



**Financial Statements
and
Independent Auditors' Report
June 30, 2007 and 2006**

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

ROCKY MOUNTAIN INSTITUTE

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Rocky Mountain Institute
Boulder, Colorado

We have audited the accompanying statements of financial position of Rocky Mountain Institute (RMI) (a Colorado non-profit corporation) as of June 30, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of RMI's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides 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, 2007 and 2006, 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

November 19, 2007
Denver, Colorado

ROCKY MOUNTAIN INSTITUTE

Statements of Financial Position

		June 30,	
		2007	2006
Assets			
Current assets			
Cash and cash equivalents	\$	272,804	\$ 86,845
Restricted cash		137,704	797,692
Investments		5,706,881	5,455,025
Accounts receivable, net allowance for doubtful accounts of \$92,102 (2007) and \$31,600 (2006)		1,725,953	913,989
Pledges receivable		650,000	500,000
Inventory		39,495	87,474
Note receivable		-	183,673
Other current assets		115,072	-
Total current assets		8,647,909	8,024,698
Long-term assets			
Property and equipment, net		1,688,647	1,797,636
Pledges receivable, net of current portion		226,197	441,356
Cash surrender value of life insurance policies		53,316	53,316
Investments restricted for endowment		740,988	684,514
Deposits		20,206	25,363
Other assets		19,908	19,908
Total long-term assets		2,749,262	3,022,093
Total assets	\$	11,397,171	\$ 11,046,791
Liabilities and Net Assets			
Current liabilities			
Accounts payable	\$	568,315	\$ 108,555
Lines of credit		1,060,955	1,200,000
Compensated absences liability		204,406	223,860
Other accrued expenses		621,169	218,554
Refundable advance		-	274,086
Notes payable		308,205	399,638
Bonds payable		18,612	17,662
Total current liabilities		2,781,662	2,442,355
Long-term liabilities			
Note payable, net of current portion		440,655	496,036
Bonds payable, net of current portion		367,738	384,015
Total long-term liabilities		808,393	880,051
Total liabilities		3,590,055	3,322,406
Commitments			
Net assets			
Unrestricted		5,116,068	4,547,435
Temporarily restricted		2,007,779	2,493,681
Permanently restricted		683,269	683,269
Total net assets		7,807,116	7,724,385
Total liabilities and net assets	\$	11,397,171	\$ 11,046,791

See notes to financial statements.

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Statements of Activities

	For the Years Ended							
	June 30, 2007			June 30, 2006				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support								
Applied research/consulting	\$ 4,464,183	\$ -	\$ -	\$ 4,464,183	\$ 2,774,322	\$ -	\$ -	\$ 2,774,322
Foundation and government grants	494,967	1,858,040	-	2,353,007	255,038	1,720,546	-	1,975,584
Individual and corporate contributions	2,077,742	274,086	-	2,351,828	1,166,785	2,097,099	-	3,263,884
Publishing and royalty revenue	93,468	-	-	93,468	91,399	-	-	91,399
Contributed facilities/in-kind donations	135,000	-	-	135,000	148,563	-	-	148,563
Other revenue	180,469	-	-	180,469	130,358	-	-	130,358
Loss on sale of assets	-	-	-	-	(5,731)	-	-	(5,731)
Loss on equity investment	(183,673)	-	-	(183,673)	(127,127)	-	-	(127,127)
Investment income	254,991	-	-	254,991	271,646	-	-	271,646
Net gain on investments	341,540	-	-	341,540	211,866	-	-	211,866
	7,858,687	2,132,126	-	9,990,813	4,917,119	3,817,645	-	8,734,764
Net assets released from restrictions	2,618,028	(2,618,028)	-	-	2,062,990	(2,062,990)	-	-
Total revenues, gains, and other support	10,476,715	(485,902)	-	9,990,813	6,980,109	1,754,655	-	8,734,764
Expenses								
Program services	6,883,958	-	-	6,883,958	5,480,008	-	-	5,480,008
Expenses paid on behalf of Windstar Land Conservancy (WLC)	105,263	-	-	105,263	103,000	-	-	103,000
Management and general	2,049,052	-	-	2,049,052	1,436,482	-	-	1,436,482
Fundraising	869,809	-	-	869,809	607,049	-	-	607,049
Total expenses	9,908,082	-	-	9,908,082	7,626,539	-	-	7,626,539
Change in net assets	568,633	(485,902)	-	82,731	(646,430)	1,754,655	-	1,108,225
Net assets at beginning of year	4,547,435	2,493,681	683,269	7,724,385	5,193,865	739,026	683,269	6,616,160
Net assets at end of year	\$ 5,116,068	\$ 2,007,779	\$ 683,269	\$ 7,807,116	\$ 4,547,435	\$ 2,493,681	\$ 683,269	\$ 7,724,385

See notes to financial statements.

ROCKY MOUNTAIN INSTITUTE

Statements of Cash Flows

	For the Years Ended	
	June 30,	
	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Change in net assets	\$ 82,731	\$ 1,108,225
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation expense	117,063	143,788
Bad debt expense	73,991	11,432
Loss (gain) on disposition of assets	-	5,731
Gain on investments	(341,540)	(211,866)
Loss on equity investment	183,673	127,127
Note payable converted to a contribution	-	(50,000)
Changes in assets and liabilities		
Accounts receivable	(885,955)	(506,318)
Pledges receivable	65,159	(333,161)
Inventory	47,979	(8,615)
Deposits and other assets	(109,915)	(24,793)
Accounts payable	459,760	(95,248)
Compensated absences liability	(19,454)	115,172
Other accrued expenses	402,615	(122,273)
Refundable advance	(274,086)	274,086
	<u>(280,710)</u>	<u>(674,938)</u>
Net cash (used in) provided by operating activities	<u>(197,979)</u>	<u>433,287</u>
Cash flows from investing activities		
Net sales (purchases) of investments	33,210	(955,400)
Purchases of property and equipment	(8,074)	(326,808)
Change in restricted cash	659,988	144,277
Net cash provided by (used in) investing activities	<u>685,124</u>	<u>(1,137,931)</u>
Cash flows from financing activities		
Draws from lines of credit	60,000	1,902,280
Payments on lines of credit	(199,045)	(1,202,280)
Proceeds from notes payable	-	100,000
Payments on bonds payable, notes payable, and capital lease obligations	(162,141)	(149,113)
Net cash (used in) provided by financing activities	<u>(301,186)</u>	<u>650,887</u>
Net change in cash and cash equivalents	185,959	(53,757)
Cash and cash equivalents at beginning of year	<u>86,845</u>	<u>140,602</u>
Cash and cash equivalents at end of year	<u>\$ 272,804</u>	<u>\$ 86,845</u>

Supplemental disclosure of cash flow information:

Interest paid was \$147,411 and \$185,881 for the years ended June 30, 2007 and 2006, respectively.

See notes to financial statements.

ROCKY MOUNTAIN INSTITUTE

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

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

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

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS 117, RMI is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted amounts are those currently available at the discretion of the Board of Directors for use in RMI's operations and those resources invested in property and equipment.

Temporarily restricted amounts are monies restricted by donors specifically for certain time periods, purposes or programs.

Permanently restricted amounts are assets that must be maintained permanently by RMI as required by the donor; but RMI is permitted to use or expend part or all of any income derived from those assets.

Cash and Cash Equivalents

RMI considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, unless held for reinvestment as part of the investment portfolio or otherwise encumbered. At June 30, 2007, RMI had cash in excess of federally insured limits.

Restricted Cash

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

Investments

RMI accounts for investments in accordance with SFAS No. 124 *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, RMI is required to report investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values with realized and unrealized gains and losses included in the statement of activities.

ROCKY MOUNTAIN INSTITUTE

Notes to Financial Statements

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

Accounts Receivable

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

Concentration of Risk

For the year ended June 30, 2006, approximately 19% of revenues and support were attributable to one donor.

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, 2007 and 2006.

Inventory

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

Property and Equipment

Property and equipment having a unit cost of \$3,500 or more are capitalized at cost by RMI. Donated fixed assets are capitalized at fair value at the date of donation. Depreciation is provided on the straight-line method based upon the estimated useful lives of the assets, which range from five to forty years.

ROCKY MOUNTAIN INSTITUTE

Notes to Financial Statements

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

Long-Lived Assets

RMI accounts for long-lived assets in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. RMI reviews its assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from future undiscounted cash flows. For assets that are held and used in operations, impairment losses are recorded for the difference between the carrying value and fair value of the long-lived asset. For assets that are held for sale, impairment losses are recorded for the difference between the carrying value, less cost to sell the asset. For the years ended June 30, 2007 and 2006, RMI has not recognized any impairment losses.

Contributions

RMI accounts for contributions pursuant to SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions are recognized when cash or ownership of donated assets is unconditionally promised to RMI. Amounts of temporarily restricted contributions are subsequently released to unrestricted net assets when expenses have been incurred in satisfaction of those restrictions. Contributions received with donor-imposed conditions are recorded as refundable advances until the condition is met.

Consulting Fees

RMI consults with individuals, corporations, and governments, and completes other research and education programs to educate the public on environmental issues. These fees are recorded as revenue as the consulting projects are completed.

Grant Revenue and Expense

Research grant awards of \$2,353,007 and \$1,975,584, for the years ended June 30, 2007 and 2006, respectively, are accounted for as either contributions or exchange transactions based on the provisions of the award document. To the extent that grants are contributions, they are recognized as temporarily restricted support until all material conditions 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, Property and Services

RMI occupies, without charge, certain office space and facilities at the Windstar Land Conservancy (Note 10). Fair rental value is reflected in the financial statements as in-kind revenue and related expense of \$135,000 and \$121,920 for the years ended June 30, 2007 and 2006 respectively.

ROCKY MOUNTAIN INSTITUTE

Notes to Financial Statements

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

Income Taxes

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

Use of Estimates

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

Reclassifications

Certain amounts in the 2006 financial statements have been reclassified to conform to the 2007 presentation.

Note 2 - Pledges Receivable

Pledges receivable are as follows:

	<u>June 30,</u>	
	<u>2007</u>	<u>2006</u>
Grant receivables, less than one year	\$ 650,000	\$ 500,000
Grant receivables, one to five years	250,000	500,000
Present value discount	<u>(23,803)</u>	<u>(58,644)</u>
	876,197	941,356
Less current portion	<u>(650,000)</u>	<u>(500,000)</u>
	<u>\$ 226,197</u>	<u>\$ 441,356</u>

The discount rate was 5.13% for the years ended June 30, 2007 and 2006.

ROCKY MOUNTAIN INSTITUTE

Notes to Financial Statements

Note 3 - Investments

The following is a summary of investments at fair value:

	June 30.	
	2007	2006
Unrestricted		
Certificate of deposit	\$ 1,092,359	\$ 1,038,144
Mutual funds		
Money market funds	317,258	1,569,246
Fixed income	1,386,924	1,341,492
Equities	2,802,339	1,397,390
Real estate	108,001	108,753
	4,614,522	4,416,881
Total unrestricted	5,706,881	5,455,025
Restricted		
Mutual funds		
Money market funds	40,921	187,107
Fixed income	324,205	324,271
Equities	363,725	164,586
Real estate	12,137	8,550
Total restricted	740,988	684,514
Total investments	\$ 6,447,869	\$ 6,139,539

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

	For the Years Ended June 30.	
	2007	2006
Interest and dividend income	\$ 280,173	\$ 298,218
Investment management and custodian fees	(25,182)	(26,572)
Investment income	254,991	271,646
Realized losses on investments	(61,824)	(129,117)
Unrealized gains on investments	403,364	340,983
Net gain on investments	341,540	211,866
Total return on investments	\$ 596,531	\$ 483,512

ROCKY MOUNTAIN INSTITUTE

Notes to Financial Statements

Note 4 - Property and Equipment

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

	June 30.	
	2007	2006
Buildings and improvements	\$ 1,774,865	\$ 1,774,865
Equipment	499,485	499,485
Land and land improvements	94,105	94,105
Furniture	74,706	66,633
Vehicles	<u>51,767</u>	<u>51,767</u>
	2,494,928	2,486,855
Less accumulated depreciation	<u>(806,281)</u>	<u>(689,219)</u>
Property and equipment, net	<u>\$ 1,688,647</u>	<u>\$ 1,797,636</u>

Note 5 - Lines of Credit

RMI has two lines of credit available to assist with operating cash needs. The first line for \$720,000 is available until February 2008. As of June 30, 2007, the stated interest rate was 8.25%. The second line is for \$700,000 and has a stated interest rate of prime plus 0.5% (8.75% at June 30, 2007), maturing in March 2008. The lines are collateralized by a deed of trust on real estate. As of June 30, 2007 and 2006, \$1,060,955 and \$1,200,000 was outstanding, respectively.

Note 6 - Notes Payable

	June 30.	
	2007	2006
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.	\$ 373,860	\$ 470,674
Term loans dated between August 2003 and December 2004, with maturities of five to ten years, and fixed interest rates of 4% to 5%, payable in lump sums. These notes are callable with written notice 60 and 90 days in advance. As of the date of this report, these loans have not been called. These loans are unsecured.	125,000	125,000

ROCKY MOUNTAIN INSTITUTE

Notes to Financial Statements

Note 6 - Notes Payable (continued)

	<u>June 30,</u>	
	<u>2007</u>	<u>2006</u>
Notes payable dated October 2000 with a related party. Those notes have an indefinite due date and a portion may be forgiven at the discretion of the note holder. These notes are callable with written notice 90 days in advance (considered due in 2008 on the following maturity schedule). The notes are non-interest bearing and unsecured. During the year ended June 30, 2007, one of the notes in the amount of \$50,000 was forgiven.	<u>250,000</u>	<u>300,000</u>
	748,860	895,674
Less current portion	<u>(308,205)</u>	<u>(399,638)</u>
Long-term portion of notes payable	<u>\$ 440,655</u>	<u>\$ 496,036</u>

Notwithstanding the call provisions, notes payable mature as follows:

For the Year Ending June 30,

2008	\$ 308,205
2009	181,999
2010	66,044
2011	167,612
2012	<u>25,000</u>
	<u>\$ 748,860</u>

Note 7 - Industrial Revenue Bonds

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

ROCKY MOUNTAIN INSTITUTE

Notes to Financial Statements

Note 7 - Industrial Revenue Bonds (continued)

The five-year principal repayment schedule is as follows:

For the Year Ending June 30,

2008	\$	18,612
2009		19,613
2010		20,668
2011		21,780
2012		22,951
Thereafter		<u>282,726</u>
	\$	<u>386,350</u>

Note 8 - Retirement Plan

RMI offers to its staff the option to participate in a deferred compensation plan pursuant to Internal Revenue Code Section 403(b). Staff contributions are voluntary and are made on a pretax basis. RMI has no obligation to make employer contributions. Employer contributions of \$124,899 and \$98,477 were made and are included in the statements of activities for the years ended June 30, 2007 and 2006, respectively.

Note 9 - 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. Upon incurring such expenditures, the funds are transferred to and spent by the unrestricted fund.

	<u>June 30,</u>	
	<u>2007</u>	<u>2006</u>
Communications	\$ 9,527	\$ 9,645
Development	303,799	830,672
Energy	322,993	172,345
Green development	163,783	50,632
Integrative design	51,953	25,000
Administration	877,219	627,090
Research and Consulting Administration	23,500	39,780
Winning the Oil End Game	<u>255,005</u>	<u>738,517</u>
	<u>\$ 2,007,779</u>	<u>\$ 2,493,681</u>

ROCKY MOUNTAIN INSTITUTE

Notes to Financial Statements

Note 9 - 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.

	<u>June 30,</u>	
	<u>2007</u>	<u>2006</u>
Semmer Endowment	\$ 106,944	\$ 106,944
Windstar Land Conservancy Endowment	<u>576,325</u>	<u>576,325</u>
	<u>\$ 683,269</u>	<u>\$ 683,269</u>

Note 10 - Windstar Land Conservancy

In 1995, RMI purchased a 50% interest in a property. At the time of RMI's purchase, Windstar Foundation (WF) owned the other 50%. In conjunction with the purchase, RMI and WF agreed to transfer their property to a charitable, not-for-profit organization that is named Windstar Land Conservancy (WLC). Currently, WLC is controlled by two board members selected by RMI, two board members selected by WF, and one at-large board member. WLC owns land in Snowmass Creek Valley which is held for the purpose of preservation in perpetuity. According to the interim agreement, dated November 2, 2000, RMI incurs all costs associated with WLC and is responsible for the daily management. In return, RMI occupies the majority of the office space owned by WLC without rent. Additionally, RMI has variance power over grant revenue and interest income related to the endowment that RMI has raised funds for on behalf of WLC, and therefore, these funds are reported as a component of RMI's permanently restricted net assets. The investment value of the endowment as of June 30, 2007 and 2006 recorded on the books of RMI was \$601,146 and \$556,989, respectively. At the end of the interim agreement, the endowment may be transferred to WLC if certain conditions are met. For each of the years ended June 30, 2007 and 2006, RMI recorded \$135,000 and \$121,920, respectively, of imputed rent related to the use of the WLC facility. RMI incurred \$105,263 and \$103,000 of expenses on behalf of WLC for the years ended June 30, 2007 and 2006, respectively. Because the board of directors is not controlled by RMI, the operations of WLC are not consolidated in the accompanying financial statements.

ROCKY MOUNTAIN INSTITUTE

Notes to Financial Statements

Note 11 - Staff Housing

RMI owns a house, duplex, triplex, and a quadplex near RMI's headquarters and rents these living spaces to the employees of RMI. Rent is deducted from the employees' weekly compensation. Rental income of \$139,652 and \$94,765 was withheld from employees's paychecks for the years ended June 30, 2007 and 2006, respectively and is included in other revenue in the accompanying statement of activities. As of June 30, 2007 and 2006, the net book value of the staff housing units is \$645,662 and \$684,146, respectively, and is included in buildings and improvements.

Note 12 - Investment in Hypercar, Inc.

RMI owns 18.7% of Hypercar, Inc., DBA Fiberforge (Hypercar). Hypercar is a product of RMI's research on efficient electric vehicles and manufacturing processes for advanced materials. The investment in Hypercar is reported using the equity method of accounting. RMI's share of Hypercar's net losses is in excess of the carrying value of its investment in Hypercar. RMI is not responsible for losses of Hypercar in excess of its investment, and therefore is no longer reflecting its share of Hypercar's losses and may only reflect its share of Hypercar's future earnings to the extent that they exceed RMI's share of Hypercar's unrecognized net losses.

In April 2004, RMI extended a line of credit to Hypercar for \$750,000 at a 1% interest rate plus the prime lending rate in effect at the time of disbursement. As of June 30, 2007 and 2006, Hypercar owed to RMI \$650,000 and \$750,000, respectively, and payments were current as of June 30, 2007. In accordance with APB 18, *The Equity Method of Accounting for Investments in Common Stock*, and EITF D-68, *Accounting by an Equity Method Investor for Investee Losses When The Investor Has Loans to and Investments in Other Securities of an Investee*, the value of the loan has been reduced by \$83,673 and \$127,127 years ended June 30, 2007 and 2006, respectively, which represents RMI's share of Hypercar's net loss for the respective years. During the year ended June 30, 2007, RMI wrote off \$100,000 of the note receivable. The book value of the loan is \$0 and \$183,673 at June 30, 2007 and 2006, respectively.

Note 13 - Commitments

Operating Leases

RMI leases several of its facilities and equipment under operating leases expiring through October 2010. Rent expense for the years ended June 30, 2007 and 2006 was \$276,058 and \$289,797, respectively.

ROCKY MOUNTAIN INSTITUTE

Notes to Financial Statements

Note 13 - Commitments (continued)

Operating Leases (continued)

Future minimum lease payments are approximately as follows:

For the Year Ended June 30,

2008	\$	264,000
2009		234,000
2010		232,000
2011		<u>159,000</u>
	\$	<u>889,000</u>

Note 14 - Health Insurance Program

RMI has a self-insurance program for hospitalization and medical coverage for its employees. RMI limits its losses through the use of stop-loss policies from reinsurers. Specific individual losses for claims are limited to \$25,000 per year. RMI's aggregate annual loss limitation is based on a formula that considers, among other things, the total number of employees. During the years ended June 30, 2007 and 2006, RMI paid \$388,878 and \$166,199, respectively, under the program. RMI has accrued a liability of \$75,054 and \$29,747, for the expected claims that had been incurred but not paid as of June 30, 2007 and 2006, respectively.

ACCOMPANYING INFORMATION

ROCKY MOUNTAIN INSTITUTE

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

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

ROCKY MOUNTAIN INSTITUTE

**Schedule of Functional Expenses
Year Ended June 30, 2006**

	<u>Research and Consulting</u>	<u>Communications</u>	<u>Total Program Services</u>	<u>Windstar Land Conservancy</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Operating expenses							
Salaries	\$ 2,370,509	\$ 199,870	\$ 2,570,379	\$ 36,865	\$ 695,005	\$ 355,884	\$ 3,658,133
Benefits	404,287	34,088	438,375	6,287	118,532	60,696	623,890
Accounting fees	-	-	-	-	9,372	-	9,372
Advertising	749	954	1,703	-	-	-	1,703
Appliances and furnishing expenses	5,897	-	5,897	226	151	-	6,274
Annual meeting expense	-	-	-	-	3,000	-	3,000
Audit	-	-	-	-	56,565	-	56,565
Auto expense - gas and maintenance	-	16	16	2,777	5,744	-	8,537
Bad debt/professional	11,432	-	11,432	-	-	-	11,432
Bank, credit card charges	-	11,096	11,096	-	-	-	11,096
Computer equipment	70,903	5,978	76,881	1,103	20,788	10,645	109,417
Computer software	19,304	1,628	20,932	300	5,660	2,898	29,790
Consultants and subcontracts	643,161	5,386	648,547	9,593	143,538	14,446	816,124
Dues, subscriptions, and membership	10,349	8,462	18,811	-	4,472	6,254	29,537
General insurance	781	-	781	18,078	46,879	-	65,738
Leased vehicle gas and maintenance	-	-	-	-	-	-	-
Legal	-	-	-	-	32,146	-	32,146
Library expense	776	333	1,109	-	150	-	1,259
Licenses and registration	719	1,130	1,849	127	1,971	-	3,947
Merchandise expense	2,767	753	3,520	-	2,830	-	6,350
Miscellaneous	63,068	9,497	72,565	256	9,894	12,615	95,330
Office expense	26,970	1,053	28,023	-	32,293	2,166	62,482
Outreach	-	8,611	8,611	-	-	-	8,611
Postage and freight	6,789	5,567	12,356	-	16,923	14,817	44,096
Printing	1,016	48,058	49,074	-	-	14,395	63,469
Professional development	1,855	3,999	5,854	-	2,263	-	8,117
Professional discounts	-	-	-	-	-	-	-
Publications expense	-	54,197	54,197	-	-	852	55,049
Recruiting expenses	61,878	-	61,878	-	19,984	3,603	85,465
Reimbursable expenses	26,179	-	26,179	-	779	182	27,140
Rent expense	274,771	4,286	279,057	1,140	9,600	-	289,797
Repairs and maintenance	5,083	-	5,083	13,148	43,846	-	62,077
Research materials	-	-	-	-	-	-	-
Supplies	30,977	3,987	34,964	5,959	10,044	126	51,093
Taxes	-	-	-	-	16,543	-	16,543
Telephone	70,163	5,916	76,079	1,091	20,571	10,534	108,275
Tools	37	850	887	60	1,164	-	2,111
Travel, meals, and meetings	625,620	1,859	627,479	150	18,281	60,295	706,205
Utilities	38,087	3,211	41,298	592	11,167	5,718	58,775
Vehicle lease expense	2,249	-	2,249	-	3,149	-	5,398
Web site	601	2,892	3,493	-	-	-	3,493
Total operating expenses	<u>4,776,977</u>	<u>423,677</u>	<u>5,200,654</u>	<u>97,752</u>	<u>1,363,304</u>	<u>576,126</u>	<u>7,237,836</u>
Other expenses							
Depreciation expense	94,770	8,605	103,375	1,939	27,046	11,428	143,788
Facilities contributed expense	80,751	7,162	87,913	1,652	23,046	9,739	122,350
Interest expense	80,892	7,174	88,066	1,657	23,086	9,756	122,565
Total other expenses	<u>256,413</u>	<u>22,941</u>	<u>279,354</u>	<u>5,248</u>	<u>73,178</u>	<u>30,923</u>	<u>388,703</u>
Total expenses	<u>\$ 5,033,390</u>	<u>\$ 446,618</u>	<u>\$ 5,480,008</u>	<u>\$ 103,000</u>	<u>\$ 1,436,482</u>	<u>\$ 607,049</u>	<u>\$ 7,626,539</u>