PHOENIX BIOINFORMATICS CORPORATION

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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ATHERTON
& ASSOCIATES, LLP

certified public accountants

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INDEPENDENT AUDITOR'S REPORT

June 7, 2018

Board of Directors
Phoenix Bioinformatics Corporation
Fremont, California

Report on the Financial Statements

We have audited the accompanying financial statements of Phoenix Bioinformatics Corporation, which comprise the statement of financial position as of December 31, 2017, the related statements of activities and changes in net assets, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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

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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 reasonable 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 Phoenix Bioinformatics Corporation as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Atherton & Associates, LLP

ASSETS

CURRENT ASSETS	
Cash	$ 791,605
SRI restricted cash	151,168
Prepaid expenses	6,921
Total current assets	949,694
PROPERTY AND EQUIPMENT	
Database and software	846,954
Leasehold improvements	14,846
Computers	7,060
	868,860
Less accumulated depreciation	455,219
Total property and equipment, net	413,641
OTHER ASSETS	
Investments	736,069
Security deposit	5,576
Total other assets	741,645
TOTAL ASSETS	$ 2,104,980

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	$ 25,971
Accrued vacation	23,433
Funds held on behalf of SRI	151,168
Deferred grant revenue	477,550
Deferred revenue, current portion	436,256
Note payable, current portion	3,196
Total current liabilities	1,117,574
LONG-TERM LIABILITIES	
Deferred revenue, net of current portion	168,365
Note payable, net of current portion	5,778
Total long-term liabilities	174,143
NET ASSETS	
Unrestricted	787,263
Unrestricted board designated	26,000
Total net assets	813,263
TOTAL LIABILITIES AND NET ASSETS	$ 2,104,980

UNRESTRICTED REVENUE AND SUPPORT	
Subscription revenue	$ 1,114,934
Program services fees	10,189
Grant revenue	336,750
Contributions	334
Total unrestricted revenue and support	1,462,207
OTHER REVENUE (EXPENSE)	
Interest and dividend income	3,865
Other income	2,500
Net realized and unrealized gain on investments	20,385
Interest expense	(190)
Total other revenue (expense)	26,560
Total unrestricted revenue, support and other revenue (expense)	1,488,767
EXPENSES	
Program services	1,205,786
General and administrative	336,776
Total expenses	1,542,562
Change in unresticted net assets	(53,795)
UNRESTRICTED NET ASSETS AT BEGINNING OF YEAR	867,058
UNRESTRICTED NET ASSETS AT END OF YEAR	$ 813,263

PHOENIX BIOINFORMATICS CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Program Services	General and Administrative	Total
Bad debt	$ 1,012	$ -	$ 1,012
Bank charges and fees	3,382	920	4,302
Conferences and meeting expenses	14,564	6,829	21,393
Depreciation	171,028	182	171,210
Dues and subscriptions	42,408	721	43,129
Employee benefits	94,240	40,027	134,267
Liability insurance	1,056	458	1,514
Miscellaneous	1,042	-	1,042
Outside contract services	3,450	-	3,450
Payroll taxes	58,360	16,492	74,852
Postage and delivery	31	75	106
Professional fees	-	11,302	11,302
Rent, parking, and utilities	55,390	6,154	61,544
Repairs and maintenance	390	-	390
Salaries and wages	717,558	246,833	964,391
Supplies	18,833	1,789	20,622
Telephones	4,185	465	4,650
Training	797	2,837	3,634
Travel	17,136	1,589	18,725
Workers compensation insurance	924	103	1,027
TOTAL EXPENSES	$ 1,205,786	$ 336,776	$ 1,542,562

PHOENIX BIOINFORMATICS CORPORATION
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017

OPERATING ACTIVITIES	
Change in net assets	$ (53,795)
Adjustment to reconcile changes in net assets to net cash provided by operating activities:	
Bad debt	1,012
Depreciation	171,210
Interest and dividends on investments	(3,865)
Net realized and unrealized gain on investments	(20,385)
Decrease in operating assets:	
Accounts receivable	30,349
Prepaid expenses	3,115
Security deposit	2,254
Increase (decrease) in operating liabilities:	
Accounts payable	18,834
Accrued vacation	(13,777)
Funds held on behalf of SRI	131,883
Deferred grant revenue	77,550
Deferred revenue	70,831
Net cash provided by operating activities	415,216
INVESTING ACTIVITIES	
Purchase of property and equipment	(11,906)
Purchase of investments	(711,819)
Net cash consumed by investing activities	(723,725)
FINANCING ACTIVITIES	
Payments on note payable	(1,026)
Net cash consumed by financing activities	(1,026)
NET DECREASE IN CASH	(309,535)
Cash at beginning of year	1,252,308
Cash at end of year	$ 942,773

SUPPLEMENTAL CASH FLOW INFORMATION (Note 7)

NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

Organization Phoenix Bioinformatics Corporation (the Corporation) is a California non-profit corporation. The Corporation was founded in 2013 by the staff of The Arabidopsis Information Resource (TAIR), a curated database for plant genome information. After TAIR lost grant funding, the Corporation pioneered a new sustainable funding model that provides support for TAIR. The specific purpose for which the Corporation is organized is to make scientific data widely available and accessible to the public and scientific community, including scientists, students, and educators, in order to foster and promote scientific knowledge about the physical, chemical and biological parts and processes related to living things, and in furtherance of this purpose, to: (1) develop and maintain scientific databases for storing and organizing such knowledge, (2) develop and maintain software systems for storing, searching, and accessing such data, and (3) provide assistance and training to users regarding the use of such databases and software systems.

Basis of Accounting The Corporation's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Corporation and changes therein are classified and reported as follows:

a) Unrestricted net assets - net assets that are not subject to donor imposed stipulations.
b) Temporarily restricted net assets - net assets subject to donor imposed stipulations that may or will be met, either by actions of the organization and/or passage of time. When a restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Corporation reports that support as unrestricted.
c) Permanently restricted net assets - net assets subject to donor imposed stipulations that will be maintained permanently by the Corporation.

BioCyc Databases Effective March 18, 2016, the Corporation entered into an agreement with SRI International (SRI), another non-profit corporation. The agreement provides that SRI will develop a BioCyc collection of pathway/genome databases and a web based application for accessing the databases. The Corporation is responsible for providing services with respect to the databases. SRI grants the Corporation the non-exclusive right to access the BioCyc Databases and to provide access to the database to third parties. Both SRI and the Corporation may grant licenses to the databases. The Corporation will earn 18% of the revenue for any licenses it sells for the databases and 10% for any licenses SRI sells for the databases. Therefore, when revenue is collected under this agreement a portion of it is to be remitted to SRI. The amount held on behalf of SRI as of December 31, 2017 was $151,168 and is included on the statement of financial position as SRI restricted cash and a liability as funds held on behalf of SRI.

Account and Grant Receivables The direct write-off method is used to account for bad debts in which individual accounts are expensed as they become uncollectible. Accounting principles generally accepted in the United States of America require that account and grants receivable be presented net of an allowance for uncollectible accounts. The difference between these two methods is not material to these financial statements.

Investments As required by the *Accounting for Certain Investments Held by Not-for-Profit Organizations* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification, the Corporation carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair market value in the statement of financial position. Realized and unrealized gains and losses are recognized in the statement of activities and changes in net assets.

Note 1 Summary of Significant Accounting Policies (Continued)

Investments (Continued) Total investments held at December 31, 2017, are as follows:

Corporate stocks	$162,254
Bond funds	573,815
	$736,069

Property and Equipment Acquisitions of property and equipment and expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or if donated at the approximate fair value at the date of donation. It is the Corporation's policy to capitalize property and equipment over $5,000. Depreciation is charged to operating expense over the estimated useful lives using the straight-line method of depreciation of the assets with lives ranging from three to five years. Depreciation expense for the year ended December 31, 2017 was $171,210.

Impairment of Long-Lived Assets On an ongoing basis, the Corporation reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amounts may be overstated. The Corporation recognizes impairment losses if the undiscounted cash flows expected to be generated by the asset are less than the carrying value of the related asset. The impairment loss adjusts the assets to fair value. As of December 31, 2017, management believes that no impairments exist.

Deferred Grant Revenue The Corporation has deferred grant revenue related to payments received in advance from a private foundation in which expenditures have not been incurred as of December 31, 2017.

Deferred Revenue The Corporation has deferred revenue related to payments received for future subscriptions to their databases and accounting software. The income will be recognized by the Corporation on a monthly basis based on the time frame for future subscriptions.

Revenue Recognition The Corporation provides annual subscriptions to their databases and accounting software. The Corporation charges annual rates for individuals, for-profit corporations, and non-profit organizations. The Corporation recognizes subscription income on a monthly basis based on the time frame for subscriptions. The Corporation also receives grants that are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. The Corporation records contributions received as unrestricted, temporarily restricted or permanently restricted depending on the existence or nature of any donor restriction.

Donated Services Donations of services are recognized as contributions in accordance with Revenue Recognition Topic of the FASB Accounting Standards Codification, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased if not provided by donation. Amounts were not recognized in the accompanying statement of activities because the criteria for recognition of such volunteer effort under the Revenue Recognition Topic of the FASB Accounting Standards Codification were not satisfied.

Advertising The Corporation expenses advertising costs in the period in which they are incurred.

Note 1 Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses The costs of providing services of the Corporation have been summarized on a functional basis in the statement of functional expenses. General and administrative expenses have been allocated among the programs based upon an estimation of personnel time for the related activities.

Fair Value of Financial Instruments The carrying amounts of financial instruments, including cash, receivables, accounts payable, accrued expenses and current maturities of long-term obligations, approximate fair value. Interest on long-term debt is primarily payable at variable rates, which approximates market rates at December 31, 2017.

Income Taxes The Corporation is exempt from income taxes on income from related activities under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding tax law. Accordingly, no provision has been made for federal or state income taxes.

Management has evaluated the Corporation's tax positions and concluded that the Corporation had taken no uncertain tax positions that require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements. The Corporation is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for tax years ending December 31, 2013 and prior.

Recent Accounting Pronouncements In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which amends the existing accounting standards for revenue recognition. In July 2015, FASB voted to defer the effective date of ASU 2014-09 for one year. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to its customers. ASU 2014-09 will be effective for the Corporation beginning in the year ended December 31, 2019, though early adoption is permitted. The new revenue standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Corporation is currently evaluating the impact of adopting the new revenue standard on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Corporation is currently evaluating the impact of adopting the new standard on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions", and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-05 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Corporation is currently evaluating the impact the adoption of this guidance will have on its financial statements.

Note 1 Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued) In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (a consensus of the FASB Emerging Issues Task Force), which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. These amendments are effective for fiscal years beginning after December 15, 2018 and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The adoption of the ASU is not expected to have a material impact on the financial statements.

Risk and Uncertainties The Corporation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect balances and the amounts reported in the statements of financial position.

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 disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through June 7, 2018, the date the financial statements were available to be issued.

Note 2 Concentration of Credit Risk

The Corporation maintains cash balances at a financial institution, which at times may exceed federally insured limits. The Corporation had uninsured cash balances of $691,449 as of December 31, 2017.

One grantor and one subscriber make up over 36% of total unrestricted revenue and support for the year ended December 31, 2017.

Note 3 Note Payable

Note payable, James R. and Patricia B. Griffin Trust, original note for $10,000, monthly payments of $304 including interest at 6.0%, matures October 2020	$ 8,974
Less current portion	3,196
	$ 5,778

Maturities of the above note payable are as follows for the years ending December 31:

2018	$ 3,196
2019	3,394
2020	2,384
	$ 8,974

Note 4 Employee Benefit Plan

The Corporation sponsors a 401(k) retirement plan for the benefit of its employees. The Corporation can contribute a discretionary employer matching contribution equal to a uniform percentage of an eligible employees salary deferrals as well as a discretionary profit sharing contribution. An employee has to be at least 18 years of age in order to be eligible to participate in the plan. Employer contributions were $73,105 for the year ended December 31, 2017.

Note 5 Operating Leases

The Corporation rents office space under an operating lease that expires in September 2020. Rent expense for the year ended December 31, 2017 was $61,544.

Minimum future rental payments under noncancelable operating leases having remaining terms in excess of one year as of December 31, 2017 for each of the next three years and in the aggregate are:

2018	$ 63,546
2019	65,454
2020	50,184
Total minimum future rental payments	$174,184

Note 6 Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation can access at the measurement date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

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

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs that are unobservable inputs for the asset or liability.

Note 6 Fair Value Measurements (Continued)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

There have been no changes in the methodologies used at December 31, 2017. The following is a description of the valuation methodologies used for assets measured at fair value.

Corporate stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

Bond funds: Valued at the daily closing price as reported by the fund. Bond funds held by the Corporation are residential mortgage backed securities and corporate bonds that are registered with the United States Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The bond funds held by the Corporation are deemed to be actively traded.

The following table sets forth by level, within the fair value hierarchy, the Corporation's assets measured on a nonrecurring basis as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Corporate stocks	$ 162,254	$ -	$ -	$162,254
Bond funds	573,815	-	-	573,815
Total assets required to be reported at fair value	$736,069	$ -	$ -	$736,069

Note 7 Supplemental Cash Flow Information

Cash paid for interest	$ 190
Noncash transaction:	
Purchase of leasehold improvements with note payable	10,000
Cash as presented on the statement of financial position:	
Cash	$791,605
SRI restricted cash	151,168
	$942,773