

MUNGER & COMPANY, CPAs

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Ocean Discovery Institute
Audited Financial Statements
December 31, 2020

Table of Contents

	<u>Page No.</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-14

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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, 2020, 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, 2020, 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.

April 27, 2021


Munger & Company, CPAs

OCEAN DISCOVERY INSTITUTE
STATEMENT OF FINANCIAL POSITION
December 31, 2020

Assets	
Cash	\$ 1,323,445
Restricted cash	245,881
Short-term investments	600,000
Promises to give	320,000
Accounts receivable	80,621
Inventory	7,279
Prepaid expenses	49,892
Property and equipment, net	<u>16,128,370</u>
Total assets	<u><u>\$18,755,488</u></u>
Liabilities and net assets	
Liabilities	
Accounts payable and accrued expenses	\$ 39,945
Loans Payable	380,834
Deferred revenue	<u>11,111,667</u>
Total liabilities	<u>11,532,446</u>
Net assets	
Without donor restrictions	
Undesignated	1,760,458
Designated by Board reserve	200,000
Invested in property and equipment, net of deferred revenue	<u>5,016,703</u>
With donor restrictions	
Purpose restrictions	<u>245,881</u>
Total net assets	<u>7,223,042</u>
Total liabilities and net assets	<u><u>\$18,755,488</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, 2020

	Without donor restrictions	With donor restrictions	Total
Support and revenue			
Fundraising special events	\$ 524,005	\$ -	\$ 524,005
Costs of fundraising special events	(2,099)		(2,099)
Net support from special events	521,906	-	521,906
Other support and revenue			
Program fees and income	295,000		295,000
Contributions and grants	1,354,894	462,166	1,817,060
Recovery of bad debt	136,834		136,834
Interest income	4,521		4,521
In-kind contributions	27,307		27,307
Loss on sale of assets	(4,922)		(4,922)
Other income, net of expense of \$304	(264)		(264)
Net assets released from restrictions	932,930	(932,930)	-
Total support and revenue	3,268,206	(470,764)	2,797,442
Expenses			
Program services	1,493,505		1,493,505
Supporting services			
Management and general	359,655		359,655
Fundraising	292,072		292,072
Total expenses	2,145,232	-	2,145,232
Change in net assets	1,122,974	(470,764)	652,210
Net assets, beginning of year	5,854,187	716,645	6,570,832
Net assets, end of year	\$ 6,977,161	\$ 245,881	\$7,223,042

The accompanying notes are an integral part of these financial statements

OCEAN DISCOVERY INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2020

	Supporting Services				
	Program Services	Management and General	Fund- raising	Supporting Services	Total
Salaries	\$ 665,008	\$ 228,937	\$ 196,232	\$ 425,169	\$ 1,090,177
Employee benefits	53,658	18,472	15,834	34,306	87,964
Payroll taxes	46,032	15,847	13,583	29,430	75,462
Bank service charges		965	3,859	4,824	4,824
Cost of goods sold/loss on disposal	304			-	304
Cost of direct benefits to donors			2,099	2,099	2,099
Depreciation	405,189	50,649	50,649	101,298	506,487
Equipment rental and maintenance	22,125	3,451	1,956	5,407	27,532
Insurance	15,120	6,339		6,339	21,459
Licenses and permits	1,716			-	1,716
Other	14,312	3,042		3,042	17,354
Postage and printing	4,281	535	535	1,070	5,351
Professional fees	158,472	21,574		21,574	180,046
Rent	43,069	5,384	5,384	10,768	53,837
Scholarships	500			-	500
Supplies	35,184	1,496	1,496	2,992	38,176
Telephone	20,355	2,544	2,544	5,088	25,443
Travel and automobile	8,484	420		420	8,904
Total expenses by function	<u>\$ 1,493,809</u>	<u>\$ 359,655</u>	<u>\$ 294,171</u>	<u>\$ 653,826</u>	<u>\$ 2,147,635</u>
Less expenses included with revenues on the statement of activities					
Cost of goods sold	(304)			-	(304)
Cost of direct benefit to donors			(2,099)	(2,099)	(2,099)
Total expenses included in the expense section on the statement of activities	<u>\$ 1,493,505</u>	<u>\$ 359,655</u>	<u>\$ 292,072</u>	<u>\$ 651,727</u>	<u>\$ 2,145,232</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, 2020

Cash flows from operating activities:

Change in net assets	\$ 652,210
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	211,487
Recovery of bad debts	(136,834)
Loss on sale of property and equipment	4,922
Changes in operating assets and liabilities:	
(Increase) decrease in promises to give	(95,099)
(Increase) decrease in accounts receivable	151,905
(Increase) decrease in inventory	304
Increase (decrease) in prepaid expenses	11,461
Increase (decrease) in accounts payable and accrued expenses	(31,064)
Net cash provided by operating activities	<u>769,292</u>

Cash flows from investing activities:

Purchase of property and equipment	(569,136)
Proceeds from the sale of fixed assets	1,500
Purchase of investments	(400,000)
Net cash (used in) investing activities	<u>(967,636)</u>

Cash flows from financing activities:

Borrowings on loans payable	380,834
Net cash provided by financing activities	<u>380,834</u>

Net change in cash 182,490

Cash, beginning of year 1,386,836

Cash, end of year \$1,569,326

Cash consists of:

Unrestricted cash	\$1,323,445
Restricted cash	245,881
Total	<u><u>\$1,569,326</u></u>

Supplemental disclosures:

Amortization of Deferred Revenue	<u><u>\$ (295,000)</u></u>
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The accompanying notes are an integral part of these financial statements

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

Note 1. Nature of Organization

Ocean Discovery Institute (the “Institute”) is a California non-profit corporation organized in 1999 that creates a learning environment where young people who are traditionally excluded from science due to race, income status, and education level have the opportunity to do science and become science leaders who transform their lives, community, and our world.

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.

Restricted Cash

Cash from donor restrictions totaled \$245,881 at December 31, 2020. The restricted cash is not included with cash and cash equivalents due to the donor restrictions. See Note 11 for the details on the donor restrictions.

Accounts Receivable 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, 2020, management determined that no allowance was necessary.

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

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

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, 2020, promises to give totaled \$320,000 from one donor that made a promise to give in prior years. This remaining \$320,000 owed to the Institute is the final portion of that promise to promise to give at December 31, 2020. No allowance deemed necessary as there is no substantial doubt whether the amount is expected to be received.

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, 2020.

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, 2020.

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

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

Short-Term 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. The short-term investments are comprised of certificates of deposits.

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.

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

We recognize revenue from sales of program service when the products are transferred, and the services are provided. Inventory sales are recognized at the time of purchase. We record special events revenue equal to the cost of direct benefits to donors, and contribution revenue for the difference. With the exception of goods and services provided in connection with membership dues, which are transferred over the period of membership, all goods and services are transferred at a point in time.

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

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

We recognize contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Our federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses.

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 good and services are recorded at fair value at the date of donation (Note 10).

Advertising and Marketing Costs

Advertising and marketing costs are expensed as incurred.

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.

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.

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

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

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 individuals, 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.

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	\$1,323,445
Receivables	400,621
Short-term investments	<u>600,000</u>
	<u>\$1,964,066</u>

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

The Board-Designated Reserve of \$200,000. 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 \$200,000 board-designated reserve in the cash balance of \$1,323,445.

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

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.

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.

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

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

Note 5. Accounts Receivable and Promises to Give

At December 31, 2020, the \$80,621 of accounts receivable consisted of operating receivables.

Unconditional promises to give are estimated to be collected as follows at December 31, 2020:

Within one year	<u>\$ 320,000</u>
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At December 31, 2020 one funder accounted for 80 percent of accounts receivable and promises to give.

Note 6. Property and Equipment

Property and equipment consist of the following at December 31, 2020:

Land	\$ 495,491
Equipment and fixtures	545,425
Vehicles	38,319
Leasehold improvements	<u>16,303,928</u>
Total property and equipment	17,383,163
Less: accumulated depreciation	<u>(1,254,793)</u>
Total property and equipment, net	<u>\$ 16,128,370</u>

Depreciation and amortization expense totaled \$506,487 for the year ended December 31, 2020.

Note 7. Loans Payable

During the year, the Institute received a \$220,834 Payroll Protection Program (PPP) loan and two Economic Injury Disaster Loans (EIDL) for \$150,000 and \$10,000 all from the Small Business Administration. The PPP loan has a fixed interest rate of 1.00% and is forgivable with sufficient qualifying expenses. See Note 14. The two EIDL loans require repayment over a 360 month period at an interest rate of 2.75%. The loan payments, estimated to be \$667/month, commence on July 15, 2021 which is one year from effective date of the loan agreements. The loans are collateralized by assets of the Institute. The EIDL payments for the years ending 2021 through 2025 and thereafter are approximately \$3,600, \$7,300, \$7,400, \$7,500, \$7,600 and \$126,600, respectively.

Note 8. 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, 2020. The line bears interest at the bank's prime rate (3.25% at December 31, 2020) plus 1.00%. Accrued interest and principal have been extended to mature on June 30, 2021.

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

Note 9. Leases

The Institute 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 year ended December 31, 2021, lease payments are \$6,937. The remaining portion due in 2022 totals \$1,734. Expenses related to facilities for the year ended December 31, 2020 totaled \$53,837.

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. In 2058, the Institute will receive title to the Living Lab which will be at the end of the 40 year term of 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.

Note 10. Donated Materials

The Institute received donated services as follows during the year ended December 31, 2020:

	Program Services	Management and General	Fundraising and Development	Total
Legal	\$ 21,846	\$ 5,461	\$ -	\$ 27,307
	\$ 21,846	\$ 5,461	\$ -	\$ 27,307

Note 11. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes and periods for the year ended December 31, 2020:

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

Note 11. Net Assets With Donor Restrictions, (continued)

Subject to expenditure for specified purposes:

Living Lab	\$ 64,417
In School	82,059
Out of School	<u>99,405</u>
Total Net Assets With Donor Restrictions	<u>\$ 245,881</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, 2020:

Satisfaction of purpose restrictions:

Living Lab	\$ 539,446
In School	267,112
Out of School	<u>126,372</u>
Total releases from restrictions	<u>\$ 932,930</u>

Note 12. 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 13. Employee Benefit Plans

The Institute has a retirement savings 401(k) plan in which all employees over 18 years of age may participate. In January 2020, the Institute began matching 50% of an employee's elective deferral, up to 2% of compensation. For the year ended December 31, 2020, the Institute incurred expenses of \$6,612 for retirement expense.

Note 14. Subsequent Events

We have evaluated subsequent events through April 27, 2021, the date the financial statements were available to be issued. Management is aware of the following subsequent event:

The Institute submitted its paperwork for the full forgiveness of the PPP Loan in 2021. On April 8, 2021, the Institute was notified that it received full loan forgiveness on that loan.