

HEAL THE BAY

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2017

HEAL THE BAY
FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

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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, 2017, 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, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 19, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, 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 18, 2018 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 18, 2018
Los Angeles, California

HEAL THE BAY

STATEMENT OF FINANCIAL POSITION

September 30, 2017

With Summarized Totals at September 30, 2016

ASSETS	<u>2017</u>	<u>2016</u>
Cash and Cash Equivalents	\$ 430,376	\$ 704,095
Accounts Receivable	167,985	206,912
Contributions and Pledges Receivable	216,553	246,500
Prepaid Expenses and Deposits	116,266	123,810
Construction under Contract with the City of Los Angeles (Note 3)	346,406	311,035
Property and Equipment (Net)	<u>333,870</u>	<u>411,453</u>
<i>TOTAL ASSETS</i>	<u>\$ 1,611,456</u>	<u>\$ 2,003,805</u>
 LIABILITIES AND NET ASSETS 		
LIABILITIES:		
Accounts Payable and Accrued Liabilities	\$ 155,105	\$ 213,089
Deferred Revenue	6,750	156,910
Due to City of Los Angeles (Note 3)	<u>346,406</u>	<u>311,035</u>
<i>TOTAL LIABILITIES</i>	508,261	681,034
 NET ASSETS:		
Unrestricted	139,916	394,304
Temporarily Restricted (Note 10)	816,867	782,055
Permanently Restricted (Note 11)	<u>146,412</u>	<u>146,412</u>
<i>TOTAL NET ASSETS</i>	<u>1,103,195</u>	<u>1,322,771</u>
<i>TOTAL LIABILITIES AND NET ASSETS</i>	<u>\$ 1,611,456</u>	<u>\$ 2,003,805</u>

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

STATEMENT OF ACTIVITIES Year Ended September 30, 2017

With Summarized Totals for the Year Ended September 30, 2016

	2017			Total	2016 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
REVENUE AND SUPPORT:					
Federal, State, Local and Private					
Grants and Contracts	\$ 587,629	\$ -	\$ -	\$ 587,629	\$ 736,746
Direct Public Support	1,665,820	8,100	-	1,673,920	1,799,078
Corporate and Foundation Grants	317,741	700,304	-	1,018,045	1,006,093
Bequests	316,169	-	-	316,169	-
Special Events (Net) (Note 9)	292,657	-	-	292,657	439,161
In-Kind Revenue	131,610	-	-	131,610	261,981
Other Income	4,129	-	-	4,129	7,132
Interest and Dividend Income	10	-	-	10	105
Net Assets Released from:					
Purpose Restrictions	594,592	(594,592)	-	-	-
Time Restrictions	79,000	(79,000)	-	-	-
TOTAL REVENUE AND SUPPORT	3,989,357	34,812	-	4,024,169	4,250,296
EXPENSES:					
Program Services	3,254,289	-	-	3,254,289	3,366,742
Support Services:					
Management and General	675,402	-	-	675,402	583,165
Fundraising	314,054	-	-	314,054	405,471
TOTAL EXPENSES	4,243,745	-	-	4,243,745	4,355,378
CHANGE IN NET ASSETS	(254,388)	34,812	-	(219,576)	(105,082)
Net Assets - Beginning of Year	394,304	782,055	146,412	1,322,771	1,427,853
NET ASSETS - END OF YEAR	\$ 139,916	\$ 816,867	\$ 146,412	\$ 1,103,195	\$ 1,322,771

The Accompanying Notes are an Integral Part of These Financial Statements

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STATEMENT OF FUNCTIONAL EXPENSES Year Ended September 30, 2017 With Summarized Totals for the Year Ended September 30, 2016

	2017							2016 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	\$ 679,735	\$ 1,023,006	\$ 9,207	\$ 1,711,948	\$ 246,088	\$ 135,065	\$ 381,153	\$ 2,093,101	\$ 2,075,155
Employee Benefits	183,569	49,686	1,629	234,884	47,186	7,309	54,495	289,379	266,309
Payroll Taxes	58,172	72,282	730	131,184	19,762	9,594	29,356	160,540	155,554
TOTAL PERSONNEL EXPENSES	921,476	1,144,974	11,566	2,078,016	313,036	151,968	465,004	2,543,020	2,497,018
Occupancy	28,812	204,267	14,406	247,485	58,460	58,460	116,920	364,405	282,418
Professional and Consulting Fees	9,010	137,476	7,434	153,920	136,401	1,050	137,451	291,371	366,580
Supplies	14,117	128,423	615	143,155	49,443	17,176	66,619	209,774	227,401
Information Technology	14,166	109,167	7,083	130,416	50,374	14,202	64,576	194,992	97,339
In-Kind Expense	-	131,610	-	131,610	-	-	-	131,610	261,981
Depreciation	-	107,651	-	107,651	8,791	8,791	17,582	125,233	136,429
Other Operating Expenses	32,514	17,662	-	50,176	23,203	13,784	36,987	87,163	95,414
Direct Mail Expense	-	49,206	-	49,206	7,810	21,088	28,898	78,104	114,141
Communications	16,453	32,513	-	48,966	2,607	3,598	6,205	55,171	92,695
Meetings and Travel	14,893	28,615	-	43,508	8,376	3,287	11,663	55,171	61,307
Insurance	6,467	28,026	2,156	36,649	3,234	3,234	6,468	43,117	35,702
Utilities	1,001	29,363	667	31,031	1,168	1,168	2,336	33,367	41,063
Bank and Credit Card Processing Fees	-	2,500	-	2,500	12,499	16,248	28,747	31,247	45,890
TOTAL 2017 FUNCTIONAL EXPENSES	\$ 1,058,909	\$ 2,151,453	\$ 43,927	\$ 3,254,289	\$ 675,402	\$ 314,054	\$ 989,456	\$ 4,243,745	
				77%	16%	7%		100%	
TOTAL 2016 FUNCTIONAL EXPENSES	\$ 822,758	\$ 2,504,504	\$ 39,480	\$ 3,366,742	\$ 583,165	\$ 405,471	\$ 988,636		\$ 4,355,378
				78%	13%	9%			100%

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

STATEMENT OF CASH FLOWS

Year Ended September 30, 2017

With Summarized Totals for the Year Ended September 30, 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (219,576)	\$ (105,082)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	125,233	136,429
(Increase) Decrease in:		
Accounts Receivable	38,927	(20,612)
Contributions and Pledges Receivable	29,947	39,246
Prepaid Expenses and Deposits	7,544	(17,770)
Construction under Contract with the City of Los Angeles	(35,371)	(152,500)
Increase (Decrease) in:		
Accounts Payable and Accrued Liabilities	(57,984)	51,337
Deferred Revenue	(150,160)	41,875
Due to City of Los Angeles	35,371	152,500
	<u>(226,069)</u>	<u>125,423</u>
<i>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</i>	(226,069)	125,423
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchase of Property and Equipment	<u>(47,650)</u>	<u>(33,257)</u>
<i>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</i>	(273,719)	92,166
Cash and Cash Equivalents - Beginning of Year	<u>704,095</u>	<u>611,929</u>
<i>CASH AND CASH EQUIVALENTS - END OF YEAR</i>	<u>\$ 430,376</u>	<u>\$ 704,095</u>

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

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 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.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

NOTE 1 - ORGANIZATION (continued)

- **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.
- **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 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.

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:

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) ACCOUNTING (continued)

- **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 \$816,867 of temporarily restricted net assets at September 30, 2017 (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, 2017 (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, 2017 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, 2017.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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, 2017, 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 report 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.

(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, 2017.

(i) 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.

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NOTES TO FINANCIAL STATEMENTS

September 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) 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.

(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, 2017, Heal the Bay recorded unrestricted contributions of in-kind goods and professional services valued at \$223,579 including \$91,969 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.

(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, 2016, from which the summarized information was derived.

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NOTES TO FINANCIAL STATEMENTS September 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which establishes a comprehensive revenue recognition standard for virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance. For non-public entities, the new standard was originally effective for annual periods beginning after December 15, 2017. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606) - Deferral of Effective Date*, which deferred the effective date for one year. Accordingly, this ASU will be effective for Heal the Bay for the year ending September 30, 2020. Heal the Bay is currently evaluating the effect the provisions of ASU 2014-09 will have on its financial statements.

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 providing 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, 2021.

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. For Heal the Bay, the ASU will be effective for the year ending September 30, 2019.

(q) SUBSEQUENT EVENTS

Heal the Bay has evaluated events and transactions occurring subsequent to the statement of financial position date of September 30, 2017 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through January 18, 2018, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.

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NOTES TO FINANCIAL STATEMENTS September 30, 2017

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, 2017 Heal the Bay has recognized a liability to the City of Los Angeles in the amount of \$346,406, 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, 2017 consist of the following:

Office Equipment	\$	316,982
Leasehold Improvements		260,396
Furniture and Fixtures		673,509
Vehicles		<u>107,279</u>
TOTAL		1,358,166
Less: Accumulated Depreciation		<u>(1,024,296)</u>
PROPERTY AND EQUIPMENT (NET)	\$	<u>333,870</u>

Depreciation expense for the year ended September 30, 2017 amounted to \$125,233.

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NOTES TO FINANCIAL STATEMENTS September 30, 2017

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, 2017 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, 2017 was \$13,579.

	Gross Claims Liability	Estimated Insurance Recoveries	Net Claims Liability
Balance at October 1, 2016	\$ 27,300	\$ -	\$ 27,300
Unemployment Expenses Incurred	13,579	-	13,579
Payments Made	(13,579)	-	(13,579)
<i>BALANCE AT SEPTEMBER 30, 2017</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 which expires in April 2021. The future minimum lease commitments as of September 30, 2017 are as follows:

Years Ending September 30

2018	\$ 295,961
2019	333,076
2020	343,068
2021	159,957
<i>TOTAL</i>	<i>\$ 1,132,062</i>

Total rent expense under real estate operating leases for the year ended September 30, 2017 amounted to \$305,107 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, 2017

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 in May 2018 and during this period the outstanding balance is subject to a variable interest rate of the bank's prime rate plus 1.5%, with a floor of 5%. Following the draw period, any amount outstanding must be repaid in equal monthly installments until the maturity date, subject to an interest rate of the bank's prime rate plus 1.5% with a floor of 5%. At September 30, 2017 the bank's prime rate was 4.25%. There were no draws on the line of credit during the year ended September 30, 2017 or as of September 30, 2017.

(d) LEGAL PROCEEDINGS

In the ordinary course of conducting its business, Heal the Bay becomes involved in various lawsuits. Some of these proceedings may result in judgments being assessed against Heal the Bay which, from time to time, may have an impact on changes in net assets. Heal the Bay does not believe that these proceedings, individually or in the aggregate, are material to the accompanying 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, 2017, was \$31,586.

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 \$78,104 for the year ended September 30, 2017.

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

Program Services	\$	49,206
Management and General		7,810
Fundraising		<u>21,088</u>
TOTAL	\$	<u>78,104</u>

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NOTES TO FINANCIAL STATEMENTS September 30, 2017

NOTE 9 - SPECIAL EVENTS

Special events revenue consists of the following for the year ended September 30, 2017:

Special Events Revenue	\$	757,962
Special Events In-Kind Revenue		91,969
Direct Donor Benefit Expenses		(465,305)
Special Events In-Kind Expense		(91,969)
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TOTAL SPECIAL EVENTS REVENUE (NET)	\$	292,657
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NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2017 consist of the following:

Santa Monica Pier Aquarium	\$	374,927
Science and Policy		158,512
Marine Life Protection Act/Marine Debris		93,593
Fisheries		56,934
Speakers' Bureau		35,639
Beach Report Card		25,920
Coastal Cleanup Day		22,719
Key to the Sea		18,770
Beach Cleanup		14,370
Time Restriction (Pledges)		8,099
Stream Team		4,409
Compton Creek/Creek Education		2,975
		<hr/>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$	816,867
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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, 2017 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.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2017

NOTE 11 - PERMANENTLY RESTRICTED NET ASSETS (continued)

Endowment Net Asset Composition by Type of Fund at September 30, 2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted	\$ -	\$ -	\$ 146,412	\$ 146,412
<i>TOTAL FUNDS</i>	<i>\$ -</i>	<i>\$ -</i>	<i>\$ 146,412</i>	<i>\$ 146,412</i>
Changes in Endowment Net Assets for the Year Ended September 30, 2017				
Endowment Net Assets -				
Beginning of Year	\$ -	\$ -	\$ 146,412	\$ 146,412
Investment Income	-	10	-	10
Appropriation of Endowment Assets for Expenditure	-	(10)	-	(10)
<i>ENDOWMENT NET ASSETS - END OF YEAR</i>	<i>\$ -</i>	<i>\$ -</i>	<i>\$ 146,412</i>	<i>\$ 146,412</i>

NOTE 12 - RELATED PARTY TRANSACTIONS

A 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, 2017, a payment of \$10,000 was made to LACarGuy for the vehicle, which was valued at approximately \$29,000. LACarGuy secured an unrestricted \$10,000 grant for Heal the Bay through the Toyota Dealer Matching program to offset the vehicle purchase expense.

The Board of Directors has adopted a conflict of interest policy.