

LOS ANGELES WATERKEEPER

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

LOS ANGELES WATERKEEPER

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors
Los Angeles Waterkeeper

We have reviewed the accompanying statement of financial position of Los Angeles Waterkeeper (a nonprofit organization) (the Organization) as of December 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Organization's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion. The prior year summarized comparative information was derived from the December 31, 2011 financial statements of the Organization and in our report dated July 31, 2012, we were not aware of any material modifications that should be made to those financial statements.

Management 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 and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Green Hasson & Janks LLP

August 22, 2013
Los Angeles, California

LOS ANGELES WATERKEEPER

STATEMENT OF FINANCIAL POSITION

December 31, 2012

With Summarized Totals at December 31, 2011

ASSETS	2012			2011 Total
	Unrestricted	Temporarily Restricted	Total	
Cash and Cash Equivalents	\$ 560,944	\$ 43,000	\$ 603,944	\$ 287,985
Accounts Receivable	12,028	-	12,028	20,816
Prepaid Expenses and Other Assets	40,144	-	40,144	39,466
Property and Equipment (Net)	15,010	-	15,010	17,202
TOTAL ASSETS	\$ 628,126	\$ 43,000	\$ 671,126	\$ 365,469
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts Payable	\$ 18,549	\$ -	\$ 18,549	\$ 18,464
Accrued Vacation	9,672	-	9,672	9,137
TOTAL LIABILITIES	28,221	-	28,221	27,601
NET ASSETS:				
Unrestricted	599,905	-	599,905	244,529
Temporarily Restricted	-	43,000	43,000	93,339
TOTAL NET ASSETS	599,905	43,000	642,905	337,868
TOTAL LIABILITIES AND AND NET ASSETS	\$ 628,126	\$ 43,000	\$ 671,126	\$ 365,469

See Independent Accountants' Review Report and Accompanying Notes

LOS ANGELES WATERKEEPER

STATEMENT OF ACTIVITIES

Year Ended December 31, 2012

With Summarized Totals for the Year Ended December 31, 2011

	2012			2011 Total
	Unrestricted	Temporarily Restricted	Total	
REVENUE AND SUPPORT:				
Grants and Contributions	\$ 129,936	\$ 396,934	\$ 526,870	\$ 420,639
Government Grants	119,293	-	119,293	45,712
Memberships	57,000	-	57,000	91,919
In-Kind Contributions	1,700	-	1,700	1,561
Special Events (Net of Direct Donor Benefit Expenses of \$67,465)	147,170	-	147,170	168,500
Case Recovery	222,384	-	222,384	22,094
Other Income	7,755	-	7,755	9,978
Net Assets Released from Program Restrictions	447,273	(447,273)	-	-
TOTAL REVENUE AND SUPPORT	1,132,511	(50,339)	1,082,172	760,403
EXPENSES:				
Program Services	639,042	-	639,042	623,535
Support Services:				
Management and General	36,179	-	36,179	23,815
Fundraising	101,914	-	101,914	79,629
TOTAL EXPENSES	777,135	-	777,135	726,979
CHANGE IN NET ASSETS	355,376	(50,339)	305,037	33,424
Net Assets - Beginning of Year	244,529	93,339	337,868	304,444
NET ASSETS - END OF YEAR	<u>\$ 599,905</u>	<u>\$ 43,000</u>	<u>\$ 642,905</u>	<u>\$ 337,868</u>

See Independent Accountants' Review Report and Accompanying Notes

LOS ANGELES WATERKEEPER

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2012

With Summarized Totals for the Year Ended December 31, 2011

	2012									
	Program Services				Total Program Services	Support Services		Total Support Services	Total	2011 Total
	Advocacy/ Litigation	Marine	Watershed	Education/ Outreach		Management and General	Fundraising			
Salaries and Wages	\$ 151,354	\$ 72,418	\$ 41,897	\$ 41,084	\$ 306,753	\$ 20,724	\$ 58,406	\$ 79,130	\$ 385,883	\$ 305,585
Benefits and Payroll Taxes	17,072	14,353	8,101	4,629	44,155	2,333	7,293	9,626	53,781	44,994
TOTAL PERSONNEL EXPENSES	168,426	86,771	49,998	45,713	350,908	23,057	65,699	88,756	439,664	350,579
Program Expenses	57,658	37,593	39,210	10,474	144,935	-	-	-	144,935	176,983
Rent	29,392	15,470	9,282	7,735	61,879	3,867	11,602	15,469	77,348	72,478
Professional and Consulting Fees	20,441	10,758	6,455	5,379	43,033	2,690	8,069	10,759	53,792	65,459
Office Expense	3,192	1,947	867	2,111	8,117	4,533	5,870	10,403	18,520	10,093
Telephone	3,400	1,790	1,074	895	7,159	529	1,342	1,871	9,030	9,211
Repairs and Maintenance	-	6,058	-	-	6,058	-	-	-	6,058	4,585
Depreciation	1,965	1,034	621	1,965	5,585	-	-	-	5,585	21,902
Insurance	1,933	1,017	610	509	4,069	254	763	1,017	5,086	4,832
Equipment Rental	1,371	721	433	361	2,886	180	541	721	3,607	3,082
Miscellaneous	800	1,210	126	104	2,240	54	6,405	6,459	8,699	3,203
Supplies	830	437	262	219	1,748	109	328	437	2,185	1,629
In-Kind Expense	-	-	-	425	425	20	1,295	1,315	1,740	1,561
Bad Debt Expense	-	-	-	-	-	886	-	886	886	1,382
TOTAL FUNCTIONAL EXPENSES - 2012	<u>\$ 289,408</u>	<u>\$ 164,806</u>	<u>\$ 108,938</u>	<u>\$ 75,890</u>	<u>\$ 639,042</u>	<u>\$ 36,179</u>	<u>\$ 101,914</u>	<u>\$ 138,093</u>	<u>\$ 777,135</u>	
TOTAL FUNCTIONAL EXPENSES - 2011	<u>\$ 325,811</u>	<u>\$ 103,330</u>	<u>\$ 140,441</u>	<u>\$ 53,953</u>	<u>\$ 623,535</u>	<u>\$ 23,815</u>	<u>\$ 79,629</u>	<u>\$ 103,444</u>		<u>\$ 726,979</u>

See Independent Accountants' Review Report and Accompanying Notes

LOS ANGELES WATERKEEPER

STATEMENT OF CASH FLOWS

Year Ended December 31, 2012

With Summarized Totals for the Year Ended December 31, 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 305,037	\$ 33,424
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	5,585	21,902
Provision for Bad Debt Expense	886	1,382
(Increase) Decrease in:		
Accounts Receivable	7,902	9,808
Prepaid Expenses and Other Assets	(678)	(714)
Increase (Decrease) in:		
Accounts Payable	85	(4,373)
Accrued Vacation	535	4,612
NET CASH PROVIDED BY OPERATING ACTIVITIES	319,352	66,041
CASH FLOWS USED IN INVESTING ACTIVITY:		
Purchase of Property and Equipment	(3,393)	(2,716)
NET INCREASE IN CASH AND CASH EQUIVALENTS	315,959	63,325
Cash and Cash Equivalents - Beginning of Year	287,985	224,660
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 603,944	\$ 287,985

See Independent Accountants' Review Report and Accompanying Notes

LOS ANGELES WATERKEEPER

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 - ORGANIZATION

Founded in 1993, Los Angeles Waterkeeper's mission is to protect and restore the Santa Monica Bay, San Pedro Bay, and adjacent waters through enforcement, fieldwork, and community action. Los Angeles Waterkeeper runs three major programs: Advocacy/Litigation, Marine, and Watershed. All of these programs also conduct public outreach and education. Los Angeles Waterkeeper works to preserve inland and coastal waters throughout Los Angeles County.

In June 2012, Santa Monica Baykeeper changed its name to Los Angeles Waterkeeper. The new name better reflects the mission to protect and restore all waterways in Los Angeles County and will better enable Los Angeles Waterkeeper to reach supporters and constituents throughout the region.

ADVOCACY/LITIGATION - Advocacy has been at the core of Los Angeles Waterkeeper'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.

Los Angeles Waterkeeper played a major role in reaching an agreement with the U.S. Environmental Protection Agency in 1999 to establish Total Maximum Daily Loads (TMDLs) for Los Angeles and Ventura Counties. TMDLs are a component of the Clean Water Act that requires the government to regulate pollutants at a watershed level where waters are impaired. Both Counties are home to numerous impaired water bodies. In this landmark agreement, the Los Angeles Regional Water Quality Control Board and U.S. Environmental Protection Agency are establishing precedent-setting TMDLs over a thirteen-year period that culminates in 2013. In conjunction with TMDL establishment, Los Angeles Waterkeeper has successfully advocated for Los Angeles County to be the subject of one of the most progressive storm water permits in the nation. In 2006, Los Angeles Waterkeeper was instrumental in establishing bacteria limits in Santa Monica Bay Beaches during the summer months.

Enforcement of the Clean Water Act and related environmental laws is Los Angeles Waterkeeper's chief pursuit. While Los Angeles Waterkeeper has sued scrap metal yards, industrial manufacturing facilities, developers of hillside lots, and power plants, its biggest win was the August 2004 settlement with the City of Los Angeles concerning the thousands of sewage spills from the largest sewer collection system in the nation. The settlement agreement requires the City of Los Angeles to make extensive improvements to the sewage system infrastructure over the next ten years, preserve wetlands and other sensitive ecological areas to mitigate the damage from past spills, and provide the public with better information on the system's performance. This multi-billion dollar settlement has reverberated around the country, particularly in locations with failing sewage systems. Through the execution of the terms in this settlement the City of Los Angeles has achieved a 84% reduction in sewage spills in 2012 compared to 2000.

In addition, Los Angeles Waterkeeper has worked since 2000 to stop the destructive practice of once-through cooling at coastal power plants; once-through cooling is responsible for the deaths of billions of marine organisms each year. Los Angeles Waterkeeper has pursued once through cooling reform via legal actions namely as co-plaintiff at the Second Circuit Court of Appeals and at the US Supreme Court and through the State of California Ocean Protection Council and State Water Quality Control Board.

See Independent Accountants' Review Report

LOS ANGELES WATERKEEPER

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 - ORGANIZATION (continued)

Los Angeles Waterkeeper was engaged in a campaign to educate the general public regarding the impacts of a proposed Liquefied Natural Gas terminal and pipeline in Santa Monica Bay directly impacting the communities of Playa Vista, El Segundo, Westchester, Inglewood, South Gate, and Los Angeles. This proposed project was in development for ten years for Woodside Petroleum Inc. Woodside is Australia's largest energy producer with nearly 40% ownership by Shell Oil. This effort involved a great deal of community outreach and the selection and preparation of a team of legal and technical experts to support the claims in court and at a variety of commissions and other governmental bodies. Woodside announced they were dropping their application to build the terminal and pipeline on January 15, 2009.

Also, in 2011, Los Angeles Waterkeeper had several federal court victories to enforce storm water permits in the City of Malibu and the County of Los Angeles. These cases are primarily focused on protecting swimmers and surfers at some of Los Angeles' most popular beaches from illnesses caused by unsafe levels of bacteria and toxic metals.

MARINE PROGRAM - Los Angeles Waterkeeper's Kelp Project has worked since 1997 to restore and monitor vital kelp forest habitat in Santa Monica Bay. The giant kelp beds off of Southern California are one of the most biologically diverse communities known to exist in the world's oceans. One-fourth of California's marine organisms depend on kelp forests at some point in their life history. Kelp canopies in Santa Monica Bay have been reduced by approximately 80% over the past 100 years. The over-harvest of key sea urchin predators, coastal development, pollution, and El Niño events have contributed to the decline of magnificent kelp forests. This has left coastal waters more prone to invasion by non-native species, increased coastal erosion, and resulted in the loss of recreational and commercial opportunities.

The Kelp Project relies on volunteer divers from local communities who assist in research, monitoring, and restoration of historic kelp beds off of Malibu and the Palos Verdes Peninsula. Since the project's inception, thousands of hours have been donated by volunteer divers. The direct results of these efforts are the restoration of 6.5 acres of kelp forest, a better understanding of the status of the near shore habitat of Santa Monica Bay, and the first steps towards the widespread recovery of the coastal kelp forest. The biological monitoring associated with the kelp project has contributed valuable information to decision makers and the scientific community.

In 2008, the Kelp Project partnered with the Vantuna Research Group of Occidental College to perform state endorsed monitoring of coastal resources using Cooperative Resource Assessment of Nearshore Ecosystems (CRANE) surveys. The execution of this project has generated a comprehensive data set describing the extant resources of the Los Angeles County coastline. This data will be of direct benefit to the South Coast Study Region under the Marine Life Protection Act Initiative.

The Marine Life Protection Act Initiative is a State of California sponsored response to the California Marine Life Protection Act. Wherein the California Department of Resources has instituted a process by which Marine Protected Areas are to be established throughout California's coast. To inform this process and advocate for the protections and benefits ascribed to the establishment of Marine Protected Areas, Los Angeles Waterkeeper collected biological data via CRANE surveys, instituted aerial surveys in partnership with LightHawk, authored an External Proposal in partnership with Santa Barbara Channelkeeper, and has performed outreach to the SCUBA diving community, Universities, and schools.

See Independent Accountants' Review Report

LOS ANGELES WATERKEEPER

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 - ORGANIZATION (continued)

LA Waterkeeper established its Marine Protected Areas Watch Program in 2012 to enhance the public and fishing community's understanding and compliance with newly established Marine Protected Areas (MPAs). The *MPA Watch* Program has substantially grown and become an integral part of ensuring MPAs are effective. LA Waterkeeper's staff and boat of volunteers conducted 60 boat monitoring trips in 2012 - where they monitor and collect data on all fishing activity in and around the MPAs and engage any fishermen seen illegally fishing in the boundaries of MPAs. Staff and volunteers distribute maps of the restricted fishing areas (in multiple languages) and regularly present in front of school groups, homeowners associations, boating clubs, and the fishing community. LA Waterkeeper was also successful in erecting 'no fishing' signs along the coastlines of both the Malibu and Palos Verdes MPA. They have gained support for MPAs among stakeholders and have enhanced the general public's understanding of the importance of Marine Protected Areas.

The Marine Program works on coastal related issues 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 - Los Angeles Waterkeeper's Watershed Program encompasses water quality monitoring, public education, and litigation support. The Watershed Program is focused on identifying and addressing sources of pollution that impact the Los Angeles and San Gabriel Rivers, Ballona 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.

DrainWatch, Los Angeles Waterkeeper's water quality monitoring program, is the primary component of its Water Quality & Monitoring Program and a critical arm of its litigation activities. Through rigorous end-of-pipe monitoring DrainWatch identifies the dominant sources of pollution that impact the Los Angeles River, Ballona Creek, and ultimately the Santa Monica and San Pedro Bays, and the Pacific Ocean. DrainWatch works with volunteer "citizen monitors" to gather evidence from storm drains and creeks throughout Los Angeles, which informs advocacy on regional and statewide public policy related to water quality.

Since the establishment of DrainWatch in March 2011, Los Angeles Waterkeeper has developed training materials, ensured quality assurance certification from state agencies, ground-truthed sampling locations along Ballona Creek, Los Angeles River, and Dockweiler Beach, installed a water quality lab in the Waterkeeper office, and trained over 100 volunteers through monthly training and monitoring events.

Now, DrainWatch is expanding its reach and refining and tailoring the program to target specific audiences and develop a dedicated and efficient group of volunteers. Developing a trained and experienced corps of volunteers ensures that high-quality and defensible water samples will be collected during each rainy event of the season. Obtaining this data is critical to the success of new and specific ongoing litigation and advocacy projects.

See Independent Accountants' Review Report

LOS ANGELES WATERKEEPER

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 - ORGANIZATION (continued)

Currently, DrainWatch staff and volunteers are investigating scrap metal recycling yards, waste transfer facilities and plastic pellet manufacturers because these facilities have been identified as some of the biggest violators of water quality laws and regulations.

In addition, Los Angeles Waterkeeper's Watershed Program provides technical and scientific review and comments to a variety of development proposals and policies in the Los Angeles area and throughout the State of California. These comments are often complimentary to advocacy work and encompass a number of state agencies and their respective jurisdictions including the Ocean Protection Council, California Coastal Commission, State Lands Commission, California State and Regional Water Quality Control Boards, California Energy Commission, United States EPA, Army Corps of Engineers, and numerous local, city and county agencies and departments.

PUBLIC OUTREACH AND EDUCATION - Los Angeles Waterkeeper's 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 Los Angeles Waterkeeper offers various programs that educate and involve residents, families, and students in conservation of coastal resources.

Los Angeles Waterkeeper continues to coordinate volunteer clean ups several times a year. These include participation in Coastal Cleanup Day, where hundreds of participants are attracted to Marina Del Rey and Redondo Beach to remove trash from jetties and breakwaters. The Adopt a Highway program in coordination with Caltrans enables volunteers to assist in monthly removal of trash from Lincoln Boulevard in Venice and Marina Del Rey. Volunteer events include educational presentations regarding the cause and purpose to the actions undertaken by Los Angeles Waterkeeper and those volunteering their time. Volunteer education and outreach is integrated into Los Angeles Waterkeeper's other programs, many seasoned volunteers are advocates in their own right, in part a result of their training and experiences with Los Angeles Waterkeeper staff. Much of the public outreach and education performed by Los Angeles Waterkeeper occurs within the Kelp Restoration and Monitoring Program, Advocacy Program and Watershed Program. This outreach includes presentations, curriculum development, development of building codes and standards, inclusion of volunteers in restoration actions, informal environmental education, and education of public representatives and public agencies related to the mission of Los Angeles Waterkeeper.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION

The accompanying financial statements of Los Angeles Waterkeeper (the Organization) have been prepared on the accrual basis of accounting.

(b) ACCOUNTING

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of the Organization are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

See Independent Accountants' Review Report

LOS ANGELES WATERKEEPER

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) ACCOUNTING (continued)

- **Unrestricted Net Assets.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program related income services, raising contributions, and performing administrative functions.
- **Temporarily Restricted Net Assets.** The Organization reports gifts of cash and other assets as temporarily 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 the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from program or time restrictions. The Organization has temporarily restricted net assets at December 31, 2012 of \$43,000.
- **Permanently Restricted Net Assets.** These net assets are received from donors who stipulate that resources are to be maintained permanently, but permit the Organization to expend all of the income (or other economic benefits) derived from the donated assets. The Organization has no permanently restricted net assets at December 31, 2012.

(c) CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash and cash equivalents. The carrying value of cash and cash equivalents at December 31, 2012 approximates its fair value.

The Organization maintains its cash and cash equivalents in bank deposit and money market accounts, which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

(d) ACCOUNTS RECEIVABLE

Accounts receivable are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, if any, represents their estimated net realizable value. The allowance for doubtful accounts, if any, is estimated based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectibility of those balances and the allowance is adjusted accordingly. Past due receivable balances are written-off when internal collection efforts have been unsuccessful in collecting the amount due. Accounts receivable are primarily from governmental agencies. As of December 31, 2012, the Organization evaluated the collectibility of its accounts receivable and no allowance for doubtful accounts was considered necessary.

See Independent Accountants' Review Report

LOS ANGELES WATERKEEPER

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Property and equipment are capitalized if the cost of an asset is greater than or equal to \$1,000 and the useful life is greater than one year. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets as follows:

Boat	5 Years
Office Equipment	5 Years
Website	3 Years

Expenditures for maintenance and repairs are charged to operations as incurred while renewals and betterments are capitalized.

(f) LONG-LIVED ASSETS

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No impairment losses were recognized on long-lived assets during the year ended December 31, 2012.

(g) CONTRIBUTED 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.

(h) INCOME TAXES

The Organization is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

(i) FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the Organization's programs and other activities have been presented in the statement 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.

See Independent Accountants' Review Report

LOS ANGELES WATERKEEPER

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) USE OF 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.

(k) COMPARATIVE TOTALS

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 accounting principles generally accepted in the United States of America. 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.

(l) SUBSEQUENT EVENTS

The Organization has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2012 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through August 22, 2013, the date these financial statements were available to be issued. No material events or transactions were noted to have occurred.

NOTE 3 - PROPERTY AND EQUIPMENT

Net property and equipment at December 31, 2012 consist of the following:

Boat	\$	64,780
Office Equipment		47,830
Website (Donated)		<u>25,000</u>
TOTAL		137,610
Less: Accumulated Depreciation		<u>122,600</u>
PROPERTY AND EQUIPMENT (NET)	\$	<u>15,010</u>

Depreciation expense for the year ended December 31, 2012 amounted to \$5,585.

See Independent Accountants' Review Report

LOS ANGELES WATERKEEPER

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE 4 - COMMITMENTS AND CONTINGENCIES

(a) OPERATING LEASES

The Organization rents office space under a non-cancelable lease agreement that expires in September 2014. Future minimum rental payments associated with this lease are as follows:

Years Ending December 31

2013	\$	78,392
2014		<u>60,540</u>
TOTAL	\$	<u>138,932</u>

Rent expense for the year ended December 31, 2012 was \$77,348.

(b) GRANTS AND CONTRACTS

The Organization's grants and contracts are subject to inspection and audit by the appropriate government funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, the Organization has no provision for the possible disallowance of program costs in its financial statements.

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

For the year ended December 31, 2012, temporarily restricted net assets of \$43,000 are purpose restricted for Kelp Restoration.

NOTE 6 - RELATED PARTY TRANSACTIONS

During the year ended December 31, 2012, Los Angeles Waterkeeper Board members contributed a total of \$140,860, of which \$83,860 is accounted for in special event income in the statement of activities. In September 2009, the Organization entered into an office lease agreement with a company affiliated with a Board member, and incurred \$77,348 for the year ended December 31, 2012 in rent expense and paid a \$30,000 rent deposit, which is included in prepaid expenses and other assets at December 31, 2012.

See Independent Accountants' Review Report