

MUNGER & COMPANY, CPAs

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Ocean Discovery Institute Audited Financial Statements December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Ocean Discovery Institute and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Ocean Discovery Institute's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Ocean Discovery Institute's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Ocean Discovery Institute's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

August 1, 2023



Munger & Company, CPAs

Ocean Discovery Institute
STATEMENT OF FINANCIAL POSITION
December 31, 2022

Assets	
Cash	\$ 3,902,985
Restricted cash	344,894
Accounts receivable	90,726
Inventory	5,650
Prepaid expenses	84,707
Right of use asset - equipment	31,507
Right of use asset - facility	10,521,667
Property and equipment, net	<u>4,657,192</u>
Total assets	<u><u>\$ 19,639,328</u></u>
Liabilities and net assets	
Liabilities	
Accounts payable and accrued expenses	\$ 63,805
Loans payable	148,361
Deferred grants	87,500
Lease liability - equipment	33,351
Lease Liability - facility	<u>10,521,667</u>
Total liabilities	<u>10,854,684</u>
Net assets	
Without donor restrictions	
Undesignated	6,660,856
Designated by Board reserve	450,000
Designated by Board Growth & Innovation Fund	200,000
Designated by Board Endowment	800,000
Total net assets without donor restrictions	<u>8,110,856</u>
With donor restrictions	
Purpose restrictions	328,894
Perpetual in nature	344,894
Total net assets with donor restrictions	<u>673,788</u>
Total net assets	<u><u>8,784,644</u></u>
Total liabilities and net assets	<u><u>\$ 19,639,328</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, 2022

	Without donor restrictions	With donor restrictions	Total
Support and revenue			
General contributions and grants	1,134,507	2,000,304	3,134,811
Special events, net of expense of \$172,664	199,388		199,388
Interest income	318		318
Program fees	295,000		295,000
Loan forgiveness	217,192		217,192
Net assets released from restrictions	1,731,402	(1,731,402)	-
Total support and revenue	<u>3,577,807</u>	<u>268,902</u>	<u>3,846,709</u>
Expenses			
Program services	2,220,999		2,220,999
Supporting services			
Management and general	375,029		375,029
Fundraising	381,154		381,154
Total expenses	<u>2,977,182</u>	<u>-</u>	<u>2,977,182</u>
Change in net assets	600,625	268,902	869,527
Net assets, beginning of year	<u>7,510,231</u>	<u>404,886</u>	<u>7,915,117</u>
Net assets, end of year	<u>\$ 8,110,856</u>	<u>\$ 673,788</u>	<u>\$ 8,784,644</u>

The accompanying notes are an integral part of these financial statements

Ocean Discovery Institute
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2022

	Supporting Services				
	Program Services	Management and General	Fund- raising	Supporting Services	
	Total			Total	
Salaries	\$ 1,167,756	\$ 233,551	\$ 266,916	\$ 500,467	\$ 1,668,223
Employee benefits	74,994	14,999	17,141	32,140	107,134
Payroll taxes	66,240	13,248	15,141	28,389	94,629
Bank service charges		2,097	8,389	10,486	10,486
Cost of direct benefit to donors			172,664	172,664	172,664
Depreciation	176,723	22,091	22,091	44,182	220,905
Amortization - equipment	5,659	707	707	1,414	7,073
Amortization - facility	236,000	29,500	29,500	59,000	295,000
Equipment rental and maintenance	40,955	4,146	2,845	6,991	47,946
Insurance	26,310	7,989		7,989	34,299
Licenses and permits	7,439			-	7,439
Marketing		2,678		2,678	2,678
Other	22,643	12,196	4,027	16,223	38,866
Postage and shipping	16,761	2,095	2,095	4,190	20,951
Professional fees	113,182	15,517		15,517	128,699
Occupancy	63,061	7,883	7,883	15,766	78,827
Supplies	91,090	1,608	1,608	3,216	94,306
Telephone	22,490	2,811	2,811	5,622	28,112
Travel and automobile	89,696	1,913		1,913	91,609
Total expenses by function	\$ 2,220,999	\$ 375,029	\$ 553,818	\$ 928,847	\$ 3,149,846
Less expenses included with revenues on the statement of activities					
Cost of direct benefit to donors			(172,664)	(172,664)	(172,664)
Total expenses included in the expense section on the statement of activities	\$ 2,220,999	\$ 375,029	\$ 381,154	\$ 756,183	\$ 2,977,182

The accompanying notes are an integral part of these financial statements

Ocean Discovery Institute
STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2022

Cash flows from operating activities:	
Change in net assets	\$ 869,527
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	220,905
Amortization	7,073
Loan forgiveness	(217,192)
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	(35,228)
(Increase) decrease in inventory	75
Increase (decrease) in prepaid expenses	5,807
Increase (decrease) in accounts payable and accrued expenses	16,429
Increase (decrease) in right of use assets and liabilities	(5,229)
(Decrease) in deferred grants	(128,475)
Net cash provided by operating activities	<u>733,692</u>
Cash flows from investing activities:	
Purchase of property and equipment	(47,336)
Net cash (used in) investing activities	<u>(47,336)</u>
Cash flows from financing activities:	
Principal payments on loans payable	(9,493)
Net cash (used in) financing activities	<u>(9,493)</u>
Net change in cash	676,863
Cash, beginning of year	<u>3,571,016</u>
Cash, end of year	<u><u>\$4,247,879</u></u>
Cash consists of:	
Unrestricted cash	\$3,902,985
Restricted cash	344,894
Total	<u><u>\$4,247,879</u></u>
Supplemental disclosures:	
Amortization of Financing Lease Payable	<u><u>\$ (295,000)</u></u>

The accompanying notes are an integral part of these financial statements

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

Note 1. Nature of Organization

Ocean Discovery Institute (the “Institute”) is a California non-profit corporation organized in 1999. To inspire the next generation of science leaders, Ocean Discovery Institute creates learning experiences for young people traditionally excluded from science due to race, income status, and educational opportunity. Ocean Discovery students will join high-paying fields, break generational poverty, and change the future of science.

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

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, are reported as 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 perpetual donor restrictions totaled \$344,894 as of December 31, 2022, and accordingly is not included with cash and cash equivalents due to the donor restrictions. See Note 10 for the details on the donor restrictions.

Accounts Receivable and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for grants, contributions, and operating programs. Management determines 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. As of December 31, 2022, management determined that no allowance was necessary. There was no bad debt expense for the year ending December 31, 2022.

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

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

Inventory

Inventory consists of merchandise to promote the Institute's programs and activities. Inventory is 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 as of December 31, 2022.

Property and Equipment

Property and equipment additions over \$1,000 are recorded 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.

The carrying values of property and equipment are reviewed 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, 2022.

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.

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

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

Contributions restricted by donors are reported 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

Special events revenue is equal to the cost of direct benefits to donors (exchange component), and contribution revenue for the difference. The direct cost of special events, which ultimately benefit the donor rather than the Organization. The performance obligation is the delivery of the event.

Revenue from program fees is recognized during the period in which the related performance obligations are met.

Inventory sales are recognized at the time of purchase which is when the related performance obligation is simultaneously met.

Grants and contributions of cash, securities or other assets are recognized when 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.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to 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. There were no contributed goods and services for the year ended December 31, 2022. Contributed goods and services would be recorded at fair value at the date of donation if received.

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.

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

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

Income Taxes

The Institute is organized as a California nonprofit corporation and has been recognized by the Internal Revenue Service as a 501c(3) tax-exempt organization.

Management has evaluated the tax positions and related income tax contingencies. Management does not believe that any material uncertain tax position exists. The Institute's tax returns are subject to examination by the Internal Revenue Service for three years after they are filed; and the Franchise Tax Board, generally for four years after they are filed.

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 and disclosures. Accordingly, actual results could differ from those estimates under different assumptions or conditions.

Financial Instruments and Credit Risk

Concentration risk is managed by placing cash and certificates of deposit with financial institutions. Amounts on deposit may exceed insured limits. To date, management has not experienced losses in any of these accounts. Credit risk associated with accounts receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies, and foundations supportive of our mission.

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	\$3,902,985
Receivables	<u>90,726</u>
	<u>\$3,993,711</u>

As part of the liquidity management plan, cash in excess of daily requirements may be invested in CDs.

The Board-Designated Reserves of \$1,450,000, although not management's intent, could be made available if necessary. As a result, this amount has been included in the \$1,450,000 board-designated reserves in the cash balance of \$3,902,985.

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

Note 4. Accounts Receivable

Six grantors accounted for approximately 90 percent of accounts receivable totaling \$90,726 as of December 31, 2022.

Note 5. Property and Equipment

Property and equipment consist of the following as of December 31, 2022:

Land	\$ 495,491
Equipment and fixtures	599,426
Vehicles	22,282
Leasehold improvements	<u>4,503,928</u>
Total property and equipment	5,621,127
Less: accumulated depreciation	<u>(963,935)</u>
Total property and equipment, net	<u>\$ 4,657,192</u>

Depreciation and amortization expense totaled \$220,905 for the year ended December 31, 2022. Leasehold improvements are being amortized and the vehicles, equipment and fixtures are being depreciated. See Note 8 for right of use assets not included in this section.

Note 6. Loans Payable

In the prior year, the Institute received a \$217,392 Payroll Protection Program (PPP) loan and an Economic Injury Disaster Loans (EIDL) for \$150,000 and are all from the Small Business Administration. The PPP loan has a fixed interest rate of 1.00% and is forgivable with sufficient qualifying expenses. During the year ended December 31, 2022, the Institute received full loan forgiveness from the Small Business Administration for the \$217,392 loan. The EIDL loan requires repayment over a 360 month period at an interest rate of 2.75%. The loan payments, estimated to be \$641/month, commenced on July 15, 2022 which is one year from effective date of the loan agreements. The loans are collateralized by assets of the Institute. EIDL payments for the years ending December 31, are as follows:

2023	\$ 3,756
2024	3,851
2025	3,948
2026	4,048
2027	4,151
Thereafter	<u>128,607</u>
Total loans payable as of December 31, 2022	<u>\$148,361</u>

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

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 and expires on June 30, 2024. There were no borrowings under the line for the year ended December 31, 2022. The line bears interest at the bank's prime rate (6.25% at December 31, 2022) plus 1.00%.

Note 8. Leases

The Institute leases office space under a financing lease (no lease payments required), and equipment under an operating lease expiring at various dates through 2058 and 2027, respectively.

Financing Lease

The financing 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 annual programming services to students of the District over the 40 year lease term in exchange for the use of occupancy in the Living Lab.

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 lease liability – facility totaling \$11.8 million at the time it recorded a right of use asset - facility of \$11.8 million under this financing lease. The Institute anticipates reducing lease liability – facility on a straight-line basis by the estimated annual programming costs to students which are expected to be \$295,000. The \$11.8 million will become fully amortized over the 40 year lease term with the \$295,000 of annual programming services being performed. As a result, there is no discount rate to apply to this lease.

Operating Lease

The Organization has an equipment lease that terminates in January 2027.

Included in the determination of the right-of-use asset and lease liability are any renewal options when the option is reasonably certain to be exercised. The operating lease does provide 3% increases in future minimum annual rental payments beginning in 2024.

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

Note 8. Leases, (continued)

The weighted-average discount rate is based on the discount rate implicit in the lease. The Organization has elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. The Organization has applied the risk-free rate option to the office equipment classes of assets.

The Organization has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on straight-line basis.

Total right-of-use asset and lease liability as of December 31, 2022, are as follows:

Lease Assets – Classification in Statement of Financial Position

Operating right-of-use asset – equipment	<u>31,507</u>
Total operating right-of-use assets	<u>\$ 31,507</u>

Lease Liability – Classification in the Statement of Financial Position

Operating lease liability – equipment, current	6,333
Operating lease liability – equipment, noncurrent	<u>27,018</u>
Total lease liability	<u>\$ 33,351</u>

Total lease costs for the year ended December 31, 2022 are as follows:

Amortization of right-of-use asset	\$ 7,073
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The following summarizes the weighted-average remaining lease term and weight-average discount rate:

Weighted-average remaining lease term in years:		Weighted-average discount rate:	
Operating leases-equipment	5.00	Operating leases	5.00%

The future minimum lease payments under noncancelable operating lease with terms greater than one year are listed below as of December 31, 2022:

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

Note 8. Leases, (continued)

<u>December 31,</u>	<u>Operating</u>
2023	\$ 6,638
2024	7,634
2025	8,779
2026	10,095
2027	<u>967</u>
Total lease payments	\$ 34,113
Less Discount	<u>(762)</u>
Present value of lease liability	<u>\$ 33,351</u>

Note 9. Endowment

The Endowment was established in 2021. The earnings on the gifts are without donor restriction and the corpus amounts are with donor restriction to be held in perpetuity.

The Board of Directors has interpreted the California Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As of December 31, 2022, there were no such donor stipulations. As a result of this interpretation, the Institute retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts donated to the Endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA. Management considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

Note 9. Endowment, (continued)

As of December 31, 2022, we had the following endowment net asset composition by type of fund:

	<u>Without Donor Restricted</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 800,000	\$ -	\$ 800,000
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	344,894	344,894
Accumulated gains	-	-	-
Totals	<u>\$ 800,000</u>	<u>\$ 344,894</u>	<u>\$ 1,144,894</u>

As of December 31, 2022, all endowment funds received totaling \$344,894 have not yet been invested and are included in restricted cash.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2022 there were not gifts that were underwater.

Investment and Spending Policies

The Institute is in the process of finalizing and adopting investment and spending policies for the Endowment that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the Endowment assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the Endowment investments. The target minimum rate of return is anticipated to be the Consumer Price Index plus 4.5 percent on an annual basis. Actual returns in any given year may vary from this amount. To satisfy this long-term rate-of-return objective, the investment portfolio will be structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). A significant portion of the funds will be invested to seek growth of principal over time.

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

Note 9. Endowment, (continued)

An endowment spending-rate formula will used to determine the maximum amount to spend from the Endowment, including those endowments deemed to be underwater, each year. The rate, determined and adjusted from time to time by the Board of Directors, will be applied to determine the spending amount for the upcoming year. During 2022, the spending rate maximum was not yet established. In establishing this policy, we considered the long-term expected return on the Endowment and set the rate with the objective of maintaining the purchasing power of the Endowment over time.

Changes in Endowment net assets for the year ended December 31, 2022 are as follows:

	Without Donor Restricted	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 149,694	\$ 149,694
Investment returns, net	-	-	-
Contributions	800,000	195,200	995,200
Appropriation of endowment assets pursuant to spending-rate policy	-	-	-
Other changes:			
Distribution form board-designated endowment pursuant to distribution policy	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Endowment net assets, end of year	<u>\$ 800,000</u>	<u>\$ 344,894</u>	<u>\$ 1,144,894</u>

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, 2022:

Subject to expenditure for specified purposes:	
In School	\$ 178,546
Out of School	<u>150,348</u>
Total Net Assets With Donor Restrictions	<u>\$ 328,894</u>
Perpetual in Nature	<u>\$ 344,894</u>
Total Net Assets with Donor Restrictions	<u>\$ 637,788</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, 2022:

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

Note 10. Net Assets With Donor Restrictions, (continued)

Satisfaction of purpose restrictions:	
In School	\$ 553,728
Out of School	<u>1,177,674</u>
Total releases from restrictions	<u>\$ 1,731,402</u>

Note 11. Revenue from Contracts with Customers, (continued)

Deferred Grants, beginning of year	\$ 215,975
Revenue recognized from deferred revenue at the beginning of year	(215,975)
Increases in deferred revenue during the year	<u>87,500</u>
Deferred Grants, end of year	<u>\$ 87,500</u>

During the year, the Institute received funding that contained both a right of return and performance barrier to serve a specific number of children. The remaining deferred revenue is anticipated to be earned during the 2023 year from serving the remaining children on the funded grant.

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, 2022, the Institute incurred expenses of \$13,391 for 401k matching expense.

Note 14. Subsequent Events

We have evaluated subsequent events through August 1, 2023, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require adjustment to, or disclosure in, the financial statements.