

HEAL THE BAY

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2014

HEAL THE BAY
FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2014

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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, 2014, 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 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 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, 2014, 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 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 14, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

To the Board of Directors
Heal the Bay

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2015 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Heal the Bay's internal control over financial reporting and compliance.

Green Hasson & Janks LLP

January 14, 2015
Los Angeles, California

HEAL THE BAY

STATEMENT OF FINANCIAL POSITION

September 30, 2014

With Summarized Totals at September 30, 2013

ASSETS	<u>2014</u>	<u>2013</u>
Cash and Cash Equivalents	\$ 474,222	\$ 437,331
Accounts Receivable	197,567	351,366
Contributions and Pledges Receivable	88,000	230,000
Prepaid Expenses and Deposits	130,044	85,849
Construction under Contract with the City of Los Angeles (Note 3)	158,535	-
Property and Equipment (Net)	<u>605,472</u>	<u>637,719</u>
TOTAL ASSETS	<u><u>\$ 1,653,840</u></u>	<u><u>\$ 1,742,265</u></u>
 LIABILITIES AND NET ASSETS 		
LIABILITIES:		
Accounts Payable and Accrued Liabilities	\$ 339,148	\$ 218,636
Deferred Revenue	54,931	262,671
Due to City of Los Angeles (Note 3)	<u>158,535</u>	<u>-</u>
TOTAL LIABILITIES	552,614	481,307
NET ASSETS:		
Unrestricted	335,043	499,790
Temporarily Restricted (Note 10)	619,771	614,756
Permanently Restricted (Note 11)	<u>146,412</u>	<u>146,412</u>
TOTAL NET ASSETS	<u>1,101,226</u>	<u>1,260,958</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,653,840</u></u>	<u><u>\$ 1,742,265</u></u>

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

STATEMENT OF ACTIVITIES Year Ended September 30, 2014

With Summarized Totals for the Year Ended September 30, 2013

	2014			Total	2013 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
REVENUE AND SUPPORT:					
Federal, State, Local and Private					
Grants and Contracts	\$ 568,925	\$ -	\$ -	\$ 568,925	\$ 757,950
Direct Public Support	1,603,719	25,000	-	1,628,719	1,398,685
Corporate and Foundation Grants	215,604	811,576	-	1,027,180	1,088,009
Special Events (Net) (Note 9)	619,003	-	-	619,003	673,851
Interest and Dividend Income	184	-	-	184	191
In-Kind Revenue	270,367	-	-	270,367	512,971
Other Income	16,277	-	-	16,277	328
Net Assets Released from:					
Purpose Restrictions	746,561	(746,561)	-	-	-
Time Restrictions	85,000	(85,000)	-	-	-
TOTAL REVENUE AND SUPPORT	4,125,640	5,015	-	4,130,655	4,431,985
EXPENSES:					
Program Services	3,345,839	-	-	3,345,839	3,748,152
Support Services:					
Management and General	475,430	-	-	475,430	364,510
Fundraising	469,118	-	-	469,118	442,074
TOTAL EXPENSES	4,290,387	-	-	4,290,387	4,554,736
CHANGE IN NET ASSETS	(164,747)	5,015	-	(159,732)	(122,751)
Net Assets - Beginning of Year	499,790	614,756	146,412	1,260,958	1,383,709
NET ASSETS - END OF YEAR	\$ 335,043	\$ 619,771	\$ 146,412	\$ 1,101,226	\$ 1,260,958

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2014

With Summarized Totals for the Year Ended September 30, 2013

	2014							2013 Total Expenses
	Program Services		Total Program Services	Support Services		Total Support Services	Total Expenses	
	Research/ Advocacy	Membership/ Education		Management and General	Fundraising			
Salaries and Wages	\$ 426,680	\$ 1,236,828	\$ 1,663,508	\$ 257,426	\$ 272,849	\$ 530,275	\$ 2,193,783	\$ 2,211,283
Employee Benefits	65,832	187,047	252,879	70,791	24,217	95,008	347,887	318,099
Payroll Taxes	32,648	104,733	137,381	1,947	21,856	23,803	161,184	169,409
TOTAL PERSONNEL EXPENSES	525,160	1,528,608	2,053,768	330,164	318,922	649,086	2,702,854	2,698,791
Professional and Consulting Fees	155,638	74,913	230,551	48,138	9,596	57,734	288,285	298,249
Occupancy	1,575	212,609	214,184	25,931	28,807	54,738	268,922	278,730
In-Kind Expense	-	222,242	222,242	-	-	-	222,242	512,971
Supplies	10,687	172,741	183,428	548	1,215	1,763	185,191	201,936
Depreciation	-	98,861	98,861	14,178	15,750	29,928	128,789	84,332
Direct Mail Expense	-	72,474	72,474	16,374	14,111	30,485	102,959	126,606
Utilities	-	74,412	74,412	5,943	6,603	12,546	86,958	85,099
Meetings and Travel	28,503	30,836	59,339	1,302	4,173	5,475	64,814	56,273
Information Technology	149	48,935	49,084	3,582	7,631	11,213	60,297	48,927
Bank and Credit Card Processing Fees	-	-	-	21,556	32,918	54,474	54,474	54,753
Communications	1,072	37,110	38,182	2,901	7,753	10,654	48,836	44,049
Insurance	-	23,750	23,750	2,729	3,056	5,785	29,535	28,409
Other Operating Expenses	246	25,318	25,564	2,084	18,583	20,667	46,231	35,611
TOTAL 2014 FUNCTIONAL EXPENSES	\$ 723,030	\$ 2,622,809	\$ 3,345,839	\$ 475,430	\$ 469,118	\$ 944,548	\$ 4,290,387	
			78%	11%	11%		100%	
TOTAL 2013 FUNCTIONAL EXPENSES	\$ 637,150	\$ 3,111,002	\$ 3,748,152	\$ 364,510	\$ 442,074	\$ 806,584		\$ 4,554,736
			82%	8%	10%			100%

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

STATEMENT OF CASH FLOWS

Year Ended September 30, 2014

With Summarized Totals for the Year Ended September 30, 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (159,732)	\$ (122,751)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Bad Debt Expense	-	6,466
Depreciation	128,789	84,332
Donated Property and Equipment	(48,125)	-
(Increase) Decrease in:		
Accounts Receivable	153,799	(161,830)
Contributions and Pledges Receivable	142,000	(80,000)
Prepaid Expenses and Deposits	(44,195)	(2,358)
Construction under Contract with the City of Los Angeles	(158,535)	-
Increase (Decrease) in:		
Accounts Payable and Accrued Liabilities	120,512	75,404
Deferred Revenue	(207,740)	251,271
Due to City of Los Angeles	158,535	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	85,308	50,534
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchase of Property and Equipment	(48,417)	(465,994)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	36,891	(415,460)
Cash and Cash Equivalents - Beginning of Year	437,331	852,791
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 474,222	\$ 437,331

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

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, 2014

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 118,000 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.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

NOTE 1 - ORGANIZATION (continued)

- **WAYS Park** - In partnership 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 upon completion of the project, estimated to be September 2015.

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.
- **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 \$619,771 of temporarily restricted net assets at September 30, 2014 (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, 2014 (See Note 11).

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2014

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, 2014 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 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, 2014.

(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, 2014, Heal the Bay evaluated the collectibility 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) 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, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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, 2014.

(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) DEFERRED REVENUE

Grant funds are recognized as revenue in accordance with the term of the grants and when funds are expended for grant purposes. Deferred revenue includes both amounts received in excess of funds expended to date as well as grant amounts awarded and not yet expended.

(j) DEFERRED RENT

Heal the Bay recognizes scheduled rent increases on a straight-line basis over the term of the lease, unless some other recognition system better represents the usage of the underlying assets. Included in accounts payable and accrued liabilities at September 30, 2014 is a deferred rent liability of \$13,454.

(k) 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, 2014, Heal the Bay recorded unrestricted contributions of in-kind goods and professional services valued at \$594,377, including \$324,010 of special event in-kind goods and services.

(l) 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.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) 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.

(n) 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.

(o) 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, 2013, from which the summarized information was derived.

(p) RECLASSIFICATION

For comparability, certain September 30, 2013 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used at September 30, 2014.

(q) SUBSEQUENT EVENTS

Heal the Bay has evaluated events and transactions occurring subsequent to the statement of financial position date of September 30, 2014 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through January 14, 2015, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2014

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 pending donation agreement, 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, 2014 Heal the Bay has recognized a liability to the City of Los Angeles in the amount of \$158,535, 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. The estimated completion date of the project and subsequent execution of the donation agreement is September 2015.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2014 consist of the following:

Office Equipment	\$	280,129
Leasehold Improvements		239,542
Furniture and Fixtures		668,927
Vehicles		<u>49,203</u>
TOTAL		1,237,801
Less: Accumulated Depreciation		<u>(632,329)</u>
PROPERTY AND EQUIPMENT (NET)	\$	<u>605,472</u>

Depreciation expense for the year ended September 30, 2014 amounted to \$128,789.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2014

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, 2014 of \$27,300, included in accounts payable and accrued liabilities, represents estimated future claims arising from current and past employees. Unemployment expense for the year ended September 30, 2014 was \$41,467.

	Gross Claims Liability	Estimated Insurance Recoveries	Net Claims Liability
Balance at October 1, 2013	\$ 27,300	\$ -	\$ 27,300
Unemployment Expenses Incurred	41,467	-	41,467
Payments Made	(41,467)	-	(41,467)
<i>BALANCE AT SEPTEMBER 30, 2014</i>	<i>\$ 27,300</i>	<i>\$ -</i>	<i>\$ 27,300</i>

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, 2014 are as follows:

Years Ending September 30

2015	\$ 221,720
2016	103,378
<i>TOTAL</i>	<i>\$ 325,098</i>

Total rent expense under real estate operating leases for the year ended September 30, 2014 amounted to \$209,587 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.

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NOTES TO FINANCIAL STATEMENTS September 30, 2014

NOTE 6 - COMMITMENTS AND CONTINGENCIES (continued)

(c) LINE OF CREDIT

Heal the Bay has a revolving line of credit facility with a bank in the amount of \$100,000, which will be secured by personal property upon draws on the line of credit. The draw period for cash advances ends on January 6, 2015 (extension currently under negotiation) and during this period the outstanding balance is subject to a variable interest rate of the bank's prime rate plus 2%, with a floor of 5%. Following the draw period, any amount outstanding must be repaid in equal installments over a period of up to sixty months, subject to an interest rate of the bank's prime rate plus 8%. At September 30, 2014 the bank's prime rate was 3.25%. There were no draws on the line of credit during the year ended September 30, 2014 or as of September 30, 2014.

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, 2014, was \$31,451.

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 \$102,959 for the year ended September 30, 2014.

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

Program Services	\$ 72,474
Management and General	16,374
Fundraising	<u>14,111</u>
TOTAL	<u>\$ 102,959</u>

NOTE 9 - SPECIAL EVENTS

Special events revenue consists of the following for the year ended September 30, 2014:

Special Events Revenue	\$ 1,034,600
Special Events In-Kind Revenue	324,010
Direct Donor Benefit Expenses	(415,597)
Special Events In-Kind Expense	<u>(324,010)</u>
TOTAL SPECIAL EVENTS REVENUE (NET)	<u>\$ 619,003</u>

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NOTES TO FINANCIAL STATEMENTS September 30, 2014

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2014 consist of the following:

Time Restriction (Pledges)	\$	25,000
Key to the Sea		52,800
Santa Monica Pier Aquarium		240,929
Beach Report Card		56,397
Coastal Cleanup Day		12,346
Compton Creek/Creek Education		38,547
Science and Policy		151,364
Stream Team		4,574
Marine Life Protection Act/Marine Debris		36,264
Speakers' Bureau		1,550
		619,771
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$	619,771

NOTE 11 - PERMANENTLY RESTRICTED 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, 2014 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, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted	\$ -	\$ -	\$ 146,412	\$ 146,412
TOTAL FUNDS	\$ -	\$ -	\$ 146,412	\$ 146,412

Changes in Endowment Net Assets for the Year Ended September 30, 2014

Endowment Net Assets -				
Beginning of Year	\$ -	\$ -	\$ 146,412	\$ 146,412
Investment Income	-	184	-	184
Appropriation of Endowment Assets for Expenditure	-	(184)	-	(184)
ENDOWMENT NET ASSETS - END OF YEAR	\$ -	\$ -	\$ 146,412	\$ 146,412

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NOTES TO FINANCIAL STATEMENTS

September 30, 2014

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, 2014, payments of \$48,489 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 \$30,000 for the year ended September 30, 2014.

Another member of the Board of Directors provides consulting services for one of Heal the Bay's programs. During the year ended September 30, 2014, payments of \$4,563 were made to this Board member for such consulting services.

Another member of the Board of Directors provided a vehicle to be auctioned off at Heal the Bay's annual fundraiser dinner through his company, LACarGuy. During the year ended September 30, 2014, a payment of \$10,000 was made to LACarGuy for the vehicle, which was valued at \$25,000. LACarGuy secured an unrestricted \$10,000 grant for Heal the Bay through the Toyota Dealer Matching program to offset the vehicle purchase expense.