

HEAL THE BAY

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2019

HEAL THE BAY
FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Heal the Bay

Report on the Financial Statements

We have audited the accompanying financial statements of Heal the Bay, which comprise the statement of financial position as of September 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heal the Bay as of September 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Heal the Bay's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 17, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Green Hasson & Janks LLP

January 15, 2020
Los Angeles, California

HEAL THE BAY

STATEMENT OF FINANCIAL POSITION

September 30, 2019

With Summarized Totals at September 30, 2018

ASSETS	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents	\$ 3,513,097	\$ 849,268
Accounts Receivable	214,431	293,395
Contributions and Pledges Receivable	161,000	187,114
Prepaid Expenses and Deposits	109,665	91,897
Construction under Contract with the City of Los Angeles (Note 3)	399,631	399,631
Property and Equipment (Net)	<u>150,031</u>	<u>231,835</u>
<i>TOTAL ASSETS</i>	<u>\$ 4,547,855</u>	<u>\$ 2,053,140</u>
 LIABILITIES AND NET ASSETS 		
LIABILITIES:		
Accounts Payable and Accrued Liabilities	\$ 205,011	\$ 280,483
Due to City of Los Angeles (Note 3)	<u>399,631</u>	<u>399,631</u>
<i>TOTAL LIABILITIES</i>	604,642	680,114
 NET ASSETS:		
Without Donor Restrictions	3,286,081	684,544
With Donor Restrictions	<u>657,132</u>	<u>688,482</u>
<i>TOTAL NET ASSETS</i>	<u>3,943,213</u>	<u>1,373,026</u>
<i>TOTAL LIABILITIES AND NET ASSETS</i>	<u>\$ 4,547,855</u>	<u>\$ 2,053,140</u>

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

STATEMENT OF ACTIVITIES Year Ended September 30, 2019

With Summarized Totals for the Year Ended September 30, 2018

	2019			2018 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
REVENUE AND SUPPORT:				
Federal, State, Local and Private				
Grants and Contracts	\$ 479,641	\$ -	\$ 479,641	\$ 558,188
Direct Public Support	1,395,365	-	1,395,365	1,446,872
Corporate and Foundation Grants	758,186	805,117	1,563,303	1,125,399
Bequests	2,618,033	-	2,618,033	380,000
Special Events (Net) (Note 7)	315,979	-	315,979	313,477
In-Kind Revenue	55,160	-	55,160	65,295
Cy Pres Awards	-	-	-	260,128
Other Income	9,469	-	9,469	5,306
Net Assets Released from Donor Restrictions	836,467	(836,467)	-	-
TOTAL REVENUE AND SUPPORT	6,468,300	(31,350)	6,436,950	4,154,665
EXPENSES:				
Program Services	2,885,920	-	2,885,920	2,902,033
Management and General	689,216	-	689,216	715,977
Fundraising	291,627	-	291,627	266,824
TOTAL EXPENSES	3,866,763	-	3,866,763	3,884,834
CHANGE IN NET ASSETS	2,601,537	(31,350)	2,570,187	269,831
Net Assets - Beginning of Year	684,544	688,482	1,373,026	1,103,195
NET ASSETS - END OF YEAR	\$ 3,286,081	\$ 657,132	\$ 3,943,213	\$ 1,373,026

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2019

With Summarized Totals for the Year Ended September 30, 2018

	2019							2018 Total Expenses	
	Program Services			Total Program Services	Support Services		Total Support Services		Total Expenses
	Research/ Advocacy	Membership/ Education	Direct Lobbying		Management and General	Fundraising			
Salaries and Wages	\$ 323,908	\$ 1,203,984	\$ 10,169	\$ 1,538,061	\$ 187,654	\$ 96,587	\$ 284,241	\$ 1,822,302	\$ 1,630,907
Employee Benefits	30,820	144,154	1,383	176,357	44,383	8,547	52,930	229,287	265,163
Payroll Taxes	24,976	96,089	695	121,760	26,238	6,782	33,020	154,780	126,147
TOTAL PERSONNEL EXPENSES	379,704	1,444,227	12,247	1,836,178	258,275	111,916	370,191	2,206,369	2,022,217
Professional and Consulting Fees	7,052	134,723	12,167	153,942	233,173	63,335	296,508	450,450	517,554
Occupancy	30,770	244,847	15,381	290,998	64,015	30,800	94,815	385,813	408,381
Supplies	8,862	131,890	174	140,926	5,835	8,854	14,689	155,615	186,198
Depreciation	10,588	68,824	5,294	84,706	10,588	10,587	21,175	105,881	113,546
Information Technology	8,288	64,812	3,171	76,271	6,344	6,727	13,071	89,342	166,749
Other Operating Expenses	21,273	28,655	28	49,956	18,556	7,864	26,420	76,376	76,222
Communications	8,495	50,379	2,448	61,322	2,923	7,584	10,507	71,829	61,875
Meetings and Travel	19,797	28,540	2,578	50,915	12,042	4,872	16,914	67,829	64,223
Utilities	-	33,086	-	33,086	25,905	-	25,905	58,991	50,856
In-Kind Expense	-	55,161	-	55,161	-	-	-	55,161	65,295
Bank and Credit Card Processing Fees	-	5,389	-	5,389	41,322	2,611	43,933	49,322	40,660
Insurance	4,096	31,992	2,148	38,236	4,096	4,096	8,192	46,428	45,325
Direct Mail Expense	-	-	-	-	-	30,622	30,622	30,622	65,733
Staff Development	2,500	6,334	-	8,834	6,142	1,759	7,901	16,735	-
TOTAL 2019 FUNCTIONAL EXPENSES	\$ 501,425	\$ 2,328,859	\$ 55,636	\$ 2,885,920	\$ 689,216	\$ 291,627	\$ 980,843	\$ 3,866,763	
				75%	18%	7%		100%	
TOTAL 2018 FUNCTIONAL EXPENSES	\$ 524,728	\$ 2,313,079	\$ 64,226	\$ 2,902,033	\$ 715,977	\$ 266,824	\$ 982,801		\$ 3,884,834
				75%	18%	7%			100%

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

STATEMENT OF CASH FLOWS

Year Ended September 30, 2019

With Summarized Totals for the Year Ended September 30, 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 2,570,187	\$ 269,831
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	105,881	113,546
(Increase) Decrease in:		
Accounts Receivable	78,964	(125,410)
Contributions and Pledges Receivable	26,114	29,439
Prepaid Expenses and Deposits	(17,768)	24,369
Construction under Contract with the City of Los Angeles	-	(53,225)
Increase (Decrease) in:		
Accounts Payable and Accrued Liabilities	(75,472)	125,378
Deferred Revenue	-	(6,750)
Due to City of Los Angeles	-	53,225
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,687,906	430,403
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchase of Property and Equipment	(24,077)	(11,511)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,663,829	418,892
Cash and Cash Equivalents - Beginning of Year	849,268	430,376
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,513,097	\$ 849,268

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS

September 30, 2019

NOTE 1 - ORGANIZATION

Heal the Bay is an environmental nonprofit dedicated to making the coastal waters and watersheds of greater L.A. safe, healthy and clean. To fulfill the mission, the organization uses science, education, community action and advocacy. With the support of 15,000 members and approximately 40,000 active volunteers, Heal the Bay is one of the most progressive environmental organizations in the region committed to long-term sustainable change. Through a combination of education, collaboration, community action and strong leadership, Heal the Bay is inspiring environmental stewardship throughout the greater community and protecting the health of thousands of Los Angeles' beachgoers every day.

Heal the Bay's programs include:

- **Adopt-A-Beach** - As the Los Angeles County coordinator, Heal the Bay provides supplies and training for any community group, civic organization or school to adopt a stretch of beach or waterway and complete three cleanups per year. More than 450 groups currently participate.
- **Beach Report Card** - Heal the Bay provides weekly water quality updates for more than 650 beaches from the Canadian border to Mexico. Heal the Bay also produces an Annual Beach Report Card and a Summer Beach Report Card to provide a summary of water quality information, including beach closures and sewage spill information. Available on Heal the Bay's website, grades are updated every Friday and are based on routine microbiological monitoring conducted by local health agencies and dischargers.
- **Coastal Cleanup Day** - Working with the California Coastal Commission, Heal the Bay has coordinated the Los Angeles County Coastal Cleanup Day efforts since 1990, annually attracting thousands of volunteers to clean beaches and inland waterways on the third Saturday of each September. Throughout the years, Coastal Cleanup Day volunteers have removed more than 2 million lbs. of trash from Los Angeles County dive sites, beaches and waterways.
- **Heal the Bay Speakers Bureau** - Volunteers throughout the Los Angeles region are trained by Heal the Bay to give presentations that raise awareness about the causes and consequences of ocean pollution. The Speakers Bureau conducts presentations to a variety of community groups, businesses and schools each year, reaching more than 35,000 people each year.
- **Key to the Sea** - Heal the Bay's award-winning marine environmental education program teaches Los Angeles County elementary school students (grades K-5) about water pollution prevention and marine conservation through curriculum and teacher training. The program culminates in fun, hands-on activities during a field trip to an aquarium and the beach. Several aquaria participate, including Heal the Bay's own Santa Monica Pier Aquarium. Heal the Bay created Key to the Sea in 1999, and delivers the conservation messages to approximately 10,000 students and 400 teachers per year.
- **Santa Monica Pier Aquarium** - Located beach level at the east end of the Santa Monica Pier, the Santa Monica Pier Aquarium provides a unique, hands-on way to interact with local marine life in a safe and educational environment. Managed by Heal the Bay, the Aquarium features live exhibits, including a shark tank, eels and tide-pool touch tanks, while promoting the conservation and protection of California coastal habitats. The Heal the Bay Aquarium attracts over 20,000 school children and 80,000 public visitors each year.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS

September 30, 2019

NOTE 1 - ORGANIZATION (continued)

- **Stream Team** - Developed in 1999 to identify and fix water quality and habitat degradation problems in the Malibu Creek and Los Angeles River watershed, Heal the Bay staff and volunteers observe and report on numerous illegal spills and habitat destruction activities in the watershed. Trained staff spend time each month conducting water chemistry tests, as well as participate in time research and stream and creek restoration projects.
- **Science and Policy** - Heal the Bay's unique approach of expert research combined with volunteer action and public education programs has been tremendously successful in working with local and federal government, industry and the public to clean up Santa Monica Bay and Southern California coastal waters. There is a clear track record of scientific evidence that the overall health of the Bay has improved due to Heal the Bay's actions.
- **WAYS Park** - In partnership with the City of Los Angeles Bureau of Sanitation, Heal the Bay secured Proposition 84 funding to enhance an under-utilized property at McKinley and 87th to provide a multi-use park which will serve as an outdoor classroom, community green space, fitness area, and water quality improvement project in a community that is already underserved and disproportionately lacking park space. In addition to the above ground community green space, the park will include a below ground stormwater water quality project to reduce runoff pollution. Heal the Bay has a pending agreement to transfer ownership of these improvements, along with all associated rights and operating/maintenance obligations, to the City of Los Angeles Board of Recreation and Parks Commissioners.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION

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

(b) NET ASSETS

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions.** Net assets available for use in general operations and not subject to donor-imposed restrictions.
- **Net Assets With Donor Restrictions.** Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS

September 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) CASH AND CASH EQUIVALENTS

Heal the Bay has defined cash and cash equivalents as cash in banks and money market accounts with an original maturity of three months or less. Heal the Bay places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. Heal the Bay has not incurred losses related to these investments and believes it is not exposed to any significant credit risk on cash and cash equivalents. The carrying value of cash and cash equivalents at September 30, 2019 approximates its fair value.

(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 collectability of those balances and the allowance is adjusted accordingly. Accounts receivable are primarily from governmental agencies. Therefore, no allowance for doubtful accounts is considered necessary at September 30, 2019.

(e) CONTRIBUTIONS AND PLEDGES RECEIVABLE

Unconditional contributions, including pledges recorded at fair value, are recognized as revenues in the period received. Heal the Bay reports unconditional contributions as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. At September 30, 2019, Heal the Bay evaluated the collectability of pledges receivable and no allowance for uncollectible pledges was considered necessary. All contributions and pledges receivable are expected to be collected within one year.

(f) LEGACIES AND BEQUESTS

Heal the Bay records and reports bequests when declared valid by the probate court and/or the value of the amounts to be received are determinable.

(g) 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 \$2,000 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:

Office Equipment	3 - 5 Years
Leasehold Improvements	5 - 7 Years or Lease Term
Furniture and Fixtures	3 - 10 Years
Vehicles	5 Years

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

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) LONG-LIVED ASSETS

Heal the Bay 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 September 30, 2019.

(i) 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 and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

During the year ended September 30, 2019, Heal the Bay recorded unrestricted contributions of in-kind goods and professional services valued at \$85,763 including \$30,603 of special event in-kind goods and services.

(j) INCOME TAXES

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

(k) FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing Heal the Bay'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. Heal the Bay uses proportional salary dollars to allocate indirect costs.

(l) 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.

(m) 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with Heal the Bay's financial statements for the year ended September 30, 2018, from which the summarized information was derived.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS

September 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) RECLASSIFICATION

For comparability, certain reclassifications have been made to the prior year comparative information to conform to the presentation used at September 30, 2019.

(o) NEW ACCOUNTING PRONOUNCEMENTS

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which is intended to reduce complexity in financial reporting. The ASU focuses on improving the current net asset classification requirements and information presented in consolidated financial statements that is useful in assessing a nonprofit's liquidity, financial performance, and cash flows. Heal the Bay implemented the ASU for the year ended September 30, 2019.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which improves and converges the revenue recognition requirements of accounting principles generally accepted in the United States of America and International Financial Reporting Standards. The ASU replaces the existing accounting standards for revenue recognition with a single comprehensive five-step model, which is intended to provide principles within a single framework for revenue recognition of transactions involving contracts with customers across all industries. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance has subsequently been amended through a series of ASUs between August 2015 and September 2017 to improve the operability and understandability of the implementation guidance on scope exceptions, and various other narrow aspects, as identified and addressed in such updates. For Heal the Bay, the ASU and subsequent amendments will be effective for the year ending September 30, 2020.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which is intended to improve financial reporting about leasing transactions. The new standard will require organizations that lease assets with terms of more than 12 months to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by those leases. The ASU also will require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements and provide additional information about the amounts recorded in the financial statements. For Heal the Bay, the ASU will be effective for the year ending September 30, 2022.

In June 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance. For Heal the Bay, the ASU will be effective for the year ending September 30, 2020.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) SUBSEQUENT EVENTS

Heal the Bay has evaluated events and transactions occurring subsequent to the statement of financial position date of September 30, 2019 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through January 15, 2020, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.

NOTE 3 - CONSTRUCTION UNDER CONTRACT WITH THE CITY OF LOS ANGELES

The construction under contract with the City of Los Angeles relates to leasehold improvements, in the form of a multi-benefit park in South Los Angeles, that Heal the Bay has committed to developing using funds granted by the State of California through Proposition 84.

At present, Heal the Bay has entered into a 30-year ground lease agreement with the City of Los Angeles, in furtherance of, and subject to, the grant agreement with the State of California Department of Parks and Recreation Office of Grants and Local Services (Proposition 84 funding). No lease payments are required, however, Heal the Bay is obligated under the terms of the lease agreement to maintain the project upon completion for the duration of the lease. The liability for ongoing maintenance is not estimable at this time. Upon completion of the lease, any improvements will be surrendered to the City of Los Angeles.

In accordance with a donation agreement dated March 16, 2016, at the completion of the project the City of Los Angeles Board of Recreation and Parks Commissioners will take ownership of the leasehold improvements and assume any rights conferred by the current lease agreement as well as all obligations for future maintenance and operation of the park. Following execution of the donation agreement, Heal the Bay will no longer have any interest in or obligation to the leasehold improvements and/or their continued operation and maintenance.

At September 30, 2019 Heal the Bay has recognized a liability to the City of Los Angeles in the amount of \$399,631, representing the leasehold improvements completed to date under this contract. Estimated costs to complete the contract are approximately \$1,150,000 and will be funded in full by the Proposition 84 Statewide Park Program.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2019 consist of the following:

Office Equipment	\$	328,491
Leasehold Improvements		284,477
Furniture and Fixtures		673,509
Vehicles		107,279
TOTAL		1,393,756
Less: Accumulated Depreciation		(1,243,725)
PROPERTY AND EQUIPMENT (NET)	\$	150,031

Depreciation expense for the year ended September 30, 2019 amounted to \$105,881.

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NOTES TO FINANCIAL STATEMENTS September 30, 2019

NOTE 5 - COMMITMENTS AND CONTINGENCIES

(a) OPERATING LEASES

Heal the Bay leases real estate facilities under a non-cancelable operating lease which expires in April 2021. The future minimum lease commitments as of September 30, 2019 are as follows:

Years Ending September 30

2020	\$	343,068
2021		<u>159,957</u>
TOTAL	\$	<u><u>503,025</u></u>

Total rent expense under real estate operating leases for the year ended September 30, 2019 amounted to \$325,667 and is included in occupancy costs in the statement of functional expenses.

(b) GRANTS AND CONTRACTS

Certain of Heal the Bay'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, Heal the Bay has no provision for the possible disallowance of program costs in its financial statements.

(c) LEGAL PROCEEDINGS

In the normal course of business, Heal the Bay may become a party to litigation. Management believes there are no asserted or unasserted claims or contingencies that would have a material impact on the financial statements of Heal the Bay as of September 30, 2019.

NOTE 6 - PENSION PLAN

Heal the Bay has a tax deferred retirement plan under Internal Revenue Code (IRC) Section 408(p). The plan covers all eligible employees of Heal the Bay. Participants are eligible if they are reasonably expected to receive at least \$5,000 in compensation for the calendar year, or if they have received at least \$5,000 in compensation during any one prior calendar year. Participants may elect to defer up to the maximum annual deferral determined by the IRC. For each plan year, Heal the Bay matches participants' elective deferrals up to the lesser of 3% of participants' compensation or \$6,000. Pension expense for the year ended September 30, 2019 was \$21,470.

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NOTES TO FINANCIAL STATEMENTS September 30, 2019

NOTE 7 - SPECIAL EVENTS

Special events revenue consists of the following for the year ended September 30, 2019:

Special Events Revenue	\$	764,718
Special Events In-Kind Revenue		30,603
Direct Donor Benefit Expenses		(448,739)
Special Events In-Kind Expense		(30,603)
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TOTAL SPECIAL EVENTS REVENUE (NET)	\$	315,979
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NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at September 30, 2019:

Subject to Expenditure for Specified Purpose:		
Santa Monica Pier Aquarium	\$	245,682
Science and Policy		146,587
Beach Cleanup		29,167
Strategic Planning		25,000
WAYS Park		20,000
Fisheries		19,583
Stream Team		18,420
Speakers' Bureau		6,281
Not Subject to Appropriation or Expenditure:		
Donor-Restricted Endowments Corpus		146,412
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TOTAL NET ASSETS WITH DONOR RESTRICTIONS	\$	657,132
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Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended September 30, 2019:

Satisfaction of Purpose Restrictions:		
Science and Policy	\$	541,449
Santa Monica Pier Aquarium		175,864
Fisheries		65,417
Beach Cleanup		25,640
Beach Report Card		10,159
Stream Team		9,686
Speakers' Bureau		8,252
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TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$	836,467
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NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE 9 - ENDOWMENTS

Endowment funds are established by donor-restricted gifts to either provide a permanent endowment, which is to provide a permanent source of income to Heal the Bay, or a term endowment, which is to provide income for a specified period to Heal the Bay. Heal the Bay's permanent endowment at September 30, 2019 consists of the Joe Crocker Memorial Fund.

Heal the Bay's management understands California State law as (1) requiring the preservation of the fair value of the original gifts as of the gift date of the donor restricted endowment funds, absent donor stipulations to the contrary and (2) allowing the spending of income and gains on permanently restricted endowments, absent explicit donor stipulations that all or a portion of such gains be maintained in perpetuity.

The primary long-term financial objective for Heal the Bay's endowments is to preserve the real (inflation-adjusted) purchasing power of endowment assets and income after accounting for endowment spending, inflation and costs of portfolio management.

Endowment Net Asset Composition by Type of Fund at September 30, 2019	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted	\$ -	\$ 146,412	\$ 146,412
<i>TOTAL FUNDS</i>	<i>\$ -</i>	<i>\$ 146,412</i>	<i>\$ 146,412</i>
Changes in Endowment Net Assets for the Year Ended September 30, 2019			
Endowment Net Assets -			
Beginning of Year	\$ -	\$ 146,412	\$ 146,412
Investment Return (Net)	-	-	-
Appropriation of Endowment Assets for Expenditure	-	-	-
<i>ENDOWMENT NET ASSETS - END OF YEAR</i>	<i>\$ -</i>	<i>\$ 146,412</i>	<i>\$ 146,412</i>

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2019

NOTE 10 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The total financial assets held by Heal the Bay at September 30, 2019 and the amounts of those financial assets that could be made available for general expenditures within one year of the date of the statement of financial position are summarized in the following table:

Financial Assets at September 30, 2019:	
Cash and Cash Equivalents	\$ 3,513,097
Accounts Receivable	214,431
Contributions and Pledges Receivable	<u>161,000</u>
TOTAL FINANCIAL ASSETS	
AT SEPTEMBER 30, 2019	3,888,528
Less Amounts Not Available to Be Used within One Year, Due to:	
Donor-Imposed Restrictions:	
Funds Held for Perpetual Endowments	(146,412)
Funds Held with Purpose Restrictions	(349,720)
Contributions and Pledges Restricted by Purpose	<u>(161,000)</u>
FINANCIAL ASSETS AVAILABLE TO	
MEET GENERAL EXPENDITURES	
WITHIN ONE YEAR	\$ 3,231,396

Heal the Bay regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. As part of Heal the Bay's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.