Financial Statements
and
Independent Auditors' Report
June 30, 2012 and 2011

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ROCKY MOUNTAIN INSTITUTE

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Rocky Mountain Institute
Boulder, Colorado

We have audited the accompanying statements of financial position of Rocky Mountain Institute ("RMI") (a Colorado non-profit corporation) as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of RMI's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 RMI's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Rocky Mountain Institute as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purposes of forming an opinion on the financial statements taken as a whole. The accompanying schedules on pages 22 and 23 are presented for purposes of additional analysis and are 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 audits 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 accompanying schedules are fairly stated in all material respects in relation to the financial statements taken as a whole.

Ehrhardt Keefe Steiner + Hottman PC

Ehrhardt Keefe Steiner & Hottman PC

September 17, 2012
Denver, Colorado

ROCKY MOUNTAIN INSTITUTE

Statements of Financial Position

	June 30, 2012	June 30, 2011
Assets		
Current assets		
Cash and cash equivalents	$ 926,287	$ 2,544,466
Investments	5,940,832	6,261,773
Accounts receivable, net of allowance for doubtful accounts of $32,850 and $15,000 (2012 and 2011, respectively)	587,865	245,393
Pledges receivable	324,000	-
Inventory	11,768	582
Other current receivables	19,673	52,420
Prepaid expenses	88,474	109,313
Total current assets	7,898,899	9,213,947
Long-term assets		
Property and equipment, net	1,626,392	1,492,886
Cash surrender value of life insurance policies	-	31,309
Investments restricted for endowments	708,309	746,828
Deposits	43,447	35,734
Other assets	3,000	3,000
Total long-term assets	2,381,148	2,309,757
Total assets	$ 10,280,047	$ 11,523,704
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 455,498	$ 286,221
Lines-of-credit	750,000	-
Compensated absences	204,427	227,602
Client retainers	52,582	86,479
Accrued salaries and benefits	526,023	958,923
Other accrued expenses	244,689	12,056
Notes payable	-	150,000
Bonds payable	20,865	19,599
Capital lease obligations	99,459	60,814
Total current liabilities	2,353,543	1,801,694
Long-term liabilities		
Bonds payable, net of current portion	278,174	299,029
Capital lease obligations, net of current portion	88,813	81,236
Total long-term liabilities	366,987	380,265
Total liabilities	2,720,530	2,181,959
Commitments		
Net assets		
Unrestricted	6,284,219	8,057,824
Temporarily restricted	561,144	573,188
Permanently restricted	714,154	710,733
Total net assets	7,559,517	9,341,745
Total liabilities and net assets	$ 10,280,047	$ 11,523,704

See notes to financial statements.

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Statements of Activities

	For the Years Ended							
	June 30, 2012				June 30, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support								
Applied research/consulting	$ 2,729,598	$ -	$ -	$ 2,729,598	$ 1,990,708	$ -	$ -	$ 1,990,708
Foundation and government grants	1,641,900	1,064,115	-	2,706,015	1,045,500	879,080	-	1,924,580
Individual and corporate contributions, net of direct benefit to donors of $190,273 (2012) and $4,937 (2011)	4,613,097	-	3,421	4,616,518	8,560,692	-	710	8,561,402
Publishing and royalty revenue	28,922	-	-	28,922	5,222	-	-	5,222
Contributed facilities/in-kind donations	135,000	-	-	135,000	135,000	-	-	135,000
Other revenue	27,738	-	-	27,738	75,641	-	-	75,641
Loss on other investments	-	-	-	-	(109,342)	-	-	(109,342)
Investment income	65,216	405	-	65,621	115,816	30	-	115,846
Net (loss) gain on investments	(427,732)	-	-	(427,732)	294,500	-	-	294,500
	8,813,739	1,064,520	3,421	9,881,680	12,113,737	879,110	710	12,993,557
Net assets released from restrictions	1,076,564	(1,076,564)	-	-	850,923	(850,923)	-	-
Total revenues, gains, and other support	9,890,303	(12,044)	3,421	9,881,680	12,964,660	28,187	710	12,993,557
Expenses								
Program services	8,892,069	-	-	8,892,069	8,519,936	-	-	8,519,936
Expenses paid on behalf of Windstar Land Conservancy	57,086	-	-	57,086	67,933	-	-	67,933
Management and general	1,436,423	-	-	1,436,423	1,585,290	-	-	1,585,290
Fundraising	1,278,330	-	-	1,278,330	1,163,702	-	-	1,163,702
Total expenses	11,663,908	-	-	11,663,908	11,336,861	-	-	11,336,861
Change in net assets	(1,773,605)	(12,044)	3,421	(1,782,228)	1,627,799	28,187	710	1,656,696
Net assets at beginning of year	8,057,824	573,188	710,733	9,341,745	6,430,025	545,001	710,023	7,685,049
Net assets at end of year	$ 6,284,219	$ 561,144	$ 714,154	$ 7,559,517	$ 8,057,824	$ 573,188	$ 710,733	$ 9,341,745

See notes to financial statements.

ROCKY MOUNTAIN INSTITUTE

Statements of Cash Flows

	For the Years Ended June 30, 2012	2011
Cash flows from operating activities		
Change in net assets	$ (1,782,228)	$ 1,656,696
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation expense	280,240	302,862
Provision for bad debt	17,850	(20,000)
Net loss (gain) on investments	427,732	(294,500)
Loss on other investment	-	159,334
Note payable forgiven	(150,000)	-
Permanently restricted contributions	(3,421)	(710)
Changes in assets and liabilities		
Accounts receivable	(360,322)	440,151
Pledges receivable	(324,000)	241,760
Inventory	(11,186)	15,838
Other current receivables, prepaid expenses, and deposits	45,873	(37,611)
Accounts payable	169,277	(87,993)
Compensated absences	(23,175)	(77,368)
Client retainers, accrued salaries and benefits, and other accrued expenses	(234,164)	(410,360)
	(165,296)	231,403
Net cash (used in) provided by operating activities	(1,947,524)	1,888,099
Cash flows from investing activities		
Net purchases of investments	(68,272)	(123,150)
Purchases of property and equipment	(284,542)	(124,412)
Change in cash surrender value of life insurance policies	31,309	6,481
Net cash used in investing activities	(321,505)	(241,081)
Cash flows from financing activities		
Draws from lines-of-credit	3,512,834	250,000
Payments on lines-of-credit	(2,762,834)	(250,000)
Payments on bonds payable, notes payable, and capital lease obligations	(102,571)	(235,783)
Permanently restricted contributions	3,421	710
Net cash provided by (used in) financing activities	650,850	(235,073)
Net change in cash and cash equivalents	(1,618,179)	1,411,945
Cash and cash equivalents, beginning of year	2,544,466	1,132,521
Cash and cash equivalents, end of year	$ 926,287	$ 2,544,466

Supplemental disclosure of cash flow information:

Interest paid was $71,630 and $40,181 for the years ended June 30, 2012 and 2011, respectively.

Supplemental disclosure of non-cash activity:

During the years ended June 30, 2012 and 2011, RMI entered into capital lease obligations in the amount of $129,204 and $116,042 for equipment, respectively.

See notes to financial statements.

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

Rocky Mountain Institute ("RMI"), located in Snowmass and Boulder, Colorado, is a non-profit corporation incorporated in the state of Colorado on April 26, 1982 and is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code ("IRC").

RMI is an independent, entrepreneurial, non-profit think-and-do tank. We envisage a world thriving, verdant, and secure, for all, forever. To that end, our mission is to drive the efficient and restorative use of resources.

Basis of Presentation

RMI reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

> Unrestricted amounts are those currently available at the discretion of the Board of Trustees for use in RMI's operations and those resources invested in property and equipment.
>
> Temporarily restricted amounts are monies restricted by donors specifically for certain time periods, purposes, or programs.
>
> Permanently restricted amounts are assets that must be maintained permanently by RMI as required by the donor, but RMI is permitted to use or expend part or all of any income derived from those assets.

Cash and Cash Equivalents

RMI considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, unless held for reinvestment as part of the investment portfolio or otherwise encumbered.

Investments

RMI reports investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values with realized and unrealized gains and losses included in the statements of activities. Approximately $0 and $505,000 of RMI's investment balances have been designated by the Board of Trustees for specific purposes as of June 30, 2012 and 2011, respectively.

Accounts Receivable

Accounts receivable represent amounts due resulting from the performance of services provided to other organizations. The provision for uncollectible amounts is continually reviewed and adjusted to maintain the allowance at a level considered adequate to cover future losses. The allowance is management's best estimate of uncollectible amounts and is determined based on historical performance that is tracked by RMI on an ongoing basis. The losses ultimately incurred could differ materially in the near term from the amounts estimated in determining the allowance.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Pledges Receivable

Pledges receivable represent unconditional promises to give and are recognized as revenue in the period pledged. Receivables that are expected to be collected within one year are recorded at their net realizable value, and those that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on these amounts was computed using a rate comparable to the interest rate earned on short-term investments. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met. Reserves for uncollectible pledges are assessed using the specific-identification method. There are no reserved pledges at June 30, 2012 and 2011.

Concentration of Risk

For the years ended June 30, 2012 and 2011, respectively, RMI had two applied research/consulting customers that accounted for 69% and three applied research/consulting customers that accounted for 73% of the accounts receivable balance. For the years ended June 30, 2012 and 2011, respectively, two donors were responsible for approximately 22% and one individual donor was responsible for approximately 47% of total revenues, gains, and other support.

Inventory

Inventory consists of printing costs of publications sold to the general public. These items are stated at the lower of cost (first-in, first-out method) or market.

Property and Equipment

Property and equipment having a unit cost of $5,000 or more are capitalized at cost by RMI. Donated fixed assets are capitalized at fair value at the date of donation. Depreciation is provided on the straight-line method based upon the estimated useful lives of the assets, which range from three to forty years.

Long-Lived Assets

RMI reviews its assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from future undiscounted cash flows. For assets that are held and used in operations, impairment losses are recorded for the difference between the carrying value and fair value of the long-lived asset. For assets that are held for sale, impairment losses are recorded for the difference between the carrying value and estimated costs to sell the asset. For the years ended June 30, 2012 and 2011, RMI has not recognized any impairment losses on long-lived assets.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Contributions

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions are recognized when cash or ownership of donated assets is unconditionally promised to RMI. Amounts of temporarily restricted contributions are subsequently released to unrestricted net assets when expenses have been incurred in satisfaction of those restrictions. Contributions received with donor-imposed conditions are recorded as refundable advances until the condition is met.

Consulting Fees

RMI consults for individuals, corporations, and governments and completes other research and education programs to advance its mission. These fees are recorded as revenue as the consulting projects are completed.

Grant Revenue and Expense

Research grant awards are accounted for as either contributions or exchange transactions based on the provisions of the award document. To the extent that grants are contributions, they are recognized as temporarily restricted support until all material restrictions placed on the award by the granting agency have been satisfied. The related revenue is reclassified to unrestricted net assets as the required restrictions are satisfied and is reported as such in the statements of activities. All expenses directly related to grant agreements are included in the program service expenses category as a reduction in unrestricted net assets on the accompanying statements of activities.

Contributed Facilities

RMI occupies, without charge, certain office space and facilities at the Windstar Land Conservancy (Note 12). Rental value is reflected in the financial statements as in-kind revenue and related expense of $135,000 for each of the years ended June 30, 2012 and 2011.

Functional Expenses

Expenses incurred directly for a program service are charged to such service. Fringe benefits are allocated to all services based on a pro-rata basis of total direct salary expenses incurred. Certain overhead costs are also allocated to services on a pro-rata basis of full-time equivalents by each service.

Income Taxes

RMI is a non-profit organization exempt from federal income taxes under Section 501(c)(3) of the IRC. Accordingly, no provisions for income taxes are made for federal, state, or local taxes.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

RMI applies a more-likely-than-not measurement methodology to reflect the financial statement impact of uncertain tax positions taken or expected to be taken in a tax return. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of June 30, 2012.

If incurred, interest and penalties associated with tax positions are recorded in the period assessed as general and administrative expense. No interest or penalties have been assessed as of June 30, 2012 and 2011. Tax years that remain subject to examination include 2009 through current for the federal return and 2008 through current for the Colorado return.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation.

Subsequent Events

RMI has evaluated all subsequent events through September 17, 2012, which is the date the financial statements were available to be issued. No additional events require disclosure based upon this evaluation.

Note 2 - Pledges Receivable

Grants receivable consist of grant payments expected to be collected within one year of the respective year-end date. Receivables at June 30, 2012 and 2011 totaled $324,000 and $0, respectively.

Note 3 - Investments

The following is a summary of investments at estimated fair value:

	June 30, 2012	June 30, 2011
Unrestricted		
Certificates of deposit	$ -	$ 1,083,764
Cash and money market funds	3,973,209	2,901,722
Mutual funds		
Fixed income	996,224	467,899
Equities	971,399	1,808,388
	1,967,623	2,276,287
Total unrestricted	5,940,832	6,261,773
Restricted		
Mutual funds		
Money market funds	293,782	297,923
Fixed income	249,382	243,292
Equities	165,145	205,613
Total restricted	708,309	746,828
Total investments	$ 6,649,141	$ 7,008,601

The following schedule summarizes the investment return and its classification in the statements of activities:

	For the Years Ended June 30, 2012	For the Years Ended June 30, 2011
Interest and dividend income	$ 102,221	$ 152,978
Investment management and custodian fees	(36,600)	(37,132)
Investment income	65,621	115,846
Realized loss on investments	(380,520)	(505,877)
Unrealized gain on investments	(47,212)	800,377
Net (loss) gain on investments	(427,732)	294,500
Total return on investments	$ (362,111)	$ 410,346

Note 4 - Fair Value Reporting

RMI values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy prioritizes and ranks the level of market price observability used in measuring financial assets at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Financial instruments measured on a recurring basis and reported at fair value are classified and disclosed in one of the following categories:

Level 1: Quoted prices are available in active markets for identical assets or liabilities that are accessible at the reporting date. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3: Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. RMI utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers if the counterparty is significant to the fair value measurement. These classifications (Levels 1, 2, and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity. All investments held by RMI are valued based on quoted market prices in active markets and, therefore, are classified as Level 1.

Note 5 - Property and Equipment

RMI's property and equipment are comprised of the following:

	June 30,	
	2012	2011
Buildings and improvements	$ 1,788,482	$ 1,624,268
Equipment	1,254,771	1,112,116
Land and land improvements	94,105	94,105
Furniture	291,927	185,050
Vehicles	57,887	57,887
Intellectual property licenses	100,000	100,000
	3,587,172	3,173,426
Less accumulated depreciation and amortization	(1,960,780)	(1,680,540)
Property and equipment, net	$ 1,626,392	$ 1,492,886

Note 6 - Lines-of-Credit

RMI has two lines-of-credit available to assist with operating cash needs. The first line-of-credit is for $1,500,000 and is available until November 2012. As of June 30, 2012, the stated interest rate was 4.75%. This line-of-credit is collateralized by an investment account, and as of June 30, 2012 and 2011, the outstanding balance on this line-of-credit was $750,000 and $0, respectively. The second line-of-credit is for $1,500,000 and is available until January 2013. As of June 30, 2012, the stated interest rate was 5.00%. This line-of-credit is collateralized by a savings account and real property, and as of June 30, 2012 and 2011, there were no outstanding balances on this line of credit.

Note 7 - Notes Payable

RMI had a note payable with a related party with a balance of $150,000 at June 30, 2011. The note payable was forgiven during the year ended June 30, 2012.

Note 8 - Industrial Revenue Bonds

RMI funded the purchase of an additional staff housing complex through the issuance of the "Town of Basalt, Colorado, Industrial Development Revenue Bond (Rocky Mountain Institute Project) Series 2001" authorized by Pitkin County. The bond issuance closed on October 5, 2001. The bonds are secured by the staff housing complex and future rents. RMI is obligated to pay the bond holders $474,000, accruing interest at a fixed rate of 6.03% per annum through September 25, 2011 and, thereafter, bearing interest on the unpaid balance, as adjusted on September 25, 2011 and again on September 25, 2016, at a rate based on the prime rate. The final maturity of the bond is September 25, 2021. Payment of the principal and interest on the bonds shall be made (unless accelerated pursuant to the bond document) by making equal monthly payments of principal and interest totaling $3,194 with any remaining balance due on September 25, 2021.

The principal repayment schedule is as follows:

For the Year Ending June 30,	
2013	$ 20,865
2014	22,159
2015	23,533
2016	24,955
2017	26,539
Thereafter	180,988
	$ 299,039

Note 9 - Capitalized Lease Obligations

RMI has acquired assets under the provisions of 14 long-term leases. For financial reporting purposes, minimum lease payments relating to the assets have been capitalized. The leases expire from March 2013 to September 2015. Amortization of the leased property is included in depreciation expense.

The assets under capital leases have cost and accumulated amortization at June 30, 2012 as follows:

Capital leased assets	$ 317,506
Less accumulated amortization	(123,882)
	$ 193,624

Note 9 - Capitalized Lease Obligations (continued)

Maturities of capital lease obligations are as follows:

Year Ending June 30,	
2013	$ 110,842
2014	63,324
2015	27,398
2016	4,351
Total minimum lease payments	205,915
Amount representing interest	(17,643)
Present value of net minimum lease payments	188,272
Less current portion	(99,459)
Long-term capital lease obligation	$ 88,813

Note 10 - Retirement Plans

403(b) Plan

RMI offers to its staff the option to participate in a deferred compensation plan pursuant to IRC Section 403(b). Staff contributions are voluntary and are made on a pre-tax basis. RMI matches 100% of eligible participants' contributions, up to 5% of eligible participants' compensation. Employer contributions of $187,051 and $232,787 were made and are included in the statements of activities for the years ended June 30, 2012 and 2011, respectively.

457(f) Plan

RMI has a 457(f) plan (the "457(f) plan"), which allows a select group of management and employees to receive employer contributions. Employer deferrals made during the years ended June 30, 2012 and 2011 were $82,691 and $133,176, respectively. In February 2011, RMI paid $238,000 to one of the 457(f) plan participants due to the participant's reaching vesting age as defined in the 457(f) plan agreement. The 457(f) plan is partially funded, and RMI reports the deferrals and related cash funding in other accrued expenses and cash and cash equivalents, respectively, in the accompanying statements of financial position. RMI expects to fully fund and pay out a total of $379,000 to the final participant in the 457(f) plan when the participant reaches vesting age during November 2012.

Note 11 - Net Assets

In 2010, RMI implemented a Designated Funding Policy for the purpose of designating unrestricted operating funds for future use and specified purposes. RMI establishes designations of these funds for activities and projects specifically approved by the Programmatic Review and Evaluation Panel ("PREP"). As of June 30, 2012 and 2011, approximately $2,500,000 and $3,254,000 of unrestricted net assets was considered designated under this policy.

Note 11 - Net Assets (continued)

Funds restricted by the donor, grantor, or other outside party for particular operating purposes or for property and equipment acquisitions are deemed to be temporarily restricted until RMI has incurred expenditures in compliance with the specific restrictions. Temporarily restricted net assets represent amounts that have been restricted by donors for the following purposes:

	June 30,	
	2012	2011
Transportation	$ 206,693	$ 9,917
Super efficient housing	146,437	-
Administration	133,289	172,216
Electricity	59,285	200,000
Endowment funds	11,995	11,590
Legacy consulting	3,420	-
Buildings	25	-
Reinventing fire	-	179,435
	$ 561,144	$ 573,158

RMI considers donations for general support that have not been received to have an implicit time restriction on the use of these assets. Such contributions are considered temporarily restricted until they are received.

The permanently restricted net assets represent the net proceeds of donations, which have been restricted by the donors to be used only for the following purposes:

	June 30,	
	2012	2011
Semmer Endowment	$ 112,829	$ 109,408
Rocky Mountain Institute Endowment	25,000	25,000
Windstar Land Conservancy Endowment	576,325	576,325
	$ 714,154	$ 710,733

Note 12 - Windstar Land Conservancy

In 1995, RMI purchased a 50% interest in a property. At the time of RMI's purchase, Windstar Foundation ("WF") owned the remaining 50%. In conjunction with the purchase, RMI and WF agreed to transfer their property to a charitable, not-for-profit organization that is named Windstar Land Conservancy ("WLC"). Currently, WLC is controlled by two Board members selected by RMI, two Board members selected by WF, and one at-large Board member. WLC owns land in Snowmass Creek Valley, which is held for the purpose of preservation in perpetuity. According to the interim agreement dated November 2, 2000, RMI incurs all costs associated with WLC and is responsible for the daily management of WLC. In return, RMI occupies the majority of the office space owned by WLC without rent. Additionally, RMI has variance power over grant revenue and interest income related to the endowments that RMI has raised funds for on behalf of WLC; therefore, these funds are reported as a component of RMI's permanently restricted net assets. The investment value of the endowments as of June 30, 2012 and 2011 recorded on the books of RMI was $571,852 and $603,007, respectively. At the end of the interim agreement, the endowments may be transferred to WLC if certain conditions are met. For each of the years ended June 30, 2012 and 2011, RMI recorded $135,000 of imputed rent related to the use of the WLC facility. RMI incurred $57,086 and $67,933 of expenses on behalf of WLC for the years ended June 30, 2012 and 2011, respectively. Because the Board of Directors is not controlled by RMI, the operations of WLC are not consolidated in the accompanying financial statements.

Note 13 - Staff Housing

RMI owns a duplex, a triplex, and a quadplex near RMI's Snowmass office and rents these living spaces to the employees of RMI. Rent is deducted from the employees' weekly compensation. Rental income of $16,037 and $8,529 was withheld from employees' paychecks for the years ended June 30, 2012 and 2011, respectively, and is included in other revenue in the accompanying statements of activities. As of June 30, 2012 and 2011, the net book value of the staff housing units is $702,465 and $623,867, respectively, and is included in buildings and improvements.

Note 14 - Investment in Fiberforge Corporation

RMI owns 1.17% of Fiberforge Corporation ("Fiberforge"). Fiberforge is a product of RMI's research on efficient electric vehicles and manufacturing processes for advanced materials. The investment in Fiberforge was previously reported using the equity method of accounting. RMI's share of Fiberforge's net losses is in excess of the carrying value of its investment in Fiberforge. RMI is not responsible for losses of Fiberforge in excess of its investment and, therefore, is no longer reflecting its share of Fiberforge's losses and may only reflect its share of Fiberforge's future earnings to the extent that they exceed RMI's share of Fiberforge's cumulative unrecognized net losses. During the year ended June 30, 2008, the investment in Fiberforge was reduced to $0, and RMI began reporting the investment using the cost method.

Note 14 - Investment in Fiberforge Corporation (continued)

In April 2004, RMI extended a line-of-credit to Fiberforge for $750,000 with a 3% interest rate plus the prime lending rate in effect at the time of disbursement. In accordance with GAAP, the value of the loan was reported at $0 due to RMI's share of Fiberforge's prior years' losses being in excess of the investment and loan balance. Fiberforge owed RMI $625,000 as of June 30, 2012 and 2011. The book value of the loan is $0 at June 30, 2012 and 2011.

In December 2010, RMI amended its line-of-credit with Fiberforge and deferred the commencement of principal payments until January 2013, as well as extended the due date of the line-of-credit to January 2015. In addition, under the amended line-of-credit, all accrued and unpaid interest due on the line-of-credit was converted into convertible preferred stock of Fiberforge at $7.50 per share. For calendar years beginning after December 31, 2010 until the note is paid, Fiberforge will pay any accrued interest annually in arrears in additional convertible preferred stock or cash at Fiberforge's discretion. Additionally, up to $300,000 of the line-of-credit can be repaid in convertible preferred stock. Due to the cumulative net losses of Fiberforge, RMI did not assign any value to these shares of convertible preferred stock as of their issuance date. At June 30, 2012, RMI concluded the convertible preferred stock did not have a fair market value.

Note 15 - Investment in Bright Automotive

RMI owns 1.33% of Bright Automotive, Inc. ("Bright Automotive"). Bright Automotive, located in Anderson, Indiana, is a product of RMI's research on efficient vehicles. RMI contributed the technology in return for ownership units in Bright Automotive. The investment is reported using the cost method of accounting, which was initially recorded at $0, as no tangible assets were exchanged for RMI's ownership interest.

Note 16 - Commitments

Operating Leases

RMI leases several of its facilities and equipment under operating leases expiring through January 2013. Rent expense for the years ended June 30, 2012 and 2011 was $574,788 and $470,278, respectively.

Future minimum lease payments, including triple net lease expenses, are approximately as follows:

For the Year Ending June 30,	
2013	$ 400,171
2014	212,889
	$ 613,060

Note 17 - Health Insurance Program

RMI had a self-insurance program for hospitalization and medical coverage for its employees. RMI limited its losses through the use of stop-loss policies from reinsurers. Specific individual losses for claims were limited to $40,000 per year. RMI's aggregate annual loss limitation was based on a formula that considers, among other things, the total number of employees. During the years ended June 30, 2012 and 2011, expenses totaled $2,251 and $277,882, respectively, under the program. RMI has accrued a liability of $0 and $3,564 for the expected claims that had been incurred but not paid as of June 30, 2012 and 2011, respectively. During the year ended June 30, 2012, RMI terminated its self-insurance program and obtained health insurance for its employees through a third-party provider.

Note 18 - Endowments

RMI's endowments consist of three individual funds. The endowments consist of donor-restricted endowment funds including funds designated by the RMI Board of Trustees. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of RMI has interpreted the Colorado 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, RMI classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowments, (b) the original value of subsequent gifts to the permanent endowments, and (c) accumulations to the permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by RMI in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, RMI considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund

(2) The purposes of the organization and the donor-restricted endowment fund

(3) General economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the organization

(7) The investment policies of the organization

Note 18 - Endowments (continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires RMI to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $(15,430) and $0 as of June 30, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that were deemed prudent by the Board of Trustees.

Return Objectives and Risk Parameters

RMI has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that RMI must hold in perpetuity or for a donor-specified period(s) as well as Board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results based on the following:

- An allocated "growth" portfolio with 30% fixed income, 65% global equities, and 5% REITs.
- The portfolio uses a comparative benchmark of 30% Barclay's Aggregate Bond Index, 30% S&P Index, 10% Russell 2000 Index, 25% MSCI EAFE Index, and 5% NAREIT Index.

RMI expects its endowment funds, over time, to provide an average rate of return of approximately 6%-8% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, RMI 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). RMI targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Each year, RMI's policy allows for the distribution of 2%-4% of its endowment fund's average fair value over the prior 12 quarters through the calendar year proceeding the fiscal year in which the distribution is planned. In establishing this policy, RMI considered the long-term expected return on its endowments. Accordingly, over the long-term, RMI expects the current spending policy to allow its endowments to grow at an average of 4% annually. This is consistent with RMI's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 18 - Endowments (continued)

Endowment net asset composition by type of fund as of June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 11,995	$ 137,829	$ 149,824
Windstar-restricted endowment fund	(15,430)	-	576,325	560,895
Total funds	$ (15,430)	$ 11,995	$ 714,154	$ 710,719

Endowment net asset composition by type of fund as of June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 11,590	$ 134,408	$ 145,998
Windstar-restricted endowment fund	24,505	-	576,325	600,830
Total funds	$ 24,505	$ 11,590	$ 710,733	$ 746,828

Changes in invested endowment assets for the year ended June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	$ 24,505	$ 11,590	$ 710,733	$ 746,828
Investment return				
Investment income	11,306	-	-	11,306
Net (depreciation) appreciation, net of fees	(51,241)	405	-	(50,836)
Total investment return	(39,935)	405	-	(39,530)
Contributions	-	-	3,421	3,421
Appropriation of endowment assets for expenditure	-	-	-	-
Endowment assets, end of year	$ (15,430)	$ 11,995	$ 714,154	$ 710,719

Note 18 - Endowments (continued)

Changes in invested endowment assets for the year ended June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	$ (17,813)	$ 11,560	$ 710,023	$ 703,770
Investment return				
Investment income	15,811	-	-	15,811
Net appreciation, net of fees	26,507	30	-	26,537
Total investment return	42,318	30	-	42,348
Contributions	-	-	710	710
Appropriation of endowment assets for expenditure	-	-	-	-
Endowment assets, end of year	$ 24,505	$ 11,590	$ 710,733	$ 746,828

Note 19 - Option to Purchase Basalt Land

During the year ended June 30, 2011, RMI entered into an option contract to purchase approximately 0.5 acres of property in the town of Basalt, Colorado, for a total of $600,000. Under the terms of this option contract, RMI deposited earnest money totaling $5,000 and has until January 2014 to exercise this option. The option contract also contains special financing provisions should RMI exercise the option. Through the date of this report, RMI has not exercised this option.

SUPPLEMENTARY INFORMATION

ROCKY MOUNTAIN INSTITUTE

Schedule of Functional Expenses
Year Ended June 30, 2012

	Research and Consulting	Office of the Chief Scientist	Communications	Total Program Services	Windstar Land Conservancy	Management and General	Fundraising	Total
Operating expenses								
Salaries	$ 3,749,618	$ 293,525	$ 750,010	$ 4,793,153	$ 23,649	$ 585,905	$ 714,159	$ 6,116,866
Benefits	762,162	141,653	163,479	1,067,294	3,956	124,121	143,882	1,339,253
Accounting fees	-	-	-	-	-	20,069	-	20,069
Advertising	-	-	620	620	-	-	-	620
Appliances and furnishing expenses	-	-	-	-	-	13,788	-	13,788
Audit	-	-	-	-	-	51,801	-	51,801
Auto expense - lease expense	-	-	-	-	-	3,153	-	3,153
Auto expense - gas and maintenance	-	-	-	-	5,256	374	-	5,630
Bad debt/professional discounts	18,000	-	-	18,000	-	-	-	18,000
Bank, credit card charges	318	25	-	343	-	9,220	6,052	15,615
Board meeting expenses	-	-	-	-	-	29,161	-	29,161
Computer equipment	(150)	2,145	152	2,147	-	12,604	167	14,918
Computer software	3,248	250	4,259	7,757	-	11,084	12,379	31,220
Consultants and subcontractors	591,719	7,521	389,792	989,032	-	63,855	58,891	1,111,778
Donations	-	-	-	-	-	-	-	-
Dues, subscriptions, and memberships	2,425	455	759	3,639	-	18,674	505	22,818
Reproduction costs	27,996	1,671	6,134	35,801	-	14,818	4,462	55,081
General insurance	25,183	46,643	5,517	77,343	11,402	5,500	4,014	98,259
Legal	-	-	198	198	-	18,098	-	18,296
Library expense	170	192	778	1,140	-	4,589	91	5,820
Licenses and registration	3,719	350	10	4,079	228	14,396	-	18,703
Memberships	950	-	300	1,250	-	3,058	99	4,407
Miscellaneous	188	194	472	854	-	5,746	1,145	7,745
Office expense	10,634	1,434	2,409	14,477	-	3,394	6,809	24,680
Other reimbursable expense	57,754	-	-	57,754	-	-	-	57,754
Outreach	260	100	28,540	28,900	-	28	80	29,008
Postage and freight	5,755	2,196	2,543	10,494	-	3,236	25,656	39,386
Printing	2,971	2,089	64,592	69,652	-	859	56,111	126,622
Professional development	10,016	-	2,034	12,050	-	2,843	2,399	17,292
Property taxes	-	-	-	-	-	5,517	-	5,517
Public relations	-	-	5,999	5,999	-	-	-	5,999
Recruiting expenses	74,919	-	11,053	85,972	-	33,158	11,053	130,183
Rent expense	285,972	27,591	61,077	374,640	-	98,086	46,979	519,705
Repairs and maintenance	3,134	186	687	4,007	10,207	15,628	500	30,342
Research materials	359	312	-	671	-	12,506	-	13,177
Software maintenance	25,923	-	5,185	31,108	-	15,554	30,023	76,685
Supplies	-	-	-	-	2,149	15,651	-	17,800
Telephone	100,177	13,542	22,516	136,235	-	76,985	20,421	233,641
Tools	-	-	1,079	1,079	239	105	-	1,423
Travel, meals, and meetings	607,792	100,496	45,515	753,803	-	33,361	88,053	875,217
Utilities	13,871	827	3,035	17,733	-	53,042	2,208	72,983
Web site	80	36	31,577	31,693	-	200	-	31,893
Total operating expenses	6,385,163	643,433	1,610,321	8,638,917	57,086	1,380,167	1,236,138	11,312,308
Other expenses								
Depreciation expense	159,737	8,407	33,629	201,773	-	44,838	33,629	280,240
Interest expense	40,675	2,141	8,563	51,379	-	11,418	8,563	71,360
Total other expenses	200,412	10,548	42,192	253,152	-	56,256	42,192	351,600
Total expenses	$ 6,585,575	$ 653,981	$ 1,652,513	$ 8,892,069	$ 57,086	$ 1,436,423	$ 1,278,330	$ 11,663,908

ROCKY MOUNTAIN INSTITUTE

Schedule of Functional Expenses
Year Ended June 30, 2011

	Research and Consulting	Office of the Chief Scientist	Communications	Total Program Services	Windstar Land Conservancy	Management and General	Fundraising	Total
Operating expenses								
Salaries	$ 4,283,140	$ -	$ 864,929	$ 5,148,069	$ 29,283	$ 697,973	$ 660,927	$ 6,536,252
Benefits	759,293	-	169,916	929,209	5,941	201,349	164,977	1,301,476
Accounting fees	-	-	-	-	-	20,629	-	20,629
Appliances and furnishing expense	-	-	-	-	-	6,249	-	6,249
Audit	-	-	-	-	-	46,830	-	46,830
Auto expense - lease expense	-	-	-	-	-	3,153	-	3,153
Auto expense - gas and maintenance	105	-	-	105	4,408	3,831	-	8,344
Bad debt/professional discounts	31,112	-	-	31,112	-	-	-	31,112
Bank, credit card charges	1,484	-	90	1,574	-	10,512	3,516	15,602
Board meeting expenses	-	-	10	10	-	6,696	14	6,720
Computer equipment	3,896	-	462	4,358	-	1,159	403	5,920
Computer software	8,716	-	1,368	10,084	-	3,012	1,048	14,144
Consultants and subcontracts	918,907	-	34,555	953,462	350	48,244	54,456	1,056,512
Donations	-	-	-	-	-	-	1,000	1,000
Dues, subscriptions, and memberships	2,919	-	2,698	5,617	-	19,829	130	25,576
Reproduction costs	28,015	-	4,794	32,809	-	11,037	3,953	47,799
General insurance	41,232	-	4,304	45,536	12,918	2,216	3,549	64,219
Legal	3,084	-	-	3,084	-	16,597	-	19,681
Library expense	38	-	-	38	-	5,036	-	5,074
Licenses and registration	4,040	-	65	4,105	126	9,338	1,200	14,769
Memberships	1,320	-	-	1,320	-	8,007	715	10,042
Miscellaneous	31,656	-	289	31,945	-	28,700	728	61,373
Office expense	13,066	-	1,950	15,016	-	3,673	3,882	22,571
Outreach	50	-	30,303	30,353	-	550	54	30,957
Postage and freight	617	-	5,326	5,943	-	6,269	30,891	43,103
Printing	1,876	-	57,083	58,959	-	1,115	44,429	104,503
Professional development	6,670	-	2,087	8,757	-	4,289	211	13,257
Property taxes	-	-	-	-	-	9,643	-	9,643
Publications expense	-	-	4,222	4,222	-	-	-	4,222
Recruiting expenses	9,659	-	5,950	15,609	-	3,482	1,414	20,505
Rent expense	199,430	-	54,050	253,480	-	121,359	47,640	422,479
Repairs and maintenance	4,918	-	842	5,760	10,187	20,467	694	37,108
Research materials	163	-	-	163	-	699	40	902
Software maintenance	-	-	-	-	-	42,426	23,408	65,834
Supplies	7,072	-	-	7,072	4,720	7,072	-	18,864
Telephone	139,440	-	24,189	163,629	-	68,913	18,296	250,838
Tools	-	-	-	-	-	20	-	20
Travel, meals, and meetings	473,210	-	14,542	487,752	-	8,584	65,899	562,235
Utilities	12,869	-	2,715	15,584	-	58,038	2,239	75,861
Web site	24	-	12,874	12,898	-	149	-	13,047
Total operating expenses	6,988,021	-	1,299,613	8,287,634	67,933	1,507,145	1,135,713	10,998,425
Other expenses								
Depreciation expense	177,507	-	30,377	207,884	-	69,931	25,047	302,862
Interest expense	20,850	-	3,568	24,418	-	8,214	2,942	35,574
Total other expenses	198,357	-	33,945	232,302	-	78,145	27,989	338,436
Total expenses	$ 7,186,378	$ -	$ 1,333,558	$ 8,519,936	$ 67,933	$ 1,585,290	$ 1,163,702	$ 11,336,861