

# **HEAL THE BAY**

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2012

**HEAL THE BAY**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2012**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Heal the Bay

We have audited the accompanying statement of financial position of Heal the Bay as of September 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Heal the Bay's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the 2011 financial statements of Heal the Bay and in our report dated January 12, 2012, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of 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 Heal the Bay as of September 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2013 on our consideration of Heal the Bay's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Green Hasson & Janks LLP*

January 17, 2013  
Los Angeles, California

## HEAL THE BAY

### STATEMENT OF FINANCIAL POSITION

September 30, 2012

With Summarized Totals at September 30, 2011

| <b>ASSETS</b>                               | 2012              |                           |                           | Total               | 2011<br>Total       |
|---|-------------------|---------------------------|---------------------------|---------------------|---------------------|
|   | Unrestricted      | Temporarily<br>Restricted | Permanently<br>Restricted |                     |                     |
| Cash and Cash Equivalents                   | \$ 151,140        | \$ 555,239                | \$ 146,412                | \$ 852,791          | \$ 1,164,350        |
| Accounts Receivable                         | 196,002           | -                         | -                         | 196,002             | 151,967             |
| Contributions and Pledges Receivable        | -                 | 150,000                   | -                         | 150,000             | 217,500             |
| Prepaid Expenses and Deposits               | 83,491            | -                         | -                         | 83,491              | 84,255              |
| Property and Equipment (Net)                | 256,057           | -                         | -                         | 256,057             | 283,014             |
| <b>TOTAL ASSETS</b>                         | <b>\$ 686,690</b> | <b>\$ 705,239</b>         | <b>\$ 146,412</b>         | <b>\$ 1,538,341</b> | <b>\$ 1,901,086</b> |
| <b>LIABILITIES AND NET ASSETS</b>           |                   |                           |                           |                     |                     |
| <b>LIABILITIES:</b>                         |                   |                           |                           |                     |                     |
| Accounts Payable and<br>Accrued Liabilities | \$ 154,632        | \$ -                      | \$ -                      | \$ 154,632          | \$ 184,100          |
| <b>NET ASSETS:</b>                          |                   |                           |                           |                     |                     |
| Unrestricted:                               |                   |                           |                           |                     |                     |
| Undesignated                                | 375,799           | -                         | -                         | 375,799             | 689,653             |
| Board Designated (Note 11)                  | 156,259           | -                         | -                         | 156,259             | 155,921             |
| Temporarily Restricted (Note 10)            | -                 | 705,239                   | -                         | 705,239             | 725,000             |
| Permanently Restricted (Note 11)            | -                 | -                         | 146,412                   | 146,412             | 146,412             |
| <b>TOTAL NET ASSETS</b>                     | <b>532,058</b>    | <b>705,239</b>            | <b>146,412</b>            | <b>1,383,709</b>    | <b>1,716,986</b>    |
| <b>TOTAL LIABILITIES<br/>AND NET ASSETS</b> | <b>\$ 686,690</b> | <b>\$ 705,239</b>         | <b>\$ 146,412</b>         | <b>\$ 1,538,341</b> | <b>\$ 1,901,086</b> |

The Accompanying Notes are an Integral Part of These Financial Statements

# HEAL THE BAY

## STATEMENT OF ACTIVITIES Year Ended September 30, 2012

With Summarized Totals for the Year Ended September 30, 2011

|                                   | 2012         |                           |                           | Total        | 2011<br>Total |
|-----------------------------------|--------------|---------------------------|---------------------------|--------------|---------------|
|                                   | Unrestricted | Temporarily<br>Restricted | Permanently<br>Restricted |              |               |
| <b>REVENUE AND SUPPORT:</b>       |              |                           |                           |              |               |
| Federal, State, Local and Private |              |                           |                           |              |               |
| Grants and Contracts              | \$ 461,517   | \$ -                      | \$ -                      | \$ 461,517   | \$ 476,895    |
| Direct Public Support             | 1,868,655    | -                         | -                         | 1,868,655    | 2,066,916     |
| Corporate and Foundation Grants   | 53,654       | 774,997                   | -                         | 828,651      | 1,109,720     |
| Special Events (Net) (Note 9)     | 628,839      | -                         | -                         | 628,839      | 641,822       |
| Interest and Dividend Income      | 350          | -                         | -                         | 350          | 577           |
| In-Kind Revenue                   | 396,947      | -                         | -                         | 396,947      | 733,855       |
| Other Income                      | 12,701       | -                         | -                         | 12,701       | 13,848        |
| Net Assets Released from:         |              |                           |                           |              |               |
| Purpose Restrictions              | 767,258      | (767,258)                 | -                         | -            | -             |
| Time Restrictions                 | 27,500       | (27,500)                  | -                         | -            | -             |
| <b>TOTAL REVENUE AND SUPPORT</b>  |              |                           |                           |              |               |
|                                   | 4,217,421    | (19,761)                  | -                         | 4,197,660    | 5,043,633     |
| <b>EXPENSES:</b>                  |              |                           |                           |              |               |
| Program Services                  | 3,656,746    | -                         | -                         | 3,656,746    | 4,430,260     |
| Support Services:                 |              |                           |                           |              |               |
| Management and General            | 412,876      | -                         | -                         | 412,876      | 539,315       |
| Fundraising                       | 461,315      | -                         | -                         | 461,315      | 384,828       |
| <b>TOTAL EXPENSES</b>             |              |                           |                           |              |               |
|                                   | 4,530,937    | -                         | -                         | 4,530,937    | 5,354,403     |
| <b>CHANGE IN NET ASSETS</b>       |              |                           |                           |              |               |
|                                   | (313,516)    | (19,761)                  | -                         | (333,277)    | (310,770)     |
| Net Assets - Beginning of Year    | 845,574      | 725,000                   | 146,412                   | 1,716,986    | 2,027,756     |
| <b>NET ASSETS - END OF YEAR</b>   |              |                           |                           |              |               |
|                                   | \$ 532,058   | \$ 705,239                | \$ 146,412                | \$ 1,383,709 | \$ 1,716,986  |

The Accompanying Notes are an Integral Part of These Financial Statements

## HEAL THE BAY

### STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2012

With Summarized Totals for the Year Ended September 30, 2011

|   | 2012                  |                          |                    |                              |                           |                   |                              |                     | 2011<br>Total<br>Expenses |
|---|-----------------------|--------------------------|--------------------|------------------------------|---------------------------|-------------------|------------------------------|---------------------|---------------------------|
|   | Program Services      |                          |                    | Total<br>Program<br>Services | Support Services          |                   | Total<br>Support<br>Services | Total<br>Expenses   |                           |
|   | Research/<br>Advocacy | Membership/<br>Education | Direct<br>Lobbying |                              | Management<br>and General | Fundraising       |                              |                     |                           |
| Salaries and Wages                        | \$ 402,214            | \$ 1,297,747             | \$ 68              | \$ 1,700,029                 | \$ 221,226                | \$ 175,390        | \$ 396,616                   | \$ 2,096,645        | \$ 2,391,008              |
| Employee Benefits                         | 49,543                | 199,682                  | 4                  | 249,229                      | 37,441                    | 17,638            | 55,079                       | 304,308             | 359,996                   |
| Payroll Taxes                             | 28,512                | 100,742                  | 3                  | 129,257                      | 16,952                    | 12,535            | 29,487                       | 158,744             | 181,451                   |
| <b>TOTAL PERSONNEL<br/>EXPENSES</b>       | <b>480,269</b>        | <b>1,598,171</b>         | <b>75</b>          | <b>2,078,515</b>             | <b>275,619</b>            | <b>205,563</b>    | <b>481,182</b>               | <b>2,559,697</b>    | <b>2,932,455</b>          |
| Bank Service Charges                      | -                     | 965                      | -                  | 965                          | 16,979                    | 33,636            | 50,615                       | 51,580              | 46,535                    |
| Communications                            | 1,093                 | 60,399                   | -                  | 61,492                       | 3,336                     | 43,483            | 46,819                       | 108,311             | 84,620                    |
| Computer Expense                          | -                     | 23,222                   | -                  | 23,222                       | 2,989                     | 3,517             | 6,506                        | 29,728              | 31,231                    |
| Depreciation                              | -                     | 83,694                   | -                  | 83,694                       | 11,721                    | 8,714             | 20,435                       | 104,129             | 84,979                    |
| Direct Mail Expense                       | -                     | 274,681                  | -                  | 274,681                      | 20,721                    | 40,644            | 61,365                       | 336,046             | 367,719                   |
| Dues and Subscriptions                    | 160                   | 1,770                    | -                  | 1,930                        | -                         | 129               | 129                          | 2,059               | 2,800                     |
| Equipment Rental                          | -                     | 18,043                   | -                  | 18,043                       | 1,362                     | 1,013             | 2,375                        | 20,418              | 18,230                    |
| In-Kind Expense                           | -                     | 396,947                  | -                  | 396,947                      | -                         | -                 | -                            | 396,947             | 733,855                   |
| Insurance                                 | -                     | 27,455                   | -                  | 27,455                       | 2,911                     | 2,164             | 5,075                        | 32,530              | 34,362                    |
| Meetings and Conferences                  | 950                   | 11,680                   | -                  | 12,630                       | 974                       | 1,478             | 2,452                        | 15,082              | 18,878                    |
| Miscellaneous                             | 276                   | 8,877                    | -                  | 9,153                        | 87                        | 3,834             | 3,921                        | 13,074              | 8,288                     |
| Occupancy                                 | 705                   | 213,440                  | -                  | 214,145                      | 25,398                    | 18,881            | 44,279                       | 258,424             | 294,411                   |
| Postage                                   | 390                   | 7,455                    | -                  | 7,845                        | 892                       | 5,421             | 6,313                        | 14,158              | 16,260                    |
| Professional and Consulting Fees          | 40,463                | 86,975                   | 7,935              | 135,373                      | 40,717                    | 76,008            | 116,725                      | 252,098             | 316,785                   |
| Repairs and Maintenance                   | -                     | 2,302                    | -                  | 2,302                        | 52                        | 38                | 90                           | 2,392               | 7,674                     |
| Staff Development                         | 16                    | 1,959                    | -                  | 1,975                        | 75                        | 1,541             | 1,616                        | 3,591               | 721                       |
| Supplies                                  | 11,930                | 174,168                  | -                  | 186,098                      | 1,233                     | 7,742             | 8,975                        | 195,073             | 227,236                   |
| Telecommunications                        | -                     | 40,779                   | -                  | 40,779                       | 4,762                     | 3,540             | 8,302                        | 49,081              | 56,251                    |
| Travel                                    | 15,253                | 12,504                   | -                  | 27,757                       | 62                        | 1,749             | 1,811                        | 29,568              | 34,550                    |
| Utilities                                 | -                     | 51,745                   | -                  | 51,745                       | 2,986                     | 2,220             | 5,206                        | 56,951              | 36,563                    |
| <b>TOTAL 2012<br/>FUNCTIONAL EXPENSES</b> | <b>\$ 551,505</b>     | <b>\$ 3,097,231</b>      | <b>\$ 8,010</b>    | <b>\$ 3,656,746</b>          | <b>\$ 412,876</b>         | <b>\$ 461,315</b> | <b>\$ 874,191</b>            | <b>\$ 4,530,937</b> |                           |
|   |                       |                          |                    | 81%                          | 9%                        | 10%               |                              | 100%                |                           |
| <b>TOTAL 2011<br/>FUNCTIONAL EXPENSES</b> | <b>\$ 549,340</b>     | <b>\$ 3,879,951</b>      | <b>\$ 969</b>      | <b>\$ 4,430,260</b>          | <b>\$ 539,315</b>         | <b>\$ 384,828</b> | <b>\$ 924,143</b>            |                     | <b>\$ 5,354,403</b>       |
|   |                       |                          |                    | 83%                          | 10%                       | 7%                |                              |                     | 100%                      |

The Accompanying Notes are an Integral Part of These Financial Statements

# HEAL THE BAY

## STATEMENT OF CASH FLOWS

Year Ended September 30, 2012

With Summarized Totals for the Year Ended September 30, 2011

|  | 2012              | 2011                |
|--|-------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                   |                     |
| Change in Net Assets   | \$ (333,277)      | \$ (310,770)        |
| Adjustments to Reconcile Change in Net Assets to<br>Net Cash Used In Operating Activities: |                   |                     |
| Bad Debt   | 8,525             | -                   |
| Depreciation   | 104,129           | 84,979              |
| (Increase) Decrease in:  |                   |                     |
| Accounts Receivable  | (52,560)          | 108,364             |
| Contributions and Pledges Receivable   | 67,500            | 122,500             |
| Prepaid Expenses and Deposits  | 764               | 15,531              |
| Decrease in Accounts Payable and Accrued Liabilities                                       | (29,468)          | (27,286)            |
| <b><i>NET CASH USED IN OPERATING ACTIVITIES</i></b>  | <b>(234,387)</b>  | <b>(6,682)</b>      |
| <b>CASH FLOWS USED IN INVESTING ACTIVITIES:</b>  |                   |                     |
| Purchase of Property and Equipment   | (77,172)          | (79,651)            |
| <b><i>NET DECREASE IN CASH AND CASH EQUIVALENTS</i></b>                                    | <b>(311,559)</b>  | <b>(86,333)</b>     |
| Cash and Cash Equivalents - Beginning of Year  | 1,164,350         | 1,250,683           |
| <b><i>CASH AND CASH EQUIVALENTS - END OF YEAR</i></b>                                      | <b>\$ 852,791</b> | <b>\$ 1,164,350</b> |

The Accompanying Notes are an Integral Part of These Financial Statements

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS

September 30, 2012

### NOTE 1 - ORGANIZATION

In 1985, Dorothy Green and a group of concerned citizens discovered that the City of Los Angeles was dumping barely treated sewage in Santa Monica Bay. The detrimental health effects to both human and marine life mobilized the group to create Heal the Bay and put a stop to this egregious action. Since its inception, Heal the Bay has expanded to include a number of programs designed to make Southern California coastal waters and watersheds, including Santa Monica Bay, safe, healthy and clean. Heal the Bay uses research, education, community action and advocacy to achieve this goal.

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 1 million lbs. of trash from Los Angeles County dive sites, beaches and waterways.
- **Compton Creek Watershed Project** - Through community outreach, advocacy and watershed cleanups, Heal the Bay is working to create an atmosphere of environmental improvement in Compton. The Compton Creek Watershed which is located in the South Central portion of Los Angeles County possesses one of the most polluted local water bodies - Compton Creek. The goal of the Compton Creek Watershed Project is to provide inland communities with the necessary information and skills to identify and produce a neighborhood improvement project that will both improve the environmental health of the community, as well as modify the physical environment around them.
- **The Education and the Environment Initiative** - Heal the Bay originally authored The Education and the Environment Initiative (EEI) legislation with Assembly member Fran Pavley and is now working on statewide implementation with the California Environmental Protection Agency and the California Integrated Waste Management Board. The EEI is a comprehensive state program that provides education principles and curricula in all disciplines (science, history/social sciences, English/language arts, and mathematics) for all K-12 grade students in California public schools.

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS

September 30, 2012

### NOTE 1 - ORGANIZATION (continued)

- **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 20,000 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.
- **Pier Outreach** - Multilingual Pier Outreach Team members travel to local piers to educate anglers and their families about the dangers of eating contaminated fish. Team members also encourage anglers to learn about the conservation of non-edible marine life. In the last nine years of the program, Heal the Bay has reached more than 116,250 anglers.
- **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 15,000 school children and 70,000 public visitors each year.
- **Stream Team** - Developed in 1999 to identify and fix water quality and habitat degradation problems in the Malibu Creek watershed, Heal the Bay staff and volunteers observe and report on numerous illegal spills and habitat destruction activities in the watershed. Trained volunteers spend four hours each month conducting water chemistry tests, as well as participate in one-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 Wisdom Academy for Young Scientists (WAYS), a local South Los Angeles charter school, and the City of Los Angeles Bureau of Sanitation, Heal the Bay secured Prop 84 funding to enhance an under-utilized property at McKinley and 87<sup>th</sup> 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

## NOTES TO FINANCIAL STATEMENTS September 30, 2012

### 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) ACCOUNTING

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Heal the Bay 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:

- **Unrestricted Undesignated.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving income from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.
- **Unrestricted Board Designated.** These are comprised of resources that the Board of Directors has established as being designated for future program development. These funds were raised through general fundraising and special events. Heal the Bay has \$156,259 of unrestricted Board designated net assets at September 30, 2012 (See Note 11).
- **Temporarily Restricted.** Heal the Bay 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 purpose or time restrictions. Heal the Bay has \$705,239 of temporarily restricted net assets at September 30, 2012 (See Note 10).
- **Permanently Restricted.** These net assets are received from donors who stipulate that resources are to be maintained permanently, but permit Heal the Bay to expend all of the income (or other economic benefits) derived from the donated assets. Heal the Bay has \$146,412 of permanently restricted net assets at September 30, 2012 (See Note 11).

#### (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, 2012 approximates its fair value.

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS September 30, 2012

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**(c) CASH AND CASH EQUIVALENTS (continued)**

As of September 30, 2012, Heal the Bay holds restricted cash amounting to \$100,000 in a separate account for The Dorothy Green Environmental Project as required by the grant.

**(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. Accounts receivable are primarily from governmental agencies. Therefore, no allowance for doubtful accounts is considered necessary at September 30, 2012.

**(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 restricted support if they are received with donor stipulations that limit the use of the donated assets. At September 30, 2012, Heal the Bay evaluated the collectibility of pledges receivable and no allowance for uncollectible pledges was considered necessary.

**(f) 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.

**(g) 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, 2012.

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS

September 30, 2012

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **(h) UNEMPLOYMENT SELF INSURANCE**

Heal the Bay has retained a portion of the risks relating to unemployment insurance. The exposure for unpaid claims and associated expenses, including incurred but not reported losses, is estimated based on prior claims history and analysis of current outstanding claims.

#### **(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 provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

During the year ended September 30, 2012, Heal the Bay recorded unrestricted contributions of in-kind goods and professional services. For the year ended September 30, 2012, the fair value of in-kind contributions received was \$396,947.

#### **(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, 2011, from which the summarized information was derived.

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS September 30, 2012

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (n) SUBSEQUENT EVENTS

Heal the Bay has evaluated events and transactions occurring subsequent to the statement of financial position date of September 30, 2012 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through January 17, 2013, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.

### NOTE 3 - CONTRIBUTIONS AND PLEDGES RECEIVABLE

All contributions and pledges receivable are deemed to be fully collectible at September 30, 2012; therefore, no allowance for uncollectible pledges has been recorded. The total amount of contributions and pledges receivable at September 30, 2012 is \$150,000, all of which are expected to be collected within one year.

### NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2012 consist of the following:

|                                     |                   |
|-------------------------------------|-------------------|
| Office Equipment                    | \$ 468,284        |
| Leasehold Improvements              | 211,345           |
| Furniture and Fixtures              | 122,956           |
| Vehicles                            | 38,625            |
| Construction in Progress            | <u>60,000</u>     |
| <b>TOTAL</b>                        | 901,210           |
| Less: Accumulated Depreciation      | <u>(645,153)</u>  |
| <b>PROPERTY AND EQUIPMENT (NET)</b> | <u>\$ 256,057</u> |

Depreciation expense for the year ended September 30, 2012 amounted to \$104,129.

### NOTE 5 - ACCRUED UNEMPLOYMENT LIABILITY

Heal the Bay has elected to be self-insured for the purposes of California State Unemployment Insurance. The reserve for unemployment liability at September 30, 2012 of \$44,981 represents estimated future claims arising from current and past employees. Unemployment expense for the year ended September 30, 2012 was \$23,974.

|  | Gross Claims<br>Liability | Estimated<br>Insurance<br>Recoveries | Net Claims<br>Liability |
|--|---------------------------|--------------------------------------|-------------------------|
| Balance at October 1, 2011               | \$ 18,741                 | \$ -                                 | \$ 18,741               |
| Unemployment Expenses Incurred           | 23,974                    | -                                    | 23,974                  |
| Investment Income                        | <u>2,266</u>              | -                                    | <u>2,266</u>            |
| <b>BALANCE AT<br/>SEPTEMBER 30, 2012</b> | <u>\$ 44,981</u>          |                                      | <u>\$ 44,981</u>        |

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS September 30, 2012

### NOTE 6 - COMMITMENTS AND CONTINGENCIES

#### (a) OPERATING LEASES

Heal the Bay leases real estate facilities under a non-cancelable operating lease expiring in April 2016. The future minimum lease commitments as of September 30, 2012 are as follows:

#### Years Ending September 30

|              |           |                |
|--------------|-----------|----------------|
| 2013         | \$        | 191,791        |
| 2014         |           | 197,545        |
| 2015         |           | 221,720        |
| 2016         |           | 103,378        |
| <b>TOTAL</b> | <b>\$</b> | <b>714,434</b> |

Total rent expense under real estate operating leases for the year ended September 30, 2012 amounted to \$198,461 and is included in occupancy costs.

#### (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.

### NOTE 7 - 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, 2012, was \$33,013.

### NOTE 8 - ALLOCATION OF JOINT COSTS

Heal the Bay conducted direct mail campaigns that included requests for contributions as well as program components. The costs of conducting these activities included joint costs totaling \$336,046 for the year ended September 30, 2012.

The joint costs for these direct mail campaigns were allocated as follows:

|                        |           |                |
|------------------------|-----------|----------------|
| Program Services       | \$        | 274,681        |
| Management and General |           | 20,721         |
| Fundraising            |           | 40,644         |
| <b>TOTAL</b>           | <b>\$</b> | <b>336,046</b> |

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS September 30, 2012

### NOTE 9 - SPECIAL EVENTS

Special events revenue consists of the following at September 30, 2012:

|   |                          |
|---|--------------------------|
| Special Events Revenue                        | \$ 903,079               |
| Direct Donor Benefit Expenses                 | <u>(274,240)</u>         |
| <b>TOTAL SPECIAL EVENTS<br/>REVENUE (NET)</b> | <b><u>\$ 628,839</u></b> |

### NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2012 consist of the following:

|  |                          |
|--|--------------------------|
| Time Restriction                                   | \$ 110,000               |
| Education and the Environment Initiative           | 113,604                  |
| Dorothy Green Memorial Fund                        | 100,000                  |
| Santa Monica Pier Aquarium                         | 84,353                   |
| Beach Report Card                                  | 78,297                   |
| Education  | 69,268                   |
| Marine Life Protection Act                         | 50,616                   |
| Compton Creek Watershed Project                    | 37,174                   |
| Key to the Sea Program                             | 27,158                   |
| Stream Team  | 19,862                   |
| Coastal Cleanup Day                                | 9,601                    |
| Information Technology                             | 5,000                    |
| Adopt A Beach                                      | <u>306</u>               |
| <b>TOTAL TEMPORARILY RESTRICTED<br/>NET ASSETS</b> | <b><u>\$ 705,239</u></b> |

### NOTE 11 - PERMANENTLY RESTRICTED AND BOARD DESIGNATED NET ASSETS

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, 2012 consists of the Joe Crocker Memorial Fund. In a prior year, the Board of Directors elected to acknowledge this Memorial Fund with the establishment of unrestricted Board designated net assets. The combined Memorial Fund of \$302,671 is included in cash and cash equivalents at September 30, 2012.

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.

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS September 30, 2012

### NOTE 11 - PERMANENTLY RESTRICTED AND BOARD DESIGNATED NET ASSETS (continued)

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, 2012**

|                    | Unrestricted      | Temporarily<br>Restricted | Permanently<br>Restricted | Total             |
|--------------------|-------------------|---------------------------|---------------------------|-------------------|
| Donor-Restricted   | \$ -              | \$ -                      | \$ 146,412                | \$ 146,412        |
| Board Designated   | 156,259           | -                         | -                         | 156,259           |
| <b>TOTAL FUNDS</b> | <b>\$ 156,259</b> | <b>\$ -</b>               | <b>\$ 146,412</b>         | <b>\$ 302,671</b> |

**Changes in Endowment Net  
Assets for the Year Ended  
September 30, 2012**

|  |                   |             |                   |                   |
|--|-------------------|-------------|-------------------|-------------------|
| Endowment Net Assets -<br>Beginning of Year          | \$ 155,921        | \$ -        | \$ 146,412        | \$ 302,333        |
| Investment Income                                    | -                 | 338         | -                 | 338               |
| Appropriation of Endowment<br>Assets for Expenditure | 338               | (338)       | -                 | -                 |
| <b>ENDOWMENT NET ASSETS -<br/>END OF YEAR</b>        | <b>\$ 156,259</b> | <b>\$ -</b> | <b>\$ 146,412</b> | <b>\$ 302,671</b> |

### NOTE 12 - RELATED PARTY TRANSACTIONS

A member of the Board of Directors provides pro-bono creative management and production services for Heal the Bay's annual fundraising dinner through his company, Homerun Entertainment, in accordance with Heal the Bay's conflict of interest policy. During the year ended September 30, 2012, payments of \$4,387 were made to Homerun Entertainment for general production costs provided by outside contracted vendors related to the event. The services that Homerun Entertainment itself provides are all pro-bono. These pro-bono services amounted to \$32,000 for the year ended September 30, 2012.

Another member of the Board of Directors provides consulting services for one of Heal the Bay's programs. During the year ended September 30, 2012, payments of \$2,610 were made to Mark Gold for consulting services.