

From: Central Asia Institute Board of Directors
April 16, 2011

Following are questions that were asked by producers of the program “60 Minutes,” exactly as they were asked of us, and the answers that we are providing to “60 Minutes.”

1. CAI says it tries to spend 85% of its money on “programs.” But from our reading of your last audited financial statement, it appears that only 41 percent of the money CAI spent in FY 2009 actually went to schools in Pakistan and Afghanistan. Is this correct?

This is correct, but a significant portion of the remainder was dedicated to CAI's other charitable programs, which include domestic and international outreach and education about the need for those schools and other initiatives to promote cross-cultural awareness. From the time the Central Asia Institute was first created, its mission and that of its co-founder, Greg Mortenson, has been education. The education mission includes both educating young people, especially girls, in Pakistan and Afghanistan, and educating the American and international public about the critical role advancing public education in these countries plays to achieving peace. CAI has also been saving funds, now in excess of \$20 million, that can be used to maintain the schools and its programs on a sustained basis for years to come.

2. On page 13 of your 2009 audited financial statement, you say that CAI has “an economic interest in a book written by the Executive Director, Greg Mortenson” and that the organization paid \$1,729,542 for “book-related expenses associated with outreach and education.: Could you please explain what this financial interest is in the book?

CAI benefits directly from Greg's books, which are integral to accomplishing our mission. They are the primary means of raising awareness among Americans and the international community, providing readers with insight into the Institute's mission and purpose. Our success in raising funds is directly related to the success of Three Cups of Tea, and Stones into Schools, both of which educate readers about advancing peace and stability in the region. Contributions from individuals who are inspired by Three Cups of Tea and Stones into Schools far exceed CAI's book-related expenditures.

3. Could you please explain what is included in these book-related expenses?

Advertising, events, film and professional fees, publications (books& freight), and some travel. In addition to directly furthering CAI's education and outreach programs, these expenditures have contributed to the dramatic increase in CAI's fundraising success.

4. Does CAI receive a percentage of the royalties or share in the proceeds from Mr. Mortenson's books? How much money does CAI receive from the sales of these books?

Mr. Mortenson's royalty checks are not split with CAI. Instead, he has donated a percentage of his royalties from the books to CAI. Greg has personally donated hundreds of thousands of dollars to the organization, which includes a percentage of his royalties from his books, and worked for the organization without compensation for a number of years. In addition, CAI directly benefits from Greg's books through significant

contributions from readers who are inspired by his story.

5. Has CAI purchased Mr. Mortenson's books? If so, how many, at what cost, and for what purpose?

Yes, CAI has purchased many of Greg's books as they are integral to the Institute and are the primary means of fulfilling our mission of promoting cross-cultural awareness, and educating the American people and the international community. CAI has purchased thousands of copies over the years and we provide them at no cost to schools, libraries, faith based groups and communities, which in turn, hosted fundraisers for CAI and spread the message of the importance of girls' education to promote peace. The costs of the books vary depending on when they were purchased and from whom.

6. Your financial statement lists \$1.5 million in expenditures for advertising, Is this expense included in the \$1.7 million category "book-related expenses" or is it separate?

Advertising is included in "book-related" expenses.

7. What is the purpose of this advertising? Is it to promote Mr. Mortenson's books?

Like many charities, CAI uses advertising to promote our charitable and educational programs. Greg's books and speaking engagements educate the public about our mission, and result in significant contributions to the organization.

8. According to your FY 2009 financial report, CAI spent 47 percent of its total expenses on domestic outreach and education, which includes, according to your web site, "public events, global outreach, and in the USA, our books *Three Cups of Tea* and *Stones Into Schools* and our Pennies for Peace program." Does CAI consider Mr. Mortenson's speaking engagements—paid and unpaid—to be part of the charity's program activities? Does the Institute pay for his travel expenses to and from these events, and does it cover expenses incurred at these events?

Yes, CAI does consider Greg's speaking engagements, paid and unpaid, to be an important part of CAI's program activities as they promote its domestic and international education initiatives. CAI pays for travel expenses related to all of its charitable, educational, and fundraising activities.

10. Does CAI share in the proceeds of those paid speaking engagements, for which Mr. Mortenson reportedly receives \$30,000 per event?

CAI financially benefits from Greg's speaking engagements, which generate substantial public support for our programs. However, CAI does not share in any honoraria received by Mr. Mortenson. The donations received by CAI as a result of Greg's educational presentations far exceed the amount of these honoraria.

11. We have been told, and CAI's FY 2009 financial statements would seem to confirm, that CAI pays for Mr. Mortenson's extensive speaking tour while receiving none of the proceeds, with the possible exception of \$54,500 in unspecified honoraria. In your FY 2009 financial report, you list \$1.29 million dollars in domestic travel expenses. An

independent accountant specializing in non-profits has told us this amount is “excessive” and “inappropriate” for an organization with a very small domestic staff. Can you please explain why the expenditures are so high?

The figure cited in your question includes domestic travel for all CAI staff, not just Greg Mortenson. CAI believes the amount is appropriate considering the organization’s mission and the challenge it must confront to accomplish that mission. Greg has appeared at hundreds of events and because of CAI’s programmatic focus, he faces significant security risks that are unique in the charitable sector. The number of Greg’s public appearances has increased in recent years and with it the charity’s visibility and travel/security expenses. The contributions generated by Greg’s presentations at these events far exceed the travel expenses.

13. We have been told that the bulk of these travel expenses involve Mr. Mortenson’s speaking engagements. We are also told the reason the expenses are so high is because Mr. Mortenson frequently travels privately on chartered jets at CAI’s expense. Is this correct? Can you tell us the amount of expenses CAI incurred for Mr. Mortenson’s travel on chartered aircraft?

As a result of Greg’s aggressive speaking schedule and, in particular, the significant security risks that arise due to CAI’s programmatic focus, he and CAI staff sometimes travel on chartered flights. The amounts vary depending on the time period.

14. Has Mr. Mortenson reimbursed CAI for any of these expenses, or made donations to offset them? If so, how much?

As explained above, the travel expenses referenced above are CAI’s expenses because these activities are integral to our mission and operations. Because CAI appropriately bore these expenses, there is no need to offset them. However, on his own initiative, Greg has personally donated hundreds of thousands of dollars to the organization, and worked for the organization without compensation for a number of years.

15. Has CAI ever commissioned an independent assessment of the effectiveness of its schools in Afghanistan and Pakistan?

No. CAI is unaware of any organization qualified to undertake such a study. However, it is clear that the effectiveness of its schools and its programs have been independently assessed by citizens of Pakistan and Afghanistan, in that there are hundreds of requests for new schools in these countries as well as the programs CAI promotes. In addition, the Government of Pakistan has awarded Greg Mortenson the Star of Pakistan related to the promotion of education in that country. Review of test scores of the children at schools built or sponsored by CAI will reveal that the children at these CAI-related schools score higher on average than students at other schools. Over the years, many independent observers have visited the schools.

16. We have knowledge of warnings that CAI received from your own attorneys on December 22, 2010 and January 3, 2011, saying that if CAI were audited, Mr. Mortenson would likely be found to be violating IRS regulations regarding excess benefits. Has the

Board addressed this?

Yes we have. Last year – before we were contacted by your organization – CAI’s attorney raised preliminary questions of whether its fundraising practices and its relationship with Greg might raise “excess benefits” issues. The Board and Greg took these questions very seriously, and asked counsel to conduct a thorough review of CAI’s activities, its finances, and its relationship with Greg. As a result of this review and analysis, which occurred over several months, CAI’s counsel concluded that CAI is not providing excess benefits to Greg - that is, CAI appropriately receives a greater benefit from Greg’s activities than Greg does himself.