



Financial Statements  
September 30, 2012 and 2011  
**Central Asia Institute**

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## Independent Auditor's Report

The Board of Directors  
Central Asia Institute  
Bozeman, Montana

We have audited the accompanying statements of financial position of Central Asia Institute (the Organization) as of September 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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 audits 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 the Organization's internal control over financial reporting. Accordingly, we do not express such an 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 the Organization, as of September 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Eide Bailly LLP*

Phoenix, Arizona  
September 11, 2013

Central Asia Institute  
Statements of Financial Position  
Years Ended September 30, 2012 and 2011

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,227,314	\$ 3,432,646
Certificates of deposit	5,198,222	6,207,900
Investments in marketable debt and equity securities	15,608,297	15,280,783
Prepaid expenses and deposits	48,239	51,505
Accrued interest receivable	-	65,931
Promises to give receivable, current	9,055	11,083
Related party receivable	-	8,496
Total current assets	22,091,127	25,058,344
Non-Current Assets		
Other investments - land	115,000	115,000
Property and equipment, net	541,822	559,958
Promises to give receivable, net of current portion	945	2,975
Total non-current assets	657,767	677,933
Total assets	\$ 22,748,894	\$ 25,736,277
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 148,321	\$ 195,751
Accrued liabilities	23,346	35,755
Compensated absences	32,036	43,105
Current portion of long-term debt	5,947	7,567
Total current liabilities	209,650	282,178
Non-Current Liabilities		
Long-term debt, net of current portion	176,309	186,775
Total liabilities	385,959	468,953
Net Assets		
Unrestricted		
Board designated for Talim fund	12,000,000	12,000,000
Unrestricted	9,066,678	8,238,971
Total unrestricted	21,066,678	20,238,971
Temporarily restricted	1,296,257	5,028,353
Total net assets	22,362,935	25,267,324
Total liabilities and net assets	\$ 22,748,894	\$ 25,736,277

Central Asia Institute  
Statements of Activities  
Years Ended September 30, 2012 and 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenues and Support</b>						
Contributions and related event revenue	\$ 3,097,670	\$ 905,225	\$ 4,002,895	11,498,419	\$ 3,603,421	\$ 15,101,840
Sales of merchandise	15,847	-	15,847	63,281	-	63,281
Honorariums	-	-	-	863	-	863
Investment income, net	202,231	-	202,231	(200,970)	-	(200,970)
Conference and convention revenue	9,176	-	9,176	5,010	-	5,010
Settlement agreement	560,000	-	560,000	424,765	-	424,765
Revenue and support before net assets released from restrictions	3,884,924	905,225	4,790,149	11,791,368	3,603,421	15,394,789
Net assets released from restrictions	4,637,321	(4,637,321)	-	5,411,722	(5,411,722)	-
Total revenues and support	8,522,245	(3,732,096)	4,790,149	17,203,090	(1,808,301)	15,394,789
<b>Expenses</b>						
Program services						
Global outreach program	570,357	-	570,357	4,426,538	-	4,426,538
Overseas education and projects	5,092,660	-	5,092,660	6,495,735	-	6,495,735
Total program services	5,663,017	-	5,663,017	10,922,273	-	10,922,273
Support services						
General and administration	1,878,690	-	1,878,690	1,973,891	-	1,973,891
Fundraising	152,831	-	152,831	695,389	-	695,389
Total expenses	7,694,538	-	7,694,538	13,591,553	-	13,591,553
Change in Net Assets	827,707	(3,732,096)	(2,904,389)	3,611,537	(1,808,301)	1,803,236
Net Assets, Beginning of Year	20,238,971	5,028,353	25,267,324	16,627,434	6,836,654	23,464,088
Net Assets, End of Year	\$ 21,066,678	\$ 1,296,257	\$ 22,362,935	\$ 20,238,971	\$ 5,028,353	\$ 25,267,324

Central Asia Institute  
Statements of Functional Expenses  
Year Ended September 30, 2012

	2012					
	Program Services			Supporting Services		
	Global Outreach Program	Overseas Education and Projects	Total Programs	General and Administration	Fundraising	Total Expenses
Advertising and promotion	\$ 6,742	\$ -	\$ 6,742	\$ 1,660	\$ -	\$ 8,402
Depreciation	-	-	-	18,136	-	18,136
Donations	-	-	-	181	-	181
Events	126,186	-	126,186	3,132	-	129,318
Fees, permits, and memberships	732	-	732	77,852	1,473	80,057
Film and video	250	-	250	41	-	291
Insurance	-	-	-	39,201	-	39,201
Miscellaneous	-	-	-	-	-	-
Occupancy	-	-	-	60,505	-	60,505
Office supplies	-	-	-	9,853	-	9,853
Overseas education and community health grants	-	4,942,909	4,942,909	-	-	4,942,909
Personnel costs	39,760	148,799	188,559	441,065	49,557	679,181
Postage and delivery	149,976	-	149,976	94	26,221	176,291
Printing and reproduction	119,030	-	119,030	7,968	65,217	192,215
Professional fees	95,680	-	95,680	1,163,789	1,500	1,260,969
Book purchases and other resources	-	-	-	6,677	-	6,677
Repairs and maintenance	-	-	-	5,452	8,863	14,315
Technology	6,478	-	6,478	2,186	-	8,664
Training and conferences	-	-	-	-	-	-
Travel	25,523	952	26,475	40,898	-	67,373
	<u>\$ 570,357</u>	<u>\$ 5,092,660</u>	<u>\$ 5,663,017</u>	<u>\$ 1,878,690</u>	<u>\$ 152,831</u>	<u>\$ 7,694,538</u>

Central Asia Institute  
Statements of Functional Expenses  
Year Ended September 30, 2011

	2011					
	Program Services			Supporting Services		
	Global Outreach Program	Overseas Education and Projects	Total Programs	General and Administration	Fundraising	Total Expenses
Advertising and promotion	\$ 1,119,969	\$ -	\$ 1,119,969	\$ -	\$ 22,147	\$ 1,142,116
Depreciation	-	-	-	18,136	-	18,136
Donations	10,500	-	10,500	20,773	865	32,138
Events	144,166	-	144,166	5,340	155,459	304,965
Fees, permits, and memberships	10,105	-	10,105	239,837	-	249,942
Film and video	30,096	-	30,096	703	1,154	31,953
Insurance	-	-	-	22,807	-	22,807
Miscellaneous	-	-	-	120	-	120
Occupancy	5,426	-	5,426	90,523	-	95,949
Office supplies	1,423	-	1,423	21,309	120	22,852
Overseas education and community health grants	-	6,425,580	6,425,580	1,011	-	6,426,591
Personnel costs	276,217	63,655	339,872	368,115	147,930	855,917
Postage and delivery	136,056	-	136,056	173,184	125,100	434,340
Printing and reproduction	698,147	-	698,147	229	24,475	722,851
Professional fees	243,062	6,500	249,562	954,512	78,318	1,282,392
Book purchases and other resources	783,943	-	783,943	6,847	-	790,790
Repairs and maintenance	10,814	-	10,814	12,599	5,088	28,501
Technology	7,182	-	7,182	3,195	-	10,377
Training and conferences	-	-	-	139	-	139
Travel	949,432	-	949,432	34,512	134,733	1,118,677
	<u>\$ 4,426,538</u>	<u>\$ 6,495,735</u>	<u>\$ 10,922,273</u>	<u>\$ 1,973,891</u>	<u>\$ 695,389</u>	<u>\$ 13,591,553</u>

Central Asia Institute  
Statements of Cash Flows  
Years Ended September 30, 2012 and 2011

	2012	2011
Operating Activities		
Change in net assets	\$ (2,904,389)	\$ 1,803,236
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	18,136	18,136
Uncollected promises to give	2,030	-
Reinvested investment income	-	(251,823)
Donated marketable equity securities	(3,399)	(249,533)
Unrealized (gain) loss on investments	(71,511)	452,774
Change in operating assets and liabilities		
Prepaid expenses and deposits	3,266	157,239
Accrued interest receivable	65,931	(32,232)
Promises to give receivable	2,028	26,258
Related party receivable	8,496	66,780
Accounts payable	(47,430)	(66,257)
Accrued liabilities	(23,478)	(10,251)
Net Cash from (used for) Operating Activities	(2,950,320)	1,914,327
Investing Activities		
Proceeds from certificates of deposit	6,009,678	4,199,539
Purchases of certificates of deposits	(5,000,000)	-
Purchases of investments	(2,253,799)	(5,794,276)
Proceeds from sale of investments	2,001,195	314,141
Net Cash from (used for) Investing Activities	757,074	(1,280,596)
Financing Activities		
Repayment of long-term debt	(12,086)	(8,320)
Net Cash used for Financing Activities	(12,086)	(8,320)
Net Change in Cash and Cash Equivalents	(2,205,332)	625,411
Cash and Cash Equivalents, Beginning of Year	3,432,646	2,807,235
Cash and Cash Equivalents, End of Year	\$ 1,227,314	\$ 3,432,646
Supplemental Disclosure of Cash Flows		
Cash paid for interest	\$ 8,686	\$ 8,314
Donated marketable equity securities	\$ 3,399	\$ 249,533



## **Note 1 - Significant Accounting Policies**

### **Organization**

Central Asia Institute's (the Organization) purpose is to empower communities of Central Asia through literacy and education, especially for girls; promote peace through education; and convey the importance of these activities globally. The dual-purpose mission focuses on literacy, education and community health projects in the remote contiguous mountain regions of Central Asia, and focuses the public's attention, as well as the educational community's attention, on the contiguous mountain regions and communities of Central Asia.

The Organization's support comes primarily from individual donor contributions.

### **Overseas Grantee Monitoring**

The Organization distributes funds and offers assistance to local, indigenous parties (grantees) that engage in activities and programs that further the stated charitable purposes of the Organization or that otherwise engage in activities and programs consistent with the Organization's stated charitable purposes.

Monitoring and reporting is conducted through the Organization's personnel visits to host countries, meetings between the Organization's personnel and grantees, and/or meetings between the independent accounting firm retained by the Organization and grantees, to understand the activities and structure of the operations in host countries, documenting the generally accepted business methods and accounting for transactions. This includes an understanding of payment flows and documentation of formal contracts with those involved in program activities, and business methods with respect to contracts and invoice documentation for program activities in the area where the programs are delivered (school buildings, water projects, healthcare, scholarships, teacher support, women's vocational centers, literacy centers, and community support).

### **Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles, reflect all significant principles, and accordingly, reflect all significant receivables, payables, and other liabilities. Net assets, revenues, and gains and losses are classified on the existence or absence of donor-imposed restrictions on contributions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations. The Board of Directors may designate unrestricted net assets for various purposes.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.

Permanently restricted net assets - Net assets for which the donor's stipulated principal is to be maintained in perpetuity.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Realized and unrealized gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets, i.e., the donor-stipulated purposes have been fulfilled, and/or the stipulated time has elapsed, are reported as reclassifications between the applicable classes of net assets.

### **Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Organization generally tries to maintain deposits at or below the federally insured limits in any financial institution; however, it occasionally has cash balances at these financial institutions that exceed federally insured amounts.

### **Contributions**

Contribution revenue is recognized when the Organization is notified of the existence of a promise to give or receives a contribution. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

It is the policy of the Organization to report gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions specifying how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are recorded as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated assets are placed in service.

### **Promises to Give Receivable**

Unconditional promises to give and grants that are expected to be collected within one year are recorded as promises to give and grants receivable at fair value. Unconditional promises to give and grants that are expected to be collected in periods greater than one year are recorded at the net present value of expected future cash flows of the promises to give and grants at their fair value. The Organization provides an allowance for estimated uncollectible contributions.

Promises to give and grants receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on promises to give and grants receivable using the allowance method. The allowance is based on experience, third-party contracts, knowledge of the donors and the industry, and other circumstances, which may affect the ability of donors to meet their obligations. It is the Organization's policy to charge off uncollectible promises to give and grants receivable when management determines the receivable will not be collected. All promises to give received at September 30, 2012 and 2011 are deemed to be fully collectible by management; therefore, an allowance for doubtful accounts is not deemed necessary.

### **Investments**

Investments in marketable debt and equity securities with readily determinable fair values are reported at their fair value in the accompanying statements of financial position with the annual change in fair value being recorded as unrealized gains or losses in current revenue for the year.

### **Other Investments – Land**

Other investments – land is being held for sale and is valued at the lower of cost or market.

### **Property and Equipment**

All acquisitions of furniture and equipment in excess of \$5,000, and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets.

The Organization reviews its property and equipment whenever events indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recorded when the sum of the future cash flows is less than the carrying amount of the asset. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. No impairment loss is recorded at September 30, 2012 and 2011.

### **Functional Expenses**

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Directly identifiable expenses are charged to programs and supporting services. Certain costs have been allocated among the programs and support services benefited based on management's estimate of employee hours devoted to each function.

### **Advertising Expenses**

The Organization expenses advertising costs as they are incurred. For the years ended September 30, 2012 and 2011, \$8,402 and \$1,142,116 were charged to expense for advertising and promotion, respectively.

### **Income Tax**

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Organization evaluates its tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. As of September 30, 2012 and 2011, the unrecognized tax benefit accrual was zero. The Organization will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred. The Organization is no longer subject to federal tax examination by tax authorities for years before 2009 and state examinations for years before 2008.

### **Fair Value Measurements**

The Organization has determined the fair value of certain assets in accordance with the provisions of FASB ASC 820, which provides a framework for measuring fair value under generally accepted accounting principles.

The framework defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The standard requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The framework also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related assets or liabilities. Level 3 inputs are unobservable inputs related to the assets or liabilities.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates are the allowance for doubtful promises to give, depreciation lives and methods, functional expense allocation and valuation of donated materials, long-lived assets, and services. It is at least reasonably possible that the Organization's estimate will change in the near term.

**Reclassifications**

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation. These reclassifications had no effect on the change in net assets.

**Note 2 - Cash and Cash Equivalents**

Cash and cash equivalents consisted of the following:

	2012	2011
Money market	\$ 618,685	\$ 1,588,372
Cash in flex insured account	352,862	1,500,034
Cash in operating bank account	191,528	234,805
Cash in credit card account	62,239	107,442
Petty cash	2,000	1,993
	\$ 1,227,314	\$ 3,432,646

**Note 3 - Investments in Marketable Debt and Equity Securities**

The Organization maintains investments with various financial institutions under the management of third-party managers in accordance with its investment policy. The Organization also holds land that is available for sale. Level 1 inputs are determined by reference to quoted market prices and other relevant information generated by market transactions. Level 2 inputs are determined by relevant tax assessor valuations for the most recent year available at financial statement issuance.

Investment and land holdings as of September 30, 2012, consisted of the following:

	Quoted Prices in Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
U.S. Treasury notes	\$ 13,009,970	\$ -	\$ -
Principle life annuity	244,733	-	-
Mutual funds			
Conservative allocation	254,183	-	-
Diversified emerging markets	150,809	-	-
Intermediate-term bond	227,933	-	-
Large blend	150,296	-	-
Large value	318,644	-	-
Mid-cap value	144,875	-	-
Moderate allocation	233,521	-	-
Multisector blend	150,949	-	-
World bond	150,243	-	-
World stock	572,141	-	-
Land	-	115,000	-
	<u>\$ 15,608,297</u>	<u>\$ 115,000</u>	<u>\$ -</u>

Investment and land holdings as of September 30, 2011, consisted of the following:

	Quoted Prices in Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
U.S. Treasury notes	\$ 15,042,990	\$ -	\$ -
Principle life annuity	-	-	-
Mutual funds			
Conservative allocation	67,200	-	-
Foreign large blend	832	-	-
Large blend	21,285	-	-
Large value	67,264	-	-
Mid-cap growth	3,102	-	-
Small blend	2,517	-	-
Technology	1,752	-	-
World stock	73,841	-	-
Land	-	115,000	-
	<u>\$ 15,280,783</u>	<u>\$ 115,000</u>	<u>\$ -</u>

Components of investment income for the years ended September 30, 2012 and 2011 consisted of the following:

	2012	2011
Interest and dividends, net of investment expense	\$ 130,720	\$ 251,804
Net unrealized gains and losses	71,511	(452,774)
	\$ 202,231	\$ (200,970)

**Note 4 - Promises to Give Receivable**

Promises to give receivable are recorded and revenue is recognized at the time promises to give are made. These balances are stated at their present value. Management considers all promises to give to be fully collectable.

Payments of promises to give receivable as of September 30, 2012, are scheduled as follows:

Years Ending September 30,

2013	\$ 9,055
2014	765
2015	120
2016	60
	\$ 10,000

**Note 5 - Related Party Receivable**

The Organization paid expenses on behalf of its prior Executive Director, which was recorded as a receivable to be reimbursed to the Organization. The receivable totaled \$0 and \$8,496 for the years ended September 30, 2012 and 2011, respectively.

**Note 6 - Property and Equipment**

Property and equipment consisted of the following:

	2012	2011
Buildings	\$ 613,792	\$ 613,792
Equipment and software	11,987	11,987
Total depreciable assets	625,779	625,779
Accumulated depreciation	(83,957)	(65,821)
	\$ 541,822	\$ 559,958

Depreciation expense for the years ended September 30, 2012 and 2011 was \$18,136.

**Note 7 - Long-Term Debt**

As of September 30, 2012 and 2011, long-term debt consisted of the following:

	2012	2011
Fixed rate note payable to First Security Bank, for the purchase of office space, interest rate of 3.930%, and collateralized by a certificate of deposit. The note matures on January 5, 2033.	\$ 182,256	\$ 194,342
Less current portion	(5,947)	(7,567)
	\$ 176,309	\$ 186,775

Future principal payments are as follows:

2013	\$ 5,947
2014	6,201
2015	6,449
2016	6,707
2017	6,975
Thereafter	149,977
	\$ 182,256

The note payable described was refinanced on January 4, 2013, with First Security Bank at an interest rate of 3.930% and a maturity date of 2033. The original note incurred interest at 4.650% and matured on December 15, 2012.

**Note 8 - Compensated Absences**

Employees accrue paid time off in accordance with the policies set forth by the Organization for its employees. Employees accrue 80 hours of paid time off per year, with additional time accrued based on years of service. As of September 30, 2012 and 2011, the Organization has recorded a liability for compensated absences totaling \$32,036 and \$43,105, respectively.

**Note 9 - Board Designated Unrestricted Net Assets**

The Talim Fund (Pashto word meaning Education) is a board designated fund established to provide sustainability of the Organization's overseas projects and program delivery.

**Note 10 - Temporarily Restricted Net Assets**

Activity for temporarily restricted net assets for the year ended September 30, 2012, was as follows:

	Balance as of 09/30/2011	Contributions	Releases of Restrictions	Balance as of 09/30/2012
Pennies for Peace	\$ 2,241,193	\$ 196,040	\$ (1,142,022)	\$ 1,295,211
Overseas education and community health projects	2,786,915	705,076	(3,490,945)	1,046
Public health	245	4,109	(4,354)	-
Total temporarily restricted net assets	<u>\$ 5,028,353</u>	<u>\$ 905,225</u>	<u>\$ (4,637,321)</u>	<u>\$ 1,296,257</u>

Activity for temporarily restricted net assets for the year ended September 30, 2011, was as follows:

	Balance as of 09/30/2010	Contributions	Releases of Restrictions	Balance as of 09/30/2011
Pennies for Peace	\$ 420,152	\$ 3,258,763	\$ (1,437,722)	\$ 2,241,193
Overseas education and community health projects	6,416,502	293,130	(3,922,717)	2,786,915
Public health	-	51,528	(51,283)	245
Total temporarily restricted net assets	<u>\$ 6,836,654</u>	<u>\$ 3,603,421</u>	<u>\$ (5,411,722)</u>	<u>\$ 5,028,353</u>

**Note 11 - Retirement Plan**

The Organization sponsors a defined contribution 403(b) pension plan that covers all full-time employees who have worked 1,000 hours in the first year of employment. For every employee contribution after the 1,000 hours worked, the Organization will match the contribution up to 6% of the employee's annual income. The Organization also provides an employer contribution component of 12% for the executive staff members and 4% for all other employees. Pension expense for the years ended September 30, 2012 and 2011, was \$33,169 and \$43,640, respectively.

**Note 12 - Detail of Overseas Education and Community Health Grants**

The following is a detail of various expense line items as contained on the statement of functional expenses for the years ended September 30:

	2012	2011
Building materials and equipment	\$ 2,923,300	\$ 2,931,646
Public health/medical/water/etc.	161,000	53,502
Operating expenses	541,255	980,854
Salaries (teachers and others)	378,186	723,382
Scholarships	113,000	351,191
Supplies and equipment	413,527	850,590
Skilled laborers	148,799	206,960
Travel (overseas)	142,593	228,712
Women's Center and media costs	-	168,898
Technology and teacher training	37,500	-
Vocational and literacy centers	233,500	-
Total overseas expenses	<u>\$ 5,092,660</u>	<u>\$ 6,495,735</u>



### **Note 13 - Related Organizations and Activities**

In September 2010, under Canadian law, Central Asia Institute Canada was established as a corporation and private charity. The Canadian Organization intends to support and advance community-based education, especially for girls, in remote regions of Central Asia, primarily Pakistan and Afghanistan. No activity has occurred between this Canadian Organization and Central Asia Institute during the fiscal years ended September 30, 2012 and 2011. Representation on the Canadian board includes one employee.

#### **Greg Mortenson's Books, *Three Cups of Tea* and *Stones into Schools***

Greg Mortenson is the prior Executive Director of the Organization. His books have been an integral part of the Organization's mission to empower communities of Central Asia through literacy and education, promote peace through education, and convey the importance of these activities globally.

The Organization receives donations as a result of the books written by co-founder, Greg Mortenson. During the fiscal years ended September 30, 2012 and 2011, the Organization paid expenses of \$0 and \$1,863,732, respectively, for advertising/promotion, events, travel, film and professional fees, and book purchases to donate to schools, libraries and other public outlets for outreach and education.

The Organization's Global Outreach Program was established to promote awareness of the remote contiguous mountain regions and communities of Central Asia, and the importance of primary education, literacy, and cross-cultural understanding. This is accomplished through its websites, publications, public events, the Pennies for Peace Program, and the books *Three Cups of Tea* and *Stones into Schools*.

### **Note 14 - Contingencies**

On April 4, 2012, the Organization entered into a Settlement Agreement and Assurance of Voluntary Compliance with the Montana Attorney General resolving disputed claims and issues relating to allegations of governance problems and claimed mismanagement of assets. This agreement was entered into voluntarily and as a compromise of disputed claims, with no formal finding or admission of liability, wrongdoing, or violation of law. There are several changes to governance and operational procedures included as provisions of the agreement.

As part of the foregoing agreement, Greg Mortenson agreed to pay or otherwise contribute to the Organization \$980,000, representing contributions of past royalties, and an equitable sharing of travel expenses and advertising/promotional costs incurred by the Organization. As of September 30, 2012, Mr. Mortenson has paid to the Organization all of the above noted \$980,000 required by the agreement.

On August 11, 2011, the Board of Directors adopted a resolution, in accordance with its bylaws, indemnifying a board member for his costs and expenses incurred in connection with his participation in the inquiry that has been initiated by the Montana Attorney General, as well as in connection with his defense of a lawsuit. The board views his participation in the State of Montana inquiry and the lawsuit as a function and result of his service to the Organization as its Executive Director and as a member of its Board of Directors and views successful results and outcomes from those matters as beneficial to the Organization. The Organization is seeking reimbursement of the costs and expenses associated with those defenses from the provider of its directors' and officers' liability insurance policy. The total cost to the Organization, if any, of this indemnification is unknown at this time. During the year ended September 30, 2012, the Organization paid legal fees on behalf of Greg Mortenson in the amount of \$406,716.

On January 23, 2012, a Fourth Amended Complaint for Class Action was filed in Federal District Court in Montana including the Organization as a Defendant in the case of George and Susie Pfau, Dan Donovan, and Deborah Netter v. Greg Mortenson, et al., CV-11-72-SEH. This complaint was dismissed with prejudice by the Federal District Court in Montana on April 30, 2012. The Pfaus and Mr. Donovan filed a Notice of Appeal with the United States Court of Appeals for the Ninth Circuit on May 16, 2012. Plaintiff Netter did not join in the appeal. That appeal is now pending with the Ninth Circuit.

The Organization continues to dispute all allegations against it that were contained in the Fourth Amended Complaint and will defend the appeal. In connection therewith, the Board of Directors approved indemnification of co-defendant, Greg Mortenson. The board concluded that his inclusion in the lawsuit, as well as the inclusion of the Organization in the lawsuit is a function and result of his service to the Organization as its Executive Director and as a member of its Board of Directors and views successful results and outcomes from this matter as beneficial to the Organization.

The Organization is seeking reimbursement of the costs and expenses associated with those defenses from the provider of its directors' and officers' liability insurance policy. The total cost to the Organization, if any, of this indemnification is unknown at this time.

#### **Note 15 - Subsequent Events**

The Board of Directors of the Organization passed a resolution at its August 25, 2013 meeting accepting the completion of all requirements imposed on the Organization and its directors by the Montana Attorney General. A representative of the Montana Attorney General's office was in attendance at the meeting. The resolution further acknowledges the acceptance and concurrence of the Montana Attorney General's office that all requirements have been met.