Financial Statements
and
Independent Auditors' Report
June 30, 2010 and 2009

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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, 2010 and 2009 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 RMI as of June 30, 2010 and 2009 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

September 30, 2010
Denver, Colorado

ROCKY MOUNTAIN INSTITUTE

Statements of Financial Position

Assets

	June 30, 2010	June 30, 2009
Current assets		
Cash and cash equivalents	$ 1,132,521	$ 408,698
Investments	5,887,181	5,736,212
Accounts receivable, net allowance for doubtful accounts of $35,000 and $15,000 (2010 and 2009, respectively)	665,544	1,119,944
Pledges receivable	241,760	268,800
Inventory	16,420	47,875
Other current receivables	180,074	235,718
Prepaid expenses	122,277	136,705
Total current assets	8,245,777	7,953,952
Long-term assets		
Property and equipment, net	1,555,294	1,726,226
Cash surrender value of life insurance policies	37,790	40,804
Investments restricted for endowments	703,770	706,173
Deposits	16,839	18,602
Other assets	3,000	3,000
Total long-term assets	2,316,693	2,494,805
Total assets	$ 10,562,470	$ 10,448,757

Liabilities and Net Assets

	2010	2009
Current liabilities		
Accounts payable	$ 374,214	$ 541,683
Lines-of-credit	-	950,000
Compensated absences liability	304,970	339,788
Client retainers	194,310	154,595
Accrued salaries and benefits	1,251,248	1,023,404
Other accrued expenses	22,260	15,546
Notes payable	317,816	211,931
Bonds payable	18,503	17,463
Capital lease obligations	31,017	23,996
Total current liabilities	2,514,338	3,278,406
Long-term liabilities		
Notes payable, net of current portion	-	171,858
Bonds payable, net of current portion	318,628	337,093
Capital lease obligations, net of current portion	44,455	11,202
Total long-term liabilities	363,083	520,153
Total liabilities	2,877,421	3,798,559
Commitments		
Net assets		
Unrestricted	6,430,025	4,931,149
Temporarily restricted	545,001	1,010,680
Permanently restricted	710,023	708,369
Total net assets	7,685,049	6,650,198
Total liabilities and net assets	$ 10,562,470	$ 10,448,757

See notes to financial statements.

ROCKY MOUNTAIN INSTITUTE

Statements of Activities

	For the Years Ended							
	June 30, 2010				June 30, 2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support								
Applied research/consulting	$ 3,302,815	$ -	$ -	$ 3,302,815	$ 4,843,114	$ -	$ -	$ 4,843,114
Foundation and government grants	2,901,374	1,129,870	-	4,031,244	3,276,528	1,413,476	-	4,690,004
Individual and corporate contributions, net of direct benefit to donors of $293,969 (2010) and $29,333 (2009)	5,835,607	-	1,654	5,837,261	3,113,174	-	-	3,113,174
Publishing and royalty revenue	12,821	-	-	12,821	40,890	-	-	40,890
Contributed facilities/in-kind donations	135,000	-	-	135,000	135,000	-	-	135,000
Other revenue	72,354	-	-	72,354	162,388	-	-	162,388
Loss on sale of assets	(2,842)	-	-	(2,842)	-	-	-	-
Investment income	128,831	13,209	-	142,040	171,606	12,896	-	184,502
Net loss on investments	(28,143)	(10,781)	-	(38,924)	(240,758)	(20,964)	-	(261,722)
	12,357,817	1,132,298	1,654	13,491,769	11,501,942	1,405,408	-	12,907,350
Net assets released from restrictions	1,597,977	(1,597,977)	-	-	1,922,637	(1,922,637)	-	-
Total revenues, gains, and other support	13,955,794	(465,679)	1,654	13,491,769	13,424,579	(517,229)	-	12,907,350
Expenses								
Program services	9,714,872	-	-	9,714,872	10,336,993	-	-	10,336,993
Expenses paid on behalf of Windstar Land Conservancy	101,713	-	-	101,713	87,871	-	-	87,871
Management and general	1,494,810	-	-	1,494,810	1,861,507	-	-	1,861,507
Fundraising	1,145,523	-	-	1,145,523	1,281,707	-	-	1,281,707
Total expenses	12,456,918	-	-	12,456,918	13,568,078	-	-	13,568,078
Change in net assets	1,498,876	(465,679)	1,654	1,034,851	(143,499)	(517,229)	-	(660,728)
Net assets at beginning of year	4,931,149	1,010,680	708,369	6,650,198	5,074,648	1,527,909	708,369	7,310,926
Net assets at end of year	$ 6,430,025	$ 545,001	$ 710,023	$ 7,685,049	$ 4,931,149	$ 1,010,680	$ 708,369	$ 6,650,198

See notes to financial statements.

ROCKY MOUNTAIN INSTITUTE

Statements of Cash Flows

	For the Years Ended June 30, 2010	For the Years Ended June 30, 2009
Cash flows from operating activities		
Change in net assets	$ 1,034,851	$ (660,728)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	285,780	277,069
Provision for bad debt	20,000	-
Loss on disposition of assets	2,842	-
Loss on investments	38,924	261,722
Permanently restricted contributions	(1,654)	-
Note payable forgiven	-	(100,000)
Changes in assets and liabilities		
Accounts receivable	434,400	917,491
Pledges receivable	27,040	195,000
Inventory	31,455	695
Other current receivables, prepaid expenses, and deposits	71,835	(159,782)
Accounts payable	(167,469)	(203,835)
Compensated absences liability	(34,818)	60,956
Client retainers, accrued salaries and benefits, and other accrued expenses	274,273	334,851
	982,608	1,584,167
Net cash provided by operating activities	2,017,459	923,439
Cash flows from investing activities		
Net sales (purchases) of investments	(187,490)	(65,348)
Purchases of property and equipment	(47,530)	(324,289)
Proceeds from sale of property and equipment	2,100	-
Change in cash surrender value of life insurance policies	3,014	4,225
Net cash used in investing activities	(229,906)	(385,412)
Cash flows from financing activities		
Checks written in excess of bank balance	-	(43,233)
Draws from lines-of-credit	2,850,000	750,000
Payments on lines-of-credit	(3,800,000)	(720,593)
Payments on bonds payable, notes payable, and capital lease obligations	(115,384)	(199,387)
Permanently restricted contributions	1,654	-
Net cash used in financing activities	(1,063,730)	(213,213)
Net change in cash and cash equivalents	723,823	324,814
Cash and cash equivalents, beginning of year	408,698	83,884
Cash and cash equivalents, end of year	$ 1,132,521	$ 408,698

Supplemental disclosure of cash flow information:

Interest paid was $85,385 and $79,140 for the years ended June 30, 2010 and 2009, respectively.

Supplemental disclosure of non-cash activity:

During the year ended June 30, 2010, RMI entered into capital lease obligations in the amount of $72,260 for equipment.

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, nonprofit think-and-do tank™. We envisage a world thriving, verdant, and secure, for all, for ever. 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 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.

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, 2010, approximately $1,978,000 of unrestricted net assets was considered designated under this policy.

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 $450,000 and $166,000 of RMI's investment balances have been designated by the board for specific purposes as of June 30, 2010 and 2009, respectively.

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

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.

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, 2010 and 2009.

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, less estimated costs to sell the asset. For the years ended June 30, 2010 and 2009, 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 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, 2010 and 2009.

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 full-time equivalents by each service.

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

Income Taxes

RMI is a nonprofit 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.

RMI adopted guidance related to uncertainty in income taxes in the Financial Accounting Standards Board's Accounting Standards Codification Topic 740 on July 1, 2009. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of June 30, 2010.

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, 2010 and 2009.

Tax years that remain subject to examination include 2007 through current for the federal return and 2006 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.

Subsequent Events

RMI has evaluated all subsequent events through September 30, 2010, 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

Pledges receivable consist of grant payments expected to be collected within one year of the respective year-end date. Receivables at June 30, 2010 and 2009 totaled $241,760 and $268,800, respectively.

Note 3 - Investments

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

	June 30, 2010	June 30, 2009
Unrestricted		
Certificates of deposit	$ 1,119,696	$ 1,092,302
Mutual funds		
Money market funds	2,249,230	689,174
Fixed income	651,036	600,691
Equities	1,867,219	3,354,045
	4,767,485	4,643,910
Total unrestricted	5,887,181	5,736,212
Restricted		
Mutual funds		
Money market funds	245,087	76,686
Fixed income	104,701	96,209
Equities	353,982	533,278
Total restricted	703,770	706,173
Total investments	$ 6,590,951	$ 6,442,385

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

	For the Years Ended June 30, 2010	For the Years Ended June 30, 2009
Interest and dividend income	$ 175,567	$ 213,059
Investment management and custodian fees	(33,527)	(28,557)
Investment income	142,040	184,502
Realized losses on investments	(324,756)	(257,503)
Unrealized gain (loss) on investments	285,832	(4,219)
Net loss on investments	(38,924)	(261,722)
Total return on investments	$ 103,116	$ (77,220)

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 observable inputs used to measure fair value into three broad levels, which are described below:

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

Level 2: Other than quoted prices that are observable for the asset or liability either directly or indirectly.

Level 3: Unobservable inputs where little or no market data is available, which requires the reporting entity to develop its own assumptions.

In determining fair value, 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 counterparty credit risk in its assessment of fair value. These classifications (Level 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.

Following is a description of the valuation methodologies used for assets measured at fair value:

Mutual funds, equity securities, and fixed income funds: Valued at the closing price reported on the active market on which the funds are traded.

Certificates of deposit: Valued based on prices currently available on comparable securities of the issuer or other issuers with similar credit ratings.

Financial assets carried at fair value as of June 30, 2010 are classified in the table below in one of the three categories described above:

Description	Level 1	Level 2	Level 3	Total
Money market funds	$ 2,494,317	$ -	$ -	$ 2,494,317
Certificates of deposit	-	1,119,696	-	1,119,696
Equity securities	2,221,201	-	-	2,221,201
Fixed income funds	755,737	-	-	755,737
Total	$ 5,471,255	$ 1,119,696	$ -	$ 6,590,951

Note 4 - Fair Value Reporting (continued)

Financial assets carried at fair value as of June 30, 2009 are classified in the table below in one of the three categories described above:

Description	Level 1	Level 2	Level 3	Total
Money market funds	$ 765,860	$ -	$ -	$ 765,860
Certificates of deposit	-	1,092,302	-	1,092,302
Equity securities	3,887,323	-	-	3,887,323
Fixed income funds	696,900	-	-	696,900
Total	$ 5,350,083	$ 1,092,302	$ -	$ 6,442,385

Note 5 - Property and Equipment

RMI's property and equipment comprise the following:

	June 30, 2010	June 30, 2009
Buildings and improvements	$ 1,536,909	$ 1,519,379
Equipment	986,825	953,235
Land and land improvements	94,105	94,105
Furniture	157,248	157,248
Vehicles	57,887	57,887
Intellectual property licenses	100,000	100,000
	2,932,974	2,881,854
Less accumulated depreciation and amortization	(1,377,680)	(1,155,628)
Property and equipment, net	$ 1,555,294	$ 1,726,226

Note 6 - Lines-of-Credit

RMI has two lines-of-credit available to assist with operating cash needs. The first line for $1,500,000 is available until November 2010. As of June 30, 2010, the stated interest rate was 5.50%. This line is collateralized by an investment account. The second line is for $1,500,000 and has a stated interest rate of 5.50%, maturing in May 2011. This line is collateralized by a deed of trust on real estate and certificate of deposit. As of June 30, 2010 and 2009, $0 and $950,000 was outstanding, respectively, on the lines-of-credit.

Note 7 - Notes Payable

	June 30, 2010	June 30, 2009
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.	$ 167,816	$ 233,789
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 calendar 2010 on the following maturity schedule). The note is non-interest bearing and unsecured. During the year ended June 30, 2009, $100,000 of the note was forgiven.	150,000	150,000
	317,816	383,789
Less current portion	(317,816)	(211,931)
Long-term portion of notes payable	$ -	$ 171,858

Notes payable mature as follows:

For the Year Ending June 30,	
2011	$ 317,816

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 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.

Note 8 - Industrial Revenue Bonds (continued)

The principal repayment schedule is as follows:

For the Year Ending June 30,	
2011	$ 18,503
2012	19,655
2013	20,873
2014	22,167
2015	23,542
Thereafter	232,391
	$ 337,131

Note 9 - Capitalized Lease Obligations

RMI has acquired assets under the provisions of five long-term leases. For financial reporting purposes, minimum lease payments relating to the assets have been capitalized. The leases expire from October 2010 to August 2013. Amortization of the leased property is included in depreciation expense.

The assets under capital leases have cost and accumulated amortization at June 30, 2010 as follows:

Capital leased assets	$ 139,244
Less accumulated amortization	(63,772)
	$ 75,472

Maturities of capital lease obligations are as follows:

Year Ending June 30,	
2011	$ 36,394
2012	25,799
2013	21,735
2014	1,167
Total minimum lease payments	85,095
Amount representing interest	(9,623)
Present value of net minimum lease payments	75,472
Less current portion	(31,017)
Long-term capital lease obligation	$ 44,455

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 pretax basis. RMI has no obligation to make employer contributions. Employer contributions of $289,948 and $5,369 were made and are included in the statements of activities for the years ended June 30, 2010 and 2009, 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, 2010 and 2009 were $169,236 and $197,442, respectively. The 457(f) plan is unfunded, and RMI reports the deferrals in other accrued expenses in the accompanying statements of financial position.

Note 11 - 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,	
	2010	2009
Buildings	$ 58,292	$ 190,066
Electricity	8,600	-
Transportation	41,085	187,848
Industry	84,075	14,974
Reinventing fire	142,470	166,449
Communications	26,388	96,386
Administration	89,500	24,567
Legacy consulting	83,031	321,258
Endowment funds	11,560	9,132
	$ 545,001	$ 1,010,680

Note 11 - Temporarily and Permanently Restricted Net Assets (continued)

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, 2010	June 30, 2009
Semmer Endowment	$ 108,698	$ 107,044
Rocky Mountain Institute Endowment	25,000	25,000
Windstar Land Conservancy Endowment	576,325	576,325
	$ 710,023	$ 708,369

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 have 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, 2010 and 2009 recorded on the books of RMI was $571,421 and $577,441, 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, 2010 and 2009, RMI recorded $135,000 of imputed rent related to the use of the WLC facility. RMI incurred $101,713 and $87,871 of expenses on behalf of WLC for the years ended June 30, 2010 and 2009, 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 $60,103 and $141,590 was withheld from employees's paychecks for the years ended June 30, 2010 and 2009, respectively, and is included in other revenue in the accompanying statements of activities. As of June 30, 2010 and 2009, the net book value of the staff housing units is $604,547 and $608,103, respectively, and is included in buildings and improvements.

Note 14 - Investment in Fiberforge Corporation

RMI owns 2.29% 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.

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, 2010 and 2009, respectively. The book value of the loan is $0 at June 30, 2010 and 2009.

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 - Sale Leaseback

During the year ended June 30, 2008, RMI sold its interest in the Snowmass property to a related party and leased back a portion of the property for a two-year term through May 2010. 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 then ended. Rent expense totaled $31,312 and $46,056 for the years ended June 30, 2010 and 2009, respectively.

Note 17 - 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, 2010 and 2009 was $595,028 and $641,612, respectively.

Future minimum lease payments are approximately as follows:

For the Year Ending June 30,	
2011	$ 142,755
2012	3,152
2013	1,839
	$ 147,746

Note 18 - 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 $40,000 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, 2010 and 2009, RMI paid $596,820 and $601,805, respectively, under the program. RMI has accrued a liability of $242,362 and $167,573, for the expected claims that had been incurred but not paid as of June 30, 2010 and 2009, respectively.

Note 19 - 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.

Note 19 - Endowments (continued)

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

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 $17,813 and $11,328 as of June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that were deemed prudent by the Board of Trustees.

Note 19 - Endowments (continued)

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 10% 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 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 6% 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 19 - Endowments (continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy (continued)

Endowment net asset composition by type of fund as of June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (12,909)	$ 11,560	$ 133,698	$ 132,349
Windstar-restricted endowment fund	(4,904)	-	576,325	571,421
Total funds	$ (17,813)	$ 11,560	$ 710,023	$ 703,770

Endowment net asset composition by type of fund as of June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (11,328)	$ 8,016	$ 132,044	$ 128,732
Windstar-restricted endowment fund	-	1,116	576,325	577,441
Total funds	$ (11,328)	$ 9,132	$ 708,369	$ 706,173

Changes in invested endowment assets for the fiscal year ended June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	$ (11,328)	$ 9,132	$ 708,369	$ 706,173
Investment return				
Investment income	1,322	13,209	-	14,531
Net appreciation (depreciation), net of fees	(7,807)	(10,781)	-	(18,588)
Total investment return	(6,485)	2,428	-	(4,057)
Contributions	-	-	1,654	1,654
Appropriation of endowment assets for expenditure	-	-	-	-
Endowment assets, end of year	$ (17,813)	$ 11,560	$ 710,023	$ 703,770

Note 19 - Endowments (continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy (continued)

Changes in invested endowment assets for the fiscal year ended June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	$ -	$ 52,900	$ 708,369	$ 761,269
Investment return				
Investment income	-	12,896	-	12,896
Net appreciation (depreciation), net of fees	(11,328)	(20,964)	-	(32,292)
Total investment return	(11,328)	(8,068)	-	(19,396)
Appropriation of endowment assets for expenditure	-	(35,700)	-	(35,700)
Endowment assets, end of year	$ (11,328)	$ 9,132	$ 708,369	$ 706,173

ACCOMPANYING INFORMATION

ROCKY MOUNTAIN INSTITUTE

Schedule of Functional Expenses
Year Ended June 30, 2010

	Research and Consulting	Communications	Total Program Services	Windstar Land Conservancy	Management and General	Fundraising	Total
Operating expenses							
Salaries	$ 4,204,400	$ 941,060	$ 5,145,460	$ 44,313	$ 538,354	$ 689,346	$ 6,417,473
Benefits	1,080,875	216,862	1,297,737	10,568	222,616	166,405	1,697,326
Accounting fees	-	-	-	-	17,668	-	17,668
Appliances and furnishing expenses	-	-	-	-	412	-	412
Audit	-	-	-	-	47,622	-	47,622
Assessments	-	-	-	15,656	-	-	15,656
Auto expense - lease expense	1,051	-	1,051	-	-	-	1,051
Auto expense - gas and maintenance	-	-	-	3,202	2,708	-	5,910
Bad debt/professional discounts	112,028	-	112,028	-	-	-	112,028
Bank, credit card charges	613	105	718	25	14,042	9,001	23,786
Board meeting expenses	-	27	27	46	17,525	-	17,598
Computer equipment	15,309	7,324	22,633	-	4,533	1,604	28,770
Computer software	9,381	1,296	10,677	-	14,468	1,184	26,329
Consultants and subcontractors	926,066	62,828	988,894	-	33,998	5,668	1,028,560
Equipment rental	-	-	-	-	2,000	-	2,000
Dues, subscriptions, and memberships	4,708	1,879	6,587	55	14,965	-	21,607
Reproduction costs	27,695	4,819	32,514	351	11,099	3,566	47,530
General insurance	34,423	4,721	39,144	14,565	17,351	3,473	74,533
Legal	3,741	1,018	4,759	-	12,060	1,724	18,543
Library expense	828	345	1,173	-	4,910	-	6,083
Licenses and registration	5,855	25	5,880	10	6,356	99	12,345
Memberships	2,483	342	2,825	-	6,799	-	9,624
Event expense	293,768	201	293,969	-	-	-	293,969
Miscellaneous	9,608	762	10,370	-	10,538	469	21,377
Office expense	16,099	2,768	18,867	245	5,376	2,093	26,581
Office reimbursables	82,639	3,192	85,831	-	1,332	(197)	86,966
Outreach	1,400	104,422	105,822	-	-	12,426	118,248
Postage and freight	3,618	1,207	4,825	-	6,230	24,189	35,244
Printing	5,404	32,610	38,014	178	1,354	31,963	71,509
Professional development	11,129	2,407	13,536	-	8,689	699	22,924
Property taxes	-	-	-	-	10,275	-	10,275
Publications expense	-	7,251	7,251	-	-	-	7,251
Recruiting expenses	7,327	1,066	8,393	-	1,763	-	10,156
Rent expense	283,767	56,551	340,318	4,598	158,718	43,864	547,498
Repairs and maintenance	27,564	9,446	37,010	4,683	39,892	7,988	89,573
Research materials	1,792	210	2,002	-	4,231	46	6,279
Software maintenance	2,271	312	2,583	40	30,254	18,599	51,476
Supplies	50	-	50	966	6,550	13	7,579
Telephone	135,592	23,980	159,572	1,120	68,203	17,560	246,455
Tools	-	2,779	2,779	195	507	-	3,481
Travel, meals, and meetings	551,521	39,330	590,851	20	9,035	68,327	668,233
Utilities	16,896	6,539	23,435	877	56,559	5,567	86,438
Web site	2,308	38,876	41,184	-	450	154	41,788
Total operating expenses	7,882,209	1,576,560	9,458,769	101,713	1,409,442	1,115,830	12,085,754
Other expenses							
Depreciation expense	168,610	28,578	197,188	-	65,729	22,862	285,780
Interest expense	50,377	8,538	58,915	-	19,639	6,831	85,385
Total other expenses	218,987	37,116	256,103	-	85,368	29,693	371,164
Total expenses	$ 8,101,196	$ 1,613,676	$ 9,714,872	$ 101,713	$ 1,494,810	$ 1,145,523	$ 12,456,918

Schedule of Functional Expenses
Year Ended June 30, 2009

	Research and Consulting	Communications	Total Program Services	Windstar Land Conservancy	Management and General	Fundraising	Total
Operating expenses							
Salaries	$ 4,253,957	$ 1,059,498	$ 5,313,455	$ 52,169	$ 926,086	$ 782,703	$ 7,074,413
Benefits	819,272	215,886	1,035,158	7,917	346,291	140,922	1,530,288
Accounting fees	-	-	-	-	25,011	-	25,011
Appliances and furnishing expense	4,221	257	4,478	-	14,329	2,699	21,506
Audit	-	-	-	250	50,700	-	50,950
Assessments	-	-	-	-	200	-	200
Auto expense - lease expense	2,531	432	2,963	-	276	360	3,599
Auto expense - gas and maintenance	4,921	920	5,841	2,498	687	700	9,726
Bad debt/professional discounts	77,172	-	77,172	-	-	-	77,172
Bank, credit card charges	1,624	140	1,764	-	18,716	3,171	23,651
Board meeting expenses	-	-	-	-	4,880	294	5,174
Computer equipment	42,677	5,678	48,355	-	5,052	3,445	56,852
Computer software	7,224	4,871	12,095	-	10,291	3,268	25,654
Consultants and subcontracts	1,170,944	83,880	1,254,824	-	42,857	27,404	1,325,085
Equipment rental	1,278	-	1,278	-	-	-	1,278
Dues, subscriptions, and memberships	2,676	4,376	7,052	-	17,679	-	24,731
Reproduction costs	24,082	7,058	31,140	434	9,190	3,564	44,328
General insurance	27,872	14,319	42,191	13,165	11,455	5,728	72,539
Legal	3,716	907	4,623	269	17,576	1,328	23,796
Library expense	2,953	252	3,205	-	1,002	-	4,207
Licenses and registration	3,322	538	3,860	198	7,011	211	11,280
Memberships	4,357	367	4,724	-	7,929	1,614	14,267
Merchandise expense	-	127	127	-	-	-	127
Miscellaneous	12,277	490	12,767	-	28,289	1,004	42,060
Office expense	25,827	7,371	33,198	339	9,244	3,255	46,036
Office reimbursables	92,843	59,837	152,680	-	1,779	197	154,656
Outreach	1,509	90,411	91,920	-	52	665	92,637
Postage and freight	3,710	6,904	10,614	-	10,300	31,520	52,434
Printing	5,888	43,066	48,954	50	2,553	40,837	92,394
Professional development	26,969	8,849	35,818	-	13,008	7,949	56,775
Property taxes	-	-	-	-	7,412	-	7,412
Publications expense	-	11,573	11,573	-	267	-	11,840
Recruiting expenses	25,209	300	25,509	-	1,390	554	27,453
Rent expense	407,820	91,817	499,637	-	43,311	55,215	598,163
Repairs and maintenance	45,197	10,146	55,343	4,728	37,840	6,700	104,611
Research materials	779	965	1,744	-	-	258	2,002
Software maintenance	5,746	980	6,726	-	23,636	5,203	35,565
Supplies	1,936	419	2,355	36	1,226	291	3,908
Telephone	172,365	46,526	218,891	2,065	46,514	24,120	291,590
Tools	537	92	629	20	89	76	814
Travel, meals, and meetings	823,468	84,693	908,161	-	49,984	93,499	1,051,644
Utilities	62,970	14,912	77,882	1,382	12,766	9,054	101,084
Web site	1,757	12,032	13,789	-	300	-	14,089
Total operating expenses	8,171,606	1,890,889	10,062,495	85,520	1,807,178	1,257,808	13,213,001
Other expenses							
Depreciation expense	173,630	40,561	214,191	1,834	44,738	16,306	277,069
Interest expense	48,887	11,420	60,307	517	9,591	7,593	78,008
Total other expenses	222,517	51,981	274,498	2,351	54,329	23,899	355,077
Total expenses	$ 8,394,123	$ 1,942,870	$ 10,336,993	$ 87,871	$ 1,861,507	$ 1,281,707	$ 13,568,078