

MUNGER & COMPANY, CPAs

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**Ocean Discovery Institute**  
Audited Financial Statements  
December 31, 2018

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors and Audit Committee of  
**Ocean Discovery Institute**

We have audited the accompanying financial statements of Ocean Discovery Institute, a nonprofit organization, which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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 accounting principles 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 corporation'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 corporation'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, 2018, 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.

August 21, 2019

  
Munger & Company, CPAs

**OCEAN DISCOVERY INSTITUTE**  
**STATEMENT OF FINANCIAL POSITION**  
December 31, 2018

<b>Assets</b>	
Cash	\$ 522,295
Restricted cash	422,440
Short-term investments	400,000
Promises to give	494,865
Accounts receivable	133,168
Inventory	8,287
Prepaid expenses	44,143
Property and equipment, net	<u>16,117,269</u>
<b>Total assets</b>	<u><u>\$ 18,142,467</u></u>
 <b>Liabilities and net assets</b>	
<b>Liabilities</b>	
Accounts payable and accrued expenses	\$ 195,933
Deferred revenue	<u>11,701,667</u>
<b>Total liabilities</b>	<u>11,897,600</u>
 <b>Net assets</b>	
Without donor restrictions	
Undesignated	841,513
Designated by Board reserve	150,000
Invested in property and equipment, net of deferred revenue	4,415,602
With donor restrictions	
Purpose restrictions	<u>837,752</u>
<b>Total net assets</b>	<u>6,244,867</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 18,142,467</u></u>

The accompanying notes are an integral part of these financial statements

**OCEAN DISCOVERY INSTITUTE**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2018

	Without donor restrictions	With donor restrictions	Total
<b>Support and revenue</b>			
Fundraising special events	\$ 573,866	\$ -	\$ 573,866
Costs of fundraising special events	(136,523)		(136,523)
Net support from special events	437,343	-	437,343
Other support and revenue			
Program fees and income	100,133		100,133
Contributions	904,927	284,722	1,189,649
Government grants	496,102		496,102
Capital campaign		1,176,518	1,176,518
Interest income	7,616		7,616
In-kind contributions	12,781		12,781
Bad debt recovery	3,196		3,196
Gain (loss) on disposal of assets	(1,282)		(1,282)
Other income, net of expense of \$2,160	121		121
Net assets released from restrictions	1,561,774	(1,561,774)	-
Total support and revenue	3,522,711	(100,534)	3,422,177
<b>Expenses</b>			
Program services	1,672,886		1,672,886
Supporting services			
Management and general	411,551		411,551
Fundraising	298,180		298,180
Total expenses	2,382,617	-	2,382,617
<b>Change in net assets</b>	1,140,094	(100,534)	1,039,560
<b>Net assets, beginning of year</b>	4,267,021	938,286	5,205,307
<b>Net assets, end of year</b>	\$ 5,407,115	\$ 837,752	\$ 6,244,867

The accompanying notes are an integral part of these financial statements

**OCEAN DISCOVERY INSTITUTE**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended December 31, 2018

	Supporting Services			
	Program Services	Management and General	Fund- raising	Total Supporting Services
Salaries	\$ 692,911	\$ 242,519	\$219,422	\$ 461,941
Employee insurance	56,377	19,732	17,853	37,585
Payroll taxes	57,808	20,233	18,306	38,539
Bank service charges		204	5,053	5,257
Cost of goods sold	2,160			2,160
Cost of direct benefits to donors			136,523	136,523
Depreciation	172,708	21,588	21,588	43,176
Equipment rental and maintenance	44,349	4,050	1,867	5,917
Insurance	30,295	6,290		6,290
Licenses and permits	7,334			-
Marketing		17,750		17,750
Other	31,557	13,292		13,292
Postage and printing	16,046	2,006	2,006	4,012
Professional fees	284,242	51,802		51,802
Rent	49,503	6,188	6,188	12,376
Scholarships	17,276			-
Supplies	118,007	2,263	2,263	4,526
Telephone	29,072	3,634	3,634	7,268
Travel and automobile	65,401			-
Total expenses by function	<u>\$1,675,046</u>	<u>\$ 411,551</u>	<u>\$434,703</u>	<u>\$ 846,254</u>
Less expenses included with revenues on the statement of activities				
Cost of goods sold	(2,160)			-
Cost of direct benefit to donors			(136,523)	(136,523)
Total expenses included in the expense section on the statement of activities	<u>\$1,672,886</u>	<u>\$ 411,551</u>	<u>\$298,180</u>	<u>\$709,731</u>
				<u>\$2,382,617</u>

The accompanying notes are an integral part of these financial statements

**OCEAN DISCOVERY INSTITUTE**  
**STATEMENTS OF CASH FLOWS**  
For the Year Ended December 31, 2018

**Cash flows from operating activities:**

Change in net assets	\$ 1,039,560
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	215,884
Changes in discount on promises to give	(1,500)
Bad debt recovery	(1,696)
Loss on sale of property and equipment	1,282
Changes in operating assets and liabilities:	
(Increase) decrease in promises to give	(284,508)
(Increase) decrease in accounts receivable	(23,566)
(Increase) decrease in inventory	2,867
Increase (decrease) in prepaid expenses	(4,893)
Increase (decrease) in accounts payable and accrued expenses	12,730
<b>Net cash provided by operating activities</b>	<u>956,160</u>

**Cash flows from investing activities:**

Purchase of property and equipment	(1,352,541)
Redemption (purchase) of investments	496,281
<b>Net cash (used in) investing activities</b>	<u>(856,260)</u>

**Net change in cash** 99,900

**Cash, beginning of year** 844,835

**Cash, end of year** \$ 944,735

**Cash consists of:**

Unrestricted cash	\$ 522,295
Restricted cash	422,440
<b>Total</b>	<u><u>\$ 944,735</u></u>

**Supplemental disclosures:**

Assets acquired through capital lease	\$ 11,701,667
Capital lease assets acquired with deferred revenue	<u><u>\$(11,701,667)</u></u>

The accompanying notes are an integral part of these financial statements

**OCEAN DISCOVERY INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2018

**Note 1. Nature of Organization**

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.

**Note 2. Summary of Significant Accounting Policies**

**Basis of Presentation**

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

**Cash and Cash Equivalents**

We consider all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects or other long-term purposes are excluded from this definition.

**Receivables and Credit Policies**

Accounts receivable consist primarily of noninterest-bearing amounts due for grants, contributions, capital campaign promises to give and operating programs. We determine the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At December 31, 2018, management determined that no allowance was necessary.

**Promises to Give**

We record unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. We determine the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At December 31, 2018, there was no allowance as all amounts are expected to be received in 2019.

**OCEAN DISCOVERY INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2018

**Note 2. Summary of Significant Accounting Policies, (continued)**

**Inventory**

Inventory consists of merchandise to promote the Institute's programs and activities. All inventory are stated at the lower of cost or market. Costs of merchandise inventory is determined by the weighted average cost method. There was no allowance for inventory obsolescence at December 31, 2018.

**Property and Equipment**

We record property and equipment additions over \$1,000 at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from five to seven, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

We review the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended December 31, 2018.

**Investments**

We record investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

**Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.



**OCEAN DISCOVERY INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2018

**Note 2. Summary of Significant Accounting Policies, (continued)**

*Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) 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, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. We report contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

**Revenue and Revenue Recognition**

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

**Donated Services and In-Kind Contributions**

Volunteers contribute significant amounts of time to our program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation (Note 9).

**Advertising and Marketing Costs**

Advertising and marketing costs are expensed as incurred, and approximated \$18,000 during the year ended December 31, 2018.

**Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**OCEAN DISCOVERY INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2018

**Note 2. Summary of Significant Accounting Policies, (continued)**

**Income Taxes**

The Institute's is organized as a California nonprofit corporation and have been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as organizations described in IRC Section 501(c)(3), qualify for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi) and have been determined not to be private foundations under IRC Sections 509(a)(1) and Section 23701(d) of the California Code. The Institute is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS and information returns Form 199 and RRF-1 for California. In addition, the Institute is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. We have determined that it is not subject to unrelated business income tax and have not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS or Form 109 with California. The Institute's tax returns are subject to examination by the IRS for three year after they are filed and four years after they are filed with California.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

**Financial Instruments and Credit Risk**

We manage deposit concentration risk by placing cash, and certificates of deposit with financial institutions believed by us to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, we have not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Board members, governmental agencies, and foundations supportive of our mission. Investments are made by diversified investment managers whose performance is monitored by us and the finance committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, we and the investment committee believe that the investment policies and guidelines are prudent for the long-term welfare of the organizations.

**Subsequent Events**

We have evaluated subsequent events through August 21, 2019, the date the consolidated financial statements were available to be issued.

**OCEAN DISCOVERY INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2018

**Note 3.      Liquidity and Availability**

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

Cash	\$ 522,295
Receivables	133,168
Operating investments	<u>400,000</u>
	<u>\$1,055,463</u>

As part of our liquidity management plan, we invest cash in excess of daily requirements in CDs.

The Board-Designated Reserve of \$150,000. Although we do not intend to spend from the board-designated reserve, these amounts could be made available if necessary. As a result, we have included the \$150,000 board-designated reserve in the cash balance of \$522,295.

**Note 4.      Fair Value Measurements and Disclosures**

We report certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that we can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, we develop inputs using the best information available in the circumstances.

**OCEAN DISCOVERY INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2018

**Note 4. Fair Value Measurements and Disclosures, (continued)**

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset or liability.

Our investment assets are classified within Level 1 because they comprise certificates of deposits with readily determinable fair values based on daily redemption values.

**Note 5. Accounts Receivable and Promises to Give**

Accounts receivable consisted of the following:

Operating receivables	\$ <u>133,168</u>
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Unconditional promises to give are estimated to be collected as follows at December 31, 2018:

Within one year	\$ <u>494,865</u>
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At December 31, 2018 two donors accounted for 88 percent of accounts receivable and promises to give. Seven contributors accounted for approximately 54 percent of total contribution revenue for the years ended December 31, 2018.

**Note 6. Property and Equipment**

Property and equipment consist of the following at December 31, 2018:

Land	\$ 495,491
Equipment and fixtures	138,455
Vehicles	48,669
Leasehold improvements	<u>15,710,040</u>
Total property and equipment	16,392,655
Less: accumulated depreciation	<u>(275,386)</u>
Total property and equipment, net	<u>\$ 16,117,269</u>

Depreciation and amortization expense totaled \$215,884 for the year ended December 31, 2018.

**OCEAN DISCOVERY INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2018

**Note 7. Line of Credit**

The Institute has a \$100,000 revolving line of credit with a bank, secured by substantially all of the assets. There were no borrowings under the line for the year ended December 31, 2018. The line bears interest at the bank's prime rate (4.5% at December 31, 2018) plus 1.00%. Accrued interest and principal have been extended to mature (June 30, 2020).

**Note 8. Leases**

We lease office space under a capital lease (no lease payments required), and equipment under various operating leases expiring at various dates through 2022. For the years ended December 31, 2019, 2020, 2021, lease payments are \$6,937 for each of those years. The remaining portion due in 2022 totals \$1,734. Rent expense for the years ended December 31, 2018 totaled \$61,879.

The capital lease is the result of a joint venture agreement with the San Diego Unified School District (the District) whereby the District provided \$11.8 million dollars towards the construction of a new building (Living Lab) that is owed by the District and operated by the Institute. The Institute will receive title to the Living Lab at the end of 40 years' operating the facility. The Institute incurred additional costs to complete the Living Lab and those costs are included as leasehold improvements on the statement of financial position. Under occupancy, the Institute is obligated to provide programming to students of the District over the lease term of 40 years.

The Institute estimates that programming services to students will approximate \$295,000 per year. As a result, the transaction is being accounted for as an exchange transaction, rather than a contribution from the District. An exchange transaction represents a reciprocal transfer in which each party receives and offers approximately equal value. Since the Institute is obligated to perform ongoing programming services through the 40 year term of the lease, the Institute recorded deferred revenue totaling \$11.8 million at the time it recorded a leasehold improvement of \$11.8 million under this lease. The Institute anticipates reducing deferred revenue on a straight-line basis by the estimated annual service costs of \$295,000 and having it become fully amortized over the 40 year lease term. The date of occupancy was late August 2018. The Living Lab was completed and placed in service in late 2018.

**Note 9. Donated Materials**

The Institute received donated materials as follows during the year ended December 31, 2018:

	Program Services	Management and General	Fundraising and Development	Total
Travel	\$ 4,057	\$ -	\$ 800	\$ 4,857
Supplies	6,995	-	-	6,995
Other	929	-	-	929
	<u>\$ 11,981</u>	<u>\$ -</u>	<u>\$ 800</u>	<u>\$ 12,781</u>

**OCEAN DISCOVERY INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2018

**Note 10. Net Assets With Donor Restrictions**

Net assets with donor restrictions are restricted for the following purposes and periods for the year ended December 31, 2018:

Subject to expenditure for specified purposes:

Living Lab	\$ 496,897
Student Initiative	89,635
Leaders Initiative	190,004
Community Initiative	9,196
Operations	<u>52,020</u>
Total Net Assets With Donor Restrictions	<u>\$ 837,752</u>

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended December 31, 2018:

Satisfaction of purpose restrictions:

Living Lab	\$ 1,366,249
Student Initiative	30,568
Leaders Initiative	23,892
Community Initiative	5,000
Operations	<u>136,065</u>
Total releases from restrictions	<u>\$ 1,561,774</u>

**Note 11. Functionalized Expenses**

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, and amortization, salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated on the basis of estimates of time and effort and overall usage.

**Note 12. 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.