



Financial Statements

For the Years Ended
DECEMBER 31, 2017 AND 2016
With Independent Auditors' Report Thereon

NEXLEAF ANALYTICS

(A California Not-For-Profit Corporation)
December 31, 2017 and 2016

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3 - 4
Statements of Cash Flows	5
Statements of Functional Expenses	6 - 7
Notes to Financial Statements	8 - 13

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Index

INDEPENDENT AUDITORS' REPORT

The Board of Directors Nexleaf Analytics

We have audited the accompanying financial statements of Nexleaf Analytics (a California Nonprofit Public Benefit Corporation) which comprise the statement of financial position as of December 31, 2017 and 2016 and the related statements of activities and changes in net assets, cash flows and functional expenses 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.

Auditor's 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 audits 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 auditor's 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nexleaf Analytics as of December 31, 2017 and 2016 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Danville, California
October 24, 2018*

Regalia & Associates

NEXLEAF ANALYTICS

**Statements of Financial Position
December 31, 2017 and 2016**

ASSETS

	2017	2016
Current assets:		
Cash and cash equivalents	\$ 2,715,239	\$ 2,513,499
Accounts receivable	241,513	250,906
Grants and pledges receivable	-	1,030,000
Investment in Nexleaf India	52,632	52,632
Inventory	280,136	61,307
Prepaid expenses and other current assets	95,835	45,099
Total current assets	3,385,355	3,953,443
Noncurrent assets:		
Property and equipment, net	-	156,973
Total noncurrent assets	-	156,973
	\$ 3,385,355	\$ 4,110,416

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued liabilities	\$ 72,676	\$ 186,079
Accrued payroll and related benefits	75,774	46,791
Unearned revenue	-	93,000
Total current liabilities	148,450	325,870
Net assets:		
Unrestricted	2,132,405	2,222,450
Temporarily restricted	1,104,500	1,562,096
Total net assets	3,236,905	3,784,546
	\$ 3,385,355	\$ 4,110,416

NEXLEAF ANALYTICS

**Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2017**

<i>Changes in net assets:</i>	Unrestricted	Temporarily Restricted	Total 2017	Total 2016
Revenue and support:				
Earned revenue:				
Device installations	\$ 61,781	\$ -	\$ 61,781	\$ 94,667
Program service fees	298,672	-	298,672	910,467
Investment income	-	-	-	134
Other income	4,951	-	4,951	25,699
Total earned revenue	365,404	-	365,404	1,030,967
Contributed support:				
Foundation and government grants	221,274	334,721	555,995	1,559,794
Individual and trust contributions	11,250	450,000	461,250	221,270
Corporate contributions	1,000	835,768	836,768	1,003,100
In-kind services	75,000	8,600	83,600	-
Net assets released from restrictions	2,085,825	(2,085,825)	-	-
Total contributed support	2,394,349	(456,736)	1,937,613	2,784,164
Total revenue and support	2,759,753	(456,736)	2,303,017	3,815,131
Expenses:				
Programs:				
Vaccine	1,510,601	-	1,510,601	1,480,579
Air Pollution	732,117	-	732,117	617,233
General	202,788	-	202,788	69,337
Total programs	2,445,506	-	2,445,506	2,167,149
Management and general	311,882	-	311,882	217,608
Fundraising	93,270	-	93,270	51,584
Total expenses	2,850,658	-	2,850,658	2,436,341
Increase in net assets	(90,905)	(456,736)	(547,641)	1,378,790
Net assets at beginning of year	2,222,450	1,562,096	3,784,546	2,405,756
Net assets at end of year	\$ 2,131,545	\$ 1,105,360	\$ 3,236,905	\$ 3,784,546

NEXLEAF ANALYTICS

**Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2016**

<i>Changes in net assets:</i>	Unrestricted	Temporarily Restricted	Total 2016	Total 2015
Revenue and support:				
Earned revenue:				
Device installations	\$ 94,667	\$ -	\$ 94,667	\$ 1,101,080
Program service fees	910,467	-	910,467	15,275
Investment income	134	-	134	402
Other income	25,699	-	25,699	50,971
Total earned revenue	1,030,967	-	1,030,967	1,167,728
Contributed support:				
Foundation grants	1,261,645	298,149	1,559,794	1,112,612
Individual contributions	16,270	205,000	221,270	6,760
Corporate contributions	3,100	1,000,000	1,003,100	20,699
In-kind services	-	-	-	22,827
Net assets released from restrictions	876,360	(876,360)	-	-
Total contributed support	2,157,375	626,789	2,784,164	1,162,898
Total revenue and support	3,188,342	626,789	3,815,131	2,330,626
Expenses:				
Programs:				
Vaccine	1,480,579	-	1,480,579	1,933,591
Air Pollution	617,233	-	617,233	201,402
General	69,337	-	69,337	9,150
Total programs	2,167,149	-	2,167,149	2,144,143
Management and general	217,608	-	217,608	207,427
Fundraising	51,584	-	51,584	18,122
Total expenses	2,436,341	-	2,436,341	2,369,692
Increase in net assets	752,001	626,789	1,378,790	(39,066)
Net assets at beginning of year	1,470,449	935,307	2,405,756	2,444,822
Net assets at end of year	\$ 2,222,450	\$ 1,562,096	\$ 3,784,546	\$ 2,405,756

NEXLEAF ANALYTICS

**Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016**

	2017	2016
<i>Operating activities:</i>		
Increase (decrease) in net assets	\$ (547,641)	\$ 1,378,790
Depreciation	156,973	45,502
Adjustments to reconcile to cash provided by (used for) operating activities:		
Changes in:		
Accounts receivable	9,393	821,728
Grants and pledges receivable	1,038,600	(980,000)
Inventory	(218,829)	85,683
Prepaid expenses and other current assets	(50,736)	87,797
Accounts payable and accrued liabilities	(113,403)	(4,171)
Accrued payroll and related benefits	28,983	11,968
Deferred revenue	(93,000)	93,000
Cash provided by operating activities	201,740	1,540,297
<i>Investing activities:</i>		
Acquisition of investments	-	(52,632)
Cash used for investing activities	-	(52,632)
Net increase in cash and cash equivalents	201,740	1,487,665
Cash and cash equivalents at beginning of year	2,513,499	1,025,834
Cash and cash equivalents at end of year	\$ 2,715,239	\$ 2,513,499
<i>Additional cash flow information:</i>		
Interest paid	\$ -	\$ -
State registration taxes paid	\$ 150	\$ 150

NEXLEAF ANALYTICS

**Statement of Functional Expenses
For the Year Ended December 31, 2017**

	Vaccine	Air Pollution	Innovation	Total Programs	Manage- ment and General	Fund- raising	2017 Total
Bank charges	\$ 1,478	\$ 4	\$ -	\$ 1,482	\$ 711	\$ 37	\$ 2,230
Cost of device installations	132,772	-	1,268	134,040	-	-	134,040
Depreciation	156,973	-	-	156,973	-	-	156,973
Equipment, computers and software	15,320	6,552	2,647	24,519	1,306	467	26,292
Grants paid	10,000	-	-	10,000	-	-	10,000
Insurance	700	335	66	1,101	4,579	61	5,741
IT services	29,109	18,035	2,204	49,348	7,209	1,411	57,968
Occupancy	17,055	6,493	1,232	24,780	3,333	1,061	29,174
Professional fees	200,154	151,019	101,592	452,765	101,830	86	554,681
Programs	308,283	151,240	750	460,273	-	-	460,273
Regulatory and compliance	7,159	5,957	38	13,154	916	48	14,118
Salaries, payroll taxes and benefits	544,701	363,459	85,571	993,731	184,924	77,471	1,256,126
Supplies, office and administration	9,060	4,999	1,769	15,828	3,658	1,475	20,961
Travel and meals	77,837	24,024	5,651	107,512	3,416	11,153	122,081
	\$ 1,510,601	\$ 732,117	\$ 202,788	\$ 2,445,506	\$ 311,882	\$ 93,270	\$ 2,850,658

NEXLEAF ANALYTICS

**Statement of Functional Expenses
For the Year Ended December 31, 2016**

	Vaccine	Air Pollution	Innovation	Total Programs	Manage- ment and General	Fund- raising	2016 Total
Bank charges	\$ 1,440	\$ 1,683	\$ -	\$ 3,123	\$ 577	\$ -	\$ 3,700
Cost of device installations	15,423	70,260	-	85,683	-	-	85,683
Depreciation	45,242	165	4	45,411	69	22	45,502
Equipment, computers and software	19,336	13,138	1,077	33,551	5,780	1,614	40,945
Insurance	668	363	27	1,058	3,692	52	4,802
IT services	4,518	2,284	152	6,954	1,815	303	9,072
Occupancy	5,576	3,253	288	9,117	1,565	477	11,159
Professional fees	84,306	7,004	309	91,619	48,319	383	140,321
Programs	762,402	218,215	44,413	1,025,030	300	2,179	1,027,509
Salaries, payroll taxes and benefits	535,338	295,630	22,719	853,687	148,901	42,534	1,045,122
Supplies, office and administration	1,207	865	89	2,161	3,046	459	5,666
Travel and meals	5,123	4,373	259	9,755	3,544	3,561	16,860
	\$ 1,480,579	\$ 617,233	\$ 69,337	\$ 2,167,149	\$ 217,608	\$ 51,584	\$ 2,436,341

Notes to Financial Statements December 31, 2017 and 2016

1. Organization

Nexleaf Analytics (Nexleaf) is a California Nonprofit Public Benefit Corporation founded in 2009. The mission of Nexleaf is to build wireless connected devices and sensor technologies to create positive impact through health, environmental and social interventions. Nexleaf develops lightweight, field-tested sensors, cell phone applications, and advanced data analytics that enable remote monitoring and data collection from almost anywhere on the planet.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of Nexleaf have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958.205, *Presentation of Financial Statements of Not-for-Profit Entities*. Under ASC 958.205, Nexleaf is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Revenue and Support Recognition

Nexleaf records contributions in accordance with the recommendations of ASC 958.605, *Revenue Recognition of Not-for-Profit Entities*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions, donations and grants restricted by the donor for particular purposes are deemed to be earned and are reported as revenue and support when Nexleaf has incurred expenditures in compliance with the specific restrictions. Such amounts received or receivable but not yet earned are included as temporarily restricted net assets on the statements of financial position.

Uses 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 reported amounts and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates.

Receivables

Accounts receivable are recognized when items of inventory are sold in accordance with standard industry practices. Grants and pledges receivable are recorded when written communication is received from donors and are stated at estimated net realizable value. Nexleaf assesses the collectability of all receivables and records an allowance for uncollectible amounts, if necessary.

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. Cash equivalents include short-term interest-bearing investments in money market and liquid asset accounts. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Inventories

Inventories are carried at lower of cost or market using the first-in first-out method, consist of Temperature Data Loggers, and are level 2 assets. All direct costs related to the acquisition of inventory components are capitalized as inventory in accordance with ASC 330.10.30 *Inventory*.

Investment

Investment is stated at book value (which approximates fair value) on the statement of activities and changes in net assets. Investment is considered to be a level 3 assets.

Property and Equipment

Property and equipment purchased by Nexleaf is stated at cost. Property and equipment donated to Nexleaf is recorded at estimated fair value as of the date of the gift. The cost of additions and major improvements are capitalized, while maintenance and repairs are charged to expense as incurred. Costumes and equipment are depreciated using the straight-line method over the estimated useful lives of the assets of five years.

Income Taxes

Financial statement presentation follows the recommendations of ASC 740, *Income Taxes*. Under ASC 740, Nexleaf is required to report information regarding its exposure to various tax positions taken by Nexleaf and requires a two-step process that separates recognition from measurement. The first step is determining whether a tax position has met the recognition threshold; the second step is measuring a tax position that meets the recognition threshold. Management believes that Nexleaf has adequately evaluated its current tax positions and has concluded that as of December 31 2017 and 2016, Nexleaf does not have any uncertain tax positions for which a reserve or an accrual for a tax liability would be necessary.

Nexleaf has received notification from the Internal Revenue Service and the State of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. The exemptions are subject to periodic review by the federal and state taxing authorities and management is confident that Nexleaf continues to satisfy all federal and state statutes in order to qualify for continued tax exemption status. Nexleaf may periodically receive unrelated business income (such as sublease rental income) requiring Nexleaf to file separate tax returns under federal and state statutes. Under such conditions, Nexleaf calculates and accrues the applicable taxes.

Functional Allocation of Expenses

The costs of providing Nexleaf's various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NEXLEAF ANALYTICS

Notes to Financial Statements

3. Cash and Cash Equivalents

Cash and cash equivalents at December 31, 2017 and 2016 include all funds deposited in various accounts at local financial institutions as follows:

	2017	2016
Bank of America checking (noninterest-bearing)	\$ 513,507	\$ 542,365
Bank of America sweep (noninterest-bearing)	2,128,446	1,867,722
City National Bank checking (noninterest-bearing)	73,286	103,412
Total cash and cash equivalents	<u>\$ 2,715,239</u>	<u>\$ 2,513,499</u>

4. Receivables

Receivable consist of the following at December 31:

	2017	2016
Accounts receivable due from services provided	\$ 241,513	\$ 250,906
Grants and pledges due from foundations/individuals	-	1,030,000
Total receivables	<u>\$ 241,513</u>	<u>\$ 1,280,906</u>

All pledges and grants are due within one year from the date of the statement of financial position and management considers all amounts to be fully collectible. Accordingly, there is no provision for doubtful accounts at December 31, 2017 and 2016. All receivables are considered to be level 2 assets.

5. Investment in Nexleaf India

Investment in Nexleaf India of \$52,632 represents funds invested in a separate entity formed in Bangalore (India) with the legal name of Nexleaf Analytics India Private Limited. The Chairman of Nexleaf personally owns 0.01% of the capital of Nexleaf India. Nexleaf owns the other 99.99%. Under Indian law, there must be at least two shareholders for each Private Limited company. Since Nexleaf India's inception, there have never been any dividends issued to any shareholder. Management has estimated the fair value of this investment as equal to the cost basis and is classified as a level 3 asset.

6. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following at December 31:

	2017	2016
Prepaid insurance and other advance payments	\$ 20,627	\$ 4,577
India project - office account	34,686	-
Deposits	40,522	40,522
Total prepaid expenses and other current assets	<u>\$ 95,835</u>	<u>\$ 45,099</u>

NEXLEAF ANALYTICS

Notes to Financial Statements

7. Property and Equipment

Property and equipment consist of the following at December 31:

	2017	2016
Project equipment	\$ -	\$ 7,847
Software	-	201,822
Less: accumulated depreciation	-	(52,696)
Property and equipment, net	<u>\$ -</u>	<u>\$ 156,973</u>

Depreciation expense amounted to \$45,502 and \$156,973 for the years ended December 31, 2017 and 2016, respectively.

8. Temporarily Restricted Net Assets

Nexleaf recognizes support from temporarily restricted net assets when the restrictions imposed by the donors have been satisfied or expired. Temporarily restricted net assets consist of the following at December 31:

	2017	2016
Beneventures Foundation	\$ 100,000	\$ 357,096
Gavi Alliance	548,187	-
Google	421,313	1,000,000
McQuown Trust	-	205,000
University of California - San Diego	35,000	-
Total temporarily restricted net assets	<u>\$ 1,104,500</u>	<u>\$ 1,562,096</u>

During the years ended December 31, 2017 and 2016, contributions of temporarily restricted net assets amounted to \$1,629,089 and \$1,503,149, respectively. During the years ended December 31, 2017 and 2016, Nexleaf released and transferred \$2,085,825 and \$876,360, respectively, in temporarily restricted net assets to unrestricted support.

9. Leases

Through December 31, 2017, Nexleaf leased its corporate office space under a month-to-month operating lease agreement between Nexleaf and the spouse of the organization's president. The lease required a monthly remittance of \$1,000 for office space and \$300 for utilities, resulting in a total remittance of \$1,300 per month. Effective January 15, 2018, Nexleaf entered into a multi-year lease and moved its office location to a different building in Los Angeles. The lease agreement has a term of 48 months, requires a monthly rental payment of \$5,668 during the first 12 months, and then stipulates annual rental increases of 3% each January. Nexleaf is responsible for its proportionate share of building, maintenance and operating expenses which includes insurance and related costs. Total occupancy expense (including utilities) amounted to \$29,174 and \$11,058 for the years ended December 31, 2017 and 2016, respectively.

NEXLEAF ANALYTICS

Notes to Financial Statements

10. Fair Value Measurements

Composition of assets utilizing fair value measurements at December 31, 2017 is as follows:

	Totals	Level 1	Level 2	Level 3
Accounts receivable	\$ 241,513	\$ -	\$ 241,513	\$ -
Investment in Nexleaf India	52,632	-	-	52,632
Inventory	280,136	-	-	280,136
Totals	<u>\$ 1,394,845</u>	<u>\$ -</u>	<u>\$ 1,280,906</u>	<u>\$ 113,939</u>

Composition of assets utilizing fair value measurements at December 31, 2016 is as follows:

	Totals	Level 1	Level 2	Level 3
Accounts receivable	\$ 250,906	\$ -	\$ 250,906	\$ -
Grants and pledges receivable	1,030,000	-	1,030,000	-
Investment in Nexleaf India	52,632	-	-	52,632
Inventory	61,307	-	-	61,307
Totals	<u>\$ 1,394,845</u>	<u>\$ -</u>	<u>\$ 1,280,906</u>	<u>\$ 113,939</u>

Fair value measurements establish a fair value hierarchy that prioritizes the input used to measure fair value. This hierarchy consists of three broad levels: (a) Level 1 measurement reflects the value of the investments at quoted prices in active markets for identical assets, generally without any adjustments, (b) Level 2 assets and liabilities are valued based on "observable inputs" other than quoted active market prices, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, and interest rates and yield curves, and (c) Level 3 assets and liabilities are valued based on "unobservable inputs," such as a company's own estimates and pricing models. Assets Classified as Level 3: The significant unobservable inputs used in the estimated values of the entity's Investment in Nexleaf India and inventory are based solely on the cost basis of the assets.

11. Related Party Transactions

During 2017 and 2016, Nexleaf rented office space from the spouse of the organization's president (as disclosed in footnote 9).

During 2015, Nexleaf employed the sister of the organization's president. Board Members David Watson and Vinitha Watson are married.

Effective October 15, 2015, Nexleaf acquired 99.9% of Nexleaf Analytics India Private Limited, a separate corporate entity located in Bangalore, India. The financial results of this entity have not been reflected in these financial statements.

During 2015, NexLeaf Analytics created Nexleaf USA LLC, a 100% owned limited liability company organized in California for the purpose of obtaining grants. This LLC was not active during the years ended December 31, 2017 and 2016.

Notes to Financial Statements

12. Commitments and Contingencies

In the normal course of business there are outstanding various commitments and contingent liabilities, such as commitments to enter into contracts related to ongoing operational activities, which are not reflected in the financial statements. Such commitments and contingencies also include risks associated with various economic and operating factors, which include (a) Contractual restrictions and donor conditions which obligate Nexleaf to fulfill certain requirements as set forth in legal instruments, (b) Funding levels which vary based on factors beyond Nexleaf's control, such as general economic conditions, (c) Employment contracts and service agreements with outside contractors, and (d) Financial risks associated with funds on deposit in accounts at financial institutions. Management believes that such commitments, contingencies and risks will not have a material adverse effect on the financial statements. Certain of the grants and contracts (including current and prior costs) are subject to audit and final acceptance by the granting agencies.

13. 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 reported amounts and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates.

14. Compensated Absences (Accrued Payroll and Related Benefits)

Financial statement presentation follows the recommendations of ASC 710.25, *Compensated Absences*. Under ASC 710.25, Nexleaf is required to record a liability for the estimated amounts of compensation for future absences. Employees are permitted to accrue a specific number of hours of vacation which is payable upon termination of the employee. Sick leave is not paid upon termination. Annual leave accruals are recorded in the financial statements as an accrued liability on the statement of financial position based on hourly rates in effect at the end of the fiscal year. Accrued payroll liabilities amounted to \$75,774 and \$46,791 at December 31, 2017 and 2016, respectively.

15. Subsequent Events

In compliance with ASC 855, *Subsequent Events*, Nexleaf has evaluated subsequent events through October 24, 2018, the date the financial statements were available to be issued. As discussed in Note 9 on Page 11, Nexleaf moved into a new office location and entered into a 48 month lease on January 15, 2018. In the opinion of management, there are no other subsequent events which need to be disclosed.