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CALIFORNIA MARINE SANCTUARY FOUNDATION

FINANCIAL STATEMENTS

December 31, 2022

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
California Marine Sanctuary Foundation

Opinion

We have audited the accompanying financial statements of California Marine Sanctuary Foundation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, 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 financial statements referred to above present fairly, in all material respects, the financial position of California Marine Sanctuary Foundation (the Foundation) as of December 31, 2022, 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation 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.

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 the Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards, 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 the Foundation'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 the Foundation'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.



Long Beach, California
June 29, 2023

CALIFORNIA MARINE SANCTUARY FOUNDATION

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022**

ASSETS

ASSETS

Cash and cash equivalents	\$ 1,252,821
Restricted cash	2,407,452
Grants and contributions receivable	206,733
Deposit	<u>400</u>

TOTAL ASSETS \$ 3,867,406

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 39,937
Accrued expenses	64,614
Agency liabilities	2,407,452
Deferred revenue	<u>672,002</u>
	<u>3,184,005</u>

COMMITMENTS AND CONTINGENCIES (Note 4)

NET ASSETS

Without donor restrictions	607,899
With donor restrictions	<u>75,502</u>
	<u>683,401</u>

TOTAL LIABILITIES AND NET ASSETS \$ 3,867,406

The accompanying notes are an integral part of these financial statements.

CALIFORNIA MARINE SANCTUARY FOUNDATION

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grants and contracts	\$ 1,404,492	\$ -	\$ 1,404,492
Contributions	7,113	60,000	67,113
Other income	3,700	-	3,700
Net assets released from restrictions	8,101	(8,101)	-
	<u>1,423,406</u>	<u>51,899</u>	<u>1,475,305</u>
EXPENSES			
Program services	1,016,349	-	1,016,349
Administrative	339,634	-	339,634
Total expenses	<u>1,355,983</u>	<u>-</u>	<u>1,355,983</u>
CHANGE IN NET ASSETS	67,423	51,899	119,322
NET ASSETS, BEGINNING OF YEAR	<u>540,476</u>	<u>23,603</u>	<u>564,079</u>
NET ASSETS, END OF YEAR	<u>\$ 607,899</u>	<u>\$ 75,502</u>	<u>\$ 683,401</u>

The accompanying notes are an integral part of these financial statements.

CALIFORNIA MARINE SANCTUARY FOUNDATION

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022**

	Program Services	Supporting Services Administrative	Total Expenses
Salaries and wages	\$ 400,364	\$ 247,547	\$ 647,911
Payroll taxes and benefits	75,844	42,686	118,530
Total salaries and payroll related costs	476,208	290,233	766,441
Professional fees and contract services	232,558	8,958	241,516
Program expenses	189,814	-	189,814
Advertising and promotion	60,647	1,897	62,544
Dues and subscriptions	24,997	14,116	39,113
Travel	15,422	3,792	19,214
Conferences and meetings	12,673	-	12,673
Occupancy	-	8,695	8,695
Meals and entertainment	2,172	4,410	6,582
Office expense	1,858	1,727	3,585
Grants to others	-	3,000	3,000
Insurance	-	2,806	2,806
	\$ 1,016,349	\$ 339,634	\$ 1,355,983

The accompanying notes are an integral part of these financial statements.

CALIFORNIA MARINE SANCTUARY FOUNDATION

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 119,322
Changes in operating assets and liabilities:	
Grants and contributions receivable	352,755
Accounts payable	33,246
Accrued expenses	372
Agency liabilities	1,681,471
Deferred revenue	<u>322,848</u>
Net Cash Provided By Operating Activities	<u>2,510,014</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,510,014
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT BEGINNING OF YEAR	<u>1,150,259</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF YEAR	<u>\$ 3,660,273</u>
AS REPORTED ON THE STATEMENT OF FINANCIAL POSITION	
Cash and cash equivalents	\$ 1,252,821
Restricted cash	<u>2,407,452</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF YEAR	<u>\$ 3,660,273</u>

The accompanying notes are an integral part of these financial statements.

CALIFORNIA MARINE SANCTUARY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022

NOTE 1 – Summary of Significant Accounting Policies

Nature of Foundation

Since 1995, California Marine Sanctuary Foundation has worked to protect marine ecosystems while strengthening coastal resilience in the face of population growth, urban and industrial uses, climate change, and resource extraction. Working together with local communities, government agencies, tribal communities, and other NGOs and industries, the Foundation will identify and then implement practical and effective solutions to lessen human impacts and increase stewardship of our coastal resources.

The Foundation consistently enlists a strategic approach connecting key stakeholders with real solutions. Their core focus is on improving ocean resilience through an interdisciplinary approach to marine and coastal conservation, science, and partner support. This approach drives creative, cutting-edge, and scalable solutions to some of the biggest environmental issues of our day.

The Foundation's team of professional and passionate conservation leaders, scientists, and communicators, working alongside the Board of Directors, are committed to carrying out the mission of advancing the understanding and stewardship of coastal and ocean resources and achieving their vision of a more resilient Pacific Ocean that sustains the planet, healthy ecosystems, and coastal populations.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which involves the application of accrual accounting. Consequently, revenue and gains are recognized when earned, and expenses and losses are recognized when incurred.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported changes in the Foundation's net assets during the reporting period. Actual results could differ from those estimates.

CALIFORNIA MARINE SANCTUARY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation

The Foundation reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets, revenue, and gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Without donor restrictions - Net assets available for use in general operations and not subject to donor restrictions.

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. As of December 31, 2022, the Foundation had no net assets with donor restrictions that are restricted in perpetuity.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

Restricted Cash and Agency Liabilities

The Foundation has entered into various multi-year agreements in which the Foundation has agreed to perform all financial administrative duties for funds held for others. Certain agreements require the Foundation to hold the cash received in a separate account. At December 31, 2022, \$2,407,452 of cash has been identified as restricted to satisfy future funding requirements. The Foundation is not granted variance power for the funds received and they must be distributed to the recipients in accordance with the terms of the contract. An offsetting liability is recognized for the amount of cash that is required to be paid out as part of the restricted cash, which is included in agency liabilities on the statement of financial position.

CALIFORNIA MARINE SANCTUARY FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Restricted Cash and Agency Liabilities (Continued)

At December 31, 2022, cash held for agency liabilities consists of:

Funds held for others:

California Coastal Commission	\$ 2,191,193
NOAA’s Monterey National Marine Sanctuary	60,453
NOAA’s Channel Islands National Marine Sanctuary	34,296
Pacific Grove Hyperbaric Chamber	87,626
Central Coast Climate Collaborative	15,391
International Union for Conservation of Nature	15,815
Center for Ocean, Art, Science, and Technology	<u>2,678</u>

Total agency liabilities \$ 2,407,452

Grants and Contributions Receivable

Grants and contributions receivable are stated as unpaid balances, less an allowance for doubtful accounts. The Foundation provides for losses on receivables using the allowance method. The allowance is based on experience and knowledge of circumstances that may affect the collectability of the receivables. It is the Foundation’s policy to write off uncollectible receivables when management determines the receivable will not be collected. As of December 31, 2022, management considers accounts and grants receivable fully collectible.

Revenue Recognition

Unconditional contributions, including promises to give, are recognized as revenue and support in the period received and recorded at estimated fair value. Revenue and support are reported as increases in without donor-restricted net assets unless use of the related assets is limited by donor-imposed restrictions.

Contributions that are restricted by the donor or grantor are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

CALIFORNIA MARINE SANCTUARY FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

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 substantially met. At December 31, 2022, the Foundation is party to conditional grants of approximately \$672,000, which are contingent on the occurrence of certain performance obligations and are recognized as deferred revenue in the accompanying statement of financial position.

A portion of revenue, including government grants, are derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Foundation has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are deferred and are included in deferred revenue in the statement of financial position.

Concentration of Credit Risk and Support

The Foundation maintains balances in cash and interest-bearing deposit accounts at various financial institutions and, from time to time during the year, the cash balances may be in excess of the amount insured by the Federal Deposit Insurance Corporation. In the event of insolvency by the financial institution, deposits in excess of insured amounts are potentially subject to unrecoverable loss. As of December 31, 2022, the Foundation has not experienced any such loss.

For the year ended December 31, 2022, revenue from grants and contracts as a percentage of total support and revenue represented approximately 95%. Given the current economic conditions, a decision by governmental agencies to decrease or delay reimbursement, or the Foundation's inability to collect receivables, could have a material adverse effect on the Foundation's financial position and results of operations.

Advertising Costs

Advertising costs are expensed as incurred and are primarily used to promote Vessel Speed Reduction programs in the community. Advertising costs for the year ended December 31, 2022 amounted to \$62,544.

CALIFORNIA MARINE SANCTUARY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of program and supporting services have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Expenses that can be identified with a specific program or supporting service are charged directly to the related program or service. Expenses that are associated with more than one program or supporting service are allocated based on studies of time and effort spent.

Income Taxes

The Foundation is a nonprofit corporation that is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and from state franchise tax under Revenue and Taxation Code Section 23701(d).

In the financial statements, an organization is required to recognize the impact of the tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. The Foundation has evaluated its tax positions and the certainty as to whether those positions will be sustained in the event of any audit by taxing authorities at the federal and state levels. The primary tax positions evaluated relate to the Foundation's continued qualification as a tax-exempt organization and whether there are unrelated business income activities that would be taxable. Management has determined that all income tax positions will more likely than not be sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. The Foundation is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal purposes is three years and for California is four years.

Subsequent Events

Management has evaluated significant events or transactions that have occurred since the statement of financial position date through June 29, 2023, which represents the date that the financial statements were available to be issued.

CALIFORNIA MARINE SANCTUARY FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 2 – Financial Assets and Liquidity Resources

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

Financial assets at year-end:	
Cash and cash equivalents	\$ 1,252,821
Grants and contributions receivable	<u>206,733</u>
	1,459,554
Less amounts not available to be used for operations	
Within one year due to:	
Donor-imposed purpose restrictions	<u>(75,502)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 1,384,052</u>

The Foundation maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

General expenditures include exchange-like transaction grants, which may at times include advanced cash funding recognized as deferred revenue until the Foundation has satisfied future performance obligations in compliance with those applicable grant provisions.

NOTE 3 – Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted as follows:

	December 31, 2021	Additions	Releases	December 31, 2022
Whale protection	\$ <u>23,603</u>	\$ <u>60,000</u>	\$ <u>(8,101)</u>	\$ <u>75,502</u>
	<u>\$ 23,603</u>	<u>\$ 60,000</u>	<u>\$ (8,101)</u>	<u>\$ 75,502</u>

CALIFORNIA MARINE SANCTUARY FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 4 – Commitments and Contingencies

Operating Leases

The Foundation leases office spaces in two locations on a month-to-month basis. There are no future minimum rental payments under the office space leases. Total rent expense incurred for the year ended December 31, 2022, was approximately \$8,500.

Grants and Contracts

Support and revenue from grants and contracts are subject to audit by the grantor. The ultimate determination of amounts received under these programs is generally based upon allowable costs reported to and audited by the grantor. Until any such audit has been completed and a final settlement reached, there exists a contingent liability to refund any amount received in excess of allowable costs. Management believes any unallowable costs, if any, would not be material to the financial statements and has not accounted for any unallowable costs.