

**OCEAN DISCOVERY INSTITUTE**  
**AUDITED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

# OCEAN DISCOVERY INSTITUTE

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## **INDEPENDENT AUDITOR'S REPORT**

May 31, 2018

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, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016**

<b>Assets</b>	<b>2017</b>	<b>2016</b>
<b>Current assets</b>		
Cash	\$ 37,876	\$ 329,420
Temporarily restricted cash	806,959	696,325
Short-term investments	896,281	675,001
Pledges and accounts receivable, net	283,459	516,847
Inventory	11,154	-
Prepaid expenses	39,250	33,040
	<hr/>	<hr/>
Total current assets	2,074,979	2,250,633
<b>Property and equipment, net</b>	3,280,227	2,424,177
<b>Other assets</b>		
Pledges and accounts receivable - long-term	33,304	8,935
	<hr/>	<hr/>
Total assets	<u>\$ 5,388,510</u>	<u>\$ 4,683,745</u>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Accounts payable & accrued expenses	\$ 183,203	\$ 413,187
	<hr/>	<hr/>
Total current liabilities	183,203	413,187
<b>Net Assets</b>		
Unrestricted		
Board designated reserve	50,000	-
Undesignated	4,217,021	3,446,315
	<hr/>	<hr/>
	4,267,021	3,446,315
Temporarily restricted	938,286	824,243
	<hr/>	<hr/>
Total net assets	5,205,307	4,270,558
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 5,388,510</u>	<u>\$ 4,683,745</u>

**OCEAN DISCOVERY INSTITUTE**  
**Statement of Activities**  
**For the Years Ended December 31, 2017 and 2016**

<b>Unrestricted Net Assets</b>	<b>2017</b>	<b>2016</b>
Revenue and other support		
Fundraising special events	\$ 459,410	\$ 416,789
Costs of fundraising special events	(130,250)	(113,796)
Net support from special events	<u>329,160</u>	<u>302,993</u>
Other unrestricted support and revenue		
Program fees	660	14,890
Corporate contributions	82,060	142,867
Individual contributions	172,442	240,015
Government grants	395,988	493,575
Foundation grants	692,096	553,104
Capital campaign	817,796	919,925
Interest income	2,060	3,612
In-kind contributions	68,663	1,360
Total other unrestricted support and revenue	<u>2,231,765</u>	<u>2,369,348</u>
Net assets released from restrictions	31,233	70,118
Total revenues and other support	<u>2,592,158</u>	<u>2,742,459</u>
Expenses		
Program services	1,244,828	1,419,869
Supporting services		
Management and general	308,173	302,227
Fundraising	218,417	241,848
Loss on disposal of property and equipment	34	491
Total expenses	<u>1,771,452</u>	<u>1,964,435</u>
Increase in unrestricted net assets	<u>820,706</u>	<u>778,024</u>
<b>Temporarily Restricted Net Assets</b>		
Contributions - foundation and corporate grants	153,607	49,897
Bad debt (expense) recovery - capital campaign	(8,331)	4,945
Net assets released from restriction		
Restrictions satisfied by payments	(31,233)	(70,118)
Increase (decrease) in temporarily restricted assets	<u>114,043</u>	<u>(15,276)</u>
Increase in net assets	934,749	762,748
Net assets at beginning of year	<u>4,270,558</u>	<u>3,507,810</u>
Net assets at end of year	<u>\$ 5,205,307</u>	<u>\$ 4,270,558</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, 2017**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fund Raising</b>	<b>Total</b>
Salaries	\$ 603,866	\$ 241,547	\$ 161,031	\$ 1,006,444
Employee insurance	69,798	8,725	8,725	87,248
Payroll taxes	61,916	7,740	7,740	77,396
Total salaries and related benefits	735,580	258,012	177,496	1,171,088
Accounting and audit	14,640	3,660	-	18,300
Automobile	8,169	-	-	8,169
Bank service charges	-	1,088	3,264	4,352
Depreciation	10,819	1,352	1,352	13,523
Dues and subscription	3,249	-	-	3,249
Equipment rental and maintenance	24,289	2,892	1,446	28,627
Insurance	29,896	5,065	-	34,961
Licenses and permits	1,406	-	-	1,406
Marketing	-	70	-	70
Other	2,307	2,303	5,937	10,547
Postage	1,338	167	167	1,672
Printing	7,086	886	886	8,858
Professional fees	243,778	23,009	19,658	286,445
Rent	54,113	5,908	5,908	65,929
Scholarships	9,235	-	-	9,235
Supplies	47,155	1,945	487	49,587
Telephone	14,522	1,815	1,815	18,153
Travel	29,542	-	-	29,542
Uniforms	7,704	-	-	7,704
Total expenses	\$ 1,244,828	\$ 308,173	\$ 218,417	\$ 1,771,417
Percentage	70%	18%	12%	100%

**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	81,106	10,138	10,138	101,382
Payroll taxes	72,202	9,025	9,025	90,252
Total salaries and related benefits	795,536	258,638	225,982	1,280,156
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	5,323	-	-	5,323
Total expenses	<u>\$ 1,419,869</u>	<u>\$ 302,227</u>	<u>\$ 241,848</u>	<u>\$ 1,963,944</u>
Percentage	<u>72%</u>	<u>16%</u>	<u>12%</u>	<u>100%</u>

*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, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Increase in net assets	\$ 934,749	\$ 762,748
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	13,524	16,823
Changes in discount on pledges receivable	2,461	1,945
Bad debts expense (recovery)	7,400	(3,000)
In-kind contribution	(64,567)	-
Loss on sale of property and equipment	34	491
Effect of change in:		
(Increase) decrease in pledge and accounts receivable	199,160	(213,392)
(Increase) decrease in inventory	(11,154)	-
(Increase) decrease in prepaid expenses	(6,210)	(5,967)
Increase (decrease) in accounts payable and accrued expenses	(229,986)	344,041
Net cash provided by operating activities	<u>845,411</u>	<u>903,689</u>
 Cash flows from investing activities		
Proceeds from disposal of property	420	1,200
Purchase of property and equipment	(805,461)	(959,968)
Redemption (purchase) of investments	<u>(221,280)</u>	<u>123,233</u>
Net cash provided (used) by investing activities	<u>(1,026,321)</u>	<u>(835,535)</u>
 Net cash provided (used) by all activities	(180,910)	68,154
 Cash, beginning of year	<u>1,025,745</u>	<u>957,591</u>
 Cash, end of year	<u>\$ 844,835</u>	<u>\$ 1,025,745</u>
 Cash consists of:		
Unrestricted	\$ 37,876	\$ 329,420
Temporarily restricted	<u>806,959</u>	<u>696,325</u>
 Total	<u>\$ 844,835</u>	<u>\$ 1,025,745</u>
 Supplemental Information:		
Non cash operating activities:		
Donated supplies	<u>\$ 4,096</u>	<u>\$ 1,360</u>
In-kind contribution of property and equipment	<u>\$ 64,567</u>	<u>\$ -</u>

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

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**OCEAN DISCOVERY INSTITUTE**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**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, 2017 and 2016**

**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.

As of December 31, 2017, the Board of Directors had designated \$50,000 of unrestricted net assets as a reserve fund to support the mission of the Institute. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

**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, 2017 and 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, 2017 and 2016**

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

**Inventory**

Inventories consist of merchandise to promote the Institute's programs and activities. All inventories are stated at the lower of cost or market. Cost of merchandise inventory is determined by the weighted average cost method.

**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 \$226,630 and \$232,800 for the years ended December 31, 2017 and 2016, 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, 2017 and 2016**

**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, 2017 and 2016, supplies totaling \$4,096 and \$1,360, respectively, were donated to the Institute. These amounts were recorded as in-kind contributions and as cost of management and general expenses. During 2017 computer equipment totaling \$64,567 was donated and capitalized as property and equipment.

**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.

**OCEAN DISCOVERY INSTITUTE**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

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

**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.

**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 years ended December 31, 2017 and 2016.

**Advertising costs**

It is the Institute's policy to expense advertising costs as they are incurred. For the years ended December 31, 2017 and 2016, the Institute incurred advertising, printing and publicity costs of \$70 and \$763, 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 27% and 51% of total revenue was provided from three and four grants for programs and the capital campaign during the years ended December 31, 2017 and 2016 respectively. Four and three donors for the capital campaign accounted for approximately 75% and 88% of the outstanding pledges and accounts receivable, net, as of December 31, 2017 and 2016, respectively.

**OCEAN DISCOVERY INSTITUTE**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

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

**Concentrations (continued)**

Accounts at the banks are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000 at each institution. At December 31, 2017, the Institute had bank accounts that exceeded the FDIC insurance level by \$199,000. 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.

**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, 2017 and 2016**

**2. PLEDGES AND ACCOUNTS RECEIVABLE**

Pledges and accounts receivable consisted of the following:

	<u>2017</u>	<u>2016</u>
Grants	\$ 177,786	\$ 217,423
Contributions	99,755	288,154
Capital campaign pledges	15,670	20,920
Operating	26,748	4,050
Less: allowance for doubtful accounts and discount to net present value	<u>(3,196)</u>	<u>(4,765)</u>
Total receivables, net	<u>316,763</u>	<u>525,782</u>
Less: current portion	<u>283,459</u>	<u>516,847</u>
Non-current portion	<u>\$ 33,304</u>	<u>\$ 8,935</u>

Capital campaign pledges receivable consisted of the following:

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 15,670	\$ 11,220
Receivable in one to five years	-	9,700
Total receivables	<u>15,670</u>	<u>20,920</u>
Less: discount to net present value	-	(765)
Less: allowance for doubtful accounts	<u>(1,500)</u>	<u>(4,000)</u>
	<u>(1,500)</u>	<u>(4,765)</u>
Total capital campaign pledges, net	<u>\$ 14,170</u>	<u>\$ 16,155</u>

**3. PROPERTY AND EQUIPMENT**

The following is a summary of property and equipment at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land	\$ 495,491	\$ 495,491
Equipment and fixtures	137,648	87,608
Vehicles	60,294	60,294
Leasehold improvements	<u>84,654</u>	<u>84,654</u>
Total property and equipment	<u>778,087</u>	<u>728,047</u>
Less: accumulated depreciation	<u>(177,451)</u>	<u>(194,027)</u>
	<u>600,636</u>	<u>534,020</u>
Construction in progress	<u>2,679,591</u>	<u>1,890,157</u>
Total property and equipment, net	<u>\$ 3,280,227</u>	<u>\$ 2,424,177</u>



**OCEAN DISCOVERY INSTITUTE**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**4. RESTRICTIONS ON ASSETS**

Temporarily restricted net assets at December 31, 2017 and 2016 consist of:

	2017	2016
Foundation grants	\$ 251,658	\$ 98,050
Capital campaign contributions	686,628	726,193
Total temporarily restricted net assets	\$ 938,286	\$ 824,243

Temporarily restricted net assets for the years ended December 31, 2017 and 2016 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 (4.50% at December 31, 2017) plus 1%. The line of credit is secured by substantially all assets of the Institute. The agreement expires June 1, 2019. There was no balance on the line of credit at December 31, 2017 or 2016.

**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 has reimbursed the District \$1 million for construction and expects to incur an additional \$2.64 million for outdoor improvements, change orders, science and technology fixtures, furniture, and equipment in 2018 and 2019. 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 is nearing completion and occupancy is expected in fall 2018.

**OCEAN DISCOVERY INSTITUTE**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**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, 2017 and 2016 was \$65,929 and \$65,591, 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>	
2018	\$ 6,900
2019	6,900
2020	6,900
2021	6,900
Thereafter	<u>1,700</u>
	<u>\$ 29,300</u>

**7. 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.

**8. SUBSEQUENT EVENTS**

The Institute has evaluated subsequent events through May 31, 2018, 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.