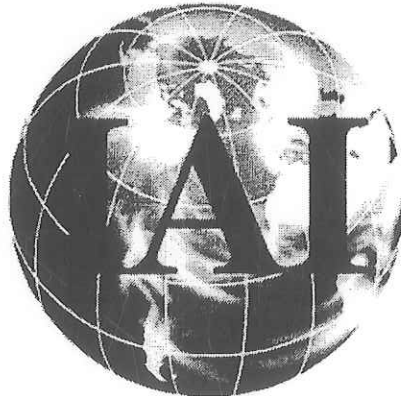


APPROVED

**INTER-AMERICAN INSTITUTE FOR  
GLOBAL CHANGE RESEARCH**



**EC-XV & CoP-IX**  
*June 25-26 and 27-28, 2002*  
*São José dos Campos, Brazil*

**10\_ECXV/CoPIX/DID/English/May 10, 2002**

APPROVED

**Inter-American Institute for Global  
Change Research - IAI**

Financial Statements Together with  
Report of Independent Public Accountants

June 30, 2001 and 2000

APPROVED

**Report of Independent Public Accountants**

To the Chair Executive Council of

Inter-American Institute for Global  
Change Research - IAI:

(1) We have audited the accompanying balance sheet of INTER-AMERICAN INSTITUTE FOR GLOBAL CHANGE RESEARCH - IAI as of June 30, 2001 and 2000, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of IAI's management. Our responsibility is to express an opinion on these financial statements.

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

(3) In our opinion, the financial statements referred to in paragraph (1) present fairly, in all material respects, the financial position of Inter-American Institute for Global Change Research - IAI as of June 30, 2001, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

São Paulo, Brazil,

October 31, 2001

APPROVED

INTER-AMERICAN INSTITUTE FOR GLOBAL CHANGE RESEARCH - IAIBALANCE SHEETS--JUNE 30, 2001 AND 2000

(In U.S. dollars)

A S S E T S

	<u>2001</u>	<u>2000</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	590,426	1,929,563
Accounts receivable (less allowance for doubtful accounts)	787,837	185,690
Other current assets	19,115	7,898
	<u>1,397,378</u>	<u>2,123,151</u>
<b>FIXED ASSETS:</b>		
Computer equipment	42,646	38,468
Less- Accumulated depreciation	(22,203)	(3,069)
	<u>20,443</u>	<u>35,399</u>
Total assets	<u>1,417,821</u>	<u>2,158,550</u>

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES:</b>		
Accounts payable	45,420	15,727
Initial Science Program Round III - Scientific awards	241,804	122,890
Collaborative Research Network - CRN	134,144	1,240,890
Panel PESCA	122,318	283,168
In-kind contributions	775,412	170,324
Other contributions	869	869
	<u>1,319,967</u>	<u>1,833,868</u>
NET ASSETS - UNRESTRICTED	97,854	324,682
Total liabilities and net assets	<u>1,417,821</u>	<u>2,158,550</u>

The accompanying notes are an integral part of these balance sheets.

APPROVED

INTER-AMERICAN INSTITUTE FOR GLOBAL CHANGE RESEARCH - IAI

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2001 AND 2000

(In U.S. dollars)

	<u>2001</u>	<u>2000</u>
<b>REVENUES AND DONATIONS:</b>		
National Science Foundation awards	1,258,984	3,397,885
Contributions from member nations	502,732	649,676
Donated services, utilities and use of fixed assets	248,111	247,633
Contributions from Argentina to the Collaborative Research Network - CRN	-	66,055
Interest income	57,801	34,874
Other	35,842	44,884
Overnight deposits	1,145,693	-
	<u>3,249,163</u>	<u>4,441,007</u>
<b>EXPENSES:</b>		
Initial Science Program Round III expenses	185,706	344,249
Collaborative Research Network - CRN	2,106,746	1,958,878
Panel PESCA	240,273	16,832
Management and general expenses	943,266	901,598
Overnight deposits	-	1,179,724
	<u>3,475,991</u>	<u>4,401,281</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>(226,828)</b>	<b>39,726</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>324,682</b>	<b>284,956</b>
<b>NET ASSETS - END OF YEAR</b>	<b><u>97,854</u></b>	<b><u>324,682</u></b>

The accompanying notes are an integral part of these statements.

APPROVED

INTER-AMERICAN INSTITUTE FOR GLOBAL CHANGE RESEARCH - IAISTATEMENTS OF CASH FLOWSFOR THE YEARS ENDED JUNE 30, 2001 AND 2000(In U.S. dollars)

	<u>2001</u>	<u>2000</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Change in net assets	(226,828)	39,726
Adjustments to reconcile change in net assets to the net cash provided by operating activities-		
Depreciation and amortization	19,134	(4,505)
Changes in operating assets and liabilities--		
Accounts receivable	(602,147)	(139,713)
Other current assets	(11,217)	(3,264)
Disposal of fixed assets	-	7,507
Collaborative Research Network - CRN	(1,106,746)	1,267,867
Accounts payable	29,693	(75,820)
Initial Science Program Round III - Scientific awards	118,914	(344,249)
Panel PESCA	(160,850)	283,168
Deferred revenues	-	(48,077)
In-kind contributions	605,088	170,324
Other contributions	-	869
Net cash provided by (used in) operating activities	<u>(1,334,959)</u>	<u>1,153,833</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Purchase of computer hardware	(4,178)	(5,777)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(1,339,137)</u>	<u>1,148,056</u>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>1,929,563</u>	<u>781,507</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>590,426</u>	<u>1,929,563</u>

The accompanying notes are an integral part of these statements.

APPROVED

INTER-AMERICAN INSTITUTE FOR GLOBAL CHANGE RESEARCH - IAI

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2001 AND 2000

(Amounts expressed in U.S. dollars)

1. ORGANIZATION

The Inter-American Institute for Global Change Research - IAI is an intergovernmental organization dedicated to global change research, to augmenting the scientific capacity of the Americas, and to providing information in a useful and timely manner to policy makers. Its primary objective is to encourage research beyond the scope of national programs by advancing comparative and focused studies based on scientific issues important to the region as a whole.

In recognition of the importance of a regional approach to the study of global change, sixteen countries of the Americas signed the Agreement establishing the IAI on May 13, 1992 in Montevideo, Uruguay. The IAI Conference of the Parties in Mexico City, Mexico, in September 1994, elected the Instituto Nacional de Pesquisas Espaciais ("INPE") in São José dos Campos, São Paulo, Brazil, as the site of the IAI Directorate. The Directorate was inaugurated on March 1, 1996. For financial reporting purposes, the Directorate became fully operational on July 1, 1996. Eighteen countries had ratified the IAI Agreement at June 30, 2001.

The IAI Director is charged with implementing the institutional policies and programs determined by the Conference of the Parties, the governing body of the IAI. The Scientific Advisory Committee provides the general direction for the development and implementation of the IAI's science agenda and oversees a competitive peer review system. The IAI Executive Council assists the Conference of the Parties by providing recommendations related to IAI policies and advancement. The IAI receives voluntary contributions from the member countries to support the Directorate. The scientific programs and activities are supported by contributions from IAI member countries as well as from international funding agencies and programs.

2. BASIS OF PRESENTATION

Although the IAI is based in Brazil, it maintains its official accounting records in U.S. dollars.

Most of IAI's transactions are denominated in US dollars; certain donations and expenses in Brazilian reais were translated at monthly average exchange rates.

The official rate of exchange as of June 30, 2001 was R\$2.3049 per US\$1.00 (R\$1.8000 per US\$1.00 as of June 30, 2000).

The principal accounting practices applied by IAI are set forth below:

(a) Cash and Cash Equivalents--IAI considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

APPROVED

(b) Fixed Assets--Consist of computer hardware. Depreciation is provided using the straight-line method over the estimated useful life of five years.

(c) Deferred Revenue, Revenue and Expense Recognition--Revenues from grants, considered to be exchange transactions, are recognized when expenses under the grant are incurred. Expenses charged to the National Science Foundation - NSF are subject to audit by the U.S. Government and possible adjustment. In management's opinion, such adjustments, if any, will not have a significant effect on the accompanying financial statements.

(d) Donated Services, Utilities and Use of Fixed Assets--Donated services, which are comprised of secretarial, security, and maintenance services provided by INPE, are recorded as revenue contributions and as expenses at estimated fair value when received. The estimated fair value of such donated services was US\$165,333 (US\$167,616 in 2000). INPE also provides IAI with the use of a building, office equipment and an automobile at no charge. IAI has recorded donations and expenses of US\$57,000 (US\$61,301 in 2000), representing the estimated rental charges if Company were to rent the building, equipment and automobile from a third party. Additionally, during 2001, INPE as well as certain member countries paid US\$25,778 (US\$18,716 in 2000) of IAI's expenses. All donated services, utilities, and use of fixed assets are reflected in the statement of activities.

(e) Tax Status--IAI is exempt from income taxes under Brazilian tax legislation.

(f) Use of Estimates--The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### 3. CASH AND CASH EQUIVALENTS

	2001	2000
Demand deposits	157,579	138,472
Short-term investments	432,847	1,791,091
Total	590,426	1,929,563



## 4. SCIENTIFIC PROGRAMS

## 4.1. Initial Science Program Round III

At the meeting of the IAI Executive Council in November 1997, in Panama City, Panama, sixteen scientific projects were approved, as recommended by the Scientific Advisory Committee. For these projects, an award in the amount of US\$1,878,984 has been approved by the NSF, distributed as follows:

Scientific awards	1,576,407
Workshops	227,577
DIS Project	50,000
Other services	25,000
	-----
Total	1,878,984
	=====

The projects are conducted by Principal Investigators in IAI member countries. The IAI is responsible for managing the expenses and monitoring the scientific research, and it is also to review, annually, documentation relating to expenses and scientific research development.

The IAI approved the documentation for sixteen projects through June 30, 2000 and began transferring funds to the projects in May 1998. Twelve out of sixteen projects have received 100% of their grant. Distributions from the NSF to IAI and transfers from the latter to the Principal Investigators have been made as follows:

Project Name: Initial Science Program Round III

	2001	2000
	-----	-----
Total National Science Foundation award	1,878,984	1,878,984
Cash distributed to IAI through June 30	(1,878,984)	(1,620,000)
	-----	-----
Total to be received by IAI	-	258,984
	=====	=====
Cash distributed to IAI through June 30	1,878,984	1,620,000
Cash transfers from Core Budget	45,636	-
Transfers made by IAI to Principal Investigators	(1,439,731)	(1,299,661)
Payments for workshops	(155,135)	(155,135)
Transfers to Cuba	(45,636)	-
Payments for DIS Project	(37,796)	(37,796)
Payment for other costs	(4,518)	(4,518)
	-----	-----
Total to be transferred to Principal Investigators	241,804	122,890
	=====	=====

APPROVED

#### 4.2. Collaborative Research Network Program

The NSF has awarded grants to the IAI for support of the project Collaborative Research Network - CRN, a network for global change research in the Americas. This award is distributed as follows:

	2001	2000
Scientific awards	3,897,885	3,897,885
Senior personnel	120,000	120,000
Other costs	80,000	80,000
<b>Total</b>	<b>4,097,885</b>	<b>4,097,885</b>

This is a continuing grant, which has been approved on the scientific/technical merits for approximately five years. Contingent on the availability of funds and the scientific progress of the project, NSF expects to continue support at approximately the following levels:

Fiscal year ending June 30	US\$
2002	2,000,000
2003	2,000,000

The program is conducted by Principal Investigators in IAI member countries. The IAI is responsible for managing the expenses and monitoring the scientific research, and it is also to review, annually, documentation relating to expenses and scientific research development.

The IAI has approved documentation of this program through June 30, 2001. Distributions from NSF to IAI and transfers from the latter to the Principal Investigators have been made as follows:

	2001	Revised 2000	Prior year reclassifications	2000
Total National Science Foundation award	4,097,885	4,097,885	-	4,097,885
Cash distributed to IAI through June 30	(4,097,885)	3,097,885	(238,886)	(3,336,771)
<b>Total to be received by IAI</b>	<b>-</b>	<b>1,000,000</b>	<b>(238,886)</b>	<b>761,114</b>
Cash distributed to IAI through June 30	4,097,885	3,097,885	(238,886)	3,336,771
Cash transfers from Agencia Nacional de Promoción Científica y Tecnológica (Argentina)	210,755	210,755	210,755	-
Transfers made by IAI to Principal Investigators	(3,920,724)	(1,958,878)	-	(1,958,878)
Payments related to Project Manager	(205,802)	(97,989)	-	(97,989)
Payment for other costs	(47,970)	(10,883)	28,131	(39,014)
<b>Total to be transferred to Principal Investigators</b>	<b>134,144</b>	<b>1,240,890</b>		<b>1,240,890</b>

APPROVED

#### Comments on Prior Year Reclassifications

The IAI has discovered misclassifications for the prior year; an outside bookkeeper had prepared the financial statements as of June 30, 2000 and a new financial officer reviewed the support documentation used, identifying some reclassifications that were not possible to determine at the time the financial statements were prepared.

These reclassifications were principally as follows:

- An amount of US\$238,886 of accounts receivable from National Science Foundation for projects that had not been collected as of June 30, 2000.
- A contribution of US\$210,755 paid as of June 30, 2000 by the Agencia Nacional de Promoción Científica y Tecnológica of Argentina not recognized.

#### 4.3. Program to Expand Scientific Capacity in the Americas - PESCA

The NSF on May 15, 2000 awarded a grant of US\$300,000 to IAI for support of the Program to Expand Scientific Capacity in the Americas - PESCA.

This grant is awarded pursuant to the authority of the NSF Act of 1950 (42 U.S.C. 1861 et seq.) and is subject to GC-1 General Grant Conditions (10/98) and the following terms and conditions:

- The NSF authorizes the awardee to enter into the proposed contractual arrangements and to fund such arrangements with award funds up to the amount indicated in the approved budget. Such contractual arrangements should contain appropriate provisions consistent with articles 8.a.3 and 9 of GC -1 or article 1.e. of FDP III, and any special conditions included in this award.
- The IAI may not issue funds to Cuban research institutes until such time as a specific license for that use is issued by OFAC. If the license is denied, NSF requires that IAI either re-compete or return the funds to NSF.

	<u>2001</u>	<u>2000</u>
Total National Foundation award	300,000 =====	300,000 =====
Cash distributed to IAI through June 30	300,000	300,000
Cash transfers from Core Budget	79,423	-
Transfers made by IAI to Principal Investigators	(177,100)	-
Transfers made by IAI to Principal Investigators using Core Budget (Cuba)	(63,173)	-
Payment for other costs	(16,832) -----	(16,832) -----
Total to be transferred to Principal Investigators	122,318 =====	283,168 =====

## 5. EXPENSES

Expenses for operating activities for the years ended June 30, 2001 and 2000 are as follows:

	2001	2000
Salaries and benefits (international staff)	436,897	328,002
Other staff salaries	106,821	165,123
Security	58,513	52,390
Telecommunications	12,344	18,389
Travel	109,008	144,003
Rental charges	52,885	61,301
General expenses	99,532	86,390
Other costs (newsletter, cost of meetings, etc.)	67,266	46,000
	-----	-----
Total	943,266	901,598
	=====	=====

## 6. DEFINED CONTRIBUTION BENEFITS

IAI has entered into employment agreements with each of its international staff. Such agreements provide that employees will make contributions of 7% to their individual retirement plans and IAI will contribute with 14% of their salaries. IAI contributed US\$21,631 to the employees' plans during 2001 (US\$32,995 in 2000).

\*\*\*\*\*