The Mountain Institute

Financial Statements

For the Year Ended September 30, 2011

and
Report Thereon

RAFFA

CONSULTING
ACCOUNTING
TECHNOLOGY

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
The Mountain Institute

We have audited the accompanying statement of financial position of The Mountain Institute (the Institute) as of September 30, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Institute'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. 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 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 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 the 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Institute as of September 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Raffa, P.C.

RAFFA, P.C.

Washington, D.C.
August 9, 2012

THE MOUNTAIN INSTITUTE

STATEMENT OF FINANCIAL POSITION
September 30, 2011

ASSETS		
Current Assets		
Cash and cash equivalents	$	225,638
Grants and contributions receivable		1,501,791
Employee and other receivables		172,077
Prepaid expenses		16,996
Total Current Assets		1,916,502
Investments		112,815
Endowment investments		387,312
Property and equipment, net		331,517
TOTAL ASSETS	$	2,748,146
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	$	167,298
Refundable advances		68,873
Total Current Liabilities		236,171
Line of credit		438,000
TOTAL LIABILITIES		674,171
Net Assets		
Unrestricted		(388,569)
Temporarily restricted		2,075,232
Permanently restricted		387,312
TOTAL NET ASSETS		2,073,975
TOTAL LIABILITIES AND NET ASSETS	$	2,748,146

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

THE MOUNTAIN INSTITUTE

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Grants and contributions:				
Government grants	$ -	$ 1,011,915	$ -	$ 1,011,915
Private foundations	57,474	499,098	-	556,572
Multilateral organizations	-	449,152	-	449,152
Other organizations	81,727	31,617	-	113,344
Tuition and fees	380,851	6,598	-	387,449
Individual donations	182,861	173,163	-	356,024
Consultants and contracts	154,154	-	-	154,154
Investment income, net	18,018	35,704	-	53,722
Other income	8,852	9,868	-	18,720
Net assets released from restrictions:				
Satisfaction of purpose restrictions	2,579,699	(2,579,699)	-	-
TOTAL REVENUE AND SUPPORT	3,463,636	(362,584)	-	3,101,052
EXPENSES				
Program Services:				
Asia	1,024,071	-	-	1,024,071
North America	863,564	-	-	863,564
South America	794,735	-	-	794,735
Global	130,934	-	-	130,934
Total Program Services	2,813,304	-	-	2,813,304
Supporting Services:				
Management and general	600,505	-	-	600,505
Development and fundraising	102,100	-	-	102,100
Total Supporting Services	702,605	-	-	702,605
TOTAL EXPENSES	3,515,909	-	-	3,515,909
CHANGE IN NET ASSETS	(52,273)	(362,584)	-	(414,857)
NET ASSETS, BEGINNING OF YEAR	(336,296)	2,437,816	387,312	2,488,832
NET ASSETS, END OF YEAR	$ (388,569)	$ 2,075,232	$ 387,312	$ 2,073,975

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

THE MOUNTAIN INSTITUTE

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2011

	Program Services					Supporting Services		
	Asia	North America	South America	Global	Total Programs	Management and General	Development and Fundraising	Total
Salaries	$ 207,350	$ 343,861	$ 247,566	$ -	$ 798,777	$ 255,880	$ 55,089	$ 1,109,746
Subgrants	377,354	5,298	114,393	-	497,045	-	-	497,045
Consultants and contractors	76,626	119,699	124,422	2,500	323,247	89,233	2,871	415,351
Program supplies	88,731	125,221	25,578	63,444	302,974	9,603	6,411	318,988
Travel	63,152	95,798	44,646	-	203,596	91,360	19,876	314,832
Fringe benefits	104,208	57,060	65,430	63,229	289,927	20,187	4,199	314,313
Facilities and equipment rentals	14,524	12,078	32,292	-	58,894	21,921	600	81,415
Training and workshops	6,745	40,347	17,368	-	64,460	14,095	803	79,358
Equipment and software	1,315	4,561	69,226	1,235	76,337	288	-	76,625
Postage and shipping	53,508	2,886	2,089	383	58,866	1,809	1,770	62,445
Printing and publications	8,275	11,957	27,801	-	48,033	559	8,832	57,424
Legal, audit and accounting	-	-	-	-	-	41,904	-	41,904
Telecommunication	7,453	5,369	10,171	85	23,078	10,616	1,145	34,839
Interest and bank fees	2,304	156	3,635	42	6,137	18,830	-	24,967
Miscellaneous	1,118	274	-	-	1,392	19,448	-	20,840
Office supplies	8,021	2,284	6,042	16	16,363	2,928	504	19,795
Taxes, licenses and insurance	1,289	12,104	2,590	-	15,983	1,767	-	17,750
Utilities	2,098	12,873	1,486	-	16,457	77	-	16,534
Depreciation	-	11,738	-	-	11,738	-	-	11,738
Total Direct Expenses	1,024,071	863,564	794,735	130,934	2,813,304	600,505	102,100	3,515,909
Allocated indirect expenses	210,958	177,826	163,715	26,972	579,471	(600,505)	21,034	-
TOTAL EXPENSES	$ 1,235,029	$ 1,041,390	$ 958,450	$ 157,906	$ 3,392,775	$ -	$ 123,134	$ 3,515,909

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

THE MOUNTAIN INSTITUTE

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2011
Increase (Decrease) in Cash and Cash Equivalents

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	(414,857)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation		11,738
Realized gains on investments		(42,613)
Changes in assets and liabilities:		
Grants and contributions receivable		(3,226)
Employee and other receivables		(36,316)
Prepaid expenses		3,581
Accounts payable and accrued expenses		(75,507)
Refundable advances		33,950
NET CASH USED IN OPERATING ACTIVITIES		(523,250)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment		(6,650)
Purchases of investments		(578,930)
Proceeds from sales of investments		916,966
NET CASH PROVIDED BY INVESTING ACTIVITIES		331,386
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing of line of credit		188,000
Repayments of note payable		(42,518)
NET CASH PROVIDED BY FINANCING ACTIVITIES		145,482
NET DECREASE IN CASH AND CASH EQUIVALENTS		(46,382)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		272,020
CASH AND CASH EQUIVALENTS, END OF YEAR	$	225,638
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$	964

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

1. Organization and Summary of Significant Accounting Policies

Organization

The Mountain Institute (the Institute) is a nonprofit organization whose mission is to advance mountain cultures and preserve mountain environments. Founded in 1972, the Institute is headquartered in Washington, DC, and has offices and community-based programs in the Andean, Appalachian and Himalayan mountain ranges, as well as globally partnering with local people to strengthen their communities and to conserve their natural resources and cultural heritage.

The Institute's objectives are to:

- Conserve high-priority mountain ecosystems;
- Improve mountain livelihoods;
- Support mountain cultures; and
- Promote the well-being of mountain people through advocacy, education and outreach.

Cash and Cash Equivalents

The Institute considers all highly liquid investments with purchased maturities of three months or less to be cash equivalents. Cash and cash equivalents held in the Institute's endowment portfolio are considered investments, as such amounts are not available for the general operating support of the Institute.

Grants and Contributions Receivable

Grants and contributions receivable consist of amounts pledged as unconditional promises to give, obligations on federal grants and other amounts awarded for which the cash has not been received.

Investments

Investments are reported at fair value. Interest, dividends and realized gains or losses are recorded when earned. Fluctuations in the fair value of the investment portfolio are recorded as unrealized gains or losses. Funds that are part of the endowment portfolio are classified as long-term investments, regardless of maturity. Fair value is the price that would be received to sell an asset or liability through an orderly transaction between market participants at the measurement date.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

In accordance with the accounting standards for fair value measurements for those assets and liabilities that are measured at fair value on a recurring basis, as of and for the year ended September 30, 2011, the Institute has categorized its applicable financial instruments into a required fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Institute has the ability to access.

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

As of and for the year ended September 30, 2011, only the Institute's investments, as described in Note 3 of these financial statements, were measured at fair value on a recurring basis.

Property and Equipment and Related Accumulated Depreciation

Property and equipment are recorded at cost and are depreciated on a straight-line basis over the following estimated useful lives:

Building and improvements	5-20 years
Furniture and equipment	3-10 years
Vehicles	5 years

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Property and Equipment and Related Accumulated Depreciation (continued)

The Institute capitalizes all non-grant purchases of property and equipment in excess of $5,000. Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance costs are expensed as incurred. Upon the retirement or disposal of assets, the cost and accumulated depreciation is eliminated from the respective accounts and the resulting gain or loss, if any, is included in revenue and support or expenses.

Net Assets

The net assets of the Institute are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of the Institute's operations.
- Temporarily restricted net assets represent amounts restricted by the donor for a specific purpose or future use.
- Permanently restricted net assets represent amounts in which the donor has requested that the gift be held in perpetuity and only the earnings be used for purposes designated by the donor.

Revenue Recognition

The Institute reports gifts, contributions and grants of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the accompanying statement of activities as net assets released from restrictions.

Unrestricted contributions and grants are reported as revenue and support in the year in which the payments are received and/or unconditional promises are made. Revenue recognized on contributions and grants that have been committed to the Institute, but have not been received, is reflected as grants and contracts receivable in the accompanying statement of financial position. Amounts received in advance of incurring expenses under contracts is deferred upon receipt and recorded as refundable advances on the accompanying statement of financial position. Such amounts are recognized as revenue as expenses are incurred.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Functional Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated to the programs and supporting services benefited based on the percentage of the program's direct expenses less internal transfers.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Grants and Contributions Receivable

Grants and contributions receivable represent amounts due from individual donors and foundations. All amounts are due within one year and are considered fully collectible.

3. Investments

The Institute's investments as of September 30, 2011, including endowment investments of $387,312, consisted of certificates of deposit totaling $500,127 of September 30, 2011.

Investment income was composed of the following for the year ended September 30, 2011:

Interest and dividends, net of fees	$ 11,109
Realized gains	42,613
Total Investment Income	$ 53,722

Continued

3. Investments (continued)

The following table summarizes the Institute's investments measured at fair value on a recurring basis as of September 30, 2011:

	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of deposit	$ 500,127	$ -	$ 500,127	$ -
Total	$ 500,127	$ -	$ 500,127	$ -

The Institute used the following methods and significant assumptions to estimate fair value for assets recorded at fair value:

Certificates of deposit – Certificates of deposit have original maturity dates in excess of 90 days. A yield-based matrix system was used to arrive at an estimated market value for these instruments which are classified within Level 2 of the valuation hierarchy.

4. Property and Equipment

Property and equipment consisted of the following at September 30, 2011:

Building and improvements	$ 415,597
Land	268,828
Furniture and equipment	155,407
Vehicles	68,483
Total Property and Equipment	908,315
Less: Accumulated Depreciation	(576,798)
Net Property and Equipment	$ 331,517

5. Line of Credit

The Institute has entered into a $500,000 line of credit agreement with a bank. Amounts drawn on the line bear interest at a fixed rate of 3.15%. The line of credit is collateralized by the Institute's certificates of deposit held at the same bank. The amount drawn and outstanding on the line is $438,000 at September 30, 2011 and the amount is payable in full on February 28, 2014.

Subsequent to year-end, the Institute established a second line of credit at the same bank for $100,000. Amounts drawn on this line of credit bear interest at the bank's prime rate plus 0.5% but no lower than 4.75%. The second line of credit is secured by accounts receivable and is also due in full on February 28, 2014.

6. Temporarily Restricted Net Assets

As of September 30, 2011, temporarily restricted net assets are available for the following purposes:

South America	$ 681,796
North America	1,017,925
Asia	375,511
Total	$ 2,075,232

7. Endowment Funds

The Institute has a donor-restricted endowment fund established for the purpose of generating earnings to an educational program in West Virginia. As required by GAAP, net assets associated with endowment funds are classified and reported based on donor-imposed restrictions.

Continued

7. Endowment Funds (continued)

The Institute's endowment net assets composition by fund type was as follows as of September 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowments Funds	$ -	$ 253,162	$ 387,312	$ 640,474

Changes in endowment net assets were as follows for the year ended September 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 231,689	$ 387,312	$ 619,001
Investment returns:				
Investment income	-	9,731	-	9,731
Net appreciation (realized and unrealized)	-	25,973	-	25,973
Total Investment Return	-	35,704	-	35,704
Amounts appropriated for expenditure	-	14,231	-	14,231
Endowment net assets, end of year	$ -	$ 253,162	$ 387,312	$ 640,474

Permanently restricted net assets as of September 30, 2011:

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA:	$ 387,312

Temporarily restricted net assets as of September 30, 2011:

The portion of perpetual endowment funds subject to a time restriction under UPMIFA with purpose restrictions	$ 253,162

7. Endowment Funds (continued)

Interpretation of Relevant Law

The Board of Trustees of the Institute has interpreted the West Virginia Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. Investment returns on permanently restricted endowments are classified in accordance with donor specifications. When no specifications are outlined by the donor, investment earnings are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by UPMIFA.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual endowment funds may fall below the fair value of the original gift(s). Deficiencies of this nature are reported as part of unrestricted net assets. As of September 30, 2011, there were no such deficiencies.

Return Objectives and Risk Parameters

The Institute has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in funds to achieve growth in principal value and income over time sufficient to preserve or increase the purchasing power of the funds, thus protecting the funds against inflation. Actual returns in any given year may vary.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Institute relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Institute targets a diversified asset allocation, which is reviewed as necessary by the Board of Trustees.

Continued

8. Risks and Contingencies

Concentration of Risk

The Institute's cash is held in accounts at various financial institutions that, at times, exceed the amount guaranteed by the Federal Deposit Insurance Corporation and, therefore, bear some risk. The Institute has never experienced, nor does it anticipate any losses on its funds. As of September 30, 2011, uninsured amounts totaled $308,999.

Office of Management and Budget Circular A-133

The Institute has instructed its independent auditors to audit its applicable federal programs for the year ended September 30, 2011, in compliance with Circular A-133 issued by the U.S. Office of Management and Budget (OMB). Until such audit is reviewed and accepted by the contracting or granting agencies, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management believes that any matters arising from the reviews by the federal or state agencies of the independent auditor's reports for fiscal year 2011 will not have a material effect on the Institute's financial position as of September 30, 2011, or its results of operations for the year then ended.

Provisional Indirect Cost Rates

Billings under cost-reimbursable government contracts and grants are calculated using provisional rates that permit recovery of indirect costs. These rates are subject to audit by the U.S. Agency for International Development (USAID), the Institute's cognizant agency. The audit results in the negotiation and determination of the final indirect cost rates, which may create availability for indirect cost recovery for amounts billed in excess of the actual rates, or may allow for additional billings for unbilled indirect costs.

USAID audits costs related to U.S. government contracts and grants, in accordance with Circular A-122 issued by the OMB. USAID has yet to audit the costs and indirect cost rates for the years ended December 31, 2005, and 2006, and September 30, 2007, through 2010. (The Institute changed its year-end from December 31 to September 30 in 2007.) Management believes that cost disallowances, if any, arising from USAID's audits for 2010 and 2011 will not have a material effect on the Institute's financial position as September 30, 2011, or its results of operations for the year then ended.

Continued

9. Foreign Operations

The Institute has field offices in various foreign countries to implement grants received from the U.S. federal government, foreign governments, private foundations and other types of organizations in support of the Institute's public purpose. The future results of these programs could be adversely affected by a number of potential factors, such as currency devaluations or changes in the political climate. As of September 30, 2011, the Institute had cash in these foreign countries totaling approximately $54,964, representing approximately 2% of the Institute's total assets.

10. Pension Plan

The Institute maintains a defined contribution retirement plan pursuant to Section 403(b) of the Internal Revenue Code for all employees who work at least 30 hours per week. The Institute makes annual contributions to the plan based on a percentage of each participant's salary when funds are available. This percentage is determined annually by the Board of Trustees. Pension expense totaled $4,629 for the year ended September 30, 2011.

11. Management's Plan

The Mountain Institute's Board of Trustees and management continue to focus on strengthening the organization's financial position and its overall operations in order to ensure its long-term health and viability. In 2012, the Institute celebrates its fortieth anniversary. Management continues to aggressively work to reverse the Institute's negative net asset position and develop additional and sustainable long-term sources of funding. In September 2011, the Institute added a new Executive Director to strengthen the efforts to obtain new sources of funding, as well as to tighten its management. A Chief Financial Officer was employed in January 2012, and a new accountant was brought on in June 2012. Program Directors have been actively engaged in the preparation and submission of proposals for funding for the organization to both traditional and new donors. Work is ongoing to develop strategies to diversify and broaden institutional support, including unrestricted operating support. The Institute is also developing strategies to optimize cost recovery and accurately track project costs, enhancing financial reporting and streamlining administrative functions, and developing a budget process that aligns strategic objectives with the Institute's financial resources. Particular efforts are focused on the Spruce Knob facility to ensure that it more than covers its costs in the future. This past year has also seen efforts to build a stronger Board of Trustees to benefit the Institute and enable it to continue to advance and preserve mountain communities, cultures and environments.

Continued

12. Income Taxes

The Institute is exempt from the payment of taxes on income other than net unrelated business income under Section 501(c)(3) of the Internal Revenue Code. No provision for income taxes is required for the year ended September 30, 2011, as the Institute had no net unrelated business income.

Management of the Institute has evaluated its tax positions for the year ended September 30, 2011, in accordance with the authoritative guidance relating to accounting for uncertainty in income taxes included in Accounting Standards Codification Topic *Income Taxes* and has determined that the Institute has no material uncertain tax positions, and accordingly, it has not recognized any liability for unrecognized tax. For the year ended September 30, 2011, the statute of limitations for tax years 2007 through 2009 remains open in the major U.S. taxing jurisdictions in which the Institute is subject to taxation. The Institute's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of September 30, 2011, the Institute had no accrual for interest and/or penalties.

13. Subsequent Events

The Institute's management has evaluated subsequent events through August 9, 2012, the date the financial statements were available to be issued. There were no subsequent events identified through August 9, 2012, required to be disclosed in these financial statements.