

HEAL THE BAY

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2015

HEAL THE BAY
FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Heal the Bay

Report on the Financial Statements

We have audited the accompanying financial statements of Heal the Bay, which comprise the statement of financial position as of September 30, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heal the Bay as of September 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Heal the Bay's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 14, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

To the Board of Directors
Heal the Bay

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2016 on our consideration of Heal the Bay's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Heal the Bay's internal control over financial reporting and compliance.

Green Hasson & Janks LLP

January 21, 2016
Los Angeles, California

HEAL THE BAY

STATEMENT OF FINANCIAL POSITION

September 30, 2015

With Summarized Totals at September 30, 2014

ASSETS	2015	2014
Cash and Cash Equivalents	\$ 611,929	\$ 474,222
Accounts Receivable	186,300	197,567
Contributions and Pledges Receivable	285,746	88,000
Prepaid Expenses and Deposits	106,040	130,044
Construction under Contract with the City of Los Angeles (Note 3)	158,535	158,535
Property and Equipment (Net)	514,625	605,472
<i>TOTAL ASSETS</i>	<i>\$ 1,863,175</i>	<i>\$ 1,653,840</i>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts Payable and Accrued Liabilities	\$ 161,752	\$ 339,148
Deferred Revenue	115,035	54,931
Due to City of Los Angeles (Note 3)	158,535	158,535
<i>TOTAL LIABILITIES</i>	<i>435,322</i>	<i>552,614</i>
NET ASSETS:		
Unrestricted	600,327	335,043
Temporarily Restricted (Note 10)	681,114	619,771
Permanently Restricted (Note 11)	146,412	146,412
<i>TOTAL NET ASSETS</i>	<i>1,427,853</i>	<i>1,101,226</i>
<i>TOTAL LIABILITIES AND NET ASSETS</i>	<i>\$ 1,863,175</i>	<i>\$ 1,653,840</i>

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

STATEMENT OF ACTIVITIES Year Ended September 30, 2015

With Summarized Totals for the Year Ended September 30, 2014

	2015				2014
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUE AND SUPPORT:					
Federal, State, Local and Private					
Grants and Contracts	\$ 520,082	\$ -	\$ -	\$ 520,082	\$ 568,925
Direct Public Support	1,916,800	19,646	-	1,936,446	1,628,719
Corporate and Foundation Grants	283,282	893,378	-	1,176,660	1,027,180
Special Events (Net) (Note 9)	573,282		-	573,282	619,003
Interest and Dividend Income	160		-	160	184
In-Kind Revenue	469,746		-	469,746	270,367
Other Income	1,219		-	1,219	16,277
Net Assets Released from:					
Purpose Restrictions	826,681	(826,681)	-	-	-
Time Restrictions	25,000	(25,000)	-	-	-
TOTAL REVENUE AND SUPPORT	4,616,252	61,343	-	4,677,595	4,130,655
EXPENSES:					
Program Services	3,512,445	-	-	3,512,445	3,345,839
Support Services:					
Management and General	434,828	-	-	434,828	475,430
Fundraising	403,695	-	-	403,695	469,118
TOTAL EXPENSES	4,350,968	-	-	4,350,968	4,290,387
CHANGE IN NET ASSETS	265,284	61,343	-	326,627	(159,732)
Net Assets - Beginning of Year	335,043	619,771	146,412	1,101,226	1,260,958
NET ASSETS - END OF YEAR	\$ 600,327	\$ 681,114	\$ 146,412	\$ 1,427,853	\$ 1,101,226

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2015

With Summarized Totals for the Year Ended September 30, 2014

	2015								2014
	Program Services			Total	Support Services		Total	Total	Total
	Research/ Advocacy	Membership/ Education	Direct Lobbying	Program Services	Management and General	Fundraising	Support Services	Expenses	Expenses
Salaries and Wages	\$ 431,162	\$ 996,235	\$ 16,282	\$ 1,443,679	\$ 226,927	\$ 226,927	\$ 453,854	\$ 1,897,533	\$ 2,193,783
Employee Benefits	54,427	161,051	2,231	217,709	34,375	34,375	68,750	286,459	347,887
Payroll Taxes	30,047	80,302	936	111,285	17,571	17,571	35,142	146,427	161,184
TOTAL PERSONNEL EXPENSES	515,636	1,237,588	19,449	1,772,673	278,873	278,873	557,746	2,330,419	2,702,854
In-Kind Expense	-	469,746	-	469,746	-	-	-	469,746	222,242
Professional and Consulting Fees	222,629	99,563	20,780	342,972	71,916	4,069	75,985	418,957	288,285
Occupancy	66,057	135,376	2,234	203,667	25,374	24,347	49,721	253,388	268,922
Supplies	9,500	179,914	592	190,006	-	1,919	1,919	191,925	185,191
Depreciation	-	140,225	-	140,225	1,128	1,128	2,256	142,481	128,789
Communications	1,530	74,972	1,202	77,704	5,977	15,939	21,916	99,620	48,836
Other Operating Expenses	-	66,301	-	66,301	5,976	14,955	20,931	87,232	46,231
Information Technology	1,453	63,336	-	64,789	6,220	11,002	17,222	82,011	60,297
Direct Mail Expense	-	55,742	-	55,742	12,741	11,148	23,889	79,631	102,959
Meetings and Travel	21,570	33,930	500	56,000	813	3,678	4,491	60,491	64,814
Bank and Credit Card Processing Fees	-	-	-	-	20,162	30,243	50,405	50,405	54,474
Utilities	-	41,269	374	41,643	1,788	2,683	4,471	46,114	86,958
Insurance	9,539	21,115	323	30,977	3,860	3,711	7,571	38,548	29,535
TOTAL 2015 FUNCTIONAL EXPENSES	\$ 847,914	\$ 2,619,077	\$ 45,454	\$ 3,512,445	\$ 434,828	\$ 403,695	\$ 838,523	\$ 4,350,968	
				81%	10%	9%		100%	
TOTAL 2014 FUNCTIONAL EXPENSES	\$ 723,030	\$ 2,622,737	\$ 72	\$ 3,345,839	\$ 475,430	\$ 469,118	\$ 944,548		\$ 4,290,387
				78%	11%	11%			100%

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

STATEMENT OF CASH FLOWS

Year Ended September 30, 2015

With Summarized Totals for the Year Ended September 30, 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 326,627	\$ (159,732)
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided by Operating Activities:		
Depreciation	142,481	128,789
Donated Property and Equipment	-	(48,125)
(Increase) Decrease in:		
Accounts Receivable	11,267	153,799
Contributions and Pledges Receivable	(197,746)	142,000
Prepaid Expenses and Deposits	24,004	(44,195)
Construction under Contract with the City of		
Los Angeles	-	(158,535)
Increase (Decrease) in:		
Accounts Payable and Accrued Liabilities	(177,396)	120,512
Deferred Revenue	60,104	(207,740)
Due to City of Los Angeles	-	158,535
NET CASH PROVIDED BY OPERATING ACTIVITIES	189,341	85,308
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchase of Property and Equipment	(51,634)	(48,417)
NET INCREASE IN CASH AND CASH EQUIVALENTS	137,707	36,891
Cash and Cash Equivalents - Beginning of Year	474,222	437,331
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 611,929	\$ 474,222

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS

September 30, 2015

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.
- **Compton Creek Watershed Project** - Through community outreach, advocacy and watershed cleanups, Heal the Bay is working to create an atmosphere of environmental improvement in Compton. The Compton Creek Watershed which is located in the South Central portion of Los Angeles County possesses one of the most polluted local water bodies - Compton Creek. The goal of the Compton Creek Watershed Project is to provide inland communities with the necessary information and skills to identify and produce a neighborhood improvement project that will both improve the environmental health of the community, as well as modify the physical environment around them.
- **The Education and the Environment Initiative** - Heal the Bay originally authored The Education and the Environment Initiative (EEI) legislation with Assembly member Fran Pavley and is now working on statewide implementation with the California Environmental Protection Agency and the California Integrated Waste Management Board. The EEI is a comprehensive state program that provides education principles and curricula in all disciplines (science, history/social sciences, English/language arts, and mathematics) for all K-12 grade students in California public schools.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS

September 30, 2015

NOTE 1 - ORGANIZATION (continued)

- **Heal the Bay Speakers Bureau** - Volunteers throughout the Los Angeles region are trained by Heal the Bay to give presentations that raise awareness about the causes and consequences of ocean pollution. The Speakers Bureau conducts presentations to a variety of community groups, businesses and schools each year, reaching more than 20,000 people each year.
- **Key to the Sea** - Heal the Bay's award-winning marine environmental education program teaches Los Angeles County elementary school students (grades K-5) about water pollution prevention and marine conservation through curriculum and teacher training. The program culminates in fun, hands-on activities during a field trip to an aquarium and the beach. Several aquaria participate, including Heal the Bay's own Santa Monica Pier Aquarium. Heal the Bay created Key to the Sea in 1999, and delivers the conservation messages to approximately 10,000 students and 400 teachers per year.
- **Pier Outreach** - Multilingual Pier Outreach Team members travel to local piers to educate anglers and their families about the dangers of eating contaminated fish. Team members also encourage anglers to learn about the conservation of non-edible marine life. In the last thirteen years of the program, Heal the Bay has reached more than 133,000 anglers.
- **Santa Monica Pier Aquarium** - Located beach level at the east end of the Santa Monica Pier, the Santa Monica Pier Aquarium provides a unique, hands-on way to interact with local marine life in a safe and educational environment. Managed by Heal the Bay, the Aquarium features live exhibits, including a shark tank, eels and tide-pool touch tanks, while promoting the conservation and protection of California coastal habitats. The Heal the Bay Aquarium attracts over 20,000 school children and 80,000 public visitors each year.
- **Stream Team** - Developed in 1999 to identify and fix water quality and habitat degradation problems in the Malibu Creek watershed, Heal the Bay staff and volunteers observe and report on numerous illegal spills and habitat destruction activities in the watershed. Trained volunteers spend four hours each month conducting water chemistry tests, as well as participate in one-time research and stream and creek restoration projects.
- **Science and Policy** - Heal the Bay's unique approach of expert research combined with volunteer action and public education programs has been tremendously successful in working with local and federal government, industry and the public to clean up Santa Monica Bay and Southern California coastal waters. There is a clear track record of scientific evidence that the overall health of the Bay has improved due to Heal the Bay's actions.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS

September 30, 2015

NOTE 1 - ORGANIZATION (continued)

- **WAYS Park** - In partnership the City of Los Angeles Bureau of Sanitation, Heal the Bay secured Proposition 84 funding to enhance an under-utilized property at McKinley and 87th to provide a multi-use park which will serve as an outdoor classroom, community green space, fitness area, and water quality improvement project in a community that is already underserved and disproportionately lacking park space. In addition to the above ground community green space, the park will include a below ground stormwater water quality project to reduce runoff pollution. Heal the Bay has a pending agreement to transfer ownership of these improvements, along with all associated rights and operating/maintenance obligations, to the City of Los Angeles Board of Recreation and Parks Commissioners upon completion of the project, estimated to be in the fall of 2016.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION

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

(b) ACCOUNTING

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Heal the Bay are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

- **Unrestricted Undesignated.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving income from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.
- **Temporarily Restricted.** Heal the Bay reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from purpose or time restrictions. Heal the Bay has \$681,114 of temporarily restricted net assets at September 30, 2015 (See Note 10).
- **Permanently Restricted.** These net assets are received from donors who stipulate that resources are to be maintained permanently, but permit Heal the Bay to expend all of the income (or other economic benefits) derived from the donated assets. Heal the Bay has \$146,412 of permanently restricted net assets at September 30, 2015 (See Note 11).

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS

September 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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, 2015 approximates its fair value.

(d) ACCOUNTS RECEIVABLE

Accounts receivable are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, if any, represents their estimated net realizable value. The allowance for doubtful accounts, if any, is estimated based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectibility 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, 2015.

(e) CONTRIBUTIONS AND PLEDGES RECEIVABLE

Unconditional contributions, including pledges recorded at fair value, are recognized as revenues in the period received. Heal the Bay reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. At September 30, 2015, Heal the Bay evaluated the collectibility of pledges receivable and no allowance for uncollectible pledges was considered necessary. All contributions and pledges receivable are expected to be collected within one year.

(f) 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.

HEAL THE BAY
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) 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, 2015.

(h) UNEMPLOYMENT SELF INSURANCE

Heal the Bay has retained a portion of the risks relating to unemployment insurance. The exposure for unpaid claims and associated expenses, including incurred but not reported losses, is estimated based on prior claims history and analysis of current outstanding claims.

(i) DEFERRED REVENUE

Grant funds are recognized as revenue in accordance with the term of the grants and when funds are expended for grant purposes. Deferred revenue includes both amounts received in excess of funds expended to date as well as grant amounts awarded and not yet expended.

(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.

During the year ended September 30, 2015, Heal the Bay recorded unrestricted contributions of in-kind goods and professional services valued at \$585,942, including \$116,196 of special event in-kind goods and services.

(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.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS

September 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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, 2014, from which the summarized information was derived.

(o) RECLASSIFICATION

For comparability, certain September 30, 2014 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used at September 30, 2015.

(p) SUBSEQUENT EVENTS

Heal the Bay has evaluated events and transactions occurring subsequent to the statement of financial position date of September 30, 2015 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through January 21, 2016, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS

September 30, 2015

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 pending donation agreement, 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, 2015 Heal the Bay has recognized a liability to the City of Los Angeles in the amount of \$158,535, 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. The estimated completion date of the project and subsequent execution of the donation agreement is in the fall of 2016.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2015 consist of the following:

Office Equipment	\$ 301,082
Leasehold Improvements	239,542
Furniture and Fixtures	668,927
Vehicles	<u>79,885</u>
TOTAL	1,289,436
Less: Accumulated Depreciation	<u>(774,811)</u>
PROPERTY AND EQUIPMENT (NET)	<u>\$ 514,625</u>

Depreciation expense for the year ended September 30, 2015 amounted to \$142,481.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS

September 30, 2015

NOTE 5 - ACCRUED UNEMPLOYMENT LIABILITY

Heal the Bay has elected to be self-insured for the purposes of California State Unemployment Insurance. The reserve for unemployment liability at September 30, 2015 of \$27,300, included in accounts payable and accrued liabilities, represents estimated future claims arising from current and past employees. Unemployment expense for the year ended September 30, 2015 was \$9,912.

	Gross Claims Liability	Estimated Insurance Recoveries	Net Claims Liability
Balance at October 1, 2014	\$ 27,300	\$ -	\$ 27,300
Unemployment Expenses Incurred	9,912	-	9,912
Payments Made	(9,912)	-	(9,912)
BALANCE AT SEPTEMBER 30, 2015	\$ 27,300	\$ -	\$ 27,300

NOTE 6 - COMMITMENTS AND CONTINGENCIES

(a) OPERATING LEASES

Heal the Bay leases real estate facilities under a non-cancelable operating lease which expires in April 2021. The future minimum lease commitments as of September 30, 2015 are as follows:

Years Ending September 30

2016	\$ 232,578
2017	287,341
2018	295,961
2019	333,076
2020	343,068
2021	159,957
TOTAL	\$ 1,651,981

Total rent expense under real estate operating leases for the year ended September 30, 2015 amounted to \$223,846 and is included in occupancy costs in the statement of functional expenses.

(b) GRANTS AND CONTRACTS

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

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NOTES TO FINANCIAL STATEMENTS

September 30, 2015

NOTE 6 - COMMITMENTS AND CONTINGENCIES (continued)

(c) LINE OF CREDIT

Heal the Bay has a revolving line of credit facility with a bank in the amount of \$100,000, which will be secured by personal property upon draws on the line of credit. The draw period for cash advances ends in March 2016 and during this period the outstanding balance is subject to a variable interest rate of the bank's prime rate plus 2%, with a floor of 5%. Following the draw period, any amount outstanding must be repaid in equal installments over a period of up to sixty months, subject to an interest rate of the bank's prime rate plus 8%. At September 30, 2015 the bank's prime rate was 3.25%. There were no draws on the line of credit during the year ended September 30, 2015 or as of September 30, 2015.

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, 2015, was \$29,356.

NOTE 8 - ALLOCATION OF JOINT COSTS

Heal the Bay conducted direct mail campaigns that included requests for contributions as well as program components. The costs of conducting these activities included joint costs totaling \$79,631 for the year ended September 30, 2015.

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

Program Services	\$ 55,742
Management and General	12,741
Fundraising	<u>11,148</u>
TOTAL	<u>\$ 79,631</u>

NOTE 9 - SPECIAL EVENTS

Special events revenue consists of the following for the year ended September 30, 2015:

Special Events Revenue	\$ 998,472
Special Events In-Kind Revenue	116,196
Direct Donor Benefit Expenses	(425,190)
Special Events In-Kind Expense	<u>(116,196)</u>
TOTAL SPECIAL EVENTS REVENUE (NET)	<u>\$ 573,282</u>

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2015

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2015 consist of the following:

Time Restriction (Pledges)	\$	19,646
Key to the Sea		40,168
Santa Monica Pier Aquarium		290,726
Beach Report Card		59,592
Coastal Cleanup Day		24,709
Compton Creek/Creek Education		17,757
Science and Policy		101,831
Stream Team		10,625
Marine Life Protection Act/Marine Debris		110,385
Speakers' Bureau		5,350
Education		325
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$	681,114

NOTE 11 - PERMANENTLY RESTRICTED NET ASSETS

Endowment funds are established by donor-restricted gifts to either provide a permanent endowment, which is to provide a permanent source of income to Heal the Bay, or a term endowment, which is to provide income for a specified period to Heal the Bay. Heal the Bay's permanent endowment at September 30, 2015 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, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted	\$ -	\$ -	\$ 146,412	\$ 146,412
TOTAL FUNDS	\$ -	\$ -	\$ 146,412	\$ 146,412

Changes in Endowment Net Assets for the Year Ended September 30, 2015

Endowment Net Assets -				
Beginning of Year	\$ -	\$ -	\$ 146,412	\$ 146,412
Investment Income	-	160	-	160
Appropriation of Endowment Assets for Expenditure	-	(160)	-	(160)
ENDOWMENT NET ASSETS - END OF YEAR	\$ -	\$ -	\$ 146,412	\$ 146,412

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS

September 30, 2015

NOTE 12 - RELATED PARTY TRANSACTIONS

A member of the Board of Directors provides pro-bono creative management and production services for Heal the Bay's annual fundraising dinner through his company, Homerun Entertainment, in accordance with Heal the Bay's conflict of interest policy. During the year ended September 30, 2015, payments of \$57,689 were made to Homerun Entertainment for general production costs provided by outside contracted vendors related to the event. The services that Homerun Entertainment itself provides are all pro-bono. These pro-bono services amounted to \$15,000 for the year ended September 30, 2015.

Another member of the Board of Directors provides consulting services for one of Heal the Bay's programs. During the year ended September 30, 2015, payments of \$7,099 were made to this Board member for such consulting services. A spouse of another member of the Board of Directors was paid \$5,600 during the year ended September 30, 2015 for consulting services for one of Heal the Bay's programs.

Another member of the Board of Directors provided a vehicle to be auctioned off at Heal the Bay's annual fundraiser dinner through his company, LACarGuy. During the year ended September 30, 2015, a payment of \$10,000 was made to LACarGuy for the vehicle, which was valued at \$25,000. LACarGuy secured an unrestricted \$10,000 grant for Heal the Bay through the Toyota Dealer Matching program to offset the vehicle purchase expense.