

PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT, AND SECURITY

FINANCIAL STATEMENTS
December 31, 2017 and 2016

PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT, AND SECURITY

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pacific Institute for Studies in Development, Environment, and Security

We have audited the accompanying financial statements of Pacific Institute for Studies in Development, Environment, and Security (the "Institute"), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the audit considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pacific Institute for Studies in Development, Environment, and Security as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT, AND SECURITY

STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 318,145	\$ 778,019
Grants receivable	210,496	282,606
Contracts receivable	345,907	251,976
Prepaid expenses	<u>32,136</u>	<u>31,012</u>
Total current assets	906,684	1,343,613
Cash held for sponsored groups	1,612	30,412
Property and equipment, net	4,358	13,072
Investments	242,357	204,747
Deposits and other assets	<u>11,480</u>	<u>11,480</u>
Total assets	<u>\$ 1,166,491</u>	<u>\$ 1,603,324</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued expenses	\$ 16,715	\$ 29,931
Deferred revenue	75,786	101,437
Accrued paid time off	<u>92,996</u>	<u>100,290</u>
Total current liabilities	185,497	231,658
Payable to sponsored groups	<u>1,612</u>	<u>30,412</u>
Total liabilities	<u>187,109</u>	<u>262,070</u>
Net assets:		
Unrestricted:		
Available for operations	347,678	563,475
Designated	242,357	204,747
Temporarily restricted	<u>389,347</u>	<u>573,032</u>
Total net assets	<u>979,382</u>	<u>1,341,254</u>
Total liabilities and net assets	<u>\$ 1,166,491</u>	<u>\$ 1,603,324</u>

The accompanying notes are an integral part of these financial statements.

PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT, AND SECURITY

STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2017 and 2016

	Year Ended December 31, 2017			Year Ended December 31, 2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
Contract revenue	\$ 1,132,593	\$ -	\$ 1,132,593	\$ 1,023,200	\$ -	\$ 1,023,200
Grants and contributions	355,421	347,500	702,921	392,833	565,287	958,120
Investment and other income	151,990	-	151,990	89,728	-	89,728
Net assets released from restrictions	531,185	(531,185)	-	581,039	(581,039)	-
Total support and revenue	2,171,189	(183,685)	1,987,504	2,086,800	(15,752)	2,071,048
Expenses:						
Program services	1,341,938	-	1,341,938	1,255,652	-	1,255,652
General and administrative	510,020	-	510,020	434,352	-	434,352
Fundraising	228,895	-	228,895	153,337	-	153,337
Communications	95,123	-	95,123	104,679	-	104,679
Facilities	173,400	-	173,400	166,106	-	166,106
Total expenses	2,349,376	-	2,349,376	2,114,126	-	2,114,126
Change in net assets	(178,187)	(183,685)	(361,872)	(27,326)	(15,752)	(43,078)
Net assets, beginning of year	768,222	573,032	1,341,254	795,548	588,784	1,384,332
Net assets, end of year	\$ 590,035	\$ 389,347	\$ 979,382	\$ 768,222	\$ 573,032	\$ 1,341,254

The accompanying notes are an integral part of these financial statements.

PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT, AND SECURITY

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2017 and 2016

	Program Services	General and Administrative	Fundraising	Communication	Facilities	2017 Total
Salaries	\$ 750,378	\$ 348,829	\$ 176,055	\$ 73,594	\$ -	\$ 1,348,856
Payroll taxes	65,078	28,088	13,671	6,288	-	113,125
Employee benefits	131,926	57,724	28,926	9,098	-	227,674
Professional fees	288,427	24,092	-	350	-	312,869
Occupancy	-	-	-	-	144,525	144,525
Travel	75,279	1,980	3,214	-	-	80,473
Telephone and communications	3,897	10,977	1,189	4,669	13,122	33,854
Conferences and meetings	18,563	411	98	-	3,531	22,603
Printing and publications	6,743	2,476	3,071	723	-	13,013
Office supplies	809	605	-	-	9,259	10,673
Insurance	-	6,085	-	-	-	6,085
Staff development	556	3,794	-	237	-	4,587
Depreciation	-	8,714	-	-	-	8,714
Small equipment and furniture	-	4,277	-	164	2,963	7,404
Bank and other fees	-	1,337	-	-	-	1,337
Postage and shipping	282	1,162	344	-	-	1,788
Miscellaneous	-	9,469	2,327	-	-	11,796
Total expenses	1,341,938	510,020	228,895	95,123	173,400	2,349,376
Shared costs allocation	778,543	(510,020)	-	(95,123)	(173,400)	-
Total after allocation	\$ 2,120,481	\$ -	\$ 228,895	\$ -	\$ -	\$ 2,349,376

The accompanying notes are an integral part of these financial statements.

PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT, AND SECURITY

STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)

For the Years Ended December 31, 2017 and 2016

	Program Services	General and Administrative	Fundraising	Communication	Facilities	2016 Total
Salaries	\$ 710,669	\$ 293,673	\$ 115,525	\$ 84,358	\$ -	\$ 1,204,225
Payroll taxes	60,253	25,465	9,521	6,821	-	102,060
Employee benefits	122,584	47,847	22,313	7,939	-	200,683
Professional fees	227,671	25,251	-	-	880	253,802
Occupancy	-	-	-	-	140,257	140,257
Travel	105,900	544	271	-	-	106,715
Telephone and communications	3,099	10,035	1,225	4,418	13,721	32,498
Conferences and meetings	15,106	599	662	-	3,020	19,387
Printing and publications	6,481	2,566	3,139	718	-	12,904
Office supplies	98	68	-	-	8,228	8,394
Insurance	-	6,009	-	-	-	6,009
Staff development	3,588	5,118	-	425	-	9,131
Depreciation	-	8,714	-	-	-	8,714
Small equipment and furniture	-	2,866	-	-	-	2,866
Bank and other fees	-	2,566	-	-	-	2,566
Postage and shipping	203	967	275	-	-	1,445
Miscellaneous	-	2,064	406	-	-	2,470
Total expenses	1,255,652	434,352	153,337	104,679	166,106	2,114,126
Shared costs allocation	705,137	(434,352)	-	(104,679)	(166,106)	-
Total after allocation	\$ 1,960,789	\$ -	\$ 153,337	\$ -	\$ -	\$ 2,114,126

The accompanying notes are an integral part of these financial statements.

PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT, AND SECURITY

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from grants, contracts and contributions	\$ 1,788,042	\$ 1,962,511
Cash received from investments and other income	101,799	74,534
Cash paid to vendors, employees and other agencies	<u>(2,362,296)</u>	<u>(2,165,805)</u>
Net cash used in operating activities	<u>(472,455)</u>	<u>(128,760)</u>
Cash flows from investing activities:		
Purchase of investments	(208,789)	(5,034)
Proceeds from sale of investments	<u>221,370</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>12,581</u>	<u>(5,034)</u>
Change in cash and cash equivalents	(459,874)	(133,794)
Cash and cash equivalents, beginning of year	<u>778,019</u>	<u>911,813</u>
Cash and cash equivalents, end of year	<u><u>\$ 318,145</u></u>	<u><u>\$ 778,019</u></u>

The accompanying notes are an integral part of these financial statements.

PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT, AND SECURITY

STATEMENTS OF CASH FLOWS (CONTINUED)
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of change in net assets <u>net cash used in operating activities:</u>		
Change in net assets	\$ (361,872)	\$ (43,078)
Adjustments to reconcile change in net assets net cash used in operating activities:		
Depreciation	8,714	8,714
Net unrealized gain on investments	(50,191)	(15,194)
Change in operating assets and liabilities:		
Grants receivable	72,110	(237,979)
Contracts receivable	(93,931)	172,249
Prepaid expenses	(1,124)	(949)
Deposits and other assets	-	20
Accounts payable and accrued expenses	(13,216)	3,345
Deferred revenue	(25,651)	46,921
Accrued paid time off	(7,294)	(62,809)
Net cash used in operating activities	<u>\$ (472,455)</u>	<u>\$ (128,760)</u>

The accompanying notes are an integral part of these financial statements.

PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT, AND SECURITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 1: NATURE OF ORGANIZATION

Pacific Institute for Studies in Development, Environment, and Security (the "Institute") was organized in 1987 as a not-for-profit organization. The Institute works to create a healthier planet and sustainable communities. It conducts interdisciplinary research and partners with stakeholders to produce solutions that advance environmental protection, economic development, and social equity in California, nationally, and internationally. The Institute's main office is located in Oakland, California.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Institute have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Basis of Presentation

The Institute presents its financial statements in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 958, Subtopic 205, *Not-for-Profit Entities – Presentation of Financial Statements* (FASB ASC 958-205). Under FASB ASC 958-205, the Institute is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. In addition, the Institute is required to present a statement of cash flows. Accordingly, net assets of the Institute and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. Designated net assets represent unrestricted net assets that have been set aside by the Board of Directors. This amount is set aside until it reaches \$500,000, at which time this will be considered a quasi-endowment.

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

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that must be maintained permanently by the Institute. There are no such restrictions for the years ended December 31, 2017 and 2016.

Revenues and gains and losses on investments are reported as changes 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. 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 applicable classes of net assets.

Revenue Recognition

In accordance with the provisions of Financial Accounting Standards Board Accounting Standards Codification Topic 958-605, *Not-for-Profit Entities – Revenue Recognition* (FASB ASC 958-605), unconditional contributions are generally recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Unconditional promises to give (pledges) are recognized as revenues once a valid pledge has been received. The receivable and corresponding revenue are recognized concurrently. Conditional contributions and pledges are recorded when the conditions have been met.

PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT, AND SECURITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

The Institute reports gifts of goods 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 that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Institute reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Institute considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Fixed Assets and Depreciation

The Institute records acquisition of tangible items with a cost or fair value of \$2,500 or more and development and design of its website as fixed assets. Fixed assets are recorded at cost when purchased or developed and fair value when received as a donation. Depreciation is provided over the estimated useful lives using the straight-line method of depreciation. Property and equipment consists of \$43,571 of costs capitalized for the Institute's website. Accumulated depreciation at December 31, 2017 and 2016 totaled \$39,213 and \$30,499, respectively.

Investments

Investments are recorded at fair market value. Changes in the carrying amounts of investments held are included in the statement of activities as unrealized gains or losses. Investment income, gains and losses are reported as changes in unrestricted net assets unless a donor restricts their use. Investments designated by the Board of Directors for long-term purposes are classified and reported as non-current assets.

Income Taxes

The Institute is recognized as a public charity exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code, whereby only unrelated business income, as defined by Section 512(a)(1) of the Internal Revenue Code and similar code sections of the California Revenue and Taxation Code, is subject to income tax. The Institute does not have any uncertain tax positions that are material to the financial statements, as management believes all of its activities are related to its tax-exempt purposes. After they are filed, the information returns remain subject to examination by the taxing authorities generally three years for federal returns and four years for state returns.

PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT, AND SECURITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allocation of Shared Costs

Shared costs include costs related to the operation and maintenance of the office facility. They are pooled in a cost center and allocated among program and supporting activities benefiting from them, in total, based on Full Time Equivalent count. Salaries and related costs are allocated based on time activity reports prepared by staff during the year.

Fair Value of Financial Instruments

Financial Accounting Standards Board Accounting Standards Codification Topic 820-10, *Fair Value Measurements and Disclosures* (FASB ASC 820-10), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

Level 1 Fair Value Measurements

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Institute has the ability to access.

Level 2 Fair Value Measurements

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Fair Value Measurements

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following methods and assumptions were used by the Institute in estimating the fair value of its financial instruments:

Marketable Securities: Fair values, which are the amounts reported in the statement of financial position, are based on quoted market prices.

Reclassifications

Certain amounts in the 2016 financial statements have been reclassified, with no effect to change in net assets, to conform to the 2017 financial statement presentation.

Subsequent Events

Events and transactions have been evaluated for potential recognition and disclosure through _____, the date that the financial statements were available to be issued.

PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT, AND SECURITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 3: CASH AND CASH EQUIVALENTS

The Institute maintains cash and cash equivalents in various financial institutions and investment company accounts. The cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 and investment accounts are insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000. At December 31, 2017 and 2016, the uninsured cash balances totaled \$10,058 and \$157,161, respectively.

NOTE 4: INVESTMENTS AT FAIR VALUE

All investments held by the Institute are in mutual funds investing in stocks.

The following table sets forth by level, within the fair value hierarchy, the Institute's assets at fair value as of December 31, 2017 and 2016:

<u>December 31, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	<u>\$ 242,357</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 242,357</u>
<u>December 31, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 194,453	\$ -	\$ -	\$ 194,453
Marketable securities	<u>10,294</u>	<u>-</u>	<u>-</u>	<u>10,294</u>
	<u>\$ 204,747</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 204,747</u>

NOTE 5: CASH HELD FOR SPONSORED GROUPS

The Institute acts as the fiscal agent for various other organizations from which administrative fees are earned. Funds are disbursed as directed by the respective entities and are not available for use by the Institute.

NOTE 6: OPERATING LEASES

The Institute leases its offices under non-cancelable operating leases with monthly rent subject to annual increases. Rent expense totaled \$139,516 and \$135,454 for the years ended December 31, 2017 and 2016, respectively.

The minimum future lease payments under these arrangements at December 31, 2017 are as follows:

<u>Year Ending December 31:</u>	
2018	\$ 96,796
2019	2,820
2020	<u>1,410</u>
Total minimum lease payments	<u>\$ 101,026</u>

PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT, AND SECURITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 7: LINE OF CREDIT

During 2013, the Institute obtained an unsecured line of credit from Wells Fargo Bank in the amount of \$67,500 with an interest rate of prime plus 6.75%. As of December 31, 2017 and 2016 there was no outstanding balance.

NOTE 8: RETIREMENT BENEFITS

The Institute has a defined contribution plan available to all of its full-time employees that provides up to 5% of gross wages as matching contributions for eligible employees. For the years ended December 31, 2017 and 2016, the employer matching contribution was \$56,922 and \$48,288, respectively.

NOTE 9: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes as of December 31, 2017 and 2016, respectively:

	2017	2016
Storm water capture research	\$ 96,018	\$ 135,154
Equitable access to California water	65,300	122,509
California drought initiative	11,739	32,323
Drought research in California	6,288	85,941
Capacity building for sustainable urban water	15,911	28,577
Restoring access to public water fountains	-	31,400
Water resource policy	14,283	20,332
Future periods	-	1,095
Water mandate guidance	-	13,650
Salton sea environment crisis	-	2,412
Demand forecasting	2,585	95,587
Leadership transition	-	4,052
Multi-benefit valuation tools for utilities	41,957	-
SAWPA Landscapes	13,000	-
Review of industrial growth and its impact to river basin water	20,643	-
Urban conservation advocacy, research and analysis	22,767	-
Colorado River research	467	-
Water, climate and conflict research	73,441	-
Context-based water targets work	4,948	-
	<u>\$ 389,347</u>	<u>\$ 573,032</u>