

Force Blue Inc.
**Financial Statements
and Independent Auditor's Report**
December 31, 2021

Force Blue Inc.

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Independent Auditor's Report

To the Board of Directors
Force Blue Inc.

Opinion

We have audited the financial statements of Force Blue Inc., which comprise the statement of financial position as of December 31, 2021, 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 accompanying financial statements present fairly, in all material respects, the financial position of Force Blue Inc. as of December 31, 2021, 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 ("GAAS"). 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 Force Blue Inc. 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.

2020 Financial Statements Restated

As discussed in Note 8 to the financial statements, the 2020 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

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 Force Blue Inc.'s ability to continue as a going concern for one year after the date that the financial statements are 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 GAAS 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 GAAS, 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 Force Blue Inc.'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 Force Blue Inc.'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.

CohnReznick LLP

New York, New York
December 22, 2022

Force Blue Inc.

**Statement of Financial Position
December 31, 2021**

Assets

Cash	\$	532,434
Contributions receivable		8,588
Investments		73,659
Prepaid expenses		<u>5,000</u>
Total assets	\$	<u><u>619,681</u></u>

Liabilities and Net Assets (Deficit)

Liabilities		
Accounts payable and accrued expenses	\$	10,792
Loan payable		<u>150,000</u>
Total liabilities		<u>160,792</u>
Commitments and contingencies		
Net assets		
Without donor restrictions		282,397
With donor restrictions		<u>176,492</u>
Total net assets		<u>458,889</u>
Total liabilities and net assets	\$	<u><u>619,681</u></u>

See Notes to Financial Statements.

Force Blue Inc.

**Statement of Activities
Year Ended December 31, 2021**

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Support and revenue			
Contributions	\$ 545,089	\$ 204,666	\$ 749,755
Other income	51,766	-	51,766
Net assets released from restriction	<u>386,863</u>	<u>(386,863)</u>	<u>-</u>
Total support and revenue	<u>983,718</u>	<u>(182,197)</u>	<u>801,521</u>
Expenses			
Program services	439,437	-	439,437
Management and general	187,985	-	187,985
Fundraising expenses	<u>32,133</u>	<u>-</u>	<u>32,133</u>
Total expenses	<u>659,555</u>	<u>-</u>	<u>659,555</u>
Change in net assets	324,163	(182,197)	141,966
Net asset (deficit), beginning, as previously reported	<u>(102,420)</u>	<u>358,689</u>	<u>256,269</u>
Restatement	60,654	-	60,654
Net asset (deficit), beginning, as restated	<u>(41,766)</u>	<u>358,689</u>	<u>316,923</u>
Net assets, end	<u><u>\$ 282,397</u></u>	<u><u>\$ 176,492</u></u>	<u><u>\$ 458,889</u></u>

See Notes to Financial Statements.

Force Blue Inc.

**Statement of Functional Expenses
Year Ended December 31, 2021**

	Program services	Management and general	Fundraising	Total
Salaries and fringe	\$ 139,669	\$ 71,405	\$ -	\$ 211,074
Consultants	94,450	-	-	94,450
Per diem	20,638	-	-	20,638
Equipment and supplies rentals	4,901	-	-	4,901
Travel	57,527	-	5,675	63,202
Research	67,482	-	-	67,482
Professional fees	350	82,076	-	82,426
Production costs	46,004	-	4,307	50,311
Advertising	-	-	11,389	11,389
Strategy and development	-	14,350	-	14,350
Office expense	289	714	1,371	2,374
Computer and website expenses	6,111	5,339	-	11,450
Credit card interest expense	-	2,336	-	2,336
Interest expense	-	4,812	-	4,812
Processing fees	394	2,172	1,434	4,000
Events, meals and entertainment	909	-	7,957	8,866
Insurance expense	-	3,813	-	3,813
Dues and subscriptions	713	968	-	1,681
	<u>439,437</u>	<u>187,985</u>	<u>32,133</u>	<u>659,555</u>
Total	<u>\$ 439,437</u>	<u>\$ 187,985</u>	<u>\$ 32,133</u>	<u>\$ 659,555</u>

See Notes to Financial Statements.

Force Blue Inc.

**Statement of Cash Flows
Year Ended December 31, 2021**

Cash flows from operating activities	
Change in net assets	\$ 141,966
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Gifts of donated securities	(15,211)
Net gain on investments	(3,089)
Forgiveness of debt	(86,760)
Changes in	
Contributions receivable	112,526
Prepaid expenses	(5,000)
Accounts payable and accrued expenses	(56,454)
	<hr/>
Net cash provided by operating activities	87,978
Cash flows from financing activities	
Proceeds from loans payable	73,750
Cash flows from investing activities	
Purchase of investments	(50,312)
	<hr/>
Net increase in cash	111,416
Cash, beginning	<hr/> 421,018
Cash, end	<hr/> <u>\$ 532,434</u>

See Notes to Financial Statements.

Force Blue Inc.

Notes to Financial Statements December 31, 2021

Note 1 - Organization and nature of activities

Force Blue Inc. (the "Organization") is incorporated under the laws of the State of New York and is exempt under 501(c)(3) of the Internal Revenue Code. The Organization was established as a means of addressing two seemingly unrelated problems - the rapidly declining health of our oceans and the difficulty of far too many servicemen and women have adjusting to civilian life once their service ends. Force Blue Inc. retrains and redeploys former Special Operations veterans and military-trained combat divers to work alongside scientists and environmentalists on marine conservation missions.

Note 2 - Significant accounting policies

Basis of accounting

The accompanying financial statements of the Organization have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America ("US GAAP") as applicable to nonprofit entities.

Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and other disclosures in the financial statements. Accordingly, actual results could differ from those estimates.

Concentration of risk

For the year ended December 31, 2021, the Organization earned approximately 56% of its revenue from three contributors.

Cash

The Organization maintains cash at a commercial bank that is insured by the Federal Deposit Insurance Corporation ("FDIC"). Cash balance at times, may exceed federally funded insured limits. Cash held in accounts with brokers are included in investments on the statement of financial position.

Investments

Investments consist of equity securities and are stated at fair value. Investments in equity securities with readily determinable values are valued based on quoted market prices in active markets in which the securities are traded. Gains and losses, both realized and unrealized resulting from increases or decreases in the fair value of investments are reflected in the statement of activities as increases or decrease in net assets without donor restrictions unless the use was restricted by explicit donor stipulations. For the year ended December 31, 2021, realized and unrealized gains totaled \$3,327 and is reported on the statement of activities as other income.

The Organization applies the US GAAP authoritative guidance for Fair Value Measurements and Disclosures, which defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements.

The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in inactive markets, or other inputs that are observable or

Force Blue Inc.

Notes to Financial Statements December 31, 2021

can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Valuation techniques used in fair value measurements need to maximize the use of observable inputs and minimize the use of unobservable inputs. A valuation method may produce a fair value measurement that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions could result in different fair value measurements at the reporting date. There has been no changes in the methodologies used during the year ended December 31, 2021.

At December 31, 2021, investments, which includes \$50,386 of cash and \$23,273 of equities, recorded at fair value, totaled \$73,659 and are fair valued using Level 1 inputs.

Net assets

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor restrictions. Accordingly, the net assets of the Organization and the changes therein are classified and reported in two categories of net assets:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions, including the net investment in fixed assets, gifts with no donor restrictions and current funds without donor restriction.

Net assets with donor restrictions - Net assets that are restricted by a donor for use for a specific purpose or in a future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Net assets may also be subject to donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization had net assets with donor restrictions of \$176,492 at December 31, 2021.

Revenue recognition

Contributions of cash and other assets, including unconditional promises to give, are considered to be available for unrestricted use unless specifically restricted by the donor and are recognized as support in the period the unconditional promise is given. 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. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts are recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

A portion of our revenue is derived from cost-reimbursable grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when we have incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. No amounts have been received in advance under our cost-reimbursable grants.

Force Blue Inc.

Notes to Financial Statements December 31, 2021

Service fees are recognized in connection with dive missions in the period that the service is provided.

Donated services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, and are performed by people with those skills and would otherwise be purchased by the Organization.

Advertising

Advertising is expenses in the period incurred. Advertising amounted to \$11,389 for the year ended December 31, 2021.

Functional expenses

Expenses are reported as decreases in net assets without donor restrictions. The costs of providing program and supporting services of the Organization have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated between program services, management and general, and fundraising on a basis as determined by management.

Program services consist of costs directly incurred in connection with services provided and in conducting the programs.

Management and general consist of costs directly incurred in connection with overall activities of the Organization or based on estimates made by management, which are not allocable to program services.

Fundraising consist of costs directly incurred in connection with activities related to fundraising campaigns and other solicitations for contributions.

The Organization reports certain categories of expenses that are attributable to both program and supporting functions. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Salaries and fringe expenses are allocated based on the amount of time spent by an employee in performing their job function.

Income taxes

The Organization is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Organization is also exempt from state and local taxes.

The Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Tax positions include the tax-exempt status of the Organization, among others. There are no uncertain tax positions identified or recorded as liabilities for the year ended December 31, 2021. The Organization did not recognize any interest and penalties associated with tax matters for the year ended December 31, 2021.

The Organization files Form 990, Return of Organization Exempt from Income Tax, with the Internal Revenue Service annually.

Note 3 - Liquidity and availability

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments.

Force Blue Inc.

**Notes to Financial Statements
December 31, 2021**

The Organization's financial assets as of December 31, 2021 that are available to meet cash needs for general expenditures within one year of the date of the statements of financial position consist of the following:

Financial assets at year-end	
Cash	\$ 532,434
Investments	<u>73,659</u>
 Total financial assets	 606,093
 Less amounts not available to meet general expenditures	
Net assets with donor restrictions	<u>(176,492)</u>
 Total financial assets available to meet general expenditures over the next 12 months	 <u>\$ 429,601</u>

Note 4 - Loan payable

On February 2021, the Organization entered into an unsecured promissory note with a commercial bank for an aggregate principal amount of \$33,750 pursuant to the Paycheck Protection Program (the "PPP Loan"), which was established under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and is administered by the U.S. Small Business Administration (the "SBA"). Under the CARES Act, PPP Loan recipients meeting certain criteria set by the SBA may be eligible for full or partial forgiveness of such loans. During the year ended December 31, 2021, the Organization submitted its application for PPP Loan forgiveness and received notice from the SBA on August 2021 that the SBA approved forgiveness of the full amount of the PPP Loan and the related interest thereon. Accordingly, the Organization derecognized \$33,750 of the PPP Loan and recognized a corresponding gain on debt forgiveness in other income. There is a six-year period during which the SBA can review the Organization's forgiveness calculation.

During 2020, the Organization entered into a loan agreement with the SBA for \$150,000 through its Economic Injury Disaster Loan program. The purpose of this loan is to provide the Organization with proceeds for working capital to alleviate economic injury caused by COVID-19. The loan carries a rate of 2.75% per annum and is payable in monthly installment payments of \$641 commencing on June 15, 2021. The loan matures on June 15, 2050 and is collateralized by all tangible and intangible property that the Organization owns, acquires or creates immediately upon acquisition of the loan. At December 31, 2021, the balance outstanding on the loan payable is \$150,000. For the year ended December 31, 2021, the Organization incurred interest expense of \$4,812, of which \$1,700 is outstanding and reported as accounts payable and accrued expenses on the statement of financial position.

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**Notes to Financial Statements
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The following schedule represents scheduled payments of principal on the loan payable over the next five years and thereafter:

2022	\$	1,878
2023		3,665
2024		3,767
2025		3,872
2026		3,979
Thereafter		<u>132,839</u>
	\$	<u><u>150,000</u></u>

Note 5 - Net assets with donor restrictions

As of December 31, 2021, net assets with donor restrictions are as follows:

Specific dive missions	\$	111,861
Ocean conservation school		39,534
Film production		<u>25,097</u>
	\$	<u><u>176,492</u></u>

Net assets released from restriction during the year ended December 31, 2021 totaled \$386,863.

Note 6 - Related party

The Organization's management lent funds to the Organization in previous years. During the year ended December 31, 2021, management forgave the amount due of \$13,010, which is reported as other income on the statement of activities.

Note 7 - Commitments and contingencies

During 2020, the World Health Organization ("WHO") declared the COVID-19 virus as a pandemic and the federal government declared a national emergency. While the spread of the virus did cause business disruptions for many of the Organization's 2020 missions and made planning for those missions in early 2021 (particularly those centered around the Super Bowl LV in Tampa) more difficult, it did not greatly impede the Organization's overall dive operations in 2021. Management, however, continues to monitor the impact of the ongoing global pandemic and its potential to adversely impact future operations.

Force Blue Inc.

**Notes to Financial Statements
December 31, 2021**

Note 8 - Restatement

The Organization determined in 2021 that its 2020 financial statements were misstated as revenue and expenses related to a cost reimbursement contract was not recorded in the proper period. The Organization met the performance requirements and incurred the allowable qualifying expenses in 2020. The following table summarizes the impact of the correction of this error in the 2020 financial statements:

	December 31, 2020 balances as previously reported	Adjustment	December 31, 2020 balances as restated
Total assets	\$ 426,065	\$ 121,114	\$ 547,179
Total liabilities	169,796	60,460	230,256
Total net assets	256,269	60,654	316,923
Total revenue	712,636	121,114	833,750
Total expenses	418,252	60,460	478,712
Change in net assets	294,384	60,654	355,038

Note 9 - Subsequent events

The Organization has evaluated subsequent events through December 22, 2022, the date on which the financial statements were available to be issued.



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