

MOBILE BAYKEEPER, INC.

FINANCIAL REPORT

DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I have audited the accompanying financial statements of Mobile Baykeeper, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years 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

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits 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 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, 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 management, as well as 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 referred to above present fairly, in all material respects, the financial position of Mobile Baykeeper, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Kim K. Enikeieff

February 10, 2017

MOBILE BAYKEEPER, INC.

STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015

| ASSETS | <u>2016</u> | <u>2015</u> |
|---|--------------------------|--------------------------|
| Current assets | | |
| Cash | \$ 355,658 | \$ 297,116 |
| Investments | 49,503 | - |
| Unconditional promises to give, current | 57,451 | 78,583 |
| Grant receivable | 7,100 | - |
| Prepaid expenses | <u>3,287</u> | <u>2,986</u> |
| Total current assets | 472,999 | 378,685 |
| Unconditional promises to give, long-term | 80,007 | 112,874 |
| Property, plant and equipment, net | <u>29,514</u> | <u>16,627</u> |
| Total assets | <u><u>\$ 582,520</u></u> | <u><u>\$ 508,186</u></u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | <u>\$ 6,536</u> | <u>\$ 5,409</u> |
| Total current liabilities | <u>6,536</u> | <u>5,409</u> |
| Net assets | | |
| Unrestricted | 353,526 | 257,570 |
| Temporarily restricted | 222,458 | 245,207 |
| Permanently restricted | <u>-</u> | <u>-</u> |
| Total net assets | <u>575,984</u> | <u>502,777</u> |
| Total liabilities and net assets | <u><u>\$ 582,520</u></u> | <u><u>\$ 508,186</u></u> |

See notes to financial statements.

MOBILE BAYKEEPER, INC.

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016 with Comparative Totals for 2015

| | Unrestricted | Temporarily Restricted | 2016 Total | 2015 Total |
|---|--------------|---------------------------|---------------|---------------|
| Support and revenue | | | | |
| Membership and other contributions | \$ 69,407 | \$ - | \$ 69,407 | \$ 60,880 |
| Grants | 7,100 | 245,800 | 252,900 | 269,467 |
| Fundraising income | 160,759 | 28,275 | 189,034 | 263,403 |
| Investment income | 2,751 | - | 2,751 | 1,534 |
| Environmental fine revenue | 184,750 | - | 184,750 | 24,500 |
| | 424,767 | 274,075 | 698,842 | 619,784 |
| Total support and revenue | | | | |
| Net assets released from restrictions and reclassifications | 296,824 | (296,824) | - | - |
| | 721,591 | (22,749) | 698,842 | 619,784 |
| Total support and revenue | | | | |
| Expenses | | | | |
| Program Services | | | | |
| Membership outreach and education | 178,816 | - | 178,816 | 146,836 |
| Oil restoration and recovery | 112,139 | - | 112,139 | 130,667 |
| Local issues | 208,273 | - | 208,273 | 132,871 |
| Statewide issues | 37,421 | - | 37,421 | 54,296 |
| | 536,649 | - | 536,649 | 464,670 |
| Total program services | | | | |
| Supporting Services: | | | | |
| Fundraising | 47,775 | - | 47,775 | 57,324 |
| Management and general | 41,211 | - | 41,211 | 40,309 |
| | 88,986 | - | 88,986 | 97,633 |
| Total supporting services | | | | |
| Total expenses | 625,635 | - | 625,635 | 562,303 |
| Change in net assets | 95,956 | (22,749) | 73,207 | 57,481 |
| Net assets, beginning of year | 257,570 | 245,207 | 502,777 | 445,296 |
| Net assets, end of year | \$ 353,526 | \$ 222,458 | \$ 575,984 | \$ 502,777 |

See notes to financial statements.

MOBILE BAYKEEPER, INC.

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2016 with Comparative Totals for 2015

| | Program Services | | | | | Fundraising | General and Administrative | 2016 Total Expenses | 2015 Total Expenses |
|------------------------------------|------------------------------|---------------------------------------|-----------------|---------------------|------------|-------------|----------------------------------|---------------------------|---------------------------|
| | Outreach and Education | Oil Response and Restoration | Local Issues | Statewide Issues | Total | | | | |
| Accounting | \$ 1,600 | \$ 1,600 | \$ 1,600 | \$ 1,600 | \$ 6,400 | \$ 800 | \$ 800 | \$ 8,000 | \$ 7,900 |
| Advertising | - | - | 2,069 | 2,069 | 4,138 | 2,760 | - | 6,898 | 1,709 |
| Bank charges | 727 | 470 | 743 | 152 | 2,092 | 135 | 194 | 2,421 | 1,798 |
| Baykeeper boat | - | - | 3,212 | - | 3,212 | - | 1,376 | 4,588 | 1,830 |
| Consulting and legal fees | - | - | 32,264 | - | 32,264 | - | - | 32,264 | 5,175 |
| Donations to other organizations | - | - | - | - | - | - | - | - | 14,750 |
| Education | 5,117 | 3,300 | 5,225 | 1,071 | 14,713 | 953 | 1,349 | 17,015 | 1,677 |
| Event expense | - | - | - | - | - | - | - | - | 3,086 |
| Bay Awakening | 846 | 846 | 846 | - | 2,538 | 3,102 | - | 5,640 | 5,517 |
| Bay Bash | 575 | 575 | 575 | - | 1,725 | 2,110 | - | 3,835 | 2,685 |
| Bay Bites | 57 | 57 | 57 | - | 171 | 213 | - | 384 | - |
| Bay Splash | 287 | 287 | 287 | - | 861 | 1,050 | - | 1,911 | 5,168 |
| Grandman | 1,542 | 1,542 | 1,542 | - | 4,626 | 5,660 | 43 | 10,329 | 11,819 |
| Insurance | 3,906 | 2,520 | 3,989 | 817 | 11,232 | 727 | 1,030 | 12,989 | 11,057 |
| Conference, meetings, and travel | 8,985 | 5,795 | 9,174 | 1,880 | 25,834 | 1,674 | 2,369 | 29,877 | 24,487 |
| Member mailing | 938 | 605 | 958 | 196 | 2,697 | 422 | - | 3,119 | 483 |
| Merchandise | 16,319 | 3,497 | 3,497 | - | 23,313 | - | - | 23,313 | 19,249 |
| Miscellaneous | 2,617 | 2,617 | 5,236 | 2,617 | 13,087 | - | - | 13,087 | 13,010 |
| Office furniture and equipment | 262 | 169 | 267 | 54 | 752 | 50 | 69 | 871 | 2,893 |
| Office supplies | 1,947 | 1,257 | 1,989 | 407 | 5,600 | 363 | 513 | 6,476 | 4,480 |
| Personnel costs | 109,435 | 70,587 | 111,745 | 22,897 | 314,664 | 20,392 | 28,849 | 363,905 | 335,517 |
| Postage | 1,120 | 722 | 1,143 | 234 | 3,219 | 209 | 298 | 3,726 | 3,648 |
| Printing | 3,629 | 2,340 | 3,705 | 759 | 10,433 | 676 | 957 | 12,066 | 15,429 |
| Rent | 6,225 | 4,015 | 6,356 | 1,302 | 17,898 | 1,160 | 1,642 | 20,700 | 20,575 |
| Uncollectible pledge expense | 6,153 | 5,127 | 5,127 | - | 16,407 | 4,102 | - | 20,509 | 24,415 |
| Utilities | 4,099 | 2,644 | 4,186 | 858 | 11,787 | 764 | 1,082 | 13,633 | 17,415 |
| Total expenses before depreciation | 176,386 | 110,572 | 205,792 | 36,913 | 529,663 | 47,322 | 40,571 | 617,556 | 555,772 |
| Depreciation | 2,430 | 1,567 | 2,481 | 508 | 6,986 | 453 | 640 | 8,079 | 6,531 |
| Total expenses | \$ 178,816 | \$ 112,139 | \$ 208,273 | \$ 37,421 | \$ 536,649 | \$ 47,775 | \$ 41,211 | \$ 625,635 | \$ 562,303 |

See notes to financial statements.

MOBILE BAYKEEPER, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015

| | 2016 | 2015 |
|---|------------|------------|
| Cash Flows from Operating Activities: | | |
| Change in net assets | \$ 73,207 | \$ 57,481 |
| Adjustments to reconcile change in net assets to net cash used for operating activities: | | |
| Depreciation | 8,079 | 6,531 |
| Uncollectible pledge expense | 20,509 | 24,415 |
| Net realized (gain) loss on investments | (421) | - |
| Net unrealized (gain) loss on investments | (132) | - |
| (Increase) decrease in: | | |
| Promises to give | 33,490 | (31,884) |
| Grants receivable | (7,100) | 2,000 |
| Prepaid expenses | (301) | - |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 1,127 | (3,456) |
| Net cash provided by operating activities | 128,458 | 55,087 |
| Cash flows from investing activities: | | |
| Purchase of investments | (48,950) | - |
| Purchase of fixed assets | (20,966) | (14,272) |
| Net cash used by investing activities | (69,916) | (14,272) |
| Net increase in cash | 58,542 | 40,815 |
| Cash, beginning of year | 297,116 | 256,301 |
| Cash, end of year | \$ 355,658 | \$ 297,116 |

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Nature of Business

Mobile Baykeeper, Inc. (the "Organization") is a nonprofit organization located in Mobile, Alabama. The Organization provides citizens a means to protect the beauty, health, and heritage of the Mobile Bay Watershed. Revenues are derived mainly from memberships, contributions, fundraising and grant proceeds.

The Organization is directed by an active Board of Directors whose members serve without compensation.

Summary of Significant Accounting Policies

Basis of presentation

The accompanying financial statements have been prepared utilizing the accrual basis of accounting.

Cash and cash equivalents

Cash and cash equivalents include all demand deposit accounts, money market accounts and certificates of deposit.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

The Organization values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy that prioritizes the inputs to valuation techniques is used to measure the fair value. The hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into the following three levels, based on the reliability of the inputs:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that are observable at the measurement date;

Level 2: Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data; and

Level 3: Significant unobservable inputs for the asset or liability that reflect the reporting organization's own estimates about the assumptions that market participants would use in pricing the asset or liability.

Summary of Significant Accounting Policies (continued)

Promises to give

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 \$103,300 and \$82,790 at December 31, 2016 and 2015, respectively.

Property and equipment

Property and equipment is stated at cost, or in the case of gifts, fair value at the date of donation. The Organization follows the practice of capitalizing, at cost, all expenditures for fixed assets in excess of \$500. Depreciation is provided principally on the straight-line method over the estimated useful lives of the depreciable assets.

Net assets

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or program restriction is accomplished, temporarily restricted net assets are transferred to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization classifies donor-restricted contributions as unrestricted support if those restrictions are satisfied in the same reporting period.

Temporarily restricted net assets represent pledges receivable, which are restricted by time, and grants, which are restricted by donor stipulation.

Permanently restricted net assets represent gifts to be held in perpetuity and is restricted by donors, the income from which is expendable to support the restricted purpose.

Income taxes

Income taxes are not provided for in the financial statements since the Organization is exempt from federal and state income taxes under section 501(c)(3) of the Internal Revenue Code and similar state provisions. The Organization is not classified as a private foundation.

A policy for accounting for uncertainty in income taxes was adopted in prior years that require the Organization to determine whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. The Organization has no uncertain tax positions that qualified for either recognition or disclosure in the financial statements at December 31, 2016 or December 31, 2015.

Functional expenses

Functional expenses have been allocated between Program Services, General and Administrative, and Fundraising based on an analysis of personnel time and space utilized for the related activities.

Summary of Significant Accounting Policies (continued)

Grant and cooperative agreements

The Organization receives grants and contracts from Federal and State agencies, as well as from private organizations, to be used for specific programs. The Organization's costs incurred under its government grants and contracts are subject to audit by government agencies. Management believes that disallowance of costs, if any, would not be material to the financial position or changes in net assets of the Organization.

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.

Donated materials and services

Donated materials or equipment, when received, are reflected as contributions in the accompanying statements at their estimated fair market values at the date of receipt. No amounts have been reflected in the statements for donated services as no objective basis is available to measure the value of such services. Nevertheless, a substantial number of volunteers donated significant amounts of their time in the Organization's program services.

Comparative amounts

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense category. 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, 2015, from which the summarized information was derived.

Evaluation of subsequent events

The Organization has evaluated subsequent events through February 10, 2017, the date which the financial statements were available to be issued.

Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes or period at December 31:

| | 2016 | 2015 |
|------------------------------|-------------------|-------------------|
| Pledges receivable | \$ 137,458 | \$ 191,457 |
| Local issues | 76,500 | 43,750 |
| Oil response and restoration | 8,500 | 10,000 |
| Total | <u>\$ 222,458</u> | <u>\$ 245,207</u> |

Promises to Give

Unconditional promises to give at December 31 are as follows:

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| Receivable in less than one year | \$ 140,242 | \$ 136,958 |
| Receivable in one to five years | <u>100,516</u> | <u>137,289</u> |
| Total unconditional promises to give | 240,758 | 274,247 |
| Less allowance for uncollectible promises | <u>103,300</u> | <u>82,790</u> |
| Net unconditional promises to give | <u>\$ 137,458</u> | <u>\$ 191,457</u> |

The discount on the long-term promises to give to determine the net present value was not significant.

Investments

The Community Foundation of South Alabama holds and invests a portion of the Organization's investment portfolio. The funds are under the control of the Community Foundation of South Alabama and at the request of the Organization, the Foundation disburses funds as needed.

Investments are stated at fair value and are summarized as follows as of December 31:

| | 2016 | | | |
|--|-------------------------------|------------------|----------------|------------------|
| | Fair value measurements using | | | |
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Mutual funds – Community Foundation of South Alabama | \$ 25,379 | \$ - | \$ - | \$ 25,379 |
| Bond fund | <u>-</u> | <u>24,124</u> | <u>-</u> | <u>24,124</u> |
| Total | <u>\$ 25,379</u> | <u>\$ 24,124</u> | <u>\$ -</u> | <u>\$ 49,503</u> |

Investment return for the years ended December 31, 2016 is summarized as follows:

| | 2016 | | | |
|------------------------------|---------------------|-------------------------------|-------------------------------|-----------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Interest and dividend income | \$ 2,732 | \$ - | \$ - | \$ 2,732 |
| Realized gains (losses) | 37 | - | - | 37 |
| Unrealized gains (losses) | 132 | - | - | 132 |
| Administrative fees | <u>(150)</u> | <u>-</u> | <u>-</u> | <u>(150)</u> |
| Total | <u>\$ 2,751</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,751</u> |

Property and Equipment

Property and equipment consists of the following amounts at December 31, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|-----------------------------------|------------------|------------------|
| Boat | \$ 15,694 | \$ 15,694 |
| Furniture, fixtures and equipment | 84,680 | 63,714 |
| Leasehold improvements | <u>5,794</u> | <u>5,794</u> |
| | 106,168 | 85,202 |
| Less accumulated depreciation | <u>76,654</u> | <u>68,575</u> |
| Total | <u>\$ 29,514</u> | <u>\$ 16,627</u> |

Operating Lease

As of January 4, 2017, the Organization entered into a five-year non-cancelable operating lease for its office facility with an unrelated party. The amount reported in rent expense was \$20,700 and \$20,575 for the years ended December 31, 2016 and 2015, respectively.

The future minimum lease payments under this lease are as follows:

| | |
|-------|-------------------|
| 2017 | \$ 22,200 |
| 2018 | 23,400 |
| 2019 | 23,400 |
| 2020 | 24,600 |
| 2021 | <u>24,600</u> |
| Total | <u>\$ 118,200</u> |

Endowment

The Organization's endowment consists of a fund established for the purpose of providing funding to support the Organization in its mission to protect the beauty, health, and heritage of the Mobile Bay Watershed. Distributions from the endowment fund must have approval from the Endowment Committee. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Organization classifies as permanently restricted net assets the original value of the gifts donated to the permanent endowment and the net appreciation of realized and unrealized gains and losses.

Endowment (continued)

The Organization has interpreted the Uniform Prudent Management and Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulated donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

The Organization has adopted investment and spending policies for endowment assets that attempt to subject the fund to low investment risk and provide the Organization's programs with current income. Endowment assets are invested in mutual funds. The Organization seeks to build endowment assets through investment earnings and additional contributions. The Organization has a policy of appropriating for distribution annually a portion of the endowment fund's investment income from the previous years. The current spending policy is expected to allow the Organization's endowment fund to grow as a result of investment returns. This is consistent with the Organization's objective to provide income to the Organization's programs, preserve endowment assets without subjecting them to substantial risk, and provide additional real growth through investment income and new gifts. The Organization's investments which are held by the Community Foundation of South Alabama are directed by the investment policies of the Foundation.

Changes in endowment net assets for the year ended December 31, 2016 is summarized as follows:

| | <u>2016</u> | | | |
|---|---------------------|-----------------------------------|-----------------------------------|------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Endowment net assets | | | | |
| beginning of year | \$ - | \$ - | \$ - | \$ - |
| Investment return: | | | | |
| Investment income | 143 | - | - | 143 |
| Net appreciation (realized and unrealized) | <u>236</u> | <u>-</u> | <u>-</u> | <u>236</u> |
| Total investment return | 379 | - | - | 379 |
| Contributions | 25,000 | - | - | 25,000 |
| Reclassifications | - | - | - | - |
| Amounts appropriated for Expenditure | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 25,379</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 25,379</u> |