



Baykeeper

Financial Statements

Year ended June 30, 2010

with

Report of Independent Auditors

Report of Independent Auditors

To the Board of Directors of Baykeeper

We have audited the accompanying statement of financial position of Baykeeper as of June 30, 2010, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the management of Baykeeper. Our responsibility is to express an opinion on these financial statements based on our audit. Other auditors audited the financial statements of Baykeeper as of and for the year ended June 30, 2009, and in their reported dated October 6, 2009, the other auditors expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Baykeeper as of June 30, 2010, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Wilson Markle Stuckey Hardesty + Bott

Wilson Markle Stuckey Hardesty & Bott
November 19, 2010

Baykeeper
Statement of Financial Position
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Cash and cash equivalents	\$ 438,917	\$318,077
Investments	319,787	282,720
Grants and pledges receivable	25,300	29,800
Settlements receivable	46,500	50,000
Accounts receivable	–	107
Prepaid expenses	18,909	22,786
Property and equipment, net of accumulated depreciation of \$259,913 (2009 – \$248,181)	19,060	16,275
Cash and cash equivalents – Restricted	3,854	3,841
Attorney-client trust accounts	195,291	123,144
Settlements receivable – Long-term	41,000	20,000
Deposits	9,858	9,858
	<u>\$1,118,476</u>	<u>\$876,608</u>
Total assets		
	<u>\$1,118,476</u>	<u>\$876,608</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 118,320	\$ 29,896
Reserve	3,854	3,841
Deferred revenue	231,871	52,979
	<u>354,045</u>	<u>86,716</u>
Total liabilities		
	354,045	86,716
Net assets		
Unrestricted		
Undesignated	288,644	376,212
Board-designated	310,712	282,720
	<u>599,356</u>	<u>658,932</u>
Total unrestricted		
	599,356	658,932
Temporarily restricted	165,075	130,960
	<u>165,075</u>	<u>130,960</u>
Total net assets		
	764,431	789,892
	<u>764,431</u>	<u>789,892</u>
Total liabilities and net assets		
	<u>\$1,118,476</u>	<u>\$876,608</u>

See accompany notes.

Baykeeper
Statement of Activates and Changes in Net Assets
Years ended June 30, 2010 and 2009

	Unrestricted	Temporarily restricted	2010 Totals	Unrestricted	Temporarily restricted	2009 Totals
Support and revenue						
Contributions	\$ 754,529	\$ 55,000	\$ 809,529	\$639,788	\$ —	\$639,788
In-kind services	1,189,571	—	1,189,571	253,676	—	253,676
Fee and cost recovery	(652)	—	(652)	43,021	—	43,021
Settlement monitoring	12,478	—	12,478	27,075	—	27,075
Investment, net	33,966	—	33,966	(30,973)	—	(30,973)
Other	3,653	—	3,653	37,338	—	37,338
Net assets released from restrictions	20,885	(20,885)	—	11,447	(11,447)	—
Total support and revenue	2,014,430	34,115	2,048,545	981,372	(11,447)	969,925
Expenses						
Program services	1,930,280	—	1,930,280	948,587	—	948,587
Management and general	69,432	—	69,432	57,490	—	57,490
Fundraising	74,294	—	74,294	53,604	—	53,604
Total expenses	2,074,006	—	2,074,006	1,059,681	—	1,059,681
Changes in net assets	(59,576)	34,115	(25,461)	(78,309)	(11,447)	(89,756)
Net assets, beginning of year	658,932	130,960	789,892	737,241	142,407	879,648
Net assets, end of year	\$ 599,356	\$165,075	\$ 764,431	\$658,932	\$130,960	\$789,892

See accompanying notes.

Baykeeper
Statement of Functional Expenses
Years ended June 30, 2010 and 2009

Expenses	Program services	Supporting services		2010 Totals
		Management and general	Fundraising	
Salaries	\$ 327,695	\$25,424	\$36,044	\$ 389,163
Payroll taxes	26,954	1,422	2,983	31,359
Employee benefits	57,687	3,044	6,384	67,115
Bay patrol	16,492	—	—	16,492
Conferences and meetings	—	610	—	610
Information technology	1,203	65	159	1,427
Insurance	3,244	2,867	359	6,470
Occupancy	48,598	2,564	5,378	56,540
Operating	57,132	6,801	13,804	77,737
Professional services				
Accounting	—	26,225	—	26,225
Legal	1,189,571	—	—	1,189,571
Scientific	177,973	—	—	177,973
Other	3,142	281	1,612	5,035
Publications and outreach	525	—	7,294	7,819
Travel	8,733	—	6	8,739
Depreciation	11,331	129	271	11,731
Total expenses	<u>\$1,930,280</u>	<u>\$69,432</u>	<u>\$74,294</u>	<u>\$2,074,006</u>

Expenses	Program services	Supporting services		2009 Totals
		Management and general	Fundraising	
Salaries	\$347,288	\$21,261	\$23,063	\$ 391,612
Payroll taxes	26,084	1,180	1,960	29,224
Employee benefits	68,499	3,857	4,494	76,850
Occupancy	47,771	2,147	3,757	53,675
Publications and outreach	40,467	454	16,272	57,193
Professional services	31,552	17,000	1,322	49,874
In-kind services	253,676	—	—	253,676
Operating	115,279	11,467	2,531	129,277
Depreciation	17,971	124	205	18,300
Total expenses	<u>\$948,587</u>	<u>\$57,490</u>	<u>\$53,604</u>	<u>\$1,059,681</u>

See accompanying notes.

Baykeeper
Statement of Cash Flows
Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Change in net assets	(\$ 25,461)	(\$ 89,756)
Adjustments to reconcile change in net assets with cash flows provided by operating activities		
Realized (gains) losses and unrealized (appreciation) depreciation of investments	(26,895)	42,746
Contributions of investments	(10,732)	(26,113)
(Gains) losses from sale of property and equipment	(200)	(30,781)
Depreciation	11,731	18,300
Changes in assets and liabilities		
Grants and pledges receivable	4,500	58,200
Settlements receivable	(17,500)	27,893
Accounts receivable	107	—
Prepaid expenses	3,877	(2,393)
Attorney-client trust accounts	(72,147)	7,977
Accounts payable and accrued expenses	88,424	(4,727)
Deferred revenue	<u>178,892</u>	<u>16,979</u>
Net cash provided (used) by operating activates	134,596	18,325
Cash flows from investing activities		
Purchases of investments	(1,076)	(3,565)
Proceeds from sale of investments	1,636	26,113
Purchases of property and equipment	(14,516)	—
Proceeds from sale of property and equipment	200	31,900
Net change in deposits	<u>—</u>	<u>1,300</u>
Net cash provided (used) by investing activities	<u>(13,756)</u>	<u>55,748</u>
Net change in cash and cash equivalents	120,840	74,073
Cash and cash equivalents, beginning of year	<u>318,077</u>	<u>244,004</u>
Cash and cash equivalents, end of year	<u><u>\$438,917</u></u>	<u><u>\$318,077</u></u>

See accompanying notes.

Baykeeper
Notes to Financial Statements
June 30, 2010

Note 1 – Summary of significant accounting policies

Basis of presentation

San Francisco Baykeeper (Baykeeper), a nonprofit, public benefit corporation incorporated in California on January 23, 1987, as the San Francisco Bay-Delta Preservation Association. Baykeeper operates as the pollution watchdog for and to protect and enhance the water quality of the San Francisco Bay for the benefit of its ecosystems and human communities.

To address the most pressing pollution and habitat threats, Baykeeper compels polluters to stop contaminating our waterways and holds government agencies accountable for protecting and restoring the water quality of the San Francisco Bay as required by federal and state laws.

The San Francisco Bay-Delta Estuary is the largest estuarine system on the Pacific Coast of the Americas and one of the most ecologically productive water bodies in the world. Open water habitats, intertidal mudflats, rocky shores, salt ponds, marshes, riparian forests and vernal pools all form the iconic water body that defines the character, community and economy of the Bay Area. A diverse wildlife community has historically thrived here and can flourish again. Millions of migratory shorebirds using the Pacific Flyway depend on the Bay as a resting spot. Twenty-two threatened or endangered species, including the Snowy plover and the mission blue butterfly, live in the watershed. Hundreds of native rare or endemic plants grow in the wide variety of environmental conditions unique to the Bay Area, and they share their home with seven million people living in 100 cities surrounding the San Francisco Bay.

Unfortunately, aging sewage infrastructure has resulted in recurrent large-scale spills of sewage into the Bay, and in most counties, rain washes pollution off industrial sites, roadways and pesticide-laden landscapes directly into waterways with no treatment. In addition, toxic legacies from oil refining, military operations and shipbuilding, as well as upstream gold mining and large-scale agriculture, continue to threaten the health of the Bay. The increasing use of Bay Area ports for international shipping has resulted in unprecedented risks from oil spills and invasive species.

Using advocacy, science and the courts, the top priorities of Baykeeper are to prevent pollution of the Bay and to defend key habitats against development and other destructive activities.

Baykeeper
Notes to Financial Statements
June 30, 2010

Note 1 – Summary of significant accounting policies (continued)

Basis of accounting

Baykeeper prepares its financial statements using the accrual basis of accounting. Baykeeper records revenues when earned and expenses when incurring the related obligations.

Fair value

Effective July 1, 2009, Baykeeper uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs consist of observable inputs other than quoted prices for identical assets. Level 3 inputs consist of unobservable inputs that reflect internal judgments and have the lowest priority. Baykeeper uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, Baykeeper measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Baykeeper only uses Level 3 inputs when Level 1 or Level 2 inputs are not available.

Baykeeper values contributions initially at fair value when promised. Baykeeper only revalues debt and marketable equity securities at least as often as it presents financial statements. For contributions valued initially at fair value but not revalued, Baykeeper treats the initial fair value as cost in subsequent financial statements.

Management of Baykeeper estimates that the aggregate net fair value of financial instruments recognized (including receivable, payables and accrued expenses) approximates their carrying value, as such financial instruments are short-term in nature or bear interest at current market rates.

Subsequent events

Management of Baykeeper has evaluated subsequent events through November 19, 2010, the date these financial statements were available for issuance.

Cash and cash equivalents

Cash and cash equivalents consist of amounts on hand and on deposit with a commercial bank, available within 90 days of demand. The carrying amount of cash approximates fair value due to its short-term nature.

Baykeeper
Notes to Financial Statements
June 30, 2010

Note 1 – Summary of significant accounting policies (continued)

Investments

Investments (Note 2) consist principally of units of pooled investment funds (PIFs) of community foundations and registered investment company shares (mutual funds). Baykeeper records PIFs at their contract value. Contract value represents the amount Baykeeper would realize upon sale, transfer, exchange or liquidation of the investment when transacted with the investment custodians. Contract value of the units of the PIFs is the Baykeeper share of the fair value of the underlying investments, determined by the community foundations, net of certain custodial and administrative fees.

Baykeeper records mutual funds at fair value that the registered investment company holding the investments provides and the management of Baykeeper evaluates. Baykeeper bases the fair value of mutual funds on unadjusted quoted prices in active markets for identical assets, which is a Level 1 input.

Baykeeper records interest, dividends, gains, losses and changes in contract value (unrealized appreciation and depreciation) as net investment income, but not custodial and administrative fees.

The PIFs of the community foundations are subject to variance power under various agreements. The boards of trustees of the community foundations shall have the power to modify any restriction or condition on the distribution of funds for any specified charitable purposes or to a specified organization, if, in the sole judgment of the boards of trustees, such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment or inconsistent with the needs of the community served by the community foundation.

Receivables

Receivables (Note 3) consist principally of amounts due from governmental and corporate entities related to compliance activities and from corporations, foundations and individuals as contributions, grants and pledges. Baykeeper initially records contribution receivables at fair value. Baykeeper estimates the initial fair value of contribution receivables as the estimated present value of expected future cash flows, taking into consideration the risk-free interest rate and expected collection timing and risk. These are Level 2 and Level 3 inputs. Baykeeper records a discount representing the difference between the future cash flows promised by the grantor or pledgor and the estimated present value of the expected future cash flows. Baykeeper accretes the discount, using the interest method and based on actual collections,

Baykeeper
Notes to Financial Statements
June 30, 2010

Note 1 – Summary of significant accounting policies (continued)

to contribution support. As of June 30, 2010, management of Baykeeper estimated that any discount of grants and pledges receivable was not material to the financial position of Baykeeper.

Allowance for uncollectible receivable

Baykeeper uses the allowance method to estimate any uncollectible receivables. Under this method, Baykeeper reviews all receivables, and estimates, based on aging, debtor history and other information, an allowance. When Baykeeper exhausts all attempts to collect specific receivables or the debtor discharges the receivable in bankruptcy, Baykeeper writes off the receivable against the estimated allowance. As of June 30, 2010, management of Baykeeper estimated that any allowance for uncollectible receivables was not material to the financial position of Baykeeper.

Property and equipment

Property and equipment consist of furniture, office, computer, water transportation and laboratory equipment and leasehold improvements. Baykeeper records property and equipment at cost or initially at fair value for contributed items. Baykeeper bases the initial fair value of contributed property and equipment on comparable sales of identical or similar items in markets available to Baykeeper, which is a Level 2 input. Baykeeper expenses property and equipment with a cost or fair value under \$500 and the costs of maintenance and repairs that do not improve or extend the lives of the property and equipment. Baykeeper computes depreciation using the straight-line method over the estimated useful lives of the property and equipment of from five to seven years or the shorter remaining lease term for leasehold improvements.

Attorney-Client Trust Accounts (ACTA)

Baykeeper contracts with various attorneys, under Attorney Retention and Co-Counseling or similar Agreements (Retainer) to assist Baykeeper to compel governmental agencies and corporations to comply with various laws and regulations related to clean and safe use, transportation, processing and disposal of water, sewage and storm run-off (Litigation). Under the Retainers, the attorneys establish and manage Attorney-Client Trust Accounts (ACTA), which Baykeeper funds (sometimes with contributed funds, both conditional and unconditional, received from other organizations). Contracted Litigation attorneys work on a contingency fee basis; i.e., the contracted Litigation attorneys only receive legal fees based on successful Litigation resulting in a settlement that includes payments for legal fees. The contracted Litigation attorneys use the funds in the Litigation ACTAs to pay the direct,

Baykeeper
Notes to Financial Statements
June 30, 2010

Note 1 – Summary of significant accounting policies (continued)

non-legal, costs of Litigation. Baykeeper expenses the direct, non-legal costs of Litigation when incurred. In addition, Baykeeper records the unexpended balances of Litigation ACTAs as assets.

Baykeeper may pursue certain Litigation internally, without contracting with outside attorneys or establishing a Litigation ACTA. Under those circumstances, Baykeeper expenses all costs of Litigation when incurred.

Successful Litigation usually results in Settlement Agreements, Consent Decrees or similar arrangements (Settlement). Settlements generally require the governmental agencies and corporations to take corrective actions at their own expense, perform or contribute to an environmental mitigation project, pay for the direct costs of Litigation and provide funding for Baykeeper to monitor compliance with the requirements of the Settlement (Compliance). Accordingly, the contracted Litigation attorneys establish a Compliance ACTA to receive and disburse the Compliance funds. Baykeeper performs, or contracts with others to perform, Compliance monitoring activities and authorizes expenditures of Compliance ACTA funds when incurring related expenses. Baykeeper defers the recognition of revenue from funds received for Compliance until Baykeeper incurs the related expense or the Compliance period expires. In addition, Baykeeper recognizes revenue for Settlement funds received to reimburse Baykeeper for the direct costs of Litigation incurred by Baykeeper. Finally, Baykeeper records the unexpended balances of Compliance ACTAs as assets.

Baykeeper may pursue certain Litigation internally, without contracting with outside attorneys. Under those circumstances, there is no Compliance ACTA.

Contributions and net assets

Baykeeper recognizes contributions at fair value when a donor makes an unconditional promise to provide support. Net assets include cumulative unrestricted, temporarily restricted and permanently restricted net assets, net of cumulative expenses. Unrestricted net assets consist of revenue and support not restricted to a particular purpose or time by the donor, net of expenses. Temporarily restricted net assets consist of support restricted by the donor to a particular purpose or time. Temporarily restricted net assets become unrestricted net assets when Baykeeper meets the donor purpose or time restriction. Permanently restricted net assets consist of support restricted by the donor for Baykeeper to hold permanently, allowing for only use of the revenue generated by investing the support. As of June 30, 2010, Baykeeper held no permanently restricted net assets.

Baykeeper
Notes to Financial Statements
June 30, 2010

Note 1 – Summary of significant accounting policies (continued)

Contributed services

Attorneys and paralegals contribute substantial professional services to Baykeeper. Baykeeper records contributed professional services at fair value. Baykeeper bases the fair value of professional services on the cost of similar services from comparable purchases, which is a Level 3 input. Baykeeper only reports contributions in-kind of professional services when the professional services are of a professional or technical nature requiring expertise or education not available to Baykeeper and Baykeeper would have paid for the professional services if donors had not contributed them.

Volunteers contribute their time assisting Baykeeper in carrying out its activities. Although the value of volunteer contributions is substantial to the activities of Baykeeper, Baykeeper does not recognize their value herein because they do not meet the criteria for recognition in accordance with accounting principles generally accepted in the United States (US-GAAP).

Allocation of functional expenses

Baykeeper summarized the costs of providing its program and supporting service on a functional basis. Accordingly, Baykeeper allocated certain indirect costs between program and support services based on annual estimates of time and usage.

Income taxes

In letters to Baykeeper, the Internal Revenue Service (IRS) and California Franchise Tax Board (FTB) stated that Baykeeper is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC) and from California bank and corporation taxes under Section 23701(d) of the California Revenue and Taxation Code, respectively. In addition, Baykeeper qualifies for the charitable contribution deduction under IRC Section 170(b)(1)(A) and has been classified as a publicly supported organization as described in IRC Section 509(a)(1). Accordingly, donors are entitled to the maximum charitable contribution deduction allowed by law.

The management of Baykeeper believes that no activities of Baykeeper jeopardized its exemption from income taxes or its classification as a “public charity.” In addition, management of Baykeeper believes that no activities of Baykeeper are subject to unrelated business income taxes. Accordingly, Baykeeper did not provide for income taxes.

Baykeeper
Notes to Financial Statements
June 30, 2010

Note 1 – Summary of significant accounting policies (continued)

Effective July 1, 2009, Baykeeper adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation Number 48 (FIN 48), "Accounting for Uncertainty in Income Taxes – An interpretation of FASB [Accounting Standards Codification (ASC) 740]."

Those provisions require management of Baykeeper to consider certain tax positions taken by Baykeeper. A tax position is a position taken in a previously filed tax return or a position management of Baykeeper expects to take in a future tax return that figures in measuring current or deferred income tax assets and liabilities for interim or annual periods. A tax position can result in a permanent reduction in income taxes payable, a deferral of income taxes otherwise currently payable to future years or a change in the expected realizability of deferred tax assets. A tax position also encompasses, but is not limited to:

1. A decision not to file a tax return
2. An allocation or a shift of income between jurisdictions
3. The characterization of income or a decision to exclude reporting taxable income in a return
4. A decision to classify a transaction, entity or other position in a tax return as tax exempt
5. The status of an entity, including its status as a pass-through or tax-exempt entity.

Evaluating a tax position requires management of Baykeeper to determine, for each tax position, whether it is more likely than not that, upon examination by taxing authorities, such authorities will uphold the tax position and, for each more-likely-than-not tax position, determine the highest benefit with a more than 50% likelihood of realization upon ultimate settlement. Accordingly, it is possible that tax positions taken on tax returns and related amounts recognized herein could vary.

Baykeeper files tax returns with the IRS and FTB. Baykeeper recognizes interest and penalties related to income taxes and tax positions with interest and income tax expense, respectively. As of and for the year ended June 30, 2010, interest and penalties related to income taxes and tax positions were not material. As of June 30, 2010, management of Baykeeper believes that there are no tax positions of Baykeeper where it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the period ending June 30, 2011. As

Baykeeper
Notes to Financial Statements
June 30, 2010

Note 1 – Summary of significant accounting policies (continued)

of June 30, 2010, open tax periods subject to future examination by taxing authorities cover periods from July 1, 2006 through June 30, 2010.

Management of Baykeeper does not believe that differences between income taxes Baykeeper measures using the current “tax position” method and the methods Baykeeper used previously to be material to the financial position of Baykeeper, except for the additional disclosures.

Use of estimates

The preparation of financial statements in conformity with US-GAAP requires management to make estimates and assumptions that affect the amounts reported herein. Actual results could differ from those estimated.

Concentrations, credit and market risk

Cash and cash equivalents held by the commercial bank exceeded federal deposit insurance limits at various times during the year ended June 30, 2010.

Investments are subject to credit and market risks. Credit risk is the probability that parties holding or supporting an investment will default or otherwise fail to perform. Market risk is the inherent change in the value of an investment due to changes in conditions.

As of June 30, 2010 and 2009, one law firm held ACTAs totaling approximately 91% and 85%, respectively, of all ACTAs.

During the year ended June 30, 2010, support received from one “cy pres” award totaled approximately 20% of total support and revenue reported.

During the years ended June 30, 2010 and 2009, in-kind services received from two law firms totaled 50% and 26%, respectively, of total support and revenue reported.

Baykeeper
Notes to Financial Statements
June 30, 2010

Note 2 – Investments

As of June 30, 2010 and 2009, investments totaled as follows:

	<u>2010</u>	<u>2009</u>
Contract value		
PIFs	\$310,712	\$282,720
Fair value – Level 1		
Mutual funds	<u>9,075</u>	<u>—</u>
Total investments	<u>\$319,787</u>	<u>\$282,720</u>

During the years ended June 30, 2010 and 2009, net investment income totaled as follows:

	<u>2010</u>	<u>2009</u>
Dividends and interest	\$ 7,071	\$11,068
Unrealized appreciation (depreciation)	<u>26,895</u>	<u>(42,041)</u>
Net investment income	<u>\$33,966</u>	<u>(\$30,973)</u>

In addition, during the year ended June 30, 2010, Baykeeper incurred custodial and administrative fees on its investments in PIFs, totaling \$2,415, and included with operating expenses.

Note 3 – Receivables

As of June 30, 2010 and 2009, receivables totaled as follows:

	<u>2010</u>	<u>2009</u>
City of Burlingame	\$ 35,000	\$ —
Cemex	12,500	—
Town of Hillsborough	7,500	—
San Francisco Foundation	20,000	40,000
County of San Mateo et. al.	7,500	—
Port of Stockton	25,000	50,000
Various individuals and others	<u>5,300</u>	<u>9,907</u>
Total receivables	<u>\$112,800</u>	<u>\$99,907</u>

Baykeeper
Notes to Financial Statements
June 30, 2010

Note 4 – Property and equipment

As of June 30, 2010 and 2009, property and equipment totaled as follows:

	<u>2010</u>	<u>2009</u>
Furniture	\$ 5,830	\$ 870
Office equipment	24,064	24,064
Computer equipment	20,357	10,800
Water transportation and laboratory equipment	227,222	227,222
Leasehold improvements	<u>1,500</u>	<u>1,500</u>
Property and equipment, at cost	278,973	264,456
Accumulated depreciation	(<u>259,913</u>)	(<u>248,181</u>)
Property and equipment, net	<u>\$ 19,060</u>	<u>\$16,275</u>

Note 5 – Attorney-Client Trust Accounts (ACTA)

As of June 30, 2010 and 2009, Litigation and Compliance ACTAs totaled as follows:

	<u>2010</u>	<u>2009</u>
Litigation	\$ 31,920	\$ 7,027
Compliance	<u>163,371</u>	<u>116,117</u>
Total ACTAs	<u>\$195,291</u>	<u>\$123,144</u>

As of June 30, 2010, deferred revenue totaled as follows:

Cash and cash equivalents	\$ 6,000
Settlements receivable	62,500
Compliance ACTAs	<u>163,371</u>
Total deferred revenue	<u>\$231,871</u>

Baykeeper
Notes to Financial Statements
June 30, 2010

Note 6 – Temporarily restricted net assets

During the year ended June 30, 2010, temporarily restricted net assets reconciled as follows:

<u>Activity</u>	<u>Beginning</u>	<u>Additions</u>	<u>Releases</u>	<u>Ending</u>
Agricultural Pesticide and Mercury Programs	\$ —	\$25,000	(\$ 8,385)	\$ 16,615
Boating operations	80,960	—	(—)	80,960
Sacramento River Project	50,000	—	(—)	50,000
Time-restricted	<u>—</u>	<u>30,000</u>	<u>(12,500)</u>	<u>17,500</u>
Totals	<u>\$130,960</u>	<u>\$55,000</u>	<u>(\$20,885)</u>	<u>\$165,075</u>

Note 7 – Endowment funds

On July 1, 2009, Baykeeper adopted FASB ASC 958-205, “Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and Enhanced Disclosures for All Endowment Funds.” Effective October 1, 2008, the state of California passed Senate Bill 1329, adopting the provisions of the UPMIFA, with certain modifications (CA-UPMIFA).

Endowment funds subject to FASB ASC 958-205 include all the endowment funds described below. As of June 30, 2010, no endowment funds are subject to the CA-UPMIFA.

The endowment funds of Baykeeper consist of two individual funds held by separate community foundations. The endowment funds of Baykeeper include only funds designated by the Board of Directors to function as endowments. As required by US-GAAP, Baykeeper classifies and records net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, based on the existence or absence of donor-imposed restrictions.

The Board of Directors of Baykeeper has interpreted the CA-UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Because of this interpretation, Baykeeper classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original

Baykeeper
Notes to Financial Statements
June 30, 2010

Note 7 – Endowment funds (continued)

value of subsequent gifts to the permanent endowment and 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 Baykeeper does not classify as permanently restricted net assets Baykeeper classifies as temporarily restricted net assets until the Board of Directors of Baykeeper appropriates those amounts for expenditure by Baykeeper in a manner consistent with the standard of prudence prescribed by CA-UPMIFA. In accordance with CA-UPMIFA, Baykeeper considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of Baykeeper and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of Baykeeper
7. The investment policies of Baykeeper
8. The limitation under California state law of appropriations to seven percent of the fair value of the endowment funds.

In addition, the endowment assets held by the community foundations are subject to the “Spending Rule” of the community foundations.

As of June 30, 2010, endowment funds totaled as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>
Board designated	<u>\$310,712</u>	<u>\$—</u>	<u>\$—</u>	<u>\$310,712</u>
Totals	<u>\$310,712</u>	<u>\$—</u>	<u>\$—</u>	<u>\$310,712</u>

During the year ended June 30, 2010, endowment funds reconciled as follows:

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Note 7 – Endowment funds (continued)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>
Beginning of year	\$282,720	\$—	\$—	\$282,720
Contributions	—	—	—	—
Dividends and interest	3,487	—	—	3,487
Unrealized appreciation (depreciation)	26,921	—	—	26,921
Investment management and administrative fees	(2,416)	—	—	(2,416)
Appropriations for expenditure	—	—	—	—
Board designations (undesignations)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
End of year	<u><u>\$310,712</u></u>	<u><u>\$—</u></u>	<u><u>\$—</u></u>	<u><u>\$310,712</u></u>

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or CA-UPMIFA requires Baykeeper to retain as a fund of perpetual duration. In accordance with US-GAAP, Baykeeper records deficiencies of this nature in unrestricted net assets. Deficiencies may result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that the Board of Directors deems prudent. There were no such deficiencies as of June 30, 2010.

Baykeeper has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Baykeeper must hold in perpetuity or for donor-specified periods as well as board-designated funds.

Because Baykeeper invests all endowment assets with two community foundations, Baykeeper has adopted the investment policies of the two community foundations. Actual returns in any given year may vary from expected returns under the investment policies of the respective community foundations.

Because Baykeeper invests all endowment assets with two community foundations, Baykeeper has adopted the spending policies of the two community foundations.

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Note 7 – Endowment funds (continued)

This is consistent with the objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Unrestricted (board designated) endowment funds are subject to redesignation at any time, including redesignation as other than endowment funds.

Management of Baykeeper does not believe that differences between endowment funds Baykeeper measures using the current “CA-UPMIFA” method and the methods Baykeeper used previously to be material to the financial position of Baykeeper, except for the additional disclosures.

Note 8 – Retirement plan

Baykeeper sponsors a defined contribution salary deferral plan under IRC section 401(k) for its eligible employees. Eligible employees may contribute up to 100% of their eligible salary to the plan, subject to limits imposed under the IRC. The plan allows, but does not require, Baykeeper to contribute. During the year ended June 30, 2010, Baykeeper contributed to eligible employees, based on 10% of their eligible compensation, totaling \$25,061.

Note 9 – Commitments and contingencies

Baykeeper leases office space under an operating lease that expires January 31, 2015. The lease contains an automatic fixed amount escalation clause and option to renew for three years. Future minimum office space lease payments, for each of the years ending June 30, total as follows:

2011	\$50,594
2012	58,538
2013	61,246
2014	63,954
2015	38,228

During the year ended June 30, 2010, office space rent expense totaled \$55,500.