

**COMPASS WORKING CAPITAL, INC.**

**FINANCIAL STATEMENTS**

*with*

**INDEPENDENT AUDITORS' REPORT**

**YEAR ENDED AUGUST 31, 2018**

*(With Summarized Comparative Information for 2017)*

Smith  Sullivan  
& Brown PC  
CERTIFIED PUBLIC ACCOUNTANTS

80 Flanders Road, Suite 200  Westborough, Massachusetts 01581  
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**COMPASS WORKING CAPITAL, INC.**

**REPORT ON FINANCIAL STATEMENTS**

**YEAR ENDED AUGUST 31, 2018**

*(With Summarized Comparative Information for 2017)*

**Mission Statement**

*Compass Working Capital, Inc. (“Compass”) provides financial coaching and savings programs that support low-income families to build assets, achieve their financial goals, and become financially secure. Our broader vision is to build a leading, nonprofit financial services organization that promotes economic mobility and financial security for low-income families by influencing field-related practice and policy.*

COMPASS WORKING CAPITAL, INC.

REPORT ON FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2018

*(With Summarized Comparative Information for 2017)*

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Compass Working Capital, Inc.  
Boston, Massachusetts

We have audited the accompanying financial statements of Compass Working Capital, Inc. (a Massachusetts nonprofit organization), which comprise the statement of financial position as of August 31, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Organization'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 Compass Working Capital, Inc. as of August 31, 2018 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors  
Compass Working Capital, Inc.

**Report on Summarized Comparative Information**

We have previously audited Compass Working Capital, Inc.'s FY 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 13, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Smith, Sullivan & Brown, PC*

Westborough, Massachusetts  
December 12, 2018

COMPASS WORKING CAPITAL, INC.

STATEMENTS OF FINANCIAL POSITION AS OF AUGUST 31, 2018 AND 2017

**ASSETS**

|   | <u>2018</u>                | <u>2017</u>                |
|---|----------------------------|----------------------------|
| <b><u>CURRENT ASSETS:</u></b>                                     |                            |                            |
| Operating Cash  | \$ 646,046                 | \$ 784,292                 |
| Restricted Cash   | 942,884                    | 435,556                    |
| General Operating Reserve   | 293,061                    | -                          |
| Accounts Receivable, Program Services                             | 125,352                    | 131,261                    |
| Grants and Contributions Receivable                               | 461,154                    | 1,093,899                  |
| Prepaid Expenses, Deposits and Other Assets                       | 53,453                     | 22,971                     |
| Total Current Assets  | <u>2,521,950</u>           | <u>2,467,979</u>           |
| <b><u>PROPERTY, EQUIPMENT AND SOFTWARE, NET</u></b>               | <u>91,751</u>              | <u>136,494</u>             |
| <b><u>NON-CURRENT ASSETS:</u></b>                                 |                            |                            |
| Grants and Contributions Receivable, Non-Current, Net of Discount | <u>405,957</u>             | <u>240,442</u>             |
| Total Non-Current Assets  | <u>405,957</u>             | <u>240,442</u>             |
| <b><u>TOTAL ASSETS</u></b>  | <b><u>\$ 3,019,658</u></b> | <b><u>\$ 2,844,915</u></b> |

**LIABILITIES AND NET ASSETS**

|  |                            |                            |
|--|----------------------------|----------------------------|
| <b><u>CURRENT LIABILITIES:</u></b>             |                            |                            |
| Accounts Payable and Accrued Expenses          | \$ 39,824                  | \$ 109,594                 |
| Accrued Payroll and Related Costs              | 54,653                     | 33,983                     |
| Deferred Revenue                               | 27,667                     | 25,833                     |
| Total Current Liabilities                      | <u>122,144</u>             | <u>169,410</u>             |
| <b><u>NET ASSETS:</u></b>                      |                            |                            |
| Unrestricted Net Assets                        | 1,101,219                  | 905,608                    |
| Temporarily Restricted Net Assets              | <u>1,796,295</u>           | <u>1,769,897</u>           |
| Total Net Assets                               | <u>2,897,514</u>           | <u>2,675,505</u>           |
| <b><u>TOTAL LIABILITIES AND NET ASSETS</u></b> | <b><u>\$ 3,019,658</u></b> | <b><u>\$ 2,844,915</u></b> |

COMPASS WORKING CAPITAL, INC.

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2018  
*(With Summarized Comparative Totals for 2017)*

|   | <u>UNRESTRICTED</u>        | <u>TEMPORARILY<br/>RESTRICTED</u> | <u>2018</u>                | <u>TOTAL ACTIVITIES<br/>2017</u> |
|---|----------------------------|-----------------------------------|----------------------------|----------------------------------|
| <b><u>SUPPORT, REVENUES AND RECLASSIFICATIONS:</u></b>      |                            |                                   |                            |                                  |
| <i>Program Service Revenues:</i>                            |                            |                                   |                            |                                  |
| Financial Coaching Programs                                 | \$ 1,074,510               | \$ -                              | \$ 1,074,510               | \$ 840,057                       |
| Total Program Service Revenues                              | <u>1,074,510</u>           | <u>-</u>                          | <u>1,074,510</u>           | <u>840,057</u>                   |
| <i>Gifts, Grants, and Contributions:</i>                    |                            |                                   |                            |                                  |
| Contributions, Foundation and Corporate Grants              | 615,778                    | 1,332,070                         | 1,947,848                  | 1,519,738                        |
| Change in Discount Applied to Non-Current Receivables       | -                          | 6,039                             | 6,039                      | (40,484)                         |
| Proceeds from Fund Raising Event                            | 189,746                    | -                                 | 189,746                    | 164,353                          |
| Less: Cost of Direct Benefits to Donors                     | (29,141)                   | -                                 | (29,141)                   | (36,468)                         |
| Donated Property, Equipment and Software                    | 14,747                     | -                                 | 14,747                     | 40,906                           |
| In-Kind Legal Services, Professional Fees and Supplies      | <u>70,730</u>              | <u>-</u>                          | <u>70,730</u>              | <u>80,470</u>                    |
| Total Gifts, Grants, and Contributions                      | <u>861,860</u>             | <u>1,338,109</u>                  | <u>2,199,969</u>           | <u>1,728,515</u>                 |
| <i>Other Revenues:</i>                                      |                            |                                   |                            |                                  |
| Interest and Other Income                                   | <u>45,951</u>              | <u>-</u>                          | <u>45,951</u>              | <u>16,187</u>                    |
| Total Other Revenues  | <u>45,951</u>              | <u>-</u>                          | <u>45,951</u>              | <u>16,187</u>                    |
| <i>Reclassification of Net Assets:</i>                      |                            |                                   |                            |                                  |
| Net Assets Released from Restriction                        | <u>1,311,711</u>           | <u>(1,311,711)</u>                | <u>-</u>                   | <u>-</u>                         |
| <b><u>TOTAL SUPPORT, REVENUES AND RECLASSIFICATIONS</u></b> | <b><u>3,294,032</u></b>    | <b><u>26,398</u></b>              | <b><u>3,320,430</u></b>    | <b><u>2,584,759</u></b>          |
| <b><u>EXPENSES BEFORE IN-KIND SERVICES:</u></b>             |                            |                                   |                            |                                  |
| Program Services  | 2,380,666                  | -                                 | 2,380,666                  | 2,116,667                        |
| Administrative  | 253,630                    | -                                 | 253,630                    | 209,514                          |
| Fund Raising  | <u>393,394</u>             | <u>-</u>                          | <u>393,394</u>             | <u>318,772</u>                   |
| <b><u>TOTAL EXPENSES BEFORE IN-KIND SERVICES</u></b>        | <b><u>3,027,691</u></b>    | <b><u>-</u></b>                   | <b><u>3,027,691</u></b>    | <b><u>2,644,953</u></b>          |
| In-Kind Legal Services, Professional Fees and Supplies      | <u>70,730</u>              | <u>-</u>                          | <u>70,730</u>              | <u>80,470</u>                    |
| <b><u>TOTAL EXPENSES</u></b>                                | <b><u>3,098,421</u></b>    | <b><u>-</u></b>                   | <b><u>3,098,421</u></b>    | <b><u>2,725,423</u></b>          |
| <b><u>CHANGE IN NET ASSETS</u></b>                          | <b><u>195,611</u></b>      | <b><u>26,398</u></b>              | <b><u>222,009</u></b>      | <b><u>(140,664)</u></b>          |
| <b><u>NET ASSETS - BEGINNING OF YEAR</u></b>                | <b><u>905,608</u></b>      | <b><u>1,769,897</u></b>           | <b><u>2,675,505</u></b>    | <b><u>2,816,169</u></b>          |
| <b><u>NET ASSETS - END OF YEAR</u></b>                      | <b><u>\$ 1,101,219</u></b> | <b><u>\$ 1,796,295</u></b>        | <b><u>\$ 2,897,514</u></b> | <b><u>\$ 2,675,505</u></b>       |

COMPASS WORKING CAPITAL, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED AUGUST 31, 2018

*(With Summarized Comparative Totals for 2017)*

|  | <u>PROGRAM</u><br><u>SERVICES</u> | <u>ADMINI-</u><br><u>STRATIVE</u> | <u>FUND</u><br><u>RAISING</u> | <u>TOTAL</u><br><u>FUNCTIONAL EXPENSES</u> |                            |
|--|-----------------------------------|-----------------------------------|-------------------------------|--|----------------------------|
|  |                                   |                                   |                               | <u>2018</u>                                | <u>2017</u>                |
| Salaries and Wages   | \$ 1,484,422                      | \$ 157,564                        | \$ 277,502                    | \$ 1,919,488                               | \$ 1,553,845               |
| Payroll Taxes  | 126,105                           | 13,476                            | 23,441                        | 163,022                                    | 138,072                    |
| Employee Benefits  | 137,845                           | 14,450                            | 25,696                        | 177,990                                    | 139,998                    |
| Staff Development and Training                                   | 34,911                            | 1,688                             | 2,615                         | 39,214                                     | 40,953                     |
| Contracted Evaluation and Research Services                      | 78,125                            | -                                 | -                             | 78,125                                     | 221,750                    |
| Rent and Utilities   | 112,760                           | 10,375                            | 14,173                        | 137,309                                    | 116,913                    |
| Insurance  | 7,091                             | 2,356                             | 465                           | 9,913                                      | 7,045                      |
| Marketing/Outreach   | 7,310                             | -                                 | 1,308                         | 8,618                                      | 20,961                     |
| Depreciation Expense   | 48,932                            | 4,679                             | 6,385                         | 59,996                                     | 55,432                     |
| Conferences, Meetings and Travel                                 | 58,707                            | 538                               | 298                           | 59,543                                     | 61,165                     |
| Fundraising Events   | -                                 | -                                 | 11,629                        | 11,629                                     | -                          |
| Workshops  | 4,476                             | -                                 | -                             | 4,476                                      | 8,003                      |
| Other Program Activities   | 13,237                            | -                                 | -                             | 13,237                                     | 16,728                     |
| Accounting, Bookkeeping, and Audit Fees                          | -                                 | 14,182                            | -                             | 14,182                                     | 19,127                     |
| Information Technology Services                                  | 69,440                            | 11,592                            | 7,992                         | 89,024                                     | 48,869                     |
| Other Professional Fees  | 120,318                           | 10,934                            | 8,767                         | 140,020                                    | 128,850                    |
| Supplies and Equipment   | 17,011                            | 833                               | 1,218                         | 19,062                                     | 11,331                     |
| Telecommunications, Computers, and Software                      | 38,857                            | 3,341                             | 4,568                         | 46,767                                     | 27,421                     |
| Postage and Printing   | 16,380                            | 2,309                             | 2,478                         | 21,167                                     | 14,046                     |
| Bank Fees, Filing Fees and Dues                                  | 4,573                             | 5,297                             | 4,839                         | 14,709                                     | 13,904                     |
| Miscellaneous  | <u>165</u>                        | <u>17</u>                         | <u>22</u>                     | <u>203</u>                                 | <u>540</u>                 |
| <b>Total Functional Expenses Before In-Kind Services</b>         | <b>2,380,666</b>                  | <b>253,630</b>                    | <b>393,394</b>                | <b>3,027,691</b>                           | <b>2,644,953</b>           |
| In-Kind Legal Services, Professional Fees and Supplies           | <u>1,350</u>                      | <u>65,343</u>                     | <u>4,037</u>                  | <u>70,730</u>                              | <u>80,470</u>              |
| <b>Total Functional Expenses per the Statement of Activities</b> | <b>2,382,017</b>                  | <b>318,973</b>                    | <b>397,431</b>                | <b>3,098,421</b>                           | <b>2,725,423</b>           |
| Cost of Direct Benefits to Donors                                | <u>-</u>                          | <u>-</u>                          | <u>29,141</u>                 | <u>29,141</u>                              | <u>36,468</u>              |
| <b>Total Functional Expenses</b>                                 | <b><u>\$ 2,382,017</u></b>        | <b><u>\$ 318,973</u></b>          | <b><u>\$ 426,572</u></b>      | <b><u>\$ 3,127,562</u></b>                 | <b><u>\$ 2,761,891</u></b> |



COMPASS WORKING CAPITAL, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017

|   | <u>2018</u>                | <u>2017</u>                |
|---|----------------------------|----------------------------|
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>                                     |                            |                            |
| Change in Net Assets  | \$ 222,009                 | \$ (140,664)               |
| <i>Adjustments to Reconcile the Above to Net Cash Provided by Operating Activities:</i> |                            |                            |
| Depreciation Expense  | 59,996                     | 55,432                     |
| Donated Property, Equipment and Software  | (14,747)                   | (40,906)                   |
| Change in Discount on Pledges Receivable  | 6,039                      | (40,484)                   |
| <i>(Increase) Decrease in Current Assets:</i>   |                            |                            |
| Accounts Receivable, Program Services   | 5,909                      | (47,949)                   |
| Grants and Contributions Receivable   | 632,745                    | (563,955)                  |
| Prepaid Expenses, Deposits and Other Assets   | (30,482)                   | (5,959)                    |
| <i>Increase (Decrease) in Current Liabilities:</i>                                      |                            |                            |
| Accounts Payable and Accrued Expenses   | (69,770)                   | 46,064                     |
| Accrued Payroll and Related Costs   | 20,670                     | (1,565)                    |
| Deferred Revenue  | 1,834                      | 18,170                     |
| <i>(Increase) Decrease in Non-Current Assets:</i>                                       |                            |                            |
| Grants and Contributions Receivable, Non-Current  | (171,554)                  | 1,001,629                  |
| Net Adjustment  | <u>440,641</u>             | <u>420,477</u>             |
| <b><u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b>                                 | <b><u>662,650</u></b>      | <b><u>279,813</u></b>      |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>                                     |                            |                            |
| Purchase of Property, Equipment and Software  | (506)                      | (12,449)                   |
| Net Cash Flows from Investing Activities  | <u>(506)</u>               | <u>(12,449)</u>            |
| <b><u>NET INCREASE IN CASH BALANCES</u></b>   | <b>662,143</b>             | <b>267,364</b>             |
| <b><u>CASH - BEGINNING OF YEAR</u></b>  | <b><u>1,219,848</u></b>    | <b><u>952,484</u></b>      |
| <b><u>CASH - END OF YEAR</u></b>  | <b><u>\$ 1,881,991</u></b> | <b><u>\$ 1,219,848</u></b> |
| <br><i>Supplemental Disclosures :</i>   |                            |                            |
| Property Acquired by In-Kind Donation   | <u>\$ 14,747</u>           | <u>\$ 40,906</u>           |
| <br><i>Cash Balances :</i>  |                            |                            |
| Operating Cash  | \$ 646,046                 | \$ 784,292                 |
| Restricted Cash   | 942,884                    | 435,556                    |
| General Operating Reserve   | 293,061                    | -                          |
| Total Cash Balances   | <u>\$ 1,881,991</u>        | <u>\$ 1,219,848</u>        |

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

*(With Summarized Comparative Information for 2017)*

NOTE 1     ORGANIZATION

Compass Working Capital, Inc. (“Compass” or the “Organization”) was incorporated on December 30, 2005 under the provisions of Massachusetts General Laws Chapter 180 and qualifies as a tax-exempt not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code. Compass Working Capital, Inc. has been classified as an organization which is not a private foundation under IRC Section 509(a); accordingly, contributions made to this Organization qualify for the maximum charitable deduction for federal income tax purposes.

NOTE 2     PROGRAM SERVICES

Compass Working Capital, Inc. provides financial coaching and savings programs that support low-income families to build assets, achieve their financial goals, and become financially secure. Our broader vision is to build a leading, nonprofit financial services organization that promotes economic mobility and financial security for low-income families by influencing field-related practice and policy.

Compass’ work builds on the research and practice of a broader asset-building field, which has demonstrated the importance of supporting families with low incomes to build savings and assets as a pathway out of poverty. Key program services are summarized below.

**Family Self-Sufficiency (FSS) Program:**

In 2010, Compass became the first nonprofit organization in the country to launch an asset-building and financial capability model for the Family Self-Sufficiency (“FSS”) program, a historically underutilized federal housing program offered through the U.S. Department of Housing and Urban Development (“HUD”). The federal government established the FSS program in 1990 to help boost employment and savings for recipients of federal housing assistance. In order to ease the rent burden, eligible low-income families typically pay 30% of their income toward rent. This structure inadvertently discourages some residents from increasing their work hours and earnings since they worry about paying more rent and losing other benefits if their income increases. The FSS model changes the incentive structure by allowing participants to capture their increased rent payments in a savings account, held by the housing authority, which can be accessed upon completion of the program. Participants can utilize their savings to achieve their financial goals.

The Compass FSS model integrates financial coaching and asset building strategies into the traditional FSS model, with the goal of promoting economic mobility and financial security for participating families. The first public-private model of its kind in the country, the Compass FSS program is currently offered through partnerships with public housing authorities and nonprofit housing organizations in Massachusetts, Connecticut, and Rhode Island. The Compass FSS program has attracted local and national attention as a scalable, housing-based model to help families with low incomes build assets, achieve their goals, and become financially secure.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

*(With Summarized Comparative Information for 2017)*

*(Continued)*

NOTE 2 *(Continued)*

**National Network:**

In September 2016, Compass launched a National FSS Network to expand the scope and impact of the FSS program around the country. The network provides training and technical assistance to mission aligned partners around the country that are interested in implementing core aspects of the Compass FSS program model in their own local communities. Current network partners include public housing authorities, private affordable housing owners, and nonprofit organizations.

**Financial Coaching Programs:**

Compass provides contract-based financial coaching programs to help other community organizations integrate asset building into their work. These programs also provide an earned revenue stream for the Organization.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies which affect significant elements of the Organization's financial statements are described below to enhance the usefulness of the financial statements to the reader. The preparation 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; however, adherence to generally accepted accounting principles has, in management's opinion, resulted in reliable and consistent financial reporting by the Organization.

**Basis of Accounting:**

The Organization's policy is to maintain its books and prepare its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when a liability has been incurred.

**Financial Statement Presentation:**

As required by the *FASB Accounting Standards Codification*<sup>TM</sup>, 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.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

(With Summarized Comparative Information for 2017)

(Continued)

NOTE 3 (Continued)

These classifications are related to the existence or absence of donor-imposed restrictions as listed below:

*Unrestricted Net Assets* - consists of assets, public support and program revenues which are available and used for operations, programs, and capital expenditures. Unrestricted net assets represents the portion of net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Contributions are considered available for unrestricted use unless specifically restricted by the donor. In addition, unrestricted net assets of the Organization includes funds which represent unrestricted resources designated by the Board of Directors for specific purposes.

*Temporarily Restricted Net Assets* - includes funds with donor-imposed restrictions which permit the Organization to expend the assets as specified and is satisfied either by the passage of time or by actions of the Organization. Resources of this nature originate from gifts, grants, bequests, contracts and investment income earned on restricted funds.

*Permanently Restricted Net Assets* - includes resources which have a permanent donor-imposed restriction which stipulates that the assets are to be maintained permanently, but permits the Organization to expend part or all of the income derived from the donated assets. For the years presented, the Organization did not have any assets of this nature.

The accompanying financial statements include certain FY 2017 comparative information. With respect to the Statement of Activities, such prior year information is not presented by net class and in the Statement of Functional Expenses, FY 2017 expenses by line item are in total rather than by functional category. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended August 31, 2017, from which the summarized information was derived.

**Accounts Receivable, Program Services:**

*Accounts Receivable, Program Services* represent amounts due in connection with training and consulting services, and from housing authorities pursuant to FSS contracts. These amounts are considered fully collectible by management; accordingly, these financial statements do not contain a provision for uncollectible receivables. If amounts are determined to be uncollectible in subsequent periods, an allowance will be established at that time. The Organization did not experience any loss on uncollectible receivables for the years presented.

**Grants and Contributions Receivable:**

*Grants Receivable* and *Contributions Receivable* represent the balance due on multi-year commitments. Amounts scheduled for receipt within one year are reported as current, and amounts are reported as non-current when the expected date of receipt exceeds one year. Promises to give with expected payment dates that extend beyond one year are discounted to their present value when such amounts are considered material.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

*(With Summarized Comparative Information for 2017)*

*(Continued)*

NOTE 3 *(Continued)*

Management believes that all receivables are fully collectible, and therefore, no allowance for doubtful amounts has been established. If amounts are determined to be uncollectible in subsequent periods, an allowance will be established at that time. The Organization did not experience any loss on uncollectible grants or contributions for the years presented.

**Property, Equipment and Software:**

Property, equipment and software purchases in excess of \$5,000 are capitalized at cost, if purchased, or if donated, at fair value at the date of receipt. Expenditures for maintenance, repairs and renewals are charged to expense as incurred, whereas, major betterments are capitalized as additions to property and equipment. Depreciation of equipment and software is computed using the straight-line method and is charged to activities over the estimated useful lives of the assets, as expressed in terms of years.

**Deferred Revenue and Revenue Recognition:**

For the years presented, the Organization received funds in advance on coaching, training and consultation contracts, and annual license fees for national network members, which are included in *Deferred Revenue* in the accompanying Statement of Financial Position. Revenue related to these contracts is recognized as the services are rendered, and license fees are recognized ratably over the membership year.

**Contributions, Gifts and Grants:**

As required by the *FASB Accounting Standards Codification*<sup>TM</sup>, contributions are required to be recorded as receivables and revenues and the Organization is required to distinguish between contributions received for each net asset category in accordance with donor imposed restrictions. Contributions may include gifts of cash, collection items, or promises to give.

Contributions, including unconditional promises to give, are recognized at fair value as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions of assets other than cash are reported at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved when such amounts are considered material.

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction until the restriction expires, at which time temporarily restricted net assets are reclassified to unrestricted net assets.

**In-Kind Goods and Services:**

As required by the *FASB Accounting Standards Codification*<sup>TM</sup>, the Organization maintains a policy whereby the value of the donated goods and services which require a specialized skill; and/or which would have otherwise been purchased by the Organization are recognized as revenue on the Statement of Activities and are reported as expenses on the Statement of Functional Expenses or capitalized on the Statement of Financial Position.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

*(With Summarized Comparative Information for 2017)*

*(Continued)*

NOTE 3 *(Continued)*

**Functional Expenses:**

Compass Working Capital, Inc. allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated according to the Organization's cost allocation plan as well as other payroll and level-of-effort based formulas. Supporting services are those related to operating and managing Compass Working Capital, Inc. and its programs on a day-to-day basis. Supporting services have been sub-classified as follows:

*Administrative* - includes all activities related to Compass Working Capital, Inc.'s internal management and accounting for program services.

*Fund Raising* - includes all activities related to maintaining contributor information, writing grant proposals, costs of special events, distribution of materials and other similar projects related to the procurement of funds for Compass Working Capital, Inc.'s programs.

**Recent Accounting Guidance:**

In August 2016, the FASB issued ASC Update No. 2016-14, (Topic 958) *Presentation of Financial Statements of Not-for-Profit Entities*, with the goal of improving not-for-profit financial statements to provide more useful information to donors, grantors, creditors, and other financial statement users. The new guidance simplifies and improves how not-for-profit entities classify net assets as well as the information presented in financial statements and notes about the function and nature of expenses, liquidity, financial performance, and cash flows. This guidance will be effective for this Organization beginning on September 1, 2018 and is not expected to have a material effect on the Organization's financial position or change in net assets.

In May 2014, the FASB issued ASC Update No. 2014-09, (Topic 606) *Revenue from Contracts with Customers*. This ASU is a comprehensive new revenue recognition model that requires an organization to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This updated guidance impacts non-for-profit entities that have revenue transactions other than contributions. In August 2015, the FASB issued ASC Update No. 2015-14, (Topic 606) *Revenue from Contracts with Customers*, which deferred the effective date of ASC Update No. 2014-09 by one year. This guidance will be effective for this Organization beginning on September 1, 2019 and is not expected to have a material effect on the Organization's financial position or change in net assets.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

*(With Summarized Comparative Information for 2017)*

*(Continued)*

NOTE 4 GRANTS AND CONTRIBUTIONS RECEIVABLE

As of August 31, 2018 and 2017, non-current grants and contributions receivable, discounted to fair value at a rate ranging from 2.74% to 6.63%, were due for collection as follows:

| <u>Year to be Paid</u> | <u>2018</u>      | <u>2017</u>      |
|------------------------|------------------|------------------|
| FY 2019                | \$ -             | \$ 36,834        |
| FY 2020                | 283,126          | 89,231           |
| FY 2021                | 157,490          | 146,122          |
| FY 2022                | <u>3,125</u>     | <u>-</u>         |
| Total Pledges          | 443,741          | 272,187          |
| Less: Discount         | <u>(37,784)</u>  | <u>(31,745)</u>  |
| Total                  | <u>\$405,957</u> | <u>\$240,442</u> |

NOTE 5 PROPERTY, EQUIPMENT AND SOFTWARE

The following is a summary of the Organization's property, equipment and software as of August 31, 2018 and 2017:

| <u>Asset Category</u>   | <u>Est.<br/>Life</u> | <u>Cost</u>      | <u>Accum.<br/>Deprn.</u> | <u>Net Book Value</u> |                  |
|-------------------------|----------------------|------------------|--------------------------|-----------------------|------------------|
|                         |                      |                  |                          | <u>2018</u>           | <u>2017</u>      |
| Leasehold Improvements  | 5                    | \$ 61,177        | \$ 26,156                | \$35,021              | \$ 47,256        |
| Software                | 2 - 3                | 104,537          | 101,218                  | 3,319                 | 32,793           |
| Furniture and Equipment | 5                    | <u>100,031</u>   | <u>46,620</u>            | <u>53,411</u>         | <u>56,445</u>    |
| Total                   |                      | <u>\$265,745</u> | <u>\$173,994</u>         | <u>\$91,751</u>       | <u>\$136,494</u> |

NOTE 6 TEMPORARILY RESTRICTED NET ASSETS

As of August 31, 2018 and 2017, temporarily restricted net assets reflect grants and donations restricted for the following donor-specified purposes:

| <u>Nature of Restriction</u>   | <u>2018</u>        | <u>2017</u>        |
|--------------------------------|--------------------|--------------------|
| Direct FSS Service Sites*      | \$ 721,571         | \$ 102,236         |
| National FSS Network           | 745,732            | 992,477            |
| Advisory Council Participation | -                  | 2,222              |
| Data Security and Analysis     | 26,954             | 94,937             |
| Time Restricted                | <u>302,038</u>     | <u>578,025</u>     |
| Total                          | <u>\$1,796,295</u> | <u>\$1,769,897</u> |

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

*(With Summarized Comparative Information for 2017)*

*(Continued)*

NOTE 6     *(Continued)*

For the years presented, net assets were released from restriction for the following programs and purposes:

| <u>Nature of Restriction</u>   | <u>2018</u>        | <u>2017</u>        |
|--------------------------------|--------------------|--------------------|
| Direct FSS Service Sites*      | \$ 203,236         | \$ 308,756         |
| National FSS Network           | 696,745            | 552,533            |
| Advisory Council Participation | 2,222              | 17,778             |
| Data Security and Analysis     | 67,983             | 15,063             |
| Lapse of Time Restrictions     | <u>341,525</u>     | <u>486,602</u>     |
| Total                          | <u>\$1,311,711</u> | <u>\$1,380,732</u> |

\*Amounts included in temporarily restricted net assets for the Direct FSS Service Sites includes amounts restricted by donors for a specific FSS site.

NOTE 7     MAJOR SOURCES OF FUNDING

**Fee-for-Service Partnerships:**

In FY 2018, Compass had eight (seven in FY 2017) written agreements (e.g. Memorandums of Understanding or Professional Services Agreements) with public housing authorities, nonprofit housing agencies, and other nonprofit organizations that provide contract funding to Compass to support the FSS program or other financial coaching programs. These partnerships provide a strong and growing earned revenue stream for the organization. Six of these agreements represent multi-year agreements, with the remaining funding contingent upon Compass' ability to meet enrollment and performance targets. For the years ended August 31, 2018 and 2017, revenue from these partnerships totaled \$1,074,510 and \$840,057, respectively.

**Conditional Grants and Donor Intentions:**

During the years presented, the Organization was notified that three donors intend to fund multi-year grants to Compass through donor-advised funds. Amounts paid to Compass, and recognized as revenue, under these multi-year gifts totaled \$750,000 and \$500,000, respectively, for the years ended August 31, 2018 and 2017. The remaining payments totaling \$950,000 are expected to be received as follows: \$350,000 in FY 2019, \$350,000 in FY 2020, and \$250,000 in FY 2021.

During the year ended August 31, 2018, the Organization was awarded a multi-year grant from the GreenLight Fund totaling \$600,000, with \$400,000 in funding that is conditional upon continued partnership with the Philadelphia Housing Authority. Amounts paid to Compass under this grant totaled \$150,000 during FY 2018 with \$50,000 included in *Grants and Contributions Receivable* as of August 31, 2018. The remaining payments totaling \$450,000, are expected to be received as follows: \$200,000 in FY 2019, \$175,000 in FY 2020, \$62,500 in FY 2021, and \$12,500 in FY 2022.

During the year ended August 31, 2018, the Organization was awarded a multi-year grant from the Michael and Susan Dell Foundation totaling \$400,000, with \$200,000 recognized as revenue during FY 2018 and \$200,000 in funding that is conditional upon continued partnership with the Boston Housing Authority. The payments are expected to be received as follows: \$200,000 in FY 2019 and \$200,000 in FY 2020.



COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

*(With Summarized Comparative Information for 2017)*

*(Continued)*

NOTE 7     *(Continued)*

As of August 31, 2018 and 2017, the aggregate conditional amount of the above commitments was \$1,550,000 and \$800,000, respectively. As the terms of the conditions had not been met, the support has not been recognized in the accompanying financial statements.

NOTE 8     IN-KIND GOODS AND SERVICES

Compass Working Capital, Inc. receives volunteer involvement in the direct service, outreach and administrative capacities of the Organization. For the years ended August 31, 2018 and 2017, the Organization recognized the following in-kind contributions in its financial statements:

| <u>Description</u>                     | <u>2018</u>     | <u>2017</u>      |
|--|-----------------|------------------|
| Legal Services                         | \$65,323        | \$ 79,170        |
| Office Equipment, Furniture and Other* | 14,747          | 40,906           |
| Supplies                               | 5,407           | -                |
| Professional Fees                      | -               | 1,300            |
| Total                                  | <u>\$85,477</u> | <u>\$121,376</u> |

\*For the years presented, Office Equipment, Furniture and Other represents donated goods that were capitalized and included in *Property, Equipment and Software* in the accompanying Statements of Financial Position.

NOTE 9     COMMITMENTS

**Boston Office:**

The Organization occupies office space within the NonProfit Center in Boston, Massachusetts under a lease agreement with Third Sector New England ("TSNE"). In April 2017, the Organization amended the lease agreement with TSNE to expand its office space and extend the lease term through September 2022. Monthly payments under the amended agreement range from \$7,358 to \$8,093. Rent expense related to the Boston office was \$91,551 and \$76,589, for the years ended August 31, 2018 and 2017, respectively, and is included in *Rent and Utilities* in the accompanying Statement of Functional Expenses.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

*(With Summarized Comparative Information for 2017)*

*(Continued)*

NOTE 9     *(Continued)*

**Lynn Office:**

The Organization occupies office space in Lynn, Massachusetts under a five-year lease agreement that expires in August 2019. For the years presented, monthly rent expense ranged from \$2,153 to \$2,313.

Future minimum payments for the remainder of the non-cancellable agreements are as follows:

| <u>Fiscal Year Ended</u> | <u>Boston<br/>Facility</u> | <u>Lynn<br/>Facility</u> | <u>Total<br/>Obligation</u> |
|--------------------------|----------------------------|--------------------------|-----------------------------|
| August 31, 2019          | \$ 91,233                  | \$27,818                 | \$119,051                   |
| August 31, 2020          | 93,931                     | -                        | 93,931                      |
| August 31, 2021          | 96,874                     | -                        | 96,874                      |
| August 31, 2022          | 97,119                     | -                        | 97,119                      |
| August 31, 2023          | <u>8,093</u>               | <u>-</u>                 | <u>8,093</u>                |
| Total                    | <u>\$387,250</u>           | <u>\$27,818</u>          | <u>\$415,068</u>            |

NOTE 10     EMPLOYEE RETIREMENT PLAN

Effective February 2016, Compass converted its 403(b) retirement savings plan to a qualified 401(k) retirement plan (the "Plan"). The Plan allows eligible employees of the Organization to defer a percentage of their earnings from current taxation. Under the Plan, Compass makes a matching contribution of up to 3% of gross salary for each employee who contributes to the plan. For the years ended August 31, 2018 and 2017, the employer contributions to the Plan were \$47,440 and \$37,870, respectively, and are included in *Employee Benefits* on the accompanying Statement of Functional Expenses.

NOTE 11     EMPLOYMENT ARRANGEMENT

Effective January 1, 2016, Compass entered into a co-employment agreement with TriNet for the purpose of outsourcing the Organization's human resource function, including employee benefits administration, payroll processing, tax remittance and reporting and workers compensation coverage. Accordingly, TriNet became the employer of record, while Compass continues to direct the day-to-day duties and activities of its employees. For purposes of financial and tax reporting, Compass continues to report and track the components of its personnel costs, maintaining the integrity of the specific line items as required for state and federal contract reporting.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

*(With Summarized Comparative Information for 2017)*

*(Continued)*

NOTE 12 CONCENTRATIONS

**Cash:**

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of uninsured cash deposits held at one financial institution. Cash balances are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000 per institution, and the Organization holds its excess cash balances in accounts which are fully insured by the Depositors Insurance Fund (“DIF”). Therefore, for the years presented, the Organization had no cash balances in excess of insurance limits. The Organization has not experienced any losses on uninsured cash balances and Management considers credit risk on cash to be low.

**Receivables:**

For the years ended August 31, 2018 and 2017, multi-year gifts from three donors accounted for 61% and 87%, respectively, of total *Grants and Contributions Receivable*.

For the year ended August 31, 2018 and 2017, amounts due from one contract represents 31% and 40%, respectively, of total *Accounts Receivable, Program Services*.

**Accounts Payable and Accrued Expenses:**

As of August 31, 2018 and 2017, amounts owed to one vendor represents 48% and 84%, respectively, of total *Accounts Payable and Accrued Expenses*.

NOTE 13 SUBSEQUENT EVENTS

Management is required to consider events subsequent to the financial statement date for potential adjustment to or disclosure in the financial statements. Therefore, Management has evaluated subsequent events through December 12, 2018, the date which the financial statements were available for issue, and noted the following events that met the criteria:

**Conditional Grant:**

On October 19, 2018, \$100,000 of the gifts through donor-advised funds expected to be received in FY 2019 were received.

**Unconditional Grant:**

In December 2018, the Organization was awarded an unrestricted, multi-year grant totaling \$500,000 that will help to fund FY 2019, FY 2020, and FY 2021 operations.