

POINT LOBOS FOUNDATION

**FINANCIAL STATEMENTS
with
INDEPENDENT AUDITOR'S REPORT**

YEAR ENDED DECEMBER 31, 2012

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Financial statements	
Statement of financial position	3
Statement of activities	4
Statement of functional expenses	5
Statement of cash flows	6
Notes to financial statements	7

McGILLOWAY, RAY, BROWN & KAUFMAN

Accountants & Consultants

2511 Garden Road, Suite A180
Monterey, CA 93940-5301
831-373-3337 Fax 831-373-3437
Toll Free 866-373-2511

379 West Market Street
Salinas, CA 93901
831-424-2737
Fax 831-424-7936

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Point Lobos Foundation
Carmel, California

We have audited the accompanying financial statements of Point Lobos Foundation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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.

*Daniel M. McGilloway, Jr., CPA, CVA, Gerald C. Ray, CPA, Clyde W. Brown, CPA, Patricia M. Kaufman, CPA,
Larry W. Rollins, CPA, Helen Grace H. Rodriguez, CPA, CFE*

*Sarita C. Shannon, CPA, Deanna Lozano, CPA, Whitney Ernest, CPA, Devvyn MacBeth, CPA,
Nancy H. Rimberg, CPA, Jesus Montemayor, CPA*

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 Lobos Foundation as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

McGillivray, Ray, Brown & Kaufman

Salinas, California

April 4, 2013

POINT LOBOS FOUNDATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012

ASSETS

Cash and cash equivalents	\$	131,538
Inventory		32,147
Film inventory, Camera One, net		8,937
Prepays and deposits		366
Investments		1,024,814
Collections (Note 2)		-
Property and equipment, net		194,290
Intangible assets, net		11,279
		11,279
Total assets	\$	1,403,371

LIABILITIES

Accounts payable	\$	13,919
Accrued expenses		2,430
		2,430
Total liabilities		16,349

NET ASSETS

Unrestricted		
Unrestricted and undesignated		1,099,088
Board designated funds		182,297
		182,297
Total Unrestricted net assets		1,281,385
Temporarily restricted net assets		105,637
		105,637
Total net assets		1,387,022
Total liabilities and net assets	\$	1,403,371

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

POINT LOBOS FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Unrestricted	Temporarily Restricted	Total
Operating support and revenues			
Membership dues	\$ 73,490	\$ -	\$ 73,490
Grants and donations	55,749	61,401	117,150
Information Station sales, gross profit	13,729	-	13,729
Map sales, gross profit	117,337	-	117,337
Online sales, gross profit	143	-	143
Investments income	52,982	30	53,012
Fundraising events	4,162	-	4,162
In kind donations	1,728	-	1,728
	319,320	61,431	380,751
Net assets released from purpose restrictions	78,021	(78,021)	-
Total operating support and revenues	397,341	(16,590)	380,751
Expenses			
Program services	281,198	-	281,198
Support services			
Fund-raising	37,303	-	37,303
General and administration	41,015	-	41,015
Total expenses	359,516	-	359,516
Change in net assets	37,825	(16,590)	21,235
Net assets, beginning of year	1,243,560	122,227	1,365,787
Net assets, end of year	\$ 1,281,385	\$ 105,637	\$ 1,387,022

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

POINT LOBOS FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Program Services	Supporting Services		Total
		Fund-raising	General and Administration	
Personnel	\$ 48,270	\$ 20,295	\$ 15,766	\$ 84,331
Docent training and outreach	20,270	-	-	20,270
Youth programs	19,180	-	-	19,180
Educational brochures	13,331	-	-	13,331
Office expense	2,848	7,409	6,836	17,093
Equipment maintenance	1,062	-	-	1,062
Building maintenance	8,047	-	-	8,047
Utilities and telephone	2,237	-	538	2,775
Insurance	2,245	-	1,398	3,643
Reserve stewardship	38,000	-	-	38,000
General Plan support	67,703	-	-	67,703
General Plan projects	5,675	-	1,289	6,964
Pt. Lobos Magazine	22,466	-	-	22,466
Membership programs	5,616	8,306	1,120	15,042
Conferences & board expenses	1,421	121	3,024	4,566
Professional fees	3,985	-	11,044	15,029
Depreciation and amortization	18,842	1,172	-	20,014
Total expenses	<u>\$ 281,198</u>	<u>\$ 37,303</u>	<u>\$ 41,015</u>	<u>\$ 359,516</u>

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

POINT LOBOS FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

CASHFLOWS FROM OPERATING ACTIVITIES:	
Increase (decrease) in net assets	\$ 21,235
Adjustments to reconcile net assets to net cash provided by operating activities	
Depreciation and amortization	20,014
Unrealized (gain) or loss on investments	(33,209)
(Increase) decrease in current assets	
Inventory	(1,596)
Prepays	4,846
Increase (decrease) in current liabilities	
Accounts payable	11,011
Accrued liabilities	<u>(15,604)</u>
Net cash provided (used) by operating activities	<u>6,697</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Reinvested dividends and capital gains distributions	(19,595)
Improvements to Whaler's Cabin Museum	<u>(25,396)</u>
Net cash provided (used) by investing activities	<u>(44,991)</u>
Net increase in cash and cash equivalents	(38,294)
CASH AND CASH EQUIVALENTS, beginning of year	<u>169,832</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 131,538</u></u>

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

POINT LOBOS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

1. Summary of Significant Accounting Policies

Organization and Nature of Activities

Point Lobos Foundation (the Organization) is a California non-profit public benefit corporation founded in February 1978. The Organization is dedicated to the advancement of visitors' enjoyment and understanding of Point Lobos State Natural Reserve, to protect its natural environment for future generations and to strengthen the Monterey County network of coastal California State Parks.

Basis of Accounting

These financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At the present time the Organization has no permanently restricted net assets.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Inventory

Inventory is stated at the lower of cost or market and includes maps and other materials available for sale.

Investments

The Organization carries investments in marketable securities with readily determinable fair values at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the investment income in the accompanying Statement of Activities.

Collections

The Organization's collections are made up of artifacts of historical significance, scientific specimens, and art objects that are held for educational and curatorial purposes. Collection items were acquired through contributions since the Organization's inception and are not recognized as assets on the Statement of Financial Position. Proceeds from deaccessions or insurance recoveries, if any, are reflected as increases in the appropriate net assets classes.

POINT LOBOS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

1. Significant Accounting Policies (continued)

Film Inventory – Camera One

Film inventory is stated at the lower of unamortized cost or estimated fair value. Film costs are amortized using an individual-film-forecast method based on the ratio of current period actual revenues to estimated remaining total lifetime revenues. Estimates used in calculating the net realizable value of the film inventory are based upon assumptions about future demand and market conditions and are reviewed on a periodic basis.

Property and Equipment and Depreciation Methods

All acquisitions of property and equipment in excess of \$2,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using primarily the 200DB and straight-line methods over the estimated useful lives of the related assets, which range from 5 to 30 years.

Intangible Assets

The Organization has intangible assets in the form of website development costs. In developing assumptions about the useful life of these assets, the Organization considers the estimated term of expected operation. Costs that increase the functionality or efficiency of the intangible assets, or otherwise extend the useful life of the assets of \$2,000 or more which are used to conduct the Organization's business are capitalized. Intangible assets are presented at cost less accumulated amortization. Amortization is computed using the straight-line method over the estimated life of 15 years.

Contribution Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. Support that is not restricted by the donor is reported as an increase in unrestricted net assets. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Donated Materials and Services

Donated marketable securities and other noncash donations are recorded as contributions at their fair value at the date of donation.

No amounts have been reflected in the financial statements for donated services. The Organization generally pays for services requiring specific expertise. However, the Organization relies on substantial volunteer services.

POINT LOBOS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

1. Significant Accounting Policies (continued)

Fair Value Measurements

Investments are recorded at fair value, determined in accordance with the provisions of ASC 820, *Fair Value Measurements and Disclosures*. ASC 820 establishes a fair value hierarchal disclosure framework which prioritizes and ranks the level of market price observable inputs used in measuring investments at fair value.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 – Inputs based on quoted market prices for identical assets or liabilities in an active market. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Observable market based inputs or unobservable inputs that are corroborated by market data. Price inputs are quoted prices for identical or similar financial instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value drivers are observable in active markets.
- Level 3 – Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment. These inputs into the determination of fair value require significant management judgment or estimation. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed. Investments that are included in this category generally include private fund investment structures and limited interests.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been reflected in the Organization's financial statements.

Authoritative guidance requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Organization's tax returns to determine whether the tax positions are "more likely than not" to be sustained by the applicable tax authority. Tax positions not deemed to meet the "more likely than not" threshold would be recorded as a tax benefit or expense in the current year. There have been no related tax penalties or interest recorded in the Statement of Activities. The Organization does not anticipate that there will be any material changes in the unrecognized tax positions over the next twelve months.

POINT LOBOS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

1. Significant Accounting Policies (continued)

Income Taxes (continued)

The Organization annually files Form 990 reporting various information that the Internal Revenue Service (IRS) uses to monitor the activities of tax exempt entities. The tax returns are subject to review by the taxing authorities and are subject to examination by the IRS, generally for three years after they were filed. The Organization had no tax examinations in progress. The Organization's Federal returns are currently open under the statute of limitations for the years ended after December 31, 2009 and the California returns are open for the years ended after December 31, 2008.

Use of Estimates

Financial statements prepared in accordance with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

2. The Whalers Cabin and The Whaling Station Museum Collections

The Organization's collections are made up of artifacts of historical significance, scientific specimens and art objects that are held for educational and curatorial purposes. Each of the items is cataloged, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously. The majority of the collection is on a long term loan to California Department of Parks and Recreation, for display at The Whalers Cabin and The Whaling Station Museum buildings at Point Lobos State Natural Reserve. The objects in the collection were acquired over several years and have an appraised value of \$142,905. No collections items were deaccessioned in 2012.

POINT LOBOS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

3. Fair Value of Financial Instruments

The fair values of the Organization's financial instruments as of December 31, 2012 are as follows:

	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	\$ 131,538	\$ 131,538
Investments	914,135	1,024,814
Other assets	366	366
Financial liabilities:		
Accounts payable and other current liabilities	16,349	16,349

The following methods and assumptions were used to estimate the fair values of each class of financial instruments:

Cash and Cash Equivalents – Fair value approximates carrying value due to the short term maturities of these financial instruments.

Other Assets – Includes prepaids and deposits, fair value approximates carrying value due to the short term maturities of these financial instruments.

Investments – This investment is classified as a Level 1 investment; see Note 1, Significant Accounting Policies.

Accounts Payable and Other Current Liabilities – Fair value approximates carrying value due to the short term nature of these liabilities.

4. Cash and Cash Equivalents

Cash and cash equivalents consist entirely of demand deposit accounts as of December 31, 2012. The Organization invests cash and cash equivalents at well capitalized financial institutions that are insured up to \$250,000 at December 31, 2012, by the Federal Deposit Insurance Corporation (FDIC).

5. Investments

Investments are presented in the financial statements on a recurring basis at fair value based on quoted market prices for identical assets or liabilities in an active market (Level 1). Investments consist of mutual funds and are as follows as of December 31, 2012:

Investments at cost	\$ 914,135
Unrealized gain or (loss)	110,679
	\$ 1,024,814

POINT LOBOS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

5. Investments (continued)

For the year ended December 31, 2012, investment income consisted of:

Interest on cash and cash equivalents	\$ 208
Dividends	17,353
Capital gain or (loss)	2,242
Unrealized gain or (loss)	<u>33,209</u>
Investment income	<u><u>\$ 53,012</u></u>

6. Film Inventory – Camera One, net

As of December 31, 2012 film inventory consisted of:

Film inventory (production cost)	\$ 65,142
Less amortization	<u>(56,205)</u>
Film inventory, net	<u><u>\$ 8,937</u></u>

Camera One was contracted to produce a file master, “Point Lobos: Timeless Coast” in 2000. Amortization for the year ended December 31, 2012 was \$1,116 and is included in cost of goods sold for Information Station.

7. Fixed Assets (net)

The following is a summary of fixed assets as of December 31, 2012:

Improvements	\$ 262,796
Furniture and fixtures	23,991
Machinery and equipment	<u>63,909</u>
Total depreciable assets	350,696
Less accumulated depreciation	<u>(156,406)</u>
Fixed assets, net	<u><u>\$ 194,290</u></u>

8. Intangible Assets (net)

The following is a summary of intangible assets as of December 31, 2012:

Website development costs	\$ 12,300
Less: Accumulated amortization	<u>(1,021)</u>
Net	<u><u>\$ 11,279</u></u>

Amortization expense for the year ended December 31, 2012 was \$820. Estimated annual amortization expense for the next five years is \$820 per year.

POINT LOBOS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

9. Merchandise Sales, Gross Profit

For the year ended December 31, 2012, gross profit on merchandise was as follows:

	Total	Maps	Information Station	Online sales
Sales	\$ 165,479	\$ 133,315	\$ 29,355	\$ 2,809
Cost of goods sold	<u>34,270</u>	<u>15,978</u>	<u>15,626</u>	<u>2,666</u>
Gross profit on sales	<u>\$ 131,209</u>	<u>\$ 117,337</u>	<u>\$ 13,729</u>	<u>\$ 143</u>

10. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following periods or purposes as of December 31, 2012:

Purpose:

Sister Anna Voss Memorial Fund	\$ 40,172
Restroom improvement	5,000
Trail signage	5,442
Greatest need	24,638
Stewardship	13,982
School outreach transportation	4,555
Youth programs	1,424
Whaler's Cabin Museum restoration	<u>10,424</u>
Total temporarily restricted net assets	<u>\$ 105,637</u>

11. Board Designated Net Assets

In 2011, the Board designated funds for funding of up to 50% for the General Plan, up to a maximum of \$250,000.

Total designated	\$ 250,000
Expended in 2012	<u>(67,703)</u>
Board Designated as of December 31, 2012	<u>\$ 182,297</u>

The General Plan is further discussed in Note 13 – Commitments – Memorandum of Understanding (MOU) California State Parks.

POINT LOBOS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

12. Concentrations

For the year ended December 31, 2012 gross profit on sales of merchandise was 35% of total revenue. The remaining revenue was derived as follows, 20% from Membership dues, 31% from private contributions and grants and 14% from investment income.

13. Commitments – Memorandum of Understanding (MOU) California State Parks

The Organization entered into a Memorandum of Understanding (MOU) with California State Parks (CSP) in 2011 to provide one-half of the funding for the preparation of a General Plan for the Properties, up to a maximum funding by the Organization of \$250,000. The Properties are defined as Point Lobos State Natural Reserve, Point Lobos Ranch property, Carmel River State Beach, and the Hatton Canyon property. Under the MOU the Organization will reimburse CSP within 30 days after receipt of an acceptable billing statement from CSP. The Board has reserved net assets as designated for this commitment – see Note 11.

14. Evaluation of Subsequent Events

The Foundation has evaluated events through April 4, 2013 the date the financial statements were available to be issued.