



Financial Statements and Supplemental Information  
September 30, 2011 and 2010

# 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 statement of financial position of Central Asia Institute (the Organization) as of September 30, 2011, and the related statements of activities and cash flows for the year 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 audit. The prior year financial statements of Central Asia Institute as of September 30, 2010, which were audited by other auditors, whose report dated August 29, 2011, expressed an unqualified opinion on those statements.

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 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 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 the Organization, as of September 30, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of benefits received from books on page 16, which is the responsibility of management, is presented for purposes of additional analysis, and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Phoenix, Arizona  
September 24, 2012

Central Asia Institute  
Statements of Financial Position  
September 30, 2011 and 2010

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,432,646	\$ 2,807,235
Certificates of deposit	6,207,900	10,209,849
Investments in marketable debt and equity securities	15,280,783	9,464,656
Prepaid expenses	51,505	208,744
Accrued interest receivable	65,931	33,699
Pledges receivable, current	11,083	26,148
Related party receivable	8,496	75,276
Total current assets	25,058,344	22,825,607
Non-Current Assets		
Other investments - land	115,000	600,000
Property and equipment, net	559,958	578,094
Pledges receivable, net of current portion	2,975	14,168
Total non-current assets	677,933	1,192,262
Total assets	\$ 25,736,277	\$ 24,017,869
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 195,751	\$ 262,008
Accrued liabilities	35,755	32,031
Compensated absences	43,105	57,079
Current portion of long-term debt	7,567	8,321
Total current liabilities	282,178	359,439
Non-Current Liabilities		
Long-term debt, net of current portion	186,775	194,342
Total liabilities	468,953	553,781
Net Assets		
Unrestricted		
Board designated for Talim fund	12,000,000	12,000,000
Unrestricted	8,238,971	4,627,434
Total unrestricted	20,238,971	16,627,434
Temporarily restricted	5,028,353	6,836,654
Total net assets	25,267,324	23,464,088
Total liabilities and net assets	\$ 25,736,277	\$ 24,017,869

Central Asia Institute  
Statements of Activities  
Years Ended September 30, 2011 and 2010

	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenues and Support</b>						
Contributions and related event revenue	\$ 11,928,194	\$ 3,603,421	\$ 15,531,615	\$ 14,818,650	\$ 8,062,293	\$ 22,880,943
Sales of merchandise	63,281	-	63,281	16,398	-	16,398
Honorariums	863	-	863	12,617	-	12,617
Investment income, net	284,030	-	284,030	324,625	-	324,625
Unrealized loss - other investments	(485,000)	-	(485,000)	-	-	-
Revenue and support before net assets released from restrictions	11,791,368	3,603,421	15,394,789	15,172,290	8,062,293	23,234,583
Net assets released from restrictions	5,411,722	(5,411,722)	-	4,197,902	(4,197,902)	-
Total revenues and support	17,203,090	(1,808,301)	15,394,789	19,370,192	3,864,391	23,234,583
<b>Expenses</b>						
Program services						
Global outreach program	4,426,538	-	4,426,538	7,343,098	-	7,343,098
Overseas education and projects	6,495,735	-	6,495,735	5,096,153	-	5,096,153
Total program services	10,922,273	-	10,922,273	12,439,251	-	12,439,251
Support services						
General and administration	1,973,891	-	1,973,891	1,073,617	-	1,073,617
Fundraising	695,389	-	695,389	1,062,495	-	1,062,495
Total expenses	13,591,553	-	13,591,553	14,575,363	-	14,575,363
Change in Net Assets	3,611,537	(1,808,301)	1,803,236	4,794,829	3,864,391	8,659,220
Net Assets, Beginning of Year	16,627,434	6,836,654	23,464,088	11,832,605	2,972,263	14,804,868
Net Assets, End of Year	\$ 20,238,971	\$ 5,028,353	\$ 25,267,324	\$ 16,627,434	\$ 6,836,654	\$ 23,464,088

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

	2011					
	Program Services			Supporting Services		Total Expenses
	Global Outreach Program	Overseas Education and Projects	Total Programs	General and Administration	Fundraising	
Advertising and promotion	\$ 1,119,969	\$ -	\$ 1,119,969	\$ -	\$ 22,147	
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  
Statement of Functional Expenses  
Year Ended September 30, 2010

	2010					
	Program Services			Supporting Services		
	Global Outreach Program	Overseas Education and Projects	Total Programs	General and Administration	Fundraising	Total Expenses
Advertising and promotion	\$ 2,484,179	\$ -	\$ 2,484,179	\$ 199	\$ 29,254	\$ 2,513,632
Depreciation	-	-	-	18,136	-	18,136
Donations	59	-	59	45,849	297	46,205
Events	141,586	-	141,586	39,762	311,061	492,409
Fees, permits, and memberships	17,508	-	17,508	260,023	-	277,531
Film and video	66,537	-	66,537	3,448	1,330	71,315
Insurance	-	-	-	19,127	-	19,127
Occupancy	2,892	-	2,892	89,625	18	92,535
Office supplies	2,795	-	2,795	34,534	-	37,329
Overseas education and community health grants	19,695	4,979,515	4,999,210	-	-	4,999,210
Personnel costs	278,994	68,568	347,562	228,238	172,160	747,960
Postage and delivery	113,917	-	113,917	8,699	160,000	282,616
Printing and reproduction	210,889	-	210,889	48,107	81,480	340,476
Professional fees	296,238	48,070	344,308	215,888	73,610	633,806
Book purchases and other resources	1,676,113	-	1,676,113	13,124	6,497	1,695,734
Repairs and maintenance	430	-	430	33,734	22,117	56,281
Technology	9,758	-	9,758	3,195	-	12,953
Training and conferences	-	-	-	25	-	25
Travel	2,021,508	-	2,021,508	11,904	204,671	2,238,083
	<u>\$ 7,343,098</u>	<u>\$ 5,096,153</u>	<u>\$ 12,439,251</u>	<u>\$ 1,073,617</u>	<u>\$ 1,062,495</u>	<u>\$ 14,575,363</u>

Central Asia Institute  
Statements of Cash Flows  
Years Ended September 30, 2011 and 2010

	2011	2010
Operating Activities		
Change in net assets	\$ 1,803,236	\$ 8,659,220
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	18,136	18,136
Reinvested investment income	(251,823)	(231,952)
Donated marketable equity securities	(249,533)	(791,584)
Unrealized (gain) loss on investments	452,774	(19,542)
Change in operating assets and liabilities		
Prepaid expenses	157,239	(187,335)
Accrued interest receivable	(32,232)	31,003
Pledges receivable	26,258	(40,316)
Employee advance	-	1,200
Related party receivable	66,780	(75,276)
Accounts payable	(66,257)	169,085
Accrued and other liabilities	(10,251)	30,397
Net Cash Provided by Operating Activities	1,914,327	7,563,036
Investing Activities		
Purchases of investments	(5,794,276)	(4,096,965)
Purchases of certificates of deposit	-	(7,000,000)
Proceeds from sale of investments	314,141	717,813
Proceeds from matured certificates of deposit	4,199,539	4,144,810
Net Cash used in Investing Activities	(1,280,596)	(6,234,342)
Financing Activities		
Repayment of long-term debt	(8,320)	(7,202)
Net Cash used in Financing Activities	(8,320)	(7,202)
Net Change in Cash and Cash Equivalents	625,411	1,321,492
Cash and Cash Equivalents, Beginning of Year	2,807,235	1,485,743
Cash and Cash Equivalents, End of Year	\$ 3,432,646	\$ 2,807,235
Supplemental Disclosure of Cash Flows		
Cash paid for interest	\$ 8,314	\$ 10,406
Donated marketable equity securities	\$ 249,533	\$ 791,584



## **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 pledge 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. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other 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.

### **Pledges Receivable**

Unconditional promises to give and grants that are expected to be collected within one year are recorded as pledges 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 pledges and grants at their fair value. The Organization provides an allowance for estimated uncollectible contributions.

Pledges and grants receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on pledges 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 pledges and grants receivable when management determines the receivable will not be collected. All pledges received at September 30, 2011 and 2010 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.

### **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, 2011 and 2010.

### **Other Investments – Land**

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

### **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, 2011 and 2010, \$1,142,116 and \$2,513,632 were charged to expense for advertising and promotion, respectively.

### **Production and Film Costs**

Costs related to the production of documentaries to raise awareness are expensed as incurred.

### **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, 2011 and 2010, 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 2008 and state examinations for years before 2007.

### 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 pledges, 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 2010 financial statements to conform to the 2011 presentation. These reclassifications had no effect on the change in net assets.

### Subsequent Events

The Organization has evaluated subsequent events through September 24, 2012, the date which the financial statements were available to be issued.

### Note 2 - Cash and Cash Equivalents

Cash and cash equivalents consisted of the following:

	2011	2010
Money market	\$ 1,588,372	\$ 1,086,821
Cash in flex insured account	1,500,034	1,250,010
Cash in operating bank account	234,805	358,840
Cash in credit card account	107,442	109,564
Petty cash	1,993	2,000
	\$ 3,432,646	\$ 2,807,235

**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. Investment holdings as of September 30, 2011 and 2010, consisted of the following:

	<u>2011</u> Total Fair Value Level 1 Inputs	<u>2010</u> Total Fair Value Level 1 Inputs
US Treasury notes	\$ 15,042,990	\$ -
Marketable equity securities	-	68,241
Government bonds	-	9,151,520
Mutual funds		
Conservative allocation	-	67,191
Large value	203,387	70,386
Other	34,406	28,391
World stock	-	78,927
	<u>\$ 15,280,783</u>	<u>\$ 9,464,656</u>

Components of investment income for the years ended September 30, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Interest and dividends, net of investment expense	\$ 251,804	\$ 305,083
Net unrealized gains and losses	32,226	19,542
	<u>\$ 284,030</u>	<u>\$ 324,625</u>

**Note 4 - Pledges Receivable**

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

Payments of pledges receivable as of September 30, 2011, are scheduled as follows:

<u>Years Ending</u> <u>September 30,</u>	
2012	\$ 11,083
2013	2,275
2014	520
2015	120
2016	60
	<u>\$ 14,058</u>

**Note 5 - Property and Equipment**

Property and equipment consisted of the following:

	2011	2010
Buildings	\$ 613,792	\$ 613,792
Equipment and software	11,987	11,987
Total depreciable assets	625,779	625,779
Accumulated depreciation	(65,821)	(47,685)
	\$ 559,958	\$ 578,094

Depreciation expense for the years ended September 30, 2011 and 2010 was \$18,136.

**Note 6 - Related Party Receivable**

The Organization paid expenses on behalf of its Executive Director, which was recorded as a receivable to be reimbursed to the Organization. These expenses totaled \$8,496 and \$75,276 for the years ended September 30, 2011 and 2010, respectively.

**Note 7 - Long-Term Debt**

As of September 30, 2011 and 2010, long-term debt consisted of the follow:

	2011	2010
Fixed rate note payable to First Security Bank, for the purchase of office space, interest rate of 4.650%, and collateralized by a Certificate of Deposit. The note matures on December 15, 2012 with a balloon payment of \$186,236.	\$ 194,342	\$ 202,663
Less current portion	(7,567)	(8,321)
	\$ 186,775	\$ 194,342

Future principal payments are as follows:

2012	\$ 7,567
2013	186,775
	\$ 194,342

**Note 8 - 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 9 - Temporarily Restricted Net Assets**

Temporarily restricted net assets as of September 30, 2011 and 2010 consisted of net assets restricted for specific purposes, as follows:

	2011	2010
Pennies for Peace	\$ 2,241,193	\$ 420,152
Overseas education and community health projects	2,786,915	6,416,502
Public health	245	-
	\$ 5,028,353	\$ 6,836,654

The amounts released from restriction for the years ended September 30, 2011 and 2010 consisted of the following:

	2011	2010
Pennies for Peace	\$ 1,437,722	\$ 3,433,659
Overseas education and community health projects	3,922,717	684,031
Public health	51,283	80,212
	\$ 5,411,722	\$ 4,197,902

**Note 10 - 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, 2011 and 2010, the Organization has recorded a liability for compensated absences totaling \$43,105 and \$57,079, respectively.

**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, 2011 and 2010, was \$43,640 and \$40,700, 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:

	2011	2010
Building materials and equipment	\$ 2,931,646	\$ 2,190,640
Public health/medical/water/etc.	53,502	408,737
Operating expenses	980,854	1,362,728
Salaries (teachers and others)	723,382	201,900
Scholarships	351,191	232,095
Supplies and equipment	850,590	375,387
Skilled laborers	206,960	-
Travel (overseas)	228,712	177,666
Women's Center and media costs	168,898	147,000
	\$ 6,495,735	\$ 5,096,153

**Note 13 - Related Organizations and Activities**

On September 2010, Central Asia Institute Canada was established as a corporation and private charity. The Organization intends to support and advance community-based education, especially for girls, in remote regions of Central Asia, primarily Pakistan and Afghanistan. Three Directors were appointed with the original application, two being employees of the U.S. Central Asia Institute corporation. No activity has occurred between this Organization and Central Asia Institute during the fiscal years ended September 30, 2011 and 2010; and during 2010, representation on the Canadian Board was reduced to only one employee.

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

Greg Mortenson's 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, 2011 and 2010, the Organization paid expenses of \$1,863,732 and \$3,972,070, 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 - Subsequent Event and 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 the audit report date, 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 will seek reimbursement of costs and expenses 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.

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 will seek reimbursement of costs and expenses 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.



Supplemental Information  
September 30, 2011

**Central Asia Institute**

Following is a summary of the related benefits the Organization has received from costs related to book promotions. These benefits include an increased number of supporters, increased contributions, and an increased understanding and awareness of the mission of the Organization, promoting peace through education and conveying the importance of these activities globally. The Organization would not have received benefits of this significance without the publication of the books and their associated expenses.

*The release dates of Greg Mortenson's books are as follows:*

Three Cups of Tea Hardcover: March 2006

Three Cups of Tea Paperback: February 2007

Three Cups of Tea Young Adult Edition: January 2009

Listen to the Wind: January 2009

Stones into Schools Hardcover: December 2009

Stones into Schools Paperback: October 2010

*Revenues for the Organization for the years covering the book releases to date are as follows:*

Fiscal Year October 1, 2005 – September 30, 2006 = \$ 1,541,711

Fiscal Year October 1, 2006 – September 30, 2007 = \$ 3,660,538

Fiscal Year October 1, 2007 – September 30, 2008 = \$13,101,295

Fiscal Year October 1, 2008 – September 30, 2009 = \$13,679,761

Fiscal Year October 1, 2009 – September 30, 2010 = \$22,909,958

Fiscal Year October 1, 2010 – September 30, 2011 = \$15,595,759

*Total Supporters for the years covering the book releases to date are as follows:*

At the Fiscal Year End September 30, 2006 – 16,260

At the Fiscal Year End September 30, 2007 – 25,258 (8,998 New Supporters)

At the Fiscal Year End September 30, 2008 – 66,530 (41,272 New Supporters)

At the Fiscal Year End September 30, 2009 – 113,801 (47,271 New Supporters)

At the Fiscal Year End September 30, 2010 – 171,108 (57,307 New Supporters)

At the Fiscal Year End September 30, 2011 – 203,876 (32,768 New Supporters)