

MOBILE BAYKEEPER, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 and 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Mobile Baykeeper, Inc.
Mobile, Alabama

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mobile Baykeeper, Inc. as of December 31, 2012, 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.

Report on Summarized Comparative Information

We have previously audited Mobile Baykeeper, Inc.'s 2011 financial statements, and our report dated October 10, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mostellar & Shreve, LLP

September 3, 2013

MOBILE BAYKEEPER, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 290,453	\$ 281,769
Pledges receivable, current	3,330	---
Grants receivable	---	50,000
Inventory	2,020	2,104
Prepaid insurance	2,569	6,624
TOTAL CURRENT ASSETS	<u>298,372</u>	<u>340,497</u>
 PROPERTY, PLANT AND EQUIPMENT, net	 18,564	 33,049
 PLEDGES RECEIVABLE, long-term	 <u>109,125</u>	 <u>---</u>
	 <u>\$ 426,061</u>	 <u>\$ 373,546</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 5,394	\$ 11,697
 NET ASSETS		
Unrestricted	197,712	194,352
Temporarily restricted	222,955	167,497
	<u>420,667</u>	<u>361,849</u>
	<u>\$ 426,061</u>	<u>\$ 373,546</u>

See accompanying notes.

MOBILE BAYKEEPER, INC.
STATEMENTS OF ACTIVITIES

Year Ended December 31, 2012 with comparative totals as of December 31, 2011

	Unrestricted	Temporarily Restricted	Total 2012	Total 2011
SUPPORT AND REVENUE				
Membership contributions	\$ 24,453	\$ ---	\$ 24,453	\$ 53,761
General contributions	10,620	---	10,620	12,570
Honorarium	3,195	---	3,195	1,457
Grants	16,000	209,489	225,489	335,271
Fundraising income	163,693	112,455	276,148	124,150
Merchandise sales	5,193	---	5,193	3,712
Interest income	2,502	---	2,502	754
Loss on disposal of fixed assets	---	---	---	(378)
Settlement proceeds	5,250	---	5,250	58,846
Net assets released from restriction	266,486	(266,486)	---	---
TOTAL SUPPORT AND REVENUE	497,392	55,458	552,850	590,143
EXPENSES				
Program Services:				
Membership outreach and education	61,892	---	61,892	140,050
Oil Restoration & Recovery	238,438	---	238,438	141,877
Local issues	77,534	---	77,534	89,653
Statewide issues	64,285	---	64,285	52,353
Total Program Services	442,149	---	442,149	423,933
Supporting Services:				
Fundraising	26,594	---	26,594	43,266
Management and General	25,289	---	25,289	40,411
Total Supporting Services	51,883	---	51,883	83,677
TOTAL EXPENSES	494,032	---	494,032	507,610
CHANGE IN NET ASSETS	3,360	55,458	58,818	82,533
NET ASSETS AT BEGINNING OF YEAR				
	194,352	167,497	361,849	279,316
NET ASSETS AT END OF YEAR	\$ 197,712	\$ 222,955	\$ 420,667	\$ 361,849

See accompanying notes.

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MOBILE BAYKEEPER, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended December 31, 2012 with comparative totals as of December 31, 2011

	<u>PROGRAM SERVICES</u>				
	Outreach and Education	Oil Response and Restoration	Local Issues	Statewide Issues	Total Program Services
Accounting	\$ 977	\$ 6,688	\$ 1,567	\$ 1,001	\$ 10,233
Bank charges	196	242	105	23	566
Advertising	4,920	2,981	12,330	1,875	22,106
Baykeeper Boat	---	---	897	---	897
Donations	660	844	805	875	3,184
Consulting & legal fees	6,255	9,118	2,786	10,896	29,055
Contract labor	2,388	383	402	---	3,173
Education	114	377	184	175	850
Bay Awakening	1,933	1,611	1,611	---	5,155
Bay Bash	741	889	741	---	2,371
Bay Splash	---	---	---	---	---
Grandman	2,062	2,062	2,061	---	6,185
Hops Fest	---	---	---	---	---
Insurance	915	6,261	1,468	938	9,582
Conference, meetings & travel	2,043	8,783	1,280	6,325	18,431
Member mailing	32	403	32	---	467
Merchandise	3,646	794	793	---	5,233
Office furniture & equipment	187	1,687	300	192	2,366
Office supplies	415	2,489	493	244	3,641
Personnel costs	24,959	163,744	39,705	26,779	255,187
Postage	1,425	844	306	216	2,791
Printing	2,066	1,207	300	291	3,864
Rent	---	7,079	2,457	8,964	18,500
Uncollectible pledge expense	3,747	3,124	3,124	---	9,995
Utilities	930	8,065	1,733	4,178	14,906
	<u>60,611</u>	<u>229,675</u>	<u>75,480</u>	<u>62,972</u>	<u>428,738</u>
Depreciation	<u>1,281</u>	<u>8,763</u>	<u>2,054</u>	<u>1,313</u>	<u>13,411</u>
	<u>\$ 61,892</u>	<u>\$ 238,438</u>	<u>\$ 77,534</u>	<u>\$ 64,285</u>	<u>\$ 442,149</u>

See accompanying notes.

SUPPORTING SERVICES

Fund Raising	Management and General	Total Supporting Services	TOTAL 2012	TOTAL 2011
\$ 230	\$ 591	\$ 821	\$ 11,054	\$ 11,500
65	14	79	645	373
375	---	375	22,481	21,564
---	---	---	897	855
1,887	29	1,916	5,100	4,980
592	429	1,021	30,076	38,300
297	98	395	3,568	---
113	22	135	985	6,677
1,288	---	1,288	6,443	---
592	---	592	2,963	4,316
---	---	---	---	1,909
7,559	---	7,559	13,744	14,568
---	---	---	---	4,985
215	553	768	10,350	12,322
773	116	889	19,320	20,188
26	---	26	493	972
2,910	---	2,910	8,143	14,464
44	113	157	2,523	1,785
463	144	607	4,248	7,947
5,887	21,894	27,781	282,968	271,840
67	73	140	2,931	2,788
239	---	239	4,103	9,198
---	---	---	18,500	20,400
2,499	---	2,499	12,494	---
172	440	612	15,518	22,162
<u>26,293</u>	<u>24,516</u>	<u>50,809</u>	<u>479,547</u>	<u>494,093</u>
<u>301</u>	<u>773</u>	<u>1,074</u>	<u>14,485</u>	<u>13,517</u>
\$ <u>26,594</u>	\$ <u>25,289</u>	\$ <u>51,883</u>	\$ <u>494,032</u>	\$ <u>507,610</u>

MOBILE BAYKEEPER, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 58,818	\$ 82,533
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	14,485	13,517
Uncollectible pledge expense	12,495	---
Loss on disposal of fixed assets	---	377
(Increase) decrease in:		
Pledges receivable	(124,950)	---
Grants receivable	50,000	(39,500)
Inventory	84	6,997
Prepaid expenses	4,055	(1,631)
Increase (decrease) in:		
Accounts payable	(6,303)	6,586
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>8,684</u>	<u>68,879</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	<u>---</u>	<u>(4,993)</u>
NET INCREASE IN CASH	8,684	63,886
CASH AT BEGINNING OF YEAR	<u>281,769</u>	<u>217,883</u>
CASH AT END OF YEAR	<u>\$ 290,453</u>	<u>\$ 281,769</u>

See accompanying notes.

MOBILE BAYKEEPER, INC.
NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organizational Structure

Mobile Baykeeper, Inc. is a nonprofit organization located in the city of Mobile, Alabama. Revenues are derived mainly from memberships, contributions, fundraising, and grant proceeds.

Nature of Activities

Mobile Baykeeper, Inc. provides citizens a means to protect the beauty, health, and heritage of the Mobile Bay watershed.

Basis of Accounting

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

Income Taxes

The Organization is a nonprofit organization exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code.

Cash

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

Grants Receivable

Receivables include amounts due from a grantor under grant agreement. Management considers receivables over thirty days as past due. Receivables are considered uncollectible at management's discretion. The direct write-off method is used for charging off uncollectible receivables. Generally accepted accounting principles require that the allowance method be used to reflect bad debt expense. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed.

Allowance for Uncollectible Pledges

Pledges receivable are stated net of an allowance for uncollectible pledges. The estimated losses are based on management's evaluation of outstanding pledges receivable at the end of the year. The allowance for uncollectible pledges for pledges receivable was \$12,495 and \$-0- at December 31, 2012 and 2011, respectively.

Inventory

Inventory is composed of small gifts and merchandise for sale at the Organization's office and through the Organization's website. Inventory is recorded at the lower of cost or market. Cost is determined by the first-in, first-out method (FIFO).

MOBILE BAYKEEPER, INC.
NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are stated at cost or, in the case of gifts, fair value at the date of donation. The Organization follows the practice of capitalizing all expenditures for property and equipment in excess of \$500 and those that have an estimated useful life of at least two years. Depreciation has been provided on the straight line basis over the useful lives of the assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence or nature of any donor restrictions.

Estimates

The preparation of financial statements in conformity with generally 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.

Financial Statement Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

GRANTS RECEIVABLE

As of December 31, 2012, grants receivable consisted of \$-0-. As of December 31, 2011, grants receivable consisted of \$50,000 from one grantor.

PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Boat	\$ 15,694	\$ 15,694
Furniture, fixtures and equipment	51,683	51,683
Leasehold improvements	<u>5,794</u>	<u>5,794</u>
	73,171	73,171
Less: accumulated depreciation	<u>(54,607)</u>	<u>(40,122)</u>
	<u>\$ 18,564</u>	<u>\$ 33,049</u>

Depreciation expense for the years ended December 31, 2012 and 2011 was \$14,485 and \$13,517, respectively.

MOBILE BAYKEEPER, INC.
NOTES TO FINANCIAL STATEMENTS

PLEDGES RECEIVABLE

The Organization received unconditional promises to give in the amount of \$124,950 and 2012. The pledges are unrestricted. Mobile Baykeeper, Inc. has never requested and/or received pledges prior to the fiscal year ending December 31, 2012. The pledges receivable balance consists of the following at December 31, 2012:

	<u>2012</u>
Receivable in less than one year	\$ 3,700
Less estimated uncollectible amounts	<u>(370)</u>
	<u>\$ 3,330</u>

	<u>2012</u>
Receivable in one to four years	\$ 121,250
Less estimated uncollectible amounts	<u>(12,125)</u>
	<u>\$ 109,125</u>

OPERATING LEASE

The Organization leases office space in Mobile, Alabama from an unrelated party under a non-cancelable operating lease expiring in 2016.

Minimum lease payments are as follows:

Year ending December 31,	
2013	\$ 19,200
2014	19,200
2015	20,450
2016	<u>13,800</u>
	<u>\$ 72,650</u>

MOBILE BAYKEEPER, INC.
NOTES TO FINANCIAL STATEMENTS

RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Pledges receivable	\$ 112,455	\$ ---
Stormwater	---	67,000
Local issues	6,000	10,000
Oil response and restoration	<u>104,500</u>	<u>90,497</u>
	<u>\$ 222,955</u>	<u>\$ 167,497</u>

MAJOR GRANTORS

Grantor proceeds as a percentage of total support and revenue:

	<u>2012</u>	<u>2011</u>
Grantor A	---	21.18%
Grantor B	6.33%	7.46%
Grantor C	18.09%	16.95%

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and support services benefited.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Organization believes the carrying amount of cash, pledges receivable, grants receivable, and accounts payable approximates fair value due to their short maturity. The Organization also believes the carrying amount of the Organization's long-term assets approximates fair value.

EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through September 3, 2013, the date through which the financial statements were available to be issued. No significant subsequent events have been identified that would require adjustment of or disclosure in the accompanying financial statements.

MOBILE BAYKEEPER, INC.
NOTES TO FINANCIAL STATEMENTS

PRIOR-YEAR SUMMARIZED COMPARATIVE DATA

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, 2011, from which the summarized information was derived.