

Kevin P. Martin & Associates, P.C.



SECOND NATURE, INC.

Financial Statements

June 30, 2019



SECOND NATURE, INC.

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June 30, 2019

Independent Auditors' Report

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Independent Auditors' Report

To the Board of Directors of
Second Nature, Inc.

We have audited the accompanying financial statements of Second Nature, Inc. (a nonprofit organization), (the Organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, cash flows, and functional expenses 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.

Auditors' 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 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 Organization as of June 30, 2019, 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.

Emphasis of Matter

As discussed in Note 1(p) to the financial statements, the Organization has adopted ASU No. 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited the Organization's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 5, 2018. The prior year summarized comparative information is not intended to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Numin P. Martini & Associates, P.C.

Danvers, Massachusetts
November 8, 2019

SECOND NATURE, INC.

Statement of Financial Position

As of June 30, 2019

With Comparative Totals as of June 30, 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 558,592	\$ 607,360
Accounts receivable	20,000	7,859
Grant receivable	-	40,000
Prepaid expenses	<u>33,289</u>	<u>11,225</u>
Total current assets	<u>611,881</u>	<u>666,444</u>
Fixed Assets		
Office furniture and equipment	3,755	27,220
Computer equipment	<u>22,399</u>	<u>22,399</u>
Total fixed assets	26,154	49,619
Less: accumulated depreciation	<u>(24,573)</u>	<u>(45,389)</u>
Total net fixed assets	<u>1,581</u>	<u>4,230</u>
Other Assets		
Certificate of deposit	<u>25,356</u>	<u>25,335</u>
Total other assets	<u>25,356</u>	<u>25,335</u>
Total Assets	<u>\$ 638,818</u>	<u>\$ 696,009</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 17,458	\$ 58,219
Accrued expenses	<u>80,784</u>	<u>63,590</u>
Total current liabilities	<u>98,242</u>	<u>121,809</u>
Total Liabilities	<u>98,242</u>	<u>121,809</u>
Net Assets		
Net assets without donor restrictions	448,988	248,242
Net assets with donor restrictions	<u>91,588</u>	<u>325,958</u>
Total net assets	<u>540,576</u>	<u>574,200</u>
Total Liabilities and Net Assets	<u>\$ 638,818</u>	<u>\$ 696,009</u>

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

SECOND NATURE, INC.

Statement of Activities

For the Year Ended June 30, 2019
With Comparative Totals for the Year Ended June 30, 2018

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	2019 Total	2018 Total
Revenue and Support				
Membership dues	\$ 1,049,198	\$ -	\$ 1,049,198	\$ 1,049,868
Grants and contributions	285,380	104,700	390,080	583,005
In-kind contributions	2,690	-	2,690	5,212
Conference revenue	282,704	-	282,704	202,718
Consulting	-	-	-	78,455
Miscellaneous revenue	13,328	-	13,328	2,899
Interest revenue	268	-	268	16
Net assets released from restrictions	339,070	(339,070)	-	-
	<u>1,972,638</u>	<u>(234,370)</u>	<u>1,738,268</u>	<u>1,922,173</u>
Expenses				
Program services	1,490,007	-	1,490,007	1,407,815
General and administrative	219,798	-	219,798	219,116
Fundraising	62,087	-	62,087	64,317
	<u>1,771,892</u>	<u>-</u>	<u>1,771,892</u>	<u>1,691,248</u>
Total Change in Net Assets	200,746	(234,370)	(33,624)	230,925
Net Assets at Beginning of Year	<u>248,242</u>	<u>325,958</u>	<u>574,200</u>	<u>343,275</u>
Net Assets at End of Year	<u>\$ 448,988</u>	<u>\$ 91,588</u>	<u>\$ 540,576</u>	<u>\$ 574,200</u>

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

SECOND NATURE, INC.

Statement of Cash Flows

For the Year Ended June 30, 2019
With Comparative Totals for the Year Ended June 30, 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ (33,624)	\$ 230,925
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation	2,649	4,118
Interest on certificate of deposit	(21)	(9)
Decrease (increase) in assets		
Accounts receivable	(12,141)	(1,089)
Grant receivable	40,000	(40,000)
Prepaid expenses	(22,064)	71
Increase (decrease) in liabilities		
Accounts payable	(40,761)	(46,979)
Accrued expenses	17,194	12,605
Deferred revenue	-	(5,000)
Net Cash (Used in) Provided by Operating Activities	<u>(48,768)</u>	<u>154,642</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(48,768)	154,642
Cash and Cash Equivalents - Beginning	<u>607,360</u>	<u>452,718</u>
Cash and Cash Equivalents - Ending	<u>\$ 558,592</u>	<u>\$ 607,360</u>

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

SECOND NATURE, INC.

Statement of Functional Expenses

For the Year Ended June 30, 2019

With Comparative Totals for the Year Ended June 30, 2018

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>2019 Total</u>	<u>2018 Total</u>
Functional Expenses					
Salaries & wages	\$ 627,633	\$ 138,941	\$ 41,329	\$ 807,903	\$ 749,901
Conference	309,143	-	-	309,143	281,780
Professional fees	243,906	18,970	8,130	271,006	264,823
Employee benefits & payroll taxes	142,663	24,749	8,415	175,827	182,127
Rent	86,685	6,742	2,889	96,316	96,883
Travel, lodging, meals	40,205	-	-	40,205	53,551
Office costs	26,513	29,366	883	56,762	47,762
Utilities	5,406	420	180	6,006	5,519
Insurance	5,468	425	182	6,075	4,784
Depreciation	2,385	185	79	2,649	4,118
Total Functional Expenses	<u>\$ 1,490,007</u>	<u>\$ 219,798</u>	<u>\$ 62,087</u>	<u>\$ 1,771,892</u>	<u>\$ 1,691,248</u>

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

SECOND NATURE, INC.

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The significant accounting policies followed by Second Nature, Inc. (the Organization) are described below to enhance the usefulness of the financial statements to the reader.

(a) Nature of Activities

The Organization was incorporated on April 30, 1993, as a nonprofit organization. The Organization is committed to accelerating climate action in, and through, higher education. The Organization does this by mobilizing a diverse array of higher education institutions to act on bold climate commitments, to scale campus climate initiatives, and to create innovative climate solutions. The Organization aligns, amplifies, and bridges the sector's efforts with other global leaders to advance urgent climate priorities.

The following program divisions are listed in order of relative importance based upon total program expenditures:

Presidents' Climate Leadership Commitments - The Organization believes colleges and universities must exercise leadership in their communities and throughout society by providing the knowledge, research, practice, and informed graduates to create a positive and sustainable future. The Presidents' Climate Leadership Commitments have been catalysts for actions on hundreds of campuses and in many communities across the nation. The Climate Leadership Network is made up of the over 400 Commitment signatories, is overseen by a Steering Committee of 18 presidents, and is facilitated by the Organization. Higher Education presidents and chancellors can join the Climate Leadership Network by signing either the Carbon or the Resilience Commitment, or the integrated Climate Commitment as follows:

Climate: The Climate Commitment integrates carbon neutrality with climate resilience and provides a systems approach to mitigating and adapting to a changing climate.

Carbon: The Carbon Commitment is focused on reducing Greenhouse Gas emissions and achieving carbon neutrality as soon as possible.

Resilience: The Resilience Commitment is focused on climate adaptation and community capacity-building to deal with a changing climate and resulting extremes.

SECOND NATURE, INC.

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies - continued

(a) Nature of Activities - continued

Carbon Credit and Purchasing Program (C2P2 Program) - The C2P2 Program is an initiative to support colleges and universities in developing and marketing carbon offsets as a way to accelerate their progress towards campus carbon neutrality. Eligible schools can develop carbon credits on their campuses through energy conservation, energy efficiency, renewable energy, and LEED certified buildings. Proceeds from carbon sales are invested into sustainability projects on campus, allowing schools to achieve greater emissions reductions and pushing communities to develop clean, efficient energy systems. The Carbon Credit and Purchasing Program develops credits to the Verified Carbon Standard (VCS) through a methodology designed specifically for campus-based projects. As the manager of C2P2, the Organization provides technical and logistical support to schools participating in the program.

University Climate Change Coalition (UC3 Program) - The UC3 Program is a coalition of leading North American research universities that will prototype a collaborative model designed to help local communities achieve their climate goals and accelerate the transition to a low-carbon future.

The distinguished universities from the United States, Canada and Mexico that make up UC3 have committed to mobilize their resources and expertise to accelerate local and regional climate action in partnership with businesses, cities and states, foundations and other organizations.

(b) Basis of Presentation

The Statement of Activities reports all changes in net assets, including changes in net assets without donor restrictions from operating activities. Operating revenues consist of those monies received and other contributions attributable to the Organization's ongoing efforts.

(c) Standards of Accounting and Reporting

The Organization's net assets (excess of its assets over liabilities) and its revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

The statement of financial position presents two classes of net assets (net assets without donor restrictions and net assets with donor restrictions) and the statement of activities displays the change in each class of net assets. The classes of net assets applicable to the Organization are presented as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor imposed restrictions. Net assets without donor restrictions consist of assets and contributions available for the support of operations. These net assets may be designated for specific purposes by management or the Board of Directors. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or law.

SECOND NATURE, INC.

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies - continued

(c) Standards of Accounting and Reporting - continued

Net Assets With Donor Restrictions - Net assets that are 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 expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Net assets with donor restrictions also includes the original amount of gifts and investment earnings required by the donor to be permanently retained. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

(d) Cash and Cash Equivalents

The Organization considers all highly liquid investments purchased with an original maturity of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

The Organization maintains its cash balances at a financial institution located in Massachusetts. The cash balances are insured by the Federal Deposit Insurance Corporation. At times these balances may exceed the federal insurance limits; however, the Organization has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances as of June 30, 2019.

(e) Certificate of Deposit

The Organization carries an investment in a certificate of deposit with an original term longer than three months. Interest is recorded when earned. This balance is related to a Letter of Credit obtained in lieu of a security deposit for the office space, (see Note 2).

(f) Revenue Recognition

The Organization earns revenue as follows:

Membership Dues - Membership dues are recognized and recorded as unrestricted support. All membership dues are considered to be available for unrestricted use unless specifically restricted by the donor.

Grants - Grants are recorded at the time the grant has been awarded or should conditions to the grant exist, at the time the conditions of the grant are met.

SECOND NATURE, INC.

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies - continued

(f) Revenue Recognition - continued

Contributions - Contributions are recorded upon receipt or pledge as net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Conference Revenue - Conference revenue is primarily derived from contributions collected and fees charged for the annual Climate Leadership Summit. Conference revenue is recognized when earned.

Consulting Fees - Consulting fees are recognized as services are rendered at rates established by parties under contractual arrangements.

Substantially all of the Organization's revenue is derived from its activities in the United States of America. During the year ended June 30, 2019, the Organization derived approximately 54% of its total revenue from membership dues, 30% from grants and contributions, 15% from conferences and 1% from advisory fees and other. All revenue is recorded at the estimated net realizable amounts.

(g) Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of June 30, 2019, management has determined any allowance would be immaterial.

The Organization does not have a policy to accrue interest on receivables. The Organization has no policies requiring collateral or other security to secure the accounts receivable.

(h) Grant and Promises to Give

Conditional grants and promises to give are not recognized in the financial statements until the conditions are substantially met and the promises become unconditional. Unconditional grants and pledges receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional grants and pledges receivable 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 Organization had no unconditional grants and promises to give receivable as of June 30, 2019.

SECOND NATURE, INC.

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies - continued

(i) Fixed Assets

Fixed assets are recorded at cost or if donated, fair value on the date of receipt. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Improvements, including planned major maintenance activities are capitalized, while expenditures for routine maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the Statement of Activities.

The Organization computes depreciation using the straight-line method over the following estimated lives:

Office furniture and equipment	5 years
Computer equipment	3-5 years

Fixed assets are reviewed for impairment if the use of the asset significantly changes or another indicator or possible impairment is noted. If the carrying amount for the asset is not recoverable, the value is written down to the asset's fair value.

(j) Fundraising Expense

Fundraising expense relates to the activities of raising general and specific contributions to the Organization and promoting special events.

(k) Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services. Administration expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Payroll and associated costs are allocated to functions based upon time charges.

(l) Use of Estimates

In preparing the Organization's financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SECOND NATURE, INC.

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies - continued

(m) Income Taxes

The Organization qualifies as an organization formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC) and is generally not subject to income tax. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization is not a private foundation under Section 509(a)(1) of the IRC.

(n) Donated Materials and Gifts In-Kind

Donated materials are reported as contributions in the financial statements at their estimated fair values at the time of receipt. Donated materials amounted to \$2,690 for the year ended June 30, 2019, (see Note 6). Donated materials are included with in-kind contributions and office costs in the accompanying financial statements and are recorded at estimated reasonable rates of costs which would have been involved if the materials had been purchased.

(o) Summarized Financial Information for 2018

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Also, the financial statements do not include a full presentation of the statement of functional expenses, as certain prior year summarized comparative information is presented in total but not by functional classification. In addition, the financial statements do not include full financial statement disclosures for the prior year.

Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

(p) Reclassification

Certain amounts in the prior year have been reclassified to conform to the current year presentation.

(q) Recent Accounting Standard Adopted

In August 2016, the Financial Accounting Standards Board issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources and the lack of consistency in the type of information provided about expenses and investment return. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. As a result, the Agency has adopted this ASU as of and for the year ended June 30, 2019 with retrospective application for the 2017 financial statements. In addition, the Agency changed the presentation of its net asset classes and expanded the footnote disclosures as required by the ASU, with no effect on previously reported change in net assets. Other than these reclassifications, the adoption of ASU 2016-14 did not have a material impact on the Agency's financial position, results of activities or cash flows.

SECOND NATURE, INC.

Notes to Financial Statements

June 30, 2019

(2) Letter of Credit

The Organization obtained a \$25,000 letter of credit which is to be used in lieu of a security deposit on its lease for office space. The letter of credit is collateralized by a certificate of deposit, the balance of which was \$25,356 as of June 30, 2019, (see Note 1(e)). For the year ended June 30, 2019, no amounts were drawn on the letter of credit.

(3) Cash Held for Others

The Organization acted as the representative of a network of higher education institutions who are participating in the C2P2 Program, see Note 1(a). The Organization collected payments from verified carbon units (VCU) buyers of the C2P2 Program and subsequently disbursed the money to various third party VCU sellers. During the year ended June 30, 2019, the Agency collected payments of \$39,875 and made disbursements of \$34,499. As of June 30, 2019, the asset and liability balance related to such activities amounted to zero. During the year ended June 30, 2019, the Organization earned a \$5,376 fee in connection with these activities, which is included in miscellaneous revenue.

(4) Operating Lease Commitments

The Organization leases office space under a 5-year operating lease agreement with an expiration date through March, 2022. The lease requires the Organization to maintain a \$25,000 letter of credit in lieu of a security deposit, (see Note 2). The Organization is also liable for certain real estate tax increases and operating cost adjustments under the office lease terms.

The minimum annual operating non-cancelable lease commitments on property for the Organization are as follows:

2020	\$ 71,640
2021	67,927
2022	49,033

Rent expense for the year ended June 30, 2019 was \$96,316.

(5) Employee Benefits

The Organization offers a Simple IRA Plan to its employees and substantially all eligible employees of the Organization may participate in this plan. The Organization provides a maximum matching contribution of 100% of the first 3% of salary invested in the plan by a participant. The Organization made contributions of \$22,246 for the year then ended June 30, 2019.

(6) Related Party Transactions

During the year ended June 30, 2019, the Agency received \$2,690 of in-kind contributions from its board members for meals, lodging and travel expenses, (see Note 1(n)).

During the year ended June 30, 2019, the Agency received a \$103,000 contribution from a board member.

SECOND NATURE, INC.

Notes to Financial Statements

June 30, 2019

(7) Net Assets

(a) Net Assets With Donor Restrictions

Net assets with donor restrictions consist of resources available to meet future obligations, but only in compliance with the restrictions specified by donors. As of June 30, 2019, net assets with donor restrictions are restricted for the following purposes or periods:

Clean Energy Purchasing Strategies	\$ 63,165
Campaign for Environmental Literacy	<u>28,423</u>
Total	\$ <u>91,588</u>

(8) Liquidity and Availability of Resources

The following reflects the Agency's financial assets as of June 30, 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year from the statement of financial position date. Amounts not available include amounts set aside for long-term investing in the quasi-endowment that could be drawn upon if the Board approves that action. However, amounts already appropriated from either the donor-restricted endowment for general expenditure within one year of the statement of financial position date have not been subtracted as unavailable.

Financial assets at year end	
Cash and cash equivalents	\$ 558,592
Accounts receivable	<u>20,000</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 578,592</u>

The Agency is supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Agency must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Agency's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

(9) Subsequent Events

The Organization has performed an evaluation of subsequent events through November 8, 2019, which is the date the Organization's financial statements were available to be issued. No material subsequent events have occurred since June 30, 2019 that required recognition or disclosure in these financial statements.