

CALL OF THE SEA

**FINANCIAL STATEMENTS
AND
INDEPENDENT ACCOUNTANTS'
REVIEW REPORT**

**FOR THE YEAR ENDED
DECEMBER 31, 2019**

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board Members of
Call of the Sea

We have reviewed the accompanying financial statements of Call of the Sea (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. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

July 20, 2020

Perotti & Carrade

CALL OF THE SEA

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2019

ASSETS

Cash and cash equivalents	\$	83,159
Temporarily held vessel		49,000
Grants and accounts receivable		2,590
Office deposit		5,442
Property:		
Ship		526,789
Construction-in-progress		5,441,529
Furniture and equipment		2,627
Total		<u>5,970,945</u>
Less accumulated depreciation		<u>374,874</u>
Property - net		<u>5,596,071</u>
Total Assets	\$	<u>5,736,262</u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable	\$	65,175
Accrued wages		18,686
Customer deposits		66,856
Notes payable		224,726
Total liabilities		<u>375,443</u>

Net Assets:

Without donor restrictions	837,193
With donor restrictions	4,523,626
Total net assets	<u>5,360,819</u>

Total Liabilities and Net Assets \$ **5,736,262**

See accompanying notes and independent accountant's review report.

CALL OF THE SEA

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
	<u>Restrictions</u>	<u>Restrictions</u>	
Revenue and Support:			
Donations and grants	\$ 1,090,785	\$ 25,447	\$ 1,116,232
Program	226,221		226,221
Gross special events revenue	106,861		106,861
Less cost of direct benefits to donors	<u>(13,764)</u>		<u>(13,764)</u>
Net special event revenue	93,097		93,097
Interest and other income	4,108		4,108
Net assets released from restrictions	10,768	(10,768)	-
Total revenue and support	<u>1,424,979</u>	<u>14,679</u>	<u>1,439,658</u>
Expenses:			
Program services	755,134		755,134
Management and general	169,115		169,115
Development	<u>190,981</u>		<u>190,981</u>
Total expenses	<u>1,115,230</u>		<u>1,115,230</u>
Change in Net Assets	309,749	14,679	324,428
Net Assets at Beginning of Year	<u>527,444</u>	<u>4,508,947</u>	<u>5,036,391</u>
Net Assets at End of Year	<u>\$ 837,193</u>	<u>\$ 4,523,626</u>	<u>\$ 5,360,819</u>

See accompanying notes and independent accountant's review report.

CALL OF THE SEA

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Costs of Direct Benefits to Donors</u>	<u>Total</u>
Salaries	\$ 313,562	\$ 52,159	\$ 67,136		\$ 432,857
Contract services	95,094	65,580	38,580		199,254
Insurance	72,076	6,481	10,665		89,222
Occupancy	43,097	7,330	12,060	\$ 1,876	64,363
Sailing fuel, dockage, and meals	47,698	2,305	-		50,003
Office and supplies	27,537	2,899	16,577		47,013
Repairs and maintenance	47,683	-	-		47,683
Payroll taxes and benefits	33,780	5,620	7,233		46,633
Meetings, meals and entertainment	105	3,097	1,765	11,888	16,855
Printing	2,552	434	17,937		20,923
Depreciation	24,972	-	-		24,972
Interest	11,986	2,038	3,354		17,378
Travel	9,685	2,788	77		12,550
Telephone	8,142	1,238	2,035		11,415
Bank and service charges	-	9,229	-		9,229
Taxes and fees	6,350	676	554		7,580
Miscellaneous	4,979	850	599		6,428
Advertising	1,252	3,545	827		5,624
Postage and delivery	724	123	11,425		12,272
Dues and subscriptions	643	2,723	157		3,523
Laundry	3,217	-	-		3,217
Total expenses by function	<u>755,134</u>	<u>169,115</u>	<u>190,981</u>	<u>13,764</u>	<u>1,128,994</u>
Less expenses included with revenues on the statements of activities					
Cost of direct benefits to donors				(13,764)	(13,764)
Total expenses included in expense section of the statement of activities	<u>\$ 755,134</u>	<u>\$ 169,115</u>	<u>\$ 190,981</u>	<u>\$ -</u>	<u>\$ 1,115,230</u>

See accompanying notes and independent accountant's review report.

CALL OF THE SEA

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Cash Flow Related to Operating Activities:	
Change in net assets	\$ 324,428
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Depreciation of property	24,972
Contributions of temporarily held vessel	(49,000)
Changes in assets and liabilities:	
Decrease in accounts receivable	6,937
Increase in accounts payable	43,440
Decrease in accrued wages	(2,897)
Increase in customer deposits	34,494
Cash provided by operating activities	<u>382,374</u>
Cash Flow Used for Investing Activities:	
Property additions	(402,917)
Cash used for investing activities	<u>(402,917)</u>
Cash Flow from Financing Activities:	
Advances for notes payable	100,000
Payments against notes payable	(278,084)
Cash used for financing activities	<u>(178,084)</u>
Net Decrease in Cash and Cash Equivalents	(198,627)
Cash and Cash Equivalents, Beginning of Year	281,786
Cash and Cash Equivalents, End of Year	<u>\$ 83,159</u>

See accompanying notes and independent accountants' review report.

CALL OF THE SEA

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION

Call of the Sea (the Organization) was founded in 1984 as a California nonprofit organization with a mission to connect and inspire people of all ages and backgrounds to connect with the sea and its tributaries. The Organization is supported primarily through program revenue, fundraising events, grants, and contributions. Call of the Sea delivers its mission with Seaward, an 82-foot schooner and the newly constructed Matthew Turner, an iconic, 132' wooden hybrid propulsion Brigantine. Matthew Turner and Seaward serve as a floating classroom for students and provide educational services for the Northern California community and beyond.

In March 2020, a pandemic emerged around the world. As a result, the economic environment of several industries, including that of the Organization, has been impacted. The extent the pandemic will impact operations will depend on future developments, which are highly uncertain. However, the pandemic has resulted in a significant reduction of revenue to the Organization. The Organization's management has taken measures to address the reduction in working capital.

The Organization obtained a waiver from its lender, Marin Community Foundation, to suspend interest and principal loan payments for 6 months. The Organization consolidated offices and transitioned all staff members to volunteer status allowing a reduction of personnel and other costs totaling \$ 35,000 per month. On April 20, 2020 the Organization was provided a \$109,800 loan under the federal payroll protection program (PPP) which allowed the Organization to maintain selected staff to enhance its education & marketing programs for 8 weeks. The Organization expects to convert a large percentage of this loan to a grant in accordance with the terms of the PPP program.

In July 2020 the Organization began offering youth summer programs. In the second half of 2020, the Organization will market selected programs to students and the community that comply with Public Health laws and attempt to ensure that marginal sailing expenses align with expected sailing revenues. The Organization also engaged in a donor fundraising campaign during July 2020.

The Organization believes these steps will permit the Organization to continue operations for the next twelve months.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Organization have been prepared using the accrual method of accounting. Significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Financial Statement Presentation – The Organization 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 with donor restrictions are subject to donor-imposed restrictions.

CALL OF THE SEA

NOTES TO FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the board limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net assets with donor restrictions are resources that are 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, such as those that the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition or construction of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service.

Cash and cash equivalents – Cash is composed of bank checking and savings accounts.

Program revenue – The Organization offers various sails to schools, individuals and businesses for which it charges a fee. Generally, the fee for the sail is due and paid in advance and deferred until earned. The performance obligation of delivering the sail is simultaneously received and consumed by the customer; therefore, the revenue is recognized ratably over the course of the sail, which generally is between one and seven days.

Contributions – Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in the net assets with donor restrictions. When a contribution has been previously restricted and the restriction is satisfied, 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. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. As of December 31, 2019, a contribution of approximately \$100,000 has not been recognized in the accompanying financial statements because the conditions of which depend have not yet been met. The conditions include obtaining final approval from the court.

Allowance for doubtful accounts – An allowance for doubtful accounts reflects management's best estimate of probable losses inherent in the accounts receivable and contributions receivable balance. The Organization considers a receivable to be past due if payment is not received within 30 days of the invoice date. The Organization does not generally charge a late fee or interest on its receivables. Management evaluates the need to write off a receivable based on its review of the aging of the receivables and historical

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NOTES TO FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

collection experience. An allowance for doubtful accounts reflects management's best estimate of probable losses inherent in the grants and accounts receivable balance. Receivables are written off when deemed uncollectible. No allowance was deemed necessary at December 31, 2019.

Property and Equipment – Property and equipment consist of one operational ship and furniture and equipment. Depreciation has been calculated using the straight-line method applied over the estimated useful lives of the assets: three to twenty years for the ship and three to four years for furniture and equipment. The Organization capitalizes property and equipment acquisitions when their cost exceeds \$2,500. As of December 31, 2019, the Organization is in the process of building a new ship, Matthew Turner. The ship is expected to be placed into operations during the year ending December 31, 2020. Substantially all of the Organization's net assets with donor restrictions are related to the construction of the ship. All net assets with a donor restriction related to the ship's construction will be released once it is placed into operations.

Tax-Exempt Status – The Organization is exempt from the federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar California statute. In addition, the Internal Revenue Service has determined that the Organization is not a private foundation within the meaning of Section 509(a) of the Code. Accordingly, no provision for federal or state income taxes has been recorded. The Organization's informational returns are subject to examination by the Internal Revenue Service and the California Franchise Tax Board, generally for three years and four years, respectively, after they are filed.

Donated Materials and Services - Contributions of time, materials and facilities are reflected in the accompanying financial statements at their fair value at the date of receipt. Contributions for services are recognized only if such services create or enhance a nonfinancial asset or require specialized skills and are provided by individuals possessing those skills and would typically need to be paid for if not provided by donation.

Use of Estimates – Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Functional Allocation of Expenses – The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis based upon management's analysis of time spent on the programs and supporting services that is consistently applied. The expenses that are allocated include salary, payroll taxes and benefits, occupancy, insurance, telephone, and office and supplies.

CALL OF THE SEA

NOTES TO FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent Events – For disclosure purposes, subsequent events have been evaluated through July 20, 2020, the date the financial statements were available to be issued.

3. LIQUIDITY AND AVAILABILITY

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

Cash and cash equivalents	\$ 83,159
Temporarily held vessel	49,000
Grants and accounts receivable	2,590
Finance assets available to meet cash needs for general expenditures within one year	<u>\$ 134,749</u>

The Organization’s goal is to accumulate and maintain financial assets at a level equal to 90 days of ongoing, operating expenses.

4. TEMPORARILY HELD VESSEL

During the year ended December 31, 2019, the Organization received the donation of a vessel. Subsequent to December 31, 2019 the Organization executed a three-year lease agreement in which the vessel’s ownership will transfer to the lessee at the end of the term with no additional consideration. The vessel, valued at \$49,000 based on the value received from executing the three-year lease, has been reflected on the statement of financial position.

5. NOTES PAYABLE

To assist with the construction of its ship and cover operating costs, the Organization obtained loans from five funders, one of which was from the family of a board member. During the year ended December 31, 2019, all but three loans were fully paid off. Terms of the loans with outstanding balances as of December 31, 2019 call for monthly payments of approximately \$5,000. Three funders did not require any interest. The loans requiring payments aggregated \$209,726 and \$318,997 as of December 31, 2019 and 2018, respectively. Interest rates ranged from fixed rates between 2.50% simple to 5.00% compounding or variable based on a bank’s prime rate. The total balance due to related parties as of December 31, 2019 is \$199,333. The total payments made to related parties during 2019 was \$62,191, including interest of \$5,361. One loan outstanding as of December 31, 2019 was secured by the Seaward ship.

CALL OF THE SEA

NOTES TO FINANCIAL STATEMENTS

5. NOTES PAYABLE (continued)

In 2020, the Organization obtained a \$400,000 loan from Marin Community Foundation (MCF). Proceeds from the MCF loan were used to pay off all the former loans with the exception of the one loan secured by the Seaward ship which had a loan balance of \$10,393 as of December 31, 2019. The MCF loan has a term of ten years, bears interest at a rate of 4.25% per year, and requires a monthly payment of principal and interest of \$4,099. The MCF loan is secured by the Matthew Turner ship and does not permit the Organization to obtain any other loans without MCF approval. The MCF loan has covenants that must be met annually.

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes as December 31, 2019:

Matthew Turner ship	\$ 4,496,995
Scholarships	26,631
Total	<u>\$ 4,523,626</u>

Net assets of \$10,768 were released from donors' restrictions during the year ended December 31, 2019 for scholarships awarded.

7. DONATED SERVICES

In addition to the donation of the vessel, which is reflected on the statement of financial position, the Organization received donated professional services valued at \$65,131 during the year ended December 31, 2019. The professional services have been reflected as follows on the statement of functional expenses.

<u>Program</u> <u>Services</u>	<u>Management</u> <u>& General</u>	<u>Fundraising &</u> <u>Development</u>
\$ 32,566	\$ 6,513	\$ 26,052

8. CONCENTRATION OF RISK

Approximately 47% of the Organization's total revenue and support for the year ended December 31, 2019 was from one donor. A significant reduction in the level of support from this donor, if this were to occur, may have a significant effect on the Organization's program and activities.

Financial instruments that potentially subject the Organization to credit risk include cash on deposit with a financial institution that at times exceed the insurance limit of the United States Federal Deposit Insurance Corporation.