SPECIES360

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

SPECIES360
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Species360
Bloomington, Minnesota

We have audited the accompanying financial statements of Species360 which comprises the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

A member of Nexia International

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Species360 as of December 31, 2019 and 2018, and the change in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter Change in Accounting Principle

As described in Note 1, the Organization changed accounting policies related to revenue recognition by adopting Financial Accounting Standards Board (FASB) *Accounting Standards Codification Topic 606*, *Revenue from Contracts with Customers*, in 2019. Accordingly, the accounting change has been applied using the modified-retrospective method of adoption with the prior period being presented as if the policy was not in effect and a cumulative adjustment made to beginning Net Assets without Donor Restrictions for the year ending December 31, 2019. Our opinion is not modified with respect to this matter.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
June 30, 2020

SPECIES360
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 3,942,323	$ 2,706,644
Investments	2,718	2,109
Accounts and Pledge Receivable, Net	173,142	175,613
Costs Capitalized to Obtain Revenue Contracts	92,862	-
Prepaid Expenses	57,200	45,725
Total Current Assets	4,268,245	2,930,091
OTHER ASSETS		
Property and Equipment, Net	40,284	82,392
ZIMS Software Development, Net	3,000,827	4,015,373
Costs Capitalized to Obtain Revenue Contracts Net of Current Portion	74,954	-
Long-Term Pledge Receivables	-	100,000
Total Other Assets	3,116,065	4,197,765
Total Assets	$ 7,384,310	$ 7,127,856
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	$ 21,451	$ 103,886
Accrued Expenses	15,531	119,037
Accrued Payroll Liabilities	252,972	180,370
Deferred Revenue	3,398,530	2,751,506
Deferred Lease Incentive	28,678	27,286
Total Current Liabilities	3,717,162	3,182,085
LONG-TERM LIABILITIES		
Deferred Revenue	50,249	66,846
Deferred Lease Incentive	6,405	35,083
Total Long-Term Liabilities	56,654	101,929
Total Liabilities	3,773,816	3,284,014
NET ASSETS		
Net Assets Without Donor Restrictions	3,384,686	3,523,832
Net Assets With Donor Restrictions	225,808	320,010
Total Net Assets	3,610,494	3,843,842
Total Liabilities and Net Assets	$ 7,384,310	$ 7,127,856

See accompanying Notes to Financial Statements.

SPECIES360
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
SUPPORT AND REVENUE			
Membership Dues and Other Fees	$ 5,568,839	$ -	$ 5,568,839
Program Service Fees	207,958	-	207,958
Contributions	7,100	-	7,100
Investment Income	44,674	-	44,674
Net Assets Released from Restrictions	94,202	(94,202)	-
Total Support and Revenue	5,922,773	(94,202)	5,828,571
EXPENSES			
Program Expenses	5,092,285	-	5,092,285
Management and General	964,823	-	964,823
Fundraising	121,853	-	121,853
Total Expenses	6,178,961	-	6,178,961
CHANGES IN NET ASSETS	(256,188)	(94,202)	(350,390)
Net Assets - Beginning of Year	3,523,832	320,010	3,843,842
Change in Accounting Principle	117,042	-	117,042
NET ASSETS - END OF YEAR	$ 3,384,686	$ 225,808	$ 3,610,494

See accompanying Notes to Financial Statements.

SPECIES360
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
SUPPORT AND REVENUE			
Membership Dues and Other Fees	$ 5,271,374	$ -	$ 5,271,374
Program Service Fees	130,990	-	130,990
Contributions	7,059	451,240	458,299
Investment Income	(137)	-	(137)
Net Assets Released from Restrictions	238,910	(238,910)	-
Total Support and Revenue	5,648,196	212,330	5,860,526
EXPENSES			
Program Expenses	4,690,316	-	4,690,316
Management and General	898,759	-	898,759
Fundraising	164,679	-	164,679
Total Expenses	5,753,754	-	5,753,754
CHANGES IN NET ASSETS	(105,558)	212,330	106,772
Net Assets - Beginning of Year	3,629,390	107,680	3,737,070
NET ASSETS - END OF YEAR	$ 3,523,832	$ 320,010	$ 3,843,842

See accompanying Notes to Financial Statements.

SPECIES360
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019

	Program Services	Management and General	Fundraising	Total
SALARIES AND RELATED EXPENSES				
Salaries	$ 2,123,632	$ 532,310	$ 67,281	$ 2,723,223
Benefits	482,402	94,483	12,170	589,055
Payroll Taxes	143,007	33,982	3,395	180,384
Remote Office Personnel	422,209	84,970	17,472	524,651
Total Salaries and Related Expenses	3,171,250	745,745	100,318	4,017,313
OTHER EXPENSES				
Professional Fees	44,026	33,929	17,942	95,897
Advertising and Promotion	12,221	7,021	-	19,242
Supplies	6,902	1,699	93	8,694
Telephone	16,171	2,893	477	19,541
Occupancy	104,269	27,170	1,654	133,093
Travel	110,035	63,318	-	173,353
Conferences and Meetings	18,011	25,600	-	43,611
Postage and Shipping	219	57	3	279
Dues and Subscriptions	9,746	2,489	151	12,386
Computer Expenses	85,596	7,891	480	93,967
Insurance	13,378	10,986	212	24,576
Service Fees	-	27,429	-	27,429
ZIMS Hosting	55,740	-	-	55,740
Miscellaneous	25,000	-	-	25,000
Bad Debt	-	-	-	-
Amortization	1,386,732	-	-	1,386,732
Depreciation	32,989	8,596	523	42,108
Total Other Expenses	1,921,035	219,078	21,535	2,161,648
Total Expenses	$ 5,092,285	$ 964,823	$ 121,853	$ 6,178,961

See accompanying Notes to Financial Statements.

SPECIES360
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Services	Management and General	Fundraising	Total
SALARIES AND RELATED EXPENSES				
Salaries	$ 1,566,743	$ 483,216	$ 97,718	$ 2,147,677
Benefits	382,777	83,056	14,197	480,030
Payroll Taxes	105,350	30,862	3,792	140,004
Remote Office Personnel	715,736	78,744	24,423	818,903
Total Salaries and Related Expenses	2,770,606	675,878	140,130	3,586,614
OTHER EXPENSES				
Professional Fees	10,976	24,620	20,173	55,769
Advertising and Promotion	8,510	7,910	-	16,420
Supplies	9,839	2,681	217	12,737
Telephone	18,541	3,864	514	22,919
Occupancy	102,872	28,922	1,985	133,779
Travel	107,741	87,815	-	195,556
Conferences and Meetings	14,535	14,188	-	28,723
Postage and Shipping	620	224	11	855
Dues and Subscriptions	4,963	1,316	92	6,371
Computer Expenses	65,946	6,604	637	73,187
Insurance	12,836	12,719	248	25,803
Service Fees	-	19,003	-	19,003
ZIMS Hosting	53,101	-	-	53,101
Miscellaneous	25,000	121	-	25,121
Bad Debt	-	3,319	-	3,319
Amortization	1,449,402	-	-	1,449,402
Depreciation	34,828	9,575	672	45,075
Total Other Expenses	1,919,710	222,881	24,549	2,167,140
Total Expenses	$ 4,690,316	$ 898,759	$ 164,679	$ 5,753,754

See accompanying Notes to Financial Statements.

SPECIES360
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (350,390)	$ 106,772
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,428,840	1,494,477
Unrealized (Gain) Loss on Investments	(609)	137
Net Change in Current Assets:		
Accounts and Pledge Receivable	102,471	(203,828)
Prepaid Expenses	(11,475)	1,670
Net Change in Current Liabilities:		
Accounts Payable	(82,435)	23,330
Accrued Expenses	(103,506)	106,242
Accrued Payroll Liabilities	72,602	(24,891)
Deferred Revenue	630,427	656,214
Costs Capitalized to Obtain Revenue Contracts	(50,774)	-
Deferred Lease Incentive	(27,286)	(25,893)
Net Cash Provided by Operating Activities	1,607,865	2,134,230
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital Expenditures for ZIMS Software Development	(372,186)	(1,147,397)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,235,679	986,833
Cash and Cash Equivalents - Beginning of Year	2,706,644	1,719,811
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 3,942,323	$ 2,706,644

See accompanying Notes to Financial Statements.

NOTE 1 ORGANIZATION

Nature of Operations

Species360 (the Organization) is a global nonprofit organization committed to developing the best possible systems by which to collect, organize, standardize, and share information about animals and their environments. From its beginnings in 1974, the membership-based organization has also been dedicated to the belief that no matter how strong individual zoological, aquarium, related conservation institutions, associations, and educational programs may be, together they are stronger.

Now, 45 years later, the Organization has developed a Zoological Information Management System (ZIMS) software solution for husbandry, inventory, and medical data. A version of ZIMS is also available for studbook management. Its database holds information about 12 million animals belonging to 23,000 species − information that supports vital conservation initiatives. Species360 provides science and research services with an internal science team and in support of member or other animal care or conservation science teams globally.

The Organization, based in Bloomington, Minnesota, USA, continues to welcome new members from around the world, joining more than 1,136 zoos and aquariums, 51 regional and professional associations, and 26 schools and colleges in 98 countries around the world.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Accounts and Pledges Receivable

The Organization provides an allowance for bad debts using the allowance method. Membership dues are sold on an unsecured basis and payment is generally required at the beginning of each membership period and accounts past due are individually analyzed for collectability. An allowance is provided for accounts past due when a significant pattern of uncollectability has occurred. When all collection efforts have been exhausted, the account is written off against the related reserve. The reserve for uncollectible receivables was $37,731 and $43,495 at December 31, 2019 and 2018, respectively.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

All major expenditures for furniture, equipment, and building improvements are capitalized at cost. Contributed items are recorded at fair market value at date of donation. Items that cost $3,000 or greater and are determined to have a useful life equal or greater than three years are capitalized. Depreciation is computed using the straight-line method over estimated useful lives of one to five years. When the Organization commits to the disposal or abandonment of equipment, the assets are written off or down to the net realizable value. The cost of maintenance and repairs is charged to expense as incurred. Significant renewals or betterments are capitalized.

The Organization reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There were no long-lived assets impaired or to be disposed of at December 31, 2019.

Net Assets Classifications

The Organization reports information regarding its financial position and activities according to two classes of net assets:

Net Assets Without Donor Restrictions – Net assets without donor restrictions are not subject to donor-imposed restrictions and represent funds that are fully available, at the discretion of management and the board of trustees, for the Organization to utilize for any of its programs or supporting services.

Net Assets With Donor Restrictions – Net assets with donor restrictions are comprised of funds that are restricted by donors for specific purposes or time periods. Some 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 Organization has no perpetual restricted net assets as of December 31, 2019 and 2018. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which resource was restricted has been fulfilled, or both. At December 31, 2019 and 2018, the Organization had $225,808 and $320,010 of net assets with donor restrictions, respectively.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Standards

In 2019, the Organization early adopted the Financial Accounting Standards Board's Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* (Topic 606), which requires the recognition of revenue when promised goods or services are transferred to members in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The impact of ASC 606 on the Organization's revenue recognition policies resulted in a change in the accounting for new member acquisition commissions paid to individuals. The Organization records the earned commissions as costs capitalized to obtain revenue contracts on the statement of financial position. The contract asset will be amortized on a systemic basis consistent with the pattern of transfer of the service to which the asset relates. The Organization previously expensed the commissions as they were earned. The cumulative adjustment from the adoption of ASC 606 resulted in an increase to net assets of $117,042 on January 1, 2019, which consisted of costs capitalized to obtain revenue contracts.

The modified retrospective method of transition requires the Organization to disclose the effect of applying the new guidance on each item included in the 2019 financial statements. The following are line items from the statement of financial position as of December 31, 2019, that were effected, the amounts what would have been reported under the former guidance, the effects of applying the new guidance, and the balances reported under the new guidance:

	Amounts That Would Have Been Reported	Effects of Applying the New Guidance	As Reported
Assets			
Costs Capitalized to Obtain Revenue Contracts	$ -	$ 92,862	$ 92,862
Costs Capitalized to Obtain Revenue Contracts Net of Current Portion	-	74,954	74,954
Equity			
Net Assets Without Donor Restrictions	3,216,870	167,816	3,384,686

The following are line items from the statement of activities for the year ended December 31, 2019, that were effected, the amounts what would have been reported under the former guidance, the effects of applying the new guidance, and the amounts reported under the new guidance:

	Amounts That Would Have Been Reported	Effects of Applying the New Guidance	As Reported
Expenses			
Management and General	$ 1,015,597	$ (50,774)	$ 964,823
Changes in Net Assets	(401,164)	50,774	(350,390)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued changes to the accounting requirements for recognizing revenue from contracts with customers. Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers Topic 606 (ASC 606*), created a comprehensive framework for entities in all industries to apply in the determination of when to recognize revenue and, therefore, supersede virtually all existing revenue recognition requirements and guidance. This framework is expected to provide a consistent and comparable methodology for revenue recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this principle, an entity will apply the following steps:

- Identification of the contract, or contracts with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when or as the Organization satisfies the performance obligations.

The Organizations primary revenue streams are:

Renewal and New Membership Fees
Membership fees include memberships for the ZIMS software platform and membership support. New membership fees are either established for a 12 month period or generally prorated to the remainder of the calendar year membership. Renewals are generally billed two months before the annual membership end date. Revenue is deferred upon receipt of payment and recognized ratably over the membership term. Membership fee revenues represented 93% and 87% for the years ended December 31, 2019 and 2018, respectively.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Initiation Fees

Upon becoming new members of Species 360, the Organization will charge a one-time initiation fee for the ZIMS software platform. There are no distinct performance obligations for the platform, therefore, the fee is deferred and recognized ratably over a period of 36 months. The period that was determined for recognition is the period that the organization has determined to be the average life of benefit to the member. Initiation fee revenues represented 2% and 3% for the years ended December 31, 2019 and 2018, respectively.

Services

Services include premium services and training. Premium services include data migration projects and software products. Services are recognized over time based on an input method of work completed compared to expected work to complete the project. For software products, the revenue is recognized ratably over time over the subscription period. Training is recognized as the training is provided at a point in time, representing less than 1% of total revenue for the years ended December 31, 2019 and 2018. Services revenues represented 4% and 2% for the years ended December 31, 2019 and 2018, respectively.

Performance Obligations

The Organization enters into contracts with its customers that may include membership, initiation fee, and services. A performance obligation is a promise in a contract with a customer to transfer products or services that are distinct. Determining whether products and services are distinct performance obligations that should be accounted for separately or combined as one unit of accounting may require significant judgment.

Memberships are distinct as such offerings are typically sold separately. In determining whether services are distinct, the Organization considers the following factors for each services agreement: availability of the services from other vendors, the nature of the services, and the contractual dependence of the service on the customer’s satisfaction with the services work. To date, the Organization has concluded that all of the services included in contracts with multiple performance obligations are distinct.

Initiation fees are determined to not be distinct as there is no specific obligation that is being satisfied by the Organization in relation to this fee. The fee represents a one-time charge for becoming a new member. As such, the Organization has determined that the revenues associated with the portion allocable to the initiation fee is to be recognized ratably over the average life of benefit for the member, which has been determined to be 36 months.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Significant Judgements

The Organization allocates the transaction price to each performance obligation on a relative standalone selling price (SSP) basis. The SSP is the price at which the Organization would sell a promised product or service separately to a customer. Judgment is required to determine the SSP for each distinct performance obligation.

The Organization determines the SSP by considering its overall pricing objectives and market conditions. Significant pricing practices taken into consideration include the Organization's discounting practices, the size and volume of certain transactions impact to the Organization, the customer demographic, and historical sales.

The Organization is able to establish SSP based on observable prices of products or services sold separately in comparable circumstances to similar customers. The Organization uses a single amount to estimate SSP when it has observable prices.

Contract Assets and Liabilities

The timing of revenue recognition, billings, and cash collections results in receivables, contract assets, and contract liabilities. Accounts receivable are recorded when the right to consideration becomes unconditional and are presented in the statements of financial position. Amounts received from customers pursuant to the terms specified in contracts but for which revenue has not been recognized represent contract liabilities and are recorded as deferred revenue in the statements of financial position.

Costs of Obtaining a Contract

Incremental costs related to acquisition commissions earned on new member contracts are capitalized and are amortized on a straight-line basis over the average period of benefit of benefit for the specific members. The Organization evaluated both qualitative and quantitative factors which included the estimated life cycles of its offerings and its member attrition.

The capitalized amounts are recoverable through future revenue streams under all member contracts and expected renewals. The Organization periodically evaluates whether there have been any changes in its business, the market conditions in which it operates or other events which would indicate that its amortization period should be changed or if there are any potential indicators of impairment.

Amortization of capitalized costs to obtain revenue contracts is included in management and general expenses in the accompanying statements of activities.

Investments

Investments consist of mutual funds and are stated at fair value based on quoted prices in active markets.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

All contributions are considered to be available for use without restrictions unless specifically restricted by the donor. 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 report in the statements of activities as net assets released from restrictions.

Donated Material and Services

Contributed services are recorded as contributions, at fair value, when the service creates or enhances a nonfinancial asset or donation. Some unpaid volunteers have made contributions of their time to the Organization’s programs. The value of this contributed time is not reflected in these financial statements since it does not meet the requirements for recognition in the financial statements.

Functional Expenses

The majority of expenses are directly identified with the program or supporting services to which they relate. Expenses not directly identifiable by function are allocated to program and supporting services on the basis of salaries and other bases determined by management.

Tax-Exempt Status

The Organization has been recognized by the Internal Revenue Services (IRS) as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and, accordingly, is generally not subject to income taxes, except for taxes pertaining to unrelated business income. The Organization is exempt from state taxes under Minnesota Statute 290.05. Therefore, there is no provision for income taxes, and unrelated income subject to tax is considered to be insignificant.

Income Taxes

The Organization follows the guidance in the income tax standard regarding the recognition and measurement of uncertain tax positions. The guidance clarifies the accounting for the uncertainty in income taxes recognized in the Organization’s financial statements. The guidance further prescribes recognition and measurement of tax provisions taken or expected to be taken on a tax return that are not certain to be realized. The application of this standard has no impact on the Organization’s financial statements.

The Organization’s tax returns are subject to review and examination by federal, state, and local authorities.

NOTE 3 RECENTLY ISSUED ACCOUNTING GUIDANCE

Leases

In February 2016, FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the Organization's leasing activities. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance are effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. Management is evaluating the impact of the amended lease guidance on the Organization's financial statements.

NOTE 4 LIQUIDITY

The Organization manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that mission fulfillment will continue to be met, ensuring the sustainability of the Organization.

The Organization's board of directors approve an annual budget and work in concert with the Finance and Audit Committee who monitors financial activities and cash flow on a quarterly basis. The Organization strives to maintain financial assets available to meet general expenditures at a level that allows for a positive annual cash flow. If there is a short fall in liquidity, the Organization has a line of credit of $400,000.

The Organization received funds that are not subject to donor-imposed restrictions and others that are subject to donor-imposed restrictions temporarily.

The table below presents liquid financial assets available for general expenditures within one year at December 31:

Financial Assets at Year-End:	2019	2018
Cash and Cash Equivalents	$ 3,942,323	$ 2,706,644
Accounts Receivable Within One Year	173,142	175,613
Liquid Financial Assets Available To Meet General Expenditures Within One Year	4,115,465	2,882,257
Less: Those Unavailable for General Expenditures Within One Year, Due to Contractual or Donor-Imposed Time or Purpose Restrictions	(225,808)	(220,010)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year:	$ 3,889,657	$ 2,662,247

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2019	2018
Computers and Equipment	$ 121,607	$ 121,607
Furniture and Other Equipment	102,001	102,001
Leasehold Improvements	158,672	158,672
Less: Accumulated Depreciation	(341,996)	(299,888)
Net Property and Equipment	$ 40,284	$ 82,392

Depreciation expense of $42,108 and $45,075 was recorded for the years ended December 31, 2019 and 2018, respectively.

NOTE 6 CAPITALIZED SOFTWARE

Capitalized software development costs consist of the purchase of source code, license fees, consulting fees, labor, and related costs incurred in the development of the Organization's ZIMS software platform. Capitalization of internally developed software occurs during the application development stage and amortization begins at the time the new release is placed into service. Capitalized software costs are amortized on a straight-line basis over the estimated use life of 60 months. The Organization capitalized $372,186 and $1,147,397 of software development costs in 2019 and 2018, respectively.

Capitalized software development costs consist of:

	2019	2018
Costs Placed into Service	$ 14,807,035	$ 14,502,491
Unamortized Development Costs	235,575	167,932
Less: Accumulated Amortization	(12,041,783)	(10,655,050)
Net ZIMS Software	$ 3,000,827	$ 4,015,373

Amortization of software development costs was $1,386,732 and $1,449,402 for the years ended December 31, 2019 and 2018, respectively.

Future amortization of the capitalized software development placed in service is as follows:

Year Ending December 31,	Amount
2020	$ 1,129,504
2021	878,749
2022	552,854
2023	181,170
2024	22,975
Total	$ 2,765,252

NOTE 7 LINE OF CREDIT

The Organization has a $400,000 revolving line of credit agreement with a bank. The line of credit has an interest rate of prime plus 1% (5.75% as of December 31, 2019), and expires on September 20, 2021. Advances outstanding under this line of credit were $-0- at both December 31, 2019 and 2018. The line is subject to certain borrowing compliance covenants and is secured by substantially all of the Organization's assets.

NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS

Total net assets with donor restrictions consisted of the following as of December 31:

	2019	2018
Animal Care Enhancement	$ -	$ 10,024
Conservation Science Alliance (CSA)	150,000	200,000
French Translation	8,275	31,300
Import Clinical Labs	67,533	67,533
Southeast Asian Turtle Crisis, Phase 2	-	11,153
Total	$ 225,808	$ 320,010

Net assets released because the time or purpose were met totaled $94,202 and $238,910, all of which were subject to expenditure for a specific purpose for the years ended December 31, 2019 and 2018, respectively.

NOTE 9 OPERATING LEASE

On April 18, 2013, the Organization entered into an operating lease for office space. The lease requires monthly payments ranging from $5,916 to $6,728 through March 31, 2021, plus common area expenses. The Organization applies straight-line rent based on varying rent payments. As an incentive for the Organization to enter into this lease, the landlord agreed to pay for $139,650 worth of leasehold improvements in addition to rent abatement of which both have been recorded as a deferred lease incentive. The deferred lease incentive was recognized as a liability and will be amortized against rent expense over the lease term using the straight-line method.

Rent expense including common area expenses was $131,340 and $128,823 for the years ended December 31, 2019 and 2018, respectively.

Future minimum lease payments required excluding common area expenses are as follows:

Year Ending December 31,	Amount
2020	$ 79,924
2021	20,184
Total	$ 100,108

NOTE 10 RETIREMENT PLAN

The Organization has a 401(k) retirement account for its qualifying employees. Eligible employees may contribute a portion of their compensation each year in accordance with plan provisions. For employees meeting certain eligibility requirements, the Organization contributes up to 10% of gross salary based upon years of service. Additionally, the plan allows the Organization to have a safe-harbor and make a discretionary profit sharing contribution. The Organization contributed $198,561 and $195,991 for the years ended December 31, 2019 and 2018, respectively.

NOTE 11 CONCENTRATIONS

The Organization maintains its cash in deposit accounts at a financial institution where balances, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

NOTE 12 SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through June 30, 2020, the date the financial statement were available to be issued.

Subsequent to year-end, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Management believes the Organization is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year-end and are still developing.

Subsequent to year-end, the Organization received loan proceeds in the amount of approximately $575,000 under the Paycheck Protection Program (PPP). The loans and accrued interest may be forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the following measurement period. Any unforgiven portion of the PPP loan will be repaid in the form of a note payable.

CliftonLarsonAllen LLP
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Board of Trustees and Management
Species360
Bloomington, Minnesota

We have audited the financial statements of Species360 as of and for the years ended December 31, 2019, have issued our report thereon dated June 30, 2020. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Species360 are described in Note 2 to the financial statements.

As described in Note 2, the Company changed accounting policies related to revenue recognition by adopting Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, in 2019. The cumulative adjustment from the adoption resulted in an increase to net assets without donor restricts of $117,042 on January 1, 2019, which consisted of costs capitalized to obtain revenue contracts.

We noted no transactions entered into by Species360 during the year for which there was a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were management's estimate of allowance for uncollectible accounts receivable, useful life of ZIMS software development and capitalized costs, and revenue recognition.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

Corrected misstatements

Management did not identify and we did not identify them of any financial statement misstatements detected as a result of audit procedures.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the management representation letter dated June 30, 2020.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Species360's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as Species360's auditors. During 2019, we presented management with our formal audit plan and we discussed the following matters: amortization of ZIMS Software Development costs and revenue recognition. The result of those discussions was not a condition to our engagement.

Other information in documents containing audited financial statements

Our auditors' opinion, the audited financial statements, and the notes to the financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

*** * ***

This communication is intended solely for the information and use of the board of trustees and management of Species360, and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
June 30, 2020

CliftonLarsonAllen LLP
CLAconnect.com

Board of Trustees and Management
Species360
Bloomington, Minnesota

In planning and performing our audit of the financial statements of Species360 (the Organization) as of and for the year ended December 31, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to fraud or error may occur and not be detected by such controls. However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses, and other matters that are opportunities to strengthen your internal control and improve the efficiency of your operations. Our comments and suggestions regarding those matters are summarized below.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Other Matters

During our audit, we became aware of other deficiencies in internal control and other matters that are opportunities to strengthen your internal control. While the nature and magnitude of these matters were not considered important enough to merit the attention of the board of directors or those charged with governance, they are considered of sufficient importance to merit management's attention and are included herein to provide a single, comprehensive communication for both those charged with governance and management.

401(k) Contributions: The Organization has a 401k benefit plan that provides employees an opportunity to defer payroll in addition to the Organization's employer profit sharing contribution. Contributions are required to be timely remitted for all withheld and eligible employer profit sharing contributions and submitted to the plan administrator and allocated to employee accounts accordingly. During our audit procedures we identified outstanding obligations to participant accounts dating back to 2017 due to a plan correction that was identified in 2018. While the amounts are not significant, these benefit plans are required to follow regulatory guidelines on timely remittance of payments to the corresponding accounts. CLA recommends the Organization reviews any outstanding participant contributions that have not yet been remitted to quantify the amounts and timely remit payments to resolve this matter.

User Access Rights: The Organization provides the three users of its accounting software package, Quickbooks, with full access rights. Those rights provide the ability for any one member to make unilateral changes to any aspect of the accounting, including journal entries, as well as making changes to vendor listings. This is an inherent limitation of the Quickbooks software that does not allow restrictions to be implemented. The Organization has certain mitigating controls in place, including periodic review of the financial statements by the CEO, as well as the board. In addition, the Organization has separated duties of bank statement and bank reconciliation preparation and review between the Senior Accountant and the Director of Finance. The Organization also has certain mitigating controls around cash outflows requiring dual approval for any payment above the $20,000 threshold, with one of the approvals coming from the CEO. CLA recommends further mitigating controls be implemented to reduce the inherent risk of these access rights. This includes a regular and consistent review of the bank statement, cash transactions through the account and bank reconciliations by the Organization's CEO to provide an additional outside view of the cash transactions to be able to potentially identify unusual transactions.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various entity personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

* * *

This communication is intended solely for the information and use of management, governance, stockholders, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Minneapolis, Minnesota
June 30, 2020