

(A free translation of the original in Portuguese)

**Instituto Internacional de  
Educação do Brasil - IEB**

Financial Statements at  
December 31, 2004 and 2003  
and Report of Independent Auditors

(A free translation of the original in Portuguese)

## Report of Independent Auditors


To the Board of Directors  
Instituto Internacional de Educação do Brasil - IEB  
Brasília - DF

- 1 We have audited the accompanying balance sheets of Instituto Internacional de Educação do Brasil - IEB as of December 31, 2004 and 2003, and the related statements of surplus (deficit), of changes in net equity and of changes in financial position for the years then ended. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements.
- 2 We conducted our audits in accordance with approved Brazilian auditing standards, which require that we perform the audit to obtain reasonable assurance about whether the financial statements are fairly presented in all material respects. Accordingly, our work included, among other procedures: (a) planning our audit taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the Institute, (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements, and (c) assessing the accounting practices used and significant estimates made by management, as well as evaluating the overall financial statement presentation.
- 3 In our opinion, the financial statements audited by us present fairly, in all material respects, the financial position of Instituto Internacional de Educação do Brasil - IEB at December 31, 2004 and 2003, and the surplus (deficit), the changes in net equity and the changes in its financial position for the years then ended, in accordance with accounting practices adopted in Brazil.

Brasília, April 14, 2005

  
PricewaterhouseCoopers  
Auditores Independentes  
CRC-2SP000160/O-5 "F" DF

  
Paulo Sergio Miron  
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**Instituto Internacional de Educação do Brasil - IEB**

**Balance Sheets at December 31**

In thousands of reais

<b>Assets</b>	<b>2004</b>	<b>2003</b>
Current assets		
Cash and financial investments	3,012	881
Advances to consortium entities	-	397
Donations receivable from grant agreements	5,344	8,091
(-) Unearned revenues from signed contracts and agreements	(5,344)	(8,091)
Other assets		14
	<u>3,056</u>	<u>1,292</u>
Long-term receivables		
Donations receivable from grant agreements	17,916	16,715
(-) Unearned revenues from signed contracts and agreements	<u>(17,916)</u>	<u>(16,715)</u>
	<u>-</u>	<u>-</u>
Permanent assets		
Investments	3	-
Fixed assets	314	275
Deferred charges	<u>25</u>	<u>35</u>
	<u>342</u>	<u>310</u>
<b>Total assets</b>	<u><b>3,398</b></u>	<u><b>1,602</b></u>

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**Instituto Internacional de Educação do Brasil - IEB**

**Balance Sheets at December 31**

In thousands of reais

(continued)

<b>Liabilities and net equity</b>	<b>2004</b>	<b>2003</b>
Current liabilities		
Provisions and labor charges	70	98
Obligations for transfer of donations	-	809
Accounts payable	35	48
Donations to be transferred under grant agreements	5,344	8,091
(-) Costs to be incurred under signed contracts and agreements	(5,344)	(8,091)
	<u>105</u>	<u>955</u>
Long-term liabilities		
Donations to be transferred under grant agreements	17,916	16,715
(-) Costs to be incurred under signed contracts and agreements	(17,916)	(16,715)
	<u>-</u>	<u>-</u>
Deferred income		
Deferred income	<u>2,286</u>	<u>-</u>
Net equity		
Institute's Equity	647	(112)
Surplus for the year	<u>360</u>	<u>759</u>
	<u>1,007</u>	<u>647</u>
<b>Total liabilities and net equity</b>	<b><u>3,398</u></b>	<b><u>1,602</u></b>

The accompanying notes are an integral part of these financial statements



(A free translation of the original in Portuguese)

**Instituto Internacional de Educação do Brasil - IEB**

**Statements of Surplus (Deficit)**

**Years ended December 31**

**In thousands of reais**

	<u>2004</u>	<u>2003</u>
<b>Revenues</b>		
International Cooperation Agreements – Dutch Embassy	2,317	2,413
United States Agency for International Development (USAID)	2,526	1,656
Specific donations for programs	332	22
Other	<u>22</u>	<u>9</u>
	<u>5,295</u>	<u>4,100</u>
<b>Program costs</b>		
Scholarships	(96)	(489)
Salaries and benefits	(910)	(455)
Events, travel and accommodation	(971)	(711)
Technical consulting fees	(698)	(732)
Publications, communication and supplies	(156)	(121)
General expenses	<u>(672)</u>	<u>(95)</u>
	<u>(3,612)</u>	<u>(2,603)</u>
<b>Program management expenses</b>		
Salaries and benefits	(573)	(424)
Events, travel and accommodation	(125)	(41)
Technical consulting fees	(327)	(108)
Publications, communication and supplies	(58)	(36)
General expenses	<u>(139)</u>	<u>(77)</u>
	<u>(1,222)</u>	<u>(686)</u>
<b>Financial income (expenses), net</b>	<u>(43)</u>	<u>(24)</u>
<b>Depreciation and amortization expenses</b>	<u>(58)</u>	<u>(28)</u>
<b>Surplus for the year</b>	<u>360</u>	<u>759</u>

The accompanying notes are an integral part of these financial statements

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**Instituto Internacional de Educação do Brasil - IEB**

**Statement of Changes in Net Equity**

**Years Ended December 31**

**In thousands of reais**

	<u>Equity</u>	<u>Surplus / (deficit) for the year</u>	<u>Total</u>
Balance at December 31, 2002	251	(363)	(112)
Incorporation of deficit	(363)	363	
Surplus for the year	<u>-</u>	<u>759</u>	<u>759</u>
Balance at December 31, 2003	(112)	759	647
Incorporation of surplus	759	(759)	-
Surplus for the year	<u>-</u>	<u>360</u>	<u>360</u>
Balance at December 31, 2004	<u>647</u>	<u>360</u>	<u>1,007</u>

The accompanying notes are an integral part of these financial statements

(A free translation of the original in Portuguese)

**Instituto Internacional de Educação do Brasil - IEB**

**Statements of Changes in Financial Position**

**Years Ended December 31**

**In thousands of reais**

	<u>2004</u>	<u>2003</u>
<b>Financial resources were provided by:</b>		
Operations		
Surplus for the year	360	759
Adjustment to results for the year		
Depreciation and amortization	58	28
Increase in deferred income	<u>2,286</u>	<u>-</u>
Total funds obtained	<u>2,704</u>	<u>787</u>
<b>Financial resources were used for:</b>		
Permanent assets	<u>90</u>	<u>281</u>
Total funds used	<u>90</u>	<u>281</u>
<b>Increase in working capital</b>	<u>2,614</u>	<u>506</u>
Changes in working capital		
Current assets		
At the end of the year	3,056	1,292
At the beginning of the year	<u>1,292</u>	<u>156</u>
	<u>1,764</u>	<u>1,136</u>
Current liabilities		
At the end of the year	105	955
At the beginning of the year	<u>955</u>	<u>325</u>
	<u>850</u>	<u>630</u>
<b>Increase in working capital</b>	<u>2,614</u>	<u>506</u>

The accompanying notes are an integral part of these financial statements.



## **Instituto Internacional de Educação do Brasil - IEB**

### **Notes to the Financial Statements**

**at December 31, 2004 and 2003**

**All amounts in thousands of reais unless otherwise indicated**

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#### **1 Operations**

Instituto Internacional de Educação do Brasil - IEB is a non-profit civil institute, under the Brazilian Civil Code, Law No. 10.406/02.

The Institution is commonly referred to as a Non-Governmental Organization and its activities are carried out within the academic, cultural and scientific areas, with the purpose of fostering the involvement of the Brazilian civil society in the search for sustainable development, the preservation of biodiversity and the decrease of poverty. The Institute was formed in November 1998, and, as from the second half of 2000, there was significant development of the projects managed through donation agreements, mainly with the Dutch Embassy and the United States Agency for International Development - USAID, which generated a significant growth in social programs, through the above-mentioned international cooperation agreements.

The intrinsic features of the social programs are based on the following main factors: (i) obtaining financial resources to carry out programs through donation contracts and long-term international cooperation agreements and (ii) formulating and managing long-term programs. In this context, the achievement of the program goals is directly related to the long-term technical, operational and financial planning and to their governance.

The main risks are related to the number of donors contributing to the Institute, and the strategic actions aim to minimize these risks by increasing the donor base through institutional actions based on transparency of the activities and the use of financial resources, as well as on the quality of the projects, the Institute's reputation with society, partners and donors, and the technical ability of those collaborating with the activities.

In order to expand its activities, the Institute is taking the following actions: (i) long-term strategic planning for each program, not necessarily limited to a fiscal and/or social year; (ii) governance of the programs through the scheduling of activities related to the projects' needs.

The main active donation contract at December 31, 2004 is the International Cooperative Agreement signed with United States Agency for International Development – USAID.

The related agreement which was signed on September 30, 2003 and is effective from October 1, 2003 to September 30, 2007, was for the total amount of US\$ 7.9 million, equivalent to some R\$ 23 million.



## **Instituto Internacional de Educação do Brasil - IEB**

### **Notes to the Financial Statements**

**at December 31, 2004 and 2003**

**All amounts in thousands of reais unless otherwise indicated**

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The purpose of such agreement is the implementation of an environment conservation program for the Amazon and Atlantic Forest regions in Brazil. For the execution of the program a Strategic Alliance was put in place with nine organizations, denominated the ALFA Consortium, as follows:

- Instituto Internacional de Educação do Brasil – IEB (Leader);
- Instituto do Homem e Meio Ambiente da Amazônia – IMAZON;
- Instituto Floresta Tropical – IFT;
- Grupo de Pesquisa e Extensão em Sistemas Agroflorestais do Acre – PESACRE
- University of Florida - UF
- Instituto de Estudos Sócio-Ambientais do Sul da Bahia – IESB;
- Instituto de Pesquisas Ecológicas – IPÊ;
- Instituto de Manejo e Certificação Florestal e Agrícola – IMAFLORA;
- Instituto Bio-Atlântica – IBio;

The Alliance Program for the Amazon and Atlantic Forests – ALFA is divided into the following topics:

- Forest Management
- Markets and Communities
- Landscape
- Governance of the Consortium.

The financial resources contracted for the ALFA Consortium are subject to annual revisions by the donor and are as follows:

# Instituto Internacional de Educação do Brasil - IEB

## Notes to the Financial Statements

at December 31, 2004 and 2003

All amounts in thousands of reais unless otherwise indicated

<u>Organization</u>	<u>R\$</u>	<u>US\$ - thousand</u>
IEB	7,796	2,937
IMAZON	4,603	1,734
IFT	3,214	1,211
PESACRE	2,753	1,037
UF	1,603	604
IESB	1,128	425
IPÊ	1,038	391
IMAFLOA	536	202
IBio	226	85
<b>Total</b>	<b>22,897</b>	<b>8,626</b>

<u>Year</u>	<u>R\$</u>
2004	6,883
2005	4,977
2006	5,513
2007	5,524
<b>Total</b>	<b>22,897</b>

Up to December 31, 2004, USAID has transferred to IEB the amount of R\$ 7,889. IEB has transferred to the Strategic Alliance organizations the amount of R\$ 5,684. IEB is the entity responsible to the donor USAID, and the Institution has signed Technical-Finance Cooperative Agreements with each of Consortium ALFA organizations. The costs incurred in program execution pertain to each organization. In this context, the costs and expenses of IEB are related only to the Institution's own costs.

**Instituto Internacional de Educação do Brasil - IEB**  
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As the leader for the ALFA Consortium, the Institute has the obligation to transfer funds already disbursed by the donor, USAID, to the members of the ALFA Consortium. As at December 31, 2004 the total amount of R\$ 5.684 has been transferred to the consortium organizations and accounts had been rendered for the total amount of some R\$ 5.055. The remaining balance is composed as follows:

<u>Organization</u>	<u>2004</u>
IMAZON	195
PESACRE	128
IESB	91
IFT	55
IBIO	104
UF	-
IMAFLOA	30
IPÊ	26
<b>Total</b>	<b>629</b>

Another relevant grant agreement is the International Cooperative Agreement with the Dutch Embassy, entered into in July 2000 and amended in July 2001. The agreement establishes the receipt of resources through an umbrella agreement totaling approximately EUR \$ 3 million. Of this total amount, R\$ 7 million has been received up to December 31, 2004 (R\$ 4.7 million as at December 31, 2003). The remaining balance referring to this agreement is approximately R\$ 1.2 million, as shown in Note 7.

The main programs developed by the Institute with funds from the Dutch Embassy are as follows:

- Institutional and Sustainable Development Support Program ("PADIS")
- Nature and Society Program ("PNS")
- Education Program for the Management of Environmentally Sustainable Activities ("PRÓ-NEGÓCIOS")
- Program on the Global Climate Changes ("MUDACLIMA").



**Instituto Internacional de Educação do Brasil - IEB**  
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All amounts in thousands of reais unless otherwise indicated

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**2 Presentation of the Financial Statements**

The financial statements presented are the responsibility of the Institute's management and were prepared in accordance with accounting practices adopted in Brazil for non-profit entities and Law No. 5404/76.

**3 Significant Accounting Practices**

(a) Determination of surplus (deficit)

Revenues and expenses are recorded on the accrual basis of accounting. Donations for which there are no specific contracts are recorded in revenues upon receipt. The costs incurred mainly represent the allocation of human resources and supplies for the execution of the projects. The Institute's indirect costs and expenses are apportioned between the programs in conformity with their relevance. All costs are segregated by donor considering the use of human resources and supplies for each donor. No cost transfers are made between donors.

As the Institution is a non-profit entity, it is exempt from income tax and social contribution on its net result.

(b) Donations receivable and unearned revenues from signed contracts and agreements

Donations receivable represent the full amount of the donation contracts and international cooperation agreements signed, for which financial disbursements by the donor have still not taken place. The offsetting credit entry is made to the unearned revenues account and recognized as revenue when donor disbursements are received. When related to financial resources to be transferred to other organizations the obligation is recorded as a liability.

(c) Current assets and long-term receivables

Rights are stated at realizable values, including accrued earnings and monetary and exchange variations, less the corresponding unearned revenue, when applicable.

(d) Permanent assets

Permanent assets are stated at acquisition cost less related depreciation, which is calculated on the straight-line basis. The amortization of deferred charges is calculated on the straight-line method over five years from the beginning of the generation of benefits.

**Instituto Internacional de Educação do Brasil - IEB**  
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**All amounts in thousands of reais unless otherwise indicated**

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- (e) Donations to be transferred and costs to be incurred under signed contracts and agreements

The donations are represented by the full amount of the donation contracts and international cooperative agreements signed for which financial disbursements by the donor have still not taken place. The offsetting entry is made to the account reducing the liability and is recognized as an expense as donor disbursements are received. When related to the projects to be executed by third parties, no cost is recorded by the Institution, but an asset is recognized for the advances.

- (f) Current and long-term liabilities

These liabilities are stated at known or estimated amounts, plus corresponding charges, when applicable.

- (g) Net equity

The net equity represents the Institute's original equity, plus or minus the annual surpluses or deficits.

**Instituto Internacional de Educação do Brasil - IEB**  
**Notes to the Financial Statements**  
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**4 Program Costs**

The breakdown of the expenditures for each program, by donor, is as follows:

<u>Program</u>	<u>Donor</u>	<u>2004</u>	<u>2003</u>
PNS	Dutch Embassy	502	461
	WWF Brazil	152	-
	JICA	106	-
	EFN	1	-
	USAID	-	440
	Institutional	-	78
	Sub-total	<u>761</u>	<u>979</u>
PADIS	Dutch Embassy	986	955
	USAID	-	27
	Institutional	-	7
	Sub-total	<u>986</u>	<u>989</u>
PRONEGÓCIOS	Dutch Embassy	256	214
	USAID	-	25
	Sub-total	<u>256</u>	<u>239</u>
ALFA	USAID	1.382	115
MUDACLIMA	Dutch Embassy	<u>227</u>	<u>281</u>
<b>Total</b>		<u><u>3.612</u></u>	<u><u>2.603</u></u>



# **Instituto Internacional de Educação do Brasil - IEB**

## **Notes to the Financial Statements**

**at December 31, 2004 and 2003**

**All amounts in thousands of reais unless otherwise indicated**

The breakdown for each program, by the nature of expenses incurred in 2003 is as follows:

Nature of expense						2004	
	ALFA	PADIS	PNS	PRONEGÓCIOS	MUDACLIMA	TOTAL	TOTAL
Scholarships	14	-	16	47	19	96	96
Salaries and benefits	361	309	98	68	74	910	910
Events, travel and accommodation	188	199	408	96	80	971	971
Technical consulting fees	49	391	200	20	38	698	698
Publications, communication and supplies	63	49	31	11	2	156	156
Donation Concession of donations	619	31	-	10	12	672	672
General expenses	88	7	8	4	2	109	109
<b>TOTAL</b>	<b>1,382</b>	<b>986</b>	<b>761</b>	<b>254</b>	<b>227</b>	<b>3,612</b>	<b>3,612</b>

					2003	
Scholarships	-	382	67	-	40	489
Salaries and benefits	192	107	76	9	71	455
Events, travel and accommodation	317	194	56	77	67	711
Technical consulting fees	416	201	49	21	45	732
Publications, communication and supplies	-	33	69	2	17	121
Concession of donations	-	-	-	-	-	-
General expenses	8	31	26	14	16	95
<b>TOTAL</b>	<b>115</b>	<b>989</b>	<b>979</b>	<b>239</b>	<b>281</b>	<b>2,603</b>

The events, travel and accommodation account is related to the development of projects of each program considering their multi-disciplinary nature, as well as the various Brazilian regions where the program activities take place.

**Instituto Internacional de Educação do Brasil - IEB**  
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**5 Cash and Financial Investments**

Management has a conservative cash management policy, and invests available resources in short-term investment funds with first-rate Brazilian financial institutions, whenever permitted by donors. The revenues arising from these financial investments are reinvested in the Institute and are shown separately in the results.

	<u>2004</u>	<u>2003</u>
Cash and banks	2,629	881
Financial investments	<u>383</u>	<u>-</u>
Total	<u>3,012</u>	<u>881</u>

**6 Donations Receivable and Unearned Revenue from Signed Contracts and Agreements**

Amounts receivable from donation contracts and international cooperation agreements signed with donors, are described in Note 1. The schedule for receipt can be summarized as follows:

<u>Year</u>	<u>2004</u>	<u>2003</u>
2004	-	7,215
2005	5,344	7,195
2006	7,705	5,196
2007	7,732	5,200
2008	1,539	-
2009	<u>940</u>	<u>-</u>
Total	<u>23,260</u>	<u>24,806</u>
Current	<u>(5,344)</u>	<u>(8,091)</u>
Long-term	<u>17,916</u>	<u>16,715</u>

**Instituto Internacional de Educação do Brasil - IEB**  
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All amounts in thousands of reais unless otherwise indicated

The segregation by donor is as follows:

<u>Donor</u>	<u>2004</u>	<u>2003</u>
USAID	15,007	21,134
Dutch Embassy	1,216	3,672
Moore Foundation	7,037	-
	<u>23,260</u>	<u>24,806</u>

**7 Fixed Assets**

**(a) Property and equipment**

	<u>2004</u>		<u>2003</u>	Annual depreciation rates - %	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net</u>		
Machines and equipment	119	(20)	99	102	10%
Date processing equipment	164	(54)	110	88	20%
Furniture and fixtures	109	(11)	98	85	10%
Software	9	(6)	3	-	20%
Installations	5	(1)	4	-	10%
	<u>406</u>	<u>92</u>	<u>314</u>	<u>275</u>	

**(b) Deferred charges**

Deferred charges are represented basically by leasehold improvements with an average amortization period of 60 months.



## Instituto Internacional de Educação do Brasil - IEB

### Notes to the Financial Statements

at December 31, 2004 and 2003

All amounts in thousands of reais unless otherwise indicated

#### 8 Donations to be Transferred and Costs to be incurred under Signed Contracts and Agreements

These obligations refer to the contractual obligations assumed by the Institute to transfer financial resources to the projects during their execution, in accordance with the term and schedule of each project, as well as from the donation contracts and the international cooperation agreements. The schedule for each project is based on the strategic planning for the project, considering the Institute's actions with the community in each of the areas covered by the projects.

The completion dates for each program using financial resources from international cooperation agreements and from donation contracts are as follows:

<u>Program</u>	<u>Final completion</u>
PADIS	June 2005
PNS	June 2005
PRONEGÓCIOS	June 2005
MUDACLIMA	June 2005
ALFA	September 2007

#### 9 Accounts Payable

Accounts payable comprise the Institute's obligations for payments to the suppliers and service providers of the projects, and which have already been expensed as follows:

a) <u>Nature</u>	<u>2004</u>	<u>2003</u>
Service providers	9	27
Consultants	12	21
Publications	14	-
<b>Total</b>	<b>35</b>	<b>48</b>

**Instituto Internacional de Educação do Brasil - IEB**  
**Notes to the Financial Statements**  
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All amounts in thousands of reais unless otherwise indicated

The amounts already committed with projects and not yet paid, by program, at the end of the year, are as follows:

b) <u>Program</u>	<u>2004</u>	<u>2003</u>
PADIS	23	21
PNS	1	-
MUDACLIMA	1	-
ALFA	5	-
IEB – institutional expenses	5	27
<b>Total</b>	<b>35</b>	<b>48</b>

**10 Deferred Income**

Refers to resources received from the MOORE Foundation for the implementation of the scholarship program. The term for recognition is linked to the term of the agreement, which started on January 1, 2005 and matures in 2009. On December 23, 2004, US\$ 845 thousand, equivalent to R\$ 2,286, relating to 2005 was received.

**11 Net Equity**

**(a) Net equity**

Equity is not represented by quotas, as the Institute's net equity comprises contributions made by its members, in addition to the Institute's financial revenues, donations, subventions and legacies, as established in its by-laws.

**(b) Surplus for the year**

The balance only comprises the surplus for the current year. After approval of the assembly, these amounts are transferred to the Institution's net assets in order to be reinvested in social actions, as established in its by-laws.

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