

**PACIFIC INSTITUTE FOR STUDIES IN
DEVELOPMENT, ENVIRONMENT AND
SECURITY**

**FINANCIAL STATEMENTS
WITH
AUDITORS' REPORT**

**YEARS ENDED
DECEMBER 31, 2013 AND 2012**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Pacific Institute for Studies in Development, Environment and Security (a nonprofit organization), which comprise the statements of financial position as of December 31, 2013 and 2012, 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

The management of Pacific Institute for Studies in Development, Environment and Security 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 preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 audits to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 auditor 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.

INDEPENDENT AUDITORS' REPORT (continued)

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, 2013, 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.

Prior Period Financial Statements

The financial statements as of December 31, 2012, were audited by Ghaffari Accountancy, Inc., who merged with DZH Phillips LLP as of February 1, 2014 and whose report dated July 26, 2013, expressed an unmodified opinion on those statements.

DZH Phillips LLP

Oakland, California
October 10, 2014

Pacific Institute for Studies in Development, Environment and Security

Statements of Financial Position
At December 31, 2013 and 2012

	2013	2012
ASSETS		
Current Assets:		
Cash and cash equivalents (Note 3)	\$ 572,023	\$ 663,100
Grants receivable	117,365	128,584
Contracts receivable	176,685	488,637
Other receivables	3,146	27,135
Prepaid expenses	26,930	30,029
Total Current Assets	896,149	1,337,485
Website redesign in progress	-	16,375
Property and equipment, net	39,214	-
Investments (Note 4)	152,287	113,839
Deposits and other assets	11,500	11,500
Total Assets	\$ 1,099,150	\$ 1,479,199
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 29,057	\$ 79,211
Deferred revenue	150,996	12,700
Payable to sponsored groups	86,690	52,931
Accrued paid time off	133,245	248,181
Total Current Liabilities and Total Liabilities	399,988	393,023
NET ASSETS		
Available for operations	264,642	271,473
Designated (Note 2g)	152,287	113,839
Total unrestricted	416,929	385,312
Temporarily restricted (Note 6)	282,233	700,864
Total Net Assets	699,162	1,086,176
Total Liabilities and Net Assets	\$ 1,099,150	\$ 1,479,199

See notes to financial statements

Pacific Institute for Studies in Development, Environment and Security

Statement of Activities
Years Ended December 31, 2013 and 2012

	Year ended December 31, 2013			Year ended December 31, 2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue:						
Contract revenue	\$ 975,241	\$ -	\$ 975,241	\$ 1,585,379	\$ -	\$ 1,585,379
Grants and contributions	122,618	477,633	600,251	96,916	401,285	498,201
Investment and other income	189,658	-	189,658	74,408	-	74,408
Net assets released from restrictions:						
Purpose accomplished	896,264	(896,264)	-	1,222,766	(1,222,766)	-
Total Support and Revenue	2,183,781	(418,631)	1,765,150	2,979,469	(821,481)	2,157,988
Expenses:						
Program services	1,679,042	-	1,679,042	2,318,781	-	2,318,781
Supporting services:						
Management and general	468,227	-	468,227	724,096	-	724,096
Fundraising	105,156	-	105,156	186,936	-	186,936
Total Expenses	2,252,425	-	2,252,425	3,229,813	-	3,229,813
Change in net assets before unusual item	(68,644)	(418,631)	(487,275)	(250,344)	(821,481)	(1,071,825)
Unusual item:						
Gain from change of sabbatical leave policy (Note 7)	100,261	-	100,261	-	-	-
Change in net assets	31,617	(418,631)	(387,014)	(250,344)	(821,481)	(1,071,825)
Net assets at beginning of year	385,312	700,864	1,086,176	635,656	1,522,345	2,158,001
Net assets at end of year	\$ 416,929	\$ 282,233	\$ 699,162	\$ 385,312	\$ 700,864	\$ 1,086,176

See notes to financial statements

Pacific Institute for Studies in Development, Environment and Security

Statement of Functional Expenses
For the Year Ended December 31, 2013

	Supporting Services				Total
	Program Services	Management and General	Fundraising	Shared Costs	
Salaries	\$ 836,650	\$ 298,164	\$ 65,170	\$ -	\$ 1,199,984
Payroll taxes	72,569	23,775	5,378	-	101,722
Employee benefits (Note 8)	138,990	46,898	13,614	-	199,502
Professional fees	302,945	31,267	200	-	334,412
Occupancy	681	-	-	148,115	148,796
Travel	120,131	1,308	88	-	121,527
Telephone and communications	22,989	5,893	742	15,788	45,412
Conferences and meetings	18,680	2,066	7,469	-	28,215
Printing and publications	17,496	2,608	6,532	-	26,636
Office supplies	1,391	1,043	128	13,945	16,507
Insurance	-	5,552	-	-	5,552
Staff development	133	4,897	360	-	5,390
Depreciation	-	-	-	4,357	4,357
Small equipment and furniture	2,775	1,497	-	-	4,272
Bank and other fees	80	3,367	-	-	3,447
Postage and shipping	369	1,887	9	-	2,265
Bad debt	1,234	-	-	-	1,234
Miscellaneous	1,675	1,520	-	-	3,195
Shared costs allocation	140,254	36,485	5,466	(182,205)	-
Total expenses	\$ 1,679,042	\$ 468,227	\$ 105,156	\$ -	\$ 2,252,425

See notes to financial statements

Pacific Institute for Studies in Development, Environment and Security

Statement of Functional Expenses
For the Year Ended December 31, 2012

	<u>Supporting Services</u>				<u>Total</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Shared Costs</u>	
Salaries	\$ 965,575	\$ 434,108	\$ 127,269	\$ -	\$ 1,526,952
Payroll taxes	95,431	20,703	14,908	-	131,042
Employee benefits (Note 8)	149,092	52,426	25,868	-	227,386
Professional fees	723,133	129,993	-	-	853,126
Travel	148,982	642	437	-	150,061
Occupancy	4,049	-	-	146,001	150,050
Conferences and meetings	64,876	1,582	-	-	66,458
Office supplies	9,556	-	-	29,674	39,230
Telephone and communications	11,182	5,582	480	10,263	27,507
Printing and publications	13,002	4,401	3,099	-	20,502
Staff development	2,400	2,740	-	-	5,140
Small equipment and furniture	2,734	1,787	-	-	4,521
Insurance	-	5,099	-	-	5,099
Postage and shipping	1,143	2,359	-	-	3,502
Bank and other fees	2,553	2,483	-	-	5,036
Miscellaneous	13,510	691	-	-	14,201
Shared costs allocation	111,563	59,500	14,875	(185,938)	-
Total expenses	\$ 2,318,781	\$ 724,096	\$ 186,936	\$ -	\$ 3,229,813

See notes to financial statements

Pacific Institute for Studies in Development, Environment, and Security

Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ (387,014)	\$ (1,071,825)
Adjustments to reconcile change in net assets to cash from operating activities:		
Gain from investments	(34,117)	(15,949)
Depreciation	4,357	-
(Increase) decrease in operating assets:		
Receivables	347,160	404,296
Prepays	3,099	7,378
Deposits	-	10,228
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(165,090)	2,477
Deferred revenue	138,296	(6,001)
Payable to sponsored groups	33,759	(111,372)
Net cash used by operating activities	(59,550)	(780,768)
Cash flows from investing activities:		
Reinvestment of income	(4,331)	-
Website redesign	(27,196)	(16,375)
Net cash used by investing activities	(31,527)	(16,375)
Net decrease in cash and cash equivalents	(91,077)	(797,143)
Cash and cash equivalents at beginning of year	663,100	1,460,243
Cash and cash equivalents at end of year	\$ 572,023	\$ 663,100

See notes to financial statements

Pacific Institute for Studies in Development, Environment, and Security

Notes to Financial Statements
Years Ended December 31, 2013 and 2012

Note 1 – Organization

The Pacific Institute for Studies in Development, Environment, and Security (the Institute) is a non-profit organization formed in October 1987. 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

Significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

- a. **Method of Accounting** – The financial statements of the Institute have been prepared using the accrual method of accounting, which involves the recognition of revenues and gains when earned and expenses and losses when incurred.
- b. **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.
- c. **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 change 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.
- d. **Grants and Contracts Receivable** – Grants receivable include unconditional commitments from various foundations that are recorded at the net realizable value of the amount expected to be collected. Non-current grants receivable are discounted using risk-adjusted rates. Contracts receivable include receivables for services rendered under various contractual agreements that are recorded at the amounts expected to be collected less an allowance for uncollectible amounts. The allowance is based on experience, third-party contracts, and other circumstances, which may affect the ability of contracting entities to meet their obligations. Receivables are considered impaired if full payments are not received in accordance with the terms of contracts.
- e. **Fixed Assets and Depreciation** – The Institute records acquisitions 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 of respective assets, using the straight-line method of depreciation.

Pacific Institute for Studies in Development, Environment, and Security

Notes to Financial Statements
Years Ended December 31, 2013 and 2012

- f. **Income Tax Status** – 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. The Institute’s annual informational returns are subject to examination by IRS, generally three years after they were filed.
- g. **Basis of Presentation** – Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Institute and changes therein are classified and reported as follows:
- Unrestricted net assets* represent 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 until it reaches \$500,000, at which time they will be considered a quasi-endowment.
- Temporarily restricted net assets* represent 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.
- h. **Restricted Resources** – The Institute reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- Gifts of fixed assets are recorded as unrestricted support unless explicit donor stipulations specify how the donated asset 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 donated or acquired long-lived assets are placed in service.
- i. **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 benefitting 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.

Pacific Institute for Studies in Development, Environment, and Security

Notes to Financial Statements
Years Ended December 31, 2013 and 2012

- j. **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. These estimates and assumptions 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 revenue and expenses during the reporting period. Significant accounting estimates reflected in the Institute’s financial statements include the functional allocation of expenses, valuation of investments, valuation and collectability of grants and contracts receivable. Actual results may differ from those estimates.

Note 3 – Concentration of Credit Risk

The Institute maintains its cash and cash equivalents in various financial institutions who participate in the Federal Deposit Insurance Corporation (FDIC) insurance program. The uninsured balance at December 31 2013 was \$238,440. The Institute believes it is not exposed to any significant risk on its cash balances and has not experienced any loss in its accounts.

Note 4 – Investments

Investments at December 31, 2013 and 2012 consisted of mutual funds that invest in stocks (stock funds). Income related to investments is as follows:

	<u>12/31/13</u>	<u>12/31/12</u>
Interest	\$792	\$ 682
Net gains	<u>34,117</u>	<u>15,949</u>
Total	<u>\$34,909</u>	<u>\$ 16,631</u>

Note 5 – Property and Equipment

Property and equipment at December 31, 2013 consisted of website with accumulated depreciation of \$4,357.

Pacific Institute for Studies in Development, Environment, and Security

Notes to Financial Statements
Years Ended December 31, 2013 and 2012

Note 6 – Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes:

	<u>12/31/13</u>	<u>12/31/12</u>
Future periods	70,589	103,457
Advancing state water use efficiency campaign	50,000	0
Water, energy, and climate	24,250	0
Colorado river sustainability crisis	24,188	0
Domestic projects	22,681	43,145
Agriculture water stewardship	21,266	0
Winnemem wintu participatory mapping	20,000	0
Water sustainability	17,750	43,215
Salton sea environment crisis	9,679	0
International projects	3,887	13,389
Former incarcerated rehab	2,477	41,902
Agriculture & urban water conservation	1,912	98,613
Water rates study	458	132,723
Desalination report	217	60,407
Environmental issues	380	8,035
Water and energy conservation research	0	105,378
Green jobs initiation	0	25,019
Agriculture success stories	0	14,899
Other restrictions	<u>12,499</u>	<u>10,682</u>
	<u>\$ 282,233</u>	<u>\$ 700,864</u>

Note 7 – Unusual Item

In July 2014 the Institute changed its sabbatical leave policy and eliminated further accrual of such leave. Employees who had accrued a full sabbatical by a certain date were allowed to take their leave within a specified period of time. Employees who had accrued partial leave were granted other benefits for each year of accrual. These benefits were accrued in the regular course of business. While the change took place after the date of the statement of financial position, management determined that the gain from the change in sabbatical leave policy should be recognized as of December 31, 2013 to reflect the reduction in liability. This gain has been reported as an unusual item in the statement of activities.

Note 8 – Retirement Benefits

The Institute offers a defined contribution plan to all its full time employees and provides up to 5% of gross wages as matching contributions to the plan for eligible employees. Contributions to the plan were \$29,748 and \$44,732 during the year ended December 31, 2013 and 2012, respectively.

Pacific Institute for Studies in Development, Environment, and Security

Notes to Financial Statements
Years Ended December 31, 2013 and 2012

Note 9 – Fair Value Measurements

Fair values of assets measured on a recurring basis are as follows:

	<u>12/31/13</u>		<u>12/31/12</u>	
	<u>Fair Value</u>	<u>Level 1</u>	<u>Fair Value</u>	<u>Level 1</u>
Stock Funds	<u>\$ 152,287</u>	<u>\$ 152,287</u>	<u>\$113,839</u>	<u>\$113,839</u>
Total	<u>\$ 152,287</u>	<u>\$ 152,287</u>	<u>\$113,839</u>	<u>\$113,839</u>

Fair value of assets measured at level 1 represents quoted prices in active markets for identical assets.

Note 10 – Line of Credit

The Institute obtained an unsecured line of credit in the amount of \$67,500 from Wells Fargo Bank during 2013. The line bears an interest rate of prime plus 6.75%. The balance of this line at December 31, 2013 was zero.

Note 11 – Operating Leases

The Institute leases its offices under non-cancelable operating leases with monthly rent subject to annual increases. The minimum future lease payments under these arrangements at December 31, 2013 were as follows:

Year ending December 31, 2014	\$ 94,224
Year ending December 31, 2015	<u>232</u>
	<u>\$ 94,456</u>

Rent expense for the years ended December 31, 2013 and 2012 were \$143,926 and \$146,036, respectively.

Note 12 – Noncompliance with Grant Requirements

The Institute had a multi-year award from a Federal agency that ended in March 2014. The Institute was required to match the award as indicated in the award agreement. The Institute was unable to meet the required match and its final report to the Federal agency indicated the deficiency. The Federal agency has not informed the Institute whether this could result in claims against the Institute for disallowed costs. No provision has been made for any liabilities that may arise from future audits by this Federal agency since the amounts, if any, cannot be determined at this date.

Pacific Institute for Studies in Development, Environment, and Security

Notes to Financial Statements
Years Ended December 31, 2013 and 2012

Note 13 – Subsequent Events

The Institute has evaluated subsequent events through October 10, 2014, the date which the financial statements were available to be issued.