

HEAL THE BAY

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2009

HEAL THE BAY
FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2009

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GREEN HASSON & JANKS LLP

BUSINESS ADVISORS AND CPAS

-Since 1953-

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Heal the Bay

We have audited the accompanying statement of financial position of Heal the Bay as of September 30, 2009, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Heal the Bay's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the 2008 financial statements of Heal the Bay and in our report dated January 14, 2009, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2010 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Green Hasson & Janks LLP

January 19, 2010
Los Angeles, California



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HEAL THE BAY

STATEMENT OF FINANCIAL POSITION

September 30, 2009

With Summarized Totals at September 30, 2008

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	2009	2008
Cash and Cash Equivalents	\$ 842,509	\$ 877,957	\$ 146,412	\$ 1,866,878	\$ 1,941,773
Accounts Receivable	320,552	-	-	320,552	458,294
Contributions and Pledges Receivable	-	700,000	-	700,000	718,334
Prepaid Expenses and Deposits	127,143	-	-	127,143	116,175
Property and Equipment (Net)	177,204	-	-	177,204	35,386
TOTAL ASSETS	\$ 1,467,408	\$ 1,577,957	\$ 146,412	\$ 3,191,777	\$ 3,269,962
LIABILITIES AND NET ASSETS					
LIABILITIES:					
Accounts Payable and Accrued Liabilities	\$ 316,160	\$ -	\$ -	\$ 316,160	\$ 231,577
NET ASSETS:					
Unrestricted:					
Undesignated	996,443	-	-	996,443	1,399,730
Board Designated	154,805	-	-	154,805	152,295
Temporarily Restricted (Note 10)	-	1,577,957	-	1,577,957	1,339,948
Permanently Restricted (Note 11)	-	-	146,412	146,412	146,412
TOTAL NET ASSETS	1,151,248	1,577,957	146,412	2,875,617	3,038,385
TOTAL LIABILITIES AND NET ASSETS	\$ 1,467,408	\$ 1,577,957	\$ 146,412	\$ 3,191,777	\$ 3,269,962

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

STATEMENT OF ACTIVITIES

Year Ended September 30, 2009

With Summarized Totals for the Year Ended September 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009	2008
REVENUE AND SUPPORT:					
Federal, State, Local and Private					
Grants and Contracts	\$ 583,800	\$ 465,205	\$ -	\$ 1,049,005	\$ 1,015,512
Direct Public Support	1,593,994	54,552	-	1,648,546	2,028,463
Corporate and Foundation Grants	168,962	945,077	-	1,114,039	957,727
Special Events (Net) (Note 9)	625,700	14,290	-	639,990	698,586
Interest Income	13,888	1,201	-	15,089	35,208
In-Kind Revenue	865,108	-	-	865,108	307,405
Other Income	29,356	-	-	29,356	-
Net Assets Released from:					
Purpose Restrictions	1,034,815	(1,034,815)	-	-	-
Time Restrictions	207,501	(207,501)	-	-	-
TOTAL REVENUE AND SUPPORT	5,123,124	238,009	-	5,361,133	5,042,901
EXPENSES:					
Program Services	4,524,031	-	-	4,524,031	4,326,572
Support Services:					
Management and General	685,969	-	-	685,969	692,214
Fundraising	313,901	-	-	313,901	295,953
TOTAL EXPENSES	5,523,901	-	-	5,523,901	5,314,739
CHANGE IN NET ASSETS	(400,777)	238,009	-	(162,768)	(271,838)
Net Assets - Beginning of Year	1,552,025	1,339,948	146,412	3,038,385	3,310,223
NET ASSETS - END OF YEAR	\$ 1,151,248	\$ 1,577,957	\$ 146,412	\$ 2,875,617	\$ 3,038,385

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2009

With Summarized Totals for the Year Ended September 30, 2008

	Program Services			Support Services		Total Support Services	Total Expenses	
	Research/ Advocacy	Membership/ Education	Direct Lobbying	Program Services	Management and General		Fundraising	2009
Salaries and Wages	\$ 483,901	\$ 1,410,813	\$ 176	\$ 1,894,890	\$ 322,405	\$ 119,222	\$ 2,336,517	\$ 2,178,560
Employee Benefits	5,314	226,691	1	232,006	35,467	13,321	280,794	272,764
Payroll Taxes	35,714	105,913	13	141,640	24,125	8,983	174,748	162,244
TOTAL PERSONNEL EXPENSES	524,929	1,743,417	190	2,268,536	381,997	141,526	2,792,059	2,613,568
In-Kind Expense	-	797,219	-	797,219	-	-	797,219	307,405
Professional and Consulting Fees	72,816	215,157	-	287,973	128,644	48,933	465,550	551,537
Direct Mail Expense	-	340,950	-	340,950	52,208	46,874	440,032	487,854
Occupancy	-	237,697	-	237,697	43,825	16,206	297,728	284,187
Supplies	21,379	182,010	-	203,389	1,343	5,632	210,364	251,711
Communications	45	55,621	-	55,666	6,458	27,057	89,181	115,324
Travel	27,587	35,622	63	63,272	62	3,598	66,932	81,904
Telecommunications	-	47,337	-	47,337	7,287	2,695	57,319	48,331
Repairs and Maintenance	-	39,185	-	39,185	474	175	39,834	230,250
Utilities	-	35,066	-	35,066	2,278	843	38,187	39,793
Insurance	-	29,001	-	29,001	5,485	2,028	36,514	30,306
Bank Service Charges	-	74	-	74	30,606	4,742	35,422	36,945
Computer Expense	-	30,524	-	30,524	2,196	1,720	34,440	81,894
Depreciation	-	28,406	-	28,406	3,001	1,110	32,517	34,009
Equipment Rental	-	20,139	-	20,139	2,625	971	23,735	18,901
Postage	94	14,910	-	15,004	1,836	4,633	21,473	35,592
Meetings and Conferences	3,005	12,965	-	15,970	2,099	2,933	21,002	31,365
Miscellaneous	102	3,299	-	3,401	13,381	786	17,568	14,881
Staff Development	132	4,441	-	4,573	92	233	4,898	9,957
Dues and Subscriptions	51	598	-	649	72	1,206	1,927	9,025
TOTAL 2009 FUNCTIONAL EXPENSES	\$ 650,140	\$ 3,873,638	\$ 253	\$ 4,524,031	\$ 685,969	\$ 313,901	\$ 5,523,901	\$ 5,314,739
				82%	12%	6%	100%	100%
TOTAL 2008 FUNCTIONAL EXPENSES	\$ 605,349	\$ 3,717,320	\$ 3,903	\$ 4,326,572	\$ 692,214	\$ 295,953	\$ 988,167	\$ 5,314,739
				81%	13%	6%	100%	100%

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

STATEMENT OF CASH FLOWS

Year Ended September 30, 2009

With Summarized Totals for the Year Ended September 30, 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (162,768)	\$ (271,838)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	32,517	34,009
(Increase) Decrease in:		
Accounts Receivable	137,742	(200,636)
Contributions and Pledges Receivable	18,334	271,866
Prepaid Expenses and Deposits	(10,968)	(59,145)
Increase in:		
Accounts Payable and Accrued Liabilities	84,583	132,189
<i>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</i>	99,440	(93,555)
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchase of Property and Equipment	(174,335)	(3,279)
CASH FLOWS USED IN FINANCING ACTIVITIES:		
Payments Under Capital Leases	-	(22,215)
<i>NET DECREASE IN CASH AND CASH EQUIVALENTS</i>	(74,895)	(119,049)
Cash and Cash Equivalents - Beginning of Year	1,941,773	2,060,822
<i>CASH AND CASH EQUIVALENTS - END OF YEAR</i>	\$ 1,866,878	\$ 1,941,773

The Accompanying Notes are an Integral Part of These Financial Statements

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2009

NOTE 1 - ORGANIZATION

In 1985, Dorothy Green and a group of concerned citizens discovered that the City of Los Angeles was dumping barely treated sewage in Santa Monica Bay. The detrimental health effects to both human and marine life mobilized the group to create Heal the Bay and put a stop to this egregious action. In the twenty-five years since its inception, Heal the Bay has expanded to include a number of programs designed to make Southern California coastal waters and watersheds, including Santa Monica Bay, safe, healthy and clean. Heal the Bay uses research, education, community action and advocacy to achieve this goal.

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** – Since 1990, Heal the Bay has provided weekly water quality updates for more than 460 beaches from the Oregon border of California 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 1 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 waterbodies - 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 Assemblymember 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, 2009

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 eight years of the program, Heal the Bay has reached more than 100,000 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 15,000 school children and 75,000 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, 2009

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 Net Assets.** 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.
- **Unrestricted Board Designated Net Assets.** These are comprised of resources that the Board of Directors has established as being designated for future program development. These funds were raised through general fundraising and special events. Heal the Bay has \$154,805 of unrestricted Board designated net assets at September 30, 2009 (See Note 11).
- **Temporarily Restricted Net Assets.** 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 \$1,577,957 of temporarily restricted net assets at September 30, 2009.
- **Permanently Restricted Net Assets.** 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, 2009 (See Note 11).

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2009

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, 2009 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, 2009.

(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, 2009, Heal the Bay evaluated the collectibility of pledges receivable and no allowance for uncollectible pledges was considered necessary.

(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	7 Years
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, 2009

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, 2009.

(h) 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 provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

During the year ended September 30, 2009, Heal the Bay recorded unrestricted contributions of in-kind goods and professional services. For the year ended September 30, 2009, the fair value of in-kind contributions received was \$920,823 including \$55,715 for special events.

(i) 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.

(j) 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.

(k) 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, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) 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, 2008, from which the summarized information was derived.

(m) RECENT ACCOUNTING PRONOUNCEMENT

In July 2006, an accounting standard for accounting for uncertainty in income taxes was issued that clarified the accounting for uncertainty in income taxes recognized in an organization's financial statements. This standard prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken, or expected to be taken, on a tax return. This standard was initially effective for fiscal years beginning after December 15, 2006. The implementation date for non-public corporations has been delayed and is now effective for fiscal years beginning after December 15, 2008. Heal the Bay expects to adopt the requirements, if necessary, on October 1, 2009 and has not currently determined the impact of this standard on the accompanying financial statements. However, until this standard is adopted, Heal the Bay will continue to account for uncertain tax positions using the guidance in accounting standards for accounting for contingencies. The cumulative effect, if any, of adopting this standard will be recorded as an adjustment to net assets on October 1, 2009.

(n) FASB ACCOUNTING STANDARDS CODIFICATION

In June 2009, the Financial Accounting Standards Board (FASB) issued the FASB Accounting Standards Codification (the ASC). The ASC has become the single source of non-governmental accounting principles generally accepted in the United States (GAAP) recognized by the FASB in the preparation of financial statements. Heal the Bay adopted the ASC as of September 30, 2009. The ASC does not change GAAP and did not have an effect on Heal the Bay's financial position, results of operations or cash flows.

(o) SUBSEQUENT EVENTS

Heal the Bay has evaluated events and transactions occurring subsequent to the statement of financial position date of September 30, 2009 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through January 19, 2010, 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, 2009

NOTE 3 - CONTRIBUTIONS AND PLEDGES RECEIVABLE

At September 30, 2009, contributions and pledges receivable are due to be received as follows:

Within One Year	\$ 400,000
One to Five Years	<u>300,000</u>
<i>TOTAL CONTRIBUTIONS AND PLEDGES RECEIVABLE</i>	<i>\$ 700,000</i>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2009 consist of the following:

Office Equipment	\$ 323,984
Leasehold Improvements	96,504
Furniture and Fixtures	122,956
Vehicles	<u>38,625</u>
<i>TOTAL</i>	582,069
Less: Accumulated Depreciation	<u>(404,865)</u>
<i>PROPERTY AND EQUIPMENT (NET)</i>	<i>\$ 177,204</i>

Depreciation expense for the year ended September 30, 2009 amounted to \$32,517.

NOTE 5 - COMMITMENTS AND CONTINGENCIES

(a) OPERATING LEASES

Heal the Bay leases real estate facilities under a non-cancelable operating lease expiring in March 2011.

The minimum lease commitments as of September 30, 2009 are as follows:

Years Ending September 30	
2010	\$ 237,498
2011	<u>120,504</u>
<i>TOTAL</i>	<i>\$ 358,002</i>

Total rent expense under real estate operating leases for the year ended September 30, 2009 amounted to \$242,502 and is included in occupancy costs.

HEAL THE BAY

NOTES TO FINANCIAL STATEMENTS September 30, 2009

NOTE 5 - COMMITMENTS AND CONTINGENCIES (continued)

(b) GRANTS AND CONTRACTS

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

NOTE 6 - 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, 2009, was \$30,577.

NOTE 7 - 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 \$440,032 for the year ended September 30, 2009.

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

Program Services	\$ 340,950
Management and General	52,208
Fundraising	<u>46,874</u>
TOTAL	<u>\$ 440,032</u>

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NOTES TO FINANCIAL STATEMENTS September 30, 2009

NOTE 8 - SPECIAL EVENTS

Special events revenue consists of the following at September 30, 2009:

Special Events	\$ 944,320
In-Kind Revenue	<u>\$55,715</u>
TOTAL SPECIAL EVENTS REVENUE (GROSS)	1,000,035
Direct Donor Benefit Expenses	304,330
In-Kind Expenses	<u>55,715</u>
TOTAL EXPENSES	<u>360,045</u>
TOTAL SPECIAL EVENTS REVENUE (NET)	<u>\$ 639,990</u>

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2009 consist of the following:

Time Restriction	\$ 503,052
Key to the Sea Program	230,090
Education and the Environment Initiative	215,128
Beach Report Card	151,512
Total Maximum Daily Load Program	100,888
Speakers Bureau	90,467
Los Angeles River Project	83,260
Coastal Cleanup Day	71,299
Santa Monica Pier Aquarium	69,831
Compton Creek Watershed Project	32,603
Marine Life Protection Act	13,839
Stream Team	8,483
Marine Debris Program	<u>7,505</u>
TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 1,577,957</u>

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NOTES TO FINANCIAL STATEMENTS September 30, 2009

NOTE 10 - 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, 2009 consists of the Joe Crocker Memorial Fund. In a prior year, the Board of Directors elected to acknowledge this Memorial Fund with the establishment of unrestricted Board designated net assets. The combined Memorial Fund of \$301,217 is included in cash and cash equivalents at September 30, 2009.

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, 2009**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted	\$ -	\$ -	\$ 146,412	\$ 146,412
Board Designated	154,805	-	-	154,805
TOTAL FUNDS	\$ 154,805	\$ -	\$ 146,412	\$ 301,217

**Changes in Endowment Net
Assets for the Year Ended
September 30, 2009**

Endowment Net Assets -				
Beginning of Year	\$ 152,295	\$ 1,309	\$ 146,412	\$ 300,016
Investment Income	-	1,201	-	1,201
Appropriation of Endowment Assets for Expenditure	2,510	(2,510)	-	-
ENDOWMENT NET ASSETS - END OF YEAR	\$ 154,805	\$ -	\$ 146,412	\$ 301,217