



Baykeeper

Financial Statements

for the years ended

June 30, 2019 and 2018

with the

Reports of the Independent Auditors



Reports of the Independent Auditors

To the Board of Directors of **Baykeeper**:

I have audited the accompanying financial statements of Baykeeper (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Responsibility of Management for the Financial Statements

The management of Baykeeper is responsible for the preparation and fair presentation of the 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.

Responsibility of the Auditor

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 I select depend on my judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, I consider internal control relevant to the preparation and fair presentation of the financial statements to design audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by the management, and evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Baykeeper as of June 30, 2019 and 2018, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Michael Smith, CPA

Petaluma, California

March 19, 2020

Baykeeper
 Statements of Financial Position
 June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Cash and cash equivalents – Unrestricted	\$ 686,672	\$ 894,540
Investments	252,291	241,388
Grants and contributions receivable	106,007	28,886
Settlements receivable – Current	91,995	61,000
Prepaid expenses – Litigation	41,201	5,809
Prepaid expenses – Other	25,915	12,835
Cash and cash equivalents – Restricted	235,175	110,414
Settlements receivable – Long-term	170,672	191,783
Property and equipment, net	27,856	31,707
Deposits	<u>8,611</u>	<u>8,611</u>
 Total assets	 <u><u>\$1,646,395</u></u>	 <u><u>\$1,586,973</u></u>
 Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 154,789	\$ 318,744
Advances – Litigation	152,000	95,000
Dolphin Club Pier/Building fund	235,175	–
Deferred rent	<u>4,287</u>	<u>8,839</u>
 Total liabilities	 546,251	 422,583
 Net assets		
Without donor restrictions		
Undesignated	356,150	359,131
Board designated	<u>634,272</u>	<u>627,449</u>
 Total without donor restrictions	 990,422	 986,580
 With donor restrictions	 <u>109,722</u>	 <u>177,810</u>
 Total net assets	 <u>1,100,144</u>	 <u>1,164,390</u>
 Total liabilities and net assets	 <u><u>\$1,646,395</u></u>	 <u><u>\$1,586,973</u></u>

See accompanying notes.

Baykeeper
 Statements of Activities and Changes in Net Assets
 For the Years Ended June 30, 2019 and 2018

	Net assets			Net assets		
	Without donor restrictions	With donor restrictions	2019	Without donor restrictions	With donor restrictions	2018
Support and revenue						
Contributions	\$ 855,536	\$279,462	\$1,134,998	\$ 651,240	\$ 95,634	\$ 746,874
In-kind	230,669	-	230,669	122,144	-	122,144
Fee and cost recovery	276,525	-	276,525	859,114	-	859,114
Investment income, net	15,787	-	15,787	16,750	-	16,750
Other income	5,981	-	5,981	9,175	-	9,175
Restricted net assets released	347,550	(347,550)	-	171,897	(171,897)	-
Total support and revenue	1,732,048	(68,088)	1,663,960	1,830,320	(76,263)	1,754,057
Expenses						
Program services	1,170,931	-	1,170,931	1,232,771	-	1,232,771
Management and general	165,289	-	165,289	163,403	-	163,403
Fundraising	391,986	-	391,986	338,695	-	338,695
Total expenses	1,728,206	-	1,728,206	1,734,869	-	1,734,869
Change in net assets	3,842	(68,088)	(64,246)	95,451	(76,263)	19,188
Net assets, beginning of year	986,580	177,810	1,164,390	891,129	254,073	1,145,202
Net assets, end of year	<u>\$ 990,422</u>	<u>\$109,722</u>	<u>\$1,100,144</u>	<u>\$ 986,580</u>	<u>\$177,810</u>	<u>\$1,164,390</u>

See accompanying notes.

Baykeeper
Statements of Functional Expenses
For the Years Ended June 30, 2019 and 2018

Expenses	Program services	Management and general	Fundraising	2019
Salaries	\$ 595,636	\$ 96,453	\$165,122	\$ 857,211
Employee benefits	56,555	8,005	16,708	81,268
Payroll taxes	44,985	5,971	13,644	64,600
Accounting	–	29,358	–	29,358
Bay patrol	10,249	–	–	10,249
Information technology	11,340	4,393	6,852	22,585
Insurance	2,581	4,402	720	7,703
Legal – Environmental law enforcement	86,469	–	–	86,469
Maintenance	254,822	–	–	254,822
Meetings and events	8,582	3,294	8,691	20,567
Occupancy	59,184	7,855	17,951	84,990
Operating	11,252	4,070	144,859	160,181
Other professional services	11,637	–	–	11,637
Publications and outreach	5,159	397	14,861	20,417
Travel	3,831	357	901	5,089
Depreciation	8,649	734	1,677	11,060
	<u>\$1,170,931</u>	<u>\$165,289</u>	<u>\$391,986</u>	<u>\$1,728,206</u>

Expenses	Program services	Management and general	Fundraising	2018
Salaries	\$ 568,673	\$ 95,716	\$167,884	\$ 832,273
Employee benefits	64,423	9,538	20,372	94,333
Payroll taxes	41,729	5,718	13,673	61,120
Accounting	–	31,889	–	31,889
Bay patrol	16,337	–	–	16,337
Information technology	11,910	2,672	9,044	23,626
Insurance	2,421	4,612	2,106	9,139
Legal – Environmental law enforcement	292,457	–	–	292,457
Maintenance	71,045	–	–	71,045
Meetings and events	2,678	1,630	20,941	25,249
Occupancy	45,793	6,275	15,004	67,072
Operating	8,562	3,774	79,516	91,852
Other professional services	90,556	765	1,744	93,065
Publications and outreach	5,657	282	6,105	12,044
Travel	3,705	24	1,093	4,822
Depreciation	6,825	508	1,213	8,546
	<u>\$1,232,771</u>	<u>\$163,403</u>	<u>\$338,695</u>	<u>\$1,734,869</u>

See accompanying notes.

Baykeeper
 Statements of Cash Flows
 For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	(\$ 64,246)	\$ 19,188
Adjustments to reconcile the change in net assets with cash flows provided by operating activities		
Net (gain) from selling and holding investments	(5,744)	(11,706)
Contributions of investments	(4,159)	(4,071)
Depreciation	11,060	8,546
Changes in assets and liabilities		
Grants and contributions receivable	(77,121)	(166)
Settlements receivable	(9,884)	(149,151)
Prepaid expenses – Litigation	(35,392)	1,755
Prepaid expenses – Other	(13,080)	(125)
Accounts payable and accrued expenses	(163,955)	146,234
Dolphin Club Pier/Building fund	235,175	–
Deferred rent	(4,552)	(2,591)
Net cash provided by operating activities	(131,898)	7,913
Cash flows from investing activities		
Purchases of investments	(5,035)	(8,373)
Proceeds from the sales of investments	4,035	7,451
Purchases of property and equipment	(7,209)	(8,694)
Net cash (used) by investing activities	(8,209)	(9,616)
Cash flows from financing activities		
Advances – Litigation	57,000	–
Net cash provided by financing activities	57,000	–
Net change in cash and cash equivalents	(83,107)	(1,703)
Cash, cash equivalents and restricted cash, beginning of year	1,004,954	1,006,657
Cash, cash equivalents and restricted cash, end of year	<u>\$ 921,847</u>	<u>\$1,004,954</u>

See accompanying notes.

Baykeeper
Notes to Financial Statements
June 30, 2019

Note 1 – Basis of Presentation

San Francisco Baykeeper’s mission is to defend San Francisco Bay from the biggest threats and hold polluters accountable. Baykeeper’s field investigators and scientists patrol the Bay to identify polluters and uncover threats. Our lawyers and policy advocates hold polluters accountable and require government agencies to strengthen laws.

Baykeeper:

- Investigates pollution. We conduct regular patrols of San Francisco Bay on our motorized boat, and we partner with volunteer small plane pilots and drone operators to patrol from the sky. On these patrols, we discover new pollution sources and monitor the progress of polluters we have required to stop polluting. We also investigate tips from Bay Area residents who contact our pollution hotline about polluting activities.
- Stops polluters. We stop pollution from industrial facilities, sewage treatment plants and city runoff—including toxic chemicals, raw sewage, crude oil, coal and trash.
- Strengthens laws. We advocate for stronger laws and stricter regulations to protect San Francisco Bay from polluters and destructive activities.
- Defends the resilience of the Bay. Wetlands, sediment and freshwater flows are vital to a healthy, functioning Bay ecosystem—and will be even more critical as the climate breaks down and sea levels rise. Baykeeper fights for protected shorelines, vibrant wetlands and healthy levels of sediment and freshwater flows to ensure a more resilient future for the Bay Area.

Baykeeper has won critical victories at the national, regional and local level for San Francisco Bay. Since 1989, we have:

- Secured 277 legal wins to stop polluters;
- Conducted 15,000 hours of boat patrols to investigate pollution;
- Required 10 cities to reduce sewage spills by 75%;
- Got 13 new state laws passed to stop oil spills;
- Generated \$11 million to restore San Francisco Bay; and
- Mapped 300 miles of shoreline to plan for sea level rise in the Bay.

We have a staff of thirteen with scientific and legal expertise, a board of directors with a breadth of experience with the Bay, an expert advisory board, a team of volunteer boat skippers and the only pollution patrol boat regularly monitoring and investigating polluters in the Bay.

And, Baykeeper helped found the Waterkeeper Alliance, an international network of on-the-water activists, led by Robert F. Kennedy, Jr. There are now more than 300 Waterkeeper organizations and affiliates around the world. Baykeeper holds the “Baykeeper” trademark and licenses its use by other organizations. To avoid confusion, Baykeeper operates primarily under the name San Francisco Baykeeper.

Baykeeper
Notes to Financial Statements
June 30, 2019

Note 1 – Basis of Presentation (continued)

Baykeeper incorporated as a nonprofit, public benefit corporation in California on January 23, 1987, as the San Francisco Bay-Delta Preservation Association, and became Baykeeper in May 1989, the fourth “Waterkeeper” organization in the country.

For 30 years, standing up to constant threats and major polluters, Baykeeper has been a fierce champion for San Francisco Bay. For more information, please visit us online at baykeeper.org.

Note 2 – Summary of Significant Accounting Policies

Basis of accounting

Baykeeper prepares its financial statements using accounting principles generally accepted in the United States of America (US-GAAP). Baykeeper records support when promised, revenue when earned and expenses when incurring the related obligations.

Fair value

Baykeeper uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels:

Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets or liabilities in markets that Baykeeper has the ability to access.

Level 2 inputs consist of quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 inputs consist of unobservable inputs.

Baykeeper bases the fair value measurement level of an asset or liability within the fair value hierarchy on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Baykeeper values contributions initially at fair value when promised.

Baykeeper
Notes to Financial Statements
June 30, 2019

Note 2 – Summary of Significant Accounting Policies (continued)

Cash, cash equivalents and restricted cash

Cash and cash equivalents consist of amounts on hand and on deposit with a commercial bank, available within 90 days of demand.

Restricted cash and cash equivalents consist of amounts held in a separate commercial bank account as net assets with donor restrictions related to the Dolphin Club Pier/Building project (Note 8).

As of June 30, 2019 and 2018, cash, cash equivalents and restricted cash reported on the statement of financial position reconciles to the total shown on the statement of cash flows, as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents – Unrestricted	\$686,672	\$ 894,540
Cash and cash equivalents – Restricted	<u>235,175</u>	<u>110,414</u>
 Total cash, cash equivalents and restricted cash	 <u>\$921,847</u>	 <u>\$1,004,954</u>

Investments

Investments (Note 3) consist principally of units of a pooled investment fund (PIF) of a community foundation. Baykeeper records the PIF at its contract value. Contract value is the amount Baykeeper would realize upon sale, transfer, exchange or liquidation of the investment when transacted with the investment custodian. Contract value of the units of the PIF is the Baykeeper share of the fair value of the underlying investments, determined by the community foundation, net of certain custodial and administrative fees.

Baykeeper records interest, dividends, gains, losses and changes in contract value (unrealized appreciation and depreciation) as net investment income. Investment costs are not material.

The PIF of the community foundation is subject to variance power under an agreement dated August 25, 1992. The board of trustees of the community foundation shall have the power to modify any restriction or condition on the distribution of funds for any specified charitable purposes or to a specified organization, if, in the sole judgment of the board of trustees, such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment or inconsistent with the needs of the community served by the community foundation.

Grants and contributions receivable

Grants and contributions receivables (Note 4) consist principally of promises to give due from corporations and nonprofit organizations. Baykeeper initially records grants and contributions

Baykeeper
Notes to Financial Statements
June 30, 2019

Note 2 – Summary of Significant Accounting Policies (continued)

receivable at fair value. All grants and contributions receivable are due within the year ending June 30, 2020.

Settlements receivable

Settlements receivable (Note 5) consist principally of amounts due from governmental and corporate entities related to compliance activities. Baykeeper initially records settlements receivable at fair value. Baykeeper estimates the initial fair value of settlements receivables as the estimated present value of expected future cash flows, taking into consideration risk-free interest rates and expected collection timing and risks. These are Level 2 and Level 3 inputs. Baykeeper records a discount representing the difference between the future cash flows promised by the defendant and the estimated present value of the expected future cash flows. Baykeeper accretes the discount, using the interest method and based on actual collections, to interest income.

Allowance for uncollectible receivables

Baykeeper uses the allowance method to estimate any uncollectible receivables. Under this method, Baykeeper reviews all receivables and estimates an allowance, based on aging, debtor history and other information. When Baykeeper exhausts all attempts to collect specific receivables or the debtor discharges the receivable in bankruptcy, Baykeeper writes off the receivable against the estimated allowance. As of June 30, 2019 and 2018, management estimated that any allowance for uncollectible receivables was immaterial.

Property and equipment

Property and equipment (Note 6) consist of furniture, office, computer, boat and laboratory equipment and leasehold improvements. Baykeeper records property and equipment at cost or initially at fair value for contributed items. Baykeeper bases the initial fair value of contributed property and equipment on comparable sales of identical or similar items in markets available to Baykeeper, which is a Level 2 input. Baykeeper expenses property and equipment with a cost or fair value under \$500 and the costs of maintenance and repairs that do not improve or extend the lives of the property and equipment. Baykeeper computes depreciation using the straight-line method over the estimated useful lives of the property and equipment or the shorter remaining lease term for leasehold improvements.

Prepaid expenses – Litigation

Baykeeper contracts with various attorneys, under Attorney Retention and Co-Counseling or similar Agreements (Retainer), to assist Baykeeper to compel governmental agencies and corporations to comply with various laws and regulations that protect the health of San Francisco Bay and its habitats (Litigation). Generally, contracted Litigation attorneys work on a contingency fee basis; i.e., the contracted Litigation attorneys only receive legal fees based on successful Litigation resulting in a settlement or Court ruling that includes payments for legal fees.

Baykeeper
Notes to Financial Statements
June 30, 2019

Note 2 – Summary of Significant Accounting Policies (continued)

When represented by outside counsel on a contingency fee basis, Baykeeper agrees to be responsible for expert, consultant and other Litigation costs that are necessary to carry out the Litigation. Additionally, Baykeeper may pursue Litigation internally, without contracting with outside counsel. In both circumstances, Baykeeper capitalizes all direct costs of Litigation, except staff salaries. Baykeeper expenses capitalized Litigation costs upon resolution of the case and records any related recovery as revenue.

Successful Litigation against governmental agencies and corporations (Defendant) under federal and state environmental laws usually results in Settlement Agreements, Consent Decrees or similar arrangements (Settlement). Settlements generally require the Defendant to take corrective actions at their own expense; perform or contribute to an environmental mitigation project (not conducted by Baykeeper); and reimburse Baykeeper for the direct costs of bringing the Litigation, including legal fees (internal and external). Baykeeper records revenue for Settlement funds received that reimburse Baykeeper for the direct costs of bringing the Litigation.

In addition, Defendants generally agree to provide funds to enable Baykeeper to monitor compliance by the Defendant with the Settlement (Compliance). Compliance awards represent a negotiated estimate by Baykeeper and the Defendant of any remaining Litigation and Settlement costs and the future costs Baykeeper will incur to monitor Compliance. Baykeeper recognizes revenue from Compliance awards immediately upon Settlement.

Advances – Litigation

A foundation advanced Baykeeper funds to pursue and pay some costs of certain Litigation. Outstanding advances do not bear interest and there is no fixed maturity date. Upon successful Litigation resulting in an award to Baykeeper that covers its costs of Litigation, Baykeeper will repay the foundation. If Litigation is unsuccessful or does not result in an award that covers the costs of Litigation, then the foundation will forgive unpaid advances. Management believes that it is at least possible that it will succeed with Litigation. Accordingly, Baykeeper treats the outstanding advances as a loan until Litigation partially funded by the foundation proves to be unsuccessful or will not result in an award that covers the costs of Litigation, at which time; Baykeeper will reclassify the outstanding advances as contribution support.

Net assets

Net assets without donor restrictions are not subject to donor-imposed restrictions, but may be designated for specific purposes by action of the Board of Directors (Note 7), or otherwise limited by contractual arrangements with outside parties.

Baykeeper
Notes to Financial Statements
June 30, 2019

Note 2 – Summary of Significant Accounting Policies (continued)

Net assets with donor restrictions (Note 8) are subject to donor-imposed restrictions. Baykeeper reclassifies net assets with donor restrictions to net assets without donor restrictions when it fulfills donor-imposed restrictions through actions Baykeeper takes or the passage of time. As of June 30, 2019 and 2018, Baykeeper held no net assets with donor restrictions requiring Baykeeper to hold such net assets into perpetuity.

Contributed services

Attorneys, paralegals and others contribute substantial professional services to Baykeeper. Baykeeper determines the fair value of attorney fees by following judicial precedent to compare a proposed rate with the prevailing rate in the region for similar work performed by attorneys of comparable skill, experience and reputation, considering the novelty and complexity of the issues. In addition, Baykeeper uses the "Laffey Matrix" as a guide for calculating attorney rates. The D.C. Circuit Court approved the Laffey Matrix to provide objective guidance in assessing appropriate hourly rates depending on attorney experience. Baykeeper adjusts the Laffey Matrix by straight-lining annually the multi-year step increases and by the regional difference between attorney rates in the Washington, DC and San Francisco metropolitan areas. Finally, Baykeeper compares rates of other San Francisco attorneys who specialize in environmental litigation. The U.S. District Court for the Northern District of California, in *Baykeeper v. West Bay Sanitary District* 2011 U.S. Dist. LEXIS 138093, upheld this process and approved the rates of Baykeeper staff attorneys and outside counsel. This process involves principally Level 2 inputs.

Baykeeper records contributed attorney services, including contingent fees, separately for each case in the year in which the services are performed. In the year that a particular case settles, Baykeeper records contributed attorney services net of allocable costs recovered with a Settlement. Baykeeper bases the fair value of attorney services on the process described above. Baykeeper records contributed non-attorney professional services when receiving the benefit of those services. Baykeeper bases the fair value of non-attorney professional services on the cost of similar services from comparable purchases, which is a Level 2 input. Baykeeper only reports contributions of in-kind professional services when Baykeeper needs expertise or education not available to Baykeeper and Baykeeper would have paid for the professional services if donors had not contributed them.

Volunteers contribute their time assisting Baykeeper in carrying out its activities. Although the value of volunteer contributions is substantial to the activities of Baykeeper, Baykeeper does not recognize their value because they do not meet the criteria for recognition in accordance with US-GAAP.

Baykeeper
Notes to Financial Statements
June 30, 2019

Note 2 – Summary of Significant Accounting Policies (continued)

Allocation of functional expenses

Baykeeper summarizes the costs of providing its program and supporting services on a functional basis. Baykeeper allocates direct costs to the activity that benefits. Baykeeper allocates compensation costs based on employee time spent in each activity and related costs (e.g., employee benefits and payroll taxes) based on the allocation of compensation costs. Baykeeper allocates other indirect costs based on employee counts.

Income taxes

In letters to Baykeeper, the Internal Revenue Service (IRS) and California Franchise Tax Board (FTB) stated that Baykeeper is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC) and from California bank and corporation taxes under Section 23701(d) of the California Revenue and Taxation Code, respectively. In addition, Baykeeper qualifies for the charitable contribution deduction under IRC Section 170(b)(1)(A) and has been classified as a publicly supported organization as described in IRC Section 509(a)(1). Accordingly, donors are entitled to the maximum charitable contribution deduction allowed by law.

Management believes that no activities of Baykeeper jeopardized its exemption from income taxes, classification as a “public charity” or subjected it to unrelated business income or excise taxes. Accordingly, Baykeeper did not provide for income taxes.

Management considers certain tax positions taken by Baykeeper. A tax position is a position taken in a previously filed tax return or a position management expects to take in a future tax return. Tax positions include a decision to classify a transaction, entity or other position in a tax return as tax exempt and the status of an entity, including its status as a pass-through or tax-exempt entity.

Baykeeper files tax returns with the IRS and FTB. Tax returns from open tax periods are subject to future examination by taxing authorities.

Risks and concentrations

Cash and cash equivalents held by the commercial bank exceeded federal deposit insurance limits at various times during the years ended June 30, 2019 and 2018.

Investments are subject to credit and market risks. Credit risk is the probability that parties holding or supporting an investment will default or otherwise fail to perform. Market risk is the inherent change in the value of an investment due to changes in conditions. Baykeeper manages risk to its investments by periodically reviewing investments for compliance with the investment policy and investment return for comparability to the general market and specific investment class returns.

Baykeeper
Notes to Financial Statements
June 30, 2019

Note 2 – Summary of Significant Accounting Policies (continued)

As of June 30, 2019 and 2018, the PIF held by the community foundation totaled approximately 93% and 94% of total investments, respectively.

During the year ended June 30, 2018, contributions received from one nonprofit totaled approximately 11% of total contributions.

During the year ended June 30, 2019, in-kind goods received from one corporation and one individual totaled approximately 42% of total in-kind support.

During the year ended June 30, 2018, in-kind goods received from one corporation totaled approximately 25% of total in-kind support.

During the years ended June 30, 2019 and 2018, in-kind services received from one law firm totaled approximately 23% and 14% of total in-kind support, respectively.

During the year ended June 30, 2019, fee and cost recovery received from four Defendants totaled approximately 82% of total fee and cost recovery.

During the year ended June 30, 2018, fee and cost recovery received from two Defendants totaled approximately 79% of total fee and cost recovery.

Reduction of the support and revenue sources indicated above, if it were to occur, could have an adverse impact on the activities of Baykeeper.

Use of estimates

The preparation of financial statements in conformity with US-GAAP requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

Subsequent events

Management has evaluated subsequent events through March 19, 2020, the date these financial statements were available for issuance. Management concluded that no material subsequent events have occurred since June 30, 2019, which would require recognition or disclosure in the financial statements.

Baykeeper
Notes to Financial Statements
June 30, 2019

Note 3 – Investments

As of June 30, 2019 and 2018, investments totaled as follows:

	<u>2019</u>	<u>2018</u>
Cash, at cost	\$ 18,019	\$ 13,939
PIFs, at contract value	<u>234,272</u>	<u>227,449</u>
Total investments	<u>\$252,291</u>	<u>\$241,388</u>

Management estimates that the difference between the fair value of investments reported at contract value and the respective reported contract values is not material.

During the years ended June 30, 2019 and 2018, net investment income totaled as follows:

	<u>2019</u>	<u>2018</u>
Dividends and interest	\$10,043	\$ 5,044
Unrealized appreciation	<u>5,744</u>	<u>11,706</u>
Investment income, net	<u>\$15,787</u>	<u>\$16,750</u>

Note 4 – Grants and Contributions Receivable

As of June 30, 2019 and 2018, grants and contributions receivable totaled as follows:

	<u>2019</u>	<u>2018</u>
Genentech, Inc.	\$ 500	\$ 500
HSBC through Waterkeeper Alliance	10,000	–
An individual	3,000	–
Rose Foundation for Communities and the Environment	31,500	–
Sustainable Grantmaking Partners Fund	15,000	–
United Airlines	20,000	–
Waterkeeper Alliance	–	4,000
Wine & Spirits Magazine	<u>26,007</u>	<u>24,386</u>
Total grants and contributions receivable	<u>\$106,007</u>	<u>\$28,886</u>

Baykeeper
Notes to Financial Statements
June 30, 2019

Note 5 – Settlements Receivable

As of June 30, 2019 and 2018, settlements receivable totaled as follows:

	<u>2019</u>	<u>2018</u>
Browning-Ferris Industries of California, Inc. and International Disposal Corp.	\$ 10,000	\$ 10,000
Marin Sanitary Service	–	10,000
Pinole Rodeo Auto Wreckers	–	1,000
City of Richmond	135,000	165,000
City of San Jose	80,000	90,000
S.O.S. Steel Company, Inc.	18,000	–
Vision Recycling, TWDC Industries Corp.	36,000	–
Miscellaneous	<u>995</u>	<u>–</u>
Settlements receivable, gross	279,995	276,000
Less discounts on settlements receivable	<u>17,328</u>	<u>23,217</u>
Settlements receivable, net	262,667	252,783
Settlements receivable – Long-term	<u>170,672</u>	<u>191,783</u>
Settlements receivable – Current	<u>\$ 91,995</u>	<u>\$ 61,000</u>

As of June 30, 2019, settlements receivable are due during the following periods:

Less than one year	\$ 91,995
Between one and five years	133,000
More than five years	55,000

Baykeeper
Notes to Financial Statements
June 30, 2019

Note 6 – Property and Equipment

As of June 30, 2019 and 2018, property and equipment totaled as follows:

	<u>2019</u>	<u>2018</u>
Furniture	\$ 8,092	\$ 8,092
Office equipment	5,641	5,641
Computer equipment	52,891	45,682
Boat and laboratory equipment	140,471	140,471
Leasehold improvements	<u>5,860</u>	<u>5,860</u>
Property and equipment, at cost	212,955	205,746
Less accumulated depreciation	<u>185,099</u>	<u>174,039</u>
Property and equipment, net	<u>\$ 27,856</u>	<u>\$ 31,707</u>

Note 7 – Net Assets without Donor Restrictions – Board Designated

As of June 30, 2019 and 2018, unrestricted net assets designated by the Board of Directors of Baykeeper for specific purposes totaled as follows:

	<u>2019</u>	<u>2018</u>
Legal Fund	\$400,000	\$400,000
Endowment (Note 9)	<u>234,272</u>	<u>227,449</u>
Total net assets without donor restrictions – Board designated	634,272	627,449
Total net assets without donor restrictions – Undesignated	<u>356,150</u>	<u>354,295</u>
Total net assets without donor restrictions	<u>\$990,422</u>	<u>\$981,744</u>

Baykeeper
Notes to Financial Statements
June 30, 2019

Note 8 – Net Assets with Donor Restrictions

During the year ended June 30, 2019, net assets with donor restrictions reconciled as follows:

<u>Activity</u>	<u>Beginning</u>	<u>Additions</u>	<u>Releases</u>	<u>Ending</u>
Communications	\$ 6,800	\$ 15,000	\$ 16,363	\$ 5,437
Dolphin Club Pier/Building	95,370	159,462	254,832	–
Healthy San Francisco Bay	6,339	20,000	22,297	4,042
Healthy Sediment Removal	–	15,000	15,000	–
Increasing Flows for Fish	–	30,000	5,695	24,305
Sacramento River Project	50,000	–	–	50,000
San Francisco Bay Shoreline Project	19,301	–	13,363	5,938
Sustainability, Restoration and Cleanup	–	20,000	20,000	–
Time-restricted only	–	20,000	–	20,000
Totals	<u>\$177,810</u>	<u>\$279,462</u>	<u>\$347,550</u>	<u>\$109,722</u>

During the year ended June 30, 2019, the Dolphin Swimming and Boating Club formed a related exempt organization under IRC Section 501(c)(3) and under the terms of an agreement with Baykeeper, requested transfer of the funds in the Dolphin Club Pier/Building fund from Baykeeper to the new exempt organization. Accordingly, Baykeeper released the related net assets with donor restrictions and established a liability equal to the fund balance. Baykeeper expects to transfer the funds during the year ending June 30, 2020.

During the year ended June 30, 2018, net assets with donor restrictions reconciled as follows:

<u>Activity</u>	<u>Beginning</u>	<u>Additions</u>	<u>Releases</u>	<u>Ending</u>
Communications	\$ –	\$40,000	\$ 33,200	\$ 6,800
Dolphin Club Pier/Building	155,857	10,634	71,121	95,370
Healthy San Francisco Bay	–	20,000	13,661	6,339
Sacramento River Project	50,000	–	–	50,000
San Francisco Bay Shoreline Project	38,216	–	18,915	19,301
Tech Capacity Building	–	25,000	25,000	–
2017 Bay Parade Event	10,000	–	10,000	–
Totals	<u>\$254,073</u>	<u>\$95,634</u>	<u>\$171,897</u>	<u>\$177,810</u>

Baykeeper
Notes to Financial Statements
June 30, 2019

Note 9 – Endowment Funds

Baykeeper follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, “Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and Enhanced Disclosures for All Endowment Funds” and the related state of California version of the UPMIFA (CA-UPMIFA). Endowment funds subject to FASB ASC 958-205 include all the endowment funds described below. As of June 30, 2019 and 2018, Baykeeper held no endowment funds subject to CA-UPMIFA.

The endowment funds of Baykeeper consist of an individual fund held by a community foundation. The endowment funds of Baykeeper include only funds designated by the Board of Directors to function as endowments. Baykeeper classifies and records net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, based on the existence or absence of donor-imposed restrictions.

As of June 30, 2019 and 2018, endowment funds totaled as follows:

<u>Net assets without donor restrictions</u>	<u>2019</u>	<u>2018</u>
Board designated	<u>\$234,272</u>	<u>\$227,449</u>

During the years ended June 30, 2019 and 2018, endowment funds reconciled as follows:

<u>Net assets without donor restrictions – Board designated</u>	<u>2019</u>	<u>2018</u>
Beginning of year	\$227,449	\$214,880
Dividends and interest	2,881	2,755
Unrealized appreciation	5,868	11,678
Investment management and administrative fees	(1,926)	(1,864)
End of year	<u>\$234,272</u>	<u>\$227,449</u>

Baykeeper 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 maintain the purchasing power of the endowment assets.

Because Baykeeper invests all endowment assets with a community foundation, Baykeeper has adopted the investment policy of the community foundation. Actual returns in any given year may vary from expected returns under the investment policy of the community foundation.

Baykeeper
Notes to Financial Statements
June 30, 2019

Note 9 – Endowment Funds (continued)

Because Baykeeper invests all endowment assets with a community foundation, Baykeeper has adopted the spending policy of the community foundation. This is consistent with the objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

In addition, the endowment assets held by the community foundation are subject to the “Spending Rule” of the community foundation.

Unrestricted (board designated) endowment funds are subject to redesignation at any time, including redesignation as other than endowment funds.

Note 10 – In-kind Contributions

During the years ended June 30, 2019 and 2018, in-kind contributions reconciled as follows:

	<u>2019</u>	<u>2018</u>
Contributed services		
Attorneys	\$ 86,020	\$ 17,019
Others professionals	11,637	42,585
Contributed goods		
Fundraising events	<u>133,012</u>	<u>62,540</u>
Total in-kind contributions	<u>\$230,669</u>	<u>\$122,144</u>

Note 11 – Retirement Plan

Baykeeper sponsors a defined contribution salary deferral plan under IRC section 401(k) for its eligible employees. Eligible employees may contribute up to 100% of their eligible compensation to the plan, subject to limits imposed under the IRC. The plan allows, but does not require, Baykeeper to contribute. During the years ended June 30, 2019 and 2018, Baykeeper contributed to eligible employees, based on 3% and 5% of their eligible compensation, amounts totaling \$24,562 and \$33,239, respectively.

Baykeeper
Notes to Financial Statements
June 30, 2019

Note 12 – Commitments and Contingencies

Baykeeper leases office space in Oakland under an operating lease that expires April 30, 2025, with an option for Baykeeper to extend the lease for five years at the then fair market value rent. The lease contains a fixed escalation clause and Baykeeper must pay its share of additional building operating expenses and taxes, as defined. Future minimum office space lease payments for the years ending June 30, total as follows:

2020	\$ 71,195
2021	119,394
2022	122,958
2023	126,572
2024	130,432
2025	<u>111,375</u>
Total future minimum office space lease payments	<u>\$681,926</u>

During the years ended June 30, 2019 and 2018, office space rent expense totaled \$84,990 and \$67,072, respectively.

Note 13 – Liquidity and Availability of Financial Assets

As of June 30, 2019, financial assets, reduced by amounts not available for general use because of contractual or donor-imposed restrictions, reconcile as follows:

Financial assets	
Cash and cash equivalents – Unrestricted	\$ 686,672
Investments	252,291
Grants and contributions receivable	106,007
Settlements receivable – Current	<u>91,995</u>
Total financial assets	1,136,965
Amounts unavailable for general expenditures within one year	
Advances – Litigation	152,000
Net assets with donor restrictions	<u>109,722</u>
Total amounts unavailable for general expenditures within one year	<u>261,722</u>

Baykeeper
Notes to Financial Statements
June 30, 2019

Note 13 – Liquidity and Availability of Financial Assets (continued)

Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 875,243</u>
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Certain investments include funds designated by the Board of Directors to function as endowments (Note 9). In addition, the legal fund (Note 7), is not tied to any particular financial assets. Baykeeper liquidity management involves annual and quarterly cash projections and expenditure management based on those projections. Baykeeper invests cash in excess of daily requirements in interest-bearing bank accounts and has certain investments in a pooled investment fund available, with approval of the Board of Directors, to cover any shortfalls.

Note 14 – Adoption of a New Accounting Standard

During the year ended June 30, 2019, Baykeeper adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, “Presentation of Financial Statements of Not-for-Profit Entities.” FASB ASU 2016-14 requires Baykeeper to rename unrestricted net assets to net assets without donor restrictions and consolidate temporarily restricted net assets and permanently restricted net assets and rename them net assets with donor restrictions. In addition, FASB ASU 2016-14 requires Baykeeper to provide qualitative information that communicates how Baykeeper manages its liquid resources available to meet cash needs for general expenditures within one year (Note 13) and quantitative information and additional qualitative information that communicates the availability of financial assets as of the end of the year to meet cash needs for general expenditures within one year (Note 13).