

THE BIOMIMICRY INSTITUTE

FINANCIAL STATEMENTS AND INDEPENDENT ACCOUNTANT'S REVIEW REPORT

December 31, 2018

THE BIOMIMICRY INSTITUTE

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors of
The Biomimicry Institute

We have reviewed the accompanying financial statements of The Biomimicry Institute (the Institute), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Institute's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.



Change in Accounting Principle

As discussed in Note 1, The Biomimicry Institute has adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Not-For-Profit Entities* (Topic 958): *Presentation of Financial Statements for Not-For-Profit Entities*. Our opinion is not modified with respect to that matter.

DRAFT

HAN GROUP LLC
Washington, DC
[REPORT DATE]

THE BIOMIMICRY INSTITUTE
Statement of Financial Position
December 31, 2018

Assets

Cash and cash equivalents	\$	595,523
Accounts receivable		6,235
Grants receivable		144
Inventory		906
Prepaid expenses		16,764
Investments		99,172
Property and equipment, net		<u>5,112</u>

Total assets \$ 723,856

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$	48,175
Accrued leave payable		<u>35,394</u>

Total liabilities 83,569

Net Assets

Without donor restrictions		584,963
With donor restrictions		<u>55,324</u>

Total net assets 640,287

Total liabilities and net assets \$ 723,856

THE BIOMIMICRY INSTITUTE
Statement of Activities
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Grants and contributions	\$ 990,739	\$ 142,000	\$ 1,132,739
Program service revenue	80,499	-	80,499
Other income	641	-	641
Net investment income	4,213	-	4,213
Net assets released from restrictions:			
Satisfaction of purpose restrictions	116,676	(116,676)	-
Total revenue and support	1,192,768	25,324	1,218,092
Expenses			
Program services:			
Design challenges and other education programs	797,128	-	797,128
AskNature	199,713	-	199,713
Total program services	996,841	-	996,841
Supporting services:			
Management and general	98,728	-	98,728
Fundraising	207,639	-	207,639
Total supporting services	306,367	-	306,367
Total expenses	1,303,208	-	1,303,208
Net Change in Net Assets	(110,440)	25,324	(85,116)
Net Assets, beginning of year	695,403	30,000	725,403
Net Assets, end of year	\$ 584,963	\$ 55,324	\$ 640,287

See independent accountant's review report and accompanying notes.

THE BIOMIMICRY INSTITUTE
Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services			Supporting Services			
	Design Challenges and Other Education Programs	AskNature	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries and related expenses	\$ 366,298	\$ 136,573	\$ 502,871	\$ 58,074	\$ 153,737	\$ 211,811	\$ 714,682
Professional services	249,019	48,334	297,353	1,026	33,536	34,562	331,915
Programmatic trainings and events	71,395	-	71,395	1	2,493	2,494	73,889
Awards	39,775	50	39,825	-	-	-	39,825
Meetings and conferences	21,700	8,178	29,878	1,879	6,704	8,583	38,461
Computer software and hardware	23,791	3,509	27,300	488	2,946	3,434	30,734
Legal fees	-	-	-	17,906	-	17,906	17,906
Office expenses	10,211	1,810	12,021	1,100	2,715	3,815	15,836
Accounting fees	-	-	-	10,478	-	10,478	10,478
Dues, fees, and subscriptions	2,915	275	3,190	3,441	3,833	7,274	10,464
Grants expense	7,922	-	7,922	-	-	-	7,922
Insurance	1,549	468	2,017	3,798	522	4,320	6,337
Depreciation	1,354	409	1,763	192	457	649	2,412
Marketing and promotion	1,067	67	1,134	31	582	613	1,747
Staff training and education	132	40	172	314	114	428	600
Total Expenses	\$ 797,128	\$ 199,713	\$ 996,841	\$ 98,728	\$ 207,639	\$ 306,367	\$ 1,303,208

See independent accountant's review report and accompanying notes.

THE BIOMIMICRY INSTITUTE
Statement of Cash Flows
Year Ended December 31, 2018

Cash Flows from Operating Activities	
Change in net assets	\$ (85,116)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Net realized and unrealized loss on investments	1,693
Depreciation	2,412
Change in operating assets and liabilities:	
Accounts receivable	(3,530)
Grants receivable	34,856
Inventory	516
Prepaid expenses	3,061
Accounts payable and accrued expenses	13,861
Accrued payroll and benefits	(7,853)
Accrued leave payable	9,358
Deferred revenue	<u>(254,813)</u>
Net cash used in operating activities	<u>(285,555)</u>
Cash Flows from Investing Activities	
Proceeds from sale of investments	5,006
Purchases of investments	(55,804)
Purchases of property and equipment	<u>(3,598)</u>
Net cash used in investing activities	<u>(54,396)</u>
Net Decrease in Cash and Cash Equivalents	(339,951)
Cash and Cash Equivalents, beginning of year	<u>935,474</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 595,523</u></u>

See independent accountant's review report and accompanying notes.

THE BIOMIMICRY INSTITUTE

Notes to Financial Statements

December 31, 2018

1. Change in Accounting Principles

Effective January 1, 2018, The Biomimicry Institute (the Institute) adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. ASU 2016-14 is effective for financial statements issued for fiscal years beginning after December 15, 2017.

Implementation of ASU 2016-14 did not require reclassification or restatement of any opening balances related to the period presented. The Institute’s net assets previously reported as temporarily restricted are now reported as net assets with donor restrictions. Likewise, the Institute’s net assets previously reported as unrestricted are now reported as net assets without donor restrictions. The Institute did not have any permanently restricted net assets.

2. Nature of Operations

The Institute is a not-for-profit corporation organized in 2006 under Internal Revenue Code Section 501(c)(3). The Institute was formed to empower people to create nature-inspired solutions for a healthy planet. The Institute is governed by a Board of Directors.

The purpose of the Institute is to naturalize biomimicry in the culture by promoting the transfer of ideas, designs, and strategies from biology to sustainable human systems design. The Institute’s goal is for biomimicry to become a natural part of the design process – for practitioners to study nature’s best ideas, abstract the design principles, and emulate these designs and processes to solve problems like pollution, drought, and climate change. The Institute promotes biomimicry as a turnaround strategy for our species, a way for humans to fit in and flourish on this planet by emulating designs and strategies that have developed during billions of years of life on Earth. It is the Institute’s intent to spread knowledge of this approach to sustainability globally.

The Institute accomplishes its objectives through an online database of nature’s solutions called AskNature, by hosting multiple Design Challenges and education programs, by growing a global network of regional biomimicry practitioners, and through various communications and outreach efforts.

THE BIOMIMICRY INSTITUTE

Notes to Financial Statements

December 31, 2018

2. Nature of Operations (continued)

- *Design Challenges and Other Education Programs:* This is the Institute's primary program. Based on the success the Institute found with the Biomimicry Student Design Challenge, in 2014 the Institute created the Biomimicry Global Design Challenge, which invites student and professional teams competing in two separate tracts to apply biomimicry concepts and tools to arrive at a sustainable and innovative design solution to a real-world problem; the challenge also includes a design prototype and an accelerator round. The winners from these competitions have inspired new design challenges in partnership with either industry-academia consortia or established foundations, or both. Education efforts range from academic engagement around the next generation of biomimetic materials to biomimicry conferences that support institutions and individuals in learning how to integrate biomimicry tools and concepts. The Institute also produces a Biomimicry Toolkit for K-12 educators, as well as a Toolbox for Design Challenge entrants and anyone else desiring to apply biomimicry principles in a project-based learning environment. These free resources, along with an educator training course and webinars, are available online.
- *AskNature:* The AskNature online library is a catalog of nature's solutions to the problems our species has created. It features free information on natural phenomena and bio-inspired applications tailored to meet the needs of the people who invent our world. Nearly every issue that humans face – such as how to build densely populated environments, or how to fly long distances with minimal fuel – shares commonalities with the rest of the natural world. By using the information available via AskNature to understand how natural adaptations work, innovators can mimic ideas that have thrived in balance with the Earth's complex systems.

3. Summary of Significant Accounting PoliciesBasis of Accounting and Presentation

The accompanying financial statements of the Institute have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America (GAAP). Consequently, revenue is recognized when earned and expenses are recognized when the obligation is incurred.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Institute considers as cash equivalents all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

THE BIOMIMICRY INSTITUTE

Notes to Financial Statements

December 31, 2018

3. Summary of Significant Accounting Policies (continued)Accounts and Grants Receivable

Accounts and grants receivable represent amounts due from the Institute's various revenue sources. There was no allowance for doubtful accounts recorded at December 31, 2018 as the entire balance has been deemed by management to be fully collectible within one year. If an amount becomes uncollectible, it is expensed when that determination is made.

Inventory

Inventory consist of clothing that are held for resale. Inventory is recorded at the lower of cost or market on the first-in, first-out method.

Property and Equipment

The Institute capitalizes equipment with a purchase price of \$1,000 or more and an expected life of at least three years. Property and equipment are carried at cost. Straight-line depreciation is used to depreciate assets over estimated useful life of the related assets.

Investments

Investments are measured at fair value and are composed of certificates of deposit and mutual funds. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Unrealized gains or losses on investments are determined by the change in fair value at the beginning and end of the reporting period. Investment income is presented net of investment advisory and management fees in the accompanying statement of activities. Net realized and unrealized gains or losses on investments are included in net investment income.

Classification of Net Assets

- *Net Assets Without Donor Restrictions* represent funds that are not subject to donor-imposed stipulations and are available for support of the Institute's operations.
- *Net Assets With Donor Restrictions* represent funds subject to donor-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. The Institute does not have any donor-imposed restrictions which are perpetual in nature at December 31, 2018.

THE BIOMIMICRY INSTITUTE

Notes to Financial Statements

December 31, 2018

3. Summary of Significant Accounting Policies (continued)Revenue Recognition

Unconditional grants and contributions are recognized as revenue when received or promised and are reported as support with donor restrictions if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Revenue with donor restrictions whose restrictions have been fulfilled in the current year are reported as net assets without donor restrictions. Revenue from all other sources is recognized when earned.

Functional Allocation of Expenses

The costs of providing program and supporting services have been summarized on a functional basis in the accompanying statement of activities. The statement of functional expense presents expenses by function and natural classification. The Institute incurs expense that directly relate to, and can be assigned to, a specific program or supporting activity. The Institute also conducts a number of activities which benefit both its program objectives as well as supporting services. These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting services benefited based on either financial or nonfinancial data, such as distribution of labor or estimates of time and effort incurred by personnel. The expenses that are allocated include salaries and related expenses, professional services, meetings and conferences, computer software and hardware, office expense, dues, fees, and subscriptions, insurance, and depreciation.

Pending Accounting Pronouncements

In May 2014, the Financial Accounting Standard Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). The core principle of ASU 2014-09 requires the recognition of revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration for what an organization expects it will receive in association with this exchange. ASU 2014-09 is effective for fiscal years beginning after December 15, 2018.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The core principles of ASU 2016-02 change the way organizations will account for their leases by recognizing lease assets and related liabilities on the statement of financial position and disclosing key information about leasing arrangements. ASU 2016-02 is effective for non-public entities for fiscal years beginning after December 15, 2019.

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Notes to Financial Statements

December 31, 2018

3. Summary of Significant Accounting Policies (continued)Pending Accounting Pronouncements (continued)

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for annual reporting periods beginning after December 15, 2018. Management is currently evaluating the impact of these ASUs on the Institute's financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts reported in the financial statements. Actual results could differ from those estimates.

4. Concentrations of Credit Risk

The Institute maintains demand deposits with a financial institution that may, from time to time, exceed insurable limits. The Institute routinely assesses the financial condition of the financial institutions and believes the risk of any loss is minimal.

Two grantors accounted for 58% of the Institute's total income for the year ended December 31, 2018. A change in the amount or continuation of funding from these sources could have a significant effect on the Institute's operations.

5. Investments

Investments consist of the following at December 31, 2018:

Certificates of deposit	\$	50,000
Mutual funds		49,172
		<hr/>
Total investments	\$	<u>99,172</u>

THE BIOMIMICRY INSTITUTE

Notes to Financial Statements

December 31, 2018

5. Investments (continued)

Investment income consists of the following for the year ended December 31, 2018:

Interest and dividends	\$ 5,987
Net realized and unrealized loss	<u>(1,693)</u>
Total investment income	4,294
Less: investment advisory and management fee	<u>(81)</u>
Net investment income	<u><u>\$ 4,213</u></u>

6. Fair Value of Financial Instruments

Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and enhances disclosure requirements for fair value measurements. The three levels of the fair value hierarchy for recurring fair value measurements are prioritized based on the inputs to valuation techniques used to measure fair value and are as follows:

- *Level 1* - Inputs based on unadjusted, quoted market prices in active markets for identical assets or liabilities accessible at the measurement date.
- *Level 2* - Inputs based on quoted prices in markets that are not active or model inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability, such as quoted prices for similar assets or liabilities in active markets.
- *Level 3* - Unobservable inputs for the asset or liability including the reporting entity's own assumptions in determining the fair value measurement.

The following is a summary of input levels used to determine fair values, measured on a recurring basis, of investments at December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ -	\$ 50,000	\$ -	\$ 50,000
Mutual funds	<u>49,172</u>			<u>49,172</u>
Total investment at fair value	<u><u>\$ 49,172</u></u>	<u><u>\$ 50,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 99,172</u></u>

THE BIOMIMICRY INSTITUTE

Notes to Financial Statements

December 31, 2018

7. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following at December 31, 2018:

Subject to expenditures for specific purposes:	
AskNature	\$ 30,000
Design challenges and other education programs	<u>25,324</u>
Total net assets without donor restrictions	<u><u>\$ 55,324</u></u>

During the year ended December 31, 2018, releases from net assets with donor restrictions were for the following:

Subject to expenditures for specific purposes:	
Design challenges and other education programs	\$ 86,676
AskNature	<u>30,000</u>
Total net assets released from donor restrictions	<u><u>\$ 116,676</u></u>

8. Liquidity and Availability of Resources

The following schedule reflects the Institute's financial assets as of December 31, 2018 available for use in the next year, reduced by amounts not available for general use because of contractual obligations or donor-imposed restrictions within one year of this date:

Cash and cash equivalents	\$ 595,523
Accounts receivable	6,235
Grants receivable	144
Investments	<u>99,172</u>
Total financial assets	701,074
Less those unavailable for general expenditures within one year due to:	
Donor-imposed restrictions	<u>(55,324)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 645,750</u></u>

THE BIOMIMICRY INSTITUTE

Notes to Financial Statements

December 31, 2018

8. Liquidity and Availability of Resources (continued)

The Institute has a policy to maintain a cash fund of one-quarter to one-third of the Institute's annual operating expenses or the equivalent of six months operating cash. The Institute tends to operate using the six-month operating cash as its default. After unavailable financial assets are subtracted, as of December 31, 2018, the Institute has remaining financial assets equivalents to approximately six months of operating expenses. The Institute invests excess cash in short-term investment securities, including certificates of deposits and mutual funds, in line with its investment policy, based on the anticipated time horizon of general expenditure requirements. The Institute does not have any short or long-term non-operating debt.

9. Retirement Plan

The Institute's employees may participate in an Internal Revenue Code Section 401(k) Retirement Plan (the Plan). Employees are eligible to make elective deferrals upon completion of six months of service and can contribute up to the maximum amount allowed by law. Employees meeting the Plan's service requirements are eligible for employer matching contributions. The Institute matches 100% of employee contributions up to 4% of the employee's salary. Employer matching contributions are fully and immediately vested to the employee. For the year ended December 31, 2018, the Institute contributed \$19,721 in matching contributions to the Plan.

10. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, the Institute is a nonprofit organization and is exempt from federal taxes on income other than net unrelated business income. No provision for federal or state income taxes is required for the year ended December 31, 2018, as the Institute had no taxable net unrelated business income.

The Institute follows the authoritative guidance relating to accounting for uncertainty in income taxes included in ASC Topic 740-10, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return.

The Institute performed an evaluation of uncertain tax positions for the year ended December 31, 2018 and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. At December 31, 2018, the statute of limitations for tax years ended December 31, 2015 through 2017 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Institute files tax returns. It is the Institute's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expenses.

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Notes to Financial Statements

December 31, 2018

11. Subsequent Events

In preparing these financial statements, the Institute has evaluated events and transactions for potential recognition or disclosure through **[REPORT DATE]**, the date the financial statements were available to be issued. There were no subsequent events that require recognition of, or disclosure in, the financial statements.