

CONSERVATION X LABS, INC.

FINANCIAL REPORT

December 31, 2021

CONSERVATION X LABS, INC.

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Independent Auditors' Report

To the Board of Directors
Conservation X Labs, Inc.
Washington, D.C.

Opinion

We have audited the accompanying financial statements of Conservation X Labs, Inc. (a nonprofit organization), 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 financial statements referred to above present fairly, in all material respects, the financial position of Conservation X Labs, Inc. as of December 31, 2021 and 2020, and the changes 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. 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 Conservation X Labs, Inc. 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 these 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 Conservation X Labs, Inc.'s ability to continue as a going concern within 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 auditor's 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 generally accepted auditing standards 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 generally accepted auditing standards, 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 Conservation X, Labs Inc.'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 Conservation X Labs, Inc.'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.

Dembo Jones, P.C.

*North Bethesda, Maryland
January 23, 2023*

CONSERVATION X LABS, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,828,359	\$ 3,240,859
Grants receivable	45,412	-
Due from CXL PBC	25,000	25,000
Prepaid expenses	<u>12,621</u>	<u>2,808</u>
Total current assets	<u>2,911,392</u>	<u>3,268,667</u>
Property and Equipment		
Furniture and equipment	65,800	133,455
Less accumulated depreciation	<u>(26,290)</u>	<u>(14,313)</u>
	<u>39,510</u>	<u>119,142</u>
Deposit		
	<u>16,987</u>	<u>16,987</u>
Total assets	<u>\$ 2,967,889</u>	<u>\$ 3,404,796</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 66,408	\$ 686,506
Paycheck Protection Program loan	<u>-</u>	<u>243,934</u>
Total current liabilities	<u>66,408</u>	<u>930,440</u>
Net Assets		
Without donor restrictions	<u>2,901,481</u>	<u>2,474,356</u>
Total liabilities and net assets	<u>\$ 2,967,889</u>	<u>\$ 3,404,796</u>

The accompanying notes are an integral part of these financial statements.

CONSERVATION X LABS, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support						
Contributions						
Foundation contributions	\$ 3,826,800	\$ -	\$ 3,826,800	\$ 2,653,050	\$ -	\$ 2,653,050
Government grants	471,771	-	471,771	474,281	-	474,281
Direct public grants	263,025	-	263,025	-	-	-
Individual contributions	60,235	-	60,235	2,211,076	-	2,211,076
In-kind contributions	9,500	-	9,500	-	-	-
Other income						
Miscellaneous income	-	-	-	4,668	-	4,668
Interest income	574	-	574	2,700	-	2,700
Paycheck Protection Program loan forgiveness	243,934	-	243,934	-	-	-
Loss on disposal	-	-	-	(25,000)	-	(25,000)
Net assets released from restrictions	-	-	-	205,577	(205,577)	-
Total revenue	4,875,839	-	4,875,839	5,526,352	(205,577)	5,320,775
Expenses						
Program services						
Nucleic Acid Barcode Identification Tool	1,567,149	-	1,567,149	2,266,238	-	2,266,238
Grand Challenges	1,182,847	-	1,182,847	1,635,433	-	1,635,433
The Sentinel	488,845	-	488,845	564,264	-	564,264
Community	227,615	-	227,615	373,018	-	373,018
Afghan Defenders	30,060	-	30,060	-	-	-
Foundry	125,210	-	125,210	-	-	-
Extinction Solutions Index	46,265	-	46,265	-	-	-
Total program services	3,667,991	-	3,667,991	4,838,953	-	4,838,953
Supporting services						
Management and general	662,377	-	662,377	507,925	-	507,925
Fundraising	118,346	-	118,346	49,541	-	49,541
Total supporting services	780,723	-	780,723	557,466	-	557,466
Total expenses	4,448,714	-	4,448,714	5,396,419	-	5,396,419
Change in net assets	427,125	-	427,125	129,933	(205,577)	(75,644)
Net assets, beginning of year	2,474,356	-	2,474,356	2,344,423	205,577	2,550,000
Net assets, end of year	\$ 2,901,481	\$ -	\$ 2,901,481	\$ 2,474,356	\$ -	\$ 2,474,356

The accompanying notes are an integral part of these financial statements.

CONSERVATION X LABS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2021

	Program Services							Supporting Services				
	Nucleic Acid Barcode Identification Tool	Grand Challenges	The Sentinel	Community	Afghan Defenders	Foundry	Extinction Solutions Index	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Personnel	\$ 794,419	\$ 699,609	\$ 352,118	\$ 69,042	\$ -	\$ 125,210	\$ 42,231	\$ 2,082,629	\$ 322,335	\$ 116,593	\$ 438,928	\$ 2,521,557
Lab costs	499,332	-	85,860	-	-	-	-	585,192	-	-	-	585,192
Professional services	206,419	6,030	30,800	29,239	-	-	-	272,488	77,002	-	77,002	349,490
Rent	51,726	-	-	-	-	-	-	51,726	115,601	-	115,601	167,327
Program development	1,200	263,929	-	32,625	30,060	-	-	327,814	64,004	-	64,004	391,818
Fellowship expenses	-	-	14,072	77,502	-	-	-	91,574	-	-	-	91,574
Office supplies	6,458	14,207	-	867	-	-	-	21,532	43,917	-	43,917	65,449
Grants	-	96,125	-	17,235	-	-	-	113,360	-	-	-	113,360
Travel	347	16,748	3,307	-	-	-	4,034	24,436	14,704	1,753	16,457	40,893
Depreciation	7,248	706	2,393	-	-	-	-	10,347	1,630	-	1,630	11,977
Administrative	-	2,293	295	1,105	-	-	-	3,693	8,608	-	8,608	12,301
Utilities	-	-	-	-	-	-	-	-	9,315	-	9,315	9,315
Conferences, conventions, and meetings	-	-	-	-	-	-	-	-	-	-	-	-
Donated goods and services	-	83,200	-	-	-	-	-	83,200	100	-	100	83,300
Total expenses	\$ 1,567,149	\$ 1,182,847	\$ 488,845	\$ 227,615	\$ 30,060	\$ 125,210	\$ 46,265	\$ 3,667,991	\$ 662,377	\$ 118,346	\$ 780,723	\$ 4,448,714

The accompanying notes are an integral part of these financial statements.

CONSERVATION X LABS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2020

	Program Services				Supporting Services			Total Supporting Services	Total Expenses
	Nucleic Acid Barcode Identification Tool	Grand Challenges	The Sentinel	Community	Total Program Services	Management and General	Fundraising		
Personnel	\$ 640,780	\$ 407,407	\$ 424,968	\$ 196,994	\$ 1,670,149	\$ 317,147	\$ 45,986	\$ 363,133	\$ 2,033,282
Lab costs	1,475,469	-	18,431	-	1,493,900	-	-	-	1,493,900
Grants	-	1,030,057	11,313	100,289	1,141,659	-	-	-	1,141,659
Program development	650	186,566	14,775	64,105	266,096	7,008	-	7,008	273,104
Rent	35,168	-	-	-	35,168	97,715	-	97,715	132,883
Professional services	101,338	-	-	5,489	106,827	24,181	-	24,181	131,008
Fellowship expenses	-	-	85,939	-	85,939	-	-	-	85,939
Office supplies	1,008	3,634	943	3,999	9,584	28,829	65	28,894	38,478
Travel	646	3,576	5,502	2,142	11,866	11,100	3,490	14,590	26,456
Conferences, conventions, and meetings	-	4,193	-	-	4,193	20,782	-	20,782	24,975
Depreciation	6,303	-	2,393	-	8,696	1,163	-	1,163	9,859
Maintenance and repairs	4,876	-	-	-	4,876	-	-	-	4,876
Total expenses	<u>\$ 2,266,238</u>	<u>\$ 1,635,433</u>	<u>\$ 564,264</u>	<u>\$ 373,018</u>	<u>\$ 4,838,953</u>	<u>\$ 507,925</u>	<u>\$ 49,541</u>	<u>\$ 557,466</u>	<u>\$ 5,396,419</u>

The accompanying notes are an integral part of these financial statements.

CONSERVATION X LABS, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flow from operating activities:		
Change in net assets	\$ 427,125	\$ (75,644)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	11,977	9,859
Paycheck Protection Program loan forgiveness income	(243,934)	-
(Increase) decrease in assets:		
Grants receivable	(45,412)	-
Due from CXL PBC	-	(25,000)
Prepaid expenses	(9,813)	(2,808)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(620,098)	650,587
Net cash provided by (used in) operating activities	<u>(480,155)</u>	<u>556,994</u>
Cash flows from investing activities:		
Purchase of property and equipment	(15,545)	(3,580)
In kind grant donations	83,200	-
Net cash provided by (used in) investing activities	<u>67,655</u>	<u>(3,580)</u>
Cash flow from financing activities:		
Proceeds from Paycheck Protection Program loan	-	243,934
Net increase (decrease) in cash and cash equivalents	(412,500)	797,348
Cash and cash equivalents - beginning of the year	<u>3,240,859</u>	<u>2,443,511</u>
Cash and cash equivalents - end of the year	<u>\$ 2,828,359</u>	<u>\$ 3,240,859</u>

The accompanying notes are an integral part of these financial statements.

CONSERVATION X LABS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

Note 1. Organization and Nature of Activities

Conservation X Labs, Inc. (the Organization) is a non-profit charitable organization founded in 2015 to prevent the sixth mass extinction by applying technology, entrepreneurship, and open innovation to source, develop, and scale critical solutions to the underlying drivers of extinction. The Organization funds its programs primarily through grants and contracts from foundations, individuals, and government agencies.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets without donor restrictions represent the expendable net assets that are available to support the Organization. Net assets with donor restrictions are subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time and those that are subject to donor-imposed stipulations that the Organization maintain them permanently.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all cash in checking, savings, and money market accounts to be cash and cash equivalents.

Grants Receivable

Receivables are presented at gross amounts due to the Organization. Grants receivable are receivable in less than one year Management believes that all receivables are collectible and no provision for doubtful accounts was necessary at December 31, 2021.

Due to CXL PBC

The Organization made a tax payment on behalf of its for-profit counterpart, CXL PBC in the amount of \$ 25,000. This was due to the timing of available funds for each organization. CXL PBC is waiting for its tax refund before paying back the amount due to the Organization. Management believes this amount to be fully collectible and therefore does not need an allowance or a discount.

CONSERVATION X LABS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

Note 2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at cost. It is the Organization's policy to capitalize purchases of furniture and equipment and computer software that cost \$ 500 or more. Furniture and equipment are depreciated over their estimated useful lives of 3 to 15 years using the straight-line method.

Revenue Recognition

Revenue is generated from the following:

Contributions - The Organization received unconditional contributions from foundations and individuals. These contributions have no conditions or performance obligations, and therefore, revenue is recognized upon notice of the donation, usually upon receipt. There were no outstanding receivables associated with these contributions at year end.

Conditional Contributions - The Organization received conditional contributions from foundations, individuals, and government agencies. These contributions were conditional since certain milestones and reports were required by the contributors. Revenue is recognized as work progresses and these milestones are met. During the years ended December 31, 2022 and 2021, the Organization was awarded \$ 2,047,000 and \$ 9,273,761, respectively. These grants are conditional since the agreements include a right of return for funds not reasonably incurred pursuant to the agreement and a barrier to incur only qualifying expenses that are based on specific requirements. Revenue is recognized as work progressed and conditions are met. During the year December 31, 2021, work progressed, conditions were met, and \$ 4,546,069 was recognized as revenue. As of December 31, 2021, there were no funds received from the donor in advance of the conditions being met. As of December 31, 2021, \$ 2,693,527 remains available and will be recognized as revenue in a future period once conditions are met.

Other and Interest Income - These are small in nature and recognized when earned.

All streams of revenue are driven by the Organization's mission to prevent the sixth mass extinction. Although a newer organization, Conservation X Labs, Inc. has shown a history of fulfilling this mission, attracting new donors, and is unaware of anything that may negatively impact its future funding.

CONSERVATION X LABS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

Note 2. Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of providing various program and administrative services have been summarized on a functional basis in the accompanying statements of activities and functional expenses. Expenses that are related to a specific program are charged to the appropriate program. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. These expenses are allocated on the basis of time and effort.

Income Taxes

The Organization is exempt from the payment of income taxes on its exempt activities under the provisions of Section 501(c)(3) of the Internal Revenue Code. Under these provisions, no tax is imposed on any income related to the Organization's tax-exempt purpose. The Organization has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2021 and 2020. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization's federal return of organizations exempt from income tax is subject to examination by the Internal Revenue Service, generally for a period of three years after the return is filed.

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 disclosure. Actual results could differ from those estimates.

Subsequent Events

In preparing its financial statements, the Organization has evaluated subsequent events through January 23, 2023, which is the date the financial statements were available to be issued.

CONSERVATION X LABS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

Note 3. Concentrations

Concentration of Credit Risk

The Organization maintains its cash accounts at institutions with balances that may exceed \$ 250,000, which is the amount insured by the Federal Deposit Insurance Corporation. The Organization has not experienced any losses in such accounts and monitors the creditworthiness of the financial institutions with which it conducts business. Management believes that the Organization is not exposed to any significant credit risk with respect to its cash balances.

Concentration of Revenue

Four contributors accounted for approximately 63% of total revenue for the year ended December 31, 2021. Four contributors accounted for approximately 74% of total revenue for the year ended December 31, 2020. If these contributors were to stop funding, the Organization's activities could be materially impacted.

Note 4. Retirement Plans

The Organization maintains a profit sharing plan covering all employees who have reached their eighteenth birthday. For the year ended December 31, 2021, the Organization matched employee contributions up to 2% of each employee's eligible compensation. For the year ended December 31, 2022, the Organization matched 200% of employee's contributions up to 2% of each employee's eligible compensation. The plan also allows for voluntary employee contributions, under Internal Revenue Code section 401(k). Employees may elect to defer a percentage of their compensation up to the Internal Revenue Service deferral limits. There is no employer matching contribution for these deferrals. Total retirement expense for the years ended December 31, 2021 and 2020, was \$ 38,207 and \$ 1,273, respectively.

Note 5. Leases

The Organization has a lease for office space located in Washington DC commencing on June 1, 2019, and expiring on September 30, 2024. The Organization has a month-to-month lease for an office space located in Seattle, Washington, commencing on April 1, 2018.

Future minimum lease payments under these leases are as follows:

Year Ending December 31:	
2022	\$ 71,036
2023	122,379
2024	<u>99,154</u>
	<u>\$ 292,569</u>

The total rental expense for office space for the years ended December 31, 2021 and 2020, was \$ 167,327 and \$ 132,883, respectively.

CONSERVATION X LABS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

Note 6. Liquidity and Availability

The following reflects the Organization’s financial assets available to meet general expenditures over the next year as of December 31, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash and cash equivalents	\$ 2,828,359	\$ 3,240,859
Grant receivable	45,412	-
Due from CXL PBC	25,000	25,000
Financial assets available to meet general expenditures over the next twelve months	\$ 2,898,771	\$ 3,265,859

The Organization manages its liquid position by maintaining adequate net assets without donor restrictions. In addition, contributions are received throughout the year to cover that year’s expenses. The Organization maintains its liquid assets in checking, savings, and money market accounts.

Note 7. Paycheck Protection Program

The Organization received a loan from a bank in the amount of \$ 243,934. This loan was received under the Paycheck Protection Program (PPP) established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The loan is subject to a promissory note dated April 21, 2020, and may be forgiven to the extent proceeds of the loan are used for eligible expenditures such as payroll and other expenses described in the CARES Act. The loan bears interest at a rate of 1% and is payable in monthly installments of principal and interest over 24 months beginning 6 months from the date of the note. The loan may be repaid at any time with no prepayment penalty. The loan is subject to an examination by the Small Business Administration (SBA) or its authorized representatives for ten years after the date the note is forgiven or repaid in full. The Organization met all applicable SBA requirements for forgiveness, including having used loan proceeds for eligible expenses. Accordingly, the Organization submitted its application for PPP loan forgiveness and was awarded forgiveness on September 8, 2021. Loan forgiveness will be reflected as other income on the statement of activities for the year ended December 31, 2021.