PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT, AND SECURITY

FINANCIAL STATEMENTS
December 31, 2014 and 2013

PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT, AND SECURITY

CONTENTS

PCC
Propp
Christensen
Caniglia
LLP
CERTIFIED PUBLIC ACCOUNTANTS

9261 Sierra College Boulevard
Roseville, California 95661
916.751.2900
916.751.2979 FAX
pccllp.com

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 statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses and cash flows for the year 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 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 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, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Period Financial Statements

The financial statements of Pacific Institute for Studies in Development, Environment, and Security as of December 31, 2013, were audited by other auditors whose report dated October 10, 2014, expressed an unmodified opinion on those statements.

Propp Christensen Caniglia LLP

June 11, 2015
Roseville, California

PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT, AND SECURITY

STATEMENTS OF FINANCIAL POSITION
December 31, 2014 and 2013

ASSETS

	2014	2013
Current assets:		
Cash and cash equivalents	$ 617,479	$ 485,333
Grants receivable	230,720	117,365
Contracts receivable	370,261	176,685
Other receivables	5,210	3,146
Prepaid expenses	21,753	26,930
Total current assets	1,245,423	809,459
Cash held for sponsored groups	30,827	86,690
Property and equipment, net	30,500	39,214
Investments	173,306	152,287
Deposits and other assets	11,500	11,500
Total assets	$ 1,491,556	$ 1,099,150

LIABILITIES AND NET ASSETS

	2014	2013
Current liabilities:		
Accounts payable and accrued expenses	$ 62,034	$ 29,057
Deferred revenue	172,246	150,996
Accrued paid time off	166,234	133,245
Total current liabilities	400,514	313,298
Payable to sponsored groups	30,827	86,690
Total liabilities	431,341	399,988
Net assets:		
Unrestricted:		
Available for operations	586,085	264,642
Designated	173,306	152,287
Temporarily restricted	300,824	282,233
Total net assets	1,060,215	699,162
Total liabilities and net assets	$ 1,491,556	$ 1,099,150

PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT, AND SECURITY

STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2014 and 2013

	Year Ended December 31, 2014			Year Ended December 31, 2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
Contract revenue	$ 1,472,522	$ -	$ 1,472,522	$ 975,241	$ -	$ 975,241
Grants and contributions	217,007	866,983	1,083,990	122,618	477,633	600,251
Investment and other income	75,067	-	75,067	189,658	-	189,658
Rental revenue	9,463	-	9,463	-	-	-
Net assets released from restrictions	848,392	(848,392)	-	896,264	(896,264)	-
Total support and revenue	2,622,451	18,591	2,641,042	2,183,781	(418,631)	1,765,150
Expenses:						
Program services	1,617,332	-	1,617,332	1,679,042	-	1,679,042
General and administrative	448,865	-	448,865	468,227	-	468,227
Fundraising	109,782	-	109,782	105,156	-	105,156
Communications	104,010	-	104,010	-	-	-
Total expenses	2,279,989	-	2,279,989	2,252,425	-	2,252,425
Change in net assets before effect of policy chang	342,462	18,591	361,053	(68,644)	(418,631)	(487,275)
Gain from change of sabbatical leave policy	-	-	-	100,261	-	100,261
Change in net assets	342,462	18,591	361,053	31,617	(418,631)	(387,014)
Net assets, beginning of year	416,929	282,233	699,162	385,312	700,864	1,086,176
Net assets, end of year	$ 759,391	$ 300,824	$ 1,060,215	$ 416,929	$ 282,233	$ 699,162

PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT, AND SECURITY

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2014 and 2013

	Program Services	General and Administrative	Fundraising	Communication	Shared Costs	2014 Total
Salaries	$ 627,686	$ 290,297	$ 69,319	$ 73,944	$ -	$ 1,061,246
Payroll taxes	53,316	21,644	5,369	5,548	-	85,877
Employee benefits	109,859	60,760	13,809	13,198	-	197,626
Professional fees	511,206	33,272	11,000	11,000	1,800	568,278
Occupancy	-	-	-	-	149,285	149,285
Travel	101,968	975	61	-	-	103,004
Telephone and communications	929	7,431	1,020	320	21,076	30,776
Conferences and meetings	23,081	466	208	-	-	23,755
Printing and publications	1,637	4,857	8,668	-	-	15,162
Office supplies	265	784	-	-	9,429	10,478
Insurance	-	5,913	-	-	-	5,913
Staff development	-	3,769	-	-	-	3,769
Depreciation	-	8,714	-	-	-	8,714
Small equipment and furniture	2,794	2,310	-	-	-	5,104
Bank and other fees	-	4,384	-	-	-	4,384
Postage and shipping	34	1,842	328	-	-	2,204
Bad debt	-	-	-	-	-	-
Miscellaneous	2,967	1,447	-	-	-	4,414
Shared costs allocation	181,590	-	-	-	(181,590)	-
Total expenses	$ 1,617,332	$ 448,865	$ 109,782	$ 104,010	$ -	$ 2,279,989

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

PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT, AND SECURITY

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)
For the Years Ended December 31, 2014 and 2013

	Program Services	General and Administrative	Fundraising	Shared Costs	2013 Total
Salaries	$ 836,650	$ 298,164	$ 65,170	$ -	$ 1,199,984
Payroll taxes	72,569	23,775	5,378	-	101,722
Employee benefits	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

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, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash received from grants, contracts and contributions	$ 2,268,767	$ 2,060,948
Cash received from investments and other income	68,296	155,541
Cash paid to vendors, employees and other agencies	(2,200,132)	(2,309,798)
Net cash provided by (used in) operating activities	136,931	(93,309)
Cash flows from investing activities:		
Purchase of fixed assets	-	(27,196)
Purchase of investments	(4,785)	(4,331)
Net cash used in investing activities	(4,785)	(31,527)
Change in cash and cash equivalents	132,146	(124,836)
Cash and cash equivalents, beginning of year	485,333	610,169
Cash and cash equivalents, end of year	$ 617,479	$ 485,333

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, 2014 and 2013

	2014	2013
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	$ 361,053	$ (387,014)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	8,714	4,357
Net unrealized loss on investments	(16,234)	(34,117)
Write-off of accrued paid time off	36,355	(100,261)
Change in operating assets and liabilities:		
Grants receivable	(113,355)	11,219
Contracts receivable	(193,576)	311,952
Other receivables	(2,064)	23,989
Prepaid expenses	5,177	3,099
Accounts payable and accrued expenses	32,977	(50,154)
Deferred revenue	21,250	138,296
Accrued paid time off	(3,366)	(14,675)
Net cash provided by (used in) operating activities	$ 136,931	$ (93,309)

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

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, 2014 and 2013.

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 AC958-605), 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.

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 costs capitalized for the Institute's website.

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.

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments
FASB ASC 820-10, *Fair Value Measurements and Disclosures*, 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 ACS 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 items in the 2013 financial statements have been reclassified, with no effect to net assets, to conform to the 2014 presentation.

Subsequent Events
Events and transactions have been evaluated for potential recognition and disclosure through June 11, 2015, the date that the financial statements were available to be issued.

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, 2014 and 2013, the uninsured cash balances totaled $353,485 and $238,440 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, 2014 and 2013:

December 31, 2014	Level 1	Level 2	Level 3	Total
Mutual funds	$ 173,306	$ -	$ -	$ 173,306

December 31, 2013	Level 1	Level 2	Level 3	Total
Mutual funds	$ 152,287	$ -	$ -	$ 152,287

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: 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, 2014 and 2013 there was no balance.

NOTE 7: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes as of December 31, 2014 and 2013, respectively.

	2014	2013
California drought initiative	$ 183,816	$ -
Oil and gas production risks	48,307	-
Water supply research	19,500	-
Fracking research	14,000	-
Water rates study	12,442	458
Advancing state water use efficiency campaign	8,121	50,000
Colorado river sustainability crisis	5,695	24,188
Future periods	5,297	70,589
Salton sea environment crisis	2,448	9,679
Water, energy, and climate	1,069	24,250
Environmental issues	129	380
Domestic projects	-	22,681
Agriculture water stewardship	-	21,266
Winnemem wintu participatory mapping	-	20,000
Water sustainability	-	17,750
Other restrictions	-	12,499
International projects	-	3,887
Former incarcerated rehab	-	2,477
Agriculture & urban water conservation	-	1,912
Desalination report	-	217
	$ 300,824	$ 282,233

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, 2014 and 2013, the employer matching contribution was $45,609 and $29,750, respectively.

NOTE 9: OPERATING LEASES

The Institute leases its offices under non-cancelable operating leases with monthly rent subject to annual increases. Rent expense totaled $145,291 and $143,926, respectively for the years ended December 31, 2014 and 2013.

The minimum future lease payments under these arrangements at December 31, 2014 are as follows:

Year Ending December 31:	
2015	$ 86,326
2016	239
Total minimum lease payments	$ 86,565

NOTE 10: CONTINGENCIES

The Institute was awarded an award over several years from a Federal Agency that ended in March 2014. The requirements of the award was the Institute had to match the award as indicated in the award agreement. The Institute was unable to match the award and has notified the Federal Agency of the deficiency in the final report. The Federal Agency has not informed the Institute of the ramifications of this deficiency. No provision has been made for any liabilities that may arise from future audits by this Federal Agency since the amounts cannot be determined at this date.

NOTE 11: POLICY CHANGE

The Institute changed its sabbatical leave policy and further accrual of sabbatical leave was eliminated in July 2014. Employees who had accrued partial leave received other benefits for each year of accrual. Employees who had accrued full sabbatical leave were allowed to take their leave within a specified period of time.