

**The World Bank Group**  
**Trust Funds Division**



**International Bank for Reconstruction and Development as  
Trustee and Administrator for the**

**Prototype Carbon Fund  
TF023446**

**Report and Financial Statements  
June 30, 2001**



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**INDEPENDENT AUDITORS' REPORT**

To: International Bank for Reconstruction & Development  
as Administrator for the Prototype Carbon Fund

We have audited the accompanying balance sheets for the Prototype Carbon Fund for which the International Bank for Reconstruction and Development (IBRD) acts as Trustee and Administrator, as of June 30, 2001 and June 30, 2000 and the related statements of income (loss), changes in equity and cash flows for the year ended June 30, 2001 and the period from July 20, 1999 (inception) to June 30, 2000. These financial statements are the responsibility of IBRD's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Prototype Carbon Fund as administered by the International Bank for Reconstruction and Development at June 30, 2001 and June 30, 2000, and the results of its operations and its cash flows for the year ended June 30, 2001 and the period from July 20, 1999 (inception) to June 30, 2000 in conformity with International Accounting Standards.

As described in Note 2 to the financial statements, during fiscal year 2001 the Prototype Carbon Fund changed its basis of accounting from the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principals, to International Accounting Standards. The fiscal period 2000 financial statements have been restated in accordance with International Accounting Standards.

*Deloitte Touche Tohmatsu (International Firm)*

October 17, 2001

# PROTOTYPE CARBON FUND BALANCE SHEETS

*As of June 30, 2001 and June 30, 2000*

*Expressed in U.S. dollars*

	<i>June 30, 2001</i>	<i>June 30, 2000</i>
<b>Assests</b>		
Equity in pooled investments—Note 2	\$ 12,104,204	\$ 7,572,419
Investment income receivable—Note 2	154,153	38,211
Receivable from other trust funds—Note 3	20,722,323	18,263,431
Advance payment for emission reductions—Notes 2 and 5	300,000	—
Valuation allowance for advance payments—Note 6	<u>(300,000)</u>	<u>—</u>
Total Assets	<u>\$ 32,980,680</u>	<u>\$ 25,874,061</u>
<b>Liabilities and Equity</b>		
<b><i>Liabilities</i></b>		
Accrued fund development expenses—Note 2	\$ 1,200,000	\$ 1,600,000
Accrued project development expenses—Note 2	193,000	426,000
Accrued administrative expenses—Note 2	17,162	40,628
Accrued performance linked expenses—Note 4	<u>90,000</u>	<u>25,000</u>
Total Liabilities	<u>1,500,162</u>	<u>2,091,628</u>
<b><i>Equity</i></b>		
Capital contributions pledged—Note 2	145,000,000	135,000,000
Notes receivable on capital contributions—Note 2	<u>(109,137,677)</u>	<u>(108,356,569)</u>
Capital contributions paid in—Notes 1 and 2	35,862,323	26,643,431
Retained deficit	<u>(4,381,805)</u>	<u>(2,860,998)</u>
Total Equity	<u>31,480,518</u>	<u>23,782,433</u>
<b><i>Total Liabilities and Equity</i></b>	<u><b>\$ 32,980,680</b></u>	<u><b>\$ 25,874,061</b></u>

*The Notes to Financial Statements are an integral part of these Statements*

PROTOTYPE CARBON FUND  
STATEMENTS OF INCOME (LOSS)

For the year ended June 30, 2001 and period from July 20, 1999 (Inception) to June 30, 2000

Expressed in U.S. dollars

	<i>July 1, 2000 to June 30, 2001</i>	<i>July 20, 1999 (inception) to June 30, 2000</i>
<b>Revenue</b>		
Realized investment income—Note 2	\$ 981,758	\$ 58,195
Net unrealized gain on equity in pooled investments—Note 2	127,228	5,389
Premium income—Note 2	18,000	—
Total revenue	<u>1,126,986</u>	<u>63,584</u>
<b>Expenses</b>		
Fund development expenses—Note 2	—	2,000,000
Fund project development expenses—Note 2	—	513,453
Project-related expenses / project preparation—Note 2	966,660	100,152
Performance-linked expenses—Note 4	90,000	25,000
Administrative expenses—Note 2	1,291,133	285,977
Valuation allowance for advance payment expense—Note 6	300,000	—
Total expenses	<u>2,647,793</u>	<u>2,924,582</u>
<b>Net Loss</b>	<u><u>\$(1,520,807)</u></u>	<u><u>\$(2,860,998)</u></u>

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PROTOTYPE CARBON FUND  
STATEMENTS OF CHANGES IN EQUITY

*For the Year Ended June 30, 2001 and the period from July 20, 1999 (Inception) to June 30, 2000*

*Expressed in U.S. dollars*

**July 20, 1999 (Inception) to June 30, 2000**

	<i>Capital Contributions</i>	<i>Notes Receivable</i>	<i>Retained Deficit</i>	<i>Total Equity</i>
<b>Balance, July 20, 1999 (Inception)</b>	\$ —	\$ —	\$ —	\$ —
Capital Subscriptions				
Public sector participants	60,000,000	(40,176,569)	—	19,823,431
Private sector participants	75,000,000	(68,180,000)	—	6,820,000
Net loss	—	—	(2,860,988)	(2,860,998)
<b>Balance, June 30, 2000</b>	<u>\$135,000,000</u>	<u>\$(108,356,569)</u>	<u>\$(2,860,998)</u>	<u>\$23,782,433</u>

**For the Year Ended June 30, 2001**

	<i>Capital Contributions</i>	<i>Notes Receivable</i>	<i>Retained Deficit</i>	<i>Total Equity</i>
<b>Balance, July 1, 2000</b>	\$135,000,000	\$(108,356,569)	\$(2,860,998)	\$23,782,433
Capital Subscriptions				
Public sector participants	—	5,278,892	—	5,278,892
Private sector participants	10,000,000	(6,060,000)	—	3,940,000
Net loss	—	—	(1,520,807)	(1,520,807)
<b>Balance, June 30, 2001</b>	<u>\$145,000,000</u>	<u>\$(109,137,677)</u>	<u>\$(4,381,805)</u>	<u>\$31,480,518</u>

*The Notes to Financial Statements are an integral part of these Statements*

PROTOTYPE CARBON FUND  
STATEMENTS OF CASH FLOWS

For the year ended June 30, 2001 and period from July 20, 1999 (Inception) to June 30, 2000

Expressed in U.S. dollars

	<i>July 1, 2000 to June 30, 2001</i>	<i>July 20, 1999 (inception) to June 30, 2000</i>
<b><i>Cash Flows from Operating Activities</i></b>		
Net loss	\$(1,520,807)	\$ (2,860,998)
Adjustments to reconcile net loss to net cash used in operating activities:		
Increase in unrealized gains on pooled investments	(127,228)	(5,389)
Increase in investment income receivable	(115,942)	(38,211)
Increase in receivable from other trust funds	(2,458,892)	(18,263,431)
Increase in advance payment for emission reductions	(300,000)	—
Increase in allowance for advance payment	300,000	—
(Decrease)/increase in accrued administrative expenses	(23,466)	40,628
(Decrease)/increase in accrued fund development expenses	(400,000)	1,600,000
(Decrease)/increase in accrued project development expenses	(233,000)	426,000
Increase in accrued performance-linked expenses	65,000	25,000
Net cash used in operating activities	<u>(4,814,335)</u>	<u>(19,076,401)</u>
<b><i>Cash Flows from Investing Activities</i></b>		
Purchases of investments	<u>(4,404,557)</u>	<u>(7,567,030)</u>
Net cash used in investing activities	<u>(4,404,557)</u>	<u>(7,567,030)</u>
<b><i>Cash Flows from Financing Activities</i></b>		
Capital contributions	<u>9,218,892</u>	<u>26,643,431</u>
Net cash provided by financing activities	<u>9,218,892</u>	<u>26,643,431</u>
<b><i>Net Increase in Cash</i></b>	<u>—</u>	<u>—</u>
<b><i>Cash, Beginning of Period</i></b>	<u>—</u>	<u>—</u>
<b><i>Cash, End of Period</i></b>	<u>\$ —</u>	<u>\$ —</u>

*The Notes to Financial Statements are an integral part of these Statements*

# PROTOTYPE CARBON FUND NOTES TO FINANCIAL STATEMENTS

*June 30, 2001*

## **NOTE 1—ORGANIZATION AND OPERATIONS**

The Prototype Carbon Fund (the Fund) was established in 1999 by the International Bank for Reconstruction and Development (IBRD) as a mechanism to help countries reduce global concentrations of greenhouse gases (GHG) and thereby minimize the adverse impacts of climate change on developing countries. The operational principles of the Fund are: (1) to invest in projects that are intended to generate high-quality GHG emission reductions in developing countries and countries with economies in transition, (2) to endeavor to effect an equitable sharing between the Fund participants and the developing countries of any emission reductions and other benefits arising from such projects, and (3) to disseminate broadly the knowledge gained in the development of the Fund and the implementation of the projects.

The Fund is administered by the IBRD as Trustee. Pursuant to the Fund's governing document, the

Trustee is authorized, among other things, to accept capital contributions to the Fund from the participants, invest the funds collected, and establish a committee responsible for overseeing the operations of the Fund (the Fund Management Committee).

At the First Closing of the Fund on April 20, 2000, six Public Sector Participants and 15 Private Sector Participants purchased an interest in the Fund by signing an agreement (Participation Agreement). In fiscal year 2001, two more Private Sector Participants joined the Fund. Public Sector Participants were each required to contribute US\$10 million to the Fund and Private Sector Participants were each required to contribute US\$5 million. Participants provided their contributions either through the delivery of an unconditional promissory note made payable to the Trustee upon demand, or through advance payments to separate holding trust funds managed by IBRD as Trustee. As of June 30, 2001 and June 30, 2000, capital contributions paid in by the Participants, are as follows:

PROTOTYPE CARBON FUND  
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

*Expressed in U.S. dollars*

	<i>Amounts Paid as of June 30, 2001</i>	<i>Amounts paid as of June 30, 2000</i>
<b>Public Sector Participants</b>		
Canada	\$ 730,000	\$260,000
Finland	730,000	260,000
Japan Bank for International Cooperation	730,000	260,000
Netherlands	730,000	260,000
Norway	730,000	260,000
Sweden	730,000	260,000
<b>Total Public Sector Participants</b>	<b><u>\$ 4,380,000</u></b>	<b><u>\$ 1,560,000</u></b>
<b>Private Sector Participants</b>		
BP Amoco	\$ 360,000	\$ 130,000
Chubu Electric Power Company Inc.	360,000	130,000
Chugoku Electric Power Company Inc.	360,000	130,000
Deutsche Bank	5,000,000	5,000,000
Electrabel	360,000	130,000
Fortum OYJ	360,000	130,000
Glide Strategic Situations B.V.	360,000	—
Gaz de France	360,000	—
Kyushu Electric Power Company Inc.	360,000	130,000
MIT Carbon Fund	360,000	130,000
Mitsubishi	360,000	130,000
Norsk Hydro ASA	360,000	130,000
RWE Aktiengesellschaft	360,000	130,000
Skikoku	360,000	130,000
Statoil	360,000	130,000
Tohoku Electric Power Company Inc.	360,000	130,000
Tokyo Electric Power Company Inc.	360,000	130,000
<b>Total Private Sector Participants</b>	<b><u>\$10,760,000</u></b>	<b><u>\$ 6,820,000</u></b>
<b>Total all Participants</b>	<b><u>\$15,140,000</u></b>	<b><u>\$ 8,380,000</u></b>
Plus receivable from other trust funds	20,722,323	18,263,431
<b>Total Capital Contributions Paid In</b>	<b><u>\$35,862,323</u></b>	<b><u>\$26,643,431</u></b>

# PROTOTYPE CARBON FUND NOTES TO FINANCIAL STATEMENTS

June 30, 2001

## NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES

*Basis of Accounting* - The accompanying financial statements are prepared in accordance with International Accounting Standards. These financial statements are presented on a comparative basis for two fiscal periods: year ended June 30, 2001 and for the period from July 20, 1999 (inception) to June 30, 2000. The amounts for the fiscal period 2000 have been restated from prior period audited financial statements, which had been presented on the cash basis of accounting.

*Use of Estimates* - The preparation of financial statements in conformity with International Accounting Standards includes 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 and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

*Cash* - The Fund places the funds it receives from the Participants under IBRD investment management (see *Equity in Pooled Investments*).

*Equity in Pooled Investments* - Amounts paid into the Fund, but not yet disbursed, are managed by IBRD, which maintains a single investment portfolio (the Pool) for all of the trust funds administered by IBRD and the International Development Association (IDA). Under the Pool's current investment strategy, a significant portion of the Pool is invested in liquid instruments such as U.S. Treasury securities and other high-grade bonds.

IBRD maintains the investments on a pooled accounting basis: investment income is allocated to each trust fund on a pro-rata basis. Equity in pooled investments represents the Fund's pro-rata portion of the Pool's market value at the end of the period. The corresponding pro-rata realized and unrealized gains or losses accrue to the Fund in the period in which they occur.

*Capital Contributions* - The Fund derives its funding primarily from contributions provided by its Participants. Each Participant's contribution is recorded in full as Capital Contributions Pledged upon execution of a Participation Agreement between the Participant and the Fund. Amounts not yet paid in are recorded as Notes Receivable on Capital Contributions and shown as a reduction of Capital Contributions Pledged on the balance sheet. The notes receivable are settled through cash payments upon the Trustee's request, in accordance with an

annual budget and business plan approved by the Participants.

*Advance Payment for Emission Reductions* - The Fund enters into agreements for the purchase of emission reductions with external parties. In some instances, the purchase agreements contain provisions for the Fund to pay for emission reductions prior to their delivery. Such prepayments are recorded by the Fund in the balance sheet as Advance Payment for Emission Reductions. The amounts accumulated in the Advance Payment for Emission Reductions account will be reclassified to Emission Reductions on the balance sheet when qualifying emission reductions are delivered to the Fund. Due to significant uncertainties surrounding the quantities and value of emission reductions for which the advance payments are made, an appropriate allowance has been established.

*Premium Income* - Participants who enter into Participation Agreements after the First Closing pay the Fund a premium in an amount equal to 2.5% of their required annual contributions. The premium payments are not taken into account in determining the Participants' interests in the Fund, or in the calculation of the size of the Fund. Income from premiums is recognized in the statements of income (loss) as earned.

*Fund and Project Development Expenses* - The Fund will reimburse the Trustee for 80% of all costs and expenses incurred by the Trustee prior to the First Closing in relation to the development of the Fund, not to exceed \$2 million, which is to be paid in five equal annual installments. In addition to these amounts, the Fund will also reimburse the Trustee for all costs and expenses incurred by the Trustee prior to the First Closing of the Fund in relation to the identification, preparation, and appraisal of proposed projects.

*Administrative Expenses* - The Fund reimburses the Trustee for all costs and expenses incurred in the administration of the Fund. These include salaries and benefits, contracted services, marketing, communications, audits and reporting, and overhead. Administrative expenses are recognized when incurred.

*Project-Related Expenses* - The Fund will reimburse the Trustee for all costs incurred during each project's preparation, including project negotiation and validation costs. The Fund will absorb the expenses that are associated with each project's supervision and verification of emission reductions. Project expenses are recognized when incurred.

# PROTOTYPE CARBON FUND

## NOTES TO FINANCIAL STATEMENTS

June 30, 2001

### NOTE 3—RECEIVABLES FROM OTHER TRUST FUNDS

Certain Participants have elected to deposit all or part of their contribution in holding accounts established as separate trust funds. These trust funds are also administered by IBRD. As contributions become due, at the request of the Trustee, funds will be transferred from those holding account trust funds into the Fund. As of June 30, 2001, three holding account trust funds set up by Canada, Finland and Sweden had contribution balances (less contributions already transferred to the Fund) of \$9,270,000, \$8,211,532, and \$3,240,791, respectively. As of June 30, 2000, the amounts in these holding accounts were \$9,740,000, \$5,859,470, and \$2,663,961 for Canada, Finland and Sweden, respectively.

### NOTE 4—CONTINGENT LIABILITY AND PERFORMANCE-LINKED EXPENSES

During each of the first ten years of the Fund's operations, the Trustee may be entitled to receive a performance-linked payment of up to \$100,000, payable annually upon the approval of the Participants at the annual Participants' meeting. Through June 30, 2001, the Participants had authorized transfers of \$25,000 and \$90,000, from the Fund to the Trustee, as performance-linked payments for fiscal years 2000 and 2001, respectively. The amount of \$25,000 was paid to the

Trustee in fiscal year 2001. The amount of future payments can not be reasonably estimated.

### NOTE 5—FIRM COMMITMENT

In fiscal year 2001, the Fund entered into an executory contract (i.e., firm commitment) with the Republic of Latvia for the purchase of emission reductions in the amount of \$2,477,000. Under this contract, the Fund pays for most of the emission reductions in installments over 6 years and will make a final payment in fiscal year 2013. The total minimum emission reductions to be delivered is 105,800 metric tonnes of carbon equivalent with the first delivery planned for fiscal year 2003. The Fund is also contractually entitled to a share of any additional emission reductions (over the annual minimum required). In fiscal year 2001, the Fund made an advance payment of \$300,000 under this contract.

### NOTE 6—VALUATION ALLOWANCE FOR ADVANCE PAYMENT

Due to significant uncertainties surrounding the quantities and value of emission reductions for which the advance payment of \$300,000 has been made, a 100% allowance has been established as of June 30, 2001. The amount of the allowance will be monitored and revised, as necessary, if conditions related to these uncertainties change.