

CALL OF THE SEA

FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021



CALL OF THE SEA

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Call of the Sea

Opinion

We have audited the accompanying financial statements of Call of the Sea (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 Call of the Sea 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 Call of the Sea 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.

Prior Period Financial Statements

The 2021 financial statements were reviewed by us, and our report thereon, dated April 24, 2022, stated we were not aware of any material modifications that should be made to those financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole.

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 Call of the Sea'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 auditor's 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 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 Call of the Sea'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 Call of the Sea'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.

July 31, 2023

Perotti & Caruade

CALL OF THE SEA

**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
	(Audited)	(Reviewed)
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 856,266	\$ 656,902
Certificates of deposit	301,084	-
Accounts and grants receivable	15,880	1,550
Prepaid expenses	20,668	-
Total current assets	1,193,898	658,452
Non-Current Assets:		
Property and equipment, net:		
Ships	6,001,721	6,001,721
Dock and other assets	162,393	13,695
Construction-in-progress	-	96,934
Less: accumulated depreciation	(769,272)	(598,695)
Property and equipment, net	5,394,842	5,513,655
Office deposit	1,540	1,540
Total non-current assets	5,396,382	5,515,195
Total Assets	\$ 6,590,280	\$ 6,173,647
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable	\$ 23,026	\$ 10,078
Accrued salaries	10,852	4,342
Customer deposits	42,724	46,435
Current portion of notes payable	34,609	33,171
Total current liabilities	111,211	94,026
Long-Term Liabilities: Notes payable	324,053	358,622
Net Assets:		
Without donor restrictions	5,854,329	5,585,120
With donor restrictions	300,687	135,879
Total net assets	6,155,016	5,720,999
Total Liabilities and Net Assets	\$ 6,590,280	\$ 6,173,647

See accompanying notes to the financial statements.

CALL OF THE SEA
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022 (Audited)			2021 (Reviewed)		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:						
Donations and grants	\$ 1,003,679	\$ 232,552	\$ 1,236,231	\$ 724,944	\$ 108,866	\$ 833,810
Program	595,196	-	595,196	393,997	-	393,997
Loan forgiveness	-	-	-	219,600	-	219,600
Contributed nonfinancial assets	55,200	-	55,200	76,845	-	76,845
Interest and other income	11,829	-	11,829	9,531	-	9,531
Gross special events revenue	59,672	-	59,672	-	-	-
Less cost of direct benefits to donors	(12,421)	-	(12,421)	-	-	-
Net special event revenue	47,251	-	47,251	-	-	-
Net assets released from restrictions	67,744	(67,744)	-	95,194	(95,194)	-
Total revenue and support	1,780,899	164,808	1,945,707	1,520,111	13,672	1,533,783
Expenses:						
Program services	1,204,354	-	1,204,354	815,162	-	815,162
Management and general	213,746	-	213,746	141,563	-	141,563
Development	93,590	-	93,590	15,810	-	15,810
Total expenses	1,511,690	-	1,511,690	972,535	-	972,535
Change in Net Assets	269,209	164,808	434,017	547,576	13,672	561,248
Net Assets at Beginning of Year	5,585,120	135,879	5,720,999	5,037,544	122,207	5,159,751
Net Assets at End of Year	\$ 5,854,329	\$ 300,687	\$ 6,155,016	\$ 5,585,120	\$ 135,879	\$ 5,720,999

See accompanying notes to the financial statements.

CALL OF THE SEA

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

	Program Services	Management and General	Fundraising and Development	Total
Salaries	\$ 495,276	\$ 75,097	\$ 67,066	\$ 637,439
Payroll taxes and benefits	43,391	12,510	5,876	61,777
Depreciation	173,484	-	-	173,484
Repairs and maintenance	161,883	1,343	-	163,226
Insurance	100,621	15,276	-	115,897
Contract services	11,369	57,816	250	69,435
Ship board food	43,135	-	-	43,135
Office and supplies	19,462	6,998	5,509	31,969
Occupancy	20,381	2,718	4,076	27,175
Travel	19,555	1,529	-	21,084
Sailing fuel and dockage	74,000	-	-	74,000
Interest	2,608	16,038	-	18,646
Miscellaneous	7,099	11,424	6	18,529
Meetings, meals, and entertainment	544	2,841	14,060	17,445
Laundry	11,446	-	-	11,446
Advertising	4,398	4,056	2,620	11,074
Human resources	9,184	-	-	9,184
Bank and service charges	2,807	268	2,737	5,812
Printing, postage, and delivery	13	702	3,760	4,475
Taxes and fees	1,026	3,032	51	4,109
Telephone	2,672	1,435	-	4,107
Dues and subscriptions	-	663	-	663
Total expenses by function	1,204,354	213,746	106,011	1,524,111
Less expenses included with revenues on the statements of activities				
Cost of direct benefits to donors	-	-	(12,421)	(12,421)
Total expenses included in expense section of the statement of activities	\$ 1,204,354	\$ 213,746	\$ 93,590	\$ 1,511,690

See accompanying notes to the financial statements.

CALL OF THE SEA

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021
(Reviewed)**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
Salaries	\$ 339,186	\$ 7,590	\$ 5,061	\$ 351,837
Payroll taxes and benefits	32,608	608	405	33,621
Depreciation	164,499	-	-	164,499
Insurance	77,847	15,179	-	93,026
Contract services	3,770	65,498	650	69,918
Sailing fuel and dockage	65,253	-	-	65,253
Repairs and maintenance	46,669	402	-	47,071
Office and supplies	23,924	4,212	4,456	32,592
Ship board food	27,377	-	-	27,377
Occupancy	-	27,000	-	27,000
Bank and service charges	8,162	289	1,315	9,766
Travel	7,618	636	-	8,254
Miscellaneous	-	5,210	-	5,210
Interest	2,358	4,398	-	6,756
Human resources	6,101	-	-	6,101
Taxes and fees	1,676	3,719	50	5,445
Advertising	836	2,757	1,167	4,760
Laundry	4,466	-	-	4,466
Telephone	2,294	1,310	-	3,604
Meetings, meals and entertainment	500	455	1,192	2,147
Printing, postage, and delivery	18	510	1,514	2,042
Dues and subscriptions	-	1,790	-	1,790
Total expenses by function	<u>\$ 815,162</u>	<u>\$ 141,563</u>	<u>\$ 15,810</u>	<u>\$ 972,535</u>

See accompanying notes to the financial statements.

CALL OF THE SEA

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u> (Audited)	<u>2021</u> (Reviewed)
Cash Flows from Operating Activities:		
Change in net assets	\$ 434,017	\$ 561,248
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	173,484	164,499
Loan forgiveness	-	(219,600)
Changes in operating assets and liabilities:		
Accounts and grants receivable	(14,330)	(1,550)
Prepaid expenses	(20,668)	-
Accounts payable	12,948	(9,448)
Accrued salaries	6,510	4,342
Customer deposits	(3,711)	(7,410)
Net cash provided by operating activities	<u>588,250</u>	<u>492,081</u>
Cash Flows from Investing Activities:		
Property additions	(54,671)	(157,453)
Investments in certificates of deposit	(301,084)	
Net cash used for investing activities	<u>(355,755)</u>	<u>(157,453)</u>
Cash Flows from Financing Activities:		
Cash received from notes payable	-	109,800
Payments on notes payable	(33,131)	(18,455)
Net cash provided by (used for) financing activities	<u>(33,131)</u>	<u>91,345</u>
Net Increase in Cash and Cash Equivalents	199,364	425,973
Cash and Cash Equivalents, Beginning of Year	<u>656,902</u>	<u>230,929</u>
Cash and Cash Equivalents, End of Year	<u>\$ 856,266</u>	<u>\$ 656,902</u>
Supplementary Information:		
Interest paid	<u>\$ 18,646</u>	<u>\$ 6,756</u>

See accompanying notes to the financial statements.

CALL OF THE SEA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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-foot 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.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). 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.

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.

Certificates of Deposit – Certificates of deposit consist of investments with original maturity dates in excess of 90 days.

CALL OF THE SEA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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. A contribution from an individual accounted for 44% and 32%, respectively, of total revenue and support during the years ended December 31, 2022 and 2021.

Allowance for Doubtful Accounts – An allowance for doubtful accounts reflects management’s best estimate of probable losses inherent in the grants and contributions 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 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, 2022 and 2021.

The Organization carried the following balances in accounts related to its program revenue as of December 31, 2022 and 2021 and 2020:

	2022	2021	2020
Accounts and grants receivable	\$ 15,880	\$ 1,550	\$ -
Customer deposits	\$ 42,724	\$ 46,435	\$ 53,845

Property and Equipment – Property and equipment consists of two operational ships and furniture and equipment. Depreciation has been calculated using the straight-line method applied over the estimated useful lives of the assets: three to forty years for the ships and three to twenty years for the dock and other assets. The Organization capitalizes property and equipment acquisitions when their cost exceeds \$2,500.

CALL OF THE SEA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Tax-Exempt Status – The Organization is exempt from 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.

Contributed Nonfinancial Assets – Contributed nonfinancial assets represent contributed goods and services. The Organization recognizes contributed nonfinancial assets received at estimated fair value if such goods or services are measurable, would otherwise be purchased and (a) create or enhance nonfinancial assets or (b) require specialized skills, and are provided by individuals possessing those skills and would typically need to be paid for, if not provided by donation.

Advertising Costs – Advertising costs of \$11,074 and \$4,760 during the years ended December 31, 2022 and 2021 was expensed as incurred.

Leases – The Organization determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the statement of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets also include prepaid or accrued rent. Operating lease expense is recognized on a straight-line basis over the lease term. The Organization does not report ROU assets and lease liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as part of occupancy. The Organization has no arrangements that meet the criteria of accounting for a lease. The Organization leases office space on a month-to-month basis. The rent incurred on the office space was \$27,175 and \$27,000 during the years ended December 31, 2022 and 2021.

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 differ 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 and occupancy.

CALL OF THE SEA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

3. LIQUIDITY AND AVAILABILITY

The Organization’s goal is to accumulate and maintain financial assets at a level equal to 90 days of ongoing operating expenses. Amounts available to meet general expenditures within one year also include net assets with donor restrictions as the purposes will be fulfilled within the next year.

The following table reflects the Organization’s financial assets as of December 31, 2022 and 2021, that are available to meet general expenditures within one year of the statement of financial position date.

	2022	2021
Cash and cash equivalents	\$ 856,266	\$ 656,902
Certificates of deposit	301,084	-
Accounts and grants receivable	15,880	1,550
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,173,230	\$ 658,452

4. NOTES PAYABLE

In March 2020, the Organization obtained a \$400,000 loan from Marin Community Foundation (“MCF”). Proceeds from the MCF loan were used to pay off all but one former loan, including a loan from a related party.

The one loan not paid off with MCF’s loan is secured by the Seaward ship and had a balance of \$10,248 as of December 31, 2020, and was fully paid during the year ended December 31, 2021. The loan bore interest at a rate of 2.5% simple interest.

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 loan is secured by a first (1st) preferred ship mortgage filed with the United States Coast Guard on the Matthew Turner vessel. The MCF loan does not permit the Organization to obtain any other loans without MCF approval. The MCF loan has covenants that must be met annually. The Organization believes it has met its covenants as of December 31, 2022 and 2021.

Subsequent to the loan completion date, the Organization received “COVID-19 Loan Payment Deferral and Maturity Date Extensions” from MCF giving the Organization the right to temporarily forego making payments under their respective loan for an eighteen-month period commencing as of the loan payment due date on April 1, 2020 through and including the loan payment due date on September 1, 2021 (“the COVID-19 Loan Payment Assistance Period”). The extension of the Maturity Date of the Loan to September 1, 2031 (“Extended Maturity Date”). During the COVID-19 Loan Payment Assistance Period, no regular interest was accrued, nor any penalty was incurred.

CALL OF THE SEA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

4. NOTES PAYABLE (continued)

The Organization applied for and received \$109,800 under the federal payroll protection loan program in April 2020. A second payroll protection loan of \$109,800 was received in February 2021. The loan bore interest at a rate of 1% annually. If criteria were met, including having the loan proceeds cover certain eligible costs including wages, benefits, rent and other costs over a twenty-four-week period, up to 100% of the loan and related interest could be forgiven. No interest was accrued as it was deemed de minimis. The Organization received full forgiveness for both loans during the year ended December 31, 2021.

Future maturities of long-term debt are as follows for the years ending December 31:

2023	\$	34,609
2024		36,109
2025		37,674
2026		39,306
2027		41,010
Thereafter		<u>169,954</u>
	\$	<u><u>358,662</u></u>

5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Scholarships	\$ 284,714	\$ 135,879
Sustainability	15,973	-
Total	<u>\$ 300,687</u>	<u>\$ 135,879</u>

Net assets released from donor restriction consisted of the following for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Scholarships	\$ 67,744	\$ 25,544
Dock construction	-	69,650
Total	<u>\$ 67,744</u>	<u>\$ 95,194</u>

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

6. CONTRIBUTED NONFINANCIAL ASSETS

The Organization adopted accounting standard ASU 2020-07 during the year ended December 31, 2022. No restatement was required. The standard required additional disclosures surrounding contributed nonfinancial assets. Contributed nonfinancial assets did not have donor-imposed restrictions, unless otherwise noted.

During the years ended December 31, 2022 and 2021, the Organization recognized \$55,200 and \$76,845, respectively, of nonfinancial assets within revenue on the statements of activities. The 2022 costs were reflected as \$55,200 on the statement of functional expenses in sailing fuel and dockage under program services for donated rent. The 2021 costs were reflected on the statement of functional expenses as \$55,200 in sailing fuel and dockage under program services for donated rent and \$21,645 of in-kind services was reflected in repairs and maintenance under program services for donated services. Contributed services are valued and are reported at the estimated fair value in the financial statements based on current rates for similar services.

7. RETIREMENT PLAN

During the year ended December 31, 2022, the Organization established a 401(k) retirement plan for its employees. The plan permits employees to make contributions to the plan. The Organization made no employer contributions to the plan during the year ended December 31, 2022.

8. RISKS AND UNCERTAINTIES

Cash and Cash Equivalents – Financial instruments that potentially subject the Organization to credit risk include cash on deposit with a bank which generally exceeds the \$250,000 insurance limitation of the Federal Deposit Insurance Corporation (“FDIC”).

9. SUBSEQUENT EVENTS

Management of the Organization has evaluated events and transactions subsequent to December 31, 2022, for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through July 31, 2023, the date the financial statements were available to be issued. Subsequent to December 31, 2022 one of the Organization’s ships has had mechanical and operational difficulties and has impacted the sails that ship has been able to complete. As of July 31, 2023, management is not able to evaluate the overall impact of the difficulties on operations.