

NET IMPACT

**Financial Statements for the Years Ended
June 30, 2018 and 2017
and Independent Auditors' Report**

NET IMPACT

TABLE OF CONTENTS

	PAGE
Independent Auditors' Report	1-2
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Functional Expenses	6-7
Statements of Cash Flows	8
Notes to Financial Statements	9-14

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Net Impact
Oakland, California

We have audited the accompanying financial statements of Net Impact (a nonprofit organization) (the "Organization") which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 Organization'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 2017, 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.

Harrison & Lane, a.c.

Pleasanton, California
October 15, 2018

NET IMPACT

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2018 AND 2017

<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,231,344	\$ 1,417,779
Accounts receivable	1,550	47,618
Contributions receivable	200,000	174,624
Prepaid expenses	158,827	58,097
Total current assets	1,591,721	1,698,118
Deposits	79,198	79,198
Property and equipment, net	99,885	126,885
Total assets	<u>\$ 1,770,804</u>	<u>\$ 1,904,201</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 81,628	\$ 161,485
Deferred revenue	120,109	135,907
Total current liabilities	201,737	297,392
Deferred rent	151,383	157,174
Total liabilities	353,120	454,566
NET ASSETS:		
Unrestricted	925,022	863,902
Temporarily restricted	492,662	585,733
Total net assets	1,417,684	1,449,635
Total liabilities and net assets	<u>\$ 1,770,804</u>	<u>\$ 1,904,201</u>

See notes to financial statements.

NET IMPACT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT:			
Contributions	\$ 53,296	\$ 2,540,000	\$ 2,593,296
Program services	1,596,617	-	1,596,617
Conference	292,342	-	292,342
Lease income	62,616	-	62,616
Job Board	46,493	-	46,493
Individual philanthropy	43,844	-	43,844
Chapter dues	43,540	-	43,540
Advertising	18,625	-	18,625
Membership dues	3,538	-	3,538
Interest, dividends, gains and losses	1,325	-	1,325
	<u>2,162,236</u>	<u>2,540,000</u>	<u>4,702,236</u>
Total revenue and support			
	<u>2,162,236</u>	<u>2,540,000</u>	<u>4,702,236</u>
Net assets released from restrictions	<u>2,633,071</u>	<u>(2,633,071)</u>	<u>-</u>
Total revenues and net assets released from restrictions	<u>4,795,307</u>	<u>(93,071)</u>	<u>4,702,236</u>
EXPENSES:			
Program services	3,782,730	-	3,782,730
General and administrative	582,494	-	582,494
Fundraising	368,963	-	368,963
	<u>4,734,187</u>	<u>-</u>	<u>4,734,187</u>
Total expenses			
	<u>4,734,187</u>	<u>-</u>	<u>4,734,187</u>
CHANGE IN NET ASSETS	<u>61,120</u>	<u>(93,071)</u>	<u>(31,951)</u>
NET ASSETS, BEGINNING OF YEAR,	<u>863,902</u>	<u>585,733</u>	<u>1,449,635</u>
NET ASSETS, END OF YEAR	<u>\$ 925,022</u>	<u>\$ 492,662</u>	<u>\$ 1,417,684</u>

See notes to financial statements.

NET IMPACT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT:			
Contributions	\$ 608,013	\$ 2,521,766	\$ 3,129,779
Program services	1,211,438	-	1,211,438
Conference	587,846	-	587,846
Chapter dues	49,564	-	49,564
Job Board	47,804	-	47,804
Advertising	46,895	-	46,895
Individual philanthropy	42,019	-	42,019
Lease income	35,780	-	35,780
Membership dues	20,532	-	20,532
Interest, dividends, gains and losses	735	-	735
In-kind contributions	200	-	200
	<u>2,650,826</u>	<u>2,521,766</u>	<u>5,172,592</u>
Total revenue and support			
	<u>2,650,826</u>	<u>2,521,766</u>	<u>5,172,592</u>
Net assets released from restrictions	<u>2,331,775</u>	<u>(2,331,775)</u>	<u>-</u>
Total revenues and net assets released from restrictions	<u>4,982,601</u>	<u>189,991</u>	<u>5,172,592</u>
EXPENSES:			
Program services	3,978,507	-	3,978,507
General and administrative	553,242	-	553,242
Fundraising	298,482	-	298,482
	<u>4,830,231</u>	<u>-</u>	<u>4,830,231</u>
Total expenses			
	<u>4,830,231</u>	<u>-</u>	<u>4,830,231</u>
CHANGE IN NET ASSETS	<u>152,370</u>	<u>189,991</u>	<u>342,361</u>
NET ASSETS, BEGINNING OF YEAR,	<u>711,532</u>	<u>395,742</u>	<u>1,107,274</u>
NET ASSETS, END OF YEAR	<u>\$ 863,902</u>	<u>\$ 585,733</u>	<u>\$ 1,449,635</u>

See notes to financial statements.

NET IMPACT

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2018

	<u>Program</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 2,072,152	\$ 443,712	\$ 299,084	\$ 2,814,948
External venues and food/beverage	478,670	223	19,688	498,581
Consulting and professional services	393,094	79,143	5,728	477,965
Occupancy and operating	266,663	52,602	34,664	353,929
Prizes and campaigns	261,780	-	-	261,780
Marketing	161,021	-	3,333	164,354
Travel	95,662	1,367	2,794	99,823
Information technology	33,813	1,191	803	35,807
Depreciation	19,875	4,256	2,869	27,000
Total	<u>\$ 3,782,730</u>	<u>\$ 582,494</u>	<u>\$ 368,963</u>	<u>\$ 4,734,187</u>

See notes to financial statements.

NET IMPACT

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2017

	<u>Program</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 1,982,908	\$ 406,317	\$ 239,713	\$ 2,628,938
External venues and food/beverage	619,722	96	10,057	629,875
Consulting and professional services	491,206	78,523	7,112	576,841
Occupancy and operating	305,754	51,873	31,150	388,777
Prizes and campaigns	241,907	-	-	241,907
Marketing	166,246	-	-	166,246
Travel	100,983	2,872	2,264	106,119
Information technology	46,326	9,406	5,644	61,376
Depreciation	23,455	4,155	2,542	30,152
Total	<u>\$ 3,978,507</u>	<u>\$ 553,242</u>	<u>\$ 298,482</u>	<u>\$ 4,830,231</u>

See notes to financial statements.

NET IMPACT

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (31,951)	\$ 342,361
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation	27,000	30,152
Changes in assets and liabilities that provided (used) cash:		
Accounts and contributions receivable	20,692	(3,534)
Prepaid expenses	(100,730)	(25,509)
Accounts payable and accrued liabilities	(79,857)	50,477
Deferred revenue	(15,798)	(179,046)
Deferred rent	(5,791)	7,623
	<u>(186,435)</u>	<u>222,524</u>
Net cash (used in) provided by operating activities		
	<u>(186,435)</u>	<u>222,524</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(186,435)	222,524
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,417,779</u>	<u>1,195,255</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,231,344</u>	<u>\$ 1,417,779</u>

See notes to financial statements.

NET IMPACT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

1. ORGANIZATION

Nature of Operation - Net Impact (the “Organization”) mobilizes the next generations to use their skills and careers to make a positive impact on the world. Net Impact is a global community of students and professionals who aspire to be effective drivers of social and environmental change. Our programs - delivered from our headquarters, as well as globally through our approximately 300 student and professional chapters - give our members the skills, experiences and connections that will allow them to have the greatest impact now and throughout their careers.

Over 80,000 strong, we take on social challenges, protect the environment, invent new products and orient business toward the greater good. In short, we help our members turn their passions into a lifetime of world-changing action.

What we do:

- We educate student and professional leaders, helping them discover how their careers can be used for good.
- We connect members online and in person, through thousands of local events and our annual Net Impact conference.
- We support real-world impact, helping members create social and environmental change on campus and in the workplace.

Net Impact’s programming includes:

- One of the most dynamic and inspiring annual conferences covering sustainable business issues, drawing nearly 2,500 dedicated attendees.
- Over 2,500 local chapter events a year.
- Career services, including our online job board and original publications.
- Programs and competitions that provide valuable hands-on experience for students.
- Programming for professionals looking to catalyze change in the workplace.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Financial Statement Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. The statements of financial position and of activities report total assets, liabilities, net assets and changes in net assets in accordance with the principles of net assets accounting. Accordingly, all financial transactions have been recorded and reported by net assets group as follows:

Unrestricted

Generally unrestricted net assets result from revenues in providing services, receiving unrestricted contributions, and receiving dividends or interest from investing in income producing assets, less expenses incurred in providing services, raising contributions, and performing administrative functions.

Temporarily Restricted

The Organization reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted

Net assets that are subject to donor-imposed stipulations that they be maintained permanently by the Organization. The Organization had no permanently restricted net assets at June 30, 2018 or 2017, respectively.

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 the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents are all highly liquid investments with an original maturity of three months or less.

Accounts Receivable - Accounts receivable are recorded at the value of the revenue earned and require payment within thirty days. Account balances with charges over thirty days old are considered delinquent and management begins collection efforts at this time. Delinquent account receivable do not accrue interest. The Organization continually monitors each customer's credit worthiness individually and recognizes allowances for estimated bad debts on customer accounts that are no longer estimated to be collectible. The Organization regularly adjusts any allowance for subsequent collections and final determination that an account receivable is no longer collectible.

Property and Equipment - Property and equipment is stated at cost. Donated assets are recorded at their estimated fair market values at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Maintenance and repairs, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. All acquisitions of property and equipment in excess of \$1,500 and all expenditures for repairs and maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized.

Revenue Recognition -

Contributions

Contributions are recognized as revenue in the period unconditionally promised or received. The Organization reports contributions in the temporarily restricted net asset class if they are received with donor stipulations as to their use, or if the contribution contains an implied time restriction. They are initially reported in the temporarily restricted net asset class, even if it is anticipated such restrictions will be met in the current reporting period. If contributions are received without donor stipulations or an implied time restriction, they are considered unrestricted funds and are included as part of the Organization's unrestricted net assets.

Exchange transactions

The Organization recognizes exchange transaction revenue when earned, which includes competitions, internship programs, and other projects run for partner organizations. Generally, exchange revenue is recognized monthly over the life of the contract. Exchange revenue from cost reimbursement contracts is recognized as related expenses are incurred. Fees collected prior to services being performed are reported as deferred revenue on the statement of financial position.

Membership dues

Annual membership dues are recognized monthly over a one-year (12 month) period from the date of membership.

Chapter dues

Chapter dues are valid for the period of the Organization's fiscal year and are recognized monthly over one year (12 months) from July through June.

Job Board revenue

Job Board revenue is recognized upon delivery of the product or services to the customer.

Conference

The Organization hosts an annual conference and expo. Registration fees collected prior to the event are reported as deferred revenue on the statement of financial position, and are recognized as revenue in the month of the events.

Advertising

The Organization recognizes advertising revenue when earned, primarily through communications posted in e-newsletters and targeted emails. Advertising content is either substantially related or contributes importantly to the purpose of promoting forward-thinking business and nonprofits to engage in meaningful ways with next generation leaders. Accordingly, advertising revenue is not considered an unrelated business activity, and no tax expense was incurred for this activity in 2018 or 2017, respectively.

In - kind revenue

Materials

Donations of materials are recorded at their estimated fair value on the date of the donation. Such donations are reported as unrestricted support unless the donor has restricted the donated materials to a specific purpose. Gifts of long-lived assets are reported as unrestricted support and depreciated over their useful life. Materials donated with explicit restrictions regarding their use are reported as restricted support.

Services

Donated services are reported at fair value and recognized as contributions if the services received (a) create or enhance nonfinancial assets, or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Marketing - Marketing costs are charged to expense as incurred. Marketing expense totaled \$164,354 and \$166,246 during the years ended June 30, 2018 and 2017, respectively.

Income Taxes - Under provision of Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code, the Organization is exempt from income taxes, except for net income from unrelated business income. There were no unrelated business activities in 2018 or 2017, respectively. Accordingly, no tax expense was incurred during either year.

The Organization has adopted the accounting guidance related to uncertain tax positions, and has evaluated its tax positions taken for all open tax years. Currently, the fiscal 2015 through 2017 information returns are open and subject to examination. In management's judgment there are no uncertain tax positions as of June 30, 2018.

Functional Expense Classification - The Organization charges and allocates its expenses on a functional basis among its program and support services. Expenses that can be identified with the program or support service are assigned directly. Expenses common to several functions are allocated based on a measure of usage that best relates to the particular expense.

Program costs include activities that result in goods and services being distributed to beneficiaries, customers, or members that fulfill the purpose or mission for which the Organization exists.

Support services include general and administrative costs and fundraising costs. General and administrative costs include oversight, business management, general record keeping, budgeting, financing, and related administrative activities. Fundraising costs include publicizing and conducting corporate sponsorship outreach; writing grant proposals; soliciting individuals; and conducting other activities involved with soliciting contributions.

Concentrations and Credit Risk - Financial instruments which potentially subject the Organization to credit risk consist principally of cash and cash equivalents and accounts receivable. The Organization places its cash and cash equivalents with high quality financial institutions. Cash balances exceeded federal deposit insurance limits by approximately \$1,014,000 as of June 30, 2018. One donor accounted for 100% of contributions receivable balances at June 30, 2018. One donor accounted for 37% of total revenue and support during the year ended June 30, 2018. The Organization's credit customers consist primarily of members and grantors. The Organization does not require collateral for its accounts receivable.

Reclassifications - Certain reclassifications have been made to the 2017 balances in order to conform to the 2018 financial statement presentation.

Subsequent Events - Subsequent events have been evaluated through October 15, 2018, which is the date the financial statements were available to be issued.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2018 and 2017, respectively:

	2018	2017
Furniture and equipment	\$ 103,425	\$ 103,425
Leasehold improvements	98,427	98,427
Database and website	400,315	400,315
Property and equipment at cost	602,167	602,167
Less: Accumulated depreciation	(502,282)	(475,282)
Net property and equipment	\$ 99,885	\$ 126,885

Depreciation expense was \$27,000 and \$30,152 for the years ended June 30, 2018 and 2017, respectively.

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2018 and 2017, respectively:

	2018	2017
Sponsorships for future years	\$ 310,000	\$ 513,500
Program	182,662	72,233
Total temporarily restricted net assets	\$ 492,662	\$ 585,733

5. RETIREMENT PLAN

The Organization has a defined contribution plan (the “Plan”) covering all employees who meet minimum requirements. The Plan conforms to the provisions set by the Internal Revenue Service Code Section 401(k), *Defined Contribution Retirement Plan*. Under the 401(k) Plan, the Organization provided matches of 100% of participants’ contributions to the Plan up to 4% of participants’ annual compensation. The Organization contributed \$69,384 and \$55,739 to the Plan during the years ended June 30, 2018 and 2017, respectively.

6. OPERATING LEASES

The Organization leases office space at 1333 Broadway in Oakland, California. Rent expense including related overhead charges totaled \$267,552 and \$265,526 during the years ended June 30, 2018 and 2017, respectively. Rent expense is recognized on a straight line basis over the life of the lease. The Organization’s Oakland lease expires in May 2023. Future minimum cash payments due under the lease are as follows:

<u>Year end June 30,</u>		
2019	\$	278,732
2020		287,094
2021		295,707
2022		304,578
2023		<u>287,316</u>
Total	\$	<u>1,453,427</u>

During the year ended June 30, 2017, the Organization entered into a sublease for a portion of the office space described above. Rent income and overhead charges totaled \$61,050 during the year ended June 30, 2018. The Organization’s sub-lease expires in June 2019. Future minimum cash receipts due under the lease total \$55,682.