

# **HEAL THE BAY**

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2020

**HEAL THE BAY**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2020**

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THE GLOBAL ADVISORY  
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AUDIT  
AND  
ASSURANCE

## 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, 2020, 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, 2020, 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.

To the Board of Directors  
Heal the Bay

**Emphasis of Matter**

As discussed in Note 10 to the financial statements, the recent COVID-19 pandemic in the United States and world-wide has resulted in reduced economic activity and market declines. As the extent and duration of the future impact to Heal the Bay are uncertain, no adjustments were necessary to the financial statements, and our opinion is not modified with respect to this matter.

**Report on Summarized Comparative Information**

We have previously audited Heal the Bay's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 15, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Green Hasson & Janks LLP*

February 5, 2021  
Los Angeles, California

# HEAL THE BAY

## STATEMENT OF FINANCIAL POSITION September 30, 2020 With Summarized Totals at September 30, 2019

<b>ASSETS</b>	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 3,623,076	\$ 3,513,097
Accounts Receivable	100,756	214,431
Contributions and Pledges Receivable	170,000	161,000
Prepaid Expenses and Deposits	156,161	109,665
Construction under Contract with the City of Los Angeles (Note 3)	399,631	399,631
Property and Equipment (Net)	<u>190,397</u>	<u>150,031</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 4,640,021</u></u>	<u><u>\$ 4,547,855</u></u>
 <b>LIABILITIES AND NET ASSETS</b>  		
<b>LIABILITIES:</b>		
Accounts Payable and Accrued Liabilities	\$ 334,809	\$ 205,011
Paycheck Protection Program Loan	392,385	-
Due to City of Los Angeles (Note 3)	<u>399,631</u>	<u>399,631</u>
<b>TOTAL LIABILITIES</b>	1,126,825	604,642
<b>NET ASSETS:</b>		
Without Donor Restrictions	2,906,815	3,286,081
With Donor Restrictions	<u>606,381</u>	<u>657,132</u>
<b>TOTAL NET ASSETS</b>	<u><u>3,513,196</u></u>	<u><u>3,943,213</u></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 4,640,021</u></u>	<u><u>\$ 4,547,855</u></u>

The Accompanying Notes are an Integral Part of These Financial Statements

# HEAL THE BAY

## STATEMENT OF ACTIVITIES

Year Ended September 30, 2020

With Summarized Totals for the Year Ended September 30, 2019

	2020			2019 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
<b>REVENUE AND SUPPORT:</b>				
Federal, State and Local Grants and Contracts	\$ 268,961	\$ -	\$ 268,961	\$ 479,641
Direct Public Support	1,525,597	100,000	1,625,597	1,395,365
Corporate and Foundation Grants	599,357	374,808	974,165	1,563,303
Bequests		-	-	2,618,033
Special Events (Net)	146,345	-	146,345	315,979
In-Kind Revenue	51,200	-	51,200	55,160
Other Income	58,551	-	58,551	9,469
Net Assets Released from Donor Restrictions	525,559	(525,559)	-	-
<b>TOTAL REVENUE AND SUPPORT</b>	3,175,570	(50,751)	3,124,819	6,436,950
<b>EXPENSES:</b>				
Program Services	2,553,178	-	2,553,178	2,885,920
Management and General	674,082	-	674,082	689,216
Fundraising	327,576	-	327,576	291,627
<b>TOTAL EXPENSES</b>	3,554,836	-	3,554,836	3,866,763
<b>CHANGE IN NET ASSETS</b>	(379,266)	(50,751)	(430,017)	2,570,187
Net Assets - Beginning of Year	3,286,081	657,132	3,943,213	1,373,026
<b>NET ASSETS - END OF YEAR</b>	\$ 2,906,815	\$ 606,381	\$ 3,513,196	\$ 3,943,213

The Accompanying Notes are an Integral Part of These Financial Statements

## HEAL THE BAY

### STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2020

With Summarized Totals for the Year Ended September 30, 2019

	2020							2019 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	\$ 113,790	\$ 1,274,229	\$ 24,689	\$ 1,412,708	\$ 212,323	\$ 69,121	\$ 281,444	\$ 1,694,152	\$ 1,822,302
Employee Benefits	12,151	167,947	3,409	183,507	28,888	9,482	38,370	221,877	229,287
Payroll Taxes	8,007	91,210	1,588	100,805	13,358	5,074	18,432	119,237	154,780
<b>TOTAL PERSONNEL EXPENSES</b>	133,948	1,533,386	29,686	1,697,020	254,569	83,677	338,246	2,035,266	2,206,369
Professional and Consulting Fees	24,192	79,613	8,500	112,305	229,227	150,248	379,475	491,780	450,450
Occupancy	31,692	242,889	15,846	290,427	61,241	31,692	92,933	383,360	385,813
Information Technology	10,988	79,077	4,397	94,462	8,576	8,891	17,467	111,929	89,342
Supplies	4,384	86,987	-	91,371	6,469	8,009	14,478	105,849	155,615
Depreciation	10,307	66,995	5,153	82,455	10,307	10,307	20,614	103,069	105,881
Other Operating Expenses	21,102	21,056	-	42,158	47,779	1,574	49,353	91,511	76,377
Insurance	4,234	34,396	2,117	40,747	4,234	4,234	8,468	49,215	46,428
Utilities	-	41,214	-	41,214	7,784	-	7,784	48,998	58,991
Bank and Credit Card Processing Fees	-	939	-	939	31,482	-	31,482	32,421	49,322
Communications	149	23,778	-	23,927	5,159	811	5,970	29,897	71,829
Direct Mail Expense	-	-	-	-	-	27,059	27,059	27,059	30,622
Meetings and Conferences	7,017	9,143	1,049	17,209	4,456	807	5,263	22,472	67,829
Staff Development	7,017	2,227	-	9,244	2,799	267	3,066	12,310	16,735
In-Kind Expense	-	9,700	-	9,700	-	-	-	9,700	55,160
<b>TOTAL 2020 FUNCTIONAL EXPENSES</b>	<b>\$ 255,030</b>	<b>\$ 2,231,400</b>	<b>\$ 66,748</b>	<b>\$ 2,553,178</b>	<b>\$ 674,082</b>	<b>\$ 327,576</b>	<b>\$ 1,001,658</b>	<b>\$ 3,554,836</b>	
<b>TOTAL 2019 FUNCTIONAL EXPENSES</b>	<b>\$ 501,425</b>	<b>\$ 2,328,859</b>	<b>\$ 55,636</b>	<b>\$ 2,885,920</b>	<b>\$ 689,216</b>	<b>\$ 291,627</b>	<b>\$ 980,843</b>		<b>\$ 3,866,763</b>

The Accompanying Notes are an Integral Part of These Financial Statements

## HEAL THE BAY

### STATEMENT OF CASH FLOWS

Year Ended September 30, 2020

With Summarized Totals for the Year Ended September 30, 2019

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ (430,017)	\$ 2,570,187
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used In) Operating Activities:		
Depreciation	103,069	105,881
Donated Property and Equipment	(41,500)	-
(Increase) Decrease in:		
Accounts Receivable	113,675	78,964
Contributions and Pledges Receivable	(9,000)	26,114
Prepaid Expenses and Deposits	(46,496)	(17,768)
Increase (Decrease) in:		
Accounts Payable and Accrued Liabilities	129,798	(75,472)
	<u>129,798</u>	<u>(75,472)</u>
<b><i>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</i></b>	(180,471)	2,687,906
<b>CASH FLOWS USED IN INVESTING ACTIVITY:</b>		
Purchase of Property and Equipment	(101,935)	(24,077)
<b>CASH FLOWS FROM FINANCING ACTIVITY:</b>		
Proceeds from Paycheck Protection Program Loan	392,385	-
	<u>392,385</u>	<u>-</u>
<b><i>NET INCREASE IN CASH AND CASH EQUIVALENTS</i></b>	109,979	2,663,829
Cash and Cash Equivalents - Beginning of Year	3,513,097	849,268
	<u>3,513,097</u>	<u>849,268</u>
<b><i>CASH AND CASH EQUIVALENTS - END OF YEAR</i></b>	<u>\$ 3,623,076</u>	<u>\$ 3,513,097</u>

The Accompanying Notes are an Integral Part of These Financial Statements



# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS

September 30, 2020

### NOTE 1 - ORGANIZATION

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

Heal the Bay's programs include:

- **Adopt-A-Beach** - As the Los Angeles County coordinator, Heal the Bay provides supplies and training for any community group, civic organization or school to adopt a stretch of beach or waterway and complete three cleanups per year. More than 450 groups currently participate.
- **Beach Report Card** - Heal the Bay provides weekly water quality updates for more than 650 beaches from the Canadian border to Mexico. Heal the Bay also produces an Annual Beach Report Card and a Summer Beach Report Card to provide a summary of water quality information, including beach closures and sewage spill information. Available on Heal the Bay's website, grades are updated every Friday and are based on routine microbiological monitoring conducted by local health agencies and dischargers.
- **Coastal Cleanup Day** - Working with the California Coastal Commission, Heal the Bay has coordinated the Los Angeles County Coastal Cleanup Day efforts since 1990, annually attracting thousands of volunteers to clean beaches and inland waterways on the third Saturday of each September. Throughout the years, Coastal Cleanup Day volunteers have removed more than 2 million lbs. of trash from Los Angeles County dive sites, beaches and waterways.
- **Heal the Bay Speakers Bureau** - Volunteers throughout the Los Angeles region are trained by Heal the Bay to give presentations that raise awareness about the causes and consequences of ocean pollution. The Speakers Bureau conducts presentations to a variety of community groups, businesses and schools each year, reaching more than 35,000 people each year.

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS

September 30, 2020

### NOTE 1 - ORGANIZATION (continued)

- **Key to the Sea** - Heal the Bay's award-winning marine environmental education program teaches Los Angeles County elementary school students (grades K-5) about water pollution prevention and marine conservation through curriculum and teacher training. The program culminates in fun, hands-on activities during a field trip to an aquarium and the beach. Several aquaria participate, including Heal the Bay's own Santa Monica Pier Aquarium. Heal the Bay created Key to the Sea in 1999, and delivers the conservation messages to approximately 10,000 students and 400 teachers per year.
- **Santa Monica Pier Aquarium** - Located beach level at the east end of the Santa Monica Pier, the Santa Monica Pier Aquarium provides a unique, hands-on way to interact with local marine life in a safe and educational environment. Managed by Heal the Bay, the Aquarium features live exhibits, including a shark tank, eels and tide-pool touch tanks, while promoting the conservation and protection of California coastal habitats. The Heal the Bay Aquarium attracts over 20,000 school children and 80,000 public visitors each year.
- **Stream Team** - Developed in 1999 to identify and fix water quality and habitat degradation problems in the Malibu Creek and Los Angeles River watershed, Heal the Bay staff and volunteers observe and report on numerous illegal spills and habitat destruction activities in the watershed. Trained staff spend time each month conducting water chemistry tests, as well as participate in time research and stream and creek restoration projects.
- **Science and Policy** - Heal the Bay's unique approach of expert research combined with volunteer action and public education programs has been tremendously successful in working with local and federal government, industry and the public to clean up Santa Monica Bay and Southern California coastal waters. There is a clear track record of scientific evidence that the overall health of the Bay has improved due to Heal the Bay's actions.
- **WAYS Park** - In partnership with the City of Los Angeles Bureau of Sanitation, Heal the Bay secured Proposition 84 funding to enhance an under-utilized property at McKinley and 87<sup>th</sup> to provide a multi-use park which will serve as an outdoor classroom, community green space, fitness area, and water quality improvement project in a community that is already underserved and disproportionately lacking park space. In addition to the above ground community green space, the park will include a below ground stormwater water quality project to reduce runoff pollution. Heal the Bay 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.

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS

September 30, 2020

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) BASIS OF PRESENTATION

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

#### (b) NET ASSETS

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

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

#### (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, 2020 approximates its fair value.

#### (d) ACCOUNTS RECEIVABLE AND RELATED REVENUES

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, 2020.

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS

September 30, 2020

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

#### (d) ACCOUNTS RECEIVABLE AND RELATED REVENUES (continued)

A portion of Heal the Bay's revenue is derived from fee-for-service and cost reimbursement grants and contracts, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Such grants are generally considered nonreciprocal transactions restricted by the awarding agencies for certain purposes. Amounts received are recognized as revenue when Heal the Bay has satisfied the specific performance requirements or incurred expenditures in compliance with specific contract or grant provisions. Heal the Bay has elected to adopt a policy whereby donor-restricted grants and contributions that were initially conditional and whose conditions and restrictions are met in the same reporting period are recognized as revenue without donor restrictions. Amounts received prior to incurring qualifying expenditures or fulfilling the specific performance obligations are reported as refundable advances in the statement of financial position.

#### (e) CONTRIBUTIONS AND PLEDGES RECEIVABLE

Heal the Bay recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest are received. Pledges receivable are discounted to their present value when payments are expected in future periods exceeding one year.

Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. Intentions to give are not included as support until payments are made or enforceable promises to give are executed. At September 30, 2020, Heal the Bay evaluated the collectability of contributions and pledges receivable and no allowance for uncollectible contributions and pledges receivable was considered necessary. All contributions and pledges receivable are expected to be collected within one year, except for \$50,000 which is expected to be collected beyond one year.

#### (f) LEGACIES AND BEQUESTS

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

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS September 30, 2020

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

#### (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, 2020.

#### (i) PAYCHECK PROTECTION PROGRAM (PPP) LOAN

Management has elected to account for the forgivable loan received under the Paycheck Protection Program (PPP) provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act as a debt instrument and to accrue interest on the outstanding loan balance. Additional interest at a market rate (due to the stated interest rate of the PPP loan being below market) is not imputed, as transactions where interest rates are prescribed by governmental agencies are excluded from the scope of the accounting guidance on imputing interest. The proceeds from the loan will remain recorded as a liability until either (1) the loan is, in part or wholly, forgiven or Heal the Bay has been legally released or (2) Heal the Bay repays the loan to the lender.

#### (j) 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.

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS

September 30, 2020

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

#### (j) CONTRIBUTED GOODS AND SERVICES (continued)

During the year ended September 30, 2020, Heal the Bay recorded contributions of in-kind goods and professional services valued at \$81,036, including \$29,836 of special event in-kind goods and services (included in special events (net) revenue in the statement of activities) and a contributed vehicle of \$41,500 (included in property and equipment in the statement of financial position).

#### (k) 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.

In accordance with the Financial Accounting Standards Board (FASB) ASC Topic No. 740, *Uncertainty in Income Taxes*, Heal the Bay recognizes the impact of tax positions in the financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. During the year ended September 30, 2020, Heal the Bay performed an evaluation of uncertain tax positions and did not note any matters that would require recognition in the financial statements or which might have an effect on its tax-exempt status.

#### (l) 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.

#### (m) 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.

#### (n) 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, 2019, from which the summarized information was derived.

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS

September 30, 2020

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

#### (o) NEW ACCOUNTING PRONOUNCEMENTS

In June 2018, FASB issued Accounting Standards Update (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. Heal the Bay implemented the ASU during the year ended September 30, 2020. There was no significant impact to Heal the Bay's financial statements as a result of the implementation of the ASU.

In May 2014, FASB issued 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, 2021.

In February 2016, 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, 2023.

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS September 30, 2020

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

#### (o) NEW ACCOUNTING PRONOUNCEMENTS (continued)

In September 2020, FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU is intended to improve transparency in the reporting of contributed nonfinancial assets (also known as gifts-in-kind) received by not-for-profit organizations, including transparency on how those assets are used and how they are valued. For Heal the Bay, the ASU will be effective for the year ending September 30, 2022.

#### (p) SUBSEQUENT EVENTS

Heal the Bay has evaluated events and transactions occurring subsequent to the statement of financial position date of September 30, 2020 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through February 5, 2021, 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, 2020 Heal the Bay has recognized a liability to the City of Los Angeles in the amount of \$399,631, representing the leasehold improvements completed to date under this contract. Estimated costs to complete the contract are approximately \$1,150,000 and will be funded in full by the Proposition 84 Statewide Park Program.



# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS

September 30, 2020

### NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2020 consists of the following:

Office Equipment	\$ 344,776
Leasehold Improvements	370,128
Furniture and Fixtures	673,509
Vehicles	<u>148,778</u>
<b>TOTAL</b>	1,537,191
Less: Accumulated Depreciation	<u>(1,346,794)</u>
<b>PROPERTY AND EQUIPMENT (NET)</b>	<u>\$ 190,397</u>

Depreciation expense for the year ended September 30, 2020 amounted to \$103,069.

### NOTE 5 - PAYCHECK PROTECTION PROGRAM LOAN

In May 2020, Heal the Bay received a PPP loan in the amount of \$392,385. The PPP loan, administered by the Small Business Administration (SBA), bears interest at a fixed rate of 1.0% per annum, has a term of two years, and is unsecured and guaranteed by the SBA. Interest accrues on the loan beginning with the initial disbursement; however, payments of principal and interest are deferred until the lender's determination of the amount of forgiveness applied for by the borrower is approved by the SBA. If Heal the Bay does not apply for forgiveness within 10 months after the last day of the covered period (defined, at Heal the Bay's election, as either 8 weeks or 24 weeks), such payments will be due that month.

Heal the Bay intends to apply for forgiveness of the PPP loan with respect to the eligible expenses incurred during the covered period. To the extent that all or part of the PPP loan is not forgiven, Heal the Bay will be required to pay interest on the PPP loan at a rate of 1.0% per annum. The terms of the PPP loan provide for customary events of default including, among other things, payment defaults, breach of representations and warranties, and insolvency events.

At September 30, 2020 the total outstanding balance of the PPP loan was \$392,385.

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS September 30, 2020

### 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 and which was amended in January 2020 to extend through April 2026. Total rent expense for the year ended September 30, 2020 amounted to \$333,207 and is included in occupancy costs in the statement of functional expenses. The future minimum lease commitments as of September 30, 2020 are as follows:

#### Years Ending September 30

2021	\$	366,256
2022		395,300
2023		407,157
2024		419,367
2025		431,947
2026		<u>256,326</u>
<b>TOTAL</b>	<b>\$</b>	<b><u>2,276,353</u></b>

#### (b) GRANTS AND CONTRACTS

Certain of Heal the Bay's grants and contracts are subject to inspection and audit by the appropriate government funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, Heal the Bay has no provision for the possible disallowance of program costs in its financial statements.

#### (c) LEGAL PROCEEDINGS

In the normal course of business, Heal the Bay may become a party to litigation. Management believes there are no asserted or unasserted claims or contingencies that would have a material impact on the financial statements of Heal the Bay as of September 30, 2020.

### 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, 2020 was \$20,399.

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS September 30, 2020

### NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at September 30, 2020:

Subject to Expenditure for Specified Purpose:	
Santa Monica Pier Aquarium	\$ 240,867
Science and Policy	73,674
Fisheries	29,105
Advocacy	21,054
WAYS Park	20,000
Beach Cleanup	18,722
Stream Team	6,547
Subject to the Passage of Time:	
Contributions and Pledges Receivable	50,000
Not Subject to Appropriation or Expenditure:	
Donor-Restricted Endowments Corpus	<u>146,412</u>
<b>TOTAL NET ASSETS WITH DONOR RESTRICTIONS</b>	<u><u>\$ 606,381</u></u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended September 30, 2020:

Satisfaction of Purpose Restrictions:	
Santa Monica Pier Aquarium	\$ 202,895
Science and Policy	154,181
Advocacy	52,960
Fisheries	47,146
Beach Cleanup	31,505
Strategic Planning	25,000
Stream Team	<u>11,872</u>
<b>TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS</b>	<u><u>\$ 525,559</u></u>

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS September 30, 2020

### NOTE 9 - ENDOWMENTS

Endowment funds are established by donor-restricted gifts to either provide a permanent endowment, which is to provide a permanent source of income to Heal the Bay, or a term endowment, which is to provide income for a specified period to Heal the Bay. Heal the Bay's permanent endowment at September 30, 2020 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.

<b>Endowment Net Asset Composition by Type of Fund at September 30, 2020</b>	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted	\$ -	\$ 146,412	\$ 146,412
<b>TOTAL FUNDS</b>	\$ -	\$ 146,412	\$ 146,412
<b>Changes in Endowment Net Assets for the Year Ended September 30, 2020</b>			
Endowment Net Assets - Beginning of Year	\$ -	\$ 146,412	\$ 146,412
Investment Return (Net)	-	-	-
Appropriation of Endowment Assets for Expenditure	-	-	-
<b>ENDOWMENT NET ASSETS - END OF YEAR</b>	\$ -	\$ 146,412	\$ 146,412

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS

September 30, 2020

### NOTE 10 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The total financial assets held by Heal the Bay at September 30, 2020 and the amounts of those financial assets that could be made available for general expenditures within one year of the date of the statement of financial position are summarized in the following table:

Financial Assets at September 30, 2020:	
Cash and Cash Equivalents	\$ 3,623,076
Accounts Receivable	100,756
Contributions and Pledges Receivable	<u>170,000</u>
<b>TOTAL FINANCIAL ASSETS AT SEPTEMBER 30, 2020</b>	<b>3,893,832</b>
Less Amounts Not Available to Be Used within One Year, Due to:	
Donor-Imposed Restrictions:	
Funds Held for Perpetual Endowments	(146,412)
Funds Held with Purpose Restrictions	(409,969)
Contributions and Pledges Receivable Restricted by Time	<u>(50,000)</u>
<b>FINANCIAL ASSETS AVAILABLE TO MEET GENERAL EXPENDITURES WITHIN ONE YEAR</b>	<b>\$ <u>3,287,451</u></b>

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

During the year ended September 30, 2020, an outbreak of a novel strain of coronavirus (COVID-19) surfaced in the United States and throughout the world. This COVID-19 outbreak has caused business disruption which may negatively impact Heal the Bay's operations and results. The disruption is expected to be temporary, however there is considerable uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies. While Heal the Bay is closely monitoring its operations, liquidity and capital resources, it is also actively working to minimize the current and future impact of this unprecedented situation. The related financial impact and duration of this disruption, however, cannot be reasonably estimated at this time.