ROCKY MOUNTAIN INSTITUTE

Consolidated Financial Statements
and
Independent Auditors' Report
June 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Rocky Mountain Institute
Boulder, Colorado

We have audited the accompanying consolidated financial statements of Rocky Mountain Institute (a Colorado non-profit corporation) and subsidiaries, which are comprised of the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rocky Mountain Institute and subsidiaries as of June 30, 2016, and the changes in their net assets and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

REPORT ON SUPPLEMENTARY INFORMATION

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The consolidating schedules are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual entities, and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

EKS+H LLLP

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November 25, 2016
Denver, Colorado

ROCKY MOUNTAIN INSTITUTE

Consolidated Statement of Financial Position
June 30, 2016

Assets	
Current assets	
Cash and cash equivalents	$ 3,794,513
Investments	3,008
Beneficial interest in assets held by The Denver Foundation	113,334
Accounts receivable, net of allowance for doubtful accounts of $18,789	1,311,214
Short-term pledges receivable	6,311,267
Other current receivables	29,387
Prepaid expenses and other assets	348,774
Total current assets	11,911,497
Long-term assets	
Property and equipment, net	16,935,393
Long-term pledges receivable, net	3,420,315
Investments restricted for the Innovation Center	514,637
Beneficial interest in assets held by The Denver Foundation	370,055
Deposits and other assets	336,874
Total long-term assets	21,577,274
Total assets	$ 33,488,771
Liabilities and Net Assets	
Current liabilities	
Accounts payable	$ 1,090,335
Accrued salaries and benefits	1,698,007
Deferred revenue	1,172,001
Compensated absences	460,416
Capital lease obligations	116,884
Deferred rent	19,291
Other accrued expenses	102,105
Total current liabilities	4,659,039
Long-term liabilities	
Loan payable	5,121,628
Line-of-credit	24,257
Deferred rent, net of current portion	126,604
Capital lease obligations, net of current portion	88,539
Total liabilities	10,020,067
Commitments	
Net assets	
Unrestricted	
Rocky Mountain Institute	12,410,167
Non-controlling interest in subsidiary	(478,078)
Total unrestricted	11,932,089
Temporarily restricted	11,219,045
Permanently restricted	317,570
Total net assets	23,468,704
Total liabilities and net assets	$ 33,488,771

See notes to consolidated financial statements.

ROCKY MOUNTAIN INSTITUTE

Consolidated Statement of Activities
For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support				
Applied research/collaboration	$ 3,885,087	$ -	$ -	$ 3,885,087
Foundation, individual, and government grants	1,695,221	9,548,216	-	11,243,437
Individual and corporate contributions, net of direct benefit to donors of $13,135	10,762,453	3,697,783	8,000	14,468,236
Publishing and royalty revenue	5,577	-	-	5,577
Contributed facilities/in-kind donations	9,350	-	-	9,350
Other revenue	44,063	-	-	44,063
Change in beneficial interest in assets held by The Denver Foundation	(103,078)	(15,338)	-	(118,416)
Investment income	26,068	-	-	26,068
Net realized and unrealized loss on investments	(104,985)	-	-	(104,985)
	16,219,756	13,230,661	8,000	29,458,417
Net assets released from restrictions	15,415,403	(15,415,403)	-	-
Total revenues, gains, and other support	31,635,159	(2,184,742)	8,000	29,458,417
Expenses				
Program services	23,658,624	-	-	23,658,624
Management and general	4,481,258	-	-	4,481,258
Fundraising	2,314,418	-	-	2,314,418
Total expenses	30,454,300	-	-	30,454,300
Excess of revenues, gains, and other support over expenses	1,180,859	(2,184,742)	8,000	(995,883)
Consolidation of Black Bear Energy, Inc.	(53,397)	-	-	(53,397)
Change in net assets	$ 1,127,462	$ (2,184,742)	$ 8,000	$ (1,049,280)

See notes to consolidated financial statements.

ROCKY MOUNTAIN INSTITUTE

Consolidated Statement of Cash Flows
For the Year Ended June 30, 2016

Cash flows from operating activities	
Change in net assets	$ (1,049,280)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation expense	567,489
Net loss on investments	104,985
Permanently restricted contributions	(8,000)
Net change in beneficial interest in assets held by The Denver Foundation	118,416
Consolidation of former equity method investment of Black Bear Energy, Inc.	100,000
Changes in assets and liabilities	
Accounts receivable	(501,690)
Pledges receivable	649,215
Other current receivables, prepaid expenses and other assets, and deposits	(239,078)
Accounts payable	(130,736)
Accrued salaries and benefits and other accrued expenses	(297,349)
Compensated absences	75,959
Deferred revenue	501,857
Deferred rent	107,113
Net cash used in operating activities	(1,099)
Cash flows from investing activities	
Net purchases of investments	(15,033)
Net proceeds from sale of investments	2,230,847
Net transfers from The Denver Foundation	2,484,790
Purchases of property and equipment	(7,720,370)
Net cash used in investing activities	(3,019,766)
Cash flows from financing activities	
Net payments on line-of-credit	(2,475,743)
Proceeds from issuance of long-term debt	4,037,280
Permanently restricted contributions	8,000
Payments on capital lease obligations	(147,324)
Net cash provided by financing activities	1,422,213
Net change in cash and cash equivalents	(1,598,652)
Cash and cash equivalents, beginning of year	5,393,165
Cash and cash equivalents, end of year	$ 3,794,513

Supplemental disclosure of cash flow information:

For the year ended June 30, 2016, cash paid for interest, net of amount capitalized, was $99,730.

Supplemental disclosure of non-cash activity:

During the year ended June 30, 2016, RMI entered into capital lease obligations in the amount of $120,208 for equipment.

Purchases of property and equipment during the year ended June 30, 2016 include $874,904 of accrued construction payables at June 30, 2015.

See notes to consolidated financial statements.

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

Effective January 1, 2015, the entity formerly known as Rocky Mountain Institute merged with Carbon War Room ("CWR"). Rocky Mountain Institute, located in Snowmass and Boulder, Colorado, is an independent, entrepreneurial, non-profit think-and-do tank, whose mission is to drive the efficient and restorative use of resources. Rocky Mountain Institute is working to transform the global energy system to create a clean, prosperous, and secure future. CWR operates in Colorado; New York; and Washington, D.C.; and specifically works to accelerate the adoption of business solutions that reduce carbon emissions at the gigaton scale and advance the low-carbon economy. As of the merger date, the combination of Rocky Mountain Institute and CWR was deemed to be a newly-formed entity referred to as "Rocky Mountain Institute".

In September 2014, RMI Innovation Center, LLC ("RMIIC") was formed as a 100% owned subsidiary of Rocky Mountain Institute. RMIIC was formed to construct and own Rocky Mountain Institute's Innovation Center, which is a beyond-state-of-the-art office and convening center of 15,610 square feet along the banks of the Roaring Fork River in Basalt, Colorado.

On April 21, 2015, Rocky Mountain Institute International ("RMII") was formed as a 100% owned subsidiary of Rocky Mountain Institute. RMII was created to facilitate the execution of Rocky Mountain Institute's mission in China and elsewhere in Asia.

During the year ended June 30, 2016, Black Bear Energy, Inc. ("BBE") became a 54.5% owned subsidiary of Rocky Mountain Institute. BBE helps property owners and users throughout the U.S. deploy solar projects on their terms at the most competitive pricing available.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Rocky Mountain Institute, RMIIC, RMII, and BBE (collectively, "RMI").

All intercompany accounts and transactions have been eliminated in consolidation.

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.

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

Basis of Presentation (continued)

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. As of June 30, 2016, and periodically throughout the year, RMI maintained balances in various operating accounts in excess of federally insured limits.

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 on the consolidated statement of activities.

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. Pledges that are expected to be collected within one year are recorded at their net realizable value. Pledge commitments that are expected to be collected in future years are recorded at the present value of estimated future cash flows.

The allowance method is used to determine uncollectible pledges receivable. The allowance is based on prior years' experience and management's analysis of specific pledges. As of June 30, 2016, management believes all pledges are fully collectible.

Concentration of Risk

As of and for the year ended June 30, 2016, RMI had three donors who accounted for 44% of the pledges receivable balance and one donor who was responsible for approximately 17% of total revenues, gains, and other support.

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

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 3 to 40 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 year ended June 30, 2016, RMI has not recognized any impairment losses on long-lived assets.

Deferred Revenue

Prepayments of membership dues and event registration fees are deferred and recognized as revenue in the applicable future period when the revenue is earned.

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.

Collaboration Fees

RMI collaborates with individuals, corporations, and governments to produce research and education programs to advance its mission. Fees related to these programs are recorded as revenue as the collaboration 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 on the consolidated statement 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 consolidated statement of activities.

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

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

Rocky Mountain Institute is a non-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"). RMIIC is a limited liability company, and RMII is a limited partnership with no significant taxable activity during the period. BBE is a C Corporation. Deferred tax assets related to BBE's loss carryforwards have been reduced by a valuation allowance due to uncertainty related to realization. Accordingly, no provision for income taxes has been recorded in the accompanying consolidated financial statements.

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, 2016.

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, 2016.

Use of Estimates

The preparation of consolidated 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 consolidated 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.

Note 2 - Investments

The following is a summary of investments at estimated fair value at June 30, 2016:

Unrestricted	
Cash and money market funds	$ 3,008
Total unrestricted	3,008
Restricted	
Cash and money market funds	53,536
Mutual funds	
Fixed income	300,588
Equities	160,513
Total restricted	514,637
Total investments	$ 517,645

The following schedule summarizes the investment return and its classification on the consolidated statement of activities for the year ended June 30, 2016:

Investment income	
Interest and dividend income	$ 38,248
Investment management and custodian fees	(12,180)
Total investment income	26,068
Net loss on investments	
Realized loss on investments	(45,323)
Unrealized loss on investments	(59,662)
Total net loss on investments	(104,985)
Total return on investments	$ (78,917)

Note 3 - Beneficial Interest in Assets Held by The Denver Foundation

Funds

The Rocky Mountain Institute Fund

RMI established a Non-Profit Organization Advised Fund, known as The Rocky Mountain Institute Fund (the "RMI Fund"), to be held by The Denver Foundation (the "Foundation"). The RMI Fund is held and invested by the Foundation for the benefit of RMI. All or any part of the income and principal of the RMI Fund can be distributed to RMI or used or distributed for the benefit of, or to carry out the purpose of, RMI as the Board of Trustees of the Foundation shall determine from time to time. All distribution considerations must be made in writing to the Foundation by an Advisory Committee established by RMI in accordance with the Foundation's guidelines for advised funds.

Note 3 - Beneficial Interest in Assets Held by The Denver Foundation (continued)

Funds (continued)

The Rocky Mountain Institute Fund (continued)

As of June 30, 2016, the fair value of the assets of the RMI Fund was $113,334. Distributions from the RMI Fund are available to RMI for its unrestricted use. During 2016, all income from the RMI Fund was reinvested.

The Phillip Austin Semmer Memorial Internship Fund

RMI established a permanent endowment fund, known as the Phillip Austin Semmer Memorial Internship Fund (the "Semmer Fund"), to be held by the Foundation. The Semmer Fund is held and invested by the Foundation for the benefit of RMI. RMI is eligible to receive annual distributions up to 6% of the market value of the Semmer Fund. Excess earnings, if any, are reinvested in the Semmer Fund.

As of June 30, 2016, the fair value of the assets of the Semmer Fund was $117,119. Distributions from the Semmer Fund are available to RMI for the funding of a research intern. During 2016, all income from the Semmer Fund was reinvested.

The Eric Konheim Memorial Internship Fund

RMI established a permanent endowment fund, known as the Eric Konheim Memorial Internship Fund (the "Konheim Fund"), to be held by the Foundation. The Konheim Fund is held and invested by the Foundation for the benefit of RMI. RMI is eligible to receive annual distributions up to 6% of the market value of the Konheim Fund. Excess earnings, if any, are reinvested in the Konheim Fund.

As of June 30, 2016, the fair value of the assets of the Konheim Fund was $142,799. Distributions from the Konheim Fund are available to RMI for the funding of a research intern. During 2016, all income from the Konheim Fund was reinvested.

The RMI Endowment Fund

RMI established a permanent endowment fund, known as The RMI Endowment Fund (the "RMI Endowment"), to be held by the Foundation. The RMI Endowment is held and invested by the Foundation for the benefit of RMI. RMI is eligible to receive annual distributions up to 6% of the market value of the RMI Endowment. Excess earnings, if any, are reinvested in the RMI Endowment.

As of June 30, 2016, the fair value of the assets of the RMI Endowment was $110,137. Distributions from the RMI Endowment are available to RMI for its unrestricted use. During 2016, all income from the RMI Endowment was reinvested.

Note 3 - Beneficial Interest in Assets Held by The Denver Foundation (continued)

Funds (continued)

RMI granted variance power to the Foundation for the funds described above, which allows the Foundation to terminate the agreements and transfer the funds to the general funds of the Foundation if the Board of Trustees of the Foundation determines, in its sole judgment, that the purposes that had been pursued by RMI have become unnecessary, undesirable, impractical, incapable of fulfillment, or inconsistent with the charitable needs of the community. As RMI has named itself the beneficiary of the funds, the transfers were accounted for as reciprocal transfers between RMI and the Foundation. Therefore, RMI reflects the value of the funds held by the Foundation on the accompanying consolidated statement of financial position as beneficial interest in assets held by the Foundation.

Management Fees

The assets held with the Foundation, as described above, are subject to a management fee percentage ranging from 0.75% to 2.00% of the asset balances, with a minimum fee of $1,000 to be charged annually. Total management fees paid to the Foundation for the year ended June 30, 2016 were approximately $30,000.

Note 4 - Fair Value Reporting

RMI values its financial assets and liabilities at fair value, which is defined as 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.

Note 4 - Fair Value Reporting (continued)

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 counter-party is significant to the fair value measurement.

The above 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.

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

Money market and mutual funds: Valued at the closing price reported on the active market on which the securities are traded.

Beneficial interest in assets held by the Foundation: Recorded at RMI's share of the Foundation's investment pool. This amount is provided by the Foundation and is driven by the fair value of the marketable securities underlying the fund.

There were no changes to the valuation technique or transfers between different hierarchy levels during the year ended June 30, 2016.

Financial assets carried at fair value as of June 30, 2016 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	$ 56,544	$ -	$ -	$ 56,544
Mutual funds	461,101	-	-	461,101
Beneficial interest in assets held by the Foundation	-	-	483,389	483,389
Total	$ 517,645	$ -	$ 483,389	$ 1,001,034

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2016:

Beginning balance	$ 3,086,595
Change in beneficial interest	(118,416)
Transfers to the Foundation, including donated investments	15,210
Proceeds from sales used for construction in progress	(2,500,000)
Ending balance	$ 483,389

Note 5 - Pledges Receivable

Promises to give consist of the following at June 30, 2016:

Capital campaign	$ 1,919,000
Operations/annual giving	7,812,582
	$ 9,731,582

Pledges are expected to be received as follows at June 30, 2016:

Due in less than one year	$ 8,885,768
Due in one to five years	864,499
	9,750,267
Less unamortized discount on pledges	(18,685)
	9,731,582
Less current portion	(6,311,267)
Long-term pledges receivable	$ 3,420,315

Pledges that are due in less than one year but are related to long-term purposes are classified as non-current assets on the accompanying consolidated statement of financial position due to the long-term nature of the underlying purpose. The effective rate used to calculate the discount on pledges receivable is 0.80%.

Note 6 - Property and Equipment

RMI's property and equipment are comprised of the following at June 30, 2016:

Buildings and improvements	$ 16,464,102
Equipment	2,499,353
Furniture	1,038,094
Intellectual property licenses	100,000
Vehicles	57,887
Land and land improvements	7,141
	20,166,577
Less accumulated depreciation and amortization	(3,231,184)
Property and equipment, net	$ 16,935,393

Depreciation and amortization expense for the year ended June 30, 2016 was $567,489.

Note 6 - Property and Equipment (continued)

Innovation Center

RMI completed construction on the Innovation Center ("IC") in Basalt, Colorado, in December 2015, which now serves as an office for a portion of RMI's staff and a convening space. It is expected to be one of the most energy-efficient buildings in North America and demonstrate many of the design and technical features that RMI advocates in its buildings program work. Elements of the IC, or its construction, operation, and maintenance, are expected to impact the techniques used in other buildings thereby lowering the energy consumption of buildings more broadly. While those benefits associated with the IC are not capitalizable, they are important and consistent with the overall mission of RMI.

The costs of the IC include the cost of land and construction, including soft costs associated with consultants and others engaged to assist in the project. Given the nature and purpose of the IC, it is entirely possible that the market value of the property, when compared to other similarly sized and situated real estate, will be less than the capitalized costs associated with its construction (given the IC's dual purpose to both house RMI operations and to inform building construction, ownership, and operation techniques more broadly). Management believes no impairment is necessary at this time.

Note 7 - Lines-of-Credit

During the year ended June 30, 2016, RMI entered into two secured lines-of-credit to assist with operating cash needs.

The first line-of-credit is for $3,500,000 and is available until March 2018. The interest rate is based on a LIBOR index floating rate as calculated by the lendor (1.22% as of June 30, 2016). This line-of-credit is collateralized by a deed of trust and is subject to certain covenants. As of June 30, 2016, the outstanding balance on this line-of-credit was $24,257.

The second line-of-credit is for $500,000 and is available until November 2016. The interest rate is based on a Prime Rate index floating rate as calculated by the lendor (4.50% as of June 30, 2016). This line-of-credit is collateralized by all unrestricted pledges receivable accounts held by RMI. As of June 30, 2016, there was no outstanding balance on this line-of-credit.

Note 8 - Loan Payable

During December 2014, RMI entered into a loan agreement with a bank and the Town of Basalt, Colorado (the "Town"), to borrow the proceeds of revenue bonds issued by the Town. The maximum principal available on the draw-down loan is $7,500,000. Payments of principal and interest based on LIBOR rate (2.9% as of June 30, 2016) are due each May and November starting November 2016 through the maturity date in November 2036. The loan is collateralized by a deed of trust on the IC and is subject to certain covenants. At June 30, 2016, the outstanding principal balance on the loan totaled $5,121,628.

Note 9 - Capital Lease Obligations

RMI has acquired assets under the provisions of long-term leases. For financial reporting purposes, minimum lease payments relating to the assets have been capitalized. The leases expire from August 2016 to April 2019. Amortization of the leased property is included in depreciation expense.

The assets under capital leases have cost and accumulated amortization as follows at June 30, 2016:

Capital leased assets	$ 560,950
Less accumulated amortization	(274,271)
	$ 286,679

Maturities of capital lease obligations are as follows:

For the Year Ending June 30,	
2017	$ 121,815
2018	68,312
2019	22,089
Total minimum lease payments	212,216
Amount representing interest	(6,793)
Present value of net minimum lease payments	205,423
Less current portion	(116,884)
Long-term capital lease obligation	$ 88,539

Note 10 - Retirement Plan

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 or after-tax (Roth) basis. RMI matches 100% of eligible participants' contributions, up to 5% of eligible participants' compensation. Employer contributions of $554,522 were made and are included on the consolidated statement of activities for the year ended June 30, 2016.

Note 11 - Net Assets

Changes in consolidated net assets consist of the following:

	Non-Controlling Interest - Unrestricted	Controlling Interest			
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance - June 30, 2015	$ -	$10,804,627	$13,403,787	$ 309,570	$24,517,984
Excess of revenues, gains, and other support over expenses	(424,681)	1,605,540	(2,184,742)	8,000	(995,883)
Consolidation of BBE	(53,397)	-	-	-	(53,397)
Change in net assets	(478,078)	1,605,540	(2,184,742)	8,000	(1,049,280)
Balance - June 30, 2016	$ (478,078)	$12,410,167	$11,219,045	$ 317,570	$23,468,704

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 at June 30, 2016:

Pledges receivable (time restricted)	$ 3,619,430
Carbon War Room	2,363,797
Reinventing fire	1,700,000
Solar	1,487,352
Methane	998,095
Buildings	285,067
Transportation	251,646
RMI shipping	64,597
Endowment funds	52,336
10xE	49,900
Communities	47,245
Electricity	39,761
Administration	259,819
	$ 11,219,045

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.

Note 11 - Net Assets (continued)

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 at June 30, 2016:

Phillip Austin Semmer Memorial Internship Fund	$	101,080
Eric Konheim Memorial Internship Fund		141,490
Rocky Mountain Institute Fund		75,000
	$	317,570

Note 12 - Commitments

Operating Leases

RMI leases several of its facilities and equipment under operating leases expiring through August 2022. Rent expense for the year ended June 30, 2016 was $1,214,007.

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

For the Year Ending June 30,		
2017	$	1,017,000
2018		976,000
2019		497,000
2020		190,000
2021		195,000
Thereafter		234,000
	$	3,109,000

Note 13 - Endowments

RMI's endowments consist of three donor-restricted individual funds. As required by generally accepted accounting principles, 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 13 - 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

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:

- A managed long-term growth portfolio with 36% domestic equities, 22% international equities, 19% fixed income, 18% private equities, 2% cash and cash equivalents, and 3% real assets.

- The portfolio uses a comparative benchmark of composite returns from 1,500 entities, including endowments, foundations, pension plans, individual trusts, and corporate accounts.

Note 13 - Endowments (continued)

Return Objectives and Risk Parameters (continued)

RMI expects its endowment funds, over time, to provide an average rate of return of approximately 6% to 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% to 4% of its endowment fund's average fair value over the prior 12 quarters through the calendar year preceding 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.

Endowment net asset composition by type of fund as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 52,336	$ 317,570	$ 369,906

Changes in invested endowment assets for the year ended June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of period	$ -	$ 67,674	$ 309,570	$ 377,244
Investment return				
Investment income	-	714	-	714
Net appreciation, net of fees	-	(16,052)	-	(16,052)
Total investment return	-	(15,338)	-	(15,338)
Contributions	-	-	8,000	8,000
Endowment assets, end of period	$ -	$ 52,336	$ 317,570	$ 369,906

Note 14 - Related Party Transactions

As of June 30, 2016, pledges receivable on the accompanying consolidated statement of financial position include $1,002,500, due from various members of the Board of Trustees.

Note 15 - Subsequent Events

RMI has evaluated subsequent events through the auditors' report date, which is the date the consolidated financial statements were available for issuance.

In July 2016, BBE sold 881,057 Series A preferred stock units to external investors for approximately $2,000,000. Under the purchase agreement, BBE's $501,283 line-of-credit with RMI converted to 220,796 units of Series A preferred stock. A redemption agreement was also entered into by BBE and RMI at the time of purchase. Under this agreement, RMI is given the right to require BBE to redeem Series A preferred stock for common stock. Additionally, on the fifth anniversary of the agreement, BBE is obligated to redeem the RMI stock held by RMI at that time at a specified redemption price.

SUPPLEMENTARY INFORMATION

ROCKY MOUNTAIN INSTITUTE

Schedule of Functional Expenses
For the Year Ended June 30, 2016

	Research and Consulting	Office of the Chief Scientist	Carbon War Room	Black Bear Energy	Communications	Total Program Services	Management and General	Fundraising	Total
Operating expenses									
Salaries	$ 8,792,033	$ 385,344	$ 319,356	$ 564,811	$ 882,498	$ 10,944,042	$ 2,524,214	$ 1,567,996	$ 15,036,252
Benefits	1,829,095	100,624	135,329	41,753	193,662	2,300,463	288,706	268,788	2,857,957
Accounting and audit fees	-	-	-	-	-	-	119,971	-	119,971
Advertising	-	37	-	-	-	37	-	4,691	4,728
Appliances and furnishing expenses	-	-	36,302	-	-	36,302	4,341	-	40,643
Auto expense - lease	-	-	-	-	-	-	3,841	-	3,841
Auto expense - gas and maintenance	-	-	-	-	-	-	751	-	751
Bank and credit card charges	3,493	395	-	-	15	3,903	19,618	2,359	25,880
Board meeting expenses	-	-	-	-	-	-	108,575	-	108,575
Computer equipment	655	397	171	-	-	1,223	72,803	214	74,240
Computer software	1,087	392	2,753	-	587	4,819	18,697	5,316	28,832
Consultants and subcontractors	3,764,931	36,927	-	-	125,816	3,927,674	146,558	75,641	4,149,873
Donations	-	-	-	677	-	677	175	-	852
Dues, subscriptions, and memberships	3,053	-	73	500	-	3,626	114,344	933	118,903
General insurance	55,278	2,383	2,640	38,014	7,131	105,446	10,772	5,174	121,392
Legal	58,815	-	19,454	19,721	-	97,990	2,488	-	100,478
Library expense	34	70	-	-	-	104	5,989	18	6,111
Licenses and registration	43,866	-	-	410	-	44,276	14,206	-	58,482
Memberships	2,147	-	99	-	-	2,246	4,785	415	7,446
Event expense	28,363	-	358	507	1,059	30,287	61	10,587	40,935
Communication and content	363,418	-	-	-	-	363,418	2,174	-	365,592
Miscellaneous	40,984	963	2,948	642	253	45,790	13,127	1,070	59,987
Marketing and outreach	-	231	-	-	5,200	5,431	-	-	5,431
Office expense	33,698	1,926	7,569	-	4,254	47,447	4,021	3,162	54,630
Other reimbursable expense	72,173	52	-	-	-	72,225	14,025	-	86,250
Postage and freight	9,834	1,005	2,234	791	743	14,607	4,272	20,908	39,787
Printing	9,723	1,399	250	-	56,544	67,916	369	46,774	115,059
Professional development	24,758	1,691	-	-	625	27,074	12,338	10,853	50,265
Property taxes	-	-	-	-	-	-	38,516	-	38,516
Public relations	56,363	-	-	212	143,858	200,433	2,916	-	203,349
Recruiting expenses	381,584	-	-	349	-	381,933	19,491	-	401,424
Rent expense	650,813	54,765	46,381	21,189	77,451	850,599	371,503	66,412	1,288,514
Repairs and maintenance	33,743	1,448	1,797	490	4,346	41,824	94,051	3,143	139,018
Research materials	124	578	-	-	-	702	9,027	8	9,737
Reproduction costs	18,715	821	1,180	-	2,473	23,189	3,674	1,846	28,709
Software maintenance	94,311	3,493	4,879	8,898	10,530	122,111	4,511	31,956	158,578
Supplies	4,946	-	-	3,710	42	8,698	49,484	170	58,352
Telephone	483,693	32,166	30,909	2,253	59,065	608,086	130,889	47,626	786,601
Travel, meals, and meetings	2,398,843	114,441	44,826	62,577	43,017	2,663,704	117,034	100,381	2,881,119
Utilities	20,970	8,470	1,268	340	2,745	33,793	10,128	2,051	45,972
Website	602	-	700	2,588	47,108	50,998	-	-	50,998
Total operating expenses	19,282,145	750,018	661,476	770,432	1,669,022	23,133,093	4,362,445	2,278,492	29,774,030
Other expenses									
Depreciation expense	307,998	17,406	69,610	14,520	36,467	446,001	90,882	30,606	567,489
Foreign exchange transaction	510	29	115	-	60	714	12,286	51	13,051
Interest expense	53,021	2,996	11,983	4,538	6,278	78,816	15,645	5,269	99,730
Total other expenses	361,529	20,431	81,708	19,058	42,805	525,531	118,813	35,926	680,270
Total expenses	$ 19,643,674	$ 770,449	$ 743,184	$ 789,490	$ 1,711,827	$ 23,658,624	$ 4,481,258	$ 2,314,418	$ 30,454,300

ROCKY MOUNTAIN INSTITUTE

Consolidating Schedule of Financial Position
June 30, 2016

	RMI and RMIIC	BBE	RMII	Eliminations	Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ 3,554,512	$ 166,236	$ 73,765	$ -	$ 3,794,513
Investments	3,008	-	-	-	3,008
Beneficial interest in assets held by The Denver Foundation	113,334	-	-	-	113,334
Accounts receivable, net of allowance for doubtful accounts	1,687,267	-	73,947	(450,000)	1,311,214
Short-term pledges receivable	6,311,267	-	-	-	6,311,267
Other current receivables	3,268	-	26,119	-	29,387
Prepaid expenses and other assets	336,815	4,200	7,759	-	348,774
Total current assets	12,009,471	170,436	181,590	(450,000)	11,911,497
Long-term assets					
Property and equipment, net	16,923,875	11,518	-	-	16,935,393
Long-term pledges receivable, net	3,420,315	-	-	-	3,420,315
Investments restricted for the Innovation Center	514,637	-	-	-	514,637
Investments in subsidiaries	300,073	-	-	(300,073)	-
Beneficial interest in assets held by The Denver Foundation	370,055	-	-	-	370,055
Deposits and other assets	336,874	-	-	-	336,874
Total long-term assets	21,865,829	11,518	-	(300,073)	21,577,274
Total assets	$ 33,875,300	$ 181,954	$ 181,590	$ (750,073)	$ 33,488,771
Liabilities and Net Assets					
Current liabilities					
Accounts payable	$ 1,090,335	$ -	$ -	$ -	$ 1,090,335
Accrued salaries and benefits	1,698,007	-	-	-	1,698,007
Deferred revenue	1,172,001	-	-	-	1,172,001
Compensated absences	460,416	-	-	-	460,416
Capital lease obligations	116,884	-	-	-	116,884
Deferred rent	19,291	-	-	-	19,291
Other accrued expenses	10,556	2,777	88,772	-	102,105
Total current liabilities	4,567,490	2,777	88,772	-	4,659,039
Long-term liabilities					
Loan payable	5,121,628	450,000	-	(450,000)	5,121,628
Line-of-credit	24,257	-	-	-	24,257
Deferred rent, net of current portion	126,604	-	-	-	126,604
Capital lease obligations, net of current portion	88,539	-	-	-	88,539
Total liabilities	9,928,518	452,777	88,772	(450,000)	10,020,067
Commitments					
Net assets					
Subsidiary equity	-	(270,823)	92,818	178,005	-
Unrestricted					
Rocky Mountain Institute	12,410,167	-	-	-	12,410,167
Non-controlling interest in subsidiary	-	-	-	(478,078)	(478,078)
Total unrestricted	12,410,167	(270,823)	92,818	(300,073)	11,932,089
Temporarily restricted	11,219,045	-	-	-	11,219,045
Permanently restricted	317,570	-	-	-	317,570
Total net assets	23,946,782	(270,823)	92,818	(300,073)	23,468,704
Total liabilities and net assets	$ 33,875,300	$ 181,954	$ 181,590	$ (750,073)	$ 33,488,771

ROCKY MOUNTAIN INSTITUTE

Consolidating Schedule of Activities
For the Year Ended June 30, 2016

	RMI and RMIIC	BBE	RMII	Eliminations	Consolidated
Revenues, gains, and other support					
Applied research/collaboration	$ 3,769,228	$ 57,295	$ 58,564	$ -	$ 3,885,087
Foundation, individual, and government grants	11,243,437	-	-	-	11,243,437
Individual and corporate contributions, net of direct benefit to donors	14,468,236	-	-	-	14,468,236
Publishing and royalty revenue	5,577	-	-	-	5,577
Contributed facilities/in-kind donations	9,350	-	-	-	9,350
Other revenue	44,063	-	-	-	44,063
Change in beneficial interest in assets held by The Denver Foundation	(118,416)	-	-	-	(118,416)
Investment income	26,068	-	-	-	26,068
Net realized and unrealized loss on investments	(104,985)	-	-	-	(104,985)
Total revenues, gains, and other support	29,342,558	57,295	58,564	-	29,458,417
Expenses					
Program services	22,869,134	789,490	-	-	23,658,624
Management and general	4,126,484	-	354,774	-	4,481,258
Fundraising	2,314,418	-	-	-	2,314,418
Total expenses	29,310,036	789,490	354,774	-	30,454,300
Excess of revenues, gains, and other support over expenses before loss from investments in subsidiaries	32,522	(732,195)	(296,210)	-	(995,883)
Loss from investments in subsidiaries	(603,724)	-	-	603,724	-
Capital contributions	-	425,000	389,028	(814,028)	-
Consolidation of Black Bear Energy	-	-	-	(53,397)	(53,397)
Change in net assets	$ (571,202)	$ (307,195)	$ 92,818	$ (263,701)	$ (1,049,280)