

SECOND NATURE, INC.
FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

SECOND NATURE, INC.
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SIX MONTHS ENDED JUNE 30, 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Second Nature, Inc.
Boston, Massachusetts

We have audited the accompanying statement of financial position of Second Nature, Inc. (a nonprofit organization) as of June 30, 2012 and 2011 and the related statements of activities and cash flows for the twelve months ended June 30, 2012 and the six months ended June 30, 2011. These financial statements are the responsibility of the Organization's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Second Nature, Inc. as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the twelve months ended June 30, 2012 and the six months ended June 30, 2011 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2012, on our consideration of Second Nature, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 15 and 16 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole

Stanton & Co.

Stanton & Co.
October 19, 2012

SECOND NATURE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

ASSETS		
	<u>2012</u>	<u>2011</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 688,495	\$ 744,428
Short term investments	-	25,245
Accounts receivable	68,418	99,699
Grant receivable	50,000	-
Prepaid expenses	816	17,623
	<u>807,729</u>	<u>886,995</u>
FIXED ASSETS:		
Computer equipment	56,278	48,983
Office furniture & equipment	24,684	24,684
Accumulated depreciation	<u>(63,168)</u>	<u>(44,559)</u>
	<u>17,794</u>	<u>29,108</u>
OTHER ASSETS:		
Website design costs, net of accumulated amortization of \$18,187 in 2012 and \$12,320 in 2011	<u>1,013</u>	<u>6,880</u>
	<u>\$ 826,536</u>	<u>\$ 922,983</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 238,352	\$ 288,956
Accrued rent	<u>18,366</u>	<u>22,494</u>
	<u>256,718</u>	<u>311,450</u>
NET ASSETS:		
Unrestricted net assets	460,393	141,202
Temporarily restricted net assets	<u>109,425</u>	<u>470,331</u>
	<u>569,818</u>	<u>611,533</u>
	<u>\$ 826,536</u>	<u>\$ 922,983</u>

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

SECOND NATURE, INC.
STATEMENT OF ACTIVITIES
TWELVE MONTHS ENDED JUNE 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE:			
Grants and contributions	\$ 281,565	\$ 256,000	\$ 537,565
Consulting	89,161		89,161
Membership dues	1,168,836		1,168,836
Conference income	79,360		79,360
Miscellaneous income	567		567
Interest income	1,049		1,049
Satisfaction of program restrictions	616,906	(616,906)	-
TOTAL REVENUE	<u>2,237,444</u>	<u>(360,906)</u>	<u>1,876,538</u>
EXPENSES:			
Program development	1,654,049		1,654,049
Management and general	88,437		88,437
Fundraising	175,767		175,767
TOTAL EXPENSES	<u>1,918,253</u>	<u>-</u>	<u>1,918,253</u>
Change in net assets	319,191	(360,906)	(41,715)
Net assets, beginning of year	<u>141,202</u>	<u>470,331</u>	<u>611,533</u>
Net assets, end of year	<u>\$ 460,393</u>	<u>\$ 109,425</u>	<u>\$ 569,818</u>

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

SECOND NATURE, INC.
STATEMENT OF ACTIVITIES
SIX MONTHS ENDED JUNE 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE:			
Grants and contributions	\$ 250,669	\$ 5,000	\$ 255,669
Consulting	30,500		30,500
Membership dues	397,951		397,951
Conference income	41,495		41,495
Honoraria	2,834		2,834
Miscellaneous income	1,375		1,375
Interest income	106		106
Satisfaction of program restrictions	<u>343,013</u>	<u>(343,013)</u>	<u>-</u>
TOTAL REVENUE	<u>1,067,943</u>	<u>(338,013)</u>	<u>729,930</u>
EXPENSES:			
Program development	730,117		730,117
Management and general	34,217		34,217
Fundraising	<u>104,375</u>		<u>104,375</u>
TOTAL EXPENSES	<u>868,709</u>	<u>-</u>	<u>868,709</u>
Change in net assets	199,234	(338,013)	(138,779)
Net assets, beginning of year	<u>(58,032)</u>	<u>808,344</u>	<u>750,312</u>
Net assets, end of year	<u>\$ 141,202</u>	<u>\$ 470,331</u>	<u>\$ 611,533</u>

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

SECOND NATURE, INC.
STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED JUNE 30, 2012 AND SIX MONTHS ENDED JUNE 30, 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ (41,715)	\$ (138,779)
Non-cash items included in change in net assets-		
net cash used by operating activities:		
Depreciation expense	24,476	13,456
(Increase) decrease in operating assets:		
Accounts receivable	31,281	(70,920)
Grant receivable	(50,000)	15,000
Other receivable		69
Prepaid expenses	16,807	(15,566)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(50,604)	29,747
Accrued rent	(4,128)	(654)
Net cash used by operating activities	(73,883)	(167,647)
Cash flows from investing activities:		
Proceeds (purchase) of short term investment	25,245	(38)
Purchase of fixed assets	(7,295)	(882)
Net cash provided (used) by investing activities	17,950	(920)
Net decrease in cash	(55,933)	(168,567)
Cash and cash equivalents:		
Beginning of Year	744,428	912,995
End of Year	\$ 688,495	\$ 744,428

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

SECOND NATURE, INC.
NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2012 AND
SIX MONTHS ENDED JUNE 30, 2011

1. **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

Second Nature, Inc. (the "Organization") was incorporated on April 30, 1993 as a nonprofit organization. Its mission is to accelerate movement toward a sustainable future by serving and supporting senior college and university leaders in making healthy, just, and sustainable living the foundation of all learning and practice in higher education.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards for *Financial Statements of Not-For-Profit Organizations*. Under these professional standards, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets based upon the existence or absence of donor-imposed restrictions. The Organization has no permanently restricted net assets.

Cash Equivalents

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

Property and Equipment

Acquisitions of property and equipment in excess of \$500 are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method.

SECOND NATURE, INC.
NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2012 AND
SIX MONTHS ENDED JUNE 30, 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Website Design Costs

Website design costs are amortized on the straight-line basis over three years. Amortization expense for the twelve months ended June 30, 2012 and the six months ended June 30, 2011 was \$5,867 and \$3,200, respectively. Amortization of website design costs over the year ending June 30, 2013 will be \$1,013.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

The Organization's policy is to report as unrestricted support contributions with donor imposed restrictions when these restrictions are met in the same year that the contribution was received.

Income Taxes

The Organization is exempt from federal income taxes under section 501 (c) (3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements. There was no unrelated business income for the twelve months ended June 30, 2012 and the six months ended June 30, 2011.

SECOND NATURE, INC.
NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2012 AND
SIX MONTHS ENDED JUNE 30, 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes (continued)

The Organization has evaluated its uncertain tax positions against the criteria established by professional standards and believes there are no such tax positions requiring accounting recognition in the financials statements. The Organization does not believe their evaluation of tax positions will significantly change within twelve months of June 30, 2012. Any changes in uncertain tax position will be recorded when the ultimate outcome becomes known. The Organization's tax returns are subject to examination by taxing authorities generally for the twelve months ended June 30, 2012, December 31, 2010 and the six months ended June 30, 2011.

Accounts and Grants Receivable

Accounts and grants receivables are stated at the amount management expects to collect from outstanding balances. Management believes that all receivables are fully collectible; therefore, no allowance for uncollectible amounts has been recorded at June 30, 2012 and June 30, 2011.

Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Functional Expenses

Expenses that can be identified with a specific program or supporting service are allocated directly to those classifications. Other expenses that are common to several functions are allocated in accordance with the Organization's indirect costs allocation plan.

**SECOND NATURE, INC.
NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2012 AND
SIX MONTHS ENDED JUNE 30, 2011**

2. SHORT-TERM INVESTMENTS

Short-term investments consist of certificates of deposits with terms longer than ninety days. Investments are stated at cost, which approximates market.

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted assets at June 30, 2012 and June 30, 2011 represent grant funds available for the following purposes:

	<u>2012</u>	<u>2011</u>
Campaign for Environmental Literacy	\$ 98,802	\$ 86,311
Tompkins County Climate Protection	10,623	22,259
Kresge Grant	<u>-</u>	<u>361,761</u>
	<u>\$ 109,425</u>	<u>\$ 470,331</u>

4. CONCENTRATION OF RISK

Cash

The Organization maintains a bank account with a creditworthy, high quality financial institution whose total account balances at June 30, 2012 and June 30, 2011 exceeded the federally insured limit of \$250,000 by \$408,333, and \$513,520, respectively. However, the Organization has not experienced any such losses and management does not believe that there is a significant risk of loss.

Contributors

For the twelve months ended June 30, 2012 and the six months ended June 30, 2011 contributions from individually significant contributors, which are contributors donating \$5,000 or more, amounted to approximately 92% and 92%, respectively, of total contributions.

SECOND NATURE, INC.
NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2012 AND
SIX MONTHS ENDED JUNE 30, 2011

5. LETTER OF CREDIT

In October 2009 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 cannot be extended beyond September 24, 2014. The letter of credit is collateralized by a certificate of deposit. At June 30, 2012 and June 30, 2011 no amounts were drawn on the letter of credit.

6. RENT COMMITMENTS

On August 1, 2009 the Organization commenced a five year lease for new office space. The Organization was required to provide a letter of credit of \$25,000 in lieu of a security deposit. The lease provides for 3 months of free rent which is valued at \$22,661. This amount is included in accrued rent and will be amortized over the life of the lease. Rent expense amounted to \$89,367 and \$50,069 for the twelve months ended June 30, 2012 and the six months ended June 30, 2011, respectively. Future minimum lease payments for the next three years ending June 30 are as follows:

2013	96,669
2014	99,746
2015	<u>8,334</u>
Total	<u>\$204,749</u>

7. EMPLOYEE BENEFIT PLAN

In October 2008 the Organization offered 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 \$21,203 and \$8,196 for the twelve months ended June 30, 2012 and the six months ended June 30, 2011, respectively.

SECOND NATURE, INC.
NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2012 AND
SIX MONTHS ENDED JUNE 30, 2011

8. RELATED PARTY TRANSACTIONS

The Treasurer of the board also performs accounting services for the Organization and received compensation in the amount of \$44,250 and \$18,000 for the twelve months ended June 30, 2012 and the six months ended June 30, 2011, respectively.

9. SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 19, 2012 the date the financial statements were available to be issued.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of
Second Nature, Inc.

We have audited the financial statements of Second Nature, Inc. (a nonprofit organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Second Nature, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Second Nature, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Second Nature, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stanton & Co.

Stanton & Co.
October 19, 2012

SECOND NATURE, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
TWELVE MONTHS ENDED JUNE 30, 2012

	<u>Programs</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Staff salaries	\$ 569,915	\$ 43,208	\$ 79,730	\$ 692,853
Professional fees	446,633	3,561	7,078	457,272
Director's salaries	185,195	18,606	43,126	246,927
Employee benefits & payroll taxes	145,828	11,983	23,815	181,626
Rent	71,753	5,896	11,718	89,367
Travel, lodging, meals	93,127	-	-	93,127
Office costs	76,982	2,162	4,298	83,442
Conference & events	27,864	-	-	27,864
Depreciation	19,652	1,615	3,209	24,476
Utilities	14,038	1,154	2,293	17,485
Insurance	3,062	252	500	3,814
TOTAL	<u><u>\$ 1,654,049</u></u>	<u><u>\$ 88,437</u></u>	<u><u>\$ 175,767</u></u>	<u><u>\$ 1,918,253</u></u>

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

SECOND NATURE, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
SIX MONTHS ENDED JUNE 30, 2011

	<u>Programs</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Staff salaries	\$ 287,706	\$ 16,983	\$ 55,787	\$ 360,476
Professional fees	145,199	1,207	3,683	150,089
Director's salaries	74,978	7,154	17,839	99,971
Employee benefits & payroll taxes	65,849	4,206	12,829	82,884
Rent	39,438	2,625	8,006	50,069
Travel, lodging, meals	38,286	-	-	38,286
Office costs	31,270	800	2,439	34,509
Conference & events	28,714	-	-	28,714
Depreciation	10,599	705	2,152	13,456
Utilities	6,616	440	1,343	8,399
Insurance	1,462	97	297	1,856
TOTAL	<u><u>\$ 730,117</u></u>	<u><u>\$ 34,217</u></u>	<u><u>\$ 104,375</u></u>	<u><u>\$ 868,709</u></u>

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