



CENTRAL ASIA INSTITUTE

FINANCIAL REPORT

September 30, 2009

C O N T E N T S

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
 FINANCIAL STATEMENTS	
Statement of Financial Position	2
Statement of Activities and Changes in Net Assets.....	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements.....	6 to 13



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Central Asia Institute
Bozeman, Montana

We have audited the accompanying statement of financial position of Central Asia Institute as of September 30, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the entity's management. Our responsibility is to express an opinion on these 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 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 audit 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 Central Asia Institute as of September 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Galusha, Higgins & Galusha, PC

Bozeman, Montana
May 21, 2010

CENTRAL ASIA INSTITUTE
STATEMENT OF FINANCIAL POSITION
September 30, 2009

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 8,608,450
Prepaid expenses	21,409
Accrued interest receivable	64,702
Employee advances	<u>1,200</u>
Total current assets	<u>8,695,761</u>

NON CURRENT ASSETS

Investments	5,874,378
Property and equipment, net	<u>596,230</u>
Total non current assets	<u>6,470,608</u>

TOTAL ASSETS \$ 15,166,369

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 92,923
Accrued liabilities	29,586
Compensated absences	29,128
Current portion of long-term debt	<u>6,635</u>
Total current liabilities	158,272

NON CURRENT LIABILITIES

Long-term debt, net of current portion	<u>203,229</u>
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Total liabilities 361,501

NET ASSETS

Unrestricted	11,832,605
Temporarily restricted	<u>2,972,263</u>
Total net assets	<u>14,804,868</u>

TOTAL LIABILITIES AND NET ASSETS \$ 15,166,369

CENTRAL ASIA INSTITUTE
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended September 30, 2009

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTALS</u>
REVENUES AND SUPPORT			
Contributions	\$ 9,410,329	\$ 4,144,556	\$ 13,554,885
Sales of merchandise	70,376	-	70,376
Honorariums	54,500	-	54,500
Investment income	<u>318,681</u>	<u>-</u>	<u>318,681</u>
Total revenues and support	9,853,886	4,144,556	13,998,442
SATISFACTION OF TEMPORARY RESTRICTIONS			
	<u>3,454,683</u>	<u>(3,454,683)</u>	<u>-</u>
Total support, revenues, and satisfaction of temporary restrictions	<u>13,308,569</u>	<u>689,873</u>	<u>13,998,442</u>
EXPENSES			
Program services:			
Outreach	4,607,300	-	4,607,300
Education	<u>3,954,644</u>	<u>-</u>	<u>3,954,644</u>
Subtotal program services	<u>8,561,944</u>	<u>-</u>	<u>8,561,944</u>
Supporting services:			
General and administration	678,394	-	678,394
Fundraising	<u>477,040</u>	<u>-</u>	<u>477,040</u>
Total expenses	<u>9,717,378</u>	<u>-</u>	<u>9,717,378</u>
OTHER INCOME (EXPENSE)			
Loss on disposal of assets	(2,798)	-	(2,798)
Interest expense	<u>(2,452)</u>	<u>-</u>	<u>(2,452)</u>
Total other expenses	<u>(5,250)</u>	<u>-</u>	<u>(5,250)</u>
CHANGE IN NET ASSETS	3,585,941	689,873	4,275,814
NET ASSETS, beginning of year	<u>8,246,664</u>	<u>2,282,390</u>	<u>10,529,054</u>
NET ASSETS, end of year	<u>\$ 11,832,605</u>	<u>\$ 2,972,263</u>	<u>\$ 14,804,868</u>

The Notes to the Financial Statements are an integral part of this statement.

CENTRAL ASIA INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended September 30, 2009

	PROGRAMS			GENERAL AND ADMIN- ISTRATION	FUND- RAISING	TOTALS
	OUTREACH	EDUCATION	TOTAL PROGRAM			
Advertising	\$ 1,527,061	\$ -	\$ 1,527,061	\$ -	\$ -	\$ 1,527,061
Depreciation	-	-	-	12,991	-	12,991
Training and conferences	1,100	2,530	3,630	1,513	-	5,143
Employee benefits	25,945	23,066	49,011	36,103	18,848	103,962
Repairs and maintenance	11,505	-	11,505	24,061	11,842	47,408
Events	138,737	-	138,737	494	34,252	173,483
Dues and subscriptions	42,774	1,847	44,621	163,071	-	207,692
Film and video	77,133	-	77,133	1,292	-	78,425
Donations	1,153	-	1,153	12,142	-	13,295
Insurance	-	-	-	28,735	-	28,735
Technology	9,466	-	9,466	3,815	-	13,281
Occupancy	7,123	-	7,123	52,986	-	60,109
Office supplies	629	-	629	25,043	-	25,672
Overseas projects:			-			
Building materials & equipment	-	3,004,669	3,004,669	-	-	3,004,669
Operating expenses	-	431,683	431,683	-	-	431,683
Salaries (teachers & others)	-	35,332	35,332	-	-	35,332
Scholarships	14,445	39,988	54,433	-	-	54,433
School supplies & equipment	-	105,458	105,458	-	-	105,458
Travel (overseas mgrs)	-	138,228	138,228	11,650	-	149,878
Overseas Expenses - Other	1,800	11,909	13,709	-	-	13,709
Payroll	181,969	129,298	311,267	100,945	131,619	543,831
Pension	13,320	12,738	26,058	4,087	8,268	38,413
Postage and delivery	124,271	-	124,271	8,076	99,790	232,137
Printing and reproduction	247,288	-	247,288	1,246	52,946	301,480
Professional fees	174,896	17,048	191,944	158,309	36,255	386,508
Publications	716,661	-	716,661	7,096	-	723,757
Travel	1,290,024	850	1,290,874	24,739	83,220	1,398,833
	<u>\$ 4,607,300</u>	<u>\$ 3,954,644</u>	<u>\$ 8,561,944</u>	<u>\$ 678,394</u>	<u>\$ 477,040</u>	<u>\$ 9,717,378</u>

The Notes to the Financial Statements are an integral part of this statement.

CENTRAL ASIA INSTITUTE
STATEMENT OF CASH FLOWS
Year Ended September 30, 2009

OPERATING ACTIVITIES	
Change in net assets	\$ 4,275,814
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	12,991
Loss on disposal of assets	2,798
Donated stock investments	(111,445)
Unrealized loss on investments	23,285
Changes in operating assets and liabilities:	
Prepaid expenses	(9,065)
Accrued interest receivable	34,514
Employee advances	(1,200)
Accounts payable	65,913
Accrued and other liabilities	<u>36,731</u>
Net cash provided by operating activities	<u>4,330,336</u>
INVESTING ACTIVITIES	
Purchases of investments	(5,088,466)
Proceeds from sales of investments	105,908
Purchases of property and equipment	<u>(325,779)</u>
Net cash used in investing activities	<u>(5,308,337)</u>
FINANCING ACTIVITIES	
Repayment of long term debt	(1,636)
Proceeds of long term debt	<u>211,500</u>
Net cash provided by financing activities	<u>209,864</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(768,137)
CASH AND CASH EQUIVALENTS, beginning of year	<u>9,376,587</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 8,608,450</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS	
Cash paid for interest	<u>\$ 2,452</u>
Donated investments	<u>\$ 111,445</u>

The Notes to the Financial Statements are an integral part of this statement.

CENTRAL ASIA INSTITUTE
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Central Asia Institute was founded in 1996. The Organization's purpose is to help promote education for young children, mainly girls, in remote parts of Pakistan and Afghanistan. The Organization's support comes primarily from individual donors' contributions. The Organization is a nonprofit organization as described in Section 501(c)(3) of the Internal revenue Code and is exempt from federal and state income taxes.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Therefore, revenues are recorded when earned and expenses are recorded when incurred.

- Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. The Board of Directors may designate unrestricted net assets for specific purposes or programs.
- Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.
- Permanently restricted net assets - Net assets subject to donor-imposed stipulations that permanently restrict the use of the assets to be maintained by the Organization into perpetuity. Generally, the donors of these assets permit the Organization to use income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Restricted contributions received in the same year in which the restrictions are met are recorded as an increase to temporarily restricted support and as satisfaction of temporarily restricted in the year in which it was received. Expenses are reported as decreases in unrestricted net assets. 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. Expirations of temporary restrictions of net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

CENTRAL ASIA INSTITUTE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Use of Estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management's estimates. Actual results of operations may differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers highly liquid investments with original maturities of three months or less to be cash equivalents, unless donor-imposed restrictions limit their use to long-term purposes. Certificates of deposit are considered cash and cash equivalent regardless of holding period. Interest income on the certificates of deposit is recorded as income when earned. The Organization cash deposits exceed the Federal Deposit Insurance Corporation limits various times during the year ended September 30, 2009. At September 30, 2009, cash and cash equivalents included \$13,417,362 held in commercial banks of which \$11,667,682 exceed the balance that is insured by the Federal Deposit Insurance Corporation, At September 30, 2009, \$5,000,000 is held in repurchase agreements in the form of Certificates of Deposits which are collateralized by bonds held by the Organization.

Investments

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

Property and Equipment:

Purchased assets are carried at their historical cost. Donations of property and equipment are recorded at the assets' estimated fair value at the time of donation. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to forty years. The costs of acquiring assets with values exceeding \$5,000 are capitalized. Normal repair and maintenance costs are expensed as incurred.

Functional Allocation of Expenses:

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets.

CENTRAL ASIA INSTITUTE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Expenses:

The Organization expenses advertising costs as they are incurred. In 2009, \$1,527,061 was charged to expense for advertising and promotion.

Tax Exempt Status

The Organization is exempt from federal and state income taxes under Internal Revenue Code §501(c)(3) and has been ruled not to be a private foundation. The determination of tax exempt status is considered to be a tax position. The Organization's policy is to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions and other evidence. It is the opinion of management that the Organization has no uncertain tax positions.

In-Kind Support

The Organization records various types of in-kind support including advertising and property and equipment. Contributed professional services are recognized if the services received create or enhance long-lived assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When temporary restrictions expire, temporarily restricted net assets are reported in the statement of activities as net assets released from restriction.

Subsequent Events:

Management has evaluated subsequent events through May 21, 2010, the date which the financial statements were available for issue.

CENTRAL ASIA INSTITUTE
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 September 30, 2009

NOTE 2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

Cash in main bank account	\$ 216,323
Cash in credit card account	75,060
Certificates of deposit	7,122,707
Money market	252,073
Cash in flex insured account	749,840
Petty cash	954
Undeposited funds	<u>191,493</u>
Total	<u>\$ 8,608,450</u>

NOTE 3. INVESTMENTS

The Organization maintains investments with various financial institutions under the management of third-party managers in accordance with its investment policy.

GAAP defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and enhances disclosures about fair value measurements. Fair value is defined under GAAP as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under GAAP must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable, and the last unobservable, that may be used to measure fair value, which are the following:

Level 1 – Quoted market prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that the observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

CENTRAL ASIA INSTITUTE
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 September 30, 2009

NOTE 3. INVESTMENTS (CONTINUED)

Investment holdings as of September 30, 2009 consist of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Fair Value
Marketable equity securities	\$ 2,107	\$ -	\$ -	2,107
Corporate bonds	5,053,855	-	-	5,053,855
Mutual funds	237,748	-	19,332	218,416
Land investment	600,000	-	-	600,000
	<u>\$ 5,893,710</u>	<u>\$ -</u>	<u>\$ 19,332</u>	<u>\$ 5,874,378</u>

In accordance with GAAP, the following table represents the Organization's fair value hierarchy for its financial assets measured at fair value on a recurring basis as of September 30, 2009:

	Fair Value Level 1 Inputs	Fair Value Level 3 Inputs	Total Fair Value
Marketable equity securities	\$ 2,107	\$ -	\$ 2,107
Corporate bonds	5,053,855	-	5,053,855
Mutual funds	218,416	-	218,416
Land investment	-	600,000	600,000
	<u>\$ 5,274,378</u>	<u>\$ 600,000</u>	<u>\$ 5,874,378</u>

Components of investment income for the year ended September 30, 2009 consist of the following:

Interest and dividends, net of investment expense	\$ 341,966
Unrealized loss on investments	<u>(23,285)</u>
	<u>\$ 318,681</u>

CENTRAL ASIA INSTITUTE
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 September 30, 2009

NOTE 3. INVESTMENTS (CONTINUED)

Following is a reconciliation of beginning and ending values for Level 3 items:

	<u>Land</u> <u>Investment</u>
Fair market value on October 1, 2008	\$ 600,000
Realized and unrealized losses	-
Investment income	-
Fair market value on September 30, 2009	<u>\$ 600,000</u>

The land investment held by the Organization was appraised at the time of the donation for \$750,000; however, at the time of the donation the donor believed the value of the land was only \$600,000. The Organization recorded the investment at \$600,000 to be consistent with the amount recorded by the donor.

NOTE 4. PROPERTY AND EQUIPMENT

Additions and retirements of property and equipment in 2009 consisted of the following:

	<u>September 30, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2009</u>
Building	\$ 300,000	\$ 313,792	\$ -	\$ 613,792
Equipment and software	<u>68,826</u>	<u>11,987</u>	<u>(68,826)</u>	<u>11,987</u>
	368,826	325,779	(68,826)	625,779
Accumulated depreciation	<u>(82,586)</u>	<u>(12,991)</u>	<u>66,028</u>	<u>(29,549)</u>
	<u>\$ 286,240</u>	<u>\$ 312,788</u>	<u>\$ (2,798)</u>	<u>\$ 596,230</u>

Depreciation expense for the year ended December 31, 2009 amounted to \$12,991.

CENTRAL ASIA INSTITUTE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

NOTE 5. LONG-TERM DEBT

As of September 30, 2009, long-term debt consisted of the following:

Fixed rate mortgage payable to First Security Bank, dated June 22, 2009 for the purchase of office Condo, Suite #5; payable in monthly installments on the 15th of each month for 21 months in the amount of \$1,354 with a balloon payment of \$203,229 due on April 15, 2011. The interest rate of 4.650% is computed on a 365/365 simple interest basis. Collateral for this debt consists of a Certificate of Deposit held by the Organization with a fair value of \$1,012,851.

	\$ 209,864
Less current portion	<u>(6,635)</u>
Long-term debt, net of current portion	<u>\$ 203,229</u>

Scheduled principal payments will be as follows for the years ending September 30:

2010	\$ 6,635
2011	<u>203,229</u>
	<u>\$ 209,864</u>

NOTE 6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of September 30, 2009 consist of net assets restricted for specific purposes, as follows:

Pennies for Peace	\$ 567,135
School projects	293,118
Overseas projects	<u>2,112,010</u>
Total temporarily restricted net assets	<u>\$ 2,972,263</u>

CENTRAL ASIA INSTITUTE
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 September 30, 2009

NOTE 6. TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

The amounts released from restriction for the year ended September 30, 2009 consist of the following:

Pennies for Peace	\$ 1,150,802
School projects	-
Overseas projects	<u>2,303,881</u>
Total satisfaction of temporary restrictions	<u>\$ 3,454,683</u>

NOTE 7. COMPENSATED ABSENCES

Employees accrue vacation time in accordance with the policies set forth by the Organization for its employees. Employees accrue 80 hours of vacation time per year, with additional time accrued based on years of service. As of September 30, 2009 the Organization has recorded a liability for compensated absences totaling \$29,128.

NOTE 8. PENSION PLAN

The Organization sponsors a defined contribution 403(B) pension plan that covers all full time employees who have worked 1000 hours in the first year of employment. For every employee contribution after the 1000 hours worked, the Organization will match the contribution up to 12% of the employee's annual income. Pension expense for the year ended September 30, 2009, was \$38,413.

NOTE 9. RELATED PARTIES

The Organization has an economic interest in a book written by the Executive Director, Greg Mortenson, which is written in regards to his journeys in Afghanistan and Pakistan while pursuing the Organization's mission. During the fiscal year ended September 30, 2009, the Organization paid \$1,729,542 for book-related expenses associated with outreach and education.

The Organization received donations during the year ended September 30, 2009 from two board members, in the amount of \$13,200 and \$10,000.