

THE BIOMIMICRY INSTITUTE

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2013

THE BIOMIMICRY INSTITUTE

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INDEPENDENT AUDITOR'S REPORT

The Biomimicry Institute
255 W. Front Street
Missoula, Montana 59802

Report on the Financial Statements

We have audited the accompanying financial statements of The Biomimicry Institute (Agency), which comprise the statement of financial position as of December 31, 2013, and the related statement of activity, functional expenses, and cash flows for the year 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 of 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 the Agency as of December 31, 2013, and the changes in its net assets and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Randall, Hensel, & Company
Certified Public Accountants

April 28, 2014
Missoula, Montana

THE BIOMIMICRY INSTITUTE
Statement of Financial Position
December 31, 2013

ASSETS

Cash and cash equivalents	\$	515,357
Investments		98,946
Accounts receivable		1,731
Related party receivables		22,173
Grants receivable		-
Prepaid expenses		7,465
Total current assets		645,672

TOTAL ASSETS **\$ 645,672**

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$	49,390
Related party payables		13,732
Accrued payroll and benefits		25,172
Accrued leave payable		38,140
Deferred revenue		94,252
Total current liabilities		220,686

TOTAL LIABILITIES 220,686

NET ASSETS

Unrestricted	422,745
Temporarily restricted	2,241
Permanently restricted	-
Total net assets	424,986

TOTAL LIABILITIES AND NET ASSETS **\$ 645,672**

The Accompanying Notes are an Integral Part
of these Financial Statements.

THE BIOMIMICRY INSTITUTE
Statement of Activities
For the Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Funds Spent on Mission Accomplishment by Program				
AskNature	\$ 405,078	\$ -	\$ -	\$ 405,078
Research and thought leadership	256,328	-	-	256,328
Education programs	230,326	-	-	230,326
Regional networks	205,587	-	-	205,587
Communications and outreach	115,089	-	-	115,089
Total program services expenses	1,212,408	-	-	1,212,408
Source of Funds for Mission Accomplishment				
Public support	1,285,938	-	-	1,285,938
Program service revenue	86,212	-	-	86,212
Licensing fees, other	21,840	-	-	21,840
Interest and Dividends	3,449	-	-	3,449
Unrealized Loss on Investments	(5,302)	-	-	(5,302)
Net assets released from restrictions	65,802	(65,802)	-	-
Support service expenses:				
Fundraising	259,134	-	-	259,134
Administrative	111,206	-	-	111,206
Total support services	370,340	-	-	370,340
Funds available for mission accomplishment	1,087,599	(65,802)	-	1,021,797
Change in net assets	(124,809)	(65,802)	-	(190,611)
Net assets, beginning of year	547,554	68,043	-	615,597
Net assets, end of year	\$ 422,745	\$ 2,241	\$ -	\$ 424,986

The Accompanying Notes are an Integral Part
of these Financial Statements.

THE BIOMIMICRY INSTITUTE
Statement of Functional Expenses
For the Year Ended December 31, 2013

	PROGRAM SERVICES						SUPPORT SERVICES				Total
	Communications & Outreach	Thought Leadership	AskNature	Networks	Education	Total Program Services	Fundraising	Admin & Finance	Total Support Services		
Computer hardware & software	\$ 926	\$ 2,100	\$ 7,618	\$ 1,975	\$ 4,413	\$ 17,032	\$ 6,649	\$ 1,849	\$ 8,498	\$ 25,530	
Dues, fees, & subscriptions	260	2,472	916	1,093	1,374	6,115	1,462	414	1,876	7,991	
Insurance	403	898	1,420	720	910	4,351	908	554	1,462	5,813	
Marketing & promotion	-	2,915	-	-	19,500	22,415	4,181	-	4,181	26,596	
Meetings & training	752	57,654	10,047	25,238	37,339	131,030	19,175	9,443	28,618	159,648	
Occupancy	2,963	6,599	10,428	5,293	6,683	31,966	6,671	2,740	9,411	41,377	
Office expenses	1,135	2,594	3,142	2,258	2,304	11,433	2,603	1,063	3,666	15,099	
Professional services	52,256	126,605	270,414	107,329	88,846	645,450	118,311	77,998	196,309	841,759	
Pass-through grant expense	-	10,000	-	37,052	-	47,052	-	-	-	47,052	
Payroll salaries & wages	41,501	33,183	77,921	18,037	50,983	221,625	75,681	7,581	83,262	304,887	
Payroll taxes & benefits	14,893	11,308	23,172	6,592	17,974	73,939	23,493	4,815	28,308	102,247	
Foreign exchange loss	-	-	-	-	-	-	-	4,749	4,749	4,749	
Total	\$ 115,089	\$ 256,328	\$ 405,078	\$ 205,587	\$ 230,326	\$ 1,212,408	\$ 259,134	\$ 111,206	\$ 370,340	\$ 1,582,748	

The Accompanying Notes are an Integral Part
of these Financial Statements.

THE BIOMIMICRY INSTITUTE
Statement of Cash Flows
For the Year Ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Decrease in net assets available for future program services	\$ (190,611)
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Items not affecting cash	
Unrealized loss on Investments	5302
Changes in operating assets and liabilities:	
Investments	
Accounts receivable	(19,990)
Grants receivable	-
Prepaid expenses	29,978
Accounts payable and accrued expenses	(15,603)
Accrued payroll and benefits	25,172
Accrued leave	38,140
Deferred revenue	94,252
<hr/>	
Net cash provided by operating activities	<hr/> 157,251 <hr/>
CASH FLOWS FROM INVESTING ACTIVITIES	
Dividends and Interest Reinvested	(2,820)
<hr/>	
Net cash provided by investing activities	<hr/> (2,820) <hr/>
CASH FLOWS FROM FINANCING ACTIVITIES	
<hr/>	
Net cash provided by financing activities	<hr/> - <hr/>
Net decrease in cash annd cash equivalents	(36,180)
Cash and cash equivalents, beginning of the year	551,537
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Cash and cash equivalents, end of year	<hr/> \$ 515,357 <hr/>

The Accompanying Notes are an Integral Part
of these Financial Statements.

THE BIOMIMICRY INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

Note 1. Nature of Organization and Summary of Significant Accounting Policies

A. Organization

The Biomimicry Institute (TBI) is a not-for-profit corporation organized in 2006 under Internal Revenue Code Section 501(c) (3). TBI was formed to naturalize biomimicry in the culture by promoting the transfer of ideas, designs, and strategies from biology to sustainable human systems design. TBI is governed by a nine member Board of Directors.

The primary purpose of TBI is to promote biomimicry as a new science that studies nature's best ideas, abstracts the deep design principles, and then emulates these designs and processes to solve human problems. Biomimicry is a turnaround strategy for our species, a way for humans to fit in and flourish on this planet by emulating life's 3.8 billion years of brilliant designs and strategies. It is TBI's intent to spread knowledge of this new science on a global basis.

TBI accomplished these objectives through an on-line database of nature's solutions called AskNature.org, hosting an annual, international Biomimicry Student Design Challenge, growing a global Network of regional biomimicry practitioners, and Thought Leadership. Ask Nature.org is the world's most comprehensive catalog of nature's solutions to human design challenges. The curated online library features free information on natural phenomena and bio-inspired applications tailored to meet the needs of the people who invent our world. Nearly every design challenge humans face shares commonalities with the challenges the rest of life must adapt to. By understanding how these adaptations work, innovators can mimic ideas that have thrived in balance with the Earth's complex systems.

The Biomimicry Student Design Challenge is used to focus college and university students to work collaboratively in teams to apply biomimicry concepts and tools to arrive at a sustainable and innovative design solution to a real-world problem. The Challenge is open to any student worldwide who is enrolled in a certificate or degree program. Teams of two to six participate in lectures, access to design biologists, and other resources to help students apply biomimicry to their design process. Challenges change annually and can consist of a variety of world problems such as challenges in energy efficiency, water access and management, and transportation.

TBI's Global Network is comprised of regional networks that have partnered with TBI to catalyze the application of biomimicry worldwide. Harnessing local resources and expertise, the Network attracts and connects community leaders from all sectors to advance the application of biomimicry within their region to build a global web of biomimicry leaders, practitioners, and informed citizens who will transform the world by emulating nature.

Thought Leadership consists of media and other public awareness promotions of the sustainability value of biomimicry. Such efforts range from articles in leading magazines to academic engagement around the next generation of biomimetic materials to Biomimicry Conferences that support institutions and individuals in learning how to integrate biomimicry tools and concepts into their existing academic or organizational work.

B. Basis of Accounting

The financial statements of TBI have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables, and other liabilities. TBI measures financial instruments at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying amounts of cash and cash equivalents, current receivables, and current liabilities approximate their fair values because of their short-term nature. Investments, if any, are recorded at quoted active market prices at the reporting date for identical assets (Level 1).

THE BIOMIMICRY INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

Note 1. Nature of Organization and Summary of Significant Accounting Policies, continued...

C. Categories of Net Assets

Net assets of TBI are reported in the following categories:

Unrestricted net assets generally have no donor-imposed restrictions. This category includes net amounts that have been earned and expended according to donor and contract conditions and generally unrestricted activities.

Temporarily restricted net assets include gifts for which donor-imposed restrictions have not been met and funds for which the ultimate purpose of the proceeds is not permanently restricted. As of December 31, 2013 TBI had \$2,241 in temporarily restricted net assets relating to its networking programs.

Permanently restricted net assets result from contributions and other inflows of assets whose use by TBI is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of TBI. As of December 31, 2013, TBI had no permanently restricted net assets.

D. Cash and Cash Equivalents and Investments

Cash and cash equivalents include cash in banks and on hand, and highly liquid investments that are readily convertible to known amounts of cash and have an original maturity of three months or less from the date of purchase. Investments consist of debt instruments with original maturities in excess of three months, marketable securities and mutual funds. All investments have readily determinable fair values. TBI's primary investment objective is to maximize total return with minimal risk to preserve capital that is intended for TBI's charitable missions while generating cash flow for operations.

As of December 31, 2013, TBI's investments included mutual funds held by a financial institution. For the year ending December 31, 2013, realized interest, dividends on the investments were \$3,100. The unrealized loss from market value changes was (\$5,302). Realized and unrealized gains and losses are reported in the Statement of Activities as interest and dividends and unrealized gains and losses. The fair market value of the investments from quoted market prices in active markets for identical assets or liabilities (Level 1) were \$98,946 and the cost basis of the investments was \$105,300.

Cash and temporary investments at December 31, 2013 consist of the following:

Cash on hand, in savings, checking, and money market accounts	\$ 415,316
Cash and cash equivalents held by investment managers	100,041
Mutual Funds held by investment managers	<u>98,946</u>
Total Cash and Cash Equivalents and Investments	<u>\$ 614,303</u>

E. Fixed Assets

TBI capitalizes equipment with a purchase price of \$1,000 or more and an expected life of at least three years. Property and equipment are carried at cost. Straight-line depreciation is used to depreciate assets over estimated useful life of the related assets. Leasehold improvements are depreciated over the lesser of the term of the related lease plus extensions or the estimated useful lives of the assets. As of December 31, 2013, TBI had no fixed assets.

THE BIOMIMICRY INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

Note 1. Nature of Organization and Summary of Significant Accounting Policies, continued...

F. Contributed Support

TBI recognizes all unconditional gifts and promises to give in the period notified. Contributed support is reported as unrestricted, temporarily restricted, or permanently restricted depending upon the existence of donor stipulations. Temporarily restricted contributions whose restrictions have been fulfilled in the current year are reported as unrestricted.

G. Revenue Recognition

Contract, grant, and other revenues are recognized when earned. Contributed service revenue results when donated services create or enhance non-financial assets or when they require specialized skills provided by people possessing those skills that would typically be purchased if not provided by donation. Contributed goods are valued at their estimated fair value at the date of contribution. There were no contributed services recorded for the year ended December 31, 2013.

H. Cost Allocation and Program Activities

TBI allocates costs that can be identified specifically with a particular final cost objective directly to the services benefiting. Joint costs are allocated directly to fundraising, administration, and program services using a base most appropriate to the particular cost being prorated. The primary activity groups and their related purposes are summarized as follows:

Program Services – Consists of funds expended for the provision of a services to directly achieve mission accomplishment via various projects. (See Note 1.A.)

Administration – Consists of funds that are used for administering TBI and those activities that are not directly attributable to mission accomplishment such as accounting and administrative overhead costs.

Fundraising – Consists of funds that are used for generating financial resources for TBI.

I. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions which affect the reported assets, liabilities, revenues, and expenditures during the reporting period. Actual results could differ from those estimates.

J. Paid Time Off

TBI charges individual projects for Paid Time Off (PTO) leave earned by employees. These accruals are recorded in the Accrued PTO Payable account. When an employee uses PTO benefits, the PTO time is charged against this account. As of December 31, 2013, the Accrued PTO Payable account had a liability balance of \$38,140.

K. Income Taxes

Provisions for income taxes have not been recorded in these financial statements because TBI believes it had no income unrelated to its exempt purposes in 2013. With few exceptions, TBI is no longer subject to U.S. federal or state tax examinations by tax authorities for years before 2010.

THE BIOMIMICRY INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

Note 1. Nature of Organization and Summary of Significant Accounting Policies, continued...

L. Subsequent Events

TBI recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed as of December 31, 2013, including the estimates inherent in the process of preparing financial statements. Subsequent events that provide evidence about conditions that did not exist as of December 31, 2013 but arose after that date and prior to the financial statements are available to be issued are not recognized in these financial statements. TBI evaluates subsequent events through the date the financial statements are available to be issued which is the date of the auditor's report.

Note 2. Accounts Receivable

Accounts Receivable represents the amounts due for contract services and expense reimbursements. Services provided have a fixed fee determined by contractual agreements. All amounts are considered collectible; therefore no provision for bad debts has been recorded to these financial statements.

Grants Receivable represents the balance of grant funds earned but not yet received in cash. Most grants allow monthly draw-downs of cash which provide operating capital for program operation.

Note 3. Employee Benefits

401(k) Retirement Plan: TBI employees may participate in a Code Section 401(k) Retirement Plan. Employees are eligible to make elective deferrals upon completion of six months of service and can contribute up to the maximum amount allowed by law. Employees meeting the plan's service requirements are eligible for employer matching contributions. TBI matches 100% of employee contributions up to 4% of the employee's salary. Employer matching contributions are fully and immediately vested to the employee. For the year ended December 31, 2013, TBI contributed \$12,091 in matching contributions to the 401(k) Retirement Plan.

Health Insurance: TBI participates in a Group Health Benefit Plan (Health Plan) which provides eligible employees and their dependents with medical insurance. The Health Plan has a \$5,000 deductible provision whereby the first \$5,000 of medical expense annually is paid by the employee (\$10,000 for family coverage). Any cost in excess of the deductible is covered through an insurance policy from an insurance provider. TBI paid \$19,156 for insurance premiums for the year ending December 31, 2013. TBI maintains a Health Reimbursement Arrangement Plan that reduces the employee maximum annual responsibility to \$2,500 for single coverage and \$5,000 for family coverage.

Health reimbursement arrangement (HRA) plan: On June 1, 2013, the TBI adopted a code section 105(b) Health Reimbursement Arrangement for eligible employees. TBI contributes up to \$2,500 for single coverage and \$5,000 for family coverage annually to the individual's health reimbursement account. These funds can be used for reimbursement of eligible medical expenses for the employee or their dependents. For the year ending December 31, 2013, TBI contributed \$796 to health reimbursement accounts for employees.

Paid Time Off (PTO): TBI's regular part-time and full-time employees working 20 hours or more per week that have completed 90 days of continuous service are eligible for PTO benefits. PTO benefits accrue at rates between 216 and 336 hours per year and can accumulate up to a maximum of 120 to 180 hours depending on length of service. Accrued but unused PTO benefits are paid to employees upon termination at the rate of pay effective at the time of termination.

THE BIOMIMICRY INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

Note 4. Fixed Assets

TBI capitalizes equipment with a purchase price of at least \$1,000 or lower amount if required by grantors, and an expected life of at least three years. Property and equipment are carried at cost. Straight-line depreciation is used to depreciate assets over estimated lives of three to thirty years.

Equipment purchased with grant funds is subject to rights of rescission of the grantors. Equipment purchased with grant monies are limited to use by the grant program that purchases the equipment. Should the program terminate, grantors may invoke claim to that equipment purchased through the grant agreement terms.

As of December 31, 2013, TBI had no fixed assets. TBI currently leases all general office and computer equipment from the Biomimicry Group, Inc. (see Note 10. Related Parties below for further information).

Note 5. Cost Allocation

TBI allocates costs that can be identified specifically with a particular final cost objective directly to the individual program benefiting. Joint costs are allocated directly to fundraising, administration, and program services using a base most appropriate to the particular cost being prorated.

Note 6. Deferred Revenue

Deferred Revenue consists of the unearned portion of grant awards as of December 31, 2013. The activity in the deferred revenue account is as follows:

Deferred Revenue, Beginning of Year	\$	0
Grant Awards Received		649,080
Less Grant Revenue Earned		<u>(492,542)</u>
Gross Deferred Revenue, End of Year	\$	156,538
Less Amounts Not Received in Cash		(66,765)
Adjust for Foreign Exchange		<u>4,479</u>
Net Deferred Revenue	\$	<u><u>94,252</u></u>

Note 7. Loans Payable

TBI has no loans payable or long-term debt.

Note 8. Leases

TBI currently leases office space on a month to month basis from the Biomimicry Group. (See Note 10)
TBI shares office and other common costs under a resource sharing and services agreement. Under the terms of the agreement, office space charged is determined by calculating the square footage of the premises used by full and part-time employees of the Institute against the entire square footage of the premises and their portion of common costs.

THE BIOMIMICRY INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

Note 9. Risk Management

TBI faces a number of risks including loss or damage to property, general liability, fiduciary liability, foreign liability, and employee medical insurance. TBI is a named insured and shares in the cost of commercial insurance policies purchased by the Biomimicry Group, Inc. for loss or damage to property and general liability (see Note 10. Related Parties below for further information). TBI has purchased commercial insurance policies covering directors, officers, and fiduciary liability, for foreign liability and employee medical insurance.

Note 10. Related Parties

TBI shares resources and common costs in a mutually beneficial agreement with the Biomimicry Group, Inc. (BGI). BGI is a for-profit enterprise whose majority shareholder is TBI's founder, a board member of TBI, and former board president of TBI. From January 1, 2013 through May 31, 2013, BGI provided all programmatic and administrative staffing services, at cost, to TBI pursuant to an intercompany and services agreement originally dated October 14, 2010, and revised as of January 1, 2012. Included in the administrative services that BGI provided to TBI, were facilities and equipment use and all overhead costs such as liability insurance, telephone and internet, general office supplies, and shared software and internet subscriptions. As of June 1, 2013 a revised resource sharing and services agreement was executed. Under this agreement TBI became the employer of its core staff, but continued to share facilities, equipment and overhead costs. Under the agreements, common costs and shared employees are allocated to each entity based on the actual costs incurred based on hours worked, square footage, or other basis that is most appropriate for the costs to be allocated.

TBI also receives substantial, though unrestricted, funding from a foundation that is related to a minority non-voting owner of BGI. This funding represented 28 percent of TBI's revenues in 2013.

TBI has also executed a licensing agreement with BGI that allows BGI to license intellectual property owned by TBI at fair market value. BGI must pay TBI five percent of gross revenues received by BGI from the sale of products and services that directly use a material portion of the licensed materials.

Summaries of shared services and other related party transactions are as follows:

GOODS AND SERVICES PURCHASED BY TBI FROM BGI

Computers	\$	20,991
Dues, Fees and Subscriptions		968
Insurance		2,248
Marketing and Promotion		0
Meetings and Training		2,647
Occupancy Expenses		41,377
Office Expenses		9,264
Professional Services		7,270
Payroll Expenses		<u>372,122</u>
 Total	 \$	 <u><u>456,887</u></u>

THE BIOMIMICRY INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

Note 10. Related Parties, continued...

GOODS AND SERVICES PURCHASED BY BGI FROM TBI

Licensing Fees	\$ 9,995
Educational Services	23,990
Meetings and Training	2,218
Payroll Expenses	<u>49,847</u>
 Total	 \$ <u><u>86,050</u></u>

Note 11. Concentration of Risk

TBI has a concentration regarding its revenue sources. For the year ended December 31, 2013, one grantor accounted for 34 percent of TBI's total income. Another grantor, which is a minority owner of BGI, accounted for an additional 28 percent of TBI's total income. A change in the amount or continuation of funding could have a significant affect on TBI's operations.

TBI maintains its cash accounts in several financial institutions located in Missoula, Montana. The Agency has funds deposited in certain banks, which at times may exceed the Federal Deposit Insurance Corporation (FDIC) Insurance Coverage in these banks. Management does not believe there is any significant risk associated with these accounts.