

Point Reyes Bird Observatory

dba Point Blue Conservation Science

Financial Statements

March 31, 2018 and 2017



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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, 2018 and 2017, 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, 2018 and 2017, 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^{LLP}
San Francisco, California

July 17, 2018

Point Reyes Bird Observatory
 dba Point Blue Conservation Science
 Statements of Financial Position
 March 31, 2018 and 2017

| | 2018 | 2017 |
|-------------------------------------|---------------|---------------|
| ASSETS | | |
| Current assets | | |
| Cash | \$ 6,364,785 | \$ 6,642,417 |
| Restricted cash, endowment | 100,002 | - |
| Contracts receivable | 1,464,710 | 1,425,190 |
| Grants and contributions receivable | 1,251,585 | 1,302,468 |
| Other receivables | 86,793 | 66,214 |
| Prepaid and other current assets | 138,966 | 92,623 |
| Total current assets | 9,406,841 | 9,528,912 |
| Non-current assets | | |
| Certificates of deposit | - | 253,783 |
| Endowment | 310,195 | 288,837 |
| Contributions receivable, net | 711,301 | 86,850 |
| Property and equipment, net | 5,781,042 | 4,862,787 |
| Total non-current assets | 6,802,538 | 5,492,257 |
| Total assets | \$ 16,209,379 | \$ 15,021,169 |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable | \$ 597,420 | \$ 291,110 |
| Accrued vacation | 402,669 | 389,204 |
| Deferred revenue | 97,747 | 185,285 |
| Total current liabilities | 1,097,836 | 865,599 |
| Net assets | | |
| Unrestricted | | |
| Board-designated funds | 3,282,325 | 3,418,914 |
| Undesignated | 7,328,002 | 6,558,708 |
| Total unrestricted | 10,610,327 | 9,977,622 |
| Temporarily restricted | 4,301,216 | 4,077,948 |
| Permanently restricted | 200,000 | 100,000 |
| Total net assets | 15,111,543 | 14,155,570 |
| Total liabilities and net assets | \$ 16,209,379 | \$ 15,021,169 |

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, 2018

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---------------------------------------|----------------------|-----------------------------------|-----------------------------------|----------------------|
| Revenues, gains and other support | | | | |
| Contract revenue | \$ 5,825,794 | \$ - | \$ - | \$ 5,825,794 |
| Grants and contributions | 1,472,201 | 6,496,748 | 100,000 | 8,068,949 |
| Interest income | 1,200 | 1,254 | - | 2,454 |
| Realized and unrealized gains, net | 15,058 | 9,931 | - | 24,989 |
| Other income, net | 388,279 | - | - | 388,279 |
| Net assets released from restrictions | <u>6,284,665</u> | <u>(6,284,665)</u> | <u>-</u> | <u>-</u> |
| | <u>13,987,197</u> | <u>223,268</u> | <u>100,000</u> | <u>14,310,465</u> |
| Functional expenses | | | | |
| Program services | 10,319,016 | - | - | 10,319,016 |
| Management and general | 1,820,519 | - | - | 1,820,519 |
| Advancement | <u>1,214,957</u> | <u>-</u> | <u>-</u> | <u>1,214,957</u> |
| Total functional expenses | <u>13,354,492</u> | <u>-</u> | <u>-</u> | <u>13,354,492</u> |
| Change in net assets | 632,705 | 223,268 | 100,000 | 955,973 |
| Net assets, beginning of year | <u>9,977,622</u> | <u>4,077,948</u> | <u>100,000</u> | <u>14,155,570</u> |
| Net assets, end of year | <u>\$ 10,610,327</u> | <u>\$ 4,301,216</u> | <u>\$ 200,000</u> | <u>\$ 15,111,543</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, net | 17,456 | 11,496 | - | 28,952 |
| Other income, net | 2,312,229 | - | - | 2,312,229 |
| Net assets released from restrictions | <u>4,808,473</u> | <u>(4,808,473)</u> | - | <u>-</u> |
| | <u>13,921,086</u> | <u>(1,584,128)</u> | - | <u>12,336,958</u> |
| Functional expenses | | | | |
| Program services | 9,756,386 | - | - | 9,756,386 |
| Management and general | 1,475,377 | - | - | 1,475,377 |
| Advancement | <u>1,398,942</u> | - | - | <u>1,398,942</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 Functional Expenses
 For the Year Ended March 31, 2018

| | 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 | \$ 1,418,780 | \$ 775,284 | \$ 312,824 | \$ 398,848 | \$ 543,718 | \$ 964,721 | \$ 656,762 | \$ 5,070,937 | \$ 934,341 | \$ 620,239 | \$ 6,625,517 |
| Employee benefits and payroll taxes | 616,596 | 356,191 | 136,407 | 152,530 | 250,278 | 434,593 | 343,739 | 2,290,334 | 457,354 | 274,387 | 3,022,075 |
| Interns | <u>56,308</u> | <u>61,200</u> | <u>-</u> | <u>4,661</u> | <u>6,886</u> | <u>-</u> | <u>46,750</u> | <u>175,805</u> | <u>-</u> | <u>-</u> | <u>175,805</u> |
| Total personnel costs | <u>2,091,684</u> | <u>1,192,675</u> | <u>449,231</u> | <u>556,039</u> | <u>800,882</u> | <u>1,399,314</u> | <u>1,047,251</u> | <u>7,537,076</u> | <u>1,391,695</u> | <u>894,626</u> | <u>9,823,397</u> |
| Professional services | 172,083 | 275,722 | 177,630 | 24,164 | 551,147 | 86,008 | 84,488 | 1,371,242 | 254,132 | 143,585 | 1,768,959 |
| Travel/meetings/events | 154,605 | 54,180 | 12,489 | 27,729 | 31,435 | 121,284 | 46,220 | 447,942 | 30,622 | 45,372 | 523,936 |
| Computer upgrades/internet | 41,622 | 28,361 | 8,906 | 10,751 | 15,951 | 27,354 | 20,249 | 153,194 | 26,908 | 17,298 | 197,400 |
| Depreciation | 65,422 | 21,371 | 8,049 | 9,963 | 14,350 | 25,073 | 18,765 | 162,993 | 24,936 | 16,030 | 203,959 |
| General office | 31,190 | 16,788 | 6,323 | 9,100 | 12,241 | 19,938 | 15,811 | 111,391 | 20,268 | 20,559 | 152,218 |
| Facility rentals and food | 17,932 | 35,146 | 2,867 | 12,354 | 6,538 | 11,354 | 10,619 | 96,810 | 8,655 | 8,011 | 113,476 |
| Facilities repairs and maintenance | 25,659 | 17,256 | 5,857 | 7,624 | 9,498 | 16,239 | 13,024 | 95,157 | 16,144 | 10,378 | 121,679 |
| Equipment purchases | 5,468 | 2,632 | 951 | 23,857 | 67,064 | 2,961 | 2,389 | 105,322 | 2,945 | 2,693 | 110,960 |
| Project supplies and publications | 25,040 | 17,250 | 1,168 | 2,635 | 3,539 | 7,701 | 77,926 | 135,259 | 3,774 | 7,969 | 147,002 |
| Printing and reproduction | 7,558 | 5,814 | 954 | 1,194 | 1,801 | 3,783 | 2,223 | 23,327 | 3,945 | 28,707 | 55,979 |
| Insurance | 18,004 | 10,265 | 3,867 | 4,786 | 6,893 | 12,044 | 9,014 | 64,873 | 11,030 | 7,700 | 83,603 |
| Advertising and promotion | 612 | 665 | 132 | 163 | 235 | 1,778 | 355 | 3,940 | 457 | 12,029 | 16,426 |
| Other expenses | <u>60</u> | <u>10,430</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>10,490</u> | <u>25,008</u> | <u>-</u> | <u>35,498</u> |
| | <u>\$ 2,656,939</u> | <u>\$ 1,688,555</u> | <u>\$ 678,424</u> | <u>\$ 690,359</u> | <u>\$ 1,521,574</u> | <u>\$ 1,734,831</u> | <u>\$ 1,348,334</u> | <u>\$ 10,319,016</u> | <u>\$ 1,820,519</u> | <u>\$ 1,214,957</u> | <u>\$ 13,354,492</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

| | <u>Pacific Coast and Central Valley</u> | <u>California Current</u> | <u>Informatics and Information Technology</u> | <u>Sierra Nevada</u> | <u>Climate Adaptation</u> | <u>Emerging Projects and Partnerships</u> | <u>Education and Outreach</u> | <u>Total program services</u> | <u>Management and General</u> | <u>Advancement</u> | <u>Total</u> |
|--|---|-------------------------------|---|--------------------------|-------------------------------|---|-----------------------------------|---------------------------------------|-----------------------------------|---------------------|----------------------|
| 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 and payroll taxes | 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 | <u>61,727</u> | <u>57,300</u> | <u>4,800</u> | <u>3,400</u> | <u>13,352</u> | <u>-</u> | <u>37,910</u> | <u>178,489</u> | <u>-</u> | <u>-</u> | <u>178,489</u> |
| 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 |
| Facility rentals 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 |
| 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 |
| Other expenses | <u>-</u> | <u>12,277</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>23,354</u> | <u>-</u> | <u>35,631</u> | <u>808</u> | <u>122</u> | <u>36,561</u> |
| | <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
Statements of Cash Flows
For the Years Ended March 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 955,973 | \$ (293,747) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities | | |
| Depreciation | 203,959 | 222,634 |
| Loss on disposal of property and equipment | 22,179 | - |
| Realized and unrealized gains, net | (24,989) | (28,047) |
| Contributions restricted for long-term purposes | (1,200,000) | - |
| Changes in operating assets and liabilities | | |
| Contracts receivable | (39,520) | 527,422 |
| Grants and contributions receivable | (573,568) | 3,352,215 |
| Other receivables | (20,579) | (3,903) |
| Prepaid and other current assets | (46,343) | 4,980 |
| Accounts payable | 306,310 | 54,095 |
| Accrued vacation | 13,465 | 52,572 |
| Deferred revenue | (87,538) | 71,181 |
| Net cash provided by (used in) operating activities | <u>(490,651)</u> | <u>3,959,402</u> |
| Cash flows from investing activities | | |
| Sale of certificates of deposit | 253,783 | - |
| Purchase of certificates of deposit | - | (2,752) |
| Sale (purchase) of endowment, net | 3,631 | (731) |
| Purchase of property and equipment | (1,144,393) | (77,220) |
| Net cash used in investing activities | <u>(886,979)</u> | <u>(80,703)</u> |
| Cash flows from financing activities | | |
| Contributions restricted for long-term purposes | <u>1,200,000</u> | - |
| Net cash provided by financing activities | <u>1,200,000</u> | - |
| Net increase (decrease) in cash, cash equivalents, and restricted cash | (177,630) | 3,878,699 |
| Cash, cash equivalents, and restricted cash, beginning of year | <u>6,642,417</u> | <u>2,763,718</u> |
| Cash, cash equivalents, and restricted cash, end of year | <u>\$ 6,464,787</u> | <u>\$ 6,642,417</u> |

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, 2018 and 2017

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. 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
dba Point Blue Conservation Science
Notes to Financial Statements
March 31, 2018 and 2017

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. The focus is on science and outreach to 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.

Point Reyes Bird Observatory
dba Point Blue Conservation Science
Notes to Financial Statements
March 31, 2018 and 2017

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, cash equivalents, and restricted cash

Cash and cash equivalents include all cash accounts and short-term investments purchased with an initial maturity of three months or less. The restricted cash balance represents permanently restricted endowment funds of \$100,000 which had not been invested as of March 31, 2018.

During 2018, the Organization adopted ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The adoption of the new accounting standard provides a clearer presentation of cash flows for the users of its financial statements. Before the change, restricted cash and restricted cash equivalents were not included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts reported on the statement of cash flows.

Point Reyes Bird Observatory
dba Point Blue Conservation Science
Notes to Financial Statements
March 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2018 and 2017.

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% as of March 31, 2018 and 2017) 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, 2018 and 2017 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. At March 31, 2018, \$100,000 of endowment funds were also maintained in restricted cash.

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).

Point Reyes Bird Observatory
dba Point Blue Conservation Science
Notes to Financial Statements
March 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

- *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.
- *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:

- Endowment - Investments in the Equity and Fixed Income Pool of a Community Foundation are measured at the equivalent of net asset value per share (NAV).

In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2015-07 ("ASU 2015-07"), Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (of Its Equivalent). ASU 2015-07 removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value practical expedient provided by Accounting Standards Codification 820, Fair Value Measurements. The guidance is effective for fiscal years beginning after December 15, 2016 and is applied retrospectively to all periods presented in the financial statements for the fiscal year of adoption. The Organization adopted the provisions of ASU 2015-07 during the year ended March 31, 2018.

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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 17, 2018, the date the financial statements were available to be issued.

3. GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable consist of the following:

| | 2018 | 2017 |
|-------------------------------------|--------------|--------------|
| Receivable in less than one year | \$ 1,251,585 | \$ 1,302,468 |
| Receivable in one to five years | 746,538 | 90,000 |
| | 1,998,123 | 1,392,468 |
| Less discounts to net present value | (35,237) | (3,150) |
| | \$ 1,962,886 | \$ 1,389,318 |

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.

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4. ENDOWMENT FUNDS (continued)

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). For fiscal year 2018, the endowment earnings policy was 4.75% of the average market value for the preceding 12 quarters.

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.

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4. ENDOWMENT FUNDS (continued)

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, 2018 and 2017, there were no underwater endowment funds.

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.

The donor-imposed endowment fund was started in 2014, when the Organization received a \$100,000 permanently restricted contribution. In February 2018, the Organization received an additional \$100,000 permanently restricted contribution. Earnings from the donor-imposed endowment fund are to provide ongoing support of the Tomales Bay research and Palomarin programs.

Endowment net asset composition by type of fund as of March 31, 2018 is as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|----------------------------------|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Board-designated endowment funds | \$ 197,284 | \$ - | \$ - | \$ 197,284 |
| Donor-restricted endowment funds | <u>-</u> | <u>12,913</u> | <u>200,000</u> | <u>212,913</u> |
| | <u>\$ 197,284</u> | <u>\$ 12,913</u> | <u>\$ 200,000</u> | <u>\$ 410,197</u> |

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> |

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4. ENDOWMENT FUNDS (continued)

Endowment composition (continued)

Changes in endowment net assets for the fiscal year ended March 31, 2018 is as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Balance, March 31, 2017 | \$ 181,432 | \$ 7,405 | \$ 100,000 | \$ 288,837 |
| Interest income | 1,200 | 1,254 | - | 2,454 |
| Realized and unrealized gains (losses), net | <u>15,058</u> | <u>9,931</u> | <u>-</u> | <u>24,989</u> |
| Total investment return | 16,258 | 11,185 | - | 27,443 |
| Contributions | - | - | 100,000 | 100,000 |
| Appropriation of net assets | <u>(406)</u> | <u>(5,677)</u> | <u>-</u> | <u>(6,083)</u> |
| | <u>15,852</u> | <u>5,508</u> | <u>100,000</u> | <u>121,360</u> |
| Balance, March 31, 2018 | <u>\$ 197,284</u> | <u>\$ 12,913</u> | <u>\$ 200,000</u> | <u>\$ 410,197</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 | <u>17,282</u> | <u>11,496</u> | <u>-</u> | <u>28,778</u> |
| Balance, March 31, 2017 | <u>\$ 181,432</u> | <u>\$ 7,405</u> | <u>\$ 100,000</u> | <u>\$ 288,837</u> |

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5. FIXED ASSETS

Fixed assets consist of the following:

| | 2018 | 2017 |
|----------------------------|--------------|--------------|
| Land | \$ 1,806,000 | \$ 1,479,000 |
| Buildings and improvements | 5,697,559 | 4,924,559 |
| Furniture and equipment | 1,394,740 | 1,402,097 |
| | 8,898,299 | 7,805,656 |
| Accumulated depreciation | (3,117,257) | (2,942,869) |
| | \$ 5,781,042 | \$ 4,862,787 |

In 2016, 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, 2018 and 2017.

7. BOARD-DESIGNATED FUNDS

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

| | 2018 | 2017 |
|---------------------------------|--------------|--------------|
| Cash | \$ 3,085,041 | \$ 3,237,482 |
| Board designated endowment fund | 197,284 | 181,432 |
| | \$ 3,282,325 | \$ 3,418,914 |

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8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Pacific Coast and Central Valley | \$ 2,852,040 | \$ 1,612,584 |
| Advancement and Development | 50,000 | 364,731 |
| Climate Adaptation | 131,143 | 240,494 |
| Emerging Projects and Partnerships Group | 354,046 | 1,105,735 |
| Education and Outreach | 471,129 | 360,451 |
| California Current | 231,205 | 202,554 |
| Sierra Nevada | 187,782 | 159,805 |
| Washington Street Intern House | 10,969 | - |
| Management and general | <u>12,902</u> | <u>31,594</u> |
| | <u>\$ 4,301,216</u> | <u>\$ 4,077,948</u> |

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

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Pacific Coast and Central Valley | \$ 2,037,437 | \$ 2,142,558 |
| Emerging Projects and Partnerships Group | 1,024,319 | 1,065,422 |
| Washington Street Intern House | 1,103,284 | - |
| California Current | 544,206 | 368,037 |
| Education and Outreach | 724,534 | 632,650 |
| Climate Adaptation | 253,850 | 295,081 |
| Sierra Nevada | 250,824 | 121,946 |
| Advancement and Development | 314,731 | 36,579 |
| Management and General | <u>31,480</u> | <u>146,200</u> |
| | <u>\$ 6,284,665</u> | <u>\$ 4,808,473</u> |

9. RETIREMENT PLAN

The Organization sponsors a qualified 401(k) plan for eligible employees. Eligible employees may contribute up to an annual maximum of \$18,500 and \$18,000 for calendar years 2018 and 2017, respectively. Participants age 50 or over may make additional "catch-up" contributions which are limited to \$6,000 for calendar years 2018 and 2017. The Organization made a discretionary matching contribution of up to five percent of the employees' annual compensation for the 2017 and 2016 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, 2018 and 2017, the Organization's contribution to the plan amounted to \$267,256 and \$269,587, respectively.

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10. COMMITMENTS

The Organization has operating leases for office space, intern housing, a storage facility, copier and postage equipment. The leases run through April of 2023 and require annual payments of ranging from approximately \$800 to \$18,000.

The scheduled minimum lease payments under the lease terms are as follows:

| <u>Year ending March 31,</u> | |
|------------------------------|-------------------------|
| 2019 | \$ 28,793 |
| 2020 | 6,203 |
| 2021 | 6,203 |
| 2022 | 6,203 |
| 2023 | 6,203 |
| Thereafter | <u>524</u> |
| | <u><u>\$ 54,129</u></u> |

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 28% and 31% of contracts receivable is comprised of amounts due from two federal agencies as of March 31, 2018 and 2017, respectively. Approximately 70% and 71% of the net grants and contributions receivable is comprised of amounts due from one donor as of March 31, 2018 and 2017, respectively. Approximately 43% and 55% of total contracts revenue is comprised of amounts from two federal agencies for the year ending March 31, 2018 and 2017, respectively.