

PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT, AND SECURITY

FINANCIAL STATEMENTS
December 31, 2016 and 2015

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, 2016 and 2015, 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, 2016 and 2015, 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.

Propp Christensen Caniglia LLP

May 30, 2017
Roseville, California

PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT, AND SECURITY

STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

ASSETS

	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 778,019	\$ 911,813
Grants receivable	282,606	40,000
Contracts receivable	251,976	424,225
Other receivables	-	4,627
Prepaid expenses	<u>31,012</u>	<u>30,063</u>
Total current assets	1,343,613	1,410,728
Cash held for sponsored groups	30,412	104
Property and equipment, net	13,072	21,786
Investments	204,747	184,519
Deposits and other assets	<u>11,480</u>	<u>11,500</u>
Total assets	<u>\$ 1,603,324</u>	<u>\$ 1,628,637</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued expenses	\$ 29,931	\$ 26,586
Deferred revenue	101,437	54,516
Accrued paid time off	<u>100,290</u>	<u>163,099</u>
Total current liabilities	231,658	244,201
Payable to sponsored groups	<u>30,412</u>	<u>104</u>
Total liabilities	<u>262,070</u>	<u>244,305</u>
Net assets:		
Unrestricted:		
Available for operations	563,475	611,029
Designated	204,747	184,519
Temporarily restricted	<u>573,032</u>	<u>588,784</u>
Total net assets	<u>1,341,254</u>	<u>1,384,332</u>
Total liabilities and net assets	<u>\$ 1,603,324</u>	<u>\$ 1,628,637</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, 2016 and 2015

	Year Ended December 31, 2016			Year Ended December 31, 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
Contract revenue	\$ 1,023,200	\$ -	\$ 1,023,200	\$ 1,120,856	\$ -	\$ 1,120,856
Grants and contributions	392,833	565,287	958,120	282,066	849,000	1,131,066
Investment and other income	89,728	-	89,728	89,755	-	89,755
Net assets released from restrictions	581,039	(581,039)	-	561,040	(561,040)	-
Total support and revenue	2,086,800	(15,752)	2,071,048	2,053,717	287,960	2,341,677
Expenses:						
Program services	1,255,652	-	1,255,652	1,205,967	-	1,205,967
General and administrative	434,352	-	434,352	422,651	-	422,651
Fundraising	153,337	-	153,337	134,363	-	134,363
Communications	104,679	-	104,679	90,714	-	90,714
Facilities	166,106	-	166,106	163,865	-	163,865
Total expenses	2,114,126	-	2,114,126	2,017,560	-	2,017,560
Change in net assets	(27,326)	(15,752)	(43,078)	36,157	287,960	324,117
Net assets, beginning of year	795,548	588,784	1,384,332	759,391	300,824	1,060,215
Net assets, end of year	\$ 768,222	\$ 573,032	\$ 1,341,254	\$ 795,548	\$ 588,784	\$ 1,384,332

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, 2016 and 2015

	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 FUNCTIONAL EXPENSES (CONTINUED)

For the Years Ended December 31, 2016 and 2015

	Program Services	General and Administrative	Fundraising	Communication	Facilities	2015 Total
Salaries	\$ 704,092	\$ 285,632	\$ 94,207	\$ 64,998	\$ -	\$ 1,148,929
Payroll taxes	56,775	21,190	6,834	5,664	-	90,463
Employee benefits	118,823	40,136	14,738	2,250	-	175,947
Professional fees	245,756	34,590	9,700	9,700	1,705	301,451
Occupancy	-	-	-	-	136,594	136,594
Travel	68,869	377	69	-	-	69,315
Telephone and communications	2,898	10,770	1,213	2,024	18,866	35,771
Conferences and meetings	6,009	1,049	1,492	-	1,675	10,225
Printing and publications	2,687	2,407	5,610	5,583	-	16,287
Office supplies	-	54	177	340	5,025	5,596
Insurance	-	5,872	-	-	-	5,872
Staff development	-	3,947	-	155	-	4,102
Depreciation	-	8,714	-	-	-	8,714
Small equipment and furniture	-	1,605	-	-	-	1,605
Bank and other fees	58	2,856	-	-	-	2,914
Postage and shipping	-	1,089	323	-	-	1,412
Miscellaneous	-	2,363	-	-	-	2,363
Total expenses	1,205,967	422,651	134,363	90,714	163,865	2,017,560
Shared costs allocation	677,230	(422,651)	-	(90,714)	(163,865)	-
Total after allocation	\$ 1,883,197	\$ -	\$ 134,363	\$ -	\$ -	\$ 2,017,560

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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from grants, contracts and contributions	\$ 1,962,511	\$ 2,271,531
Cash received from investments and other income	74,534	86,140
Cash paid to vendors, employees and other agencies	<u>(2,165,805)</u>	<u>(2,055,739)</u>
Net cash provided by (used in) operating activities	<u>(128,760)</u>	<u>301,932</u>
Cash flows from investing activities:		
Purchase of investments	<u>(5,034)</u>	<u>(7,598)</u>
Change in cash and cash equivalents	(133,794)	294,334
Cash and cash equivalents, beginning of year	<u>911,813</u>	<u>617,479</u>
Cash and cash equivalents, end of year	<u><u>\$ 778,019</u></u>	<u><u>\$ 911,813</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	\$ (43,078)	\$ 324,117
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	8,714	8,714
Net unrealized loss on investments	(15,194)	(3,615)
Change in operating assets and liabilities:		
Grants receivable	(242,606)	190,720
Contracts receivable	172,249	(53,964)
Other receivables	4,627	583
Prepaid expenses	(949)	(8,310)
Deposits and other assets	20	-
Accounts payable and accrued expenses	3,345	(35,448)
Deferred revenue	46,921	(117,730)
Accrued paid time off	(62,809)	(3,135)
Net cash provided by (used in) operating activities	<u>\$ (128,760)</u>	<u>\$ 301,932</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, 2016 and 2015

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, 2016 and 2015.

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.

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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, 2016 and 2015 totaled \$30,499 and \$21,785, 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.

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

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

The presentation of the 2015 statement of activities was reclassified, with no effect to total expenses or net assets, to conform to the 2016 presentation.

Subsequent Events

Events and transactions have been evaluated for potential recognition and disclosure through May 30, 2017, 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, 2016 and 2015

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, 2016 and 2015, the uninsured cash balances totaled \$157,161 and \$600,443, 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, 2016 and 2015:

<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>
<u>December 31, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 177,394	\$ -	\$ -	\$ 177,394
Marketable securities	<u>7,125</u>	<u>-</u>	<u>-</u>	<u>7,125</u>
	<u>\$ 184,519</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 184,519</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 \$135,454 and \$131,653 for the years ended December 31, 2016 and 2015, respectively.

The minimum future lease payments under these arrangements at December 31, 2016 are as follows:

<u>Year Ending December 31:</u>	
2017	\$ 142,392
2018	96,796
2019	2,820
2020	<u>1,410</u>
Total minimum lease payments	<u>\$ 243,418</u>

PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT, AND SECURITY

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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, 2016 and 2015 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, 2016 and 2015, the employer matching contribution was \$48,288 and \$38,987, respectively.

NOTE 9: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes as of December 31, 2016 and 2015, respectively:

	<u>2016</u>	<u>2015</u>
Stormwater capture research	\$ 135,154	\$ 152,643
Equitable access to California water	122,509	136,450
California drought initiative	32,323	83,203
Drought research in California	85,941	71,678
Capacity building for sustainable urban water	28,577	52,314
Restoring access to public water fountains	31,400	25,002
Water resource policy	20,332	25,000
Future periods	1,095	17,141
Water mandate guidance	13,650	16,250
Salton sea environment crisis	2,412	3,272
Oil and gas production risks	-	2,916
Water supply research	-	2,915
Demand forecasting	95,587	-
Leadership transition	4,052	-
	<u>\$ 573,032</u>	<u>\$ 588,784</u>

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.