

**Point Reyes Bird Observatory**

dba Point Blue Conservation Science

Financial Statements

March 31, 2017 and 2016



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Point Reyes Bird Observatory  
dba Point Blue Conservation Science  
Petaluma, California

We have audited the accompanying financial statements of Point Reyes Bird Observatory dba Point Blue Conservation Science (a California nonprofit corporation) (the "Organization"), which comprise the statements of financial position as of March 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 (the "U.S."); 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 U.S. 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 Point Reyes Bird Observatory dba Point Blue Conservation Science as of March 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 U.S.

*Armanino LLP*

Armanino<sup>LLP</sup>  
San Francisco, California

July 13, 2017

Point Reyes Bird Observatory  
dba Point Blue Conservation Science  
Statements of Financial Position  
March 31, 2017 and 2016

	2017	2016
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 6,642,417	\$ 2,763,718
Contracts receivable	1,425,190	1,952,612
Grants and contributions receivable	1,302,468	3,603,492
Other receivables	66,214	62,311
Prepaid and other current assets	<u>92,623</u>	<u>97,603</u>
Total current assets	<u>9,528,912</u>	<u>8,479,736</u>
Non-current assets		
Certificates of deposit	253,783	251,031
Endowment	288,837	260,059
Contributions receivable, net of current portion	86,850	1,138,041
Property and equipment, net	<u>4,862,787</u>	<u>5,008,201</u>
Total non-current assets	<u>5,492,257</u>	<u>6,657,332</u>
Total assets	<u>\$ 15,021,169</u>	<u>\$ 15,137,068</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 291,110	\$ 237,015
Accrued vacation	389,204	336,632
Deferred revenue	<u>185,285</u>	<u>114,104</u>
Total current liabilities	<u>865,599</u>	<u>687,751</u>
Net assets		
Unrestricted		
Board-designated funds	3,418,914	1,230,176
Undesignated	<u>6,558,708</u>	<u>7,457,065</u>
Total unrestricted	9,977,622	8,687,241
Temporarily restricted	4,077,948	5,662,076
Permanently restricted	<u>100,000</u>	<u>100,000</u>
Total net assets	<u>14,155,570</u>	<u>14,449,317</u>
Total liabilities and net assets	<u>\$ 15,021,169</u>	<u>\$ 15,137,068</u>

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

Point Reyes Bird Observatory  
dba Point Blue Conservation Science  
Statement of Activities  
For the Year Ended March 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support				
Contract revenue	\$ 5,550,189	\$ -	\$ -	\$ 5,550,189
Grants and contributions	1,226,863	3,212,849	-	4,439,712
Interest income	5,876	-	-	5,876
Realized and unrealized gains (losses), net	17,456	11,496	-	28,952
Other income	2,312,229	-	-	2,312,229
Net assets released from restrictions	<u>4,808,473</u>	<u>(4,808,473)</u>	-	<u>-</u>
Total revenues, gains and other support	<u>13,921,086</u>	<u>(1,584,128)</u>	-	<u>12,336,958</u>
Functional expenses				
Program services	<u>9,756,386</u>	-	-	<u>9,756,386</u>
Support services				
Management and general	1,475,377	-	-	1,475,377
Advancement	<u>1,398,942</u>	-	-	<u>1,398,942</u>
Total support services	<u>2,874,319</u>	-	-	<u>2,874,319</u>
Total functional expenses	<u>12,630,705</u>	-	-	<u>12,630,705</u>
Change in net assets	1,290,381	(1,584,128)	-	(293,747)
Net assets, beginning of year	<u>8,687,241</u>	<u>5,662,076</u>	<u>100,000</u>	<u>14,449,317</u>
Net assets, end of year	<u>\$ 9,977,622</u>	<u>\$ 4,077,948</u>	<u>\$ 100,000</u>	<u>\$ 14,155,570</u>

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

Point Reyes Bird Observatory  
dba Point Blue Conservation Science  
Statement of Activities  
For the Year Ended March 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support				
Contract revenue	\$ 5,086,150	\$ -	\$ -	\$ 5,086,150
Grants and contributions	1,235,590	6,482,579	-	7,718,169
Interest income	7,583	273	-	7,856
Realized and unrealized gains (losses), net	(7,323)	-	-	(7,323)
Other income	166,200	2,279	-	168,479
Net assets released from restrictions	<u>4,683,307</u>	<u>(4,683,307)</u>	-	<u>-</u>
Total revenues, gains and other support	<u>11,171,507</u>	<u>1,801,824</u>	<u>-</u>	<u>12,973,331</u>
Functional expenses				
Program services	<u>8,910,661</u>	<u>-</u>	<u>-</u>	<u>8,910,661</u>
Support services				
Management and general	1,468,257	-	-	1,468,257
Advancement	<u>881,508</u>	<u>-</u>	<u>-</u>	<u>881,508</u>
Total support services	<u>2,349,765</u>	<u>-</u>	<u>-</u>	<u>2,349,765</u>
Total functional expenses	<u>11,260,426</u>	<u>-</u>	<u>-</u>	<u>11,260,426</u>
Change in net assets	(88,919)	1,801,824	-	1,712,905
Net assets, beginning of year	<u>8,776,160</u>	<u>3,860,252</u>	<u>100,000</u>	<u>12,736,412</u>
Net assets, end of year	<u>\$ 8,687,241</u>	<u>\$ 5,662,076</u>	<u>\$ 100,000</u>	<u>\$ 14,449,317</u>

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

Point Reyes Bird Observatory  
dba Point Blue Conservation Science  
Statement of Functional Expenses  
For the Year Ended March 31, 2017

	Pacific Coast and Central Valley	California Current	Informatics and Information Technology	Sierra Nevada	Climate Adaptation	Emerging Projects and Partnerships	Education and Outreach	Total Program Services	Management and General	Advancement	Total
Personnel costs											
Salaries and wages	\$ 1,332,692	\$ 651,599	\$ 248,125	\$ 448,726	\$ 508,991	\$ 1,007,934	\$ 656,545	\$ 4,854,612	\$ 723,796	\$ 734,089	\$ 6,312,497
Employee benefits	577,107	294,345	104,112	147,779	225,751	460,878	334,091	2,144,063	275,756	328,592	2,748,411
Interns	61,727	57,300	4,800	3,400	13,352	-	37,910	178,489	-	-	178,489
Total personnel costs	<u>1,971,526</u>	<u>1,003,244</u>	<u>357,037</u>	<u>599,905</u>	<u>748,094</u>	<u>1,468,812</u>	<u>1,028,546</u>	<u>7,177,164</u>	<u>999,552</u>	<u>1,062,681</u>	<u>9,239,397</u>
Professional services	124,197	87,097	185,349	16,523	491,353	80,206	95,059	1,079,784	274,647	139,603	1,494,034
Travel/meetings/events	150,193	32,392	8,784	27,684	37,580	102,854	30,796	390,283	63,144	36,930	490,357
Computer upgrades/internet	51,320	31,467	13,367	16,010	28,662	41,269	17,466	199,561	17,541	18,650	235,752
Depreciation	73,639	19,879	9,688	14,082	24,762	33,393	15,313	190,756	15,451	16,427	222,634
General office	37,952	19,238	8,006	12,935	21,064	27,754	13,646	140,595	12,740	29,365	182,700
Housing and food	7,750	23,784	5,950	25,456	7,954	7,103	9,003	87,000	59,193	14,434	160,627
Facilities repairs and maintenance	27,305	21,750	5,737	10,227	16,490	19,459	11,748	112,716	8,943	9,506	131,165
Equipment purchases	7,804	2,196	1,255	46,677	71,959	3,484	1,598	134,973	1,611	2,001	138,585
Project supplies and publications	15,804	22,341	1,127	5,673	6,111	6,979	57,781	115,816	1,678	5,474	122,968
Other expenses	-	12,277	-	-	-	23,354	-	35,631	808	122	36,561
Printing and reproduction	3,351	3,167	641	1,561	6,227	2,689	5,041	22,677	1,023	32,136	55,836
Insurance	17,803	7,829	3,815	5,546	9,753	13,151	6,031	63,928	6,038	6,470	76,436
Advertising and promotion	92	2,983	-	124	-	1,587	716	5,502	13,008	25,143	43,653
	<u>\$ 2,488,736</u>	<u>\$ 1,289,644</u>	<u>\$ 600,756</u>	<u>\$ 782,403</u>	<u>\$ 1,470,009</u>	<u>\$ 1,832,094</u>	<u>\$ 1,292,744</u>	<u>\$ 9,756,386</u>	<u>\$ 1,475,377</u>	<u>\$ 1,398,942</u>	<u>\$ 12,630,705</u>

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

Point Reyes Bird Observatory  
 dba Point Blue Conservation Science  
 Statement of Functional Expenses  
 For the Year Ended March 31, 2016

	Pacific Coast and Central Valley	California Current	Informatics and Information Technology	Sierra Nevada	Climate Adaptation	Emerging Projects and Partnerships	Education and Outreach	Management and General	Advancement	Total
Personnel costs										
Salaries and wages	\$ 1,206,168	\$ 598,331	\$ 193,158	\$ 479,023	\$ 342,558	\$ 872,230	\$ 636,070	\$ 665,453	\$ 439,529	\$ 5,432,520
Employee benefits	531,983	270,673	84,311	147,667	153,193	401,177	313,188	345,894	200,471	2,448,557
Interns	60,035	60,700	-	4,762	1,368	-	34,182	-	-	161,047
Total personnel costs	<u>1,798,186</u>	<u>929,704</u>	<u>277,469</u>	<u>631,452</u>	<u>497,119</u>	<u>1,273,407</u>	<u>983,440</u>	<u>1,011,347</u>	<u>640,000</u>	<u>8,042,124</u>
Professional services	248,890	96,084	176,964	46,682	445,460	97,125	147,559	252,856	96,002	1,607,622
Travel/meetings/events	113,155	41,782	5,475	23,660	15,215	83,285	43,934	50,731	26,620	403,857
Depreciation	74,967	23,062	7,363	16,631	13,156	33,794	25,191	26,252	16,984	237,400
Project supplies and publications	41,917	21,786	1,003	23,092	2,257	7,528	84,177	2,679	2,380	186,819
Computer upgrades/internet	30,630	21,576	4,890	13,043	8,736	24,805	16,877	17,433	11,278	149,268
Housing and food	3,319	26,385	-	5,730	3,971	1,652	34,763	57,009	8,102	140,931
General office	24,977	13,933	4,256	9,683	6,993	18,079	15,491	13,923	20,928	128,263
Facilities repairs and maintenance	21,998	14,749	3,245	9,731	6,360	17,649	14,199	11,569	7,485	106,985
Equipment purchases	8,334	10,303	690	46,929	4,501	5,325	2,360	2,460	1,591	82,493
Insurance	15,940	7,958	2,541	5,739	4,540	11,662	8,693	9,051	5,861	71,985
Printing and reproduction	4,302	5,494	621	1,865	1,109	4,548	9,418	2,214	37,635	67,206
Advertising and promotion	1,301	1,529	-	-	150	941	208	9,466	6,317	19,912
Other expenses	20	13,949	-	-	-	-	-	1,267	325	15,561
	<u>\$ 2,387,936</u>	<u>\$ 1,228,294</u>	<u>\$ 484,517</u>	<u>\$ 834,237</u>	<u>\$ 1,009,567</u>	<u>\$ 1,579,800</u>	<u>\$ 1,386,310</u>	<u>\$ 1,468,257</u>	<u>\$ 881,508</u>	<u>\$ 11,260,426</u>

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



Point Reyes Bird Observatory  
 dba Point Blue Conservation Science  
 Statements of Cash Flows  
 For the Years Ended March 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ (293,747)	\$ 1,712,905
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	222,634	237,400
(Gain) loss on endowment fund	(28,778)	9,249
Changes in operating assets and liabilities		
Contracts receivable	527,422	(411,807)
Grants and contributions receivable	3,352,215	(1,292,246)
Other receivables	(3,903)	(1,840)
Prepaid and other current assets	4,980	10,154
Accounts payable	54,095	(20,784)
Accrued vacation	52,572	34,996
Deferred revenue	71,181	5,874
Net cash provided by operating activities	3,958,671	283,901
Cash flows from investing activities		
Purchase of certificates of deposit	(2,752)	(2,726)
Purchase of property and equipment	(77,220)	(15,327)
Net cash used in investing activities	(79,972)	(18,053)
Net increase in cash and cash equivalents	3,878,699	265,848
Cash and cash equivalents, beginning of year	2,763,718	2,497,870
Cash and cash equivalents, end of year	\$ 6,642,417	\$ 2,763,718

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

Point Reyes Bird Observatory  
dba Point Blue Conservation Science  
Notes to Financial Statements  
March 31, 2017 and 2016

1. THE ORGANIZATION

Point Reyes Bird Observatory, DBA Point Blue Conservation Science (the Organization), is a nonprofit, membership organization founded in 1965. Its mission is to conserve birds, other wildlife and ecosystems through science, restoration, outreach and partnerships.

The Organization advances the scientific basis of conservation by providing objective information and guidance to habitat and wildlife managers and decision makers. The Organization's highest priority is to reduce the negative impacts of climate change, habitat loss and other environmental threats while promoting adaptation to future conditions through nature based solutions to benefit wildlife and people.

The Organization derives its revenue from contracts with Federal, State and local agencies and non-governmental organizations, and contributions from individuals, corporations and foundations. The following Groups accomplish its programmatic activities:

Pacific Coast and Central Valley Group

Working locally, regionally, and internationally, this Group provides conservation science and training to support the development of the next generation of conservation scientists, inform policy, and formulate strategies that ensure thriving ecosystems that maximize multiple benefits to wildlife and humans.

California Current Group

This Group works to conserve the integrity of the California Current ecosystem. Its focus is on helping protect ocean food webs that can support both thriving and diverse marine life and the needs of human communities. Its understanding of ocean and marine terrestrial ecosystems is informed by long-term data monitoring activities both at sea and on the Farallon Islands. Additionally the Group trains emerging conservation scientists in its internship program.

Informatics and Information Technology Group

This Group develops the tools, frameworks and techniques for managing the wealth of scientific data compiled by the Organization and its partners is this Group's focus. It further seeks to transform those data into conservation outcomes and ecosystems knowledge that improve conservation decisions in California and around the world. This Group also manages Point Blue's websites, computer hardware and network infrastructure.

Sierra Nevada Group

Through the design and implementation of innovative avian monitoring and research, this Group helps guide forest ecology and land management decisions to improve conservation outcomes across the vast Sierra Nevada ecosystem. The Group engages and develops conservation scientists through its robust seasonal scientist and internship programs.

Point Reyes Bird Observatory  
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1. THE ORGANIZATION (continued)

Climate Adaptation Group

Using cutting-edge climate models and analytical approaches this Group increases understanding of the effects of climate change and management responses on ecosystems and human communities. Focus is on science and outreach that influence shoreline and bay land development, climate change adaptation activities, ecosystem management, habitat restoration and mitigation.

Emerging Projects and Partnerships Group

This Group manages programs that are cross-organizational or extend beyond current priority geographies. The Group also provides guidance to major conservation initiatives such as federal agency resource management plans, state planning efforts, federally and state funded Joint Ventures, the Landscape Conservation Cooperatives (LCC's), the North American Bird Conservation Initiative, Partners in Flight, and the Avian Knowledge Network.

Education and Outreach Group

This Group is responsible for scientific and conservation outreach, public education programs, and school-based education programs including the STRAW: Students and Teachers Restoring a Watershed restoration program. The Group also helps the Organization communicate its science and conservation recommendations to a variety of audiences, including policy-makers, land owners, resource managers, and members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements of Point Reyes Bird Observatory have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis of presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

- *Unrestricted net assets* - Unrestricted net assets generally result from revenue obtained by providing services in connection with contracts with governmental and quasi-government agencies (which are considered reciprocal exchange transactions), receiving unrestricted contributions, and receiving unrestricted interest and dividends.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of presentation (continued)

- *Temporarily restricted net assets* - The Organization reports donations and other assets as restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires or the purpose restriction is accomplished, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions restricted for capital improvements are released to unrestricted revenue at the time the funds are expended for the specified improvement.
- *Permanently restricted net assets* - The Organization reports gifts and bequests as permanently restricted net assets if they are received with the donor stipulation that they be restricted in perpetuity.

Functional allocation of expenses

The costs of providing the Organization's various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among programs, management and general, and development on the basis of time and direct costs.

In-kind services

Contributions of services are recognized only if such services create or enhance a nonfinancial asset or require specialized skills and are provided by individuals possessing those skills and would typically need to be paid for if not provided by donation.

Cash and cash equivalents

Cash and cash equivalents include all cash accounts and short-term investments purchased with an initial maturity of three months or less. The balance for the year ended March 31, 2017 includes recognized revenue of \$2,198,384 received from the building litigation settlement.

Contracts receivable

Contracts receivable represent amounts due from contracts with governmental and quasi-governmental entities. Revenue is recorded when earned upon completion of the services. Management estimates an allowance for doubtful contracts receivable based on a review of specific amounts outstanding longer than thirty days and past experience. There was no allowance for uncollectible contracts receivable as of March 31, 2017 and 2016.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions

Contributions and promises to give are reported as unrestricted, temporarily restricted or permanently restricted, depending upon donor restrictions (if any). Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions receivable that are promised in one year but are not expected to be collected until after the end of that year are discounted at an appropriate discount rate commensurate with the risks involved. Contributions receivable have been discounted at what was considered a risk-free rate of return (3.5%) to reflect their present value at the dates of origin. Amortization of the discount is included in contribution revenue.

An allowance for uncollectible contributions receivable is established based on management's judgment, the review of the composition of the balances and past experience. There was no allowance for uncollectible contributions at March 31, 2017 and 2016 as all balances were considered collectible.

Endowment fund

Endowment funds represent investments in pooled investment funds with a Community Foundation and are valued based on quoted prices in markets which are not active or have unobservable inputs. Net realized and unrealized gains or losses are classified as increases or decreases in unrestricted net assets, unless their use is temporarily restricted or permanently restricted by the donor.

Fair value measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Organization determines the fair values of its assets and liabilities based on a fair value hierarchy that includes three levels of inputs that may be used to measure fair value (Level 1, Level 2, and Level 3).

- *Level 1* - quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- *Level 2* - inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

- *Level 3* - unobservable inputs for the asset or liability. Unobservable inputs reflect the Organization's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the Organization's own data.

The following methods and assumptions were used to estimate the fair value of the Organization's financial assets and liabilities:

- Investments (Level 2). Investments in the Equity and Fixed Income Pool of a Community Foundation are measured at the equivalent of Net Asset Value per Share (NAVS).

Property and equipment

Property, which consists of land, buildings, and improvements, and furniture and equipment, is recorded at cost at the date of purchase or, if donated, at the fair market value on the date received. Acquisitions of more than \$5,000 are capitalized. Property is depreciated using the straight line method over the estimated life of the respective assets; buildings, 50 years; improvements, 7 to 25 years; furniture and equipment, 3 to 7 years.

Tax-exempt status

The Organization is exempt from the federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar California statute. Accordingly, no provision for federal or state income taxes has been recorded. The Organization's informational returns are subject to examination by the Internal Revenue Service and the California Franchise Tax Board, generally for three years and four years, respectively after they are filed.

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 certain reported amounts and disclosures, principally relating to the collectability of accounts receivable and promise to give, the estimated useful life of equipment, and disclosures of contingent assets and liabilities. Accordingly, actual results could differ from those estimates.

Subsequent events

For disclosure purposes, subsequent events have been evaluated through July 13, 2017, the date the financial statements were available to be issued.

Point Reyes Bird Observatory  
 dba Point Blue Conservation Science  
 Notes to Financial Statements  
 March 31, 2017 and 2016

3. GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable consist of the following:

	2017	2016
Receivable in less than one year	\$ 1,302,468	\$ 3,603,492
Receivable in one to five years	90,000	1,190,000
	1,392,468	4,793,492
Less discounts to net present value	(3,150)	(51,959)
	\$ 1,389,318	\$ 4,741,533

4. ENDOWMENT FUNDS

As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

The Board of Trustees (the "Board") of the Organization has interpreted the State of California's enacted version of Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring reasonable efforts to preserve the fair value of the original gift absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts donated to the permanent endowment, and (3) additions to the permanent endowment in accordance with donor directions. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by California's enacted version of UPMIFA.

Spending policy

Investment income earned on board-designated and donor-restricted endowments are available to support the purposes of the endowments. The endowment funds are invested in a pooled account managed by the Marin Community Foundation (MCF). The Organization has granted variance power over the assets to MCF and follows the investment and spending policies of MCF. For fiscal year 2017, the endowment earnings policy was 5% of the average market value for the preceding 12 quarters.

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4. ENDOWMENT FUNDS (continued)

Endowment Investment Policy, Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment while seeking to preserve the amount of the gifts at the date contributed. The Organization's board-designated and donor-restricted endowments are invested 65% and 35% and 75% and 25% in the Equity and Fixed Income Pools of the MCF, respectively.

The equity portfolio of MCF seeks to earn strong long term returns by allocating its assets to a well-diversified mix of US equities, international equities, and hedge funds. Historically, this type of portfolio has earned higher returns than fixed income or money market instruments. At the same time, equity portfolios assume larger amounts of risk. During shorter periods, it is quite possible for the portfolio to produce lower returns than the fixed income or money market portfolios. Therefore, the equity portfolio is particularly appropriate for philanthropic assets with a longer term time horizon and should serve as the primary source of long term portfolio growth.

The objective of the fixed income portfolio of MCF is to seek yields that are more durable and usually higher than those available from the Money Market portfolio. It is suited for funds that can accept the market-value volatility (unrealized gains or losses) associated with fluctuation in interest rates, changes in credit quality, and currency fluctuations in order to earn a higher level of income over time than is generally available in money market securities.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. The Organization accounts such for "underwater" endowment funds as a reduction of unrestricted net assets. As of March 31, 2017 there were no underwater endowment funds. As of March 31, 2016, the Organization had underwater endowment funds of \$4,091.

Endowment composition

The Organization's endowment consists of two funds. The board-designated endowment fund was started in 1999 by the initial funding of \$96,385. Funds raised for the board-designated endowment fund were to provide ongoing support to the Organization.

In 2014, the Organization received a \$100,000 permanently restricted contribution. Earnings from the donor-imposed endowment fund are to provide ongoing support of the Tomales Bay research programs.



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4. ENDOWMENT FUNDS (continued)

Endowment composition (continued)

Endowment net asset composition by type of fund as of March 31, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-designated endowment funds	\$ 181,432	\$ -	\$ -	\$ 181,432
Donor-restricted endowment funds	<u>-</u>	<u>7,405</u>	<u>100,000</u>	<u>107,405</u>
	<u>\$ 181,432</u>	<u>\$ 7,405</u>	<u>\$ 100,000</u>	<u>\$ 288,837</u>

Endowment net asset composition by type of fund as of March 31, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-designated endowment funds	\$ 164,150	\$ -	\$ -	\$ 164,150
Donor-restricted endowment funds	<u>-</u>	<u>(4,091)</u>	<u>100,000</u>	<u>95,909</u>
	<u>\$ 164,150</u>	<u>\$ (4,091)</u>	<u>\$ 100,000</u>	<u>\$ 260,059</u>

Changes in endowment net assets for the fiscal year ended March 31, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, March 31, 2016	\$ 164,150	\$ (4,091)	\$ 100,000	\$ 260,059
Realized and unrealized gains (losses), net	17,282	11,496	-	28,778
Balance, March 31, 2017	<u>\$ 181,432</u>	<u>\$ 7,405</u>	<u>\$ 100,000</u>	<u>\$ 288,837</u>

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4. ENDOWMENT FUNDS (continued)

Endowment composition (continued)

Changes in endowment net assets for the fiscal year ended March 31, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, March 31, 2015	\$ 169,688	\$ (380)	\$ 100,000	\$ 269,308
Realized and unrealized gains (losses), net	(5,538)	(3,711)	-	(9,249)
Balance, March 31, 2016	<u>\$ 164,150</u>	<u>\$ (4,091)</u>	<u>\$ 100,000</u>	<u>\$ 260,059</u>

5. FIXED ASSETS

Fixed assets consist of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 1,479,000	\$ 1,479,000
Buildings and improvements	4,924,559	4,915,860
Furniture and equipment	<u>1,402,097</u>	<u>1,333,575</u>
	7,805,656	7,728,435
Accumulated depreciation	<u>(2,942,869)</u>	<u>(2,720,234)</u>
	<u>\$ 4,862,787</u>	<u>\$ 5,008,201</u>

In the previous year the Organization along with the 3820 Cypress Condo Association and owner of another unit brought suit against the construction contractors of its office suite for defects in construction. The settlement was finalized and paid out in 2017. The Organization recognized revenue of \$2,198,384 from the settlement, which is reported as other income for the year ended March 31, 2017 in the accompanying statement of activities.

6. LINE OF CREDIT

The Organization has a \$750,000 line of credit with a bank that expires on December 15, 2018. Interest on the line accrues at the index (bank's prime rate) plus 0.50% with a floor of 3.50%. The line is collateralized by receivables and equipment of the Organization. There were no borrowings against the line during the years ended March 31, 2017 and 2016.

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7. BOARD-DESIGNATED FUNDS

Board-designated funds represent an operating reserve which includes the following assets at March 31:

	<u>2017</u>	<u>2016</u>
Cash	\$ 3,237,482	\$ 814,995
Certificate of deposit	-	251,031
Board designated endowment fund	<u>181,432</u>	<u>164,150</u>
	<u>\$ 3,418,914</u>	<u>\$ 1,230,176</u>

8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2017</u>	<u>2016</u>
Pacific Coast and Central Valley	\$ 1,612,584	\$ 1,700,448
Advancement and Development	364,731	410,351
Climate Adaptation	240,494	324,210
Emerging Projects and Partnerships Group	1,105,735	2,331,867
Education and Outreach	360,451	487,057
California Current	202,554	310,353
Sierra Nevada	159,805	47,603
Management and general	<u>31,594</u>	<u>50,187</u>
	<u>\$ 4,077,948</u>	<u>\$ 5,662,076</u>

Temporarily restricted net assets released from restriction during the year were as follows:

	<u>2017</u>	<u>2016</u>
Pacific Coast and Central Valley	\$ 2,142,558	\$ 1,829,015
Emerging Projects and Partnerships Group	1,065,422	835,516
California Current	368,037	682,731
Education and Outreach	632,650	500,277
Climate Adaptation	295,081	120,464
Sierra Nevada	121,946	67,928
Advancement and Development	36,579	293,510
Management and General	<u>146,200</u>	<u>353,866</u>
	<u>\$ 4,808,473</u>	<u>\$ 4,683,307</u>

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9. RETIREMENT PLAN

The Organization sponsors a qualified 401(k) plan for eligible employees. Eligible employees may contribute up to an annual maximum of \$18,000 for calendar years 2017 and 2016. Participants age 50 or over may make additional "catch-up" contributions which are limited to \$6,000 for calendar years 2017 and 2016. The Organization made a discretionary matching contribution of up to five percent of the employees' annual compensation for the 2016 and 2015 Plan year. The Organization's match may not exceed the maximum annual limit as defined in the Internal Revenue Code. For the years ended March 31, 2017 and 2016, the Organization's contribution to the plan amounted to \$269,587 and \$227,655, respectively.

10. COMMITMENTS

The Organization has operating leases for a storage facility, copier and postage equipment. The leases run through January of 2019 and require annual payments of ranging from approximately \$600 to \$15,000.

As of March 31, 2016, the Organization's future commitments due under these leases total approximately \$23,300 for the year ended March 31, 2018 and \$5,400 for the year ended March 31, 2019.

11. CONCENTRATIONS

Financial instruments that potentially subject the Organization to credit risk include cash on deposit with one financial institution that at times exceed the \$250,000 insurance limitation of the United States Federal Deposit Insurance Corporation. The Organization does not believe it is exposed to any losses on such instruments.

Approximately 31% and 29% of contracts receivable is comprised of amounts due from two federal agencies as of March 31, 2017 and 2016, respectively. Approximately 71% and 36% of the net grants and contributions receivable is comprised of amounts due from one donor as of March 31, 2017 and 2016, respectively. Approximately 55% and 63% of total contracts revenue is comprised of amounts from two federal agencies for the year ending March 31, 2017 and 2016, respectively.