

Financial Statements

Year ended June 30, 2014

with

Report of Independent Auditors

WILSON MARKLE STUCKEY HARDESTY & BOTT LLP

CERTIFIED PUBLIC ACCOUNTANTS

DONALD WILSON ALAN MARKLE CHARLES STUCKEY DAVID HARDESTY DAVID BOTT DAVID BAILEY MICHAEL SMITH

Report of Independent Auditors

To the Board of Directors of Baykeeper:

We have audited the accompanying financial statements of Baykeeper (a nonprofit organization), which comprise the statements of financial position as of June 30, 2014 and 2013, 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 Auditors

Our responsibility is to express an opinion on the financial statements based on the audits. We conducted the audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 we select depend on our 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, we 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, 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 the management of Baykeeper, and evaluating the overall presentation of the financial statements.

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

<u>Opinion</u>

In our opinion, the financial statements present fairly, in all material respects, the financial position of Baykeeper as of June 30, 2014 and 2013, 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.

Wilson Markle Stuckey Hardesty & Bott, LLP Larkspur, CA March 27, 2015

ONE HUNDRED ONE LARKSPUR LANDING CIR SUITE TWO HUNDRED LARKSPUR CA 94939 P.415.925.1120 F.415.925.1140 WWW.WMSHB.COM

Baykeeper Statements of Financial Position June 30, 2014 and 2013

	2014	2013
Assets		
Cash and cash equivalents - Unrestricted	\$239,141	\$ 297,668
Cash and cash equivalents – Restricted	103,120	101,937
Investments	295,236	368,380
Grants and contributions receivable	12,425	23,210
Settlements receivable - Current	44,001	74,714
Settlements receivable - Long-term	14,969	15,189
Accounts receivable	979	23,072
Prepaid expenses – Litigation	188,477	80,215
Prepaid expenses – Other	14,105	9,589
Property and equipment, net	11,303	7,389
Deposits	9,858	9,858
Total assets	\$933,614	\$1,011,221
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 92,562	\$ 90,524
Due to NRDC	3,861	3,861
Advances - Litigation	50,000	50,000
Deferred revenue	15,927	16,894
Deferred rent		1,498
Total liabilities	162,350	162,777
Net assets		
Unrestricted		
Undesignated	222,908	327,098
Board-designated	295,236	364,253
Total unrestricted	518,144	691,351
Temporarily restricted	253,120	157,093
Total net assets	771,264	848,444
Total liabilities and net assets	\$933,614	\$1,011,221

Baykeeper Statements of Activities and Changes in Net Assets Years ended June 30, 2014 and 2013

		Temporarily	001477 - 1		Temporarily	0 042 T + 1
	Unrestricted	restricted	2014 Totals	Unrestricted	restricted	2013 Totals
Support and revenue						
Contributions	\$ 582,336	\$118,534	\$ 700,870	\$ 517,308	\$ 49,327	\$ 566,635
In-kind	1,027,242	_	1,027,242	830,902	_	830,902
Fee and cost recovery	392,921	_	392,921	153,075	_	153,075
Investment, net	40,376	10	40,386	34,711	13	34,724
Other	2,425	_	2,425	6,591	_	6,591
Net assets reclassified	22,517	(22,517)		24,650	(24,650)	_
Total support and revenue	2,067,817	96,027	2,163,844	1,567,237	24, 690	1,591,927
Expenses						
Program services	1,747,759	_	1,747,759	1,550,041	_	1,550,041
Management and general	181,941	_	181,941	111,378	_	111,378
Fundraising	311,324	_	311,324	174,463	_	174,463
Total expenses	2,241,024	_	2,241,024	1,835,882	_	1,835,882
Changes in net assets	(173,207)	96,027	(77,180)	(268,645)	24,690	(243,955)
Net assets, beginning of year	691,351	157,093	848,444	959,996	132,403	1,092,399
Net assets, end of year	\$ 518,144	\$253,120	\$ 771,264	\$ 691,351	\$157,093	\$ 848,444

Baykeeper Statements of Functional Expenses Years ended June 30, 2014 and 2013

		Supporting services		
	Program	Management	Fund-	2014
Expenses	services	and general	raising	Totals
Salaries	\$ 514,718	\$ 94,618	\$154,235	\$ 763,571
Payroll taxes	33,305	12,858	11,804	57,967
Employee benefits	72,883	22,022	24,175	119,080
Bay patrol	14,957	_	-	14,957
Meetings and events	4,235	862	31,611	36,708
Information technology	3,763	651	6,715	11,129
Insurance	2,178	3,576	1,583	7,337
Occupancy	35,380	13,659	12,540	61,579
Operating	40,320	5,923	3,409	49,652
Professional services				
Accounting	-	24,281	-	24,281
Legal – Environmental law enforcement	988,473	_	-	988,473
Scientific and technical	12,565	_	-	12,565
Other	10,635	324	55,200	66,159
Publications and outreach	10,763	1,764	8,445	20,972
Travel	45	36	353	434
Depreciation	3,539	1,367	1,254	6,160
Total expenses	\$1,747,759	\$181,941	\$311,324	\$2,241,024

		Supporting services			
	Program	Management	Fund-	2013	
Expenses	services	and general	raising	Totals	
Salaries	\$ 477,654	\$ 41,431	\$100,320	\$ 619,405	
Payroll taxes	36,964	2,380	7,252	46,596	
Employee benefits	80,077	8,347	17,207	105,631	
Bay patrol	9,825	_	-	9,825	
Meetings and events	8,727	13,754	11,958	34,439	
Information technology	3,284	1,191	6,168	10,643	
Insurance	3,684	2,214	723	6,621	
Occupancy	48,001	3,091	9,417	60,509	
Operating	13,312	4,989	1,836	20,137	
Professional services					
Accounting	_	21,350	_	21,350	
Legal – Environmental law enforcement	812,676	_	_	812,676	
Scientific and technical	18,284	10	31	18,325	
Other	26,317	10,155	11,172	47,644	
Publications and outreach	8,314	2,278	7,806	18,398	
Depreciation	2,922	188	573	3,683	
Total expenses	\$1,550,041	\$111,378	\$174,463	\$1,835,882	

Baykeeper Statements of Cash Flows

Years ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Change in net assets	(\$ 77,180)	(\$243,955)
Adjustments to reconcile change in net assets with		
cash flows provided by operating activities		
Realized (gains) losses and unrealized		
(appreciation) depreciation of investments	(967)	(28,098)
Contributions of investments	(1,210)	(1,188)
Depreciation	6,160	3,683
Changes in assets and liabilities		
Grants and contributions receivable	10,785	(8,310)
Settlements receivable	30,933	50,882
Accounts receivable	22,093	(21,538)
Prepaid expenses – Litigation	(108,262)	(78,593)
Prepaid expenses – Other	(4,516)	1,820
Accounts payable and accrued expenses	2,038	39,121
Deferred revenue	(967)	(7,825)
Deferred rent	(1,498)	(1,188)
Net cash used by operating activities	(122,591)	(295,189)
Cash flows from investing activities		
Purchases of investments	(31,392)	(34,754)
Proceeds from sale of investments	106,713	57,589
Purchases of property and equipment	(10,074)	(1,531)
Net change in due to NRDC		1
Net cash provided by investing activities	65,247	21,305
Cash flows from financing activities		
Advances - Litigation		50,000
Net cash provided by financing activities		50,000
Net change in cash and cash equivalents	(57,344)	(223,884)
Cash and cash equivalents, beginning of year	399,605	623,489
Cash and cash equivalents, end of year	\$342,261	\$399,605

Note 1 – Basis of presentation

The mission of San Francisco Baykeeper (Baykeeper) is to protect and restore the water quality and habitat of San Francisco Bay (Bay). For 25 years, Baykeeper has worked to address the greatest threats to the health of the Bay in order to protect wildlife, the ecosystem and Bay Area communities.

The Bay is part of the largest estuarine system on the Pacific Coast of the Americas and one of the most ecologically productive water bodies in the world. Open water habitats, intertidal mudflats, rocky shores, salt ponds, marshes and shaded creek habitats all come together to form the iconic Bay that defines the character and community of the Bay Area.

A diverse wildlife community has historically thrived in and around the Bay and is beginning to flourish again. The Bay provides a home for 130 fish species and a nursery for ocean-going herring, sturgeon, salmon and Dungeness crab. Millions of migratory shorebirds using the Pacific Flyway depend on the Bay as a resting spot. Twenty-two threatened or endangered species, including the Snowy plover and the mission blue butterfly, live in the watershed of the Bay. Hundreds of native rare or endemic plants grow in the wide variety of environmental conditions unique to the Bay and surrounding landscapes.

Seven million people, 1,300 industrial facilities, 100 cities, four major ports and massive oil refineries also surround the Bay. Every day, toxic pollution from the urban and industrial landscape flows into the Bay, threatening people and wildlife. Aging sewer infrastructures release raw and undertreated sewage into local creeks and the Bay each winter and rain washes pollution from industrial sites, roadways and pesticide-laden landscapes directly into waterways with no treatment. Meanwhile, the global energy economy feeds the refineries and elevates the risk of oil spills in the Bay.

Clean water laws and regulations intended to protect the health of the Bay and its tributaries are not strong enough or enforced consistently. That is why Baykeeper exists. Using advocacy, science and legal action, Baykeeper strengthens clean water laws and regulations to rein in Bay pollution and enforces the Clean Water Act to hold polluters accountable.

As the sole nonprofit organization dedicated to protecting the Bay from pollution, Baykeeper has a tightly focused mission. The small, highly skilled staff of Baykeeper conducts research, water quality monitoring and on-the-water patrols to identify the sources of pollution most damaging to the Bay and key habitat. The staff of Baykeeper evaluates where there is the greatest need and where it can target advocacy to have the greatest impact. The science and legal staff of Baykeeper work together to develop the most effective strategies for pollution cleanup. Baykeeper engages in advocacy and public education, pushes government agencies to do their

Note 1 – Basis of presentation (continued)

job to safeguard and restore the Bay and brings strategic lawsuits under the Clean Water Act to compel polluters to stop contaminating the waters and wetlands that belong to all.

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. Along with Robert F. Kennedy, Jr. and other leaders, Baykeeper helped found an international network of on-the-water clean water activists to protect local waterways. There are now more than 200 related groups 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.

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.

<u>Fair value</u>

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 and have the highest priority. Level 2 inputs consist of observable inputs other than quoted prices for identical assets. Level 3 inputs consist of unobservable inputs that reflect internal judgments and have the lowest priority. Baykeeper uses appropriate valuation techniques based on the available inputs to measure fair value. When available, Baykeeper measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Baykeeper only uses Level 3 inputs when Level 1 or Level 2 inputs are not available.

Baykeeper values contributions initially at fair value when promised. Baykeeper only revalues debt and marketable equity securities at least as often as it presents financial statements. For contributions valued initially at fair value but not revalued, Baykeeper treats the initial fair value as cost in subsequent financial statements.

The management of Baykeeper estimates that the aggregate net fair value of financial instruments recognized (including receivable, payables and accrued expenses) approximates their carrying value, as such financial instruments are short-term in nature or bear interest at current market rates.

Notes to Financial Statements June 30, 2014

Note 2 – Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents consist of amounts on hand and on deposit with a commercial bank, available within 90 days of demand. The carrying amount of cash approximates fair value due to its short-term nature.

Restricted cash and cash equivalents consist of amounts held in separate commercial bank accounts as temporarily restricted net assets related to the Dolphin Club Pier/Building project (Note 6) and as a liability for funds held on behalf of another entity.

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 represents 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, but not net of custodial and administrative fees.

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.

Receivables

Receivables (Note 4) consist principally of amounts due from governmental and corporate entities related to compliance activities and from corporations, foundations and individuals as contributions. Baykeeper initially records receivables at fair value. Baykeeper estimates the initial fair value of 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 (income) and Level 3 (income) inputs. Baykeeper records a discount representing the difference between the future cash flows promised by the defendant or donor 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 fee and cost recovery and contributions, respectively.

Notes to Financial Statements June 30, 2014

Note 2 – Summary of significant accounting policies (continued)

Allowance for uncollectible receivables

Baykeeper uses the allowance method to estimate any uncollectible receivables. Under this method, Baykeeper reviews all receivables, and estimates, based on aging, debtor history and other information, an allowance. 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, 2014 and 2013, the management of Baykeeper estimated that any allowance for uncollectible receivables was not material to the financial position of Baykeeper.

Property and equipment

Property and equipment 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 (market) 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 of five years 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 the 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.

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.

Baykeeper may pursue Litigation internally, without contracting with outside counsel. Under those 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 simi-

Note 2 – Summary of significant accounting policies (continued)

lar 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. When Compliance monitoring by Baykeeper is optional, Baykeeper recognizes revenue from Compliance awards immediately. When Compliance monitoring by Baykeeper is required, Baykeeper defers recognition of revenue from Compliance awards over the Compliance period.

Advances – Litigation

One nonprofit organization advanced Baykeeper amounts 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 nonprofit organization. If Litigation is unsuccessful or does not result in an award that covers the costs of Litigation, then the nonprofit organization will forgive unpaid advances. The management of Baykeeper 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 nonprofit organization 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 include cumulative unrestricted, temporarily restricted and permanently restricted net assets, net of cumulative expenses. Unrestricted net assets consist of revenue and support not restricted to a particular purpose or time by the donor, net of expenses. Temporarily restricted net assets consist of support restricted by the donor to a particular purpose or time. Temporarily restricted net assets become unrestricted net assets when Baykeeper meets the donor purpose or time restricted net assets consist of support restricted net assets consist of support restricted net assets consist of support restricted net assets when Baykeeper meets the donor purpose or time restriction. Permanently restricted net assets consist of support restricted by the donor for Baykeeper to hold permanently, allowing for use of only the revenue generated by investing the support. As of June 30, 2014 and 2013, Baykeeper held no permanently restricted net assets.

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

Note 2 – Summary of significant accounting policies (continued)

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. Baykeeper records contributed professional services, including contingent fees, at fair value. This process involves principally Level 2 (market) inputs. Baykeeper bases the fair value of non-legal professional services on the cost of similar services from comparable purchases, which is a Level 3 (cost) 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.

In addition, Baykeeper reclassifies contributed legal services to program service revenue and paid legal services when Settlement funds pay contracted Litigation attorneys' contingent legal fees (Note 8).

Allocation of functional expenses

Baykeeper summarizes the costs of providing its program and supporting services on a functional basis. Accordingly, Baykeeper allocates certain indirect costs between program and support services based on annual estimates of time and usage.

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. The management of Baykeeper 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.

Note 2 – Summary of significant accounting policies (continued)

The management of Baykeeper considers certain tax positions taken by Baykeeper. A tax position is a position taken in a previously filed tax return or a position the management of Baykeeper expects to take in a future tax return that figures in measuring current or deferred income tax assets and liabilities for interim or annual periods. A tax position can result in a permanent reduction in income taxes payable, a deferral of income taxes otherwise currently payable to future years or a change in the expected realizability of deferred tax assets. A tax position also encompasses, but is not limited to 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 taxexempt entity.

Evaluating a tax position requires the management of Baykeeper to determine, for each tax position, whether it is more likely than not that, upon examination by taxing authorities, such authorities will uphold the tax position and, for each more-likely-than-not tax position, determine the highest benefit with a more than 50% likelihood of realization upon ultimate settlement. Accordingly, it is possible that tax positions taken on tax returns and related amounts recognized herein could vary.

Baykeeper files tax returns with the IRS and FTB. As of June 30, 2014, the management of Baykeeper believes that there are no tax positions of Baykeeper where it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the period ending June 30, 2015. As of June 30, 2014, open tax periods subject to future examination by taxing authorities cover periods from July 1, 2010 through June 30, 2014.

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, 2014 and 2013.

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.

As of June 30, 2014, the PIF held by the community foundation totaled 100% of total investments.

As of June 30, 2013, PIFs held by two community foundations, each holding at least 10%, totaled 99% of total investments.

During the year ended June 30, 2014, in-kind services received from one law firm totaled 81% of gross in-kind support and 38% of total expenses.

Notes to Financial Statements June 30, 2014

Note 2 – Summary of significant accounting policies (continued)

During the year ended June 30, 2013, in-kind services received from two law firms, each contributing more than 10%, totaled 90% of gross in-kind support and 41% of total expenses.

Use of estimates

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

Subsequent events

The management of Baykeeper has evaluated subsequent events through March 27, 2015, the date these financial statements were available for issuance, and disclosed them in Note 11.

Note 3 – Investments

As of June 30, 2014 and 2013, investments totaled as follows:

Cost	<u>2014</u>	<u>2013</u>
Cash	\$ —	\$ 4,127
Contract value PIFs	_295,236	
Total investments	<u>\$295,236</u>	<u>\$368,380</u>

During the years ended June 30, 2014 and 2013, net investment income totaled as follows:

Dividends and interest	<u>2014</u> \$ 5,520	<u>2013</u> \$ 6,625
Realized gain (loss) Unrealized appreciation (depreciation)	517 <u>34,349</u>	(209) 28,308
Net investment income	<u>\$40,386</u>	<u>\$34,724</u>

In addition, during the years ended June 30, 2014 and 2013, Baykeeper incurred custodial and administrative fees on its investments in PIFs, totaling \$2,353 and \$2,559, respectively, and included those amounts with operating expenses.

Notes to Financial Statements June 30, 2014

Note 4 – Receivables

As of June 30, 2014 and 2013, receivables totaled as follows:

	<u>2014</u>	<u>2013</u>
BAE Systems San Francisco Ship Repair Inc.	\$ —	\$ 13,334
City of Burlingame	15,000	20,000
Green Waste Recovery, Inc.	8,000	_
Hanson Aggregates Mid-Pacific, Inc. and LLC	_	8,000
Lakeside Non-Ferrous Metals Inc.	_	7,750
City of San Bruno	_	30,000
City of Sunnyvale	8,000	_
S.O.S. Steel Company, Inc.	10,500	_
TD Ameritrade	_	21,458
U.S. Department of Commerce –		
National Oceanic and Atmospheric Administration	_	12,545
Wine & Spirits Magazine	10,925	9,165
Various, less than 10% each	20,980	15,414
Descivelation of the second	72 405	127 (((
Receivables, gross	73,405	137,666
Discount on receivables	(<u>1,031</u>)	(<u>1,481</u>)
Receivables, net	72,374	136,185
Settlements receivable – Long-term	14,969	15,189
Receivables – Current	<u>\$57,405</u>	<u>\$120,996</u>

Receivables due during the years ending June 30, 2015, 2016 and 2017, total \$49,420, \$14,360 and \$9,625, respectively.

Note 5 – Property and equipment

As of June 30, 2014 and 2013, property and equipment totaled as follows:

		<u>2013</u>		<u>2013</u>
Furniture	\$	5,830	\$	5,830
Office equipment		4,262		4,262
Computer equipment		25,834		15,760
Boat and laboratory equipment	1	18,625	1	18,625
Leasehold improvements		1,500		1,500

Note 5 – Property and equipment (continued)

Property and equipment, at cost	156,051	145,977
Accumulated depreciation	(<u>144,748</u>)	(<u>138,588</u>)
Property and equipment, net	<u>\$ 11,303</u>	<u>\$ 7,389</u>

Note 6 – Temporarily restricted net assets

During the year ended June 30, 2014, temporarily restricted net assets reconciled as follows:

Activity	Beginning	Additions	<u>Releases</u>	<u>Ending</u>
Coastal Clean-Up Day	\$ -	\$ 1,000	\$ 1,000	\$ _
Dolphin Club Pier/Building	98,076	5,044	_	103,120
Sacramento River Project	50,000	_	_	50,000
Sampling equipment	—	2,500	2,500	_
San Francisco Bay Shoreline Project	. —	100,000	_	100,000
Special fundraising event	_	10,000	10,000	_
Wetland restoration	9,017		9,017	
Totals	<u>\$157,093</u>	<u>\$118,544</u>	<u>\$22,517</u>	<u>\$253,120</u>

During the year ended June 30, 2013, temporarily restricted net assets reconciled as follows:

Activity	Beginning	Additions	<u>Releases</u>	<u>Ending</u>
Agricultural Pesticide and	0 0			
Mercury Programs	\$ 2,5 00	\$ —	\$2,500	\$ –
Bay patrols	_	3,000	3,000	_
Coastal Clean-Up Day	_	1,000	1,000	-
Dolphin Club Pier/Building	72,736	25,340	_	98,076
Sacramento River Project	50,000	_	_	50,000
Sampling equipment	3,000	_	3,000	_
Wetland restoration	_	20,000	10,983	9,017
Time-restricted	4,167		4,167	
Totals	<u>\$132,403</u>	<u>\$49,340</u>	<u>\$24,650</u>	<u>\$157,093</u>

Note 7 – 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, 2014 and 2013, no endowment funds are subject to the 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, 2014, endowment funds totaled as follows:

		Temporarily	Permanently	
	Unrestricted	restricted	restricted	<u>Totals</u>
Board designated	<u>\$295,236</u>	<u>\$_</u>	<u>\$</u>	<u>\$295,236</u>

During the year ended June 30, 2014, endowment funds reconciled as follows:

		Temporarily	Permanently	
	<u>Unrestricted</u>	restricted	restricted	<u>Totals</u>
Beginning of year	\$364,253	\$—	\$—	\$364,253
Dividends and interest	3,891	_	_	3,891
Realized gain	435	_	_	435
Unrealized appreciation	34,431	_	_	34,431
Investment management and				
administrative fees	(2,353)	_	_	(2,323)
Appropriations for expenditure	(<u>105,421</u>)			(<u>105,421</u>)
End of year	<u>\$295,236</u>	<u>\$</u>	<u>\$</u>	<u>\$295,236</u>

Note 7 – Endowment funds (continued)

As of June 30, 2013, endowment funds totaled as follows:

		Temporarily	Permanently	
	Unrestricted	restricted	restricted	<u>Totals</u>
Board designated	<u>\$364,253</u>	<u>\$</u>	<u>\$</u>	<u>\$364,253</u>

During the year ended June 30, 2013, endowment funds reconciled as follows:

		Temporarily	Permanently	
	<u>Unrestricted</u>	restricted	restricted	<u>Totals</u>
Beginning of year	\$359,104	\$—	\$—	\$359,104
Dividends and interest	4,666	_	_	4,666
Unrealized appreciation	28,042	_	_	28,042
Investment management and				
administrative fees	(2,559)	_	_	(2,559)
Appropriations for expenditure	(<u>25,000</u>)			(<u>25,000</u>)
End of year	\$364 253	\$_	\$	\$364 253
Enter of year	<u>\$307,233</u>	<u> </u>	<u><u>\</u></u>	<u>\$507,255</u>

Baykeeper has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its 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 respective community foundation.

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 8 - In-kind contributions and recoveries

During the years ended June 30, 2014 and 2013, in-kind contributions, net of recoveries (including prior years) from Settlements (Note 2), reconcile as follows:

	<u>2014</u>	<u>2013</u>
Contributed services		
Attorneys	\$988,047	\$800,595
Others	21,150	34,628
Contributed goods		
Fundraising events	40,564	10,372
Outside attorney fee recoveries	(<u>22,519</u>)	(<u>14,693</u>)
In-kind contributions, net	<u>\$1,027,242</u>	<u>\$830,902</u>

Note 9 – 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 salary to the plan, subject to limits imposed under the IRC. The plan allows, but does not require, Baykeeper to contribute. Except for a certain executive officer, during the years ended June 30, 2014 and 2013, Baykeeper contributed to eligible employees, based on 5% of their eligible compensation, amounts totaling \$44,860 and \$44,686, respectively.

Note 10 - Commitments and contingencies

Baykeeper leases office space under an operating lease that expires January 31, 2015. The lease contains an automatic fixed amount escalation clause and option to renew for three years. Future minimum office space lease payments for the year ending June 30, 2015, totals \$38,228.

During the years ended June 30, 2014 and 2013, office space rent expense totaled \$60,509 and \$60,283, respectively.

Note 11 – Subsequent events

Under a Consent Decree effective October 2, 2014, Baykeeper Settled Litigation with Levin Enterprises, Inc. and Levin-Richmond Terminal Corporation for \$1,175,000 of legal fees and costs and \$30,000 for compliance. On October 27, 2014, Baykeeper remitted \$784,515 to outside counsel for their share of legal fees and costs and paid off the litigation advance of \$50,000.

On December 2, 2014, Baykeeper received a litigation advance of \$75,000.

Effective February 1, 2015, Baykeeper moved its headquarters from San Francisco to Oakland and leases it new headquarters under an operating lease that expires March 31, 2020. The lease contains an automatic fixed amount escalation clause and Baykeeper must pay its share of additional building operating expenses and taxes, as defined. Under the new leases, future minimum office space lease payments for the year ending June 30, total as follows:

2015	\$15,221
2016	61,646
2017	63,495
2018	65,400
2019	67,362
2020	51,395