

NET IMPACT

**Financial Statements for the Years Ended
June 30, 2019 and 2018
and Independent Auditors' Report**

NET IMPACT

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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, 2019 and 2018, 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, 2019 and 2018, 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 22, 2019

NET IMPACT

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2019 AND 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,590,650	\$ 1,231,344
Accounts receivable	28,551	1,550
Contributions receivable	105,000	200,000
Prepaid expenses	69,429	158,827
Total current assets	1,793,630	1,591,721
Deposits	79,198	79,198
Property and equipment, net	73,500	99,885
Total assets	<u>\$ 1,946,328</u>	<u>\$ 1,770,804</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 272,381	\$ 81,628
Deferred revenue	105,606	120,109
Total current liabilities	377,987	201,737
Deferred rent	137,474	151,383
Total liabilities	515,461	353,120
NET ASSETS:		
Without donor restrictions	848,113	925,022
With donor restrictions	582,754	492,662
Total net assets	1,430,867	1,417,684
Total liabilities and net assets	<u>\$ 1,946,328</u>	<u>\$ 1,770,804</u>

See notes to financial statements.

NET IMPACT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT:			
Contributions	\$ 3,500	\$ 3,230,504	\$ 3,234,004
Program services	748,745	-	748,745
Conference	322,165	-	322,165
Lease income	68,359	-	68,359
Job Board	41,450	-	41,450
Advertising	36,500	-	36,500
Chapter dues	35,590	-	35,590
Individual philanthropy	29,945	-	29,945
Interest, dividends, gains and losses	2,177	-	2,177
Membership dues	650	-	650
Total revenue and support	<u>1,289,081</u>	<u>3,230,504</u>	<u>4,519,585</u>
Net assets released from restrictions	<u>3,140,412</u>	<u>(3,140,412)</u>	<u>-</u>
Total revenues and net assets released from restrictions	<u>4,429,493</u>	<u>90,092</u>	<u>4,519,585</u>
EXPENSES:			
Program services	3,643,831	-	3,643,831
General and administrative	428,070	-	428,070
Fundraising	434,501	-	434,501
Total expenses	<u>4,506,402</u>	<u>-</u>	<u>4,506,402</u>
CHANGE IN NET ASSETS	<u>(76,909)</u>	<u>90,092</u>	<u>13,183</u>
NET ASSETS, BEGINNING OF YEAR,	<u>925,022</u>	<u>492,662</u>	<u>1,417,684</u>
NET ASSETS, END OF YEAR	<u>\$ 848,113</u>	<u>\$ 582,754</u>	<u>\$ 1,430,867</u>

See notes to financial statements.

NET IMPACT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
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
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
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 FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2019

	<u>Program</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 1,753,464	\$ 290,026	\$ 325,978	\$ 2,369,468
External venues and food/beverage	544,976	-	2,463	547,439
Consulting and professional services	345,127	86,618	47,663	479,408
Occupancy and operating	295,699	43,174	45,886	384,759
Prizes and campaigns	354,918	-	-	354,918
Marketing	210,454	230	258	210,942
Travel	75,365	1,140	3,789	80,294
Information technology	44,303	3,652	4,834	52,789
Depreciation	19,525	3,230	3,630	26,385
Total	<u>\$ 3,643,831</u>	<u>\$ 428,070</u>	<u>\$ 434,501</u>	<u>\$ 4,506,402</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

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 13,183	\$ (31,951)
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation	26,385	27,000
Changes in assets and liabilities that provided (used) cash:		
Accounts and contributions receivable	67,999	20,692
Prepaid expenses	89,398	(100,730)
Accounts payable and accrued liabilities	190,753	(79,857)
Deferred revenue	(14,503)	(15,798)
Deferred rent	(13,909)	(5,791)
	<u>359,306</u>	<u>(186,435)</u>
Net cash provided by (used in) operating activities		
	<u>359,306</u>	<u>(186,435)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	359,306	(186,435)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,231,344</u>	<u>1,417,779</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,590,650</u>	<u>\$ 1,231,344</u>

See notes to financial statements.

NET IMPACT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

1. ORGANIZATION

Nature of Operation - Net Impact (the “Organization”) inspires and equips emerging leaders to build a more just and sustainable world. Today’s students and emerging professionals will bring positive change to the world’s most pressing challenges. Net Impact is a leadership accelerator for these future change makers. Our programs help new leaders broaden their thinking, build their networks, and scale their impact beyond just individual actions. Simple ideas become powerful initiatives with real impact. In addition, the annual Net Impact Conference is renowned as a premier inspirational gathering for next-generation leaders who want to transform the world. With more than 400 chapters in nearly 50 countries, the Net Impact network is a diverse and determined force for good. Their local actions create ripples that reach tens of thousands of individuals and make an impact on some of the most pressing issues of our time.

What we do:

- We support a global network made up of local chapters on university campuses, in cities, and in companies.
- We run programs, campaigns and events with and through our chapter network that help people to build leadership skills and experiences, and establish a network of allies to help them make a lifelong impact.
- We hold a world-class annual conference each year that brings our community, and others, together to get inspired, get networked, and get activated.

Net Impact’s programming includes:

- One of the most dynamic and inspiring annual conferences covering sustainable business issues, drawing more than 1,500 dedicated attendees.
- More than 4,000 local chapter events a year.
- Career Services, including our online job board.
- Programs and competitions that provide valuable hands-on experience and leadership skills for students and young professionals.

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 Organization is required to report information regarding its financial position and activities according to two (2) classes of net assets: without donor restrictions and with donor restrictions based on the existence or absence of donor-imposed restrictions. Net assets with donor restrictions consist of assets whose use is limited by donor-imposed time and/or purpose restrictions.

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 accounts 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 net assets with restrictions 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 net assets with restrictions, 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 net assets without restrictions.

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 events 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 2019 or 2018, 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 \$210,942 and \$164,354 during the years ended June 30, 2019 and 2018, 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 2019 or 2018, 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 2016 through 2018 information returns are open and subject to examination. In management's judgment there are no uncertain tax positions as of June 30, 2019.

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 \$1,340,000 as of June 30, 2019. Four clients accounted for 81% of receivables at June 30, 2019. One donor accounted for 40% of total revenue and support during the year ended June 30, 2019. The Organization's credit customers consist primarily of members and grantors. The Organization does not require collateral for its accounts receivable.

Subsequent Events - Subsequent events have been evaluated through October 22, 2019, 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, 2019 and 2018, respectively:

	<u>2019</u>	<u>2018</u>
Furniture and equipment	\$ 103,425	\$ 103,425
Leasehold improvements	98,427	98,427
Database and website	<u>400,315</u>	<u>400,315</u>
Property and equipment at cost	602,167	602,167
Less: Accumulated depreciation	<u>(528,667)</u>	<u>(502,282)</u>
Net property and equipment	<u>\$ 73,500</u>	<u>\$ 99,885</u>

Depreciation expense was \$26,385 and \$27,000 for the years ended June 30, 2019 and 2018, respectively.

4. NET ASSETS WITH RESTRICTIONS

Net assets with restrictions consisted of the following at June 30, 2019 and 2018, respectively:

	<u>2019</u>	<u>2018</u>
Sponsorships for future years	\$ 250,000	\$ 310,000
Program	<u>332,754</u>	<u>182,662</u>
Total net assets with restrictions	<u>\$ 582,754</u>	<u>\$ 492,662</u>

5. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditures within one year at June 30, 2019 and 2018 consisted of the following

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 1,590,650	\$ 1,231,344
Accounts and contributions receivable, net	<u>133,551</u>	<u>201,550</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,724,201</u>	<u>\$ 1,432,894</u>

The Organization receives significant contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

The Organization has a liquidity policy to maintain current financial assets less current liabilities at a minimum of 90 days operating expenses. The Organization has a policy to target a year-end balance of reserves of unrestricted, undesignated net assets to meet 90 days of expected expenditures. To achieve these targets, the entity forecasts its future cash flows and monitors its liquidity quarterly, and monitors its reserves annually. During the years ended June 30, 2019 and 2018, the level of liquidity and reserves was managed within the policy requirements.

6. 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 may provide a discretionary contribution on behalf of the participants. The Organization contributed \$50,395 and \$69,384 to the Plan during the years ended June 30, 2019 and 2018, respectively.

7. OPERATING LEASES

The Organization leases office space at 1333 Broadway in Oakland, California. Rent expense including related overhead charges totaled \$290,349 and \$267,552 during the years ended June 30, 2019 and 2018, 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>	
2020	\$ 287,094
2021	295,707
2022	304,578
2023	<u>287,316</u>
Total	<u>\$ 1,174,695</u>

The Organization entered into a sublease for a portion of the office space described above. Rent income and overhead charges totaled \$68,359 during the year ended June 30, 2019. The Organization's sub-lease expires in June 2021. Future minimum cash receipts due under the lease are as follows:

<u>Year end June 30,</u>	
2020	\$ 54,036
2021	<u>55,657</u>
Total	<u>\$ 109,693</u>