



SECOND NATURE, INC.

Financial Statements

June 30, 2018



Kevin P. Martin & Associates, P.C.

SECOND NATURE, INC.

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June 30, 2018

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, 2018, 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, 2018, 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.

Report on Summarized Comparative Information

We have previously audited the Organization's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 6, 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, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Nuniv P. Martini & Associates, P.C.

November 5, 2018

SECOND NATURE, INC.

Statement of Financial Position

As of June 30, 2018

With Comparative Totals as of June 30, 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 607,360	\$ 452,718
Accounts receivable	7,859	6,770
Grant receivable	40,000	-
Prepaid expenses	<u>11,225</u>	<u>11,296</u>
Total current assets	<u>666,444</u>	<u>470,784</u>
Fixed Assets		
Office furniture and equipment	27,220	27,220
Computer equipment	<u>22,399</u>	<u>22,399</u>
Total fixed assets	49,619	49,619
Less: accumulated depreciation	<u>(45,389)</u>	<u>(41,271)</u>
Total net fixed assets	<u>4,230</u>	<u>8,348</u>
Other Assets		
Certificate of deposit	<u>25,335</u>	<u>25,326</u>
Total other assets	<u>25,335</u>	<u>25,326</u>
Total Assets	<u>\$ 696,009</u>	<u>\$ 504,458</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 58,219	\$ 105,198
Accrued expenses	63,590	50,985
Deferred revenue	<u>-</u>	<u>5,000</u>
Total current liabilities	<u>121,809</u>	<u>161,183</u>
Total Liabilities	<u>121,809</u>	<u>161,183</u>
Net Assets		
Unrestricted	248,242	149,851
Temporarily restricted	<u>325,958</u>	<u>193,424</u>
Total net assets	<u>574,200</u>	<u>343,275</u>
Total Liabilities and Net Assets	<u>\$ 696,009</u>	<u>\$ 504,458</u>

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

SECOND NATURE, INC.

Statement of Activities

For the Year Ended June 30, 2018
With Comparative Totals for the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
Revenue and Support				
Membership dues	\$ 1,049,868	\$ -	\$ 1,049,868	\$ 1,120,265
Grants and contributions	157,050	425,955	583,005	394,259
In-kind contributions	5,212	-	5,212	-
Conference revenue	202,718	-	202,718	255,684
Consulting	78,455	-	78,455	140,894
Rental revenue	-	-	-	14,458
Miscellaneous revenue	2,899	-	2,899	6,202
Interest revenue	16	-	16	8
Net assets released from restrictions	<u>293,421</u>	<u>(293,421)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>1,789,639</u>	<u>132,534</u>	<u>1,922,173</u>	<u>1,931,770</u>
Expenses				
Program services	1,407,815	-	1,407,815	1,279,808
General and administrative	219,116	-	219,116	314,097
Fundraising	<u>64,317</u>	<u>-</u>	<u>64,317</u>	<u>78,409</u>
Total expenses	<u>1,691,248</u>	<u>-</u>	<u>1,691,248</u>	<u>1,672,314</u>
Total Change in Net Assets	98,391	132,534	230,925	259,456
Net Assets at Beginning of Year	<u>149,851</u>	<u>193,424</u>	<u>343,275</u>	<u>83,819</u>
Net Assets at End of Year	<u>\$ 248,242</u>	<u>\$ 325,958</u>	<u>\$ 574,200</u>	<u>\$ 343,275</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, 2018
With Comparative Totals for the Year Ended June 30, 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 230,925	\$ 259,456
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	4,118	4,396
Interest on certificate of deposit	(9)	(6)
Decrease (increase) in assets		
Accounts receivable	(1,089)	29,386
Grant receivable	(40,000)	-
Prepaid expenses	71	(7,068)
Increase (decrease) in liabilities		
Accounts payable	(46,979)	(67,049)
Accrued expenses	12,605	(28,289)
Deferred revenue	<u>(5,000)</u>	<u>(5,000)</u>
Net Cash Provided by Operating Activities	<u>154,642</u>	<u>185,826</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	<u>-</u>	<u>(6,089)</u>
Net Cash Used in Investing Activities	<u>-</u>	<u>(6,089)</u>
Cash Flows from Financing Activities		
Proceeds from promissory note payable	-	75,000
Repayment of promissory note payable	<u>-</u>	<u>(75,000)</u>
Net Cash Provided by Investing Activities	<u>-</u>	<u>-</u>
Net Increase in Cash and Cash Equivalents	154,642	179,737
Cash and Cash Equivalents - Beginning	<u>452,718</u>	<u>272,981</u>
Cash and Cash Equivalents - Ending	\$ <u><u>607,360</u></u>	\$ <u><u>452,718</u></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, 2018

With Comparative Totals for the Year Ended June 30, 2017

	<u>Program</u>	<u>General and</u>		<u>2018</u>	<u>2017</u>
Functional Expenses	<u>Services</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>Total</u>
Staff salaries	\$ 434,751	\$ 63,593	\$ 18,735	\$ 517,079	\$ 506,163
Director salaries	136,186	73,354	23,282	232,822	282,571
Conference	281,780	-	-	281,780	196,878
Professional fees	229,780	17,872	7,659	255,311	290,891
Employee benefits & payroll taxes	138,662	33,260	10,205	182,127	180,998
Rent	87,195	6,782	2,906	96,883	126,241
Travel, lodging, meals	53,551	-	-	53,551	22,750
Office costs	24,370	22,580	812	47,762	45,427
Stipends & reimbursements	8,561	666	285	9,512	-
Utilities	4,968	386	165	5,519	9,668
Insurance	4,305	335	144	4,784	6,331
Depreciation	3,706	288	124	4,118	4,396
Total Functional Expenses	<u>\$ 1,407,815</u>	<u>\$ 219,116</u>	<u>\$ 64,317</u>	<u>\$ 1,691,248</u>	<u>\$ 1,672,314</u>

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

SECOND NATURE, INC.

Notes to Financial Statements

June 30, 2018

(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 600 Commitment signatories, is overseen by a Steering Committee of 20 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, 2018

(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.

(b) Basis of Presentation

The Statement of Activities reports all changes in net assets, including changes in unrestricted net assets 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 three classes of net assets (unrestricted, temporarily restricted and permanently restricted) 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:

Unrestricted - Unrestricted net assets are not subject to donor imposed restrictions. Unrestricted net assets consist of assets and contributions available for the support of operations. Unrestricted 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 unrestricted net assets unless their use is restricted by explicit donor stipulations or law.

Temporarily Restricted - Temporarily restricted net assets 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

SECOND NATURE, INC.

Notes to Financial Statements

June 30, 2018

(1) Summary of Significant Accounting Policies - continued

(d) Cash and Cash Equivalents

The Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

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, 2018.

(e) Certificate of Deposit

The Organization carries an investment in a certificate of deposit (CD) 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:

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.

Contributions - Contributions are recorded upon receipt or pledge as unrestricted, temporarily restricted or permanently restricted support 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.

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.

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

Deferred revenue represents program service fee revenue received prior to year-end. These amounts are deferred and recognized over the periods to which the fees relate.

SECOND NATURE, INC.

Notes to Financial Statements

June 30, 2018

(1) Summary of Significant Accounting Policies - continued

(f) Revenue Recognition - continued

Substantially all of the Organization's revenue is derived from its activities in the United States of America. During the year ended June 30, 2018, the Organization derived approximately 57% of its total revenue from membership dues, 28% from grants and contributions, 11% from conferences, and 4% 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, 2018, 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 Receivable

Conditional grants receivable are not recognized in the financial statements until the conditions are substantially met. Unconditional grants receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional grants 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 discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the grants are received. Amortization of the discounts is included in grants and contribution revenue. In the absence of grantor stipulations to the contrary, grants with payments due in future periods are restricted to use after the due date.

Unconditional grants receivable are periodically reviewed to estimate an allowance for doubtful accounts. Management estimates the allowance by review of historical experience and a specific review of collection trends that differ from scheduled collections on individual grants receivable. As of June 30, 2018, management has determined that any allowance would be immaterial.

(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.

SECOND NATURE, INC.

Notes to Financial Statements

June 30, 2018

(1) Summary of Significant Accounting Policies - continued

(i) Fixed Assets - continued

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

Property and equipment 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.

(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.

SECOND NATURE, INC.

Notes to Financial Statements

June 30, 2018

(1) Summary of Significant Accounting Policies – continued

(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 \$5,212 for the year ended June 30, 2018, (see Note 7). 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 2017

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, 2017, from which the summarized information was derived.

(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 \$25,335 as of June 30, 2018, (see Note 1(e)). For the year ended June 30, 2018, 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, 2018, the Agency collected payments of \$423,839 and made disbursements of \$358,034. As of June 30, 2018, the asset and liability balance related to such activities amounted to zero. During the year ended June 30, 2018, the Organization earned a \$65,805 fee in connection with these activities, which is included in consulting fees.

SECOND NATURE, INC.

Notes to Financial Statements

June 30, 2018

(4) Grant Receivable

The Organization has received an unconditional grant receivable from a foundation. Unconditional grants receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be received more than a year after June 30, 2018 are recorded at the present value of their future cash flows using discount rates. No present value discount was recorded as of June 30, 2018, as the grant receivable is expected to be received during the year ended June 30, 2019.

(5) 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:

2019	\$ 96,000
2020	71,640
2021	67,927
2022	49,033

Rent expense for the year ended June 30, 2018 was \$96,883.

(6) 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 \$20,784 for the year then ended June 30, 2018.

(7) Related Party Transactions

During the year ended June 30, 2018, the Agency received \$5,212 of in-kind contributions from its board members for meals, lodging and travel expenses, (see Note 1(n)).

The Agency outsources its CFO function to ecoCFO, LLC. The owner of ecoCFO, LLC volunteers as a Board Member of the Agency and has been elected to serve as Treasurer. During the year ended June 30, 2018, expenses incurred for services provide to ecoCFO, LLC amounted to \$61,792, of which \$54,679 was paid and \$7,113 was outstanding and included in accrued expenses.

SECOND NATURE, INC.

Notes to Financial Statements

June 30, 2018

(8) Restricted Net Assets

Temporarily restricted net assets consist of resources available to meet future obligations, but only in compliance with the restrictions specified by donors. As of June 30, 2018, temporarily restricted net assets are restricted for the following purposes:

Environmental Campaign	\$ 127,440
Campaign for Environmental Literacy	97,149
Bloomberg for Higher Education Climate Action	<u>101,369</u>
Total	\$ <u>325,958</u>

(9) Subsequent Events

The Organization has performed an evaluation of subsequent events through November 5, 2018, which is the date the Organization's financial statements were available to be issued. No material subsequent events have occurred since June 30, 2018 that required recognition or disclosure in these financial statements.