

HEAL THE BAY

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2018

HEAL THE BAY
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YEAR ENDED SEPTEMBER 30, 2018

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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, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heal the Bay as of September 30, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 18, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Green Hasson & Janks LLP

January 17, 2019
Los Angeles, California

HEAL THE BAY

STATEMENT OF FINANCIAL POSITION

September 30, 2018

With Summarized Totals at September 30, 2017

ASSETS	<u>2018</u>	<u>2017</u>
Cash and Cash Equivalents	\$ 849,268	\$ 430,376
Accounts Receivable	293,395	167,985
Contributions and Pledges Receivable	187,114	216,553
Prepaid Expenses and Deposits	91,897	116,266
Construction under Contract with the City of Los Angeles (Note 3)	399,631	346,406
Property and Equipment (Net)	<u>231,835</u>	<u>333,870</u>
<i>TOTAL ASSETS</i>	<u>\$ 2,053,140</u>	<u>\$ 1,611,456</u>
 LIABILITIES AND NET ASSETS 		
LIABILITIES:		
Accounts Payable and Accrued Liabilities	\$ 280,483	\$ 155,105
Deferred Revenue	-	6,750
Due to City of Los Angeles (Note 3)	<u>399,631</u>	<u>346,406</u>
<i>TOTAL LIABILITIES</i>	680,114	508,261
 NET ASSETS:		
Unrestricted	684,544	139,916
Temporarily Restricted (Note 10)	542,070	816,867
Permanently Restricted (Note 11)	<u>146,412</u>	<u>146,412</u>
<i>TOTAL NET ASSETS</i>	<u>1,373,026</u>	<u>1,103,195</u>
<i>TOTAL LIABILITIES AND NET ASSETS</i>	<u>\$ 2,053,140</u>	<u>\$ 1,611,456</u>

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

STATEMENT OF ACTIVITIES Year Ended September 30, 2018

With Summarized Totals for the Year Ended September 30, 2017

	2018			Total	2017 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
REVENUE AND SUPPORT:					
Federal, State, Local and Private					
Grants and Contracts	\$ 558,188	\$ -	\$ -	\$ 558,188	\$ 587,629
Direct Public Support	1,446,872	-	-	1,446,872	1,673,920
Corporate and Foundation Grants	469,141	656,258	-	1,125,399	1,018,045
Bequests	380,000	-	-	380,000	316,169
Special Events (Net) (Note 9)	313,477	-	-	313,477	292,657
In-Kind Revenue	65,295	-	-	65,295	131,610
Cy Pres Awards	260,128	-	-	260,128	-
Other Income	5,306	-	-	5,306	4,139
Net Assets Released from:					
Purpose Restrictions	922,955	(922,955)	-	-	-
Time Restrictions	8,100	(8,100)	-	-	-
TOTAL REVENUE AND SUPPORT	4,429,462	(274,797)	-	4,154,665	4,024,169
EXPENSES:					
Program Services	2,902,033	-	-	2,902,033	3,254,289
Support Services:					
Management and General	715,977	-	-	715,977	675,402
Fundraising	266,824	-	-	266,824	314,054
TOTAL EXPENSES	3,884,834	-	-	3,884,834	4,243,745
CHANGE IN NET ASSETS	544,628	(274,797)	-	269,831	(219,576)
Net Assets - Beginning of Year	139,916	816,867	146,412	1,103,195	1,322,771
NET ASSETS - END OF YEAR	\$ 684,544	\$ 542,070	\$ 146,412	\$ 1,373,026	\$ 1,103,195

The Accompanying Notes are an Integral Part of These Financial Statements

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STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2018

With Summarized Totals for the Year Ended September 30, 2017

	2018							2017 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	\$ 366,360	\$ 935,741	\$ 21,397	\$ 1,323,498	\$ 196,611	\$ 110,798	\$ 307,409	\$ 1,630,907	\$ 2,093,101
Employee Benefits	36,906	160,573	935	198,414	56,241	10,508	66,749	265,163	289,379
Payroll Taxes	29,879	73,596	912	104,387	13,160	8,600	21,760	126,147	160,540
TOTAL PERSONNEL EXPENSES	433,145	1,169,910	23,244	1,626,299	266,012	129,906	395,918	2,022,217	2,543,020
Professional and Consulting Fees	11,906	235,037	16,513	263,456	251,882	2,216	254,098	517,554	291,371
Occupancy	33,591	256,225	16,535	306,351	68,865	33,165	102,030	408,381	364,405
Supplies	9,318	169,648	134	179,100	5,402	1,696	7,098	186,198	209,774
Information Technology	9,610	136,195	3,672	149,477	7,343	9,929	17,272	166,749	194,992
Depreciation	-	91,808	-	91,808	10,869	10,869	21,738	113,546	125,233
Other Operating Expenses	2,135	29,533	-	31,668	35,138	9,416	44,554	76,222	87,163
Direct Mail Expense	-	15,190	-	15,190	-	50,543	50,543	65,733	78,104
In-Kind Expense	-	65,295	-	65,295	-	-	-	65,295	131,610
Meetings and Travel	20,859	32,116	104	53,079	9,167	1,977	11,144	64,223	55,171
Communications	116	47,531	2,000	49,647	3,645	8,583	12,228	61,875	55,171
Utilities	-	31,045	-	31,045	19,811	-	19,811	50,856	33,367
Insurance	4,048	31,157	2,024	37,229	4,048	4,048	8,096	45,325	43,117
Bank and Credit Card Processing Fees	-	2,389	-	2,389	33,795	4,476	38,271	40,660	31,247
TOTAL 2018 FUNCTIONAL EXPENSES	\$ 524,728	\$ 2,313,079	\$ 64,226	\$ 2,902,033	\$ 715,977	\$ 266,824	\$ 982,801	\$ 3,884,834	
				75%	18%	7%		100%	
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%

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

STATEMENT OF CASH FLOWS

Year Ended September 30, 2018

With Summarized Totals for the Year Ended September 30, 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 269,831	\$ (219,576)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	113,546	125,233
(Increase) Decrease in:		
Accounts Receivable	(125,410)	38,927
Contributions and Pledges Receivable	29,439	29,947
Prepaid Expenses and Deposits	24,369	7,544
Construction under Contract with the City of Los Angeles	(53,225)	(35,371)
Increase (Decrease) in:		
Accounts Payable and Accrued Liabilities	125,378	(57,984)
Deferred Revenue	(6,750)	(150,160)
Due to City of Los Angeles	<u>53,225</u>	<u>35,371</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	430,403	(226,069)
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchase of Property and Equipment	<u>(11,511)</u>	<u>(47,650)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	418,892	(273,719)
Cash and Cash Equivalents - Beginning of Year	<u>430,376</u>	<u>704,095</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 849,268</u>	<u>\$ 430,376</u>

The Accompanying Notes are an Integral Part of These Financial Statements

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NOTES TO FINANCIAL STATEMENTS September 30, 2018

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, 2018

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.

Subsequent to year end, Heal the Bay received an unrestricted estate gift of \$1,500,000.

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, 2018

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 \$542,070 of temporarily restricted net assets at September 30, 2018 (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, 2018 (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, 2018 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, 2018.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2018

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, 2018, 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) CY PRES AWARDS

Cy Pres awards originate from undistributed residual funds of a settled class action suit and are given to charitable causes, typically ones whose mission aligns with the issue involved in the original lawsuit. As this is at the discretion of the courts, future awards cannot be predicted.

(g) LEGACIES AND BEQUESTS

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

(h) 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.

(i) 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, 2018.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) 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.

(k) 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.

(l) 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, 2018, Heal the Bay recorded unrestricted contributions of in-kind goods and professional services valued at \$110,723, including \$45,428 of special event in-kind goods and services.

(m) 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.

(n) 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.

(o) 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.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) 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, 2017, from which the summarized information was derived.

(q) NEW ACCOUNTING PRONOUNCEMENTS

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

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

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NOTES TO FINANCIAL STATEMENTS September 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) NEW ACCOUNTING PRONOUNCEMENTS (continued)

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

(s) SUBSEQUENT EVENTS

Heal the Bay has evaluated events and transactions occurring subsequent to the statement of financial position date of September 30, 2018 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through January 17, 2019, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.

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

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

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

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

At September 30, 2018 Heal the Bay has recognized a liability to the City of Los Angeles in the amount of \$399,736, 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.

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NOTES TO FINANCIAL STATEMENTS September 30, 2018

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2018 consist of the following:

Office Equipment	\$	328,491
Leasehold Improvements		260,396
Furniture and Fixtures		673,509
Vehicles		<u>107,279</u>
TOTAL		1,369,675
Less: Accumulated Depreciation		<u>(1,137,840)</u>
PROPERTY AND EQUIPMENT (NET)	\$	<u>231,835</u>

Depreciation expense for the year ended September 30, 2018 amounted to \$113,546.

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, 2018 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, 2018 was \$55,551.

	Gross Claims Liability	Estimated Insurance Recoveries	Net Claims Liability
Balance at October 1, 2017	\$ 27,300	\$ -	\$ 27,300
Unemployment Expenses Incurred	55,551	-	55,551
Payments Made	<u>(55,551)</u>	<u>-</u>	<u>(55,551)</u>
BALANCE AT SEPTEMBER 30, 2018	\$ 27,300	\$ -	\$ 27,300

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, 2018 are as follows:

Years Ending September 30

2019	\$	333,076
2020		343,068
2021		<u>159,957</u>
TOTAL	\$	<u>836,101</u>

Total rent expense under real estate operating leases for the year ended September 30, 2018 amounted to \$347,724 and is included in occupancy costs in the statement of functional expenses.

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NOTES TO FINANCIAL STATEMENTS September 30, 2018

NOTE 6 - COMMITMENTS AND CONTINGENCIES (continued)

(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, 2018, was \$16,092.

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 \$65,733 for the year ended September 30, 2018.

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

Program Services	\$	15,190
Management and General		-
Fundraising		50,543
TOTAL	\$	65,733

NOTE 9 - SPECIAL EVENTS

Special events revenue consists of the following for the year ended September 30, 2018:

Special Events Revenue	\$	775,540
Special Events In-Kind Revenue		45,428
Direct Donor Benefit Expenses		(462,063)
Special Events In-Kind Expense		(45,428)
TOTAL SPECIAL EVENTS REVENUE (NET)	\$	313,477

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NOTES TO FINANCIAL STATEMENTS September 30, 2018

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2018 consist of the following:

Santa Monica Pier Aquarium	\$	267,692
Science and Policy		108,517
Fisheries		105,313
Speakers' Bureau		25,063
WAYS Park		20,000
Stream Team		8,106
Beach Cleanup		4,240
Compton Creek/Creek Education		2,392
Beach Report Card		747
		747
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$	542,070

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, 2018 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, 2018

	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, 2018

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

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NOTES TO FINANCIAL STATEMENTS September 30, 2018

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, 2018, a payment of \$10,000 was made to LACarGuy for the vehicle, which was valued at approximately \$24,000. 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.