

POINT LOBOS FOUNDATION

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

YEAR ENDED DECEMBER 31, 2014

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To Board of Directors and
Management of Point Lobos Foundation

In planning and performing our audit of the financial statements of Point Lobos Foundation as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered Point Lobos Foundation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in Point Lobos Foundation's internal control to be significant deficiencies:

2014-FS-01 Cash Disbursements: Proper Cutoff

Significant deficiency: While conducting cash disbursements testing, we noted that invoices were recorded in the period when invoices were received, not in the period when services were provided.

Effect: Inappropriately date transactions will yield inaccurate financial results.

Recommendation: We recommend that management review the date when goods are received or services are performed to determine the appropriate recording date for transactions.

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This communication is intended solely for the information and use of management, the Board of Directors, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

McGilloway, Ray, Brown & Kaufman

McGilloway, Ray, Brown and Kaufman
Salinas, California
May 12, 2015

POINT LOBOS FOUNDATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014

ASSETS

Cash and cash equivalents	\$	149,585
Accounts receivable		10,000
Inventory		21,814
Prepays and deposits		480
Investments		1,037,720
Collections (Note 3)		-
Property and equipment, net		184,690
Intangible assets, net		9,639
		9,639
Total assets	\$	1,413,928

LIABILITIES

Accounts payable	\$	45,365
Accrued expenses		6,951
		6,951
Total liabilities		52,316

NET ASSETS

Unrestricted		
Unrestricted and undesignated		1,012,394
Board designated funds		128,086
		128,086
Total unrestricted net assets		1,140,480
Temporarily restricted net assets		221,132
		221,132
Total net assets		1,361,612
Total liabilities and net assets	\$	1,413,928

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

POINT LOBOS FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support			
Membership dues	\$ 90,900	\$ -	\$ 90,900
Grants and donations	87,062	218,510	305,572
Information Station sales, gross profit	11,959	-	11,959
Map sales, gross profit	54,809	-	54,809
Online sales, gross profit	111	-	111
Investments income	42,166	2,117	44,283
Fundraising events			
Revenue from fundraising events	6,208	-	6,208
In kind donations for fundraising events	400	-	400
	<u>293,615</u>	<u>220,627</u>	<u>514,242</u>
Net assets released from purpose restrictions	<u>124,193</u>	<u>(124,193)</u>	<u>-</u>
Total revenue and support	<u>417,808</u>	<u>96,434</u>	<u>514,242</u>
Expenses			
Program services	413,885	-	413,885
Support services			
Fundraising	85,829	-	85,829
General and administration	65,750	-	65,750
Total expenses	<u>565,464</u>	<u>-</u>	<u>565,464</u>
Change in net assets	<u>(147,656)</u>	<u>96,434</u>	<u>(51,222)</u>
Net assets, beginning of year	<u>1,288,136</u>	<u>124,698</u>	<u>1,412,834</u>
Net assets, end of year	<u>\$ 1,140,480</u>	<u>\$ 221,132</u>	<u>\$ 1,361,612</u>

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

POINT LOBOS FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014

	Program Services	Supporting Services		Total
		Fund-raising	General and Administration	
Personnel	\$ 81,808	\$ 60,384	\$ 39,429	\$ 181,621
Docent training and outreach	26,334	-	-	26,334
Youth programs	14,516	-	-	14,516
Educational brochures	18,917	317	-	19,234
Office expense	2,950	11,304	4,526	18,780
Equipment maintenance	2,340	-	-	2,340
Building maintenance	6,807	-	-	6,807
Utilities and telephone	1,866	32	423	2,321
Insurance	757	-	3,120	3,877
Reserve stewardship	139,151	-	-	139,151
General plan support	50,837	-	-	50,837
General plan projects	2,000	-	-	2,000
Pt. Lobos magazine	22,896	-	31	22,927
Membership programs	5,734	6,787	194	12,715
Conferences & board expenses	2,159	828	2,012	4,999
Professional fees	6,065	-	16,015	22,080
Fundraising events	-	5,357	-	5,357
Depreciation and amortization	28,748	820	-	29,568
Total expenses	<u>\$ 413,885</u>	<u>\$ 85,829</u>	<u>\$ 65,750</u>	<u>\$ 565,464</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, 2014

CASHFLOWS FROM OPERATING ACTIVITIES:

Increase (decrease) in net assets	\$ (51,222)
Adjustments to reconcile net assets to net cash provided by operating activities	
Depreciation and amortization	21,675
Net unrealized loss (gain) on investments	1,815
Net realized loss (gain) on investments	(33,193)
(Increase) decrease in current assets	
Accounts receivable	(10,000)
Inventory	9,759
Prepays	(4)
Increase (decrease) in current liabilities	
Accounts payable	23,993
Accrued liabilities	2,681
	(34,494)
Net cash provided (used) by operating activities	(34,494)

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sale of investments	345,098
Purchase of investments	(307,922)
Purchase of property and equipment	(21,503)
	15,673
Net cash provided (used) by investing activities	15,673

Net increase in cash and cash equivalents (18,821)

CASH AND CASH EQUIVALENTS, beginning of year 168,406

CASH AND CASH EQUIVALENTS, end of year \$ 149,585

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

POINT LOBOS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Presentation of Financial Statements of Not-for-Profit Organizations*. The Organization reports 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, 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 cash held at financial institution with an initial maturity of three months or less to be cash equivalents. The organization does not consider any of its investments in money market funds held with brokerage firm to be cash equivalents, regardless of their initial maturities.

Inventory

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

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.

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 – see Note 5.

POINT LOBOS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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.

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, 2014

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 and state income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code, Section 23701d. Accordingly, it has not provided for income taxes in these financial statements.

Each year, management considers whether any material tax position the Organization has taken is more likely than not to be sustained upon examination by the applicable taxing authority. Management believes that any positions the Organization has taken are supported by substantial authority and, hence, do not need to be measured or disclosed in these financial statements.

The Organization's Federal returns are currently open under the statute of limitations for the years ended after December 31, 2011 and the California returns are open for the years ended after December 31, 2010.

POINT LOBOS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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 cost of providing the various program services and supporting activities of the Organization are shown on the Statement of Functional Expenses. Expenses that can be identified with a specific program are allocated directly according to the function benefited. Certain costs, including occupancy, office supplies, telephone and other have been allocated amount the program services and supporting activities benefited on a pro-rata basis based on the proportion of direct cost incurred by each program.

Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure through May 12, 2015, which represents the date the financial statements were available to be issued. Management has determined that, as of that date, there were no material subsequent events to recognize or disclose.

2. Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit consist principally of cash and cash equivalents and investments. Risk associated with cash and cash equivalents and investments are mitigated by banking with creditworthy institutions. Such balances with any one institution may, at times, be in excess of federally insured amounts. The Organization has not experienced any losses in such amounts and believes it is not exposed to any significant credit risk.

3. 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 collection items were deaccessioned in 2014.

4. Cash and Cash Equivalents

Cash and cash equivalents consist entirely of demand deposit accounts as of December 31, 2014. The Organization invests cash and cash equivalents at well capitalized financial institutions that are insured up to \$250,000 at December 31, 2014, by the Federal Deposit Insurance Corporation (FDIC).

POINT LOBOS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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 the following at December 31, 2014:

	Cost	Fair Value (Level 1)	Unrealized Appreciation (Depreciation)
Cash and money market funds	\$ 88,494	\$ 88,494	\$ -
Equities	482,519	531,236	48,717
Commodities	26,389	22,716	(3,673)
Fixed income	409,860	395,274	(14,586)
	<u>\$ 1,007,262</u>	<u>\$ 1,037,720</u>	<u>\$ 30,458</u>

For the year ended December 31, 2014, investment income consisted of:

Interest on cash and cash equivalents	\$ 81
Dividends	23,506
Realized gain or (loss)	33,193
Unrealized gain or (loss)	(1,815)
Investment fees	<u>(10,682)</u>
Investment income	<u>\$ 44,283</u>

6. Film Inventory – Camera One, Net

As of December 31, 2014 film inventory consisted of:

Film inventory (production cost)	\$ 65,142
Less amortization	<u>(65,142)</u>
Film inventory, net	<u>\$ -</u>

Camera One was contracted to produce a file master, “Point Lobos: Timeless Coast” in 2000. Amortization for the year ended December 31, 2014 was \$7,893.

POINT LOBOS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

7. Property and Equipment, Net

Property and equipment at December 31, 2014 consists of:

Improvements	\$ 269,767
Furniture and fixtures	23,991
Machinery and equipment	85,412
Total depreciable assets	379,170
Less accumulated depreciation	(194,480)
Fixed assets, net	\$ 184,690

Depreciation expense for the year ended December 31, 2014 was \$20,854.

8. Intangible Assets (net)

The following is a summary of intangible assets as of December 31, 2014:

Website development costs	\$ 12,300
Less: Accumulated amortization	(2,661)
Net	\$ 9,639

Amortization expense for the year ended December 31, 2014 was \$820. Estimated annual amortization expense for the next five years is \$820 per year.

9. Merchandise Sales, Gross Profit

For the year ended December 31, 2014, gross profit on merchandise was as follows:

	Total	Information Station	Maps	Online sales
Sales	\$ 87,546	\$ 27,084	\$ 60,230	\$ 232
Cost of goods sold	20,667	15,125	5,421	121
Gross profit on sales	\$ 66,879	\$ 11,959	\$ 54,809	\$ 111

POINT LOBOS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

10. Net Profit on Special Events

For the year ended December 31, 2014, net profit on fundraising special events was as follows:

Fundraising events

Gross proceeds	\$ 6,208	
In kind donations	400	
Total revenue		\$ 6,608
Cash expenses	5,357	
Total expense		5,357
Net income		\$ 1,251

11. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following periods or purposes as of December 31, 2014:

Purpose:

Sister Anna Voss Memorial Fund	\$	69,930
Discover Point Lobos		11,250
Greatest need		7,348
Invasive Plants		4,000
Lace Lichen Trail Expansion		108,425
Restroom improvement		7,408
School outreach transportation		9,629
Trail signage		2,942
Whaler's Cabin Museum restoration		200
Total temporarily restricted net assets	\$	221,132

POINT LOBOS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

12. 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 through December 31, 2013	(71,077)
Expended in 2014	<u>(50,837)</u>
Board Designated as of December 31, 2014	<u><u>\$ 128,086</u></u>

The General Plan is further discussed in Note 14 – Commitments – Memorandum of Understanding (MOU) California State Parks.

13. Concentrations

For the year ended December 31, 2014 gross profit on sales of merchandise was 13% of total revenue. The remaining revenue was derived as follows, 18% from Membership dues, 59% from private contributions and grants, 9% from investment income, and 1% from fundraising events.

14. 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 12.

The Organization entered into an agreement with The Department of Parks and Recreation (DPR) in 2014 to deposit \$117,531 to Lace Lichen Trail improvement and extension project fund before January 15, 2015. Funds remaining in the project account upon completion of the project will be returned to the Organization.