of financial position of the World Resources Institute and Subsidiary (the Institute) as of September 30, 2010 and 2009, and the related consolidated statements of activities and changes in net assets, and the 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 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 its 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.



McLean, Virginia
December 23, 2010

World Resources Institute and Subsidiary

Consolidated Statements of Financial Position

<i>Year ended September 30,</i>	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
	<u>2,571,329</u>	<u>2,508,701</u>
Total cash and cash equivalents		
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
	<u>57,805,357</u>	<u>53,223,660</u>
Total Assets		
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
	<u>4,370,307</u>	<u>3,795,121</u>
Total Liabilities		
Net Assets		
Unrestricted:		
Operating	508,797	109,105
Designated—working capital reserve	2,627,607	2,443,320
	<u>3,136,404</u>	<u>2,552,425</u>
Temporarily restricted	24,960,880	21,538,348
Permanently restricted	25,337,766	25,337,766
	<u>53,435,050</u>	<u>49,428,539</u>
Total Net Assets		
Total Liabilities and Net Assets	<u>\$ 57,805,357</u>	<u>\$ 53,223,660</u>

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				Total	Temporarily Restricted	Permanently Restricted	Total
	Operating	Designated						
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				Total	Temporarily Restricted	Permanently Restricted	Total
	Operating	Designated	Total	Total				
Revenues								
Grants/contributions and contracts	\$ 13,690,080	\$ —	\$ 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	—	—	2,542,707	
Investment return, net (Note B)	1,860	(44,822)	(42,962)	(42,962)	(609,863)	—	(652,825)	
Publications	9,563	—	9,563	9,563	—	—	9,563	
Other	8,799	—	8,799	8,799	—	—	8,799	
Support from endowment income	1,869,320	—	1,869,320	1,869,320	(1,869,320)	—	—	
Net assets released from program restrictions	9,790,975	—	9,790,975	9,790,975	(9,790,975)	—	—	
Total Revenue	27,913,304	(44,822)	27,868,482	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	—	—	23,452,089	
Administration	2,498,386	—	2,498,386	2,498,386	—	—	2,498,386	
Development	1,990,680	—	1,990,680	1,990,680	—	—	1,990,680	
Total Expenses	27,941,155	—	27,941,155	27,941,155	—	—	27,941,155	
Change in Net Assets	(27,851)	(44,822)	(72,673)	(72,673)	1,703,446	—	1,630,773	
Net Assets, beginning of year	136,956	7,225,254	7,362,210	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)	4,737,112	—	—	
Net Assets, end of year	\$ 109,105	\$ 2,443,320	\$ 2,552,425	\$ 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

<i>Year ended September 30,</i>	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	<u>1,930,769</u>	<u>1,567,195</u>
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	<u>(362,617)</u>	<u>116,330</u>
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	<u>(36,939)</u>	<u>(2,048,145)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,531,213	(364,620)
Cash and Cash Equivalents, beginning of year	<u>1,019,836</u>	<u>1,384,456</u>
Cash and Cash Equivalents, end of year	<u>\$ 2,551,049</u>	<u>\$ 1,019,836</u>
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.

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements

September 30, 2010 and 2009

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.

September 30, 2010 and 2009

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.

September 30, 2010 and 2009

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.

September 30, 2010 and 2009

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.

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2010 and 2009

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)

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2010 and 2009

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
	<u>\$ 13,468,311</u>	<u>\$ 8,248,594</u>	<u>\$ 13,771,960</u>	<u>\$ 35,488,865</u>

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
	<u>\$ 13,273,663</u>	<u>\$ —</u>	<u>\$ 21,609,682</u>	<u>\$ 34,883,345</u>

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2010 and 2009

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)	—
	<u>\$ 21,609,682</u>	<u>\$ 1,440,162</u>	<u>\$ (9,277,884)</u>	<u>\$ 13,771,960</u>

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
	<u>\$ 22,269,290</u>	<u>\$ (29,077)</u>	<u>\$ (630,531)</u>	<u>\$ 21,609,682</u>

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2010 and 2009

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
				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
Hedge funds	\$ 13,771,960	None	Not applicable	Monthly	None	None
Inflation hedge fund	4,952,724	None	Not applicable	Monthly	15 days notice	None
Fixed income fund	1,075,714	None	Not applicable	Monthly	30 days notice	None
Emerging market fund	<u>2,220,156</u>	None	Not applicable	Monthly	notice	None
	<u>\$ 22,020,554</u>					

- (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.

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2010 and 2009

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

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2010 and 2009

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.

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

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:

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

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.

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2010 and 2009

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

September 30, 2010 and 2009

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.

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2010 and 2009

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.

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2010 and 2009

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

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2010 and 2009

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

World Resources Institute and Subsidiary

Notes to Consolidated Financial Statements—Continued

September 30, 2010 and 2009

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





**Report of Independent Certified Public Accountants on
Supplemental Information**

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Board of Directors
World Resources Institute and Subsidiary

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplemental information on pages 28–29 is presented for purposes of additional analysis and is 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 stated in all material respects in relation to the consolidated financial statements taken as a whole.

McLean, Virginia
December 23, 2010

Grant Thornton LLP

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	31,237	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	334,194	—	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	137,746	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	7,567	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	\$ 115,524	\$ 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	23,060	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