

MUNGER & COMPANY, CPAs

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Ocean Discovery Institute Audited Financial Statements December 31, 2023

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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, 2023, 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, 2023, 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.

July 27, 2024



Munger & Company, CPAs

Ocean Discovery Institute
STATEMENT OF FINANCIAL POSITION
December 31, 2023

Assets	
Cash	\$ 2,842,304
Grants receivable	195,042
Inventory	4,699
Prepaid expenses	61,911
Investments	607,177
Endowment investments	1,549,794
Right of use asset - equipment	26,901
Right of use asset - facility	10,226,667
Property and equipment, net	<u>4,566,779</u>
Total assets	<u><u>\$ 20,081,274</u></u>
 Liabilities and net assets	
Liabilities	
Accounts payable and accrued expenses	\$ 85,209
Loans payable	144,496
Lease liability - equipment	27,017
Lease Liability - facility	<u>10,226,667</u>
Total liabilities	<u>10,483,389</u>
 Net assets	
Without donor restrictions	
Undesignated	6,199,654
Designated by Board reserve	450,000
Designated by Board Growth & Innovation Fund	221,777
Designated by Board Endowment	<u>800,000</u>
Total net assets without donor restrictions	<u>7,671,431</u>
With donor restrictions	
Purpose restrictions	1,176,660
Perpetual in nature	<u>749,794</u>
Total net assets with donor restrictions	<u>1,926,454</u>
Total net assets	<u><u>9,597,885</u></u>
Total liabilities and net assets	<u><u>\$ 20,081,274</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, 2023

	Without donor restrictions	With donor restrictions	Total
Support and revenue			
General contributions and grants	1,087,580	2,697,099	3,784,679
Special events, net of expense of \$121,082	261,633		261,633
Investment income	215,270		215,270
Program fees	295,000		295,000
Net assets released from restrictions	1,444,433	(1,444,433)	-
Total support and revenue	<u>3,303,916</u>	<u>1,252,666</u>	<u>4,556,582</u>
Expenses			
Program services	2,836,660		2,836,660
Supporting services			
Management and general	390,567		390,567
Fundraising	516,114		516,114
Total expenses	<u>3,743,341</u>	<u>-</u>	<u>3,743,341</u>
Change in net assets	(439,425)	1,252,666	813,241
Net assets, beginning of year	<u>8,110,856</u>	<u>673,788</u>	<u>8,784,644</u>
Net assets, end of year	<u>\$ 7,671,431</u>	<u>\$ 1,926,454</u>	<u>\$ 9,597,885</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, 2023

	Supporting Services				
	Program Services	Management and General	Fund- raising	Supporting Services	Total
Salaries	\$ 1,627,704	\$ 256,484	\$ 371,093	\$ 627,577	\$ 2,255,281
Employee benefits	107,056	16,869	24,407	41,276	148,332
Payroll taxes	126,727	19,969	28,892	48,861	175,588
Bank service charges		5,678	11,907	17,585	17,585
Cost of direct benefit to donors			121,082	121,082	121,082
Depreciation	153,370	3,496	18,250	21,746	175,116
Amortization - facility	236,000	29,500	29,500	59,000	295,000
Equipment rental and maintenance	37,686	8,060	2,725	10,785	48,471
Insurance	27,374	6,556		6,556	33,930
Licenses and permits	5,954			-	5,954
Marketing	854			-	854
Other	51,678	8,470	4,313	12,783	64,461
Postage and shipping	25,774		3,436	3,436	29,210
Professional fees	167,437	10,836	15,790	26,626	194,063
Occupancy	66,772	2,131	2,131	4,262	71,034
Conferences	12,925			-	12,925
Supplies	78,904		3,389	3,389	82,293
Information Technology		22,518		22,518	22,518
Travel and automobile	110,445		281	281	110,726
Total expenses by function	<u>\$ 2,836,660</u>	<u>\$ 390,567</u>	<u>\$ 637,196</u>	<u>\$ 1,027,763</u>	<u>\$ 3,864,423</u>
Less expenses included with revenues on the statement of activities					
Cost of direct benefit to donors			<u>(121,082)</u>	<u>(121,082)</u>	<u>(121,082)</u>
Total expenses included in the expense section on the statement of activities	<u>\$ 2,836,660</u>	<u>\$ 390,567</u>	<u>\$ 516,114</u>	<u>\$ 906,681</u>	<u>\$ 3,743,341</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, 2023

Cash flows from operating activities:

Change in net assets	\$ 813,241
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	175,116
Unrealized (gain) on investments	(105,583)
Increase (decrease) in right of use assets and liabilities	(1,728)
(Increase) decrease in grants receivable	(104,316)
(Increase) decrease in inventory	951
(Increase) decrease in prepaid expenses	22,796
Increase (decrease) in accounts payable and accrued expenses	21,404
Increase (Decrease) in deferred grants	(87,500)
Net cash provided by operating activities	<u>734,381</u>

Cash flows from investing activities:

Purchase of property and equipment	(84,703)
Purchases of investments	(2,051,388)
Net cash (used in) investing activities	<u>(2,136,091)</u>

Cash flows from financing activities:

Principal payments on loans payable	(3,865)
Net cash (used in) financing activities	<u>(3,865)</u>

Net change in cash (1,405,575)

Cash, beginning of year 4,247,879

Cash, end of year \$ 2,842,304

Supplemental disclosures:

Amortization of Financing Lease Payable	\$ (295,000)
Amortization of Right of Use Asset - Facility	<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, 2023

Note 1. Nature of Organization

Ocean Discovery Institute (the “Institute”) is a California non-profit corporation organized in 1999. The mission is 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.

Receivables and Credit Policies

Receivables consists primarily from granting agencies and organizations.

Effective January 1, 2023, the Organization adopted the provisions of FASB ASC Topic 326, Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments (ASU 2016-13)—This update establishes the current expected credit loss (CECL) model established by ASU 2016-13, which requires the immediate recognition of estimated expected credit losses over the life of a financial instrument, including trade receivables, net investments in leases (for lessors with sales-type or direct financing leases), and certain off-balance sheet credit exposures. The estimate of expected credit losses considers historical information as well as current and future economic conditions and events. The impact of the adoption was not considered material to the financial statements. Management determined that an allowance was not necessary based upon the factors above as they are expected to be zero given that all receivables were received within approximately 30 days after December 31, 2023.

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, 2023.

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

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

Investments

Investment purchases are recorded 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.

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, 2023.

Right of Use Leased Assets and Liabilities

Right to use leased assets and the related liabilities are recognized at the lease commencement date and represent the Institute's right to use an underlying asset and lease obligations for the lease term. Right to use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to place the lease asset into service. Right to use leased assets are amortized over the shorter of the lease term or the useful life of the underlying asset using the straight-line method. The amortization period varies among the leases.

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:

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

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

Net Assets, (continued)

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.

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.

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, 2023. Contributed goods and services would be recorded at fair value at the date of donation if received.

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

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

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 is organized as a California nonprofit corporation and has been recognized by the Internal Revenue Service as a 501(c)(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 management 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 the Institute's mission.

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

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	\$2,842,304
Grants Receivable	195,042
Investments	607,177
Endowment Investments	1,549,794
Less: Net Assets With donor restrictions	<u>(1,926,454)</u>
	<u>\$3,267,863</u>

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

The Board-Designated Reserves of \$1,471,777, although not management’s intent, could be made available if necessary. As a result, this amount has been included in the schedule above.

Note 4. Fair Value Measurements and Disclosures

Certain assets are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset 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, 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 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 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 that can be accessed at the measurement date.

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

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

OCEAN DISCOVERY INSTITUTE
Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 4. Fair Value Measurements and Disclosures (continued)

In some cases, the inputs used to measure the fair value of an asset 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. 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.

The following table presents assets and liabilities measured at fair value on a recurring basis, as identified in the following, at December 31, 2023:

Assets	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of Deposit	\$ 506,259		\$ 506,259	\$ -
Funds held by Bank of America:				
Equities	\$ 1,130,841	\$ 1,130,841	\$ -	\$ -
Fixed Income	\$ 519,871	\$ 519,871	\$ -	\$ -
	<u>\$ 2,156,971</u>	<u>\$ 1,650,712</u>	<u>\$ 506,259</u>	<u>\$ -</u>

Note 5. Grants Receivable

Three grantors accounted for approximately 80 percent of accounts receivable totaling \$195,042 as of December 31, 2023. One donor accounted for approximately 11 percent of total revenues.

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

Note 6. Property and Equipment

Property and equipment consist of the following as of December 31, 2023:

Land	\$ 495,491
Equipment and fixtures	645,938
Vehicles	22,282
Leasehold improvements	<u>4,503,928</u>
Total property and equipment	5,667,639
Less: accumulated depreciation	<u>(1,100,860)</u>
Total property and equipment, net	\$ <u>4,566,779</u>

Depreciation and amortization expense totaled \$175,116 for the year ended December 31, 2023. 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 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, 2023. The line bears interest at the bank's prime rate (6.25% as of December 31, 2023) plus 1.00%.

Note 8. Loans Payable

In a prior year, the Institute received an Economic Injury Disaster Loans (EIDL) for \$150,000 from the Small Business Administration. 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:

2024	\$ 3,851
2025	3,999
2026	4,111
2027	4,225
2028	4,343
Thereafter	<u>123,967</u>
Total loans payable as of December 31, 2023	<u>\$144,496</u>

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

Note 9. 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.

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.

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

Total right-of-use asset and lease liability as of December 31, 2023, are as follows:

Lease Assets – Classification in Statement of Financial Position

Operating right-of-use asset – equipment	<u>26,901</u>
Total operating right-of-use assets	<u>\$ 26,901</u>

Lease Liability – Classification in the Statement of Financial Position

Operating lease liability – equipment, current	7,634
Operating lease liability – equipment, noncurrent	<u>19,383</u>
Total lease liability	<u>\$ 27,017</u>

Total lease costs for the year ended December 31, 2023 are as follows:

Amortization of right-of-use asset is included in rent expense which totaled\$ (1,728)

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	4.00	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, 2023:

<u>December 31,</u>	
	<u>Operating</u>
2024	\$ 7,634
2025	8,779
2026	10,095
2027	<u>967</u>
Total lease payments	<u>\$ 27,475</u>
Less Discount	<u>(458)</u>
Present value of lease liability	<u>\$ 27,017</u>

Note 10. 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.

OCEAN DISCOVERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

Note 10. Endowment, (continued)

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, 2023, 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

As of December 31, 2023, the Institute 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	-	749,794	749,794
Accumulated gains	-	-	-
Totals	<u>\$ 800,000</u>	<u>\$ 749,794</u>	<u>\$ 1,549,794</u>

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. As of December 31, 2023 there were no gifts that were underwater.

OCEAN DISCOVERY INSTITUTE
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Note 10. Endowment, (continued)

Investment and Spending Policies

The Institute adopted 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.

An endowment spending-rate formula will be 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 2023, 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, 2023 are as follows:

	Without Donor <u>Restricted</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 344,894	\$ 344,894
Investment returns, net	-	-	-
Contributions	800,000	404,900	1,204,900
Appropriation of endowment assets pursuant to spending-rate policy	-	-	-
Other changes:			
Distribution from board-designated endowment pursuant to distribution policy	-	-	-
Endowment net assets, end of year	<u>\$ 800,000</u>	<u>\$ 749,794</u>	<u>\$ 1,549,794</u>

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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, 2023:

Subject to expenditure for specified purposes:	
In School	\$ 178,546
Out of School	50,506
Leadership	<u>947,608</u>
	<u>\$1,176,660</u>
Perpetual in Nature	\$ 749,794
Total Net Assets with Donor Restrictions	<u>\$1,926,454</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, 2023:

Satisfaction of purpose restrictions:	
In School	\$ 508,896
Leadership	240,984
Out of School	<u>694,553</u>
Total releases from restrictions	<u>\$ 1,444,433</u>

Note 12. Revenue from Contracts with Customers

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

Note 13. 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.

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Note 14. 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, 2023, the Institute incurred expenses of \$18,496 for 401k matching expense.

Note 15. Subsequent Events

Management has evaluated subsequent events through July 27, 2024, 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.