

**MATERIAL INNOVATION INSTITUTE**

FINANCIAL STATEMENTS

December 31, 2022 and 2021

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Material Innovation Institute  
Napa, CA

We have audited the accompanying financial statements of Material Innovation Institute, which comprise the statements of financial position as of December 31, 2022 and 2021, 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 Material Innovation Institute as of December 31, 2022 and 2021, 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Material Innovation Institute and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

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

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

### **Auditor's 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 Material Innovation Institute'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 Material Innovation Institute'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.

*Wegner CPAs LLP*

Wegner CPAs, LLP  
New York, New York  
June 28, 2023

**MATERIAL INNOVATION INSTITUTE**  
**STATEMENTS OF FINANCIAL POSITION**  
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
Cash	\$ 371,220	\$ 428,315
Unconditional promises to give	807,164	386,791
Accounts receivable	3,750	-
Prepaid expenses	40,222	10,358
Foreign employee deposits	<u>79,786</u>	<u>-</u>
<b>Total assets</b>	<u>\$ 1,302,142</u>	<u>\$ 825,464</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 29,668	\$ 53,584
Accrued expenses	28,651	11,720
Deferred revenue	<u>-</u>	<u>15,267</u>
Total liabilities	58,319	80,571
<b>NET ASSETS</b>		
Without donor restrictions	493,571	273,315
With donor restrictions	<u>750,252</u>	<u>471,578</u>
Total net assets	<u>1,243,823</u>	<u>744,893</u>
<b>Total liabilities and net assets</b>	<u>\$ 1,302,142</u>	<u>\$ 825,464</u>

See accompanying notes.

**MATERIAL INNOVATION INSTITUTE**  
**STATEMENT OF ACTIVITIES**  
Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	2022 Total
<b>REVENUES</b>			
Grants and contributions	\$ 824,753	\$ 750,252	\$ 1,575,005
Annual conference	296,697	-	296,697
Program service revenue	15,268	-	15,268
<b>Total revenues</b>	<b>1,136,718</b>	<b>750,252</b>	<b>1,886,970</b>
<b>EXPENSES</b>			
Program services	832,758	-	832,758
Management and general	267,081	-	267,081
Fundraising	260,273	-	260,273
<b>Total expenses</b>	<b>1,360,112</b>	<b>-</b>	<b>1,360,112</b>
Loss on foreign currency translation	27,928	-	27,928
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>			
Satisfaction of purpose restrictions	121,578	(121,578)	-
Expiration of time restrictions	350,000	(350,000)	-
<b>Change in net assets</b>	<b>220,256</b>	<b>278,674</b>	<b>498,930</b>
Net assets at beginning of year	273,315	471,578	744,893
<b>Net assets at end of year</b>	<b>\$ 493,571</b>	<b>\$ 750,252</b>	<b>\$ 1,243,823</b>

See accompanying notes.

**MATERIAL INNOVATION INSTITUTE**  
**STATEMENT OF ACTIVITIES**  
Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	2021 Total
<b>REVENUES</b>			
Grants and contributions	\$ 554,136	\$ 370,000	\$ 924,136
Program service revenue	54,535	-	54,535
Total revenues	608,671	370,000	978,671
<b>EXPENSES</b>			
Program services	466,263	-	466,263
Management and general	73,104	-	73,104
Fundraising	149,597	-	149,597
Total expenses	688,964	-	688,964
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>			
Satisfaction of purpose restrictions	198,422	(198,422)	-
<b>Change in net assets</b>	118,129	171,578	289,707
Net assets at beginning of year	155,186	300,000	455,186
<b>Net assets at end of year</b>	<u>\$ 273,315</u>	<u>\$ 471,578</u>	<u>\$ 744,893</u>

See accompanying notes.

**MATERIAL INNOVATION INSTITUTE**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
Years Ended December 31, 2022 and 2021

	2022			
	Program Services	Management and General	Fundraising	Total Expenses
Personnel	\$ 522,261	\$ 131,073	\$ 127,879	\$ 781,213
Professional fees	207,826	96,614	111,025	415,465
Office supplies and expenses	35,253	17,243	8,632	61,128
Other expenses	38,377	14,862	5,626	58,865
Travel	29,041	7,289	7,111	43,441
<b>Total expenses</b>	<b>\$ 832,758</b>	<b>\$ 267,081</b>	<b>\$ 260,273</b>	<b>\$ 1,360,112</b>
	2021			
	Program Services	Management and General	Fundraising	Total Expenses
Personnel	\$ 190,009	\$ 11,624	\$ 19,811	\$ 221,444
Professional fees	233,366	55,841	125,315	414,522
Office supplies and expenses	18,880	2,461	1,968	23,309
Other expenses	11,842	2,434	1,235	15,511
Travel	12,166	744	1,268	14,178
<b>Total expenses</b>	<b>\$ 466,263</b>	<b>\$ 73,104</b>	<b>\$ 149,597</b>	<b>\$ 688,964</b>

See accompanying notes.



**MATERIAL INNOVATION INSTITUTE**  
**STATEMENTS OF CASH FLOWS**  
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 498,930	\$ 289,707
Adjustments to reconcile change in net assets to net change in cash		
Increase in assets		
Unconditional promises to give	(420,373)	(186,791)
Accounts receivable	(3,750)	-
Prepaid expenses	(29,864)	(5,660)
Foreign employee deposits	(79,786)	-
Increase (decrease) in liabilities		
Accounts payable	(23,916)	53,584
Accrued expenses	16,931	11,720
Deferred revenue	(15,267)	267
<b>Net change in cash</b>	<u>(57,095)</u>	<u>162,827</u>
Cash at beginning of year	<u>428,315</u>	<u>265,488</u>
<b>Cash at end of year</b>	<u><u>\$ 371,220</u></u>	<u><u>\$ 428,315</u></u>

See accompanying notes.

**MATERIAL INNOVATION INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2022 and 2021

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities**

Material Innovation Institute (MII) is a non-profit organization incorporated in the state of Delaware in 2019. MII's mission is to transform the materials industry and solve the enormous environmental challenges it faces. MII fast-tracks this process by accelerating the development of next-gen materials that are high-performance, animal-free, and more sustainable for the fashion, automotive, and home goods industries. MII's team works to advance this next-gen materials industry by providing vital expertise and bringing together all key players along the path from concept to commercialization. MII's primary support is derived from private and public contributions and from program service fees.

**Promises to Give**

Conditional promises to give are not recognized in the financial statements until conditions are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. In the absence of donor stipulations to the contrary, promises with payments due in future periods are restricted to use after the due dates. All unconditional promises to give at December 31, 2022 and 2021 were receivable in less than one year. Management has determined that no allowance for uncollectible promises to give was necessary at December 31, 2022 and 2021.

**Accounts Receivable**

Accounts receivable consist of services that were performed in accordance with the terms of certain agreements. Based on historical experience, management of MII considers all accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is presented.

**Foreign Employee Deposits**

Beginning in 2022, MII hired several outsourced employees in foreign countries through a global employer of record, which requires an onboarding deposit. These deposits are refundable upon the conclusion of employment.

**Annual Conference**

MII held its first annual conference in 2022. Conference revenue is recognized at a point in time based on the occurrence of the conference. In addition, the majority of MII's contracts do not contain variable consideration and contract modifications are generally minimal.

**MATERIAL INNOVATION INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2022 and 2021

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Grants and Contributions**

Grants and contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

**Income Tax Status**

MII is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

**Revenue Recognition**

Program service revenues consist of professional services rendered to other organizations and companies. Revenues generated from these services are generally recognized evenly over the course of the contract term during which the services are provided to the customer. Contract liabilities for the portion of service payments collected in advance are recorded as deferred revenue:

	2022	2021
Beginning of year	\$ 15,267	\$ 15,000
End of year	-	15,267

MII does not have any significant financing components. Costs incurred to obtain a contract will be expensed as incurred when the amortization period is less than a year.

**Estimates**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

**Date of Management’s Review**

Management has evaluated subsequent events through June 28, 2023, the date which the financial statements were available to be issued.

**Reclassifications**

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

**MATERIAL INNOVATION INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2022 and 2021

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Expense Allocation**

The financial statements report certain categories of expenses that are attributable to more than one program service or supporting activity. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include personnel, which are allocated on the basis of time and effort, and travel, and some office supplies and expenses, which are allocated based on personnel costs. All other expenses are directly charged to the program or supporting activity.

*Program Services* – MII works to identify and assist companies and technologies in building and improving materials that can replace animal-derived materials (e.g. leather, reptile skin, etc.) in the fashion, automotive, and home goods industries. MII also works to identify potential relationships between investors and companies and technology in order to obtain the funding necessary to make animal-alternative materials more accessible and engages in contracts with brands to assist in increasing their alternative material cache and addressing how the materials can be used.

*Management and General* – Includes the activities necessary to ensure proper administrative functioning of the board of directors, manage the financial and budgetary responsibilities, and perform other administrative functions.

*Fundraising* – Provides the structure necessary to encourage and secure private financial support from individuals, foundations, and others.

NOTE 2 – CONCENTRATIONS

MII maintains its cash balances at two financial institutions located in Napa, CA and San Francisco, CA. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2022 and 2021, MII's uninsured cash balances total approximately \$114,000 and \$177,000, respectively.

MII had two donors who in combination accounted for approximately 63% of the total contributions for the year ended December 31, 2022, and three donors who in combination accounted for approximately 70% of the total contributions for the year ended December 31, 2021.

MII had one customer who accounted for 100% of the total program service revenues for the year ended December 31, 2022, and two customers who in combination accounted for approximately 83% of the total program service revenues for the year ended December 31, 2021.

**MATERIAL INNOVATION INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2022 and 2021

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**NOTE 3 – LIQUIDITY AND AVAILABILITY**

The following reflects MII’s financial assets as of December 31, 2022 and 2021, reduced by amounts not available for general expenditures within one year because of donor-imposed restrictions. The financial assets available for general expenditures within one year of the statements of financial position date include the following:

	2022	2021
Cash	\$ 371,220	\$ 428,315
Unconditional promises to give	807,164	386,791
Accounts receivable	3,750	-
Financial assets, at year-end	1,182,134	815,106
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with purpose restrictions	(750,252)	(121,578)
Financial assets available to meet cash needs for general expenditures within one year	\$ 431,882	\$ 693,528

As part of MII’s liquidity management, it has a policy to structure its financial assets to be available for its general expenditures, liabilities, and other obligations that come due.

**NOTE 4 – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are restricted for the following purposes as of December 31, 2022 and 2021:

	2022	2021
Open Philanthropy project	\$ 600,000	\$ -
Next generation materials development	150,252	-
Hiring of Materials Scientist	-	101,578
Hiring of Environmental Data Scientist	-	20,000
Future periods	-	350,000
Net assets with donor restrictions	\$ 750,252	\$ 471,578