The Mountain Institute

Financial Statements

For the Year Ended September 30, 2013

and
Report Thereon

Reports Required in Accordance with Office of Management and Budget Circular A-133

For the Year Ended September 30, 2013

THE MOUNTAIN INSTITUTE

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For the Year Ended September 30, 2013

Raffa

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
The Mountain Institute

Report on the Financial Statements

We have audited the accompanying financial statements of The Mountain Institute (the Institute), which comprise the statement of financial position as of September 30, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Continued

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Mountain Institute as of September 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2014, on our consideration of the Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Institute's internal control over financial reporting and compliance.

Raffa, P.C.

Raffa, P.C.

Washington, DC
March 10, 2014

THE MOUNTAIN INSTITUTE

STATEMENT OF FINANCIAL POSITION
September 30, 2013

ASSETS	
Current Assets	
Cash and cash equivalents	$ 284,673
Grants and contributions receivable	1,665,505
Employee and other receivables	114,715
Prepaid expenses	3,202
Total Current Assets	2,068,095
Investments	112,688
Endowment investments	387,312
Property and equipment, net	330,551
TOTAL ASSETS	$ 2,898,646
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable and accrued expenses	$ 115,982
Refundable advances	13,863
Total Current Liabilities	129,845
Lines of credit	598,000
TOTAL LIABILITIES	727,845
Net Assets	
Unrestricted	(793,605)
Temporarily restricted	2,577,094
Permanently restricted	387,312
TOTAL NET ASSETS	2,170,801
TOTAL LIABILITIES AND NET ASSETS	$ 2,898,646

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

THE MOUNTAIN INSTITUTE

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Grants and contributions:				
Multilateral organizations	$ 37,087	$ 1,267,543	$ -	$ 1,304,630
Government grants	86,250	262,460	-	348,710
Private foundations	64,764	163,318	-	228,082
Other organizations	173,729	35,410	-	209,139
Consultants and contracts	542,950	281,659	-	824,609
Tuition and fees	407,715	-	-	407,715
Individual donations	91,278	-	-	91,278
Interest income	-	8,264	-	8,264
Net assets released from restrictions:				
Satisfaction of purpose restrictions	1,231,388	(1,231,388)	-	-
TOTAL REVENUE AND SUPPORT	2,635,161	787,266	-	3,422,427
EXPENSES				
Program Services:				
North America	759,428	-	-	759,428
Asia	573,375	-	-	573,375
Global	572,100	-	-	572,100
South America	253,901	-	-	253,901
Total Program Services	2,158,804	-	-	2,158,804
Supporting Services:				
Management and general	528,395	-	-	528,395
Development and fundraising	6,843	-	-	6,843
Total Supporting Services	535,238	-	-	535,238
TOTAL EXPENSES	2,694,042	-	-	2,694,042
CHANGE IN NET ASSETS	(58,881)	787,266	-	728,385
NET ASSETS, BEGINNING OF YEAR	(734,724)	1,789,828	387,312	1,442,416
NET ASSETS, END OF YEAR	$ (793,605)	$ 2,577,094	$ 387,312	$ 2,170,801

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

THE MOUNTAIN INSTITUTE

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2013

	Program Services					Supporting Services		
	North America	Asia	South America	Global	Total Programs	Management and General	Development and Fundraising	Total
Salaries	$ 270,710	$ 76,677	$ 65,475	$ 287,328	$ 700,190	$ 285,377	$ 3,423	$ 988,990
Consultants and contractors	138,561	56,388	61,961	96,406	353,316	-	-	353,316
Subgrants	23,094	274,786	7,206	1,469	306,555	-	-	306,555
Fringe benefits	65,083	23,313	9,682	76,247	174,325	104,892	1,203	280,420
Program supplies	117,004	46,027	7,594	16,850	187,475	2,149	-	189,624
Travel	70,714	29,335	13,359	44,752	158,160	19,877	-	178,037
Equipment and software	16,404	4,670	39,799	3,353	64,226	12,373	1,500	78,099
Training and workshops	2,260	13,402	14,988	17,692	48,342	5,981	-	54,323
Facilities and equipment rentals	6,689	5,677	9,258	9,566	31,190	20,834	-	52,024
Legal, audit and accounting	-	-	-	-	-	48,135	-	48,135
Postage and shipping	2,094	36,265	91	1,734	40,184	-	208	40,392
Interest and bank fees	175	597	2,612	93	3,477	23,599	53	27,129
Telecommunication	7,314	3,483	1,307	4,851	16,955	6,570	-	23,525
Taxes, licenses and insurance	711	323	27	2,793	3,854	15,892	-	19,746
Utilities	13,991	758	466	1,163	16,378	852	-	17,230
Office supplies	2,499	6,879	1,711	3,065	14,154	1,170	456	15,780
Repairs and maintenance	6,390	2,208	971	3,278	12,847	1,336	-	14,183
Printing and publications	6,349	2,085	-	1,194	9,628	276	-	9,904
Depreciation	9,386	-	-	-	9,386	-	-	9,386
Miscellaneous	-	-	876	266	1,142	4,974	-	6,116
Currency losses (gains)	-	(9,498)	16,518	-	7,020	(25,892)	-	(18,872)
Total Direct Expenses	759,428	573,375	253,901	572,100	2,158,804	528,395	6,843	2,694,042
Allocated indirect expenses	197,560	109,313	68,210	151,474	526,557	(528,395)	1,838	-
TOTAL EXPENSES	$ 956,988	$ 682,688	$ 322,111	$ 723,574	$ 2,685,361	$ -	$ 8,681	$ 2,694,042

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

THE MOUNTAIN INSTITUTE

STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2013
Increase (Decrease) in Cash and Cash Equivalents

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 728,385
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	9,386
Changes in assets and liabilities:	
Grants and contributions receivable	(516,037)
Employee and other receivables	6,841
Prepaid expenses	13,706
Accounts payable and accrued expenses	(165,729)
Refundable advances	(57,558)
NET CASH PROVIDED BY OPERATING ACTIVITIES	18,994
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(13,928)
NET CASH USED IN INVESTING ACTIVITIES	(13,928)
CASH FLOWS FROM FINANCING ACTIVITIES	
Borrowing of lines of credit	20,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	20,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	25,066
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	259,607
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 284,673
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid during the year for:	
Interest	$ 20,355

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. By prioritizing sustainable mountain development, the Institute partners 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, 2013, 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, 2013, 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	10-25 years
Furniture and equipment	3-5 years
Vehicles	4 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 grants and contributions are reported as revenue and support in the year in which the payments are received and/or unconditional promises are made. Revenue recognized on grants and contributions that have been committed to the Institute, but have not been received, is reflected as grants and contributions 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, foundations, federal agencies and foreign governments. All amounts are due within one year and are considered fully collectible.

3. Investments

The Institute's investments as of September 30, 2013, including endowment investments of $387,312, totaled $500,000 and consisted of certificates of deposit. Interest income totaled $8,264 for the year ended September 30, 2013.

The following table summarizes the Institute's investments measured at fair value on a recurring basis as of September 30, 2013:

	Fair Value	Quoted Prices in Active Markets for Identical Assets/ (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	$ -

Continued

3. Investments (continued)

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, 2013:

Building and improvements	$ 415,597
Land	268,828
Vehicles	31,698
Furniture and equipment	1,351
Total Property and Equipment	717,474
Less: Accumulated Depreciation	(386,923)
Net Property and Equipment	$ 330,551

Depreciation expense for the year ended September 30, 2013 was $9,386.

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, 2013, which is payable in full on February 28, 2014. Subsequent to year end, the line of credit was modified to extend the maturity date to February 28, 2016.

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 the Institute's grants receivable. The amount drawn and outstanding on the line is $100,000 at September 30, 2013, which is payable in full on February 18, 2014. Subsequent to year end, the line of credit was modified to extend the maturity date to February 28, 2015.

Continued

6. Temporarily Restricted Net Assets

As of September 30, 2013, temporarily restricted net assets are available for the following purposes:

South America	$ 1,298,381
North America	920,501
Asia	222,346
Global	135,866
Total	$ 2,577,094

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, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowments Funds	$ -	$ 269,669	$ 387,312	$ 656,981

Changes in endowment net assets were as follows for the year ended September 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 261,405	$ 387,312	$ 648,717
Investment returns:				
Investment income	-	8,264	-	8,264
Total Investment Return	-	8,264	-	8,264
Amounts appropriated for expenditure	-	-	-	-
Endowment net assets, end of year	$ -	$ 269,669	$ 387,312	$ 656,981

Continued

7. Endowment Funds (continued)

Permanently restricted net assets as of September 30, 2013:

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, 2013:

The portion of perpetual endowment funds subject to a time restriction under UPMIFA with purpose restrictions	$ 269,669

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, 2013, 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.

Continued

7. Endowment Funds (continued)

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, 2013, uninsured amounts totaled approximately $252,000.

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, 2013, 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 2013 will not have a material effect on the Institute's financial position as of September 30, 2013, 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 September 30, 2012 and 2013. Management believes that cost disallowances, if any, arising from USAID's audit for 2012 and 2013 will not have a material effect on the Institute's financial position as of September 30, 2013, 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, 2013, the Institute had cash in these foreign countries totaling approximately $80,000, 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, 2013.

11. Management's Plan

Building on organizational changes implemented in late 2012, the Institute's Board of Trustees and management have continued to focus on strengthening the organization's financial position and reinforcing its overall operations in order to ensure its long-term wellbeing, viability, and mission oriented impact. More specifically, during fiscal year 2013, the organization made important strides in the following areas:

- Strengthening and diversifying submissions for programmatic (restricted) funding. This included increasing the quantity of proposals presented to multi- and bilateral funding agencies and foundations. At the same time, vigorous tracking of proposals was instituted to assess approval rates and, where possible, reasons for success and rejection to maximize learning.
- The Board of Trustees and management strongly recognized the need to raise unrestricted funds in order to begin reversing the Institute's negative unrestricted net asset balance. Toward that end, an unrestricted giving strategy was developed and implemented that places a renewed focus on donor engagement, in order to broaden unrestricted institutional support from both traditional and new donors, particularly individuals.
- The Institute initiated a review of its overall institutional strategy, including an assessment of other organizations working in the same areas and topics (conservation, sustainable development, environmental education, etc.). This should enable better focusing of the Institute's potential services and products in light of needs, competition, opportunities for partnership, and the uniqueness of our offerings and skills.

Continued

11. Management's Plan (continued)

- The organization has made and is making a concerted effort to build a stronger Board of Trustees to oversee and support its mission of advancing and preserving mountain communities, cultures, and environments. Five new trustees have joined the Institute's Board in recent months, and the organization continues to actively seek out qualified candidates to serve on its Board of Trustees.
- Finally, in early 2014, the Institute hired a new Director of its Himalayan Programs, based in Kathmandu, Nepal, who has demonstrated a professional commitment to alleviating poverty, focusing on issues of social justice and equity. The Himalayan Program Director brings a wealth of experience in fundraising, project management and evaluation, social inclusion, and gender, and will help position the Institute to substantially expand its services to mountain communities and to contribute more effectively of the preservation of important mountain environments.
- Also, the Institute is actively seeking a new Director for its Appalachian Program which it anticipates filing by mid-year 2014. This renewal of key positions in the senior management team will further strengthen the organization's work going forward.

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, 2013, as the Institute had no net unrelated business income.

Management of the Institute has evaluated its tax positions for the year ended September 30, 2013, 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, 2013, the statute of limitations for tax years 2009 through 2011 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, 2013, the Institute had no accrual for interest and/or penalties.

13. Subsequent Events

The Institute's management has evaluated subsequent events through March 10, 2013, the date the financial statements were available to be issued. Other than the subsequent events in Notes 5, there were no other subsequent events that require recognition of, or disclosure in, the financial statements.

Raffa

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of
The Mountain Institute

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Mountain Institute (the Institute), which comprise the statement of financial position as of September 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Institute's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Raffa, P.C.

Raffa, P.C.

Washington, DC
March 10, 2014

Raffa

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Trustees of
The Mountain Institute

Report on Compliance for Each Major Federal Program

We have audited The Mountain Institute's (the Institute) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Institute's major federal programs for the year ended September 30, 2013. The Institute's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Institute's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Institute's compliance.

Opinion on Each Major Federal Program

In our opinion, the Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

Report on Internal Control Over Compliance

Management of the Institute is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Institute's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Raffa, P.C.

Raffa, P.C.

Washington, DC
March 10, 2014

THE MOUNTAIN INSTITUTE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal Agency or Pass-Through Grant Number	Federal CFDA Number	Federal Expenditures Direct	Indirect	Total
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT					
Building Climate Change Awareness and Resilience in the Ancash and Piura Watersheds of Northern Peru	527-A-00-04-00004-00	98.001	$ 561	$ 96	$ 657
Pass-through from International Resources Group, Inc.					
High Mountain Glacial Watershed Program	5010-CPFF1-TMI	98.001	563,835	96,585	660,420
TOTAL U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT			564,396	96,681	661,077
U.S. DEPARTMENT OF STATE					
Preservation of the 11th Century Richening Monastery in Halji Nepal	S-NP400-13-CA-148	19.XXX	3,370	-	3,370
U.S. DEPARTMENT OF COMMERCE					
Chesapeake Bay Watershed Education	NA12NMF4570016	11.457	24,406	4,410	28,816
U.S. DEPARTMENT OF THE INTERIOR					
Desert National Wildlife Refuge Complex	84550BJ003-01	15.235	102,998	21,259	124,257

Continued

THE MOUNTAIN INSTITUTE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal Agency or Pass-Through Grant Number	Federal CFDA Number	Federal Expenditures		
			Direct	Indirect	Total
U.S. DEPARTMENT OF AGRICULTURE					
Tribal Consultation and Stewardship Project on the Spring Mountains and Desert National Wildlife Refuge	AG-9360-C-10-0001	10.XXX	$ 57,400	$ 9,833	$ 67,233
Trail Maintenance and Restoration Project	12-CS-11092100-013	10.665	20,071	2,723	22,794
TOTAL U.S. DEPARTMENT OF AGRICULTURE			77,471	12,556	90,027
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 772,641**	**$ 134,906**	**$ 907,547**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2013

1. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting. Consequently, amounts are recorded as expenditures when the obligations are incurred.

2. Reconciliation of Financial Statements

For the year ended September 30, 2013, the Institute recognized revenue of $348,710 from government grants, of which $262,460 was from U.S. federal grants. Because all of the U.S. government grants are considered unconditional promises to give, accounting principles generally accepted in the United States require that the entire grant be recorded when promised. The Institute records revenue on federal grants based on the obligated amount of funds made by the federal agency. For U.S. government contracts, revenue is recognized at the amount billed or to the extent of expenses, whichever is greater. During the year ended September 30, 2013, the Institute incurred expenses of $907,547 on these U.S. federal awards.

THE MOUNTAIN INSTITUTE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2013

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: __X__ Unmodified ______ Qualified ______ Adverse ______ Disclaimer

Internal control over financial reporting:

- Material weakness(es) identified? ______ Yes __X__ No
- Significant deficiency(ies) indentified that are not considered to be material weaknesses? ______ Yes __X__ None Reported

Noncompliance material to financial statements noted? ______ Yes __X__ No

Federal Awards

Type of auditor's report issued on compliance for major programs: __X__ Unmodified ______ Qualified ______ Adverse ______ Disclaimer

Internal control over major programs:

- Material weakness(es) identified? ______ Yes __X__ No
- Significant deficiency(ies) indentified that are not considered to be material weaknesses? ______ Yes __X__ None Reported

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Subpart B, Section 510? ______ Yes __X__ No

Identification of Major Program(s):

Grant Number	Program Title
527-A-00-04-00004-00	Building Climate Change Awareness and Resilience in the Ancash and Piura Watersheds of Northern Peru
5010-CPFF1-TMI	High Mountain Glacial Watershed Program

Dollar threshold used to distinguish between Type A and Type B programs: $ 300,000

Auditee qualified as a low-risk auditee? __X__ Yes ______ No

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None required to be reported.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None required to be reported.