

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
1% FOR THE PLANET, INC.
DECEMBER 31, 2017 AND 2016**

1% FOR THE PLANET, INC.

DECEMBER 31, 2017 AND 2016

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Independent Auditor's Report

To the Board of Directors of
1% for the Planet, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of 1% for the Planet, Inc., which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities 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.

Auditor's 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 of 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 1% for the Planet, Inc., as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information - schedules of functional expenses is presented for purposes of additional analysis and is 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 audits 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.

Gallagher, Flynn & Company, LLP

October 3, 2018

1% FOR THE PLANET, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 794,608	\$ 576,760
Accounts receivable	161,645	63,388
Pledges receivable	3,778	114,045
Prepaid expenses and other current assets	35,632	38,558
	<u>995,663</u>	<u>792,751</u>
PROPERTY AND EQUIPMENT, at cost, net	14,746	11,721
WEBSITE DEVELOPMENT COSTS, at cost, net	<u>33,906</u>	<u>46,500</u>
	<u>\$ 1,044,315</u>	<u>\$ 850,972</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 45,164	\$ 43,414
Accrued expenses	25,989	23,742
Deferred revenue	167,269	122,514
Total liabilities	<u>238,422</u>	<u>189,670</u>
NET ASSETS		
Unrestricted	717,948	517,257
Temporarily restricted	87,945	144,045
	<u>805,893</u>	<u>661,302</u>
	<u>\$ 1,044,315</u>	<u>\$ 850,972</u>

The accompanying notes are an integral part of these statements.

1% FOR THE PLANET, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES						
Corporate memberships	\$ 1,302,566	\$ -	\$ 1,302,566	\$ 1,011,126	\$ -	\$ 1,011,126
Contributions and foundation grants	533,347	37,945	571,292	473,389	144,045	617,434
Individual memberships	23,307	-	23,307	-	-	-
Other	13,532	-	13,532	4,685	-	4,685
Net assets released from restrictions	94,045	(94,045)	-	75,000	(75,000)	-
Total revenue	<u>1,966,797</u>	<u>(56,100)</u>	<u>1,910,697</u>	<u>1,564,200</u>	<u>69,045</u>	<u>1,633,245</u>
EXPENSES						
Program	<u>1,391,822</u>	<u>-</u>	<u>1,391,822</u>	<u>1,078,439</u>	<u>-</u>	<u>1,078,439</u>
Supporting:						
Fundraising	170,342	-	170,342	190,480	-	190,480
Management and general	203,942	-	203,942	137,584	-	137,584
Total supporting services	<u>374,284</u>	<u>-</u>	<u>374,284</u>	<u>328,064</u>	<u>-</u>	<u>328,064</u>
Total expenses	<u>1,766,106</u>	<u>-</u>	<u>1,766,106</u>	<u>1,406,503</u>	<u>-</u>	<u>1,406,503</u>
INCREASE (DECREASE) IN NET ASSETS	200,691	(56,100)	144,591	157,697	69,045	226,742
NET ASSETS, beginning of year	<u>517,257</u>	<u>144,045</u>	<u>661,302</u>	<u>359,560</u>	<u>75,000</u>	<u>434,560</u>
NET ASSETS, end of year	<u>\$ 717,948</u>	<u>\$ 87,945</u>	<u>\$ 805,893</u>	<u>\$ 517,257</u>	<u>\$ 144,045</u>	<u>\$ 661,302</u>

The accompanying notes are an integral part of these statements.

1% FOR THE PLANET, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
INCREASE IN CASH AND CASH EQUIVALENTS		
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 144,591	\$ 226,742
Noncash items included in increase in net assets:		
Depreciation and amortization	17,049	36,065
Changes in assets and liabilities:		
Accounts receivable	(98,257)	17,418
Pledges receivable	110,267	(96,881)
Prepaid expenses and other current assets	2,926	(13,483)
Accounts payable	1,750	(4,521)
Accrued expenses	2,247	(5,986)
Deferred revenue	44,755	(14,065)
Net cash provided by operating activities	<u>225,328</u>	<u>145,289</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(7,480)	(7,335)
Website development costs	<u>-</u>	<u>(46,500)</u>
Net cash used in investing activities	<u>(7,480)</u>	<u>(53,835)</u>
Net increase in cash and cash equivalents	217,848	91,454
CASH AND CASH EQUIVALENTS, beginning of year	<u>576,760</u>	<u>485,306</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 794,608</u>	<u>\$ 576,760</u>
<u>Supplemental Disclosures of Cash Flows Information</u>		
Cash paid during the year for:		
Interest expense	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

1% FOR THE PLANET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES

Operations:

1% for the Planet, Inc. (the “Organization”) is a Vermont nonprofit organization founded in 2001. Its mission is to build and support an alliance of businesses throughout the world that are financially committed to creating a healthy planet. The Organization carries out this mission by marketing to build visibility and demand for the “1% for the Planet” brand, building and maintaining partnerships to create opportunities to extend the Organization’s mission, adding new members to the Organization, and providing member services to matriculate and renew membership to the Organization and to certify member giving. Specifically, the Organization manages an association whose members commit to donating at least one percent of their annual revenues to approved third party not-for-profit organizations. The Organization licenses its trademarks to members in accordance with annual membership agreements, which automatically renew on an annual basis. The majority of members are corporations, however the Organization introduced individual memberships during 2017. The Organization works internationally with an independent chapter in France, whose operations are not under the control of the Organization but whose operations are funded by the Organization through a grant (see Note G). Revenues derived from foreign members and donors represent approximately 31% and 25% of total revenue in 2017 and 2016, respectively.

Accounting policies:

A summary of the Organization’s significant accounting policies applied in the preparation of the accompanying financial statements follows:

1. Basis of presentation

The financial statement presentation follows the requirements of Accounting Standards Codification (“ASC”) Topic 958 *Not-For-Profit Entities*. The Organization reports 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. The separate activities and balances of 1% for the Planet France (see Note G) are not required to be and are not consolidated in the Organization’s financial statements.

2. Cash and cash equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

1% FOR THE PLANET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (CONTINUED)

3. Revenue recognition

Corporate memberships

Corporate members receive significant benefits in exchange for dues, including the ability to use the Organization's logo. Therefore, corporate memberships are accounted for as exchange transactions and are recorded as revenue on a straight-line basis over the course of the related membership period. Revenues related to prepayments and advance billings are deferred until the period in which such amounts are earned.

The Organization charges new corporate members a standard one-time activation fee, the revenues and expenses of which are recognized at the time of activation rather than amortized over the average membership life as required by accounting principles generally accepted in the United States of America ("GAAP"). The effect of this departure from GAAP is not material to the change in net assets. Total activation revenues and related expenses approximated \$101,000 in 2017 and \$62,000 in 2016.

Individual memberships

Individual members receive de minimis value in exchange for their membership dues, therefore, individual membership revenues are accounted for as contributions, which are recognized as increases in unrestricted net assets at the time the annual membership period commences.

Contribution and grant revenues and pledges receivable

Contributions and grants are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Conditional promises to give are not recorded until the conditions are substantially met.

4. Receivables

Accounts receivable are stated at the amount the Organization expects to collect, and are recorded at the commencement of the respective membership period.

1% FOR THE PLANET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (CONTINUED)

4. Receivables (continued)

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected over periods in excess of one year would be recorded at the present value of the estimated cash flows beyond one year. The discounts on those amounts would be computed using risk-free interest rates applicable to the years in which the promises were received. As of December 31, 2017 and 2016, all of the Organization's pledges receivable are expected to be collected within one year.

The Organization maintains, if required, an allowance for doubtful accounts and pledges for estimated losses resulting from the inability of members or donors to make required payments. Management considers a member's or donor's individual circumstances when determining the collectability of pledges receivable. Based on management's assessment, the Organization provides for estimated uncollectible amounts through a charge to operations and a credit to a valuation allowance. Balances that remain outstanding after reasonable collection efforts are written off through a charge to the valuation allowance and a credit to pledges receivable. No related allowances were required at December 31, 2017 or 2016.

5. Property and equipment

The Organization records purchased property and equipment at cost. Donations of property and equipment are recorded as contributions at their estimated fair market value.

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. The straight-line method of depreciation is followed for substantially all assets.

6. Website development costs

The costs of website development are capitalized during the application development phase, which occurs once management has committed to fund the project and it is probable that the project will be completed for its intended use, and concludes upon demonstration of technological feasibility. Costs incurred prior to and after the application development phase are expensed as incurred. Capitalized costs are amortized on a straight-line basis over the economic life of the related project. The estimated useful life over which costs will be amortized is three years. Amortization expense was \$12,594 in 2017 and \$0 in 2016.

1% FOR THE PLANET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (CONTINUED)

7. Impairment of long-lived assets

Long-lived assets, such as property and equipment and website development costs, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows. An impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no charges to earnings related to impairment during 2017 or 2016.

8. Functional expenses and allocation of shared costs

Expenses are charged to program and supporting services based on direct expenses incurred. Common costs, including occupancy and fringe benefits, are allocated to program and supporting expenses based upon related utilization.

9. Income taxes

The Organization is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Accordingly, the Organization has not provided for income taxes in these financial statements.

Each year management considers whether any material tax position the Organization has taken is more likely than not to be sustained upon examination by the applicable taxing authority. Management believes that any positions the Organization has taken are supported by substantial authority and, therefore, do not need to be measured or disclosed in these financial statements. Tax returns for years subsequent to 2013 are subject to examination by tax authorities.

10. Use of estimates

In preparing financial statements in conformity with generally accepted accounting principles, 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

11. Recently issued accounting pronouncements

The Organization is currently evaluating the impact on its financial statements of adopting the following recently issued accounting pronouncements.

1% FOR THE PLANET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (CONTINUED)

11. Recently issued accounting pronouncements (continued)

Not-for-profit reporting standards

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. The most significant elements of the ASU will include reduction of net asset classes from three to two classes (unrestricted and donor restricted) and enhanced disclosures related to investments, financial liquidity, and expense allocation. The ASU is effective for the Organization for years beginning after December 15, 2017.

Revenue recognition

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides a robust framework for addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles. The revenue recognition policies of almost all entities will be affected by the new guidance in the ASU. The degree to which an entity's revenue recognition policies will change upon the adoption of the ASU, and the effects the changes will have on the entity's financial statements will vary depending on the nature and terms of the entity's revenue-generating transactions. In addition, entities in some industries likely will be affected by the new guidance in the ASU more than entities in other industries. Given the broad applicability and potentially significant ramifications of the guidance in the ASU, the FASB provided significantly delayed effective dates for its guidance. This ASU is effective for years beginning after December 15, 2018.

Leases

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 *Leases (Topic 842)*. This ASU was issued in three parts: (a) Section A, Leases: Amendments to the *FASB Accounting Standards Codification*, (b) Section B, Conforming Amendments Related to Leases: Amendments to the *FASB Accounting Standards Codification*, and (c) Section C, Background Information and Basis for Conclusions. While both lessees and lessors are affected by the new guidance which includes many changes, the effects on lessees are much more significant. The most significant change for lessees is the requirement to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases, affecting leases which were previously accounted for as operating leases. This ASU is effective for years beginning after December 15, 2019, and must be implemented using a modified retrospective approach.

1% FOR THE PLANET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (CONTINUED)

12. Evaluation of subsequent events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 3, 2018, the date the financial statements were available to be issued.

B) CONCENTRATIONS OF CREDIT RISK

The Organization maintains bank balances which, at times, may exceed federally insured limits. The Organization has not experienced any losses with these accounts. Management believes the Organization is not exposed to any significant credit risk on cash balances.

C) PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Computers and equipment	\$ 19,566	\$ 26,986
Furniture and fixtures	1,550	1,550
Leasehold improvements	<u>4,000</u>	<u>4,000</u>
	25,116	32,536
Less accumulated depreciation and amortization	<u>10,370</u>	<u>20,815</u>
	<u>\$ 14,746</u>	<u>\$ 11,721</u>

D) WEBSITE DEVELOPMENT COSTS

Website development costs consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Website development costs	\$ 46,500	\$ 46,500
Less accumulated amortization	<u>12,594</u>	<u>-</u>
	<u>\$ 33,906</u>	<u>\$ 46,500</u>

1% FOR THE PLANET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

E) TEMPORARILY RESTRICTED NET ASSETS

Net assets are temporarily restricted due to timing of availability of funds as follows at December 31:

	<u>2017</u>	<u>2016</u>
Pledges receivable - operating	\$ 3,778	\$ 114,045
Operating grants restricted for use in future years	<u>84,167</u>	<u>30,000</u>
	<u>\$ 87,945</u>	<u>\$ 144,045</u>

F) OPERATING LEASE COMMITMENT/SUBSEQUENT EVENT

The Organization had an operating lease for office space, which was scheduled to expire in August 2018. The lease currently requires monthly payments of \$3,450. Total rent expense charged to activities was approximately \$40,200 in 2017 and \$40,000 in 2016.

On April 1, 2018, the Organization amended its lease. The amended lease requires monthly payments of \$3,100 through March 2019.

G) RELATED PARTY TRANSACTIONS - FRENCH AFFILIATE

In 2014, the Organization founded a separate legal entity called 1% for the Planet France (hereafter referred to as “1% France”) that is governed by an independent board of directors and commenced operations in 2016. The purpose is to create autonomy for 1% France to operate under principles identical to the Organization and to assume the operations previously operated by the Organization. The chief executive officer of the Organization serves as a member of 1% France’s board of directors and has certain veto rights, as defined in the organizational documents.

As 1% France is legally unable to have “members,” the Organization enters into membership agreements directly with members in France. Total revenues from memberships in France were approximately \$296,000 in 2017 and \$155,000 in 2016.

In 2017, the operations of 1% France were funded by the Organization through a grant to 1% France of 100% of the collected memberships. In 2016, the Organization entered into a consulting agreement with a third party to assist with the operations in France for approximately \$76,000, which was paid by 1% France using cash collected from memberships. The net balance due as of December 31, 2016 from 1% France of approximately \$79,000 was granted to 1% France by the Organization and is included in program expenses in the accompanying 2016 statement of activities.

1% FOR THE PLANET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

H) RETIREMENT PLAN

The Organization sponsors a 403(b) retirement plan (the Plan) that covers substantially all of its employees. The Organization matches contributions up to 6% of each employee's eligible salary, as defined. The Organization's contributions to the Plan charged to activities were approximately \$34,600 in 2017 and \$32,200 in 2016.

SUPPLEMENTAL INFORMATION

1% FOR THE PLANET, INC.

SUPPLEMENTAL INFORMATION – SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Program Expenses	Supporting Expenses			Total Expenses
		Fundraising	Management and General	Total Supporting	
Salaries and wages	\$ 607,567	\$ 76,881	\$ 75,851	\$ 152,732	\$ 760,299
Employee benefits	236,461	29,922	29,521	59,443	295,904
Total personnel	844,028	106,803	105,372	212,175	1,056,203
Advertising and promotion	6,628	77	652	729	7,357
Bank and other transaction fees	18,898	2,811	1,565	4,376	23,274
Contract services	80,450	-	813	813	81,263
Facilities	33,780	4,223	4,223	8,446	42,226
Grant to affiliate	296,170	-	-	-	296,170
Legal and professional	850	12,000	73,441	85,441	86,291
Other	28,552	3,569	3,568	7,137	35,689
Telephone and internet	12,598	1,575	1,575	3,150	15,748
Travel	62,197	31,613	11,026	42,639	104,836
	1,384,151	162,671	202,235	364,906	1,749,057
Depreciation and amortization	7,671	7,671	1,707	9,378	17,049
Total	<u>\$ 1,391,822</u>	<u>\$ 170,342</u>	<u>\$ 203,942</u>	<u>\$ 374,284</u>	<u>\$ 1,766,106</u>

1% FOR THE PLANET, INC.

SUPPLEMENTAL INFORMATION – SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016

	Program Expenses	Supporting Expenses			Total Expenses
		Fundraising	Management and General	Total Supporting	
Salaries and wages	\$ 579,131	\$ 58,916	\$ 40,206	\$ 99,122	\$ 678,253
Employee benefits	193,222	19,657	13,414	33,071	226,293
Total personnel	772,353	78,573	53,620	132,193	904,546
Advertising and promotion	1,092	558	81	639	1,731
Bank and other transaction fees	10,928	1,020	1,716	2,736	13,664
Contract services	118,489	36,949	1,873	38,822	157,311
Facilities	27,981	6,847	7,385	14,232	42,213
Grant to affiliate	79,237	-	-	-	79,237
Legal and professional	-	-	49,520	49,520	49,520
Other	2,136	8,825	9,209	18,034	20,170
Telephone and internet	12,590	4,075	2,261	6,336	18,926
Travel	37,404	37,404	8,312	45,716	83,120
	1,062,210	174,251	133,977	308,228	1,370,438
Depreciation and amortization	16,229	16,229	3,607	19,836	36,065
Total	<u>\$ 1,078,439</u>	<u>\$ 190,480</u>	<u>\$ 137,584</u>	<u>\$ 328,064</u>	<u>\$ 1,406,503</u>