

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

Financial Statements

Year ended December 31, 2010

with

Report of Independent Auditors

## Report of Independent Auditors

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

We have audited the accompanying statement of financial position of the Pacific Institute for Studies in Development, Environment and Security as of December 31, 2010, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the management of the Pacific Institute for Studies in Development, Environment and Security. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the December 31, 2009 financial statements of the Institute, and in our report dated June 7, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pacific Institute for Studies in Development, Environment and Security as of December 31, 2010, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Wilson Markle Stuckey Hardesty & Bott  
August 18, 2011

**Pacific Institute for Studies in Development, Environment and Security**  
**Statement of Financial Position**  
**December 31, 2010**

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1,077,250	\$ 1,000,719
Investments	121,169	207,316
Grants and contracts receivable	581,465	499,671
Other receivables	5,791	5,722
Prepaid expenses	<u>21,607</u>	<u>23,556</u>
Total current assets	1,807,282	1,736,984
Furniture and equipment, at cost	48,028	48,028
Accumulated depreciation	<u>(48,028)</u>	<u>(48,028)</u>
Furniture and equipment, net	-	-
Deposits	<u>9,208</u>	<u>9,208</u>
<b>Total assets</b>	<u><u>\$ 1,816,490</u></u>	<u><u>\$ 1,746,192</u></u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable	\$ 26,238	\$ 79,557
Accrued employee compensation	<u>190,689</u>	<u>193,389</u>
Total current liabilities	216,927	272,946
Net assets		
Unrestricted	589,533	376,018
Temporarily restricted	<u>1,010,030</u>	<u>1,097,228</u>
Total net assets	<u>1,599,563</u>	<u>1,473,246</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 1,816,490</u></u>	<u><u>\$ 1,746,192</u></u>

See accompanying notes.

**Pacific Institute for Studies in Development, Environment and Security**  
**Statement of Activities and Changes in Net Assets**  
**Year ended December 31, 2010**

	2010		2009	
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Totals</u>	<u>Totals</u>
Revenue and support				
Contract and grant revenues	\$ 1,637,064	\$ 558,292	\$ 2,195,356	\$ 2,551,852
Contributions	50,628	-	50,628	34,581
Investment income	16,516	-	16,516	25,757
Other income	26,018	-	26,018	31,718
Net assets released from restrictions	<u>645,490</u>	<u>(645,490)</u>	<u>-</u>	<u>-</u>
Total revenue and support	2,375,716	(87,198)	2,288,518	2,643,908
Expenses				
Program	1,734,336	-	1,734,336	2,086,852
Management and general	400,135	-	400,135	477,130
Fundraising and development	<u>27,730</u>	<u>-</u>	<u>27,730</u>	<u>44,583</u>
Total expenses	<u>2,162,201</u>	<u>-</u>	<u>2,162,201</u>	<u>2,608,565</u>
Change in net assets	213,515	(87,198)	126,317	35,343
Net assets, beginning of year	<u>376,018</u>	<u>1,097,228</u>	<u>1,473,246</u>	<u>1,437,903</u>
Net assets, end of year	<u>\$ 589,533</u>	<u>\$ 1,010,030</u>	<u>\$ 1,599,563</u>	<u>\$ 1,473,246</u>

See accompanying notes.

**Pacific Institute for Studies in Development, Environment and Security**  
**Statement of Functional Expenses**  
**Year ended December 31, 2010**

	2010			2009	
	<u>Program</u>	<u>Management and general</u>	<u>Fundraising and development</u>	<u>Totals</u>	<u>Totals</u>
Payroll	\$ 898,165	\$ 218,824	\$ -	\$ 1,116,989	\$1,182,493
Payroll taxes	60,348	15,087	-	75,435	77,143
Employee benefits	108,302	27,076	-	135,378	132,628
Accounting fees	13,093	3,273	-	16,366	12,032
Consulting and contractor fees	405,483	76,028	25,343	506,854	825,763
Conferences and meetings	38,201	7,163	2,387	47,751	65,896
Depreciation and amortization	-	-	-	-	347
Equipment and furniture	1,272	318	-	1,590	-
Insurance	3,917	979	-	4,896	4,990
Miscellaneous	1,282	320	-	1,602	19,132
Occupancy	95,641	23,910	-	119,551	115,909
Postage and shipping	3,213	803	-	4,016	2,495
Printing and publications	7,625	1,906	-	9,531	44,985
Office supplies	16,928	4,232	-	21,160	28,295
Telephone and communications	13,060	3,265	-	16,325	16,377
Travel expense	67,806	16,951	-	84,757	80,080
	<u>\$1,734,336</u>	<u>\$ 400,135</u>	<u>\$ 27,730</u>	<u>\$2,162,201</u>	<u>\$2,608,565</u>

See accompanying notes.

**Pacific Institute for Studies in Development, Environment and Security**  
**Statement of Cash Flows**  
**Year ended December 31, 2010**

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Change in net assets	\$ 126,317	\$ 35,343
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	-	346
Changes in current assets and liabilities		
Grants and contracts receivable	(81,794)	(44,636)
Other receivables	(69)	6,769
Prepaid expenses	1,949	13,005
Deposit	-	(1,066)
Accounts payable	(53,319)	75,090
Accrued employee compensation	<u>(2,700)</u>	<u>39,493</u>
Net cash provided (used) by operating activities	(9,616)	124,344
Cash flows from investing activities		
Purchase of furniture and equipment	-	1,971
Net change in investments	<u>86,147</u>	<u>52,723</u>
Net cash provided by investing activities	<u>86,147</u>	<u>54,694</u>
Net increase in cash and cash equivalents	76,531	179,038
Cash and cash equivalents, beginning of year	<u>1,000,719</u>	<u>821,681</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,077,250</u></u>	<u><u>\$ 1,000,719</u></u>

See accompanying notes.

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

Notes to Financial Statements

December 31, 2010

Note 1 – Summary of significant accounting policies

Basis of presentation

The Pacific Institute for Studies in Development, Environment and Security (the Institute) is a non-profit organization formed in October 1987. The Institute brings sustainable science to the related problems of environmental protection, economic development and human security. The Institute proposes practical, inclusive policies to problems at the global, national and community levels, and puts results into the hands of policy makers, activists and the media.

Basis of accounting

The Institute prepares these financial statements using the accrual basis of accounting. The Institute records revenues when earned and expenses when incurring the related obligations.

Revenues

The Institute recognizes contributions when the donor makes a pledge to give what is, in substance, an unconditional promise. The Institute records contributions as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions and whether restrictions as to time are met in the current fiscal period. The Institute reports contributions restricted as to time as increases in unrestricted net assets if both restriction and use occur in the current fiscal period. Otherwise the Institute reports amounts as increases in temporarily or permanently restricted net assets. Subsequently, upon meeting the restriction, the Institute reclassifies the contribution from restricted to unrestricted net assets.

Donated services and equipment

The Institute records donated equipment and other goods at their estimated fair market value as of the date of the donation. The Institute records contributed services, which require a specialized skill and which the Institute would have paid for if not donated, at the estimated fair market value at the time the services are rendered. The Institute also receives donated services that do not require specific expertise, but which are nonetheless central to the operations of the Institute. The Institute does not recognize such donated services in the financial statements.

**PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT AND  
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Notes to Financial Statements  
December 31, 2010

Note 1 – Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash consists of amounts on deposit with a commercial bank and a registered investment company in interest bearing accounts, available within 90 days of demand. The carrying amount of cash approximates fair value due to its short-term nature.

Investments

Investments are stated at fair value at December 31, 2010, and are considered available for sale. Fair value is determined based on quoted or stated market prices. Realized and unrealized gains or losses on investments are recorded in the statement of activities in the period that such gains or losses or fluctuations occur.

The Institute has categorized all investment assets on an individual security basis according to the fair value hierarchy as Level 1, investment assets with observable inputs that are derived from quoted prices for identical assets or liabilities in an active market; Level 2, quoted prices in non-active markets or in active markets for similar assets or liabilities, inputs other than quoted prices that are observable, and inputs that are not directly observable, but are corroborated by observable market data; or Level 3, unobservable inputs, which cannot be corroborated by external market data.

Accounts receivable

The Institute uses the allowance method to account for uncollectible accounts receivable. Under this method, the Institute reviews all receivables for any problems with collectability. If the Institute feels that there may be a problem with collections, an allowance is provided for the receivable. When attempts to collect a specific receivable are unsuccessful, the account is considered uncollectible and is written off against the allowance. At December 31, 2010, the Institute concluded that an allowance for doubtful accounts was not necessary.

Furniture and equipment

The Institute records furniture and equipment at cost or, for donated items, at estimated fair market value. The Institute expenses the cost of maintenance and repairs that do not improve or extend the lives of the respective assets. The Institute computes depreciation for financial reporting purposes using the straight-line method over an estimated useful life of the assets of five years. The Institute capitalizes furniture and equipment purchases about \$2,500.

**PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT AND  
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Notes to Financial Statements

December 31, 2010

Note 1 – Summary of significant accounting policies (continued)

Estimated fair value of financial instruments

Except as provided otherwise, management estimates that the aggregate net fair value of financial instruments recognized on the statement of financial position (including receivables, payables and accrued expenses approximates their carrying value due to their short-term nature).

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimated.

Income taxes

The Internal Revenue Service (IRS) and State of California Franchise Tax Board approved the Institute as exempt from federal income tax under the Internal Revenue Code (IRC) and from California bank and corporation taxes under the California Revenue and Taxation Code. In addition, the IRS approved the Institute to receive contributions that qualify for the charitable contribution deduction under the IRC and as a publicly supported organization as described in the IRC. Accordingly, donors are entitled to the maximum charitable contribution deduction allowed by law. Management of the Institute concluded that no activities of the Institute jeopardized its exemption from income taxes, its classification as a "public charity" or subjected the Institute to taxes on unrelated business income. Consequently, the Institute did not provide for any income taxes.

The Institute follows accounting principles generally accepted in the United States relating to the accounting for uncertainty in income taxes. Adoption of these provisions did not have any impact on the Institute's liability for unrecognized tax liabilities. Management believes that the Institute has adequately addressed all tax positions and that there are no unrecorded tax liabilities. Tax years 2007 to 2010 are open for examination by the Internal Revenue Service and years 2006 to 2010 by the California Franchise Tax Board.

**PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT AND  
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Notes to Financial Statements  
December 31, 2010

Note 1 – Summary of significant accounting policies (continued)

Allocation of functional expenses

The Institute summarized the costs of providing the various programs and other activities on a functional basis in the accompanying statement of activities and changes in net assets and in the statement of functional expenses. Accordingly, the Institute allocated certain costs among the programs and supporting services benefited based on estimates of time and usage.

Prior period totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Institute's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

Subsequent events

The Institute evaluated subsequent events for recognition and disclosure through August 18, 2011, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since December 31, 2010 that required recognition or disclosure in such financial statements.

Note 2 – Investments

Investments include registered investment company shares (mutual funds) at fair value, bank certificates of deposits (CDs) and an annuity at contract value and temporarily uninvested cash and cash equivalents.

Investments consist of the following as of December 31, 2010:

	<u>2010</u>	<u>2009</u>
Level 1		
Mutual funds	\$ 96,870	\$ 83,579
Contract		
CDs	-	100,466
Annuity	9,043	7,887
Cost		
Cash and cash equivalents	<u>15,256</u>	<u>15,384</u>
Total	<u>\$ 121,169</u>	<u>\$ 207,316</u>

**PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT AND  
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Notes to Financial Statements  
December 31, 2010

Note 3 – Grants and contracts receivable

Grants and contracts receivable at December 31, 2010 consist of the following:

Aquacraft	\$ 42,517
Agency for International Development	13,512
Bureau of Reclamation	14,670
California Public Utilities Commission (CAPUC)	25,808
Community Water Center	8,453
Department of Water Resources (DWR)	73,716
Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ)	81,753
Hydrologics, Inc	26,857
Institute for Social and Environmental Transition (NOAA)	30,487
Island Press	9,762
United Nation Global Compact Foundation	98,145
United Nation Water Mandate	11,198
United Nation Environment Program	32,782
University of California - Berkeley	19,137
State of California - Environmental Protection Agency (Cal EPA)	18,107
Walton Laguna	5,000
Walton Limitrophe	11,850
Water Reuse	38,811
Other grants and contracts	<u>18,900</u>
Total	<u>\$ 581,465</u>

Note 4 – Temporarily restricted net assets

Temporarily restricted net assets at December 31, 2010 consist of the following:

**PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT AND  
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Notes to Financial Statements  
December 31, 2010

Note 4 – Temporarily restricted net assets (continued)

	December 31, 2009	2010 Addition	2010 Releases	December 31, 2010
Africa Water Fund	\$ 81,388	\$ -	\$ (81,388)	\$ -
Abt Associates, Inc.	-	9,359	-	9,359
S. D. Bechtel, JR. Foundation	55,361	230,112	(46,410)	239,063
Circle of Blue - Ball Foundation	10,500	-	(10,500)	-
Alpern Foundation	-	25,000	-	25,000
Consumers International	14,441	-	(14,441)	-
Goldman Fund	56,087	-	(13,456)	42,631
Global Reporting Initiative	-	12,098	-	12,098
Compton Foundation	3,121	-	(3,121)	-
Flora Foundation	10,000	-	-	10,000
Hydrologics	-	10,805	-	10,805
Imperial Vision	9,097	-	(9,097)	-
Island Press	5,245	-	(1,893)	3,352
National Resource Defense Council, Inc.	2,083	-	(2,083)	-
New-Land Foundation, Inc	15,887	-	(7,264)	8,623
Pacific Council on International Policy	236	-	(236)	-
The Horace W. Goldsmith Foundation	79,005	44,317	(57,227)	66,095
The William and Flora Hewlett Foundation	179,386	-	(56,949)	122,437
The Herrington-Fitch Family Foundation	32,443	30,000	(25,456)	36,987
Conrad N. Hilton Foundation	122,766	130,036	(116,340)	136,462
The Charles E. Hughes Memorial Foundation, Inc	8,850	-	(8,850)	-
The Henry Luce Foundation	96,569	-	(46,279)	50,290
Open Society Institute	78,272	-	(41,764)	36,508
David and Lucile Packard Foundation	3,779	35,000	(3,798)	34,981
Panta Rhea Foundation	36,505	17,138	(20,834)	32,809
Pisces Foundation	10,000	863	-	10,863
Walton Limitroph	-	8,050	-	8,050
Rockefeller Brothers Fund	99,942	-	(30,873)	69,069
Silicon Valley Community Foundation	15,859	-	(437)	15,422
Sea Level Rise - Metropolitan Transportation Commission	25,000	-	(19,881)	5,119
United Nation Water Mandate	18,321	-	(18,321)	-
Other Grants	27,085	5,514	(8,592)	24,007
<b>Total</b>	<b>\$ 1,097,228</b>	<b>\$ 558,292</b>	<b>\$ (645,490)</b>	<b>\$ 1,010,030</b>

**PACIFIC INSTITUTE FOR STUDIES IN DEVELOPMENT, ENVIRONMENT AND  
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Notes to Financial Statements  
December 31, 2010

**Note 5 – Concentrations of credit risk**

The Institute has identified its financial instruments which are potentially subject to credit risk. These financial instruments consist principally of cash investments, marketable securities, and grants and contracts receivable.

The Institute maintains several bank accounts at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At various times, cash at these institutions exceeded federally insured limits.

The Institute is primarily supported by foundation grants and contracts, which in 2010 was approximately 96% (2009 - 97%) of total revenue. The grants and contracts are subject to annual renewal. A significant reduction in the level of foundation support, if this were to occur without replacement from other revenues and support, could adversely affect the extent of the Institute's programs and activities.

**Note 6 – Commitments and contingencies**

The Institute rents an office facility in Oakland on a month to month basis. For the year ended December 31, 2010, rent expense totaled \$119,551 (2009 - \$115,909).

The Institute has received support that is subject to audit or review by the sponsor entities. Management believes that the Institute has complied with all aspects of the grant provisions and that disallowed costs, if any, would be insignificant to the financial position of the Institute.

**Note 7 – Retirement plan**

The Institute has a retirement plan under section 403(b) of the Internal Revenue code. Employees may elect to defer a portion of their annual salary. The Institute matches three percent of the basic pay of the participating employees. Retirement plan expense for the year ended December 31, 2010 was \$37,957 (2009 - \$40,746).