

San Francisco Bay Bird Observatory

Financial Statements

December 31, 2009

DRAFT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
San Francisco Bay Bird Observatory:

We have audited the accompanying statement of financial position of San Francisco Bay Bird Observatory (a nonprofit organization) as of December 31, 2009, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 Organization's 2008 financial statements and, in our report dated April 23, 2009 we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 San Francisco Bay Bird Observatory as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2010, on our consideration of San Francisco Bay Bird Observatory's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Pleasanton, California
March 15, 2010

San Francisco Bay Bird Observatory
Statement of Financial Position
December 31, 2009

	Unrestricted	Temporarily Restricted	Total 2009	Summarized 2008
ASSETS				
Cash and cash equivalents	\$150,469	\$21,565	\$172,034	\$212,691
Contracts & grants receivable	61,612		61,612	225,495
Prepaid expenses	7,259		7,259	3,376
TOTAL CURRENT ASSETS	219,340	21,565	\$240,905	441,562
Investments	54,248		54,248	153,879
Property and equipment, net	29,596		29,596	26,058
TOTAL ASSETS	\$303,184	\$21,565	\$324,749	\$621,499
LIABILITIES				
Accounts payable & accrued expenses	\$5,046		\$5,046	\$24,970
Accrued compensation	12,634		12,634	17,120
TOTAL LIABILITIES	17,680		17,680	42,090
NET ASSETS				
Unrestricted	195,504		195,504	287,969
Board designated	90,000		90,000	90,000
Temporarily restricted		\$21,565	21,565	201,440
TOTAL NET ASSETS	285,504	21,565	307,069	579,409
TOTAL LIABILITIES & NET ASSETS	\$303,184	\$21,565	\$324,749	\$621,499

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

San Francisco Bay Bird Observatory
Statement of Activities
For the year ended December 31, 2009

	Unrestricted	Temporarily Restricted	Total 2009	Summarized 2008
Revenue and Support				
Grants and awards	\$156,467		\$156,467	\$585,794
Donations	8,879		8,879	53,135
Special events, net	23,934		23,934	
In-kind donations	57,819		57,819	2,808
Program fees	13,702		13,702	2,186
Membership dues	41,193		41,193	42,355
Investment income	1,853		1,853	4,346
Miscellaneous income	70		70	
Net assets released from restrictions Purpose requirements met	179,875	(\$179,875)		
Total revenue and support	483,792	(179,875)	303,917	690,624
Expenses				
Program services				
Land Bird	159,200		159,200	99,348
Water Bird	295,336		295,336	257,697
Education	52,337		52,337	59,730
Supporting services				
Management and general	39,056		39,056	25,132
Fundraising	30,327		30,327	24,761
Total expenses	576,256		576,256	466,668
INCREASE / (DECREASE) IN NET ASSETS	(92,465)	(179,875)	(272,340)	223,956
Net assets at beginning of year	377,969	201,440	579,409	355,452
NET ASSETS AT END OF YEAR	\$285,504	\$21,565	\$307,069	\$579,409

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

San Francisco Bay Bird Observatory
Statement of Functional Expenses
For the year ended December 31, 2009

	Program Services				Supporting Services			Total	Summarized
	<u>Land Bird</u>	<u>Water Bird</u>	<u>Education</u>	<u>Total Program</u>	<u>Management & General</u>	<u>Fund - Raising</u>	<u>Total Support</u>	<u>2009</u>	<u>2008</u>
Salaries & wages	\$99,747	\$141,587	\$27,318	\$268,652	\$22,944	\$2,988	\$25,933	\$294,584	\$271,988
Payroll taxes	5,566	7,358	2,060	14,985	490	450	940	15,925	24,730
Benefits	9,742	12,976	2,633	25,352	2,250	243	2,493	27,845	17,179
Total compensation	115,055	161,921	32,012	308,988	25,685	3,681	29,366	338,354	313,897
Conferences & meetings	1,455	950	3,382	5,786	126	676	802	6,588	5,505
Dues, fees & other charges	977	245	1,356	2,579	2,811	1,482	4,293	6,872	4,218
Equipment lease & maintenance	95	31	183	310	22	20	42	353	529
In-kind donations	17,417	4,815	25,037	47,270	4,010	685	4,694	51,964	832
Insurance	736	242	1,414	2,392	170	156	327	2,719	2,540
Interest expense					9		9	9	1
Outside services	5,537	2,210	62,642	70,388	3,275	4,739	8,013	78,401	61,611
Postage & delivery	374	372	881	1,627	106	5,231	5,337	6,964	6,459
Printing & copying	414	2,253	785	3,451	81	10,122	10,204	13,654	8,410
Rent	2,277	749	4,375	7,401	527	484	1,011	8,412	8,483
Staff development	1,283	239	768	2,291	63	58	121	2,411	
Supplies	2,847	5,983	15,751	24,582	799	1,698	2,497	27,079	23,452
Telephone	820	128	1,113	2,061	90	83	173	2,235	2,171
Travel	5,358	1,053	9,566	15,978	539	532	1,070	17,048	15,654
Utilities	1,603	84	492	2,179	59	54	114	2,293	3,504
Subtotal before depreciation	156,249	181,277	159,757	497,282	38,372	29,700	68,073	565,355	458,602
Depreciation	2,951	970	5,670	9,591	684	627	1,310	10,901	8,066
Total expenses	\$159,200	\$182,247	\$165,426	\$506,873	\$39,056	\$30,327	\$69,383	\$576,256	\$466,668

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

San Francisco Bay Bird Observatory
Statement of Cash Flows
For the year ended December 31, 2009

	Total 2009	Summarized 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	(\$272,340)	\$223,956
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	2,293	8,066
Unrealized gains on investments	(191)	561
(Increase) decrease in operating assets		
Contracts & grants receivable	163,883	(98,229)
Prepaid expenses	(3,883)	(2,065)
Increase (decrease) in operating liabilities		
Accounts payable	(19,924)	19,779
Accrued compensation	(4,486)	8,685
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	(134,648)	160,753
CASH FLOWS FROM INVESTING ACTIVITIES		
Equipment purchases	(5,831)	(14,017)
Interest and dividends re-invested	(1,662)	(4,907)
Investmnt redemptions, net of related fees	101,484	
Purchases of investments, net of related fees		(11,146)
NET CASH PROVIDED/(USED) BY INVESTING ACTIVITIES	93,991	(30,070)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(40,657)	130,683
BEGINNING CASH AND CASH EQUIVALENTS	212,691	82,008
ENDING CASH AND CASH EQUIVALENTS	\$172,034	\$212,691
 Supplemental disclosure:		
Cash paid for interest expense	\$9	\$1

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

NOTE A - SUMMARY OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES:

Summary of Activities

San Francisco Bay Bird Observatory (Organization), incorporated in 1981, is dedicated to the conservation of birds and their habitats through science and outreach, and to contributing to informed resource management decisions for the San Francisco Bay area. The Organization's vision is a region with a mosaic of preserved natural habitats supporting viable endemic bird populations that are diverse, species rich, and abundant.

Programs

The Land Bird program tracks land birds and provides information about land management practices and maintaining habitats that support healthy populations. A Bird banding station is maintained to measure breeding and migratory bird responses, which is partly conducted on land owned by the Santa Clara Water District for which the Organization has an easement permit providing for right of way. The Water Bird program tracks water birds breeding and wintering, by documenting nesting sites, breeding successes and habitat use. This program contributes to the South Bay Salt Pond Restoration Project. Education program provides demonstrations on bird banding and educational walks, enabling the public to learn about the science of the Organization's programs.

Significant Accounting Policies

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis.

Financial Statement Presentation

The Organization prepares its financial statements in accordance with accounting standards for nonprofit organizations and accordingly reports financial information activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. The Organization has elected to report as an increase in unrestricted net assets any restricted revenue received in the current period for which the restrictions have been met in the current period. Temporary restricted net assets include those assets, which are subject to a donor restriction and for which the applicable restriction was not met at the end of the current reporting period. Permanently restricted net assets include those assets, subject to non-expiring donor restrictions, such as endowments. For the year ended December 31, 2009 the Organization did not have any permanently restricted funds.

Use of Estimates

The preparation of financial statements in conformity with general accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include cash held in banks with original maturities of three months or less, other than those held as part of the long-term investment portfolio.

Investments

Investments consist of mutual funds and are carried at fair value. The market values of investments are generally determined based on quoted market prices or estimated fair values provided by external investment managers. Realized gains and losses on the sale of investments are calculated on the basis of specific identification of the securities sold. Investment management fees are netted against investment income for financial reporting purposes.

Grants and Contracts Receivable

The Organization considers all receivables to be fully collectible; accordingly, an allowance for doubtful accounts is not considered necessary. Grants and contracts receivable are recorded at net realizable value if expected to be collected within two years or at fair value if expected to be collected in more than two years.

Property, Equipment and Depreciation

Property and equipment is recorded at cost when purchased or, if contributed at estimated fair market value when donated. It is the Organization's policy to capitalize items that have a life greater than two years and a value greater than \$500. Depreciation is computed using the straight-line method over the assets estimated useful life, which ranges from three to seven years. Depreciation is charged to the activity benefiting from the use of the facilities or equipment.

Revenue Recognition

The Organization's primary sources of revenue are from grants and contracts from Federal, State, & local governments, foundations, corporations, and donations from individuals. Contracts are recognized as revenue in the period in which the service is provided. Grants are recognized as revenue in the period in which they are awarded. Grants, awards, and donations are recorded as an increase in unrestricted revenue if expenditures are incurred in the current period, which effectively fulfill the conditions of the grant.

Contributions

The Organization accounts for contributions received as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and, or nature of any donor restrictions. Restricted contributions reported as an increase in temporarily or permanently restricted net assets are reclassified from restricted net assets to unrestricted net assets when donor requirements are met.

Contributions In-kind

Donations are recorded at their estimated fair market value on the day of donation. Contributed services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at their estimated fair market value at the time the services are rendered. The Organization also receives donated services that do not require specific expertise but which are nonetheless central to the Organization's operations. These contributed services are not reflected in the Organization's financial statements.

Indirect Expense Allocations

The costs of operating the Organization's program and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on direct costs in each program to total direct costs of the Organization.

Income Taxes

The Organization is exempt from federal and state income taxes under section 501(c)3 of the Internal Revenue Code and Section 23701(d) of the California Code; accordingly, income taxes are not provided for in the financials. The Organization is not classified as a private foundation.

Comparative Financial Information

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 Organization's financial statements for the year ended December 31, 2008, from which the summarized information was obtained.

Fair Value Measurements

The Organization adopted the provisions of FASB ASC 820, Fair Value Measurements on January 1, 2009, which define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In determining fair value, the Organization uses a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

San Francisco Bay Bird Observatory
Notes to Financial Statements
December 31, 2009

Fair Value Measurements (continued)

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on inputs that are less observable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market exist. Accordingly, the degree of judgment exercised by the Organization in determining fair value is greatest for assets and liabilities categorized in Level 3.

The Organization's financial assets recorded at fair value are categorized as follows:

<u>Assets</u>	<u>Fair Value</u>	<u>Level 1</u>
Cash	\$172,034	\$172,034
Contracts & grants receivable	\$61,612	\$61,612
Investments	\$54,248	\$54,248

NOTE B – CONTRACTS AND GRANTS RECEIVABLE

At December 31, 2009 contracts and grants receivable are \$61,612 and are due within one year.

NOTE C – INVESTMENTS

Investments as of December 31, 2009 consist of money market funds and mutual funds and are reported at fair market value, \$54,248 in the statement of financial position. Investment income consists of interest and dividends, \$1,662 and unrealized gains, \$191.

NOTE D – PROPERTY AND EQUIPMENT

At December 31, 2009 property and equipment and related accumulated depreciation is as follows:

Vehicles, Boats, & Trailers	\$21,750
Furniture & Fixtures	10,524
Equipment	19,792
Computers	13,659
Software	7,576
Subtotal	<u>\$73,301</u>
Accumulated Depreciation	<u>(43,704)</u>
Net Property and Equipment	<u>\$29,597</u>

NOTE E - CONTINGENT LIABILITIES

Conditions contained within the various contracts awarded to the Organization are subject to the funding agencies' criteria and regulations under which expenditures may be charged against and are subject to audit under such regulations and criteria. Occasionally, such audits may determine that certain costs incurred against the grants may not comply with the established criteria governing them. In such cases, the Organization could be held responsible for repayments to the funding agency for the costs or be subject to reductions of future funding in the amount of such costs. Management does not anticipate any material questioned costs for the contracts and grants administered during the period.

San Francisco Bay Bird Observatory
Notes to Financial Statements
December 31, 2009

NOTE F - OPERATING LEASES

The Organization entered into a lease agreement for office space located in Milpitas, California. Rent expense for the year ending December 31, 2009 is \$11,412. This facility lease agreement expired in November 2009; management is currently negotiating a new lease agreement.

NOTE G - TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2009 the Organization's donor restricted funds consisted of:

<u>Purpose</u>	<u>Beginning</u>	<u>Additions</u>	<u>Released</u>	<u>Ending</u>
Bird Surveys	\$6,160		\$6,152	\$8
Snowy Plover Nesting Research	\$188,095		\$167,141	\$20,954
Youth Education	\$3,973		\$3,370	\$603
SF Bay Shorebird Census	\$3,212		\$3,212	\$0
Total	<u>\$201,440</u>	<u>\$0</u>	<u>\$179,875</u>	<u>\$21,565</u>

NOTE H – BOARD DESIGNATED NET ASSETS

At December 31, 2009, the board of directors has designated the Organization's unrestricted net assets for capital improvements of \$90,000.

NOTE I – CONTRIBUTIONS IN-KIND

For the year ended December 31, 2009 the Organization recognized the following in-kind donations:

Vehicles	\$5,855
Professional Services	\$48,478
Facility Donation	\$3,486
Total	<u>\$57,819</u>

NOTE J – SPECIAL EVENTS

For the year ended December 31, 2009 the Organization participated in the following special events:

	Western Band Birding	California Fall Challenge	Annual Meeting	Total
Revenue				
Sales	\$8,112	\$13,607	\$1,893	\$23,612
Donations	\$256	\$11,820		\$12,076
Total Revenue	<u>\$8,367</u>	<u>\$25,427</u>	<u>\$1,893</u>	<u>\$35,688</u>
Expenses				
Facility & Food	\$4,471	\$2,745	\$1,070	\$8,286
Supplies	\$70	\$2,479		\$2,549
Printing	\$556	\$355		\$919
Total Expenses	<u>\$5,097</u>	<u>\$5,579</u>	<u>\$1,070</u>	<u>\$11,753</u>
Net Special Events	<u>\$3,270</u>	<u>\$19,848</u>	<u>\$823</u>	<u>\$23,934</u>

NOTE K – CONCENTRATIONS

The Organization holds investments that are not protected under the federal deposit insurance corporation. Management believes the organization is not exposed to any significant credit risk related to uninsured investments, which total \$54,248 at December 31, 2009.

San Francisco Bay Bird Observatory
Notes to Financial Statements
December 31, 2009

NOTE K – CONCENTRATIONS (continued)

At December 31, 2009, approximately 53% of the Organization's grants & awards receivable are due from the US Fish & Wildlife Service.

The ability of certain of the Organization's grants and awards to continue to provide amounts comparable with prior years may be dependent upon current and future economic conditions and budget constraints. While the Board of Directors believes the Organization has the resources to continue current and future programs, its ability to do so, and the extent to which it does continue, may be dependent on the above factors.

NOTE L- FAIR VALUE MEASUREMENTS

The carrying amounts of cash, investments and receivables that are expected to be received in less than one year approximate fair value because of the short maturity of these financial instruments. The Organization's financial instruments at December 31, 2009 are summarized as follows:

<u>Assets</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash	\$172,034	\$172,034
Contracts & grants receivable	\$61,612	\$61,612
Investments	\$54,248	\$54,248

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of San Francisco Bay Bird Observatory:

We have audited the financial statements of San Francisco Bay Bird Observatory (a nonprofit organization) as of and for the year ended December 31, 2009, and have issued our report thereon dated March 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered San Francisco Bay Bird Observatory's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of San Francisco Bay Bird Observatory's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Francisco Bay Bird Observatory's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Pleasanton, California
March 15, 2010