The Mountain Institute

Financial Statements

For the Year Ended September 30, 2012

and
Report Thereon

Raffa

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, 2012, 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, 2012, 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, DC
October 3, 2013

THE MOUNTAIN INSTITUTE

STATEMENT OF FINANCIAL POSITION
September 30, 2012

ASSETS	
Current Assets	
Cash and cash equivalents	$ 259,607
Grants and contributions receivable	1,149,468
Employee and other receivables	121,556
Prepaid expenses	16,908
Total Current Assets	1,547,539
Investments	112,688
Endowment investments	387,312
Property and equipment, net	326,009
TOTAL ASSETS	$ 2,373,548
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable and accrued expenses	$ 281,711
Refundable advances	71,421
Total Current Liabilities	353,132
Lines of credit	578,000
TOTAL LIABILITIES	931,132
Net Assets	
Unrestricted	(734,724)
Temporarily restricted	1,789,828
Permanently restricted	387,312
TOTAL NET ASSETS	1,442,416
TOTAL LIABILITIES AND NET ASSETS	$ 2,373,548

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

THE MOUNTAIN INSTITUTE

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Grants and contributions:				
Multilateral organizations	$ -	$ 645,602	$ -	$ 645,602
Government grants	-	438,065	-	438,065
Private foundations	-	174,606	-	174,606
Other organizations	-	7,000	-	7,000
Tuition and fees	380,259	18,768	-	399,027
Consultants and contracts	472,544	-	-	472,544
Individual donations	102,419	38,094	-	140,513
Investment income, net	8,243	-	-	8,243
Net assets released from restrictions:				
Satisfaction of purpose restrictions	1,607,539	(1,607,539)	-	-
TOTAL REVENUE AND SUPPORT	2,571,004	(285,404)	-	2,285,600
EXPENSES				
Program Services:				
North America	815,129	-	-	815,129
Asia	638,202	-	-	638,202
South America	538,264	-	-	538,264
Global	245,577	-	-	245,577
Total Program Services	2,237,172	-	-	2,237,172
Supporting Services:				
Management and general	634,872	-	-	634,872
Development and fundraising	45,115	-	-	45,115
Total Supporting Services	679,987	-	-	679,987
TOTAL EXPENSES	2,917,159	-	-	2,917,159
CHANGE IN NET ASSETS	(346,155)	(285,404)	-	(631,559)
NET ASSETS, BEGINNING OF YEAR	(388,569)	2,075,232	387,312	2,073,975
NET ASSETS, END OF YEAR	$ (734,724)	$ 1,789,828	$ 387,312	$ 1,442,416

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

THE MOUNTAIN INSTITUTE

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2012

	Program Services					Supporting Services		
	North America	Asia	South America	Global	Total Programs	Management and General	Development and Fundraising	Total
Salaries	$ 299,659	$ 117,943	$ 164,005	$ 100,393	$ 682,000	$ 286,808	$ 25,781	$ 994,589
Subgrants	1,647	259,116	53,161	-	313,924	-	116	314,040
Consultants and contractors	138,873	40,674	92,765	50,508	322,820	66,779	-	389,599
Program supplies	124,503	48,574	21,763	12,908	207,748	7,461	7,257	222,466
Travel	114,165	46,651	31,822	42,403	235,041	12,439	76	247,556
Fringe benefits	87,515	42,077	33,832	26,756	190,180	110,072	10,020	310,272
Facilities and equipment rentals	5,267	10,656	17,792	5,532	39,247	24,011	-	63,258
Training and workshops	1,005	4,674	44,392	644	50,715	128	-	50,843
Equipment and software	8,544	2,121	2,272	49	12,986	12,866	16	25,868
Postage and shipping	1,250	29,153	1,197	257	31,857	1,534	45	33,436
Printing and publications	6,458	4,756	62,227	3,498	76,939	2,538	741	80,218
Legal, audit and accounting	-	-	-	-	-	48,413	-	48,413
Telecommunication	558	3,407	4,815	2,156	10,936	10,031	-	20,967
Interest and bank fees	63	21,182	3,368	32	24,645	23,046	-	47,691
Miscellaneous	247	-	-	-	247	5,026	148	5,421
Office supplies	2,515	5,306	2,154	24	9,999	3,792	915	14,706
Taxes, licenses and insurance	1,878	921	2,021	373	5,193	19,928	-	25,121
Utilities	9,849	991	678	44	11,562	-	-	11,562
Depreciation	11,133	-	-	-	11,133	-	-	11,133
Total Direct Expenses	815,129	638,202	538,264	245,577	2,237,172	634,872	45,115	2,917,159
Allocated indirect expenses	229,231	173,846	151,342	67,107	621,526	(634,225)	12,699	-
TOTAL EXPENSES	$ 1,044,360	$ 812,048	$ 689,606	$ 312,684	$ 2,858,698	$ 647	$ 57,814	$ 2,917,159

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

THE MOUNTAIN INSTITUTE

STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2012
Increase (Decrease) in Cash and Cash Equivalents

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ (631,559)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	11,133
Unrealized loss on investments	127
Changes in assets and liabilities:	
Grants and contributions receivable	352,323
Employee and other receivables	50,521
Prepaid expenses	88
Accounts payable and accrued expenses	114,413
Refundable advances	2,548
NET CASH USED IN OPERATING ACTIVITIES	(100,406)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(5,625)
NET CASH USED IN INVESTING ACTIVITIES	(5,625)
CASH FLOWS FROM FINANCING ACTIVITIES	
Borrowing of lines of credit	147,300
Repayments of lines of credit	(7,300)
NET CASH PROVIDED BY FINANCING ACTIVITIES	140,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	33,969
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	225,638
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 259,607
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid during the year for:	
Interest	$ 17,679

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.

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 yet 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 Measurement

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, 2012, 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, 2012, 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

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, 2012, including endowment investments of $387,312, totaled $500,000 and consisted of certificates of deposit.

Investment income was composed of the following for the year ended September 30, 2012:

Interest and dividends, net of fees	$ 8,370
Unrealized losses	(127)
Total Investment Income	$ 8,243

Continued

3. Investments (continued)

The following table summarizes the Institute's investments measured at fair value on a recurring basis as of September 30, 2012:

	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	$ 500,000	$ -	$ 500,000	$ -
Total	$ 500,000	$ -	$ 500,000	$ -

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, 2012:

Building and improvements	$ 415,597
Land	268,828
Furniture and equipment	155,407
Vehicles	74,109
Total Property and Equipment	913,941
Less: Accumulated Depreciation	(587,932)
Net Property and Equipment	$ 326,009

Continued

5. Lines 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 $498,000 at September 30, 2012, which is payable in full on February 28, 2014.

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 grants receivable. The amount drawn and outstanding on the line is $80,000 at September 30, 2012, which is payable in full on February 28, 2014.

6. Temporarily Restricted Net Assets

As of September 30, 2012, temporarily restricted net assets are available for the following purposes:

North America	$ 984,111
Asia	539,370
Global	135,865
Asia	130,482
Total	$ 1,789,828

7. Endowment Funds

The Institute has a donor-restricted endowment fund established for the purpose of generating earnings to support 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.

The Institute's endowment net assets composition by fund type was as follows as of September 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowments Funds	$ -	$ 261,405	$ 387,312	$ 648,717

Continued

7. Endowment Funds (continued)

Changes in endowment net assets were as follows for the year ended September 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 253,162	$ 387,312	$ 640,474
Investment returns:				
Investment income	-	8,243	-	8,243
Net appreciation (realized and unrealized)	-	-	-	-
Total Investment Return	-	8,243	-	8,243
Amounts appropriated for expenditure	-	-	-	-
Endowment net assets, end of year	$ -	$ 261,405	$ 387,312	$ 648,717

Permanently restricted net assets as of September 30, 2012:

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, 2012:

The portion of perpetual endowment funds subject to a time restriction under UPMIFA with purpose restrictions	$ 261,405

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.

Continued

7. Endowment Funds (continued)

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, 2012, 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 Trustees, 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.

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, 2012, uninsured amounts totaled $250,640.

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, 2012, 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 2012 will not have a material effect on the Institute's financial position as of September 30, 2012, or its results of operations for the year then ended.

Continued

8. Risks and Contingencies (continued)

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 year ended September 30, 2012. Management believes that cost disallowances, if any, arising from USAID's audit for 2012 will not have a material effect on the Institute's financial position as of September 30, 2012, or its results of operations for the year then ended.

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, 2012, the Institute had cash in these foreign countries totaling approximately $73,000, representing approximately 3% 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 elective 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. There were no pension contributions to the Plan for the year ended September 30, 2012.

11. Management's Plan

The Mountain Institute's Board of Trustees and management continue to prioritize strengthening the organization's financial position and solidifying its overall operations in order to ensure its long term wellbeing, viability, and mission oriented impact. Over the past twelve months, the Institute has hired a new Controller, relocated its accounting and finance operations to Washington, DC, and, through attrition, replaced its entire accounting team. This move has resulted in better financial management and closer collaboration between the Executive Director and the Controller. In addition to the changes made within the accounting

Continued

8. Risks and Contingencies (continued)

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Continued

11. Management's Plan (continued)

DC office, whose primary role is to support the organization's program staff in the preparation and submission of proposals for funding from both traditional and new donors. As a result of this collaborative effort, the number of proposals submitted to prospective donors has increased dramatically relative to prior years. In addition, the Institute updated its NICRA agreement with U.S. federal government for all prior years and has made strides in accurately tracing project costs, enhancing financial reporting, streamlining administrative functions, and updating internal policies and procedures.

The Board of Trustees and management will continue to develop strategies to diversify funding sources and broaden institutional support while at the same time strengthening the organization's service offerings. The Institute will continue its efforts to build a stronger Board of Trustees to oversee and support its mission of advancing and preserving mountain communities, cultures, and environments. Furthermore, the Institute will continue to strengthen fundraising from traditional and new donors, but will also develop and implement innovative strategies to increase unrestricted giving from individuals.

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, 2012, as the Institute had no net unrelated business income.

Management of the Institute has evaluated its tax positions for the year ended September 30, 2012, 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, 2012, the statute of limitations for tax years 2008 through 2010 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, 2012, the Institute had no accrual for interest and/or penalties.

13. Subsequent Events

The Institute's management has evaluated subsequent events through October 3, 2013, the date the financial statements were available to be issued. There were no subsequent events identified through October 3, 2013, required to be disclosed in these financial statements.