

Los Angeles Waterkeeper

Santa Monica, California

Financial Statements and Independent Auditors' Report

For the Years Ended December 31, 2016 and 2015



Los Angeles Waterkeeper
For the Years Ended December 31, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the Los Angeles Waterkeeper
Santa Monica, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Los Angeles Waterkeeper (Organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities 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 controls 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 audits. We conducted our audits 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.

To the Board of Directors
of the Los Angeles Waterkeeper
Santa Monica, California
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Functional Expenses on pages 15 and 16 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

The PwC Group, LLP

Santa Ana, California
April 27, 2017

FINANCIAL STATEMENTS

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**Los Angeles Waterkeeper
Statements of Financial Position
December 31, 2016 and 2015**

ASSETS	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 817,420	\$ 754,526
Accounts receivable	3,608	-
Contributions receivable	12,500	15,000
Prepaid expense and deposits	<u>45,370</u>	<u>43,349</u>
Total current assets	<u>878,898</u>	<u>812,875</u>
Non-current assets:		
Property and equipment, net (note 2)	<u>-</u>	<u>3,341</u>
Total non-current assets	<u>-</u>	<u>3,341</u>
Total assets	<u><u>\$ 878,898</u></u>	<u><u>\$ 816,216</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts and other payables	\$ 18,291	\$ 10,870
Accrued vacation payable	29,102	13,561
Deferred rent credit	<u>16,186</u>	<u>11,288</u>
Total liabilities	<u>63,579</u>	<u>35,719</u>
Net assets:		
Unrestricted	<u>815,319</u>	<u>780,497</u>
Total net assets	<u>815,319</u>	<u>780,497</u>
Total liabilities and net assets	<u><u>\$ 878,898</u></u>	<u><u>\$ 816,216</u></u>

Los Angeles Waterkeeper
Statements of Activities
For the Years Ended December 31, 2016 and 2015

	2016	2015
REVENUES:	Unrestricted	Unrestricted
Support and other revenue:		
Contributions, gifts and grants:		
Direct public support	\$ 27,952	\$ 39,454
Grant funding	500,821	443,966
Program revenue – case recovery	258,250	283,746
Fundraising – events, net (note 3)	426,479	251,451
In-kind	6,818	12,401
Interest earnings	212	236
Other revenue	67,407	37,865
Total support and other revenue	1,287,939	1,069,119
EXPENSES:		
Program expenses:		
Advocacy/Litigation	526,694	422,708
Marine program	266,702	293,899
Watershed program	102,112	43,901
Education/Outreach	167,535	75,353
Total program expenses	1,063,043	835,861
Supporting services:		
Management and general	46,758	49,698
Fundraising	143,316	183,627
Total supporting services	190,074	233,325
Total expenses	1,253,117	1,069,186
Change in net assets	34,822	(67)
Net Assets:		
Beginning of year	780,497	780,564
End of year	\$ 815,319	\$ 780,497

Los Angeles Waterkeeper
Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

CASH FLOWS FROM OPERATING ACTIVITIES:	<u>2016</u>	<u>2015</u>
Change in net assets	\$ 34,822	\$ (67)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	3,341	7,066
Changes in assets and liabilities:		
Accounts receivable	(3,608)	-
Contributions receivable	2,500	(15,000)
Prepaid expense and deposits	(2,021)	(1,112)
Accounts and other payables	7,421	(4,907)
Accrued vacation payable	15,541	2,364
Deferred rent credit	4,898	11,288
Net cash provided by (used in) operating activities	<u>62,894</u>	<u>(368)</u>
Net increase (decrease) in cash and cash equivalents	62,894	(368)
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>754,526</u>	<u>754,894</u>
End of year	<u><u>\$ 817,420</u></u>	<u><u>\$ 754,526</u></u>

Los Angeles Waterkeeper
Notes to the Financial Statements
For the Years Ended December 31, 2016 and 2015

Note 1 – Reporting Entity and Summary of Significant Accounting Policies

Los Angeles Waterkeeper (Organization) is a California nonprofit public benefit organization dedicated to the protection and preservation of swimmable, fishable and drinkable waters of the inland and coastal regions throughout Los Angeles County.

Founded in 1993, the Organization's mission is to protect and restore the Santa Monica Bay, San Pedro Bay, and adjacent waters through enforcement, fieldwork, and community action. In June 2012, the Santa Monica Baykeeper changed its name to the Los Angeles Waterkeeper. The new name better reflects the mission to protect and restore all waterways in Los Angeles County and will better enable the Organization to reach supporters and constituents throughout the region.

The Organization maintains a full-time staff of skilled environmental scientists, attorneys and educators, who preside over three major programs: Advocacy/Litigation, Marine and Watershed. All of these programs also conduct public education and outreach as follows:

Advocacy/Litigation – Advocacy has been at the core of the Organization's work since its founding. This work consists of both promoting progressive regulation by various local, state, and federal agencies in addition to enforcing current laws. Enforcement of the Clean Water Act and related environmental laws is the Organization's chief pursuit.

Marine Program – The Marine Program works to promote ecosystem health and resiliency of Los Angeles County's coastal waters through monitoring and research, hands-on restoration and education, with frequent outreach and advocacy work relating to the operations of the State Coastal Conservancy, State Lands Commission, Ocean Protection Council, California Coastal Commission, Santa Monica Bay Restoration Commission, Los Angeles Long Beach Harbor Safety Committee, United States Coast Guard, California Department of Fish and Game, National Oceanic and Atmospheric Administration, National Marine Fisheries Service, National Marine Sanctuaries, United States Mineral Management Service, and the California Oil Spill Prevention and Response Technical Advisory Committee.

Watershed Program – The Watershed Program encompasses water quality monitoring, public education, and litigation support. The program is focused on identifying and addressing sources of pollution that impact the Los Angeles and San Gabriel Rivers, Ballena Creek, and ultimately the Santa Monica and San Pedro Bays and the Pacific Ocean. Over its 15+ year history, the program has taken a holistic approach, conducting river and coastal restoration and monitoring projects that help to improve water quality and viable habitats in the watersheds of the Los Angeles Basin.

Education/Outreach – Public outreach and education activities are designed to teach local residents and schoolchildren the value of coastal resources and what can be done to protect them. Protecting the natural resources that support communities is the responsibility of every resident and thus the Organization offers various programs that educate and involve residents, families, and students in conservation of coastal resources.

Basis of Accounting

The accompanying financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenue is recognized when earned and expenses are recorded as the liability when incurred.

Los Angeles Waterkeeper
Notes to the Financial Statements (Continued)
For the Years Ended December 31, 2016 and 2015

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

Basis of Presentation

The Organization follows the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification. This standard requires the Organization to report information regarding its financial position and change in net assets into the following three classes of net assets:

- *Unrestricted net assets* represent expendable funds available for operations, which are not restricted by donors or the donor-imposed restrictions have expired.
- *Temporarily restricted net assets* consist of contributed funds, subject to donor-imposed restrictions, contingent upon specific performance of a future event or a specific passage of time before the Organization may spend the funds. There were no temporarily restricted net assets at December 31, 2016 and 2015.
- *Permanently restricted net assets* contain donor-imposed restrictions and stipulate that the resources be maintained permanently but permit the Organization to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes. There were no permanently restricted net assets at December 31, 2016 and 2015.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the calendar year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in Organization net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of reporting cash flows, the Organization considers all highly liquid debt instruments, including money market funds, purchased with original maturities of three months or less to be cash equivalents. The carrying amount of cash and cash equivalents approximates fair value due to the short-term nature of these financial instruments.

Prepaid Expenses and Deposits

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid expenses or deposits.

Los Angeles Waterkeeper
Notes to the Financial Statements (Continued)
For the Years Ended December 31, 2016 and 2015

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair market value at date of donation. Depreciation is provided using the straight-line method of depreciation over the estimated useful lives of the assets, ranging from three to five years. Property and equipment are capitalized if the cost or donated fair market value of an asset is greater than, or equal to \$5,000.

Long-Lived Assets

The Organization accounts for impairment and disposition of long-lived assets. Impairment losses are recognized for long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows are not sufficient to recover the assets' carrying amount. There were no impairment of the value of such assets for the years ended December 31, 2016 and 2015.

Deferred Rent Credit and Rent Expense

For lease agreements that provide for escalating rent payments or free-rent occupancy periods, the Organization recognizes rent expense on a straight-line basis over the non-cancelable lease term and option renewal periods where failure to exercise such options would result in an economic penalty in such amount that renewal appears, at the inception of the lease, to be reasonably assured. The lease term commences on the date that the Organization takes possession of or controls the physical use of the property. Deferred rent credit is included as a liability on the statement of financial position in the amount of \$16,186 and \$11,288 as of December 31, 2016 and 2015, respectively.

Grant and Contracts Receivable Recognition

Grants and contracts are paid on a reimbursement basis, up to the maximum amounts allowed under the terms of the grant or contract. Periodic audits may be performed by the grantors, and certain costs may be questioned as not being reimbursable expenditures under the terms of the contracts. Such audits could lead to reimbursement to the grantors. The Organization's management believes disallowances, if any, will be immaterial.

Contributed In-Kind Goods and Services

Contributions of donated noncash assets are recorded at fair value in the period received. Contributions of donated services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Income Taxes

As a publicly supported not-for-profit organization, the Organization is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and the corresponding provisions of Section 23701d of the California Revenue and Taxation Code. The Organization is not subject to income tax except for taxes on the receipt of income, if any, which is unrelated to the Organization's tax-exempt purpose. The Organization is not a private-foundation and qualifies for the charitable deduction under 170(b)(1)(A)(vi) of the Internal Revenue Code.

The Organization has applied the provisions of ASC Subtopic 740-10, *Income Taxes—Overall*, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on recognition, classification, interest, and penalties, disclosure, and transition. Management of the Organization believes that no such uncertain tax positions exist as of December 31, 2016 and 2015.

Los Angeles Waterkeeper
Notes to the Financial Statements (Continued)
For the Years Ended December 31, 2016 and 2015

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing the Organization's programs and other activities have been presented in the schedule of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. The Organization uses proportional salary dollars to allocate indirect costs.

Note 2 – Property and Equipment

Property and equipment at December 31, 2016 and 2015 were comprised of the following:

	Balance December 31, 2016	Balance December 31, 2015
Depreciable assets:		
Boat	\$ 64,780	\$ 64,780
Website	25,000	25,000
Total depreciable assets	89,780	89,780
Accumulated depreciation	(89,780)	(86,439)
Total property and equipment, net	\$ -	\$ 3,341

Note 3 – Fundraising – Events

The Organization holds an annual fundraising event to support the operations of the Organization. The fundraising event for the years ended December 31, 2016 and 2015, respectively, were comprised of the following:

	2016	2015
	Making Waves	Making Waves
Fundraising event proceeds	\$ 555,197	\$ 342,529
Costs of direct benefits to attendees	(128,718)	(91,078)
Total fundraising – events, net	\$ 426,479	\$ 251,451

Note 4 – Public Support

Volunteers from the community have donated significant amounts of their time in support of the Organization's programs. No amounts have been reflected in the financial statements for the contributed services since no objective basis is available to measure the value of such services.

Los Angeles Waterkeeper
Notes to the Financial Statements (Continued)
For the Years Ended December 31, 2016 and 2015

Note 5 – Operating Lease Agreement

Related Party Transaction

In October 2014, the Organization entered into an office lease agreement with a company affiliated with a board member and paid a \$30,000 rent deposit, which is included in prepaid expense and deposits on the statement of financial position. The lease term ends on September 30, 2020. The Organization incurred \$107,262 for the years ended December 31, 2016 and 2015 in rent expense. Minimum future rental payments under this non-cancelable operating lease are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 107,262
2018	107,262
2019	107,262
2020	<u>80,446</u>
Total	<u>\$ 402,232</u>

Note 6 – Concentrations of Credit Risk and Other Risks

The Organization maintains cash balances at one financial institution. Financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Cash and cash equivalent balances above \$250,000 are uninsured. There were \$588,502 and \$488,461 on deposit uninsured above the FDIC limit for years ended December 31, 2016 and 2015, respectively.

Note 7 – Commitment and Contingencies

Grants and Contracts

The Organization has grants and contracts with government agencies that may be subject to an audit. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined. Management believes that any liability which may result from these audits would not be material.

Litigation

In the ordinary course of operations, the Organization is subject to claims and litigation from outside parties. After consultation with management, the Organization believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

Note 8 – Subsequent Events

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The Organization has evaluated subsequent events through April 27, 2017 which is the date the financial statements are available to be issued.

SUPPLEMENTARY INFORMATION

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Los Angeles Waterkeeper
Schedule of Functional Expenses
For the Year Ended December 31, 2016

Expense category	Program Services				
	Advocacy/ Litigation	Marine Program	Watershed Program	Education/ Outreach	Total Program Services
Salaries and wages	\$ 203,004	\$ 131,781	\$ 59,160	\$ 76,535	\$ 470,480
Payroll taxes	15,114	10,394	4,554	5,840	35,902
Employee benefits	7,009	11,939	3,338	3,939	26,225
Payroll service fee	1,098	722	314	408	2,542
Workers compensation	2,719	5,671	777	1,010	10,177
Total salaries and benefits	228,944	160,507	68,143	87,732	545,326
Accounting	12,870	8,526	3,820	4,706	29,922
Boat	-	19,665	-	354	20,019
Case recovery	127,460	-	-	-	127,460
Communications	19,417	10,131	4,405	5,726	39,679
Conferences and seminars	15,713	8,449	6,350	4,562	35,074
Dues and subscriptions	898	241	105	136	1,380
Events	-	-	-	29,153	29,153
Inkind	-	-	-	6,818	6,818
Insurance	2,402	3,183	686	892	7,163
Other	52,523	4,002	747	2,652	59,924
Professional fees	11,859	15,127	781	846	28,613
Rent	37,655	24,744	10,759	13,986	87,144
Supplies and equipment	16,953	12,127	6,316	9,972	45,368
Total other expenses	297,750	106,195	33,969	79,803	517,717
Total program services	<u>\$ 526,694</u>	<u>\$ 266,702</u>	<u>\$ 102,112</u>	<u>\$ 167,535</u>	<u>\$ 1,063,043</u>
	Supporting Services				
Expense category	Management and General	Fund - Raising	Total Supporting Services	Total	
Salaries and wages	\$ 25,732	\$ 86,418	\$ 112,150	\$ 582,630	
Payroll taxes	2,409	8,334	10,743	46,645	
Employee benefits	1,246	3,786	5,032	31,257	
Payroll service fee	157	439	596	3,138	
Workers compensation	388	1,087	1,475	11,652	
Total salaries and benefits	29,932	100,064	129,996	675,322	
Accounting	1,810	5,268	7,078	37,000	
Boat	-	-	-	20,019	
Case recovery	-	-	-	127,460	
Communications	2,202	6,167	8,369	48,048	
Conferences and seminars	492	2,209	2,701	37,775	
Dues and subscriptions	53	147	200	1,580	
Events	-	-	-	29,153	
Inkind	-	-	-	6,818	
Insurance	343	961	1,304	8,467	
Other	1,038	1,420	2,458	62,382	
Professional fees	266	744	1,010	29,623	
Rent	5,379	14,739	20,118	107,262	
Supplies and equipment	1,902	11,597	13,499	58,867	
Total other expenses	13,485	43,252	56,737	574,454	
Depreciation	3,341	-	3,341	3,341	
Total supporting services	<u>\$ 46,758</u>	<u>\$ 143,316</u>	<u>\$ 190,074</u>	<u>\$ 1,253,117</u>	

Los Angeles Waterkeeper
Schedule of Functional Expenses
For the Year Ended December 31, 2015

Expense category	Program Services				
	Advocacy/ Litigation	Marine Program	Watershed Program	Education/ Outreach	Total Program Services
Salaries and wages	\$ 163,997	\$ 115,575	\$ 18,774	\$ 22,739	\$ 321,085
Payroll taxes	14,161	12,153	-	2,757	29,071
Employee benefits	2,087	12,672	3,061	4,649	22,469
Payroll service fee	550	550	550	-	1,650
Workers compensation	1,538	5,280	1,537	-	8,355
Total salaries and benefits	182,333	146,230	23,922	30,145	382,630
Accounting	7,660	7,660	7,660	-	22,980
Boat	-	84,818	-	-	84,818
Case recovery	164,527	-	-	-	164,527
Communications	3,102	1,569	210	272	5,153
Conferences and seminars	1,715	349	169	729	2,962
Dues and subscriptions	1,954	1,262	53	42	3,311
Events	-	-	-	22,955	22,955
Inkind	-	700	-	3,397	4,097
Insurance	2,133	1,403	281	225	4,042
Other	1,547	2,511	150	1,412	5,620
Professional fees	1,326	5,946	1,326	5,128	13,726
Rent	40,318	26,693	5,731	4,192	76,934
Supplies and equipment	16,093	14,758	4,399	6,856	42,106
Total other expenses	240,375	147,669	19,979	45,208	453,231
Total program services	\$ 422,708	\$ 293,899	\$ 43,901	\$ 75,353	\$ 835,861
Expense category	Supporting Services				
	Management and General	Fund - Raising	Total Supporting Services	Total	
Salaries and wages	\$ 15,785	\$ 107,698	\$ 123,483	\$ 444,568	
Payroll taxes	1,668	8,959	10,627	39,698	
Employee benefits	892	-	892	23,361	
Payroll service fee	550	549	1,099	2,749	
Workers compensation	1,126	1,543	2,669	11,024	
Total salaries and benefits	20,021	118,749	138,770	521,400	
Accounting	7,660	7,660	15,320	38,300	
Boat	-	-	-	84,818	
Case recovery	-	-	-	164,527	
Communications	142	1,501	1,643	6,796	
Conferences and seminars	589	320	909	3,871	
Dues and subscriptions	42	252	294	3,605	
Events	-	-	-	22,955	
Inkind	3,776	4,528	8,304	12,401	
Insurance	224	1,347	1,571	5,613	
Other	2,652	4,613	7,265	12,885	
Professional fees	1,376	1,326	2,702	16,428	
Rent	4,683	25,645	30,328	107,262	
Supplies and equipment	1,467	17,686	19,153	61,259	
Total other expenses	22,611	64,878	87,489	540,720	
Depreciation	7,066	-	7,066	7,066	
Total supporting services	\$ 49,698	\$ 183,627	\$ 233,325	\$ 1,069,186	