

HEAL THE BAY

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2024

HEAL THE BAY
FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2024

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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

Opinion

We have audited the financial statements of Heal the Bay, which comprise the statement of financial position as of September 30, 2024, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Heal the Bay as of September 30, 2024, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial statements section of our report. We are required to be independent of Heal the Bay and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 12 to the financial statements, the September 30, 2023 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Heal the Bay's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

To the Board of Directors
Heal the Bay

Auditor's Responsibilities for the Audit of the Financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Heal the Bay's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Heal the Bay's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Heal the Bay's September 30, 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 21, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2023, is consistent, in all material respects, with the financial statements from which it has been derived, except as outlined in Note 12 to these financial statements.

Green Hasson & Janks LLP

August 27, 2025
Los Angeles, California

HEAL THE BAY

STATEMENT OF FINANCIAL POSITION

September 30, 2024

With Summarized Totals at September 30, 2023

		2024	2023 Restated
ASSETS			
Cash and Cash Equivalents	\$	1,801,272	\$ 4,101,660
Contract Receivables		1,467,615	183,147
Contributions and Pledges Receivable		141,923	309,532
Prepaid Expenses and Deposits		191,991	171,745
Construction under Contract with the City of Los Angeles (Note 3)		2,490,368	466,956
Property and Equipment (Net)		216,442	276,819
Right-of-Use Asset		614,188	979,928
TOTAL ASSETS	\$	<u>6,923,799</u>	<u>\$ 6,489,787</u>
LIABILITIES AND NET ASSETS			
LIABILITIES:			
Accounts Payable and Accrued Liabilities	\$	815,888	\$ 403,004
Due to City of Los Angeles (Note 3)		2,490,368	466,956
Lease Liability		666,689	1,050,255
TOTAL LIABILITIES		3,972,945	1,920,215
NET ASSETS:			
Without Donor Restrictions		1,703,287	3,457,814
With Donor Restrictions		1,247,567	1,111,758
TOTAL NET ASSETS		<u>2,950,854</u>	<u>4,569,572</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>6,923,799</u>	<u>\$ 6,489,787</u>

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

STATEMENT OF ACTIVITIES

Year Ended September 30, 2024

With Summarized Totals for the Year Ended September 30, 2023

	2024			2023
	Without Donor Restrictions	With Donor Restrictions	Total	Total Restated
REVENUE AND SUPPORT:				
Direct Public Support	\$ 929,520	\$ 15,000	\$ 944,520	\$ 1,304,318
Corporate and Foundation Grants	502,516	947,795	1,450,311	1,642,723
Federal, State and Local Grants and Contracts	551,203	-	551,203	650,774
Special Events (Net of \$734,744 of Costs of Direct Benefit to Donors)	689,869	-	689,869	554,968
Aquarium Admission	431,341	-	431,341	431,831
Gifts-in-Kind	8,447	-	8,447	35,062
Other Income	195,944	-	195,944	193,893
Net Assets Released from Donor Restrictions	826,986	(826,986)	-	-
TOTAL REVENUE AND SUPPORT	4,135,826	135,809	4,271,635	4,813,569
EXPENSES:				
Program Services	4,511,649	-	4,511,649	4,035,746
Management and General	567,163	-	567,163	316,568
Fundraising	811,541	-	811,541	770,471
TOTAL EXPENSES	5,890,353	-	5,890,353	5,122,785
CHANGE IN NET ASSETS	(1,754,527)	135,809	(1,618,718)	(309,216)
Net Assets - Beginning of Year - As Restated	3,457,814	1,111,758	4,569,572	4,878,788
NET ASSETS - END OF YEAR	\$ 1,703,287	\$ 1,247,567	\$ 2,950,854	\$ 4,569,572

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

STATEMENT OF FUNCTIONAL EXPENSES Year Ended September 30, 2024 With Summarized Totals for the Year Ended September 30, 2023

	2024									2023 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	\$	166,721	\$	2,063,649	\$	195,443	\$	2,425,813	\$	44,217	\$	463,220	\$	507,437	\$	2,933,250	\$	2,500,118
Employee Benefits		21,571		267,008		25,288		313,867		5,721		59,934		65,655		379,522		322,580
Payroll Taxes		12,424		153,787		14,565		180,776		3,295		34,520		37,815		218,591		186,896
TOTAL PERSONNEL EXPENSES		200,716		2,484,444		235,296		2,920,456		53,233		557,674		610,907		3,531,363		3,009,594
Professional and Consulting Fees		10,904		339,315		84,595		434,814		437,693		87,073		524,766		959,580		724,890
Occupancy		26,299		452,350		30,911		509,560		6,975		73,070		80,045		589,605		516,199
Information Technology		9,337		124,249		11,752		145,338		2,476		37,886		40,362		185,700		143,420
Meetings, Conferences and Travel		9,052		99,391		13,703		122,146		111		5,043		5,154		127,300		130,836
Supplies		16,279		86,217		798		103,294		94		5,905		5,999		109,293		129,071
Utilities		3,668		71,628		4,488		79,784		778		8,604		9,382		89,166		122,530
Depreciation		545		84,662		639		85,846		145		1,516		1,661		87,507		77,804
Insurance		3,890		57,299		4,560		65,749		1,032		10,808		11,840		77,589		64,452
Bank and Credit Card Processing Fees		-		-		-		-		52,317		-		52,317		52,317		44,702
Staff Development		1,389		18,831		1,885		22,105		368		4,273		4,641		26,746		19,154
Communications		1,305		12,886		1,583		15,774		236		5,558		5,794		21,568		33,380
Direct Mail Expense		-		-		-		-		-		13,886		13,886		13,886		16,193
Other Operating Expenses		299		6,454		30		6,783		1,705		245		1,950		8,733		33,099
Credit Loss Expense		-		-		-		-		10,000		-		10,000		10,000		22,399
Gifts-in-Kind		-		-		-		-		-		-		-		-		35,062
TOTAL 2024 FUNCTIONAL EXPENSES	\$	283,683	\$	3,837,726	\$	390,240	\$	4,511,649	\$	567,163	\$	811,541	\$	1,378,704	\$	5,890,353		
TOTAL 2023 FUNCTIONAL EXPENSES	\$	271,763	\$	3,444,628	\$	319,355	\$	4,035,746	\$	316,568	\$	770,471	\$	1,087,039			\$	5,122,785

The Accompanying Notes are an Integral Part of These Financial Statements

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STATEMENT OF CASH FLOWS Year Ended September 30, 2024

With Summarized Totals for the Year Ended September 30, 2023

	2024	2023 Restated
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (1,618,718)	\$ (309,216)
Adjustments to Reconcile Change in Net Assets to Net Cash (Used In) Provided by Operating Activities:		
Depreciation	87,507	77,804
(Increase) Decrease in:		
Contract Receivables	(1,284,468)	(73,669)
Contributions and Pledges Receivable	167,609	(220,612)
Employee Retention Credit Receivable	-	797,606
Prepaid Expenses and Deposits	(20,246)	(30,564)
Right-of-Use Asset	365,740	350,044
Increase (Decrease) in:		
Accounts Payable and Accrued Liabilities	412,884	128,770
Lease Liability	(383,566)	(355,660)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(2,273,258)	364,503
CASH FLOWS USED IN INVESTING ACTIVITY:		
Purchase of Property and Equipment	(27,130)	(83,484)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,300,388)	281,019
Cash and Cash Equivalents - Beginning of Year	4,101,660	3,820,641
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,801,272</u>	<u>\$ 4,101,660</u>
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Non-Cash Impact of Implementation of Accounting Standards Codification Topic 842, <i>Leases</i> :		
Increase in Right-of-Use Asset	\$ -	\$ 1,329,972
Deferred Rent Adjustment	-	75,944
Increase in Lease Liability	-	1,405,916

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2024

NOTE 1 - ORGANIZATION

Heal the Bay is an environmental nonprofit established in 1985 that is dedicated to making the coastal waters and watersheds of Greater L.A. safe, healthy, and clean. The organization uses science, education, community action and advocacy to achieve its mission. With the support of 30,000 active members and annual volunteers, Heal the Bay is one of the most impactful nonprofits in the region. Through a combination of education, collaboration, community action, and strong leadership, Heal the Bay inspires environmental stewardship and protects the health of millions of beachgoers each year.

Heal the Bay's programs include:

- **Adopt-A-Beach** - As the Los Angeles County coordinator, Heal the Bay provides supplies and training for community groups, civic organizations, and schools to adopt a stretch of beach or waterway and complete three cleanups per year. More than 500 civic groups have participated in the program.
- **Beach Report Card** - Heal the Bay provides weekly water quality updates for more than 650 beaches along the Pacific Coast, from Washington to Tijuana. Available on Heal the Bay's website and mobile app, simple to understand A-F grades are updated every Friday based on routine microbiological monitoring conducted by local health agencies and dischargers. Heal the Bay also produces an Annual Beach Report Card, providing a summary of water quality, beach closures and sewage spill information.
- **Coastal Cleanup Day** - Working with the California Coastal Commission, Heal the Bay has coordinated the Los Angeles County Coastal Cleanup Day (CCD) efforts since 1990. CCD attracts thousands of volunteers annually to clean beaches and inland waterways on the third Saturday of September. CCD volunteers have removed more than 2 million pounds of trash from Los Angeles County dive sites, beaches, and inland waterways.
- **Heal the Bay Speakers Bureau** - Volunteers throughout the Greater Los Angeles 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, reaching tens of thousands of 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 Heal the Bay Aquarium and the beach. Heal the Bay created Key to the Sea in 1999 and delivers the conservation messages to approximately 10,000 students and each year. More than 2,500 teachers have attended our workshops, which helps them include state-approved marine science curricula into their yearly lesson plans.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2024

NOTE 1 - ORGANIZATION (continued)

- **Heal the Bay Aquarium.** Located under the iconic Santa Monica Pier, Heal the Bay Aquarium provides a unique, hands-on way to interact with local marine life in a safe and educational environment. The Aquarium features live exhibits, including a shark tank and tide-pool touch tanks. Programming and events promote the conservation and protection of California coastal habitats. Heal the Bay Aquarium attracts more than 10,000 school children and 60,000 public visitors each year.
- **Stream Team.** Developed in 1999, science teams identify and remedy water quality problems and habitat degradation in the Malibu Creek and Los Angeles River watersheds. Heal the Bay staff and volunteers observe and report on illegal spills and habitat destruction. Expert staff conduct water chemistry tests and lead stream and creek restoration projects.
- **Inell Woods Park.** (formerly WAYS Park) - Heal the Bay secured Proposition 84 funding to enhance an under-utilized property at McKinley and 87th avenue in South Los Angeles, a community that is underserved and disproportionately lacking in park space. The pilot project will provide a multi-use park with an outdoor classroom, community green space, fitness area, and water quality improvement elements. 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. The project will serve as a model for other neighborhoods looking to improve water quality, capture and reuse stormwater and build more open space in their community.

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.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2024

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) NET ASSETS (continued)

- **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 does not recognize a reserve for expected credit losses related to its money market accounts as management has concluded there is no risk of non-payment. The carrying value of cash and cash equivalents at September 30, 2024 approximates its fair value.

(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, 2024, the majority of contracts receivable are due from governmental agencies and no allowance for doubtful accounts receivable was considered necessary.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2024

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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, 2024, 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.

(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, 2024.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2024

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) LEASES

Heal the Bay recognizes and measures its leases in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 842, *Leases*. Heal the Bay is a lessee in an operating lease for its offices. Heal the Bay determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed. Heal the Bay recognizes a lease liability and a right-of-use (ROU) asset at the commencement date of the lease. The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. The discount rate is the implicit rate if it is readily determinable or otherwise the company uses the risk-free rate. The implicit rates of Heal the Bay's lease is not readily determinable and accordingly, Heal the Bay uses the risk-free rate based on the information available at the commencement date of the lease.

The ROU asset is subsequently measured throughout the lease term at the amount of the re-measured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. Lease cost for lease payments is recognized on a straight-line basis over the lease term.

Heal the Bay has elected, for all underlying classes of assets, to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement, and do not include an option to purchase the underlying asset that Heal the Bay is reasonably certain to exercise. Heal the Bay recognizes lease cost associated with short-term leases on a straight-line basis over the lease term.

(j) GIFTS-IN-KIND

Gifts-in-kind are recorded as contributions at their estimated fair value in the period received and expensed when utilized or sold. Gifts-in-kind are valued based upon estimates of fair market value that would be received for selling the goods in their principal market considering their condition and utility for use at the time the goods are contributed by the donor. Gifts-in-kind are not sold but rather used for Heal the Bay's programs and operations.

Gifts-in-kind that consist of donated services are recognized at fair value if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

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NOTES TO FINANCIAL STATEMENTS September 30, 2024

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) REVENUE RECOGNITION

Contributed revenue includes annual membership dues, donations, and revenues from fundraising events. Annual memberships, which are included in direct public support in the statement of activities, are nonrefundable and nonreciprocal in nature, directly support the organization's mission and the benefits to members are available immediately upon joining, consequently such income is recognized when received. All donations are nonreciprocal in nature with the primary beneficiary being the general public.

Revenue from contracts with customers includes admission income to the aquarium and retail sales. These revenue streams are recognized as revenue when performance obligations are satisfied which is at a point in time. There were no funds received in advance for revenue from contracts with customers at September 30, 2024.

(l) INCOME TAXES

Heal the Bay is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

In accordance with 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, 2024, 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.

(m) FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing Heal the Bay's programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. Heal the Bay uses proportional salary dollars to allocate indirect costs.

(n) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2024

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) COMPARATIVE TOTALS

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Heal the Bay's financial statements for the year ended September 30, 2023, from which the summarized information was derived.

(p) NEW ACCOUNTING PRONOUNCEMENTS

In June 2016, FASB issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss impairment methodology previously used for certain financial instruments with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates in their measurement. The guidance has subsequently been amended through a series of targeted ASUs. Heal the Bay implemented this ASU during the year ended September 30, 2024 and adoption had no material impact on the financial statements.

(q) SUBSEQUENT EVENTS

Heal the Bay has evaluated events and transactions occurring subsequent to the statement of financial position date of September 30, 2024 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through August 27, 2025, 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, 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.

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NOTES TO FINANCIAL STATEMENTS September 30, 2024

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

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.

At September 30, 2024, the total construction in progress balance was \$2,490,368. The estimated costs to complete the contract are approximately \$263,000 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 expected to conclude in the summer of 2025.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2024 consists of the following:

Office Equipment	\$	399,113
Leasehold Improvements		639,428
Furniture and Fixtures		685,709
Vehicles		<u>148,778</u>
TOTAL		1,873,030
Less: Accumulated Depreciation		<u>(1,656,586)</u>
PROPERTY AND EQUIPMENT (NET)	\$	<u>216,442</u>

Depreciation expense for the year ended September 30, 2024 amounted to \$87,507.

NOTE 5 - COMMITMENTS AND CONTINGENCIES

(a) 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.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2024

NOTE 5 - COMMITMENTS AND CONTINGENCIES (continued)

(b) LEGAL PROCEEDINGS

In the normal course of business, Heal the Bay may become a party to legal proceedings. Some of these proceedings may result in judgments being assessed against Heal the Bay. Accordingly, Heal the Bay has established a reserve to provide for negotiated settlements and potential adverse proceedings.

NOTE 6 - LEASES

Heal the Bay leases its offices under a non-cancelable operating lease which expires in April 2026, which is accounted for as an operating lease. Leases with an initial term of 12 months or less, which are not expected to be renewed beyond one year, are not recorded on the statement of financial position and are recognized as lease expense on a straight-line basis over the lease term. At September 30, 2024, Heal the Bay recognized \$614,188 of right-of-use asset and \$666,689 of related lease liability for this contract that is classified as an operating lease.

Lease cost was as follows for the year ended:

	September 30, 2024
Operating Lease Cost	\$ 401,540

Weighted-average remaining lease term and weighted-average discount rate were as follows during the year ended:

	September 30, 2024
Weighted-Average Lease Term - Operating Lease	1.58 years
Weighted-Average Discount Rate - Operating Lease	4.25%

Maturities of the lease liability as of September 30, 2024 are as follows:

Years Ending September 30	Operating Lease
2025	\$ 431,947
2026	256,326
Total Lease Payments	688,273
Less: Imputed Interest	(21,584)
TOTAL LEASE LIABILITY	\$ 666,689

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2024

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, 2024 was \$33,834.

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at September 30, 2024:

Subject to Expenditure for Specified Purpose:	
Advocacy	\$ 465,337
Inell Woods Park	111,289
Santa Monica Pier Aquarium	243,964
Science and Policy	58,831
Stream Team	44,676
Beach Cleanup	49,010
Fisheries	123,797
Other Programs	4,251
Not Subject to Appropriation or Expenditure:	
Donor-Restricted Endowments Corpus	<u>146,412</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u><u>\$ 1,247,567</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, 2024:

Satisfaction of Purpose Restrictions:	
Santa Monica Pier Aquarium	\$ 96,633
Advocacy	191,536
Science and Policy	109,283
Beach Cleanup	71,540
Fisheries	74,397
Inell Woods Park	182,305
Stream Team	59,184
Other Programs	<u>42,108</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u><u>\$ 826,986</u></u>

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2024

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, 2024 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 endowments required to be held in perpetuity, 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, 2024	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted	\$ -	\$ 146,412	\$ 146,412
<i>TOTAL FUNDS</i>	<i>\$ -</i>	<i>\$ 146,412</i>	<i>\$ 146,412</i>
Changes in Endowment Net Assets for the Year Ended September 30, 2024.			
Endowment Net Assets - Beginning of Year	\$ -	\$ 146,412	\$ 146,412
Investment Return (Net)	-	-	-
Appropriation of Endowment Assets for Expenditure	-	-	-
<i>ENDOWMENT NET ASSETS - END OF YEAR</i>	<i>\$ -</i>	<i>\$ 146,412</i>	<i>\$ 146,412</i>

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2024

NOTE 10 - GIFTS-IN-KIND

For the year ended September 30, 2024, gifts-in-kind were comprised of the following and were used for its annual gala and in furtherance of Heal the Bay's mission:

Category	Valuation	Description	Amount
Fundraising	Vendor Quote	Event Facilities	\$ 110,000
Fundraising	Vendor Quote	Services	14,000
Program	Vendor Quote	Supplies	8,850
Fundraising	Vendor Quote	Other Goods	1,250
TOTAL GIFTS-IN-KIND			<u>\$ 134,100</u>

Total fundraising gifts-in-kind of \$125,250 are included as part special events revenues and costs of direct benefit to donors in the statement of activities.

NOTE 11 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The total financial assets held by Heal the Bay at September 30, 2024 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, 2024:	
Cash and Cash Equivalents	\$ 1,801,272
Contract Receivables	1,467,615
Contributions and Pledges Receivable	<u>141,923</u>
TOTAL FINANCIAL ASSETS	3,410,810
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	<u>(1,101,155)</u>
FINANCIAL ASSETS AVAILABLE TO MEET GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 2,163,243</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.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2024

NOTE 12 - PRIOR PERIOD ADJUSTMENT

Heal the Bay identified certain Aquarium admission revenue that had been received during the year ended September 30, 2023, but not included in its 2023 financial statements. Accordingly, the summarized prior year totals presented with the financial statements have been adjusted retrospectively to reflect the correction of this misstatement. The following table summarizes the effects of the correction on the financial statements as of and for the year ended September 30, 2023:

	Balance as Previously Reported	Adjustment	Balance as Restated
Statement of Financial Position			
Cash and Cash Equivalents	\$ 3,910,399	\$ 191,261	\$ 4,101,660
Net Assets without Donor Restrictions, End of Year	3,266,553	191,261	3,457,814
Net Assets, End of Year	4,378,311	191,261	4,569,572
Statement of Activities			
Aquarium Admission	\$ 319,779	\$ 112,052	\$ 431,831
Change in Net Assets	(421,268)	112,052	(309,216)
Net Assets, Beginning of Year	4,799,579	79,209	4,878,788