

**SPECIES360**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2021 AND 2020**



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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Species360  
Bloomington, Minnesota

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of Species360 which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years 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 Species360 as of December 31, 2021 and 2020, 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.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Species360 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Species360's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

***Auditors' 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 auditors' 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 Species360'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 Species360'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.



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
June 29, 2022

**SPECIES360**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2021 AND 2020**

	2021	2020
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 7,495,241	\$ 6,312,641
Investments	3,639	2,592
Accounts and Pledge Receivable, Net	83,952	77,835
Costs Capitalized to Obtain Revenue Contracts	52,348	76,121
Prepaid Expenses	36,151	45,400
Total Current Assets	7,671,331	6,514,589
<b>OTHER ASSETS</b>		
Property and Equipment, Net	109,418	8,714
ZIMS Software Development, Net	1,253,282	2,157,106
Costs Capitalized to Obtain Revenue Contracts		
Net of Current Portion	31,367	44,286
Total Other Assets	1,394,067	2,210,106
Total Assets	\$ 9,065,398	\$ 8,724,695
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 12,811	\$ 34,726
Accrued Expenses	101,736	60,031
Accrued Payroll Liabilities	297,476	58,158
Deferred Revenue	3,338,694	3,382,020
Deferred Lease Incentive	-	6,406
Total Current Liabilities	3,750,717	3,541,341
<b>LONG-TERM DEFERRED REVENUE</b>		
	19,122	25,201
Total Liabilities	3,769,839	3,566,542
<b>NET ASSETS</b>		
Net Assets Without Donor Restrictions		
Operating	3,907,859	2,903,565
Property and Equipment	1,362,700	2,165,821
Net Assets With Donor Restrictions	25,000	88,767
Total Net Assets	5,295,559	5,158,153
Total Liabilities and Net Assets	\$ 9,065,398	\$ 8,724,695

See accompanying Notes to Financial Statements.

**SPECIES360**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2021**

	Net Assets Without Donor Restrictions			Net Assets With Donor Restrictions	Total
	Operating	Property and Equipment	Subtotal		
<b>SUPPORT AND REVENUE</b>					
Membership Dues and Other Fees	\$ 5,844,214	\$ -	\$ 5,844,214	\$ -	\$ 5,844,214
Program Service Fees	310,700	-	310,700	-	310,700
Contributions	32,032	-	32,032	25,000	57,032
Investment Income	13,560	-	13,560	-	13,560
Net Assets Released from Restrictions	88,767	-	88,767	(88,767)	-
Total Support and Revenue	6,289,273	-	6,289,273	(63,767)	6,225,506
<b>EXPENSES</b>					
Program Services	3,999,509	1,006,601	5,006,110	-	5,006,110
Management and General	1,032,129	2,651	1,034,780	-	1,034,780
Fundraising	47,178	32	47,210	-	47,210
Total Expenses	5,078,816	1,009,284	6,088,100	-	6,088,100
Change in assets before transfer and reclassification of net assets	1,210,457	(1,009,284)	201,173	(63,767)	137,406
Transfer and reclassification of net assets	(206,163)	206,163	-	-	-
<b>CHANGES IN NET ASSETS</b>	1,004,294	(803,121)	201,173	(63,767)	137,406
Net Assets - Beginning of Year	2,903,565	2,165,821	5,069,386	88,767	5,158,153
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 3,907,859</u>	<u>\$ 1,362,700</u>	<u>\$ 5,270,559</u>	<u>\$ 25,000</u>	<u>\$ 5,295,559</u>

See accompanying Notes to Financial Statements.

**SPECIES360**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2020**

	Net Assets Without Donor Restrictions			Net Assets With Donor Restrictions	Total
	Operating	Property and Equipment	Subtotal		
<b>SUPPORT AND REVENUE</b>					
Membership Dues and Other Fees	\$ 5,851,142	\$ -	\$ 5,851,142	\$ -	\$ 5,851,142
Program Service Fees	388,005	-	388,005	-	388,005
Contributions	35,705	-	35,705	-	35,705
Investment Income	24,154	-	24,154	-	24,154
Government Grants	574,700	-	574,700	-	574,700
Net Assets Released from Restrictions	137,041	-	137,041	(137,041)	-
Total Support and Revenue	<u>7,010,747</u>	<u>-</u>	<u>7,010,747</u>	<u>(137,041)</u>	<u>6,873,706</u>
<b>EXPENSES</b>					
Program Expenses	3,165,383	1,210,393	4,375,776	-	4,375,776
Management and General	896,350	6,754	903,104	-	903,104
Fundraising	46,970	197	47,167	-	47,167
Total Expenses	<u>4,108,703</u>	<u>1,217,344</u>	<u>5,326,047</u>	<u>-</u>	<u>5,326,047</u>
Change in assets before transfer and reclassification of net assets	2,902,044	(1,217,344)	1,684,700	(137,041)	1,547,659
Transfer and reclassification of net assets	<u>(342,054)</u>	<u>342,054</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>CHANGES IN NET ASSETS</b>	2,559,990	(875,290)	1,684,700	(137,041)	1,547,659
Net Assets - Beginning of Year	<u>343,575</u>	<u>3,041,111</u>	<u>3,384,686</u>	<u>225,808</u>	<u>3,610,494</u>
<b>NET ASSETS - END OF YEAR</b>	<u><u>\$ 2,903,565</u></u>	<u><u>\$ 2,165,821</u></u>	<u><u>\$ 5,069,386</u></u>	<u><u>\$ 88,767</u></u>	<u><u>\$ 5,158,153</u></u>

See accompanying Notes to Financial Statements.

**SPECIES360**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2021**

	Program Services	Management and General	Fundraising	Total
<b>SALARIES AND RELATED EXPENSES</b>				
Salaries	\$ 2,562,436	\$ 603,953	\$ 32,121	\$ 3,198,510
Benefits	527,486	135,700	3,825	667,011
Payroll Taxes	180,060	35,944	1,137	217,141
Total Salaries and Related Expenses	3,269,982	775,597	37,083	4,082,662
<b>OTHER EXPENSES</b>				
Remote Office Personnel	337,798	150,972	9,300	498,070
Accounting Services	2,416	25,177	-	27,593
Legal Services	4,077	1,180	14	5,271
Information Technology	171,490	15,401	526	187,417
Outside Services	68,724	862	-	69,586
Travel	23,561	5,058	-	28,619
Conferences & Meetings	6,062	352	-	6,414
Advertising & Promotion	13,350	640	-	13,990
Office Expense	10,483	2,726	33	13,242
Occupancy	38,922	11,267	135	50,324
Insurance	14,688	11,752	51	26,491
Service Fees	-	28,038	-	28,038
Membership Dues	11,371	2,988	36	14,395
Grants	26,176	-	-	26,176
Miscellaneous	409	119	-	528
Depreciation and Amortization	1,006,601	2,651	32	1,009,284
Total Other Expenses	1,736,128	259,183	10,127	2,005,438
 Total Expenses	 \$ 5,006,110	 \$ 1,034,780	 \$ 47,210	 \$ 6,088,100

See accompanying Notes to Financial Statements.



**SPECIES360**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2020**

	Program Services	Management and General	Fundraising	Total
<b>SALARIES AND RELATED EXPENSES</b>				
Salaries	\$ 1,902,260	\$ 511,920	\$ 29,002	\$ 2,443,182
Benefits	450,742	109,570	6,686	566,998
Payroll Taxes	139,075	27,326	1,871	168,272
Total Salaries and Related Expenses	2,492,077	648,816	37,559	3,178,452
<b>OTHER EXPENSES</b>				
Remote Office Personnel	276,880	127,862	7,474	412,216
Accounting Services	2,482	26,040	21	28,543
Legal Services	3,602	988	29	4,619
Information Technology	132,756	5,484	557	138,797
Outside Services	53,404	7,778	94	61,276
Travel	9,387	1,501	-	10,888
Conferences and Meetings	2,500	-	-	2,500
Advertising and Promotion	939	922	-	1,861
Office Expense	27,330	6,164	208	33,702
Occupancy	104,252	28,602	834	133,688
Insurance	14,358	11,439	115	25,912
Service Fees	-	28,041	-	28,041
Membership Dues	10,309	2,713	79	13,101
Grants	-	-	-	-
Miscellaneous	35,106	-	-	35,106
Depreciation and Amortization	1,210,394	6,754	197	1,217,345
Total Other Expenses	1,883,699	254,288	9,608	2,147,595
Total Expenses	<u>\$ 4,375,776</u>	<u>\$ 903,104</u>	<u>\$ 47,167</u>	<u>\$ 5,326,047</u>

See accompanying Notes to Financial Statements.

**SPECIES360**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 137,406	\$ 1,547,659
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,009,284	1,217,345
Unrealized (Gain) Loss on Investments	(1,047)	126
Net Change in Current Assets:		
Accounts and Pledge Receivable	(6,117)	95,307
Prepaid Expenses	9,249	11,800
Net Change in Current Liabilities:		
Accounts Payable	(21,915)	13,275
Accrued Expenses	41,705	45,788
Accrued Payroll Liabilities	239,318	(196,102)
Deferred Revenue	(49,405)	(41,558)
Costs Capitalized to Obtain Revenue Contracts	36,692	47,409
Deferred Lease Incentive	(6,406)	(28,677)
Net Cash Provided by Operating Activities	1,388,764	2,712,372
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital Expenditures for Property and Equipment	(112,546)	-
Capital Expenditures for ZIMS Software Development	(93,618)	(342,054)
Net Cash Used by Investing Activities	(206,164)	(342,054)
 <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,182,600	2,370,318
 Cash and Cash Equivalents - Beginning of Year	6,312,641	3,942,323
 <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 7,495,241	\$ 6,312,641

See accompanying Notes to Financial Statements.

**SPECIES360**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**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, 48 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 10.1 million animals belonging to 20,330 species—information that supports vital conservation initiatives. The Species360 Conservation Science Alliance provides science and research services in support of member or other animal care or conservation science teams globally.

The Organization, based in Minneapolis, Minnesota, USA, continues to welcome new members from around the world, joining the more than 1,264 members, including 1,186 zoos and aquariums, 54 regional and professional associations, and 24 schools and colleges in 100 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 \$35,395 and \$45,269 at December 31, 2021 and 2020, respectively.

**SPECIES360**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**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 to or greater than three years are capitalized. Depreciation is computed using the straight-line method over estimated useful lives of one to seven 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, 2021.

**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, 2021 and 2020. 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, 2021 and 2020, the Organization had \$25,000 and \$88,767 of net assets with donor restrictions, respectively.

**SPECIES360**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue Recognition**

The core principle of the Organization's policy is to 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 Organization's 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 84% for the years ended December 31, 2021 and 2020, respectively.

**Initiation Fees**

Upon becoming new members of Species360, 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 1% for the years ended December 31, 2021 and 2020.

**Services**

Services include custom development, data migration projects, software products, and training. For custom development and data migration projects, revenue is 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, 2021 and 2020. Services revenues represented 5% and 6% for the years ended December 31, 2021 and 2020, respectively.

**SPECIES360**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue Recognition (Continued)**

Grants

The Organization has received forgiveness by the Small Business Administration (SBA) of a Paycheck Protection Program loan. The terms and conditions of the usage of the loan proceeds have been met and the loan forgiveness has been received and recorded as a grant. Grant revenues represented -0-% and 8% for the years ended December 31, 2021 and 2020, respectively.

The SBA may review funding eligibility and usage of funds in compliance with the program based on dollar thresholds and other factors. The amount of liability, if any, from potential noncompliance cannot be determined with certainty; however, management is of the opinion that any review will not have a material adverse impact on the Company's financial position.

*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.

*Significant Judgments*

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.

**SPECIES360**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue Recognition (Continued)**

*Significant Judgments (Continued)*

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.

The beginning and ending contract balances were as follows as of December 31:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Accounts and Pledge Receivable, Net	\$ 83,952	\$ 77,835	\$ 173,142
Deferred Revenue	3,338,694	3,382,020	3,398,530

*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. Amortization expense of capitalized costs was \$85,501 and \$103,277 for the years ended December 31, 2021 and 2020.

**Investments**

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

**SPECIES360**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**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 Service as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code 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.

**Subsequent Events**

The Organization has evaluated subsequent events through June 29, 2022, the date the financial statement were available to be issued.



**SPECIES360**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**NOTE 3 RECENTLY ISSUED ACCOUNTING GUIDANCE**

**Leases**

In February 2016, the Financial Accounting Standards Board 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. 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 trustees 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.

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

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**NOTE 4 LIQUIDITY (CONTINUED)**

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

	<u>2021</u>	<u>2020</u>
Financial Assets at Year-End:		
Cash and Cash Equivalents	\$ 7,495,241	\$ 6,312,641
Accounts Receivable Within One Year	83,952	77,835
Liquid Financial Assets Available to Meet General Expenditures Within One Year	7,579,193	6,390,476
Less: Those Unavailable for General Expenditures Within One Year, Due to Contractual or Donor-Imposed Time or Purpose Restrictions	<u>(25,000)</u>	<u>(88,767)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year:	<u>\$ 7,554,193</u>	<u>\$ 6,301,709</u>

**NOTE 5 PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at December 31:

	<u>2021</u>	<u>2020</u>
Computers and Equipment	\$ 15,814	\$ 121,607
Furniture and Other Equipment	128,414	102,001
Leasehold Improvements	-	158,672
Less: Accumulated Depreciation	<u>(34,810)</u>	<u>(373,566)</u>
Net Property and Equipment	<u>\$ 109,418</u>	<u>\$ 8,714</u>

Depreciation expense of \$11,842 and \$31,569 was recorded for the years ended December 31, 2021 and 2020, 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 do not include costs related to funded development by custom development services. Capitalized software costs are amortized on a straight-line basis over the estimated use life of 60 months. The Organization capitalized \$93,618 and \$342,054 of software development costs in 2021 and 2020, respectively.

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**NOTE 6 CAPITALIZED SOFTWARE (CONTINUED)**

Capitalized software development costs consist of:

	<u>2021</u>	<u>2020</u>
Costs Placed into Service	\$ 15,478,282	\$ 15,229,741
Unamortized Development Costs	-	154,923
Less: Accumulated Amortization	<u>(14,225,000)</u>	<u>(13,227,558)</u>
Net ZIMS Software	<u>\$ 1,253,282</u>	<u>\$ 2,157,106</u>

Amortization of software development costs was \$997,442 and \$1,185,775 for the years ended December 31, 2021 and 2020, respectively.

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2022	\$ 687,104
2023	315,419
2024	157,224
2025	77,978
2026	<u>15,557</u>
Total	<u>\$ 1,253,282</u>

**NOTE 7 LINE OF CREDIT**

The Organization had a \$400,000 revolving line of credit agreement with a bank. The line of credit expired on September 20, 2021 and was not renewed. The line of credit agreement had an interest rate of prime plus 1% (if in place, effective rate of 4.25% as of December 31, 2021), had certain borrowing compliance covenants, and was secured by substantially all of the Organization's assets. There were no advances taken or outstanding during the years ended December 31, 2021 and 2020.

**NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS**

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

	<u>2021</u>	<u>2020</u>
Conservation Science Alliance (CSA)	\$ 25,000	\$ 75,000
Import Clinical Labs	-	13,767
Total	<u>\$ 25,000</u>	<u>\$ 88,767</u>

Net assets released because the time or purpose were met totaled \$88,767 and \$137,041, all of which were subject to expenditure for a specific purpose for the years ended December 31, 2021 and 2020, respectively.

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**NOTE 9 OPERATING LEASE**

The Organization had an operating lease for office space that required monthly payments ranging from \$5,916 to \$6,728 through March 31, 2021, plus common area expenses. The Organization applied 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 amortized against rent expense over the lease term using the straight-line method. The lease expired in 2021 without renewal.

Beginning January 2021, the Organization entered into an office services agreement which provides for the use of meeting rooms and shared spaces as well as other administrative support services. This agreement required monthly payments of \$610 during 2021 and was renewed for 2022 at a rate of \$636 per month through December 31, 2022.

Rent expense including common area expenses was \$48,589 and \$132,605 for the years ended December 31, 2021 and 2020, respectively.

Future minimum lease payment required is \$7,632 for the year ending December 31, 2022.

**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 \$241,187 and \$205,119 for the years ended December 31, 2021 and 2020, 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.



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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 year ended December 31, 2021, have issued our report thereon dated June 29, 2022. 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 in our engagement letter dated April 21, 2022. 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.

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 notify 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 29, 2022.

***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. However, these discussions occurred in the normal course of our professional relationship and our responses were 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 29, 2022