

**OCEAN DISCOVERY INSTITUTE**  
**AUDITED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

# OCEAN DISCOVERY INSTITUTE

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# HINZMAN & ASSOCIATES

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## **INDEPENDENT AUDITOR'S REPORT**

June 15, 2017

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, 2016 and 2015, 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***

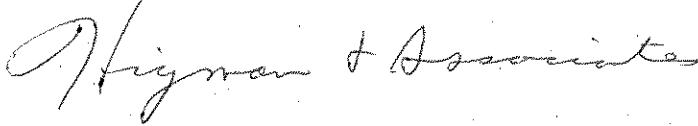
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ocean Discovery Institute as of December 31, 2016 and 2015, 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.

A handwritten signature in cursive script that reads "Hinzman & Associates".

HINZMAN & ASSOCIATES  
A Professional Corporation  
Certified Public Accountants

**OCEAN DISCOVERY INSTITUTE**  
**Statement of Financial Position**  
**December 31, 2016 and 2015**

<b>Assets</b>	<b>2016</b>	<b>2015</b>
<b>Current assets</b>		
Cash	\$ 329,420	\$ 398,622
Temporarily restricted cash	696,325	558,969
Short-term investments	675,001	798,234
Pledges and accounts receivable, net	516,847	272,444
Prepaid expenses	33,040	27,073
Total current assets	2,250,633	2,055,342
<b>Property and equipment, net</b>	2,424,177	1,482,723
<b>Other assets</b>		
Pledges receivable - long-term	8,935	38,892
Total assets	\$ 4,683,745	\$ 3,576,957
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Accounts payable & accrued expenses	\$ 413,187	\$ 69,147
Total current liabilities	413,187	69,147
<b>Net Assets</b>		
Unrestricted	3,446,315	2,668,291
Temporarily restricted	824,243	839,519
Total net assets	4,270,558	3,507,810
Total liabilities and net assets	\$ 4,683,745	\$ 3,576,957

**OCEAN DISCOVERY INSTITUTE**  
**Statement of Activities**  
**For the Years Ended December 31, 2016 and 2015**

<b>Unrestricted Net Assets</b>	<b>2,016</b>	<b>2015</b>
Revenue and other support		
Fundraising special events	\$ 416,789	\$ 382,489
Costs of fundraising special events	(113,796)	(95,798)
Net support from special events	<u>302,993</u>	<u>286,691</u>
Other unrestricted support and revenue		
Program fees	14,890	14,670
Corporate contributions	142,867	156,787
Individual contributions	240,015	190,351
Government grants	493,575	497,987
Foundation grants	553,104	1,303,160
Capital campaign	919,925	178,246
Rental income	-	34,005
Interest income	3,612	65
In-kind contributions	1,360	1,595
Total other unrestricted support and revenue	<u>2,369,348</u>	<u>2,376,866</u>
Net assets released from restrictions	70,118	-
Total revenues and other support	<u>2,742,459</u>	<u>2,663,557</u>
Expenses		
Program services	1,419,869	1,098,576
Supporting services		
Management and general	302,227	207,618
Fundraising	241,848	157,008
Rental expenses	-	87,203
Loss on disposal of property and equipment	491	5,500
Total expenses	<u>1,964,435</u>	<u>1,555,905</u>
Increase in unrestricted net assets	<u>778,024</u>	<u>1,107,652</u>
<b>Temporarily Restricted Net Assets</b>		
Contributions - foundation and corporate grants	49,897	-
Contributions - capital campaign	1,945	227,700
Bad debt recovery - capital campaign	3,000	103,000
Net assets released from restriction		
Restrictions satisfied by payments	(70,118)	-
Increase (decrease) in temporarily restricted assets	<u>(15,276)</u>	<u>330,700</u>
Increase in net assets	762,748	1,438,352
Net assets at beginning of year	<u>3,507,810</u>	<u>2,069,458</u>
Net assets at end of year	<u>\$ 4,270,558</u>	<u>\$ 3,507,810</u>

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

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**OCEAN DISCOVERY INSTITUTE**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2016**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fund Raising</b>	<b>Total</b>
Salaries	\$ 642,228	\$ 239,475	\$ 206,819	\$ 1,088,522
Employee insurance	81,107	10,138	10,138	101,383
Payroll taxes	72,202	9,025	9,025	90,252
<b>Total salaries and related benefits</b>	<b>795,537</b>	<b>258,638</b>	<b>225,982</b>	<b>1,280,157</b>
Accounting and audit	13,760	3,440	-	17,200
Automobile	7,812	-	-	7,812
Bank service charges	-	948	2,890	3,838
Depreciation	13,458	1,682	1,682	16,822
Dues and subscription	1,779	-	-	1,779
Equipment rental and maintenance	47,189	2,767	1,837	51,793
Insurance	31,034	5,151	-	36,185
Licenses and permits	3,896	-	-	3,896
Marketing	-	763	-	763
Other	16,923	12,079	614	29,616
Postage	1,064	133	133	1,330
Printing	9,307	1,163	1,163	11,633
Professional fees	237,828	4,611	-	242,439
Rent	50,166	5,387	5,387	60,940
Scholarships	17,627	-	-	17,627
Supplies	89,935	3,249	-	93,184
Telephone	17,504	2,216	2,160	21,880
Travel	59,728	-	-	59,728
Uniforms	5,322	-	-	5,322
<b>Total expenses</b>	<b>\$ 1,419,869</b>	<b>\$ 302,227</b>	<b>\$ 241,848</b>	<b>\$ 1,963,944</b>
<b>Percentage</b>	<b>72%</b>	<b>16%</b>	<b>12%</b>	<b>100%</b>

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

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**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%

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

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**OCEAN DISCOVERY INSTITUTE**  
**Statement of Cash Flows**  
**For the Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Increase in net assets	\$ 762,748	\$ 1,438,352
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	16,823	20,818
Changes in discount on pledges receivable	1,945	476
Bad debts (recovery)	(3,000)	(103,000)
Loss on sale of property and equipment	491	5,500
Effect of change in:		
(Increase) decrease in pledge and accounts receivable	(213,392)	21,625
(Increase) decrease in prepaid expenses	(5,967)	(5,431)
Increase (decrease) in accounts payable and accrued expenses	344,041	(1,274)
Net cash provided by operating activities	<u>903,689</u>	<u>1,377,066</u>
Cash flows from investing activities		
Proceeds from disposal of property	1,200	-
Purchase of property and equipment	(959,968)	(82,222)
Redemption (purchase) of investments	123,233	(798,234)
(Increase) decrease in deposits	-	2,550
Net cash provided (used) by investing activities	<u>(835,535)</u>	<u>(877,906)</u>
Net cash provided (used) by all activities	68,154	499,160
Cash, beginning of year	<u>957,591</u>	<u>458,431</u>
Cash, end of year	<u>\$ 1,025,745</u>	<u>\$ 957,591</u>
Cash consists of:		
Unrestricted	\$ 329,420	\$ 398,622
Temporarily restricted	<u>696,325</u>	<u>558,969</u>
Total	<u>\$ 1,025,745</u>	<u>\$ 957,591</u>
Supplemental Information:		
Non cash operating activities:		
Donated supplies	<u>\$ 1,360</u>	<u>\$ 1,595</u>

**OCEAN DISCOVERY INSTITUTE**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Ocean Discovery Institute (the “Institute”) is a California non-profit corporation organized in 1999 that uses ocean science to empower young people from underserved urban communities to transform their lives, community, and world as science and conservation 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.

**OCEAN DISCOVERY INSTITUTE**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**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 after 120 days without payment activity or 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, 2016, all short-term investments were interest-bearing bank certificates of deposit that mature within one year.

**OCEAN DISCOVERY INSTITUTE**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**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 in support of the Institute's mission and programs. GAAP requires the fair value of donated services to be recognized in the financial statements if the services either (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by persons possessing those skills, and would need to be purchased if not donated. No amounts have been reflected in the financial statements as the Institute would not purchase the services if not donated. Nonetheless, donated services are central to operations and management estimates the fair value of donated services to be approximately \$232,800 and \$261,500 for the years ended December 31, 2016 and 2015, 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.

**OCEAN DISCOVERY INSTITUTE**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**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, 2016 and 2015, supplies amounting to \$1,360 and \$1,595, 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.

**OCEAN DISCOVERY INSTITUTE**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**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, 2016 and 2015.

**Advertising costs**

It is the Institute's policy to expense advertising costs as they are incurred. For the year ended December 31, 2016 and 2015, the Institute incurred advertising, printing and publicity costs of \$763 and \$63, 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 51% and 49% of total revenue was provided from four and three grants for programs and the capital campaign during the years ended December 31, 2016 and 2015, respectively. Four and three donors for the capital campaign accounted for approximately 88% and 83% of the outstanding pledges and accounts receivable, net, as of December 31, 2016 and 2015, respectively.

Accounts at the banks are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 at each institution. At December 31, 2016, the Institute had bank accounts that exceeded the FDIC insurance level by \$290,200. 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.

**OCEAN DISCOVERY INSTITUTE**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**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**

All employees of the Institute are allotted 40 hours of sick time per calendar year, but are not subject to pay out at year end or termination. Hourly employees accrue vacation at 3.08 hours per pay period. For exempt employees, the Institute's policy is to recognize the cost of vacation when paid. Liabilities for compensated absences have been recorded in the accompanying financial statements in accordance with the accrual and pay out policies of the Institute.

**OCEAN DISCOVERY INSTITUTE**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**2. PLEDGES AND ACCOUNTS RECEIVABLE**

Pledges and accounts receivable consisted of the following:

	<u>2016</u>	<u>2015</u>
Grants, contracts and contributions	\$ 509,627	\$ 30,786
Capital campaign pledges	20,920	290,260
Less: allowance for doubtful accounts and discount to net present value	<u>(4,765)</u>	<u>(9,710)</u>
Total receivables, net	525,782	311,336
Less: current portion	<u>516,847</u>	<u>272,444</u>
Non-current portion	<u>\$ 8,935</u>	<u>\$ 38,892</u>

Capital campaign pledges receivable consisted of the following:

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$ 11,220	\$ 248,658
Receivable in one to five years	<u>9,700</u>	<u>41,602</u>
Total receivables	<u>20,920</u>	<u>290,260</u>
Less: discount to net present value	(765)	(2,710)
Less: allowance for doubtful accounts	<u>(4,000)</u>	<u>(7,000)</u>
	<u>(4,765)</u>	<u>(9,710)</u>
Total capital campaign pledges, net	<u>\$ 16,155</u>	<u>\$ 280,550</u>

**3. PROPERTY AND EQUIPMENT**

The following is a summary of property and equipment at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land	\$ 495,491	\$ 495,491
Equipment and fixtures	87,608	73,235
Vehicles	60,294	87,293
Leasehold improvements	<u>84,654</u>	<u>84,654</u>
Total property and equipment	728,047	740,673
Less: accumulated depreciation	<u>(194,027)</u>	<u>(207,401)</u>
	534,020	533,272
Construction in progress	<u>1,890,157</u>	<u>949,451</u>
Total property and equipment, net	<u>\$ 2,424,177</u>	<u>\$ 1,482,723</u>



**OCEAN DISCOVERY INSTITUTE**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**4. RESTRICTIONS ON ASSETS**

Temporarily restricted net assets at December 31, 2016 and 2015 consist of:

	<u>2016</u>	<u>2015</u>
Foundation grants	\$ 98,050	\$ 48,154
Capital campaign contributions	726,193	791,365
Total temporarily restricted net assets	<u>\$ 824,243</u>	<u>\$ 839,519</u>

Temporarily restricted net assets for the year ended December 31, 2016 and 2015 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 (3.75% at December 31, 2016) plus 1%. The line of credit is secured by substantially all assets of the Institute. The agreement expires June 1, 2018. There was no balance on the line of credit at December 31, 2016 or 2015.

**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 \$2.1 million for outdoor improvements, science and technology fixtures, furniture, and equipment (FF&E) in 2017. 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 fall 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.

**OCEAN DISCOVERY INSTITUTE**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**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, 2016 and 2015 was \$65,591 and \$55,401, respectively.

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

<u>Year Ending December 31,</u>	
2017	\$ 6,200
2018	6,900
2019	6,900
2020	6,900
2021	6,900
Thereafter	<u>1,700</u>
	<u>\$ 35,500</u>

**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 15, 2017, 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.