



Financial Statements

For the Years Ended
DECEMBER 31, 2018 AND 2017
With Independent Auditors' Report Thereon

NEXLEAF ANALYTICS

(A California Not-For-Profit Corporation)
December 31, 2018 and 2017

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 - 17

NEXLEAF ANALYTICS OFFICE
1964 Westwood Blvd. Suite 410
Los Angeles, California 90016
Office: 213-915-6729, Fax: 213-402-2961
Email: info@nexleaf.org
Web Site Address: www.nexleaf.org

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, 2018 and 2017 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, 2018 and 2017 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
November 1, 2019*

Regalia & Associates

NEXLEAF ANALYTICS

**Statements of Financial Position
December 31, 2018 and 2017**

ASSETS

	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 2,375,950	\$ 2,715,239
Accounts receivable	864,043	241,513
Investments	249,000	-
Inventory	153,306	280,136
Prepaid expenses and other current assets	183,922	95,835
Total current assets	<u>3,826,221</u>	<u>3,332,723</u>
Noncurrent assets:		
Investment in Nexleaf India	52,632	52,632
Right of use asset - premises	209,251	-
Total noncurrent assets	<u>261,883</u>	<u>52,632</u>
	<u>\$ 4,088,104</u>	<u>\$ 3,385,355</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 65,282	\$ 72,676
Accrued payroll and related benefits	125,546	75,774
Customer deposits	633,294	-
Lease liability	63,382	-
Total current liabilities	<u>887,504</u>	<u>148,450</u>
Long term liabilities:		
Lease liability	145,869	-
Total liabilities	<u>1,033,373</u>	<u>148,450</u>
Net assets:		
Without donor restrictions	1,913,912	2,132,405
With donor restrictions	1,140,819	1,104,500
Total net assets	<u>3,054,731</u>	<u>3,236,905</u>
	<u>\$ 4,088,104</u>	<u>\$ 3,385,355</u>

NEXLEAF ANALYTICS

**Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2018**

	Net Assets		Total 2018	Total 2017
	Without Donor Restrictions	With Donor Restrictions		
<i>Changes in net assets:</i>				
Revenue and support:				
Earned revenue:				
Device installations	\$ 299,122	\$ -	\$ 299,122	\$ 61,781
Program service fees	304,615	-	304,615	298,672
Investment income	6,629	-	6,629	-
Other income (net)	(1,235)	-	(1,235)	4,951
Total earned revenue	609,131	-	609,131	365,404
Contributed support:				
Foundation and government grants	229,149	967,691	1,196,840	555,995
Individual and trust contributions	36,899	500,000	536,899	461,250
Corporate contributions	-	358,000	358,000	836,768
In-kind services	50,457	-	50,457	83,600
Net assets released from restrictions	1,789,372	(1,789,372)	-	-
Total contributed support	2,105,877	36,319	2,142,196	1,937,613
Total revenue and support	2,715,008	36,319	2,751,327	2,303,017
Expenses:				
Programs:				
Vaccine	1,380,444	-	1,380,444	1,510,601
Air Pollution	694,679	-	694,679	732,117
General	240,696	-	240,696	202,788
Total programs	2,315,819	-	2,315,819	2,445,506
Management and general	466,967	-	466,967	311,882
Fundraising	150,715	-	150,715	93,270
Total expenses	2,933,501	-	2,933,501	2,850,658
Increase (decrease) in net assets	(218,493)	36,319	(182,174)	(547,641)
Net assets at beginning of year	2,132,405	1,104,500	3,236,905	3,784,546
Net assets at end of year	\$ 1,913,912	\$ 1,140,819	\$ 3,054,731	\$ 3,236,905

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

**Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017**

	2018	2017
<i>Operating activities:</i>		
Decrease in net assets	\$ (182,174)	\$ (547,641)
Depreciation	-	156,973
Adjustments to reconcile to cash provided by (used for) operating activities:		
Changes in:		
Accounts receivable	(622,530)	9,393
Grants and pledges receivable	-	1,038,600
Inventory	126,830	(218,829)
Prepaid expenses and other current assets	(88,087)	(50,736)
Accounts payable and accrued liabilities	(7,394)	(113,403)
Accrued payroll and related benefits	49,772	28,983
Customer deposits	633,294	(93,000)
Cash provided by (used for) operating activities	(90,289)	201,740
<i>Investing activities:</i>		
Recognition of right of use asset - premises	(209,251)	-
Acquisition of investments	(249,000)	-
Cash used for investing activities	(458,251)	-
<i>Financing activities:</i>		
Recognition of lease payable	209,251	-
Cash provided by financing activities	209,251	-
Net increase (decrease) in cash and cash equivalents	(339,289)	201,740
Cash and cash equivalents at beginning of year	2,715,239	2,513,499
Cash and cash equivalents at end of year	\$ 2,375,950	\$ 2,715,239
<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, 2018**

	Vaccine	Air Pollution	Innovation	Total Programs	Manage- ment and General	Fund- raising	2018 Total
Bank charges	\$ 5	\$ -	\$ -	\$ 5	\$ 1,440	\$ 29	\$ 1,474
Cost of device installations	114,871	11,692	267	126,830	-	-	126,830
Equipment, computers and software	27,631	2,612	9,059	39,302	2,175	567	42,044
Insurance	1,624	393	153	2,170	5,179	101	7,450
IT services	22,685	9,521	1,801	34,007	6,131	3,482	43,620
Occupancy	41,392	23,734	7,262	72,388	14,270	4,643	91,301
Professional fees	112,625	84,106	113,719	310,450	87,562	258	398,270
Programs	354,411	141,826	15,826	512,063	-	-	512,063
Regulatory and compliance	29,616	12,250	-	41,866	819	-	42,685
Salaries, payroll taxes and benefits	594,588	388,451	76,873	1,059,912	332,939	123,748	1,516,599
Supplies, office and administration	32,213	5,429	4,641	42,283	6,035	1,904	50,222
Travel and meals	48,783	14,665	11,095	74,543	10,417	15,983	100,943
	\$ 1,380,444	\$ 694,679	\$ 240,696	\$ 2,315,819	\$ 466,967	\$ 150,715	\$ 2,933,501

See accompanying auditors' report and notes to financial statements.

Page 6

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

See accompanying auditors' report and notes to financial statements.

Page 7

NEXLEAF ANALYTICS

Notes to Financial Statements December 31, 2018 and 2017

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 Presentation - The financial statements of Nexleaf have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("US GAAP").

Measure of Operations - The statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to Nexleaf's ongoing operations which include a variety of programmatic activities. Nonoperating activities are limited to resources that generate return from interest-bearing deposits and other activities considered to be of a more unusual or nonrecurring nature.

Cash and Cash Equivalents - Nexleaf's cash consists of cash on deposit with banks. Cash equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase.

Concentrations of Credit Risk - Financial instruments that potentially subject Nexleaf to concentrations of credit risk consist principally of cash and cash equivalents and deposits. Nexleaf maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. Nexleaf manages deposit concentration risk by placing cash and money market accounts with financial institutions believed to be creditworthy.

To date, Nexleaf has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and grants receivable considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from reputable organizations and foundations supportive of Nexleaf's mission.

Receivables and Credit Policies - Nexleaf determined that no allowance for doubtful uncollectible accounts receivable is needed based on historical experience, an assessment of economic conditions, and a review of subsequent collections. It is the policy of the organization to periodically assess receivables to determine proper carrying value.

Accounts and Contributions Receivable - Nexleaf records contributions receivable that are expected to be collected within one year at net realizable value. When material, contributions receivable expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset.

Notes to Financial Statements

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

In subsequent years, amortization of the discounts (when applicable) will be included in contribution revenue in the statement of activities. The allowance for uncollectible receivables is based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Contributions receivable are written off when deemed uncollectible.

Property and Equipment – Nexleaf has written off all property and equipment. Costs of maintenance and repairs are expensed currently. Nexleaf reviews the carrying values of all assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated economic utility and/or future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. Nexleaf has determined that no long-lived assets were impaired during the year ended June 30, 2019.

Fair Value Measurements – Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions.

The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). Nexleaf groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2: Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3: Unobservable inputs that cannot be corroborated by observable market data.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing model of the asset and does not necessarily correspond to our assessment of the quality, risk or liquidity profile of the asset or liability.

Notes to Financial Statements

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

Net Assets - Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Thus, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has the ability to designate, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment, but it has opted not to do so as of June 30, 2019.

Net Assets With Donor Restrictions

Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions can be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires us 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 revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Revenue and Revenue Recognition - Contributions are recognized when cash, securities, or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. When applicable, revenue earned under a contractual arrangement (an "exchange transaction") is recognized when earned and therefore measured as services are provided.

Product sales and payments received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized.

Donated Services and In-Kind Contributions - Contributed services and costs are reflected at the fair value of the contribution received. The contributions of services and costs are recognized if they (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Notes to Financial Statements

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

Volunteers contribute significant amounts of time to Nexleaf which includes administration, fundraising, and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles.

Functional Expenses – The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among services and supporting services benefited. Such allocations are determined by management on an equitable basis.

A majority of expenses (such as salaries and wages, rent and utilities, insurance, and other overhead) have been allocated based on time and effort using Nexleaf's payroll allocations. Other expenses (such as professional services and other direct costs) have been allocated in accordance with the specific services received from vendors.

Reclassifications - Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Income Taxes - Nexleaf is organized as California nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as organizations described in IRC Section 501(c)(3), qualify for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi) and (viii), and has been determined not to be private foundations under IRC Sections 509(a)(1) and (3), respectively. Nexleaf is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS.

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.

Recent and Relevant Accounting Pronouncements – The following pronouncements became effective for fiscal years beginning subsequent to December 15, 2017:

In August 2016, the FASB issued *ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Nexleaf has adjusted the presentation of these statements accordingly.

NEXLEAF ANALYTICS

Notes to Financial Statements

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

In August 2014, the FASB issued *ASU 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*, which requires an organization’s management to evaluate whether there are conditions and events, considered in the aggregate, that raise substantial doubt about an entity’s ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable). As of November 1, 2019 (the date of the Independent Auditors’ Report), Nexleaf management has made this evaluation and has determined that Nexleaf has the ability to continue as a going concern.

In June 2018, the FASB issued *ASU 2018-08, Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The FASB issued this update to clarify and improve the scope and the accounting guidance for contributions received and contributions made.

The amendments in this Update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Accordingly, Nexleaf has incorporated these clarifying standards within the audited financial statements.

3. Cash and Cash Equivalents

Cash and cash equivalents at December 31, 2018 and 2017 include all funds deposited in various accounts at local financial institutions as follows:

	2018	2017
Bank of America checking (noninterest-bearing)	\$ 162,455	\$ 513,507
Bank of America sweep (noninterest-bearing)	1,639,385	2,128,446
City National Bank checking (noninterest-bearing)	101,978	73,286
Merrill Lynch cash (noninterest-bearing)	457,629	-
Other cash balances (noninterest-bearing)	14,503	-
Total cash and cash equivalents	<u>\$ 2,375,950</u>	<u>\$ 2,715,239</u>

4. Accounts Receivable

Accounts receivable of \$864,043 and \$241,513 at consist of the following at December 31, 2018 and 2017, respectively, represent amounts due from various sources for device sales and installations. All receivables 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, 2018 and 2017. All receivables are considered to be level 2 assets.

NEXLEAF ANALYTICS

Notes to Financial Statements

5. Investments

Investments at December 31, 2018 and 2017 consist of certain assets domiciled with Merrill Lynch and are itemized as follows:

	2018	2017
Certificate of deposit - Comenity Capital Bank (Salt Lake City) (bearing interest at 2.0%)	249,000	-
Total investments	<u>\$ 249,000</u>	<u>\$ -</u>

During the year ended December 31, 2018, investment income amounted to \$6,629. There was no investment income for the year ended December 31, 2017.

6. 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.

7. Prepaid Expenses and Other Current Assets

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

	2018	2017
Prepaid insurance and other advance payments	\$ 7,614	\$ 20,627
India project - office account	-	34,686
Deposits	176,308	40,522
Total prepaid expenses and other current assets	<u>\$ 183,922</u>	<u>\$ 95,835</u>

8. Right of Use Asset - Premises

In accordance with *ASU 2016-02, Leases*, Nexleaf is required to reflect the present value of future operating lease payments (discounted at an appropriate borrowing rate) as a "Right of Use" asset and a corresponding lease liability. Accordingly, Nexleaf has recorded a total lease liability in the amount of \$209,251 (split between current amount of \$63,382 and noncurrent amount of \$145,869), and a corresponding right of use asset for the premises in the amount of \$209,251. The weighted average discount rate associated with the calculation of the present value of the future lease payments as of December 31, 2018 was 4.0%.

NEXLEAF ANALYTICS

Notes to Financial Statements

9. Liquidity

Nexleaf regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the safeguarding of its available funds. Nexleaf has various sources of liquidity at its disposal, including cash and cash equivalents and other sources (including the future collection of receivables).

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Nexleaf considers all expenditures related to its mission, as well as the conduct of services undertaken, to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, Nexleaf anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. The following table shows the total financial assets held by Nexleaf and the amounts of those financial assets readily available within one year of the balance sheet date to meet general expenditures:

Cash and cash equivalents	\$ 2,375,950
Accounts receivable	864,043
Investments	249,000
Inventory	153,306
Subtotal	3,642,299
Less: amounts not available to be used within one year:	
Net assets with donor restrictions for programs	(940,819)
Financial assets available to meet general expenditures over the next twelve months	\$ 2,701,480

Nexleaf receives a substantial amount of support by way of restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, Nexleaf must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of Nexleaf's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

10. Fair Value Measurements

Composition of assets utilizing fair value measurements at December 31, 2018 is as follows:

	Totals	Level 1	Level 2	Level 3
Accounts receivable	\$ 864,043	\$ -	\$ 864,043	\$ -
Investments	249,000	-	249,000	-
Inventory	153,306	-	-	153,306
Totals	\$ 1,266,349	\$ -	\$ 1,113,043	\$ 153,306

(continued)

NEXLEAF ANALYTICS

Notes to Financial Statements

10. Fair Value Measurements *(continued)*

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	\$ -
Inventory	280,136	-	-	280,136
Totals	\$ 521,649	\$ -	\$ 241,513	\$ 280,136

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. 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:

	2018	2017
Autodesk Foundation	\$ 100,000	\$ -
Beneventures Foundation	-	100,000
Gavi Alliance	383,845	548,187
Google	-	421,313
McQuown Trust	250,000	-
Mulago Foundation	200,000	-
Qualcomm	206,974	35,000
Total temporarily restricted net assets	\$ 1,140,819	\$ 1,104,500

During the years ended December 31, 2018 and 2017, contributions of temporarily restricted net assets amounted to \$1,825,691 and \$1,629,089, respectively. During the years ended December 31, 2018 and 2017, Nexleaf released and transferred \$1,789,372 and \$2,085,825, respectively, in temporarily restricted net assets to unrestricted support.

Notes to Financial Statements

12. Leases

Nexleaf leases its corporate office space under a multi-year operating lease agreement between Nexleaf and the spouse of the organization's president. The lease expires December 31, 2022 and requires a monthly remittance of \$5,668. The lease agreement 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 parking, utilities, and related expenditures) amounted to \$91,001 and \$29,174 for the years ended December 31, 2018 and 2017, respectively.

13. Related Party Transactions

During 2018 and 2017, Nexleaf rented office space from the spouse of the organization's president (as disclosed in footnote 12).

During 2018 and 2017, Nexleaf employed the sister of the organization's president.

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, 2018 and 2017.

14. 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.

Notes to Financial Statements**15. 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.

16. 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 \$125,546 and \$75,774 at December 31, 2018 and 2017, respectively.

17. Nexleaf India

As noted in Note 6, Nexleaf owns a majority interest in Nexleaf India, a separate entity formed in Bangalore (India) with the legal name of Nexleaf Analytics India Private Limited. In accordance with *ASU 2018-17 Consolidation*, the financial data from Nexleaf India is not included with these financial statements because of the provisions of ASC 810-10-50-2AG. Management believes the nature and risks associated with Nexleaf's involvement with Nexleaf India are minimal. Decisions regarding the day-to-day operating activities of Nexleaf India are not made by Nexleaf (USA) management. Certain costs related to program activities carried out by Nexleaf India are funded by Nexleaf and expensed in the accompanying financial statements. Nexleaf's maximum exposure resulting from its involvement with Nexleaf India cannot be quantified.

18. Subsequent Events

In compliance with ASC 855, *Subsequent Events*, Nexleaf has evaluated subsequent events through November 1, 2019, the date the financial statements were available to be issued. In the opinion of management, there are no subsequent events which need to be disclosed.