PACIFIC INSTITUTE FOR STUDIES
IN DEVELOPMENT, ENVIRONMENT, AND SECURITY

FINANCIAL STATEMENTS
WITH
AUDITOR'S REPORTS

YEARS ENDED
DECEMBER 31, 2012 AND 2011

GHAFFARI ACCOUNTANCY, INC.
CERTIFIED PUBLIC ACCOUNTANTS

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Ghaffari Accountancy, Inc.
Certified Public Accountants

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Pacific Institute (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012 and 2011, and the related statements of activities, cash flows, and functional expenses 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 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 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pacific Institute as of December 31, 2012 and 2011, 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.

Ghaffari Accountancy, Inc.

July 26, 2013

Oakland, California

Pacific Institute for Studies in Development, Environment and Security

Statements of Financial Position
At December 31, 2012 and 2011

	2012	2011
ASSETS		
Current Assets:		
Cash and cash equivalents (Note 3)	$ 663,100	$ 1,460,243
Grants receivable	128,584	314,579
Contracts receivable, net of allowance of $0 and $7,376, respectively	488,637	732,398
Other receivables	27,135	1,675
Prepaid expenses	30,029	37,407
Total Current Assets	1,337,485	2,546,302
Website redesign in progress	16,375	-
Investments (Note 4)	113,839	97,890
Deposits and other assets	11,500	21,728
Total Assets	$ 1,479,199	$ 2,665,920
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	$ 79,211	$ 71,051
Deferred revenue	12,700	18,701
Payable to sponsored groups	52,931	164,303
Accrued paid time off	248,181	253,864
Total Current Liabilities and Total Liabilities	393,023	507,919
NET ASSETS		
Available for operations	271,473	537,766
Designated	113,839	97,890
Total unrestricted	385,312	635,656
Temporarily restricted (Note 5)	700,864	1,522,345
Total Net Assets	1,086,176	2,158,001
Total Liabilities and Net Assets	$ 1,479,199	$ 2,665,920

See notes to financial statements

Pacific Institute for Studies in Development, Environment and Security

Statement of Activities
Years Ended December 31, 2012 and 2011

	Year ended December 31, 2012			Year ended December 31, 2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue:						
Contract revenue	$ 1,585,379	$ -	$ 1,585,379	$ 1,424,765	$ -	$ 1,424,765
Grants and contributions	96,916	401,285	498,201	87,733	1,051,222	1,138,955
Other income	74,408	-	74,408	52,712	-	52,712
Net assets released from restrictions:						
Purpose accomplished	1,222,766	(1,222,766)	-	944,932	(944,932)	-
Total Support and Revenue	2,979,469	(821,481)	2,157,988	2,510,142	106,290	2,616,432
Expenses:						
Program services	2,318,781	-	2,318,781	1,726,139	-	1,726,139
Supporting services:						
Management and general	724,096	-	724,096	597,959	-	597,959
Fundraising	186,936	-	186,936	208,907	-	208,907
Total Expenses	3,229,813	-	3,229,813	2,533,005	-	2,533,005
Change in net assets	(250,344)	(821,481)	(1,071,825)	(22,863)	106,290	83,427
Net assets at beginning of year	635,656	1,522,345	2,158,001	658,519	1,416,055	2,074,574
Net assets at end of year	$ 385,312	$ 700,864	$ 1,086,176	$ 635,656	$ 1,522,345	$ 2,158,001

See notes to financial statements

Pacific Istitute for Studies in Development, Environment, and Security

Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	$ (1,071,825)	$ 83,427
Adjustments to reconcile change in net assets to cash from operating activities:		
Gain from investments	(15,949)	(1,020)
(Increase) decrease in operating assets:		
Receivables	404,296	90,208
Prepaids	7,378	(15,800)
Deposits	10,228	(3,478)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	2,477	105,178
Deferred revenue	(6,001)	(30,082)
Payable to sponsored groups	(111,372)	139,303
Net cash provided (used) by operating activities	(780,768)	367,736
Cash flows from investing activities:		
Proceeds from sale of investments	-	137
Website redesign	(16,375)	-
Net cash provided (used) by investing activities	(16,375)	137
Net increase (decrease) in cash and cash equivalents	(797,143)	367,873
Cash and cash equivalents at beginning of year	1,460,243	1,092,370
Cash and cash equivalents at end of year	$ 663,100	$ 1,460,243

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

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Shared Costs	Total
Salaries	$ 965,575	$ 434,108	$ 127,269	$ -	$ 1,526,952
Payroll taxes	95,431	20,703	14,908	-	131,042
Employee benefits (Note 7)	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	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

Statement of Functional Expenses
For the Year Ended December 31, 2011

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Shared Costs	Total
Salaries	$ 842,503	$ 383,732	$ 159,846	$ -	$ 1,386,081
Payroll taxes	58,872	26,805	11,166	-	96,843
Employee benefits (Note 7)	114,425	42,801	13,780	-	171,006
Professional fees	379,200	27,005	4,503	-	410,708
Travel	150,734	382	-	-	151,116
Occupancy	-	-	-	135,704	135,704
Conferences and meetings	47,306	4,741	3,113	-	55,160
Office supplies	-	-	-	36,545	36,545
Telephone and communications	5,388	17,296	756	-	23,440
Printing and publications	15,747	6,494	-	-	22,241
Bad debt	-	16,008	-	-	16,008
Staff development	-	11,935	-	-	11,935
Small equipment and furniture	-	5,118	-	-	5,118
Insurance	-	4,700	-	-	4,700
Postage and shipping	1,589	2,456	-	-	4,045
Bank and other fees	-	2,032	-	-	2,032
Miscellaneous	-	323	-	-	323
Shared costs	110,375	46,131	15,743	(172,249)	-
Total expenses	$ 1,726,139	$ 597,959	$ 208,907	$ -	$ 2,533,005

See notes to financial statements

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 partner with stakeholder 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 gain or loss. 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 receivable 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.

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.

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.

k. **Reclassification** – Certain 2011 balances have been reclassified to conform to the current year's presentation.

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 2012 and 2011 was $14,981 and $1,153,760, respectively. The Institute believes it is not exposed to any significant risk on its cash balances and has not experienced any loss in its accounts. As of January 1, 2013, the FDIC eliminated its unlimited coverage of non-interest bearing accounts. This would have resulted in uninsured cash and cash equivalents balance at January 1, 2013 of $365,192, had the program become effective on December 31, 2012.

Note 4 – Investments

Investments at December 31, 2012 and 2011 consisted of mutual funds. Income related to investments is as follows:

	12/31/12	12/31/11
Interest	$ 682	$ 1,995
Net gain	15,949	1,020
Total	$16,620	$ 3,096

Note 5 – Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes:

	12/31/12	12/31/11
Water rates study	$ 132,723	$ 241,782
Water and energy conservation research	105,378	0

	12/31/12	12/31/11
Future periods	103,457	53,652
Agriculture & urban water conservation	98,613	0
Desalination report	60,407	148,498
Water sustainability	43,215	111,252
Domestic projects	43,145	240,147
Former incarcerated rehab	41,902	167,295
Green jobs initiation	25,019	227,910
Agriculture success stories	14,899	81,918
International projects	13,389	76,123
Environmental issues	8,035	173,768
Other restrictions	10,682	0
	$ 700,864	$ 1,522,345

Note 6 – Correction of Prior Year Errors

The balances of unrestricted and temporarily restricted net assets at December 31, 2010 were adjusted due to errors. The effects of the corrections were as follows:

	As Stated	Adjustment	As Restated
Grants receivable	$0	$580,000	$580,000
Contracts receivable	581,465	(28,396)	553,069
Accounts payable and accrued expenses	26,238	(19,469)	6,769
Deferred revenue	0	48,783	48,783
Payable to sponsored groups	0	25,000	25,000
Accrued employee compensation	190,689	22,279	212,968
Unrestricted net assets	589,533	68,986	658,519
Temporarily restricted net assets	$1,010,030	$406,025	$1,416,055

The effect of the above corrections was to increase the change in unrestricted and temporarily restricted net assets for the year ended December 31, 2010 by $68,986 and $406,025, respectively.

Note 7 – 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 $44,732 and $41,631 during the year ended December 31, 2012 and 2011, respectively.

Note 8 – Fair Value Measurements

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

	12/31/12		12/31/11	
	Fair Value	Level 1	Fair Value	Level 1
Mutual Funds	113,839	113,839	97,890	97,890
Total	$ 113,839	$ 113,839	$97,890	$97,890

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

Note 9 – Operating Leases

The institute leases its office in Oakland, California under a non-cancelable operating lease. Rent on the facility lease is subject to annual increases. The minimum future lease payments under this arrangement at December 31, 2012 are as follows:

Year ending December 31, 2013	$141,883
Year ending December 31, 2014	94,588
	$236,471

Rent expense for the year ended December 31, 2012 and 2011 was $146,036 and $131,913, respectively.

Note 10 – Subsequent Events

The Institute has evaluated subsequent events through July 26, 2013, the date which the financial statements were available to be issued.