OCEAN DISCOVERY INSTITUTE

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

OCEAN DISCOVERY INSTITUTE

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INDEPENDENT AUDITOR'S REPORT

June 6, 2016

To the Board of Directors
Ocean Discovery Institute
San Diego, California

We have audited the accompanying financial statements of Ocean Discovery Institute (the Institute) (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses and cash flows for the years 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 of 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 Ocean Discovery Institute as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hinzman & Associates

HINZMAN & ASSOCIATES
A Professional Corporation
Certified Public Accountants

OCEAN DISCOVERY INSTITUTE
Statement of Financial Position
December 31, 2015 and 2014

Assets	2015	2014
Current assets		
Cash	$ 398,622	$ 150,021
Temporarily restricted cash	558,969	308,410
Short-term investments	798,234	-
Pledges and accounts receivable, net	272,444	210,129
Prepaid expenses	27,073	21,642
Total current assets	2,055,342	690,202
Property and equipment, net	1,482,723	1,426,818
Other assets		
Deposits	-	2,550
Pledges receivable - long-term	38,892	20,311
Total assets	$ 3,576,957	$ 2,139,881
Liabilities and Net Assets		
Current liabilities		
Accounts payable & accrued expenses	$ 69,147	$ 70,423
Total current liabilities	69,147	70,423
Net Assets		
Unrestricted	2,668,291	1,560,639
Temporarily restricted	839,519	508,819
Total net assets	3,507,810	2,069,458
Total liabilities and net assets	$ 3,576,957	$ 2,139,881

OCEAN DISCOVERY INSTITUTE
Statement of Activities
For the Years Ended December 31, 2015 and 2014

Unrestricted Net Assets	**2015**	**2014**
Revenue and other support		
Fundraising special events	$ 382,489	$ 324,107
Costs of fundraising special events	(95,798)	(90,224)
Net support from special events	286,691	233,883
Other unrestricted support and revenue		
Program fees	14,670	13,576
Corporate and individual contributions	347,138	292,350
Government grants	497,987	423,689
Foundation grants	1,303,160	396,644
Capital campaign	178,246	120,526
Rental income	34,005	43,493
Interest income	65	21
In-kind contributions	1,595	4,050
Total other unrestricted support and revenue	2,376,866	1,294,349
Net assets released from restrictions	-	186,717
Total revenues and other support	2,663,557	1,714,949
Expenses		
Program services	1,098,576	1,084,294
Supporting services		
Management and general	207,618	259,666
Fundraising	157,008	122,423
Rental expenses	87,203	34,334
(Gain) loss on disposal of property and equipment	5,500	-
Total expenses	1,555,905	1,500,717
Increase in unrestricted net assets	1,107,652	214,232
Temporarily Restricted Net Assets		
Contributions	227,700	58,028
Bad debt (provision) recovery - capital campaign	103,000	(1,546)
Net assets released from restriction		
Restrictions satisfied by payments	-	(186,717)
Increase (decrease) in temporarily restricted assets	330,700	(130,235)
Increase in net assets	1,438,352	83,997
Net assets at beginning of year	2,069,458	1,985,461
Net assets at end of year	$ 3,507,810	$ 2,069,458

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

OCEAN DISCOVERY INSTITUTE
Statement of Functional Expenses
For the Year Ended December 31, 2015

	Program Services	Management and General	Fund Raising	Total
Salaries	$ 513,883	$ 160,588	$ 128,471	$ 802,942
Employee insurance	62,013	7,752	7,752	77,517
Payroll taxes	56,841	7,105	7,105	71,051
Total salaries and related benefits	632,737	175,445	143,328	951,510
Accounting and audit	15,760	3,940	-	19,700
Automobile	10,468	-	-	10,468
Bank service charges	-	250	-	250
Depreciation	16,654	2,082	2,082	20,818
Dues and subscription	1,569	-	-	1,569
Equipment rental and maintenance	12,236	-	-	12,236
Insurance	17,972	3,302	-	21,274
Licenses and permits	2,685	-	-	2,685
Living allowance - fellows	16,408	-	-	16,408
Marketing	-	63	-	63
Other	30,871	7,518	277	38,666
Postage	1,302	163	163	1,628
Printing	10,668	1,334	1,334	13,335
Professional fees	137,738	1,760	1,760	141,257
Rent	44,632	5,385	5,385	55,401
Scholarships	17,985	-	-	17,985
Supplies	63,039	2,698	-	65,737
Telephone	21,445	2,681	2,681	26,806
Travel	37,893	998	-	38,891
Uniforms	6,514	-	-	6,514
Total expenses	$ 1,098,576	$ 207,618	$ 157,008	$ 1,463,201
Percentage	75%	14%	11%	100%

OCEAN DISCOVERY INSTITUTE
Statement of Functional Expenses
For the Year Ended December 31, 2014

	Program Services	Management and General	Fund Raising	Total
Salaries	$ 538,594	$ 166,331	$ 87,126	$ 792,051
Employee insurance	58,427	7,303	7,303	73,033
Payroll taxes	60,070	7,509	7,509	75,088
Total salaries and related benefits	657,091	181,143	101,938	940,172
Accounting and audit	-	20,600	-	20,600
Automobile	15,465	-	-	15,465
Bank service charges	-	563	-	563
Depreciation	11,038	1,380	1,380	13,798
Dues and subscription	980	-	-	980
Equipment rental and maintenance	21,869	-	-	21,869
Insurance	14,702	3,055	382	18,140
Licenses and permits	3,212	-	-	3,212
Living allowance - fellows	44,085	-	-	44,085
Marketing	-	9,469	-	9,469
Other	9,025	2,876	294	12,194
Postage	1,078	135	135	1,347
Printing	6,984	873	873	8,730
Professional fees	95,225	2,214	8,272	105,711
Rent	44,321	5,289	5,289	54,899
Scholarships	20,499	-	-	20,499
Supplies	54,158	25,772	1,718	81,648
Telephone	17,145	2,143	2,143	21,431
Travel	60,590	4,155	-	64,745
Uniforms	6,827	-	-	6,827
Total expenses	$ 1,084,294	$ 259,666	$ 122,423	$ 1,466,384
Percentage	74%	18%	8%	100%

OCEAN DISCOVERY INSTITUTE
Statement of Cash Flows
For the Years Ended December 31, 2015 and 2014

Cash flows from operating activities	2015	2014
Increase in net assets	$ 1,438,352	$ 83,997
Adjustments to reconcile increase in net assets		
to net cash provided by operating activities:		
Depreciation	20,818	13,798
Changes in discount on pledges receivable	476	(15,711)
Bad debts provision (recovery)	(103,000)	1,546
(Gain) loss on sale of property and equipment	5,500	-
Effect of change in:		
(Increase) decrease in pledge and accounts receivable	21,625	95,739
(Increase) decrease in prepaid expenses	(5,431)	(7,474)
Increase (decrease) in accounts payable and accrued expenses	(1,274)	24,889
Net cash provided by operating activities	1,377,066	196,784
Cash flows from investing activities		
Purchase of property and equipment	(82,222)	(198,789)
Purchase of investments	(798,234)	-
(Increase) decrease in deposits	2,550	(1,050)
Net cash provided (used) by investing activities	(877,906)	(199,839)
Net cash provided (used) by all activities	499,160	(3,056)
Cash, beginning of year	458,431	461,487
Cash, end of year	$ 957,591	$ 458,431

Cash consists of:		
Unrestricted	$ 398,622	$ 150,021
Temporarily restricted	558,969	308,410
Total	$ 957,591	$ 458,431

Supplemental Information:		
Non cash operating activities:		
Donated supplies	$ 1,595	$ 4,050

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Ocean Discovery Institute (the "Institute") is a California nonprofit corporation organized in 1999 to engage, educate, and inspire youth from urban and diverse backgrounds through science-based exploration of the ocean and nature, preparing them to be tomorrow's scientific and environmental leaders.

The Institute's education services, which are provided tuition-free, primarily benefit lower income students in City Heights, in the County of San Diego. The Institute is supported by direct contributions from the community, grants from other nonprofit agencies, local governmental agencies, and fundraising activities.

The Institute is also pursuing replication efforts to replicate the Ocean Discovery Institute model on the east coast of the United States. This strategy is under development and may result in creating new nonprofit entities to facilitate this activity. The effort has been supported by funding from the National Oceanic and Atmospheric Administration (NOAA).

Basis of accounting

The financial statements of the Institute have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") on the accrual basis of accounting.

Financial statement presentation

The Institute is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Permanently restricted net assets – The part of the net assets resulting (a) from contributions and other inflows of assets whose use by the Institute is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Institute and (b) from other asset enhancements and diminishments subject to the same kinds of stipulations.

Temporarily restricted net assets – The part of the net assets resulting (a) from contributions and other inflows of assets whose use by the Institute is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Institute pursuant to those stipulations (b) from other asset enhancements and diminishments subject to the same kinds of stipulations and (c) from reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the Institute pursuant to those stipulations.

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial statement presentation (continued)

Unrestricted net assets – The part of net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Pledges and accounts receivable

Pledges and accounts receivable consist of amounts due from funding sources and contributions and are presented net of an allowance for uncollectible receivables and are recorded at their estimated fair value. The allowance for doubtful accounts is based on historical experience and an evaluation of the outstanding receivables at the end of the year. Accounts receivable are written off when deemed uncollectible by management. The Institute has pledges for assets to support the current funding of the Institute's acquisition of a new facility. Certain pledges over one year have been discounted to net present value at a rate of approximately 5%. The discount will be recognized as contribution income as the discount is amortized using an effective yield over the duration of the pledge.

Investments

Investment are recorded at fair market value at date of purchase and thereafter. Certificates of deposit with maturities less than one year are classified as short-term investments. Certificates of deposit with remaining maturities greater than one year are classified as long-term investments. At December 31, 2015, all short-term investments were interest-bearing bank certificates of deposit that mature within one year.

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment

It is the Institute's policy to capitalize property and equipment over $1,000. Lesser amounts are expensed. Improvements, furniture, and equipment are recorded at cost for purchased property and fair market value at the date of acquisition for donated property. Equipment purchases and construction costs of new facilities are capitalized as construction in progress until the facilities commence operation, at which time the assets are transferred to the appropriate asset accounts. The Institute expenses general repairs and maintenance costs as incurred.

Depreciation is provided on the straight-line method over the estimated useful lives of the related assets, ranging from five to seven years. Leasehold improvements are amortized using the straight-line method over the shorter of their estimated useful lives or related lease term.

When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is recorded to the accompanying statement of activities and changes in net assets.

Donated goods and services

A substantial number of unpaid volunteers and organizations have made significant contributions of their time to develop the Institute's programs. The value of these services is not reflected in the financial statements since specialized skills are not required. Numerous volunteers have donated significant amounts of time to the Institute's fund-raising campaign and program services. Although no amounts have been reflected in the financial statements, management estimates the fair value of those services to be approximately $261,500 and $205,700 for the years ended December 31, 2015 and 2014, respectively.

The Institute records the donation of materials and services when an objective basis is available to measure the fair value of those donations, and when the materials and services would be purchased if they were not donated.

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated goods and services (continued)

Further, donated services are recognized as contributions when those services (a) create or enhance nonfinancial assets or (b) require specialized skills provided by individuals possessing those skills and are services that would be typically purchased if not provided by a donation. Donated materials are recorded at their fair value at the date of the gift. The Institute does not imply time restrictions for gifts of long-lived assets. As a result, in the absence of donor imposed restrictions, gifts of long-lived assets are reported as unrestricted revenue. During the years ended December 31, 2015 and 2014, supplies amounting to $1,595 and $4,050, respectively, were donated to the Institute. These amounts were recorded as in-kind contributions and as cost of management and general expenses.

Recognition of revenue and other support

Revenue from contributions is recognized when received. Revenue from grants is recognized when earned. Pledge revenue is recorded when pledges are made and receipt is reasonably assured. Revenues from government and foundation grants are recorded based on the terms and conditions of the individual grants, but in no case are they recorded to unrestricted revenue before specified services are performed or reimbursable costs are incurred. Performance based grant revenue is recorded as the specified services are performed.

Recognition of donor restrictions

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the public support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets, and the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted and the percentage of program services, management and general, and fundraising expenses are computed based on a percentage of total functional expenses for the year ended December 31, 2015 and 2014.

Advertising costs

It is the Institute's policy to expense advertising costs as they are incurred. For the year ended December 31, 2015 and 2014, the Institute incurred advertising, printing and publicity costs of $63 and $9,469, respectively.

Concentrations

The Institute relies significantly on corporate and individual donations as well as government and foundation grants. The Institute is subject to business risks associated with the economy, which affects the various entities' willingness and ability to contribute.

Approximately 49% and 22% of total revenue was provided from three grants for programs and the capital campaign during the years ended December 31, 2015 and 2014, respectively. Three donors for the capital campaign accounted for approximately 83% and 77% of the outstanding pledges and accounts receivable, net, as of December 31, 2015 and 2014, respectively.

Accounts at the banks are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000 at each institution. At December 31, 2015, the Institute had bank accounts that exceeded the FDIC insurance level by $221,000. Management performs periodic evaluations of the relative credit standing of these banks. The Institute has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax status

The Institute is a California nonprofit corporation and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701 (d) of the California Code and generally is not subject to income taxes. The Institute files tax returns in the U.S. federal jurisdiction and the State of California. The Institute's tax returns are subject to examination by tax authorities for three years after they were filed.

Compensated absences

Exempt employees of the Institute are entitled to paid vacation, sick days and personal days off, depending on job classification, length of service and other factors. It is impractical to estimate the amount of compensation for future absences, and according, no liabilities have been recorded in the accompanying financial statements. The Institute's policy is to recognize the costs of compensated absences when actually paid to employees.

2. PLEDGES AND ACCOUNTS RECEIVABLE

Pledges and accounts receivable consisted of the following:

	2015	2014
Grants, contracts and contributions	$ 30,786	$ 30,031
Capital campaign pledges	290,260	312,643
Less: allowance for doubtful accounts and discount to net present value	(9,710)	(112,234)
Total receivables, net	311,336	230,440
Less: current portion	272,444	210,129
Non-current portion	$ 38,892	$ 20,311

Capital campaign pledges receivable consisted of the following:

	2015	2014
Receivable in less than one year	$ 248,658	$ 280,098
Receivable in one to five years	41,602	32,545
Total receivables	290,260	312,643
Less: discount to net present value	(2,710)	(2,234)
Less: allowance for doubtful accounts	(7,000)	(110,000)
	(9,710)	(112,234)
Total capital campaign pledges, net	$ 280,550	$ 200,409

3. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at December 31, 2015 and 2014:

	2015	2014
Land	$ 495,491	$ 495,491
Equipment and fixtures	73,235	89,764
Vehicles	87,293	65,011
Leasehold improvements	84,654	84,654
Total property and equipment	740,673	734,920
Less: accumulated depreciation	(207,401)	(201,706)
	533,272	533,214
Construction in progress	949,451	893,604
Total property and equipment, net	$ 1,482,723	$ 1,426,818

4. RESTRICTIONS ON ASSETS

Temporarily restricted net assets at December 31, 2015 and 2014 consist of:

	2015	2014
Foundation grants	$ 48,154	$ 41,317
Capital campaign contributions	791,365	467,502
Total temporarily restricted net assets	$ 839,519	$ 508,819

Temporarily restricted net assets for the year ended December 31, 2015 and 2014 consisted of foundation grants whose donors had stipulated that the funds be used for particular operating and program purpose and capital campaign contributions for the development of the Living Lab.

5. LINE OF CREDIT

The Institute has a revolving line of credit providing for a maximum borrowing of $100,000. Interest on this note is payable monthly at the bank's prime rate (3.5% at December 31, 2015) plus 1%. The line of credit is secured by substantially all assets of the Institute. The agreement expires June 1, 2016. There was no balance on the line of credit at December 31, 2015 or 2014.

6. COMMITMENTS AND CONTINGENCIES

Living Lab

The Institute entered into a joint venture agreement with the San Diego Unified School District (the District) whereby the District will provide funding up to $11.8 million towards the construction of a new building (Living Lab) that will be owned by the District and operated by the Institute. The Institute is obligated to reimburse the District $1 million for construction and expects to incur an additional $2.4 million for outdoor improvements, science and technology fixtures, furniture, and equipment (FF&E) over the next two years. The Institute has purchased the land, completed the initial studies and schematic designs, obtained City permits, and has secured funding for construction and outdoor improvements. Upon occupancy, the Institute is obligated to provide programming to the students of the District and provided this requirement is met, will be able to utilize the building facility free of charge for 40 years and will obtain title to the property at the end of the 40 year term. Construction of the Living Lab has begun and the project is expected to be completed in spring 2017. In the unlikely event that the facility is not completed by March 31, 2018, a foundation may require funds of $1 million to be repaid.

6. COMMITMENTS AND CONTINGENCIES (Continued)

Operating leases

The Institute's current facility is leased on a month-to-month basis. The Institute also leases equipment under a long-term, non-cancelable operating lease agreement. Total rent expense for all leases for the years ended December 31, 2015 and 2014 was $55,401 and $54,899, respectively.

The following is a schedule by years of future minimum rental payments required under the non-cancellable operating lease agreement:

Year Ending December 31,		
2016	$	4,100
2017		4,100
	$	8,200

7. RENTAL OPERATIONS

As part of the acquisition of land for a new facility, the Institute acquired two parcels of land, one of which contained 4 rental units. The Institute rented these units to tenants from 2012 to 2015. During 2015 the tenants were relocated and the rental units were demolished to make room for the living lab building. Rental income and associated expenses are included in the accompanying Statement of Activities.

8. EMPLOYEE BENEFIT PLANS

The Institute has a retirement savings 401(k) plan in which all employees over 18 years of age may participate. The Company currently does not match employees' contributions.

9. SUBSEQUENT EVENTS

The Institute has evaluated subsequent events through June 6, 2016, which is the date the financial statements were available for issue. No subsequent events were identified that required adjustment to or disclosure within the financial statements.