

HEAL THE BAY

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2021

HEAL THE BAY
FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2021

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WE ARE AN INDEPENDENT MEMBER OF
THE GLOBAL ADVISORY
AND ACCOUNTING NETWORK

**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, 2021, 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, 2021, 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

Report on Summarized Comparative Information

We have previously audited Heal the Bay's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 5, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Green Hasson & Janks LLP

March 29, 2022
Los Angeles, California

HEAL THE BAY

STATEMENT OF FINANCIAL POSITION

September 30, 2021

With Summarized Totals at September 30, 2020

| ASSETS | 2021 | 2020 |
|--|---------------------|---------------------|
| Cash and Cash Equivalents | \$ 4,216,233 | \$ 3,623,076 |
| Contract Receivables | 143,871 | 100,756 |
| Contributions and Pledges Receivable | 212,500 | 170,000 |
| Prepaid Expenses and Deposits | 71,127 | 156,161 |
| Construction under Contract with the City of Los Angeles (Note 3) | 399,631 | 399,631 |
| Property and Equipment (Net) | 244,697 | 190,397 |
| TOTAL ASSETS | \$ 5,288,059 | \$ 4,640,021 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES: | | |
| Accounts Payable and Accrued Liabilities | \$ 397,752 | \$ 334,809 |
| Paycheck Protection Program Loan | 392,385 | 392,385 |
| Due to City of Los Angeles (Note 3) | 399,631 | 399,631 |
| TOTAL LIABILITIES | 1,189,768 | 1,126,825 |
| NET ASSETS: | | |
| Without Donor Restrictions | 3,398,955 | 2,906,815 |
| With Donor Restrictions | 699,336 | 606,381 |
| TOTAL NET ASSETS | 4,098,291 | 3,513,196 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 5,288,059 | \$ 4,640,021 |

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

STATEMENT OF ACTIVITIES Year Ended September 30, 2021

With Summarized Totals for the Year Ended September 30, 2020

| | 2021 | | | 2020 Total |
|--|-------------------------------|----------------------------|---------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | |
| REVENUE AND SUPPORT: | | | | |
| Federal, State and Local Grants and Contracts | \$ 409,638 | \$ - | \$ 409,638 | \$ 268,961 |
| Direct Public Support | 2,290,032 | 50,000 | 2,340,032 | 1,625,597 |
| Corporate and Foundation Grants | 368,517 | 671,430 | 1,039,947 | 974,165 |
| Forgiveness of Paycheck Protection Program Loan | 392,385 | - | 392,385 | - |
| In-Kind Revenue | 5,911 | - | 5,911 | 51,200 |
| Other Income | 29,195 | - | 29,195 | 58,551 |
| Special Events (Net) | - | - | - | 146,345 |
| Net Assets Released from Donor Restrictions | 628,475 | (628,475) | - | - |
| TOTAL REVENUE AND SUPPORT | 4,124,153 | 92,955 | 4,217,108 | 3,124,819 |
| EXPENSES: | | | | |
| Program Services | 2,703,477 | - | 2,703,477 | 2,553,178 |
| Management and General | 668,811 | - | 668,811 | 674,082 |
| Fundraising | 259,725 | - | 259,725 | 327,576 |
| TOTAL EXPENSES | 3,632,013 | - | 3,632,013 | 3,554,836 |
| CHANGE IN NET ASSETS | 492,140 | 92,955 | 585,095 | (430,017) |
| Net Assets - Beginning of Year | 2,906,815 | 606,381 | 3,513,196 | 3,943,213 |
| NET ASSETS - END OF YEAR | <u>\$ 3,398,955</u> | <u>\$ 699,336</u> | <u>\$ 4,098,291</u> | <u>\$ 3,513,196</u> |

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2021

With Summarized Totals for the Year Ended September 30, 2020

| | 2021 | | | | | | | 2020 Total Expenses | |
|---|-----------------------|--------------------------|--------------------------|------------------------------|---------------------------|-------------------|------------------------------|---------------------------|---------------------|
| | Program Services | | | Total Program Services | Support Services | | Total Support Services | | Total Expenses |
| | Research/ Advocacy | Membership/ Education | Advocacy and Lobbying | | Management and General | Fundraising | | | |
| Salaries and Wages | \$ 155,087 | \$ 1,236,057 | \$ 153,208 | \$ 1,544,352 | \$ 243,035 | \$ 114,900 | \$ 357,935 | \$ 1,902,287 | \$ 1,694,152 |
| Employee Benefits | 16,349 | 172,875 | 18,017 | 207,241 | 22,254 | 12,927 | 35,181 | 242,422 | 221,877 |
| Payroll Taxes | 11,021 | 88,255 | 11,058 | 110,334 | 16,729 | 8,312 | 25,041 | 135,375 | 119,237 |
| TOTAL PERSONNEL EXPENSES | 182,457 | 1,497,187 | 182,283 | 1,861,927 | 282,018 | 136,139 | 418,157 | 2,280,084 | 2,035,266 |
| Professional and Consulting Fees | 7,735 | 123,593 | 19,966 | 151,294 | 246,094 | 42,340 | 288,434 | 439,728 | 491,780 |
| Occupancy | 31,124 | 244,471 | 15,500 | 291,095 | 55,760 | 31,065 | 86,825 | 377,920 | 383,360 |
| Information Technology | 5,207 | 105,654 | 4,136 | 114,997 | 5,007 | 5,007 | 10,014 | 125,011 | 111,929 |
| Supplies | 11,047 | 52,084 | | 63,131 | (2,451) | 3,850 | 1,399 | 64,530 | 105,849 |
| Depreciation | 7,482 | 48,635 | 3,741 | 59,858 | 7,482 | 7,482 | 14,964 | 74,822 | 103,069 |
| Other Operating Expenses | 348 | 23,799 | 127 | 24,274 | 24,949 | 1,778 | 26,727 | 51,001 | 91,511 |
| Insurance | 4,449 | 38,808 | 2,224 | 45,481 | 4,449 | 4,449 | 8,898 | 54,379 | 49,215 |
| Utilities | - | 42,867 | - | 42,867 | 3,299 | - | 3,299 | 46,166 | 48,998 |
| Bank and Credit Card | | | | | | | | | |
| Processing Fees | - | 407 | - | 407 | 35,431 | 4 | 35,435 | 35,842 | 32,421 |
| Communications | 1,464 | 30,662 | - | 32,126 | 2,168 | - | 2,168 | 34,294 | 29,897 |
| Direct Mail Expense | - | - | - | - | - | 27,310 | 27,310 | 27,310 | 27,059 |
| Meetings, Conferences and Travel | 1,918 | 5,483 | 431 | 7,832 | 2,875 | 301 | 3,176 | 11,008 | 22,472 |
| Staff Development | - | 2,277 | - | 2,277 | 1,730 | - | 1,730 | 4,007 | 12,310 |
| In-Kind Expense | - | 5,911 | - | 5,911 | - | - | - | 5,911 | 9,700 |
| TOTAL 2021 FUNCTIONAL EXPENSES | \$ 253,231 | \$ 2,221,838 | \$ 228,408 | \$ 2,703,477 | \$ 668,811 | \$ 259,725 | \$ 928,536 | \$ 3,632,013 | |
| TOTAL 2020 FUNCTIONAL EXPENSES | \$ 255,030 | \$ 2,231,400 | \$ 66,748 | \$ 2,553,178 | \$ 674,082 | \$ 327,576 | \$ 1,001,658 | | \$ 3,554,836 |

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

STATEMENT OF CASH FLOWS

Year Ended September 30, 2021

With Summarized Totals for the Year Ended September 30, 2020

| | <u>2021</u> | <u>2020</u> |
|--|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in Net Assets | \$ 585,095 | \$ (430,017) |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used In) Operating Activities: | | |
| Forgiveness of Paycheck Protection Program Loan | (392,385) | - |
| Depreciation | 74,822 | 103,069 |
| Donated Property and Equipment | - | (41,500) |
| (Increase) Decrease in: | | |
| Contract Receivables | (43,115) | 113,675 |
| Contributions and Pledges Receivable | (42,500) | (9,000) |
| Prepaid Expenses and Deposits | 85,034 | (46,496) |
| Increase (Decrease) in: | | |
| Accounts Payable and Accrued Liabilities | 62,943 | 129,798 |
| | <u>329,894</u> | <u>(180,471)</u> |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | 329,894 | (180,471) |
| CASH FLOWS USED IN INVESTING ACTIVITY: | | |
| Purchase of Property and Equipment | (129,122) | (101,935) |
| CASH FLOWS FROM FINANCING ACTIVITY: | | |
| Proceeds from Paycheck Protection Program Loan | <u>392,385</u> | <u>392,385</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 593,157 | 109,979 |
| Cash and Cash Equivalents - Beginning of Year | <u>3,623,076</u> | <u>3,513,097</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u><u>\$ 4,216,233</u></u> | <u><u>\$ 3,623,076</u></u> |

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2021

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, 2021

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.
- **Inell Woods Park** (formerly WAYS Park) - 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 Recreation and Parks Department.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2021

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, 2021 approximates its fair value.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) CONTRACT RECEIVABLES

Heal the Bay recognizes government contracts revenue as either contributions or exchange transaction revenues, depending on whether the transaction is reciprocal or nonreciprocal. Heal the Bay's government contracts revenue is primarily derived from nonreciprocal fee-for-service and cost reimbursement grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenditures up to an amount not to exceed the total contract authorized. Amounts received are recognized as revenue when Heal the Bay has incurred expenditures in compliance with specific grant or contract 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.

At September 30, 2021, the majority of contracts receivable are due from governmental agencies and no allowance for doubtful accounts receivable was considered necessary.

(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, 2021, 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.

(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, 2021

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, 2021.

(i) PAYCHECK PROTECTION PROGRAM (PPP) LOANS

Management has elected to account for the forgivable loans 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 loans 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.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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, 2021, 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.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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, 2020, from which the summarized information was derived.

(o) NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, 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. Heal the Bay implemented the ASU and subsequent amendments during the year ending September 30, 2021. There was no significant impact to Heal the Bay's financial statements as a result of the implementation of the ASU

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, 2021

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, 2021 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through March 29, 2022, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred, except as described in Note 5.

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, City of Los Angeles Community Block Grant and private donors.

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 constructing the project the City of Los Angeles Recreation and Parks Department 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.

Estimated costs to complete the contract are approximately \$2,100,000 and will be funded by the Proposition 84 Statewide Park Program, City of Los Angeles Community Block Grant Program, Los Angeles County Supervisor Holly Mitchell, as well as private funders. Construction is due to begin in September of 2022.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2021

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2021 consists of the following:

| | | |
|-------------------------------------|----|--------------------|
| Office Equipment | \$ | 353,491 |
| Leasehold Improvements | | 490,535 |
| Furniture and Fixtures | | 673,509 |
| Vehicles | | <u>148,778</u> |
| TOTAL | | 1,666,313 |
| Less: Accumulated Depreciation | | <u>(1,421,616)</u> |
| PROPERTY AND EQUIPMENT (NET) | \$ | <u>244,697</u> |

Depreciation expense for the year ended September 30, 2021 amounted to \$74,822.

NOTE 5 - PAYCHECK PROTECTION PROGRAM LOAN

In May 2020, Heal the Bay received a first draw PPP loan in the amount of \$392,385. This first draw PPP loan, including accrued interest, was forgiven in full during the year ended September 30, 2021 and is reflected as forgiveness income in the statement of activities.

In February 2021, Heal the Bay received a second draw PPP loan in the amount of \$392,385. The second draw PPP loan, administered by the Small Business Administration (SBA), bears interest at a fixed rate of 1.0% per annum, has a term of five 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.

In February 2022, Heal the Bay submitted its application for forgiveness of the second draw 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, 2021 the total outstanding balance of the second draw PPP loan was \$392,385.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2021

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 2026. Total rent expense for the year ended September 30, 2021 amounted to \$327,487 and is included in occupancy costs in the statement of functional expenses. The future minimum lease commitments as of September 30, 2021 are as follows:

Years Ending September 30

| | | |
|--------------|----|------------------|
| 2022 | \$ | 395,300 |
| 2023 | | 407,157 |
| 2024 | | 419,367 |
| 2025 | | 431,947 |
| 2026 | | <u>256,326</u> |
| TOTAL | \$ | <u>1,910,097</u> |

(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, 2021.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2021

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, 2021 was \$28,908.

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at September 30, 2021:

| | |
|---|--------------------------|
| Subject to Expenditure for Specified Purpose: | |
| Santa Monica Pier Aquarium | \$ 172,922 |
| Science and Policy | 79,251 |
| Fisheries | 45,561 |
| Advocacy | 99,187 |
| McKinley Park | 45,000 |
| Beach Cleanup | 25,502 |
| Stream Team | 501 |
| Subject to the Passage of Time: | |
| Contributions and Pledges Receivable | 85,000 |
| Not Subject to Appropriation or Expenditure: | |
| Donor-Restricted Endowments Corpus | <u>146,412</u> |
| TOTAL NET ASSETS WITH DONOR RESTRICTIONS | <u><u>\$ 699,336</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, 2021:

| | |
|--|--------------------------|
| Satisfaction of Purpose Restrictions: | |
| Santa Monica Pier Aquarium | \$ 357,625 |
| Science and Policy | 69,425 |
| Advocacy | 92,868 |
| Fisheries | 78,543 |
| Beach Cleanup | 23,968 |
| Stream Team | <u>6,046</u> |
| TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS | <u><u>\$ 628,475</u></u> |

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2021

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, 2021 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, 2021 | Without Donor Restrictions | With Donor Restrictions | Total |
|--|----------------------------------|----------------------------|------------|
| Donor-Restricted | \$ - | \$ 146,412 | \$ 146,412 |
| TOTAL FUNDS | \$ - | \$ 146,412 | \$ 146,412 |
| | | | |
| Changes in Endowment Net Assets for the Year Ended September 30, 2021 | | | |
| Endowment Net Assets - Beginning of Year | \$ - | \$ 146,412 | \$ 146,412 |
| Investment Return (Net) | - | - | - |
| Appropriation of Endowment Assets for Expenditure | - | - | - |
| ENDOWMENT NET ASSETS - END OF YEAR | \$ - | \$ 146,412 | \$ 146,412 |

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2021

NOTE 10 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The total financial assets held by Heal the Bay at September 30, 2021 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, 2021: | |
| Cash and Cash Equivalents | \$ 4,216,233 |
| Contract Receivables | 143,871 |
| Contributions and Pledges Receivable | <u>212,500</u> |
| TOTAL FINANCIAL ASSETS AT SEPTEMBER 30, 2021 | 4,572,604 |
| 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 | (340,424) |
| Contributions and Pledges Receivable Restricted by Purpose and Time | <u>(212,500)</u> |
| FINANCIAL ASSETS AVAILABLE TO MEET GENERAL EXPENDITURES WITHIN ONE YEAR | <u>\$ 3,873,268</u> |

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.