



**Financial Statements
and
Independent Auditors' Report
June 30, 2008 and 2007**

EKS&H
**EHRHARDT • KEEFE
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CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

ROCKY MOUNTAIN INSTITUTE

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
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, 2008 and 2007, 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 examining, on a test basis, evidence supporting the amounts, and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 RMI as of June 30, 2008 and 2007, and the results of its activities 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 made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information included in the accompanying schedules is presented only for supplementary analysis purposes and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ehrhardt Keefe Steiner + Hottman PC

Ehrhardt Keefe Steiner & Hottman PC

August 25, 2008
Denver, Colorado

ROCKY MOUNTAIN INSTITUTE

Statements of Financial Position

		June 30,	
		2008	2007
Assets			
Current assets			
Cash and cash equivalents	\$	83,884	\$ 270,048
Restricted cash		2,804	137,704
Investments		5,913,467	5,709,637
Accounts receivable, net allowance for doubtful accounts of \$15,000 (2008) and \$92,102 (2007)		2,037,435	1,725,953
Pledges receivable		463,800	650,000
Inventory		48,570	39,495
Other current receivables		106,678	-
Prepaid expenses		84,591	115,072
Total current assets		8,741,229	8,647,909
Long-term assets			
Property and equipment, net		1,679,006	1,688,647
Pledges receivable, net of current portion		-	226,197
Cash surrender value of life insurance policies		45,029	53,316
Investments restricted for endowment		722,488	740,988
Deposits		23,066	20,206
Other assets		19,908	19,908
Total long-term assets		2,489,497	2,749,262
Total assets	\$	11,230,726	\$ 11,397,171
Liabilities and Net Assets			
Current liabilities			
Accounts payable	\$	745,518	\$ 568,315
Checks written in excess of bank balance		43,233	-
Lines-of-credit		920,593	1,060,955
Compensated absences liability		278,832	204,406
Other accrued expenses		858,694	621,169
Notes payable		411,990	308,205
Bonds payable		16,406	18,612
Capital lease obligations		20,957	-
Total current liabilities		3,296,223	2,781,662
Long-term liabilities			
Note payable, net of current portion		233,729	440,655
Bonds payable, net of current portion		354,554	367,738
Capital lease obligations, net of current portion		35,294	-
Total long-term liabilities		623,577	808,393
Total liabilities		3,919,800	3,590,055
Commitments			
Net assets			
Unrestricted		5,152,548	5,357,307
Temporarily restricted		1,475,009	1,766,540
Permanently restricted		683,369	683,269
Total net assets		7,310,926	7,807,116
Total liabilities and net assets	\$	11,230,726	\$ 11,397,171

See notes to financial statements.

ROCKY MOUNTAIN INSTITUTE

Statements of Activities

	For the Years Ended							
	June 30, 2008				June 30, 2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support								
Applied research/consulting	\$ 5,226,669	\$ -	\$ -	\$ 5,226,669	\$ 4,464,183	\$ -	\$ -	\$ 4,464,183
Foundation and government grants	739,250	1,830,789	-	2,570,039	494,967	1,858,040	-	2,353,007
Individual and corporate contributions, net of direct benefit to donors of \$677,791 (2008) and \$0 (2007)	4,321,429	251,107	100	4,572,636	2,338,494	13,334	-	2,351,828
Publishing and royalty revenue	41,053	-	-	41,053	93,468	-	-	93,468
Contributed facilities/in-kind donations	139,479	-	-	139,479	135,000	-	-	135,000
Other revenue	185,675	-	-	185,675	180,469	-	-	180,469
Gain on sale of assets	74,684	-	-	74,684	-	-	-	-
Gain (loss) on other investments	125,000	-	-	125,000	(183,673)	-	-	(183,673)
Investment income	223,623	-	-	223,623	254,991	-	-	254,991
Net gain (loss) on investments	<u>(342,159)</u>	<u>-</u>	<u>-</u>	<u>(342,159)</u>	<u>341,540</u>	<u>-</u>	<u>-</u>	<u>341,540</u>
	10,734,703	2,081,896	100	12,816,699	8,119,439	1,871,374	-	9,990,813
Net assets released from restrictions	<u>2,373,427</u>	<u>(2,373,427)</u>	<u>-</u>	<u>-</u>	<u>2,618,028</u>	<u>(2,618,028)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>13,108,130</u>	<u>(291,531)</u>	<u>100</u>	<u>12,816,699</u>	<u>10,737,467</u>	<u>(746,654)</u>	<u>-</u>	<u>9,990,813</u>
Expenses								
Program services	10,255,375	-	-	10,255,375	6,883,958	-	-	6,883,958
Expenses paid on behalf of Windstar Land Conservancy (WLC)	73,015	-	-	73,015	105,263	-	-	105,263
Management and general	1,849,296	-	-	1,849,296	2,049,052	-	-	2,049,052
Fundraising	1,135,203	-	-	1,135,203	869,809	-	-	869,809
Total expenses	<u>13,312,889</u>	<u>-</u>	<u>-</u>	<u>13,312,889</u>	<u>9,908,082</u>	<u>-</u>	<u>-</u>	<u>9,908,082</u>
Change in net assets	(204,759)	(291,531)	100	(496,190)	829,385	(746,654)	-	82,731
Net assets at beginning of year	<u>5,357,307</u>	<u>1,766,540</u>	<u>683,269</u>	<u>7,807,116</u>	<u>4,527,922</u>	<u>2,513,194</u>	<u>683,269</u>	<u>7,724,385</u>
Net assets at end of year	<u>\$ 5,152,548</u>	<u>\$ 1,475,009</u>	<u>\$ 683,369</u>	<u>\$ 7,310,926</u>	<u>\$ 5,357,307</u>	<u>\$ 1,766,540</u>	<u>\$ 683,269</u>	<u>\$ 7,807,116</u>

See notes to financial statements.

ROCKY MOUNTAIN INSTITUTE

Statements of Cash Flows

	For the Years Ended	
	June 30,	
	2008	2007
Cash flows from operating activities		
Change in net assets	\$ (496,190)	\$ 82,731
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation expense	161,199	117,063
Bad debt expense	63,489	73,991
Gain on disposition of assets	(74,684)	-
Loss (gain) on investments	342,159	(341,540)
Loss (gain) on other investments	(125,000)	183,673
Changes in assets and liabilities		
Accounts receivable	(374,971)	(885,955)
Pledges receivable	412,397	65,159
Inventory	(9,075)	47,979
Other current receivables, prepaid expenses, and deposits	(79,057)	(109,915)
Accounts payable	177,203	459,760
Compensated absences liability	74,426	(19,454)
Other accrued expenses	237,525	125,773
	805,611	(283,466)
Net cash provided by (used in) operating activities	309,421	(200,735)
Cash flows from investing activities		
Net sales (purchases) of investments	(527,489)	33,210
Purchases of property and equipment	(825,226)	(8,074)
Proceeds from sale of property and equipment	815,336	-
Change in restricted cash	134,900	659,988
Change in cash surrender value of life insurance policies	8,287	-
Payment received on note receivable	125,000	-
Net cash (used in) provided by investing activities	(269,192)	685,124
Cash flows from financing activities		
Checks written in excess of bank balance	43,233	-
Draws from lines of credit	918,000	60,000
Payments on lines of credit	(1,058,362)	(199,045)
Payments on bonds payable, notes payable, and capital lease obligations	(129,264)	(162,141)
Net cash used in financing activities	(226,393)	(301,186)
Net change in cash and cash equivalents	(186,164)	183,203
Cash and cash equivalents at beginning of year	270,048	86,845
Cash and cash equivalents at end of year	\$ 83,884	\$ 270,048

Supplemental disclosure of cash flow information:

Interest paid was \$89,432 and \$147,411 for the years ended June 30, 2008 and 2007, respectively.

Supplemental disclosure of non-cash activity:

During the year ended June 30, 2008, the Organization entered into capital lease obligations in the amount of \$66,984 for equipment.

See notes to financial statements.

ROCKY MOUNTAIN INSTITUTE

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.

RMI's core mission is to foster the efficient restorative development of natural, human, and other capital to make the world secure, just, prosperous, and life-sustaining. RMI carries out its mission by inspiring business, civil society, and government to design integrative solutions that create true wealth.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS 117, RMI is required to report 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 Directors 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. At June 30, 2008, RMI had cash in excess of federally insured limits totaling approximately \$130,000.

Restricted Cash

Restricted cash consists of cash required to be used under the terms of grants agreements.

Investments

RMI accounts for investments in accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, RMI is required to report 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 statement of activities.

ROCKY MOUNTAIN INSTITUTE

Notes to Financial Statements

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

Accounts Receivable

Accounts receivable represents 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.

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, 2008 and 2007.

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 \$3,500 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 five to forty years.

Long-Lived Assets

RMI accounts for long-lived assets in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of 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, less estimated costs to sell the asset. For the years ended June 30, 2008 and 2007, RMI has not recognized any impairment losses on long-lived assets.

ROCKY MOUNTAIN INSTITUTE

Notes to Financial Statements

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

Contributions

RMI accounts for contributions pursuant to SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, 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 with individuals, corporations, and governments, and completes other research and education programs to educate the public on environmental issues. These fees are recorded as revenue as the consulting projects are completed.

Grant Revenue and Expense

Research grant awards of \$2,570,039 and \$2,353,007, for the years ended June 30, 2008 and 2007, respectively, 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 11). Fair 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, 2008 and 2007.

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. Allocations of certain overhead costs are also allocated to services on a pro-rata basis of total space occupied by each service.

Income Taxes

RMI is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. RMI is not a private foundation within the meaning of Section 509(a) of the Code.

ROCKY MOUNTAIN INSTITUTE

Notes to Financial Statements

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

Use of Estimates

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

Reclassifications

Net asset balances reported in the 2007 financial statements totaling \$241,239 have been reclassified from the temporarily restricted category to unrestricted based on management's assessment that restrictions were previously satisfied.

Note 2 - Pledges Receivable

Pledges receivable are as follows:

	<u>June 30,</u>	
	<u>2008</u>	<u>2007</u>
Grant receivables, less than one year	\$ 613,800	\$ 650,000
Grant receivables, one to five years	-	250,000
Present value discount	-	(23,803)
	<u>613,800</u>	<u>876,197</u>
Less current portion	<u>(613,800)</u>	<u>(650,000)</u>
	<u>\$ -</u>	<u>\$ 226,197</u>

The discount rate was 5.13% for the year ended June 30, 2007.

ROCKY MOUNTAIN INSTITUTE

Notes to Financial Statements

Note 3 - Investments

The following is a summary of investments at fair value:

	June 30.	
	2008	2007
Unrestricted		
Certificate of deposit	\$ 1,049,897	\$ 1,095,115
Mutual funds		
Money market funds	2,262,120	317,258
Fixed income	1,216,142	1,386,924
Equities	1,254,203	2,802,339
Real estate	131,105	108,001
	4,863,570	4,614,522
Total unrestricted	5,913,467	5,709,637
Restricted		
Mutual funds		
Money market funds	273,019	40,921
Fixed income	290,926	324,205
Equities	147,134	363,725
Real estate	11,408	12,137
Total restricted	722,487	740,988
Total investments	\$ 6,635,954	\$ 6,450,625

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

	For the Years Ended June 30.	
	2008	2007
Interest and dividend income	\$ 250,399	\$ 280,173
Investment management and custodian fees	(26,776)	(25,182)
Investment income	223,623	254,991
Realized losses on investments	(259,716)	(61,824)
Unrealized gains on investments	(82,443)	403,364
Net gain on investments	(342,159)	341,540
Total return on investments	\$ (118,536)	\$ 596,531

ROCKY MOUNTAIN INSTITUTE

Notes to Financial Statements

Note 4 - Property and Equipment

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

	<u>June 30,</u>	
	<u>2008</u>	<u>2007</u>
Buildings and improvements	\$ 1,371,061	\$ 1,774,865
Equipment	787,613	499,485
Land and land improvements	94,105	94,105
Furniture	146,899	74,706
Vehicles	57,887	51,767
Intellectual property licenses	<u>100,000</u>	<u>-</u>
	2,557,565	2,494,928
Less accumulated depreciation and amortization	<u>(878,559)</u>	<u>(806,281)</u>
Property and equipment, net	<u>\$ 1,679,006</u>	<u>\$ 1,688,647</u>

Note 5 - Lines-of-Credit

RMI has two lines-of-credit available to assist with operating cash needs. The first line for \$1,000,000 is available until May 2009. As of June 30, 2008, the stated interest rate was 4.50%. This line is collateralized by an investment account. The second line is for \$1,000,000 and has a stated interest rate of 5.5%, maturing in May 2009. This line is collateralized by a deed of trust on real estate and certificate of deposit. As of June 30, 2008 and 2007, \$920,593 and \$1,060,955 was outstanding, respectively, on the lines-of-credit.

Note 6 - Notes Payable

	<u>June 30,</u>	
	<u>2008</u>	<u>2007</u>
Term loans dated between December 2000 and June 2006, maturities ranging from five to ten years with fixed interest rates ranging from 4.75% to 7%, payable monthly, annually, and in lump sums. These loans are unsecured.	\$ 295,719	\$ 373,860
Term loans dated between August 2003 and December 2004, with maturities of five to ten years, and fixed interest rates of 4% to 5%, payable in lump sums. These notes are callable with written notice 60 to 90 days in advance. As of the date of this report, these loans have not been called. These loans are unsecured.	100,000	125,000

ROCKY MOUNTAIN INSTITUTE

Notes to Financial Statements

Note 6 - Notes Payable (continued)

	<u>June 30,</u>	
	<u>2008</u>	<u>2007</u>
Note payable dated October 2000 with a related party. The note has an indefinite due date and a portion may be forgiven at the discretion of the note holder. The note is callable with written notice 90 days in advance (considered due in 2008 on the following maturity schedule). The note is non-interest bearing and unsecured. During the year ended June 30, 2007, a second note in the amount of \$50,000 was forgiven.	<u>250,000</u>	<u>250,000</u>
	645,719	748,860
Less current portion	<u>(411,990)</u>	<u>(308,205)</u>
Long-term portion of notes payable	<u>\$ 233,729</u>	<u>\$ 440,655</u>

Notwithstanding the call provisions, notes payable mature as follows:

For the Year Ending June 30,

2009	\$ 411,990
2010	65,693
2011	<u>168,036</u>
	<u>\$ 645,719</u>

Note 7 - 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 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 \$3,194 with any remaining balance due on September 25, 2021.

ROCKY MOUNTAIN INSTITUTE

Notes to Financial Statements

Note 7 - Industrial Revenue Bonds (continued)

The principal repayment schedule is as follows:

For the Year Ending June 30,

2009	\$	16,406
2010		17,423
2011		18,503
2012		19,599
2013		20,866
Thereafter		<u>278,163</u>
	\$	<u>370,960</u>

Note 8 - Capitalized Lease Obligations

RMI has acquired assets under the provisions of two long-term leases. For financial reporting purposes, minimum lease payments relating to the assets have been capitalized. The leases expire from December 17, 2010 to October 2010. Amortization of the leased property is included in depreciation expense.

The assets under capital leases have cost and accumulated amortization at June 30, 2008 as follows:

Capital leased assets	\$	66,984
Less accumulated amortization		<u>(9,837)</u>
	\$	<u>57,147</u>

Maturities of capital lease obligations are as follows:

Year Ending June 30,

2009	\$	30,525
2010		28,119
2011		<u>8,514</u>
Total minimum lease payments		67,158
Amount representing interest		<u>(10,907)</u>
Present value of net minimum lease payments		56,251
Less current portion		<u>(20,957)</u>
Long-term capital lease obligation	\$	<u>35,294</u>

ROCKY MOUNTAIN INSTITUTE

Notes to Financial Statements

Note 9 - Retirement Plan

RMI offers to its staff the option to participate in a deferred compensation plan pursuant to Internal Revenue Code Section 403(b). Staff contributions are voluntary and are made on a pretax basis. RMI has no obligation to make employer contributions. Employer contributions of \$180,682 and \$124,899 were made and are included in the statements of activities for the years ended June 30, 2008 and 2007, respectively.

Note 10 - Temporarily and Permanently Restricted Net Assets

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.	
	2008	2007
Built Environment	\$ 589,933	\$ 163,783
Winning the Oil End Game	415,736	255,005
Administration	294,225	635,980
Energy	174,683	322,993
Office of Chief Scientist Integrative design	432	51,953
Development	-	303,799
Research and Consulting Administration	-	23,500
Communications	-	9,527
	<u>\$ 1,475,009</u>	<u>\$ 1,766,540</u>

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.	
	2008	2007
Semmer Endowment	\$ 107,044	\$ 106,944
Windstar Land Conservancy Endowment	<u>576,325</u>	<u>576,325</u>
	<u>\$ 683,369</u>	<u>\$ 683,269</u>

ROCKY MOUNTAIN INSTITUTE

Notes to Financial Statements

Note 11 - 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 other 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. 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 endowment that RMI has raised funds for on behalf of WLC, and therefore, these funds are reported as a component of RMI's permanently restricted net assets. The investment value of the endowment as of June 30, 2008 and 2007 recorded on the books of RMI was \$589,554 and \$601,146, respectively. At the end of the interim agreement, the endowment may be transferred to WLC if certain conditions are met. For each of the years ended June 30, 2008 and 2007, RMI recorded \$135,000 of imputed rent related to the use of the WLC facility. RMI incurred \$73,015 and \$105,263 of expenses on behalf of WLC for the years ended June 30, 2008 and 2007, respectively. Because the board of directors is not controlled by RMI, the operations of WLC are not consolidated in the accompanying financial statements.

Note 12 - Staff Housing

RMI owns a house, duplex, triplex, and a quadplex near RMI's headquarters and rents these living spaces to the employees of RMI. Rent is deducted from the employees' weekly compensation. Rental income of \$154,596 and \$139,652 was withheld from employees' paychecks for the years ended June 30, 2008 and 2007, respectively and is included in other revenue in the accompanying statement of activities. As of June 30, 2008 and 2007, the net book value of the staff housing units is \$628,894 and \$645,662, respectively, and is included in buildings and improvements.

Note 13 - Investment in Hypercar, Inc.

RMI owns 9.29% of Hypercar, Inc., d.b.a. Fiberforge (Hypercar). Hypercar is a product of RMI's research on efficient electric vehicles and manufacturing processes for advanced materials. The investment in Hypercar was previously reported using the equity method of accounting. RMI's share of Hypercar's net losses is in excess of the carrying value of its investment in Hypercar. RMI is not responsible for losses of Hypercar in excess of its investment, and therefore is no longer reflecting its share of Hypercar's losses and may only reflect its share of Hypercar's future earnings to the extent that they exceed RMI's share of Hypercar's cumulative unrecognized net losses. During the year ended June 30, 2008, the investment in Hypercar was reduced and RMI began reporting the investment using the cost method.

ROCKY MOUNTAIN INSTITUTE

Notes to Financial Statements

Note 13 - Investment in Hypercar, Inc. (continued)

In April 2004, RMI extended a line of credit to Hypercar for \$750,000 at a 3% interest rate plus the prime lending rate in effect at the time of disbursement. In accordance with APB 18, *The Equity Method of Accounting for Investments in Common Stock*, and EITF D-68, *Accounting by an Equity Method Investor for Investee Losses When The Investor Has Loans to and Investments in Other Securities of an Investee*, the value of the loan has been reduced by \$83,673 for the year ended June 30, 2007, which represents RMI's share of Hypercar's net loss for the year to the extent RMI had a positive balance remaining related to the investment. During the year ended June 30, 2008, RMI recorded a gain of \$125,000 related to a payment on the note receivable. As of June 30, 2008 and 2007, Hypercar owed to RMI \$625,000 and \$750,000, respectively, and payments were current as of June 30, 2008. The book value of the loan is \$0 at June 30, 2008 and 2007.

Note 14 - Investment in Bright Automotive

RMI owns 15.38% of Solutions System Partners, LLC dba Bright Automotive (SSP). Bright Automotive is a product of RMI's research on efficient electric vehicles and manufacturing processes for advanced materials. During the year ended June 30, 2008, RMI contributed the technology in return for ownership units in SSP. The investment is reported using the cost method of accounting, which was initially recorded at \$0 because no tangible assets were exchanged for RMI's ownership interest.

Note 15 - Sale Leaseback

During the year ended June 30, 2008, RMI sold its interest in the Snowmass property and leased back a portion of the property for a two-year term at \$3,800 a month. As the leased portion of the property was determined to be minor, the related gain totaling \$124,862 was recognized in its entirety in the statement of activities. For the year ended June 30, 2008, the rent expense totaled \$15,200 (Note 16).

Note 16 - Commitments

Operating Leases

RMI leases several of its facilities and equipment under operating leases expiring through March 2011. Rent expense for the years ended June 30, 2008 and 2007 was \$423,756 and \$276,058, respectively.

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Notes to Financial Statements

Note 16 - Commitments (continued)

Operating Leases (continued)

Future minimum lease payments are approximately as follows:

For the Year Ending June 30,

2009	\$	472,654
2010		412,060
2011		<u>256,410</u>
	\$	<u>1,141,124</u>

Note 17 - Health Insurance Program

RMI has a self-insurance program for hospitalization and medical coverage for its employees. RMI limits its losses through the use of stop-loss policies from reinsurers. Specific individual losses for claims are limited to \$25,000 per year. RMI's aggregate annual loss limitation is based on a formula that considers, among other things, the total number of employees. During the years ended June 30, 2008 and 2007, RMI paid \$440,015 and \$388,878, respectively, under the program. RMI has accrued a liability of \$21,303 and \$75,054, for the expected claims that had been incurred but not paid as of June 30, 2008 and 2007, respectively.

ACCOMPANYING INFORMATION

ROCKY MOUNTAIN INSTITUTE

**Schedule of Functional Expenses
Year Ended June 30, 2008**

	<u>Research and Consulting</u>	<u>Communications</u>	<u>Total Program Services</u>	<u>Windstar Land Conservancy</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Operating expenses							
Salaries	\$ 4,701,583	\$ 785,601	\$ 5,487,184	\$ 40,674	\$ 808,756	\$ 672,114	\$ 7,008,728
Benefits	809,056	145,823	954,879	5,369	174,390	91,169	1,225,807
Accounting fees	-	-	-	-	19,058	-	19,058
Advertising	648	-	648	-	-	-	648
Appliances and furnishing expenses	10,326	1,726	12,052	-	4,485	1,468	18,005
Audit	-	-	-	-	47,491	-	47,491
Auto expense - lease expense	3,797	635	4,432	-	427	540	5,399
Auto expense - gas and maintenance	9,534	2,520	12,054	2,946	2,436	1,356	18,792
Bad debt/professional discounts	121	8	129	-	63,360	-	63,489
Bank, credit card charges	330	-	330	-	23,895	67	24,292
Board meeting expenses	-	-	-	-	9,103	-	9,103
Computer equipment	127,606	27,839	155,445	-	53,189	7,821	216,455
Computer software	14,677	3,299	17,976	-	4,613	2,858	25,447
Consultants and subcontractors	1,169,365	61,949	1,231,314	-	41,644	16,309	1,289,267
Donations	500	-	500	-	1,000	-	1,500
Dues, subscriptions, and memberships	4,760	5,493	10,253	-	12,304	1,608	24,165
Reproduction costs	13,233	2,030	15,263	-	19,520	292	35,075
General insurance	4,196	-	4,196	9,654	38,509	-	52,359
Legal	-	4,278	4,278	-	29,811	-	34,089
Library expense	3,126	1,254	4,380	-	86	41	4,507
Licenses and registration	3,503	1,774	5,277	126	4,761	893	11,057
Memberships	9,256	413	9,669	-	2,211	472	12,352
Merchandise expense	1,734	1,048	2,782	-	182	369	3,333
Miscellaneous	4,728	2,038	6,766	-	8,379	2,321	17,466
Office expense	12,929	7,277	20,206	-	43,700	1,813	65,719
Office reimbursables	100,379	12,403	112,782	-	29,560	97	142,439
Outreach	6,995	42,662	49,657	-	-	1,557	51,214
Postage and freight	5,024	2,027	7,051	-	15,798	20,497	43,346
Printing	9,159	65,743	74,902	-	7,378	19,699	101,979
Professional development	51,758	13,080	64,838	-	23,489	2,088	90,415
Publications expense	-	11,509	11,509	-	-	-	11,509
Recruiting expenses	53,390	24,833	78,223	-	23,962	79,290	181,475
Rent expense	277,404	54,162	331,566	2,735	43,027	46,428	423,756
Repairs and maintenance	22,559	3,397	25,956	6,344	77,515	2,868	112,683
Software maintenance	-	-	-	-	14,519	10,243	24,762
Supplies	10,508	2,656	13,164	585	7,014	1,370	22,133
Taxes	-	-	-	-	6,714	-	6,714
Telephone	166,063	32,134	198,197	1,536	10,684	27,534	237,951
Tools	770	122	892	-	116	94	1,102
Travel, meals, and meetings	861,782	80,011	941,793	-	113,324	73,331	1,128,448
Utilities	56,391	11,062	67,453	574	11,471	9,485	88,983
Web site	6,225	20,894	27,119	-	-	350	27,469
Total operating expenses	<u>8,533,415</u>	<u>1,431,700</u>	<u>9,965,115</u>	<u>70,543</u>	<u>1,797,881</u>	<u>1,096,442</u>	<u>12,929,981</u>
Other expenses							
Depreciation expense	102,155	20,040	122,195	1,041	21,558	16,405	161,199
Facilities contributed expense	85,552	16,783	102,335	871	18,180	13,614	135,000
Interest expense	54,950	10,780	65,730	560	11,677	8,742	86,709
Total other expenses	<u>242,657</u>	<u>47,603</u>	<u>290,260</u>	<u>2,472</u>	<u>51,415</u>	<u>38,761</u>	<u>382,908</u>
Total expenses	<u>\$ 8,776,072</u>	<u>\$ 1,479,303</u>	<u>\$ 10,255,375</u>	<u>\$ 73,015</u>	<u>\$ 1,849,296</u>	<u>\$ 1,135,203</u>	<u>\$ 13,312,889</u>

ROCKY MOUNTAIN INSTITUTE

**Schedule of Functional Expenses
Year Ended June 30, 2007**

	<u>Research and Consulting</u>	<u>Communications</u>	<u>Total Program Services</u>	<u>Windstar Land Conservancy</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Operating expenses							
Salaries	\$ 3,267,807	\$ 302,184	\$ 3,569,991	\$ 66,429	\$ 830,974	\$ 535,483	\$ 5,002,877
Benefits	630,030	70,508	700,538	7,574	230,679	72,460	1,011,251
Accounting fees	-	-	-	-	9,935	-	9,935
Advertising	-	1,294	1,294	-	-	1,744	3,038
Appliances and furnishing expenses	2,625	-	2,625	-	4,689	-	7,314
Annual meeting expense	-	-	-	-	86,825	-	86,825
Audit	-	-	-	-	5,398	-	5,398
Auto expense - gas and maintenance	302	157	459	-	5,907	34	6,400
Bad debt/professional	71,996	198	72,194	-	1,797	-	73,991
Bank, credit card charges	-	-	-	-	18,058	-	18,058
Board meeting expenses	20	-	20	-	2,924	7	2,951
Computer equipment	53,035	2,953	55,988	-	36,062	10,548	102,598
Computer software	7,622	1,182	8,804	-	29,326	-	38,130
Consultants and subcontracts	813,980	3,825	817,805	9,987	223,894	14,942	1,066,628
Donations	-	-	-	-	100	-	100
Dues and subscriptions	5,466	1,407	6,873	-	2,944	1,092	10,909
General insurance	-	-	-	11,302	23,703	-	35,005
Legal	7,448	1,422	8,870	-	15,134	-	24,004
Library expense	3,283	125	3,408	-	312	-	3,720
Licenses and registration	2,620	-	2,620	100	2,912	21	5,653
Memberships	2,467	1,730	4,197	-	933	585	5,715
Merchandise expense	314	3,987	4,301	-	60	459	4,820
Miscellaneous	13,442	170	13,612	-	510	1,813	15,935
Office expense	45,109	8,328	53,437	-	57,391	1,489	112,317
Office reimbursables	60,488	4,189	64,677	-	14,224	31,128	110,029
Outreach	6,555	3,950	10,505	-	779	67	11,351
Postage and freight	8,244	3,042	11,286	-	11,077	15,350	37,713
Printing	9,092	31,134	40,226	-	1,732	19,962	61,920
Professional development	15,549	6,766	22,315	-	17,091	239	39,645
Publications expense	-	78,895	78,895	-	67	32	78,994
Recruiting expenses	23,709	34,375	58,084	-	2,207	38,923	99,214
Rent expense	224,555	-	224,555	-	51,503	-	276,058
Repairs and maintenance	6,530	-	6,530	1,748	30,144	3,925	42,347
Supplies	3,895	-	3,895	207	10,831	876	15,809
Taxes	-	-	-	53	8,630	-	8,683
Telephone	63,169	233	63,402	-	72,673	2,315	138,390
Tools	13	-	13	-	518	-	531
Travel, meals, and meetings	700,444	9,911	710,355	57	78,995	77,286	866,693
Utilities	933	-	933	-	41,266	-	42,199
Web site	39	25,174	25,213	-	-	-	25,213
Total operating expenses	<u>6,050,781</u>	<u>597,139</u>	<u>6,647,920</u>	<u>97,457</u>	<u>1,932,204</u>	<u>830,780</u>	<u>9,508,361</u>
Other expenses							
Depreciation expense	60,289	11,132	71,421	2,226	32,283	11,133	117,063
Facilities contributed expense	66,150	13,500	79,650	2,700	39,150	13,500	135,000
Interest expense	70,566	14,401	84,967	2,880	45,415	14,396	147,658
Total other expenses	<u>197,005</u>	<u>39,033</u>	<u>236,038</u>	<u>7,806</u>	<u>116,848</u>	<u>39,029</u>	<u>399,721</u>
Total expenses	<u>\$ 6,247,786</u>	<u>\$ 636,172</u>	<u>\$ 6,883,958</u>	<u>\$ 105,263</u>	<u>\$ 2,049,052</u>	<u>\$ 869,809</u>	<u>\$ 9,908,082</u>