

MOBILE BAYKEEPER, INC.

FINANCIAL REPORT

DECEMBER 31, 2017

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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, 2017 and 2016, 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, 2017 and 2016, 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

March 9, 2018

MOBILE BAYKEEPER, INC.

STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Current assets		
Cash	\$ 275,553	\$ 226,213
Investments	185,191	178,948
Unconditional promises to give, current	43,344	57,451
Grant receivable	14,660	7,100
Prepaid expenses	<u>4,187</u>	<u>3,287</u>
 Total current assets	 522,935	 472,999
 Unconditional promises to give, long-term	 28,824	 80,007
Property, plant and equipment, net	<u>33,731</u>	<u>29,514</u>
 Total assets	 <u>\$ 585,490</u>	 <u>\$ 582,520</u>
 LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	<u>\$ 5,951</u>	<u>\$ 6,536</u>
 Total current liabilities	 <u>5,951</u>	 <u>6,536</u>
 Net assets		
Unrestricted	282,073	353,526
Temporarily restricted	297,466	222,458
Permanently restricted	<u>-</u>	<u>-</u>
 Total net assets	 <u>579,539</u>	 <u>575,984</u>
 Total liabilities and net assets	 <u>\$ 585,490</u>	 <u>\$ 582,520</u>

See notes to financial statements.

MOBILE BAYKEEPER, INC.

STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue								
Special events	\$ 215,654	\$ -	\$ -	\$ 215,654	\$ 160,759	\$ -	\$ -	\$ 160,759
Less cost of special events	84,618	-	-	84,618	53,705	-	-	53,705
Net special events	131,036	-	-	131,036	107,054	-	-	107,054
Membership and other contributions	92,383	-	-	92,383	70,611	28,275	-	98,886
Grants	110,986	225,298	-	336,284	7,100	245,800	-	252,900
Investment income	3,600	-	-	3,600	1,547	-	-	1,547
Merchandise sales	1,691	-	-	1,691	-	-	-	-
Environmental fine revenue	83,200	-	-	83,200	184,750	-	-	184,750
Net assets released from restrictions	150,290	(150,290)	-	-	296,824	(296,824)	-	-
Total support and revenue	573,186	75,008	-	648,194	667,886	(22,749)	-	645,137
Expenses								
Program Services								
Membership	145,313	-	-	145,313	162,339	-	-	162,339
Educate and engage	150,452	-	-	150,452	104,026	-	-	104,026
Infrastructure	164,795	-	-	164,795	195,301	-	-	195,301
Responsible growth	109,522	-	-	109,522	35,720	-	-	35,720
Total program services	570,082	-	-	570,082	497,386	-	-	497,386
Supporting Services:								
Fundraising	31,619	-	-	31,619	33,054	-	-	33,054
Management and general	42,938	-	-	42,938	41,490	-	-	41,490
Total supporting services	74,557	-	-	74,557	74,544	-	-	74,544
Total expenses	644,639	-	-	644,639	571,930	-	-	571,930
Change in net assets	(71,453)	75,008	-	3,555	95,956	(22,749)	-	73,207
Net assets, beginning of year	353,526	222,458	-	575,984	257,570	245,207	-	502,777
Net assets, end of year	\$ 282,073	\$ 297,466	\$ -	\$ 579,539	\$ 353,526	\$ 222,458	\$ -	\$ 575,984

See notes to financial statements.

MOBILE BAYKEEPER, INC.

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2017 with Comparative Totals for 2016

	Program Services						General and Administrative	2017 Total Expenses	2016 Total Expenses
	Membership	Educate and Engage	Infrastructure	Responsible Growth	Total	Fundraising			
Accounting	\$ 1,600	\$ 1,600	\$ 1,600	\$ 1,600	\$ 6,400	\$ 800	\$ 800	\$ 8,000	\$ 8,000
Advertising	1,269	1,234	1,297	919	4,719	682	-	5,401	2,904
Bank charges	494	481	505	358	1,838	110	156	2,104	1,252
Baykeeper boat	-	-	2,280	-	2,280	-	-	2,280	4,546
Consulting and legal fees	-	-	2,800	-	2,800	-	-	2,800	32,264
Donations to other organizations	-	-	9,995	-	9,995	-	-	9,995	-
Education	1,811	1,762	1,850	1,311	6,734	402	570	7,706	16,840
Insurance	2,436	2,370	2,488	1,764	9,058	540	768	10,366	7,279
Conference, meetings, and travel	8,050	7,832	8,224	5,830	29,936	1,786	2,537	34,259	25,417
Member mailing	301	292	308	218	1,119	162	-	1,281	2,839
Merchandise	919	894	939	665	3,417	493	-	3,910	10,843
Miscellaneous	3,252	3,164	3,322	2,355	12,093	721	1,024	13,838	10,117
Office furniture and equipment	1,742	1,695	1,780	1,262	6,479	386	549	7,414	871
Office supplies	1,593	1,550	1,627	1,153	5,923	353	502	6,778	5,827
Program supplies	-	8,800	1,475	1,549	11,824	-	68	11,892	1,970
Personnel costs	98,725	96,056	100,863	71,499	367,143	21,901	31,301	420,345	363,905
Postage	678	660	693	491	2,522	150	214	2,886	3,493
Printing	2,471	2,404	2,524	1,789	9,188	548	779	10,515	10,642
Rent	5,157	5,018	5,270	3,735	19,180	1,145	1,625	21,950	20,700
Uncollectible pledge expense	8,326	8,326	8,326	8,326	33,304	-	-	33,304	20,509
Utilities	3,150	3,064	3,218	2,280	11,712	699	993	13,404	13,633
Total expenses before depreciation	141,974	147,202	161,384	107,104	557,664	30,878	41,886	630,428	563,851
Depreciation	3,339	3,250	3,411	2,418	12,418	741	1,052	14,211	8,079
Total expenses	\$ 145,313	\$ 150,452	\$ 164,795	\$ 109,522	\$ 570,082	\$ 31,619	\$ 42,938	\$ 644,639	\$ 571,930

See notes to financial statements.

MOBILE BAYKEEPER, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities:		
Change in net assets	\$ 3,555	\$ 73,207
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation	14,211	8,079
Uncollectible pledge expense	33,304	20,509
Donated vehicle	(6,000)	-
Donated stocks and bonds	(2,883)	(1,204)
Net realized (gain) loss on investments	(11)	(282)
Net unrealized (gain) loss on investments	(3,349)	(132)
(Increase) decrease in:		
Promises to give	31,986	33,490
Grants receivable	(7,560)	(7,100)
Prepaid expenses	(900)	(301)
Increase (decrease) in:		
Accounts payable and accrued expenses	(585)	1,127
Net cash provided by operating activities	61,768	127,393
Cash flows from investing activities:		
Purchase of investments	-	(165,259)
Purchase of fixed assets	(12,428)	(20,966)
Net cash used by investing activities	(12,428)	(186,225)
Net increase in cash	49,340	(58,832)
Cash, beginning of year	226,213	285,045
Cash, end of year	\$ 275,553	\$ 226,213

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 \$70,000 and \$103,300 at December 31, 2017 and 2016, 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, 2017 or December 31, 2016.

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, 2016, from which the summarized information was derived.

Reclassifications

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation. Such reclassifications had no effect on previously reported change in net assets.

Evaluation of subsequent events

The Organization has evaluated subsequent events through March 9, 2018, 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:

	2017	2016
Pledges receivable	\$ 72,168	\$ 137,458
Infrastructure	225,298	76,500
Educate and engage	-	8,500
Total	<u>\$ 297,466</u>	<u>\$ 222,458</u>

Promises to Give

Unconditional promises to give at December 31 are as follows:

	2017	2016
Receivable in less than one year	\$ 104,089	\$ 140,242
Receivable in one to five years	38,079	100,516
Total unconditional promises to give	142,168	240,758
Less allowance for uncollectible promises	70,000	103,300
Net unconditional promises to give	<u>\$ 72,168</u>	<u>\$ 137,458</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:

2017				
Fair value measurements using				
	Level 1	Level 2	Level 3	Total
Mutual funds – Community Foundation of South Alabama	\$ 28,159	\$ -	\$ -	\$ 28,159
Money Market Funds	107,363	-	-	107,363
Bond fund	-	49,669	-	49,669
Total	<u>\$ 135,522</u>	<u>\$ 49,669</u>	<u>\$ -</u>	<u>\$ 185,191</u>
2016				
Fair value measurements using				
	Level 1	Level 2	Level 3	Total
Mutual funds – Community Foundation of South Alabama	\$ 25,379	\$ -	\$ -	\$ 25,379
Money Market Funds	129,445	-	-	129,445
Bond fund	-	24,124	-	24,124
Total	<u>\$ 154,824</u>	<u>\$ 24,124</u>	<u>\$ -</u>	<u>\$ 178,948</u>

Investments (continued)

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

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Interest and dividend income	\$ 1,395	\$ -	\$ -	\$ 1,395
Realized gains (losses)	(743)	-	-	(743)
Unrealized gains (losses)	3,349	-	-	3,349
Administrative fees	(401)	-	-	(401)
Total	<u>\$ 3,600</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,600</u>

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Interest and dividend income	\$ 1,666	\$ -	\$ -	\$ 1,666
Realized gains (losses)	(101)	-	-	(101)
Unrealized gains (losses)	132	-	-	132
Administrative fees	(150)	-	-	(150)
Total	<u>\$ 1,547</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,547</u>

Property and Equipment

Property and equipment consists of the following amounts at December 31, 2017 and 2016:

	2017	2016
Boat	\$ 15,694	\$ 15,694
Furniture, fixtures and equipment	103,108	84,680
Leasehold improvements	5,794	5,794
	124,596	106,168
Less accumulated depreciation	90,865	76,654
Total	<u>\$ 33,731</u>	<u>\$ 29,514</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 \$21,950 and \$20,700 for the years ended December 31, 2017 and 2016, respectively.

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

2018	\$	22,200
2019		23,400
2020		23,400
2021		<u>24,600</u>
Total	\$	<u>93,600</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.

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.

Endowment (continued)

Changes in endowment net assets for the year ended December 31, 2017 and 2016 are summarized as follows:

	<u>2017</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets beginning of year	\$ 25,379	\$ -	\$ -	\$ 25,379
Investment return:				
Investment income	169	-	-	169
Net appreciation (realized and unrealized)	<u>2,611</u>	<u>-</u>	<u>-</u>	<u>2,611</u>
Total investment return	2,780	-	-	2,780
Contributions	-	-	-	-
Reclassifications	-	-	-	-
Amounts appropriated for Expenditure	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 28,159</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,159</u>
	<u>2016</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</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>