



Santa Barbara Channelkeeper

Financial Statements

(With Independent Auditors' Report Thereon)

December 31, 2019



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Santa Barbara Channelkeeper

We have audited the accompanying financial statements of Santa Barbara Channelkeeper (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Santa Barbara Channelkeeper as of December 31, 2019, 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.

Stoltey & Associates

Los Olivos, California
September 23, 2020

**Santa Barbara Channelkeeper
Statement of Financial Position
December 31, 2019**

Assets

Cash and cash equivalents	\$ 698,895
Contributions receivable (notes 1 and 2)	25,360
Accounts receivable (note 2)	1,480
Equipment and fixtures, net (note 3)	<u>147,225</u>
Total Assets	<u><u>\$ 872,960</u></u>

Liabilities and Net Assets

Accounts payable and accrued expenses	<u>\$ 17,482</u>
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Net Assets (note 6):

Without donor restriction:	
Undesignated	505,005
Designated - operating reserve	161,498
With donor restriction - temporary in nature	<u>188,975</u>
Total Net Assets	855,478
Total Liabilities and Net Assets	<u><u>\$ 872,960</u></u>

The accompanying notes are an integral part of this financial statement.

**Santa Barbara Channelkeeper
Statement of Activities
Year Ended December 31, 2019**

	Without Donor Restriction	With Donor Restriction	Total
Change in Unrestricted Net Assets			
Public support and revenue:			
Special Event:			
Gross Revenue	\$ 219,982	\$ -	\$ 219,982
Cost of direct benefits to participants	(37,812)	-	(37,812)
Special Event, net	182,170	-	182,170
Contributions and grants	498,002	188,975	686,977
Other income	396	-	396
Interest income	3,834	-	3,834
Contributed services	45,720	-	45,720
Total public support and revenue	730,122	188,975	919,097
Assets released from restrictions	100,750	(100,750)	-
Expenses:			
Program services	579,991	-	579,991
Support services:			
Administration	61,259	-	61,259
Fund-raising	87,461	-	87,461
Total supporting services	148,720	-	148,720
Total expenses	728,711	-	728,711
Change in net assets	102,161	88,225	190,386
Net assets at beginning of year	564,342	100,750	665,092
Net assets at end of year	\$ 666,503	\$ 188,975	\$ 855,478

The accompanying notes are an integral part of this financial statement.

**Santa Barbara Channelkeeper
Statements of Cash Flows
Year Ended December 31, 2019**

Cash flows provided by operating activities:	
Change in net assets	\$ 190,386
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Depreciation and amortization	6,155
Donated securities	(8,631)
Decrease in prepaid expenses	3,012
Decrease in accounts receivable	955
Increase in pledges receivable	(25,360)
Increase in accounts payable and accrued expenses	<u>6,385</u>
Net cash provided by operating activities	<u>172,902</u>
Cash flows used in investing activities:	
Proceeds from sale of investments	<u>8,631</u>
Net cash used in investing activities	<u>8,631</u>
Net increase in cash and cash equivalents	181,533
Cash and cash equivalents, beginning of period	<u>517,362</u>
Cash and cash equivalents, end of period	<u><u>\$ 698,895</u></u>

The accompanying notes are an integral part of this financial statement.

**Santa Barbara Channelkeeper
Statement of Functional Expenses
Year Ended December 31, 2019**

	Program Services	Supporting Services		Total
		Administration	Fund-Raising	
Salaries	\$ 325,308	\$ 23,351	\$ 61,176	\$ 409,835
Employee benefits	39,521	2,399	6,165	48,085
Payroll taxes	25,427	1,948	5,141	32,516
Supplies	3,843	1,748	1,547	7,138
Telephone	3,740	467	467	4,674
Postage and shipping	1,301	648	1,301	3,250
Occupancy	21,396	2,674	2,674	26,744
Equipment rental and maintenance	-	7,902	-	7,902
Printing and publications	6,402	2,101	7,539	16,042
Travel	12,418	-	-	12,418
Depreciation	6,155	-	-	6,155
Boat expenses	15,798	-	-	15,798
Case costs	115	-	-	115
Community outreach	4,521	-	-	4,521
Dues and publications	1,000	675	-	1,675
Insurance	7,945	1,761	(41)	9,665
Stipends	9,324	-	-	9,324
Training	2,613	-	-	2,613
Monitoring expenses	18,885	-	-	18,885
Expert and technical services	16,500	-	-	16,500
Professional services - accounting	-	13,125	-	13,125
Contributed services	45,720	-	-	45,720
Other expenses	12,059	2,460	1,492	16,011
Total expense	\$ 579,991	\$ 61,259	\$ 87,461	\$ 728,711

The accompanying notes are an integral part of this financial statement.

Santa Barbara Channelkeeper

Notes to Financial Statements December 31, 2019

(1) Summary of Significant Accounting Policies

Nature of Operations

Santa Barbara Channelkeeper (The Organization) is a nonprofit Organization located in Santa Barbara, California. The Organization was established for the monitoring of environmental health of the Santa Barbara Channel.

Basis of Accounting

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

Basis of presentation –The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

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Notes to Financial Statements December 31, 2019

Cash

The Organization consider all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Accounts Receivable

Accounts receivable consist of noninterest-bearing amounts due for program services. The Organization determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At December 31, 2019 all accounts receivable are considered to be collectible.

Contributions Receivable

The Organization records unconditional contributions receivable that are expected to be collected within one year at net realizable value. Unconditional contributions receivable expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. Management determines the allowance for uncollectable contributions receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Contributions receivable are written off when deemed uncollectable. All contributions receivable at December 31, 2019 are expected to be collected prior to December 31, 2020.

Property and Equipment

The Organization records property and equipment additions over \$1,000 at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 2 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do

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Notes to Financial Statements December 31, 2019

not improve or extend the useful lives of the respective assets are expensed currently.

Management reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended December 31, 2019.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to our program services, administration, and fundraising and development activities; however, only the donated services that meet recognition criteria prescribed by generally accepted accounting principles are reflected in the accompanying financial statements. The Organization records donated professional services at the respective fair values of the services received (Note 5).

Advertising Costs

Advertising costs are expensed as incurred and approximated \$578 during the year ended December 31, 2019.

Income Taxes

The Organization is organized as a California nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as organizations described in IRC Section 501(c)(3), qualify for the charitable

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December 31, 2019

contribution deduction under IRC Sections 170(b)(1)(A)(vi), and has been determined not to be private foundation. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. Management has determined the Organization is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Organization has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations; and to identify and evaluate other matters that may be considered tax positions. Management has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). The Organization groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

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- Level 2 Other observable inputs, either directly or indirectly, including:
- Quoted prices for similar assets/liabilities in active markets;
 - Quoted prices for identical or similar assets in non-active markets;
 - Inputs other than quoted prices that are observable for the asset/liability; and,
 - Inputs that are derived principally from or corroborated by other observable market data.

Level 3 Unobservable inputs that cannot be corroborated by observable market data.

The estimated fair values of the Organization's short-term financial instruments, including cash, cash equivalents, and accounts payables arising in the ordinary course of business, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization. The fair value of the marketable securities is based on quoted market rates.

Estimates

Financial statements prepared in accordance with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant estimates used in preparing these financial statements include allocation of certain expenses by function. It is at least reasonably possible that the estimated allocation of certain expenses by function will change within the next year. Significant estimates include estimated useful lives of equipment, value of donated services and functional allocation of expenses.

Financial Instruments and Credit Risk

The Organization manages deposit concentration risk by placing cash, and money market accounts with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Organization has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and contributions receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies, and foundations supportive of the Organization's mission.

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Notes to Financial Statements December 31, 2019

(2) Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	\$ 698,895
Pledges receivable	25,360
Accounts receivable	1,480
Less: board designated reserves	(161,039)
Less: restrictions	<u>(188,975)</u>
Total	<u>\$ 375,721</u>

The board of directors has designated \$161,039 for an operating reserve. While management does not intend to spend from this board-designated reserve, these amounts could be made available if necessary.

(3) Equipment

Fixed assets as of December 31, 2019, consist of the following amounts:

Boat	\$ 89,665
Boat Slip	92,000
Office Equipment	<u>62,814</u>
Total	244,479
Less Accumulated Depreciation	<u>(97,254)</u>
Fixed Assets, Net	<u>\$ 147,225</u>

The Organization recognized \$6,155 of depreciation during the year ending December 31, 2019.

(4) Supplemental Cash Flow Information

The Organization did not pay any taxes or interest during the year ending December 31, 2019.

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(5) Donated Services

To properly recognize the significant role of volunteers and contributions of services in the furtherance of the Organization's mission, management of the Organization adopted procedures to measure the fair market value of certain donated services related to the collection and analysis of water samples from local creeks and the Santa Barbara Channel, as well as to the Organization's marine habitat restoration and monitoring, and to public outreach at community events. Donated services for the Organization consist of volunteers whom have received specialized training in the collection and handling of water samples or in marine habitat restoration and monitoring activities. Management has estimated the fair market value of the donated services to be \$30.85 per hour. The rate is based on the Independent Sector's Value of Volunteer Time.

(6) Net Assets

Without Donor Restriction - Board Designated Net Assets

The Organization's Board of Directors has established a Board Designated Reserve Fund to provide for holding two to four months' operating expenses to:

1. Guard against emergency,
2. Invest in new programs, and/or
3. Smooth out cash flows.

As of December 31, 2019, the Organization reported \$161,039 of Board designated net assets for the reserve fund.

With Donor Restriction - Temporary in Nature Net Assets

At December 31, 2019, the Organization held \$188,975 consisting of grants and contributions restricted for various programs administered by the Organization.

(7) Leases

The Organization leases office space in Santa Barbara, California under a month to month lease which requires a monthly lease payment of approximately \$2,500. The owner of the leased property is a member of the Organization's board of directors.

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(8) Related Party Transactions

A member of the board of directors leases office space to the Organization. Approximately \$30,000 was paid to the board member.

(9) Subsequent Events

Management has evaluated events through September 23, 2020, which is the date the financial statements were available to be issued. Management has determined, with exception of the flowing discussion regarding COVID-19 pandemic, that no subsequent event requiring disclosure or significantly impacting disclosure has occurred.

COVID-19 Pandemic

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, as of March 19, 2020, California Governor Gavin Newsom ordered the closure of the physical location of every “non-essential” business for what may be an extended period of time.

The Organization has been directly impacted by the coronavirus due to required modifications to its work to slow the spread of the coronavirus - such as requiring all staff to work remotely, cancelling its annual fundraiser and other fundraising activities, limiting programs that would in any way risk the spread of the virus, and modifying all work plans and budgets, particularly as they relate to events, programs and other Channelkeeper gatherings. The future effects of these issues are unknown.

Subsequent to year end, the Organization applied for and was approved a \$83,915 loan under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration. The loan accrues interest at 1%, but payments are not required to begin for six months after the funding of the loan. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The loan is uncollateralized and is fully guaranteed by the Federal government.