

COMPASS WORKING CAPITAL, INC.

FINANCIAL STATEMENTS

with

INDEPENDENT AUDITORS' REPORT

YEAR ENDED AUGUST 31, 2020

(With Summarized Comparative Information for 2019)

Smith  Sullivan
& Brown PC
CERTIFIED PUBLIC ACCOUNTANTS

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COMPASS WORKING CAPITAL, INC.

REPORT ON FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2020

(With Summarized Comparative Information for 2019)



Mission Statement

Compass Working Capital, Inc. ("Compass") provides financial coaching and savings programs that support families with low incomes 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 families with low incomes by influencing field-related practice and policy.

COMPASS WORKING CAPITAL, INC.

REPORT ON FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2020

(With Summarized Comparative Information for 2019)

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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, 2020, 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, 2020 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 11, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Smith, Sullivan & Brown, PC

Westborough, Massachusetts
December 14, 2020

COMPASS WORKING CAPITAL, INC.

STATEMENTS OF FINANCIAL POSITION AS OF AUGUST 31, 2020 AND 2019

ASSETS

| | <u>2020</u> | <u>2019</u> |
|---|----------------------------|----------------------------|
| <u>CURRENT ASSETS:</u> | | |
| Operating Cash | \$ 3,175,710 | \$ 1,121,407 |
| Donor Restricted Cash | 426,394 | 498,269 |
| General Operating Reserve | 663,465 | 401,648 |
| Cash - Conditional Grant Advance | 2,700,000 | - |
| Accounts Receivable, Program Services | 144,494 | 177,503 |
| Grants and Contributions Receivable | 468,689 | 873,166 |
| Prepaid Expenses, Deposits and Other Assets | <u>101,257</u> | <u>37,159</u> |
| Total Current Assets | <u>7,680,009</u> | <u>3,109,152</u> |
| | | |
| <u>PROPERTY, EQUIPMENT AND SOFTWARE, NET</u> | <u>283,651</u> | <u>102,639</u> |
| | | |
| <u>NON-CURRENT ASSETS:</u> | | |
| Cash - Conditional Grant Advance | 600,000 | - |
| Grants and Contributions Receivable, Non-Current, Net of Discount | <u>247,198</u> | <u>414,172</u> |
| Total Non-Current Assets | <u>847,198</u> | <u>414,172</u> |
| | | |
| <u>TOTAL ASSETS</u> | <u>\$ 8,810,858</u> | <u>\$ 3,625,963</u> |
| | | |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| | | |
| <u>CURRENT LIABILITIES:</u> | | |
| Accounts Payable and Accrued Expenses | \$ 161,968 | \$ 130,016 |
| Accrued Payroll and Related Costs | 100,976 | 35,271 |
| Deferred Revenue | 72,570 | 10,621 |
| Conditional Grant Advance, Current Portion | <u>2,700,000</u> | <u>-</u> |
| Total Current Liabilities | <u>3,035,514</u> | <u>175,908</u> |
| | | |
| <u>NON-CURRENT LIABILITIES:</u> | | |
| Conditional Grant Advance | <u>600,000</u> | <u>-</u> |
| Total Non-Current Assets | <u>600,000</u> | <u>-</u> |
| | | |
| <u>TOTAL LIABILITIES</u> | <u>3,635,514</u> | <u>175,908</u> |
| | | |
| <u>NET ASSETS:</u> | | |
| Net Assets Without Donor Restrictions | 4,037,780 | 1,664,947 |
| Net Assets With Donor Restrictions | <u>1,137,564</u> | <u>1,785,108</u> |
| Total Net Assets | <u>5,175,344</u> | <u>3,450,055</u> |
| | | |
| <u>TOTAL LIABILITIES AND NET ASSETS</u> | <u>\$ 8,810,858</u> | <u>\$ 3,625,963</u> |

COMPASS WORKING CAPITAL, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2020
(With Summarized Comparative Totals for 2019)

| | <u>WITHOUT DONOR</u> <u>RESTRICTIONS</u> | <u>WITH DONOR</u> <u>RESTRICTIONS</u> | <u>TOTAL ACTIVITIES</u> <u>2020</u> | <u>2019</u> |
|---|---|--|--|----------------------------|
| <u>SUPPORT, REVENUES AND RECLASSIFICATIONS:</u> | | | | |
| <i>Program Service Revenues:</i> | | | | |
| Financial Coaching Programs | \$ 1,249,030 | \$ - | \$ 1,249,030 | \$ 1,416,355 |
| Technical Assistance Revenue | <u>53,430</u> | <u>-</u> | <u>53,430</u> | <u>-</u> |
| Total Program Service Revenues | <u>1,302,460</u> | <u>-</u> | <u>1,302,460</u> | <u>1,416,355</u> |
| <i>Gifts, Grants, and Contributions:</i> | | | | |
| Contributions, Foundation and Corporate Grants, Net of Discount | 3,928,271 | 1,194,282 | 5,122,553 | 2,832,292 |
| Proceeds from Fund Raising Event | - | - | - | 177,122 |
| Less: Cost of Direct Benefits to Donors | - | - | - | (32,514) |
| Donated Property and Equipment | 50,000 | - | 50,000 | - |
| In-Kind Legal Services, Professional Fees and Supplies | <u>56,743</u> | <u>-</u> | <u>56,743</u> | <u>44,577</u> |
| Total Gifts, Grants, and Contributions | <u>4,035,014</u> | <u>1,194,282</u> | <u>5,229,296</u> | <u>3,021,477</u> |
| <i>Other Revenues:</i> | | | | |
| Interest and Other Income | <u>137,516</u> | <u>-</u> | <u>137,516</u> | <u>52,733</u> |
| Total Other Revenues | <u>137,516</u> | <u>-</u> | <u>137,516</u> | <u>52,733</u> |
| <i>Reclassification of Net Assets:</i> | | | | |
| Net Assets Released from Restriction | <u>1,841,826</u> | <u>(1,841,826)</u> | <u>-</u> | <u>-</u> |
| <u>TOTAL SUPPORT, REVENUES AND RECLASSIFICATIONS</u> | <u>7,316,816</u> | <u>(647,544)</u> | <u>6,669,272</u> | <u>4,490,565</u> |
| <u>EXPENSES:</u> | | | | |
| Program Services | 3,227,878 | - | 3,227,878 | 3,235,597 |
| Administrative | 1,275,957 | - | 1,275,957 | 183,696 |
| Fund Raising | <u>440,148</u> | <u>-</u> | <u>440,148</u> | <u>518,731</u> |
| <u>TOTAL EXPENSES</u> | <u>4,943,983</u> | <u>-</u> | <u>4,943,983</u> | <u>3,938,024</u> |
| <u>CHANGE IN NET ASSETS</u> | <u>2,372,833</u> | <u>(647,544)</u> | <u>1,725,289</u> | <u>552,541</u> |
| <u>NET ASSETS - BEGINNING OF YEAR</u> | <u>1,664,947</u> | <u>1,785,108</u> | <u>3,450,055</u> | <u>2,897,514</u> |
| <u>NET ASSETS - END OF YEAR</u> | <u>\$ 4,037,780</u> | <u>\$ 1,137,564</u> | <u>\$ 5,175,344</u> | <u>\$ 3,450,055</u> |

COMPASS WORKING CAPITAL, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2020

(With Summarized Comparative Totals for 2019)

| | <u>PROGRAM</u> <u>SERVICES</u> | <u>ADMINI-</u> <u>STRATIVE</u> | <u>FUND</u> <u>RAISING</u> | <u>TOTAL</u> <u>FUNCTIONAL EXPENSES</u> | |
|--|-----------------------------------|-----------------------------------|-------------------------------|--|----------------------------|
| | | | | <u>2020</u> | <u>2019</u> |
| Salaries and Wages | \$ 1,653,190 | \$ 708,455 | \$ 315,812 | \$ 2,677,457 | \$ 2,127,127 |
| Payroll Taxes | 134,107 | 57,483 | 25,498 | 217,088 | 176,190 |
| Employee Benefits | 150,262 | 64,428 | 28,522 | 243,212 | 204,266 |
| Staff Development and Training | 35,510 | 11,266 | 5,088 | 51,864 | 50,524 |
| Subcontractor Expenses | 526,726 | - | - | 526,726 | 478,402 |
| Contracted Evaluation and Research Services | 100,332 | - | - | 100,332 | 85,870 |
| Professional Fees | 172,738 | 253,314 | 7,417 | 433,469 | 269,742 |
| In-Kind Legal Services, Professional Fees and Supplies | - | 41,528 | 5,992 | 47,520 | 44,577 |
| Rent and Utilities | 93,135 | 39,040 | 13,709 | 145,884 | 132,788 |
| Insurance | 9,084 | 3,345 | 314 | 12,743 | 11,805 |
| Client Outreach and Assistance | 45,689 | - | - | 45,689 | 23,437 |
| Depreciation Expense | 33,484 | 7,448 | 2,589 | 43,521 | 38,293 |
| Conferences, Meetings and Travel | 56,470 | 3,052 | 13,796 | 73,318 | 81,037 |
| Workshops and Other Program Activities | 15,472 | - | - | 15,472 | 22,174 |
| Information Technology Services | 63,940 | 15,124 | 5,334 | 84,398 | 81,493 |
| Supplies and Equipment | 26,321 | 5,435 | 2,007 | 33,763 | 24,405 |
| Telecommunications, Computers, and Software | 87,839 | 56,041 | 8,716 | 152,596 | 37,707 |
| Marketing, Postage, and Printing | 21,679 | 4,501 | 2,499 | 28,679 | 34,952 |
| Bank Fees, Filing Fees and Dues | 1,900 | 5,497 | 2,855 | 10,252 | 13,235 |
| Total Expenses per the Statement of Activities | <u>3,227,878</u> | <u>1,275,957</u> | <u>440,148</u> | <u>4,943,983</u> | <u>3,938,024</u> |
| Cost of Direct Benefits to Donors | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>32,514</u> |
| Total Functional Expenses | <u>\$ 3,227,878</u> | <u>\$ 1,275,957</u> | <u>\$ 440,148</u> | <u>\$ 4,943,983</u> | <u>\$ 3,970,538</u> |

COMPASS WORKING CAPITAL, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019

| | <u>2020</u> | <u>2019</u> |
|---|----------------------------|----------------------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES:</u> | | |
| Change in Net Assets | \$ 1,725,289 | \$ 552,541 |
| <i>Adjustments to Reconcile the Above to Net Cash Provided by Operating Activities:</i> | | |
| Depreciation Expense | 43,521 | 38,293 |
| Donated Property and Equipment | (50,000) | - |
| <i>(Increase) Decrease in Current Assets:</i> | | |
| Accounts Receivable, Program Services | 33,009 | (52,151) |
| Grants and Contributions Receivable | 404,477 | (412,012) |
| Prepaid Expenses, Deposits and Other Assets | (64,098) | 16,294 |
| <i>Increase (Decrease) in Current Liabilities:</i> | | |
| Accounts Payable and Accrued Expenses | 31,952 | 90,192 |
| Accrued Payroll and Related Costs | 65,705 | (19,382) |
| Deferred Revenue | 61,949 | (17,046) |
| Conditional Grant Advance | 2,700,000 | - |
| <i>(Increase) Decrease in Non-Current Assets:</i> | | |
| Grants and Contributions Receivable, Non-Current | 166,974 | (8,215) |
| <i>Increase (Decrease) in Non-Current Liabilities:</i> | | |
| Conditional Grant Advance | 600,000 | - |
| Net Adjustment | 3,993,489 | (364,027) |
| <u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u> | <u>5,718,778</u> | <u>188,514</u> |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES:</u> | | |
| Purchase of Property, Equipment and Software | (174,533) | (49,181) |
| Net Cash Flows from Investing Activities | (174,533) | (49,181) |
| <u>NET INCREASE IN CASH BALANCES</u> | <u>5,544,245</u> | <u>139,333</u> |
| <u>CASH BALANCES - BEGINNING OF YEAR</u> | <u>2,021,324</u> | <u>1,881,991</u> |
| <u>CASH BALANCES - END OF YEAR</u> | <u>\$ 7,565,569</u> | <u>\$ 2,021,324</u> |
| <i>Supplemental Disclosures :</i> | | |
| Property Acquired by In-Kind Donation | \$ 50,000 | \$ - |
| <i>Cash Balances :</i> | | |
| Operating Cash | \$ 3,175,710 | \$ 1,121,407 |
| Donor Restricted Cash | 426,394 | 498,269 |
| General Operating Reserve | 663,465 | 401,648 |
| Cash - Conditional Grant Advances | 3,300,000 | - |
| Total Cash Balances | <u>\$ 7,565,569</u> | <u>\$ 2,021,324</u> |

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020

(With Summarized Comparative Information for 2019)

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 (“IRC”). 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 families with low incomes 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 families with low incomes 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:

Since 2010, Compass has partnered with public housing agencies and private owners of affordable housing to develop and implement an asset-building and financial capability model for the Family Self-Sufficiency program, a historically underutilized savings and employment program overseen by the U.S. Department of Housing and Urban Development (“HUD”). Congress established the FSS program in 1990 as an employment and savings program for residents of federally subsidized housing. Families receiving this assistance 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 removes this disincentive by allowing participants to capture their increased rent payments in a savings account, held by the housing provider, 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 other asset building strategies into the FSS program, with the goal of promoting economic mobility and financial security for participating families. The first 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, Pennsylvania, and Rhode Island. The Compass FSS program has attracted local and national attention as a scalable, housing-based model to support families with low incomes to build assets, achieve their goals, and become more financially secure.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020

(With Summarized Comparative Information for 2019)

(Continued)

NOTE 2 *(Continued)*

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 additional earned revenue stream for the Organization.

National Field-Building:

Since 2016, Compass has also worked to build the field of FSS practitioners and other stakeholders nationally. Currently, the Organization manages an online learning platform and community called Compass FSS Link, which provides FSS practitioners with access to resources for FSS program management and financial coaching, training, and opportunities to connect with other FSS practitioners across the country. Compass has also hosted a National FSS Conference for the past four years.

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*TM, the Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020

(With Summarized Comparative Information for 2019)

(Continued)

NOTE 3 (Continued)

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

Net Assets Without Donor Restrictions - consists of assets, public support and program revenues which are available and used for operations and programs. Net assets without donor restrictions represents the portion of net assets of the Organization that are not restricted by donor-imposed stipulations. Contributions are considered available for use unless specifically restricted by the donor. In addition, net assets within this classification include funds which represent resources designated by the Board of Directors for specific purposes.

Net Assets With Donor Restrictions - includes funds with donor-imposed restrictions which permit the donee 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 or bequests and may include investment income earned on restricted funds. These net assets may also include resources which have a donor-imposed restriction which stipulates that a portion of the assets are to be maintained in perpetuity, but permits the Organization to expend part or all of the income derived from the donated assets.

The accompanying financial statements include certain comparative information for the year ended August 31, 2019. With respect to the Statement of Activities, such prior year information is not presented by net asset class and in the Statement of Functional Expenses, 2019 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, 2019, 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 and Contributions Receivable represent the balance due on grants and 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.

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.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020

(With Summarized Comparative Information for 2019)

(Continued)

NOTE 3 (Continued)

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.

Revenue Recognition and Deferred Revenue:

Financial Coaching Programs primarily consists of revenue derived from contracts with public housing agencies and private owners of affordable housing to develop and administer the Organization's FSS programs. Revenue is recognized as eligible expenditures are incurred or as deliverable services are provided under the terms of the grant or contract.

For the years presented, the Organization received funds in advance on coaching contracts, annual license fees for national network members, and registration fees for an annual national network conference, which are included in *Deferred Revenue* in the accompanying Statements of Financial Position.

Contributions, Gifts and Grants and Special Fund Raising Event Proceeds:

As required by the FASB Accounting Standards Codification™, 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.

The Organization recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and right of return - are not recognized until the conditions on which they depend have been met. Contributions of assets other than cash are reported at their estimated fair value.

Multi-year commitments are recognized in the year during which the initial commitment was made. 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 net assets with donor restrictions until the restrictions expire, at which time the assets are reclassified to net assets without donor restrictions. Donor restricted contributions are classified as net assets without donor restrictions if the restrictions are met in the same reporting period in which the contributions are received.

In-Kind Goods and Services:

As required by the *FASB Accounting Standards Codification*™, 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, 2020

(With Summarized Comparative Information for 2019)

(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. Expenses allocated by time usage are *Salaries and Wages, Payroll Taxes, Employee Benefits, Staff Development and Training, Rent and Utilities, Insurance, Depreciation, Information Technology Services, Supplies and Equipment, Telecommunications, Computers, and Software, and Postage and Printing.*

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, indirect costs of special fund raising events, distribution of materials and other similar projects related to the procurement of funds for Compass Working Capital, Inc.'s programs.

Event Costs - includes the direct costs of special fund raising events and is presented as an offset to *Proceeds from Fund Raising Event* revenue in the accompanying Statement of Activities.

Recent Accounting Guidance:

Recently Implemented Standards

In June 2019, the FASB issued ASC Update No. 2018-08, (Topic 958) *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The ASU also provides additional guidance to help determine whether a contribution is conditional or unconditional. This standard was adopted by the Organization effective September 1, 2019. This ASU provides organizations with the option of applying the clarified guidance in the initial year of implementation on a prospective basis; therefore, the Organization has not restated its fiscal year 2019 revenue balances or opening net assets for the years presented.

Recently Issued Standards

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 not-for-profit entities that have revenue transactions other than contributions. In June 2020, the FASB issued an optional deferral of the effective date. This standard is effective for this Organization in financial statements issued for fiscal years beginning September 1, 2020.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020

(With Summarized Comparative Information for 2019)

(Continued)

NOTE 3 (Continued)

In February 2016, the FASB issued ASC Update No. 2016-02, (Topic 842) *Leases* which establishes a comprehensive new lease accounting model. The new standard clarifies the definition of a lease and causes lessees to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset for leases with a lease term of more than one year. This standard is effective for the Organizations in financial statements issued for the fiscal year beginning September 1, 2022. The new standard requires a modified retrospective transition for capital or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements, but it does not require transition accounting for leases that expire prior to the date of initial application.

Reclassifications:

Certain amounts in the prior year summarized comparative information have been reclassified to confirm to the current year presentation. Reclassifications made to the prior year summarized comparative financial statements have no impact on total net assets or changes in net assets.

NOTE 4 GRANTS AND CONTRIBUTIONS RECEIVABLE

As of August 31, 2020 and 2019, grants and contributions receivable due within one year and presented as current assets totaled \$468,689 and \$873,166, respectively. Non-current grants and contributions receivable, discounted to fair value at a rate ranging from 2.13% to 5.51%, were due for collection as follows:

| <u>Year of Payment</u> | <u>2020</u> | <u>2019</u> |
|--|------------------|------------------|
| FY 2021 | \$ - | \$350,080 |
| FY 2022 | 178,492 | 79,125 |
| FY 2023 | <u>76,000</u> | <u>5,000</u> |
| Total Non-Current Grants and Contributions Receivable | 254,492 | 434,205 |
| Less: Discount | <u>(7,294)</u> | <u>(20,033)</u> |
| Total, Net of Discount | <u>\$247,198</u> | <u>\$414,172</u> |

NOTE 5 PROPERTY, EQUIPMENT AND SOFTWARE

The following is a summary of the Organization's property, equipment and software as of August 31, 2020 and 2019:

| <u>Asset Category</u> | <u>Est. Life</u> | <u>Cost</u> | <u>Accum. Deprn.</u> | <u>Net Book Value 2020</u> | <u>2019</u> |
|-------------------------|----------------------|------------------|--------------------------|--------------------------------|------------------|
| Leasehold Improvements | 5* | \$ 194,247 | \$ 48,560 | \$ 145,687 | \$ 22,785 |
| Software / Website | 3 | 159,417 | 119,057 | 40,360 | 46,448 |
| Furniture and Equipment | 5 | <u>142,742</u> | <u>45,138</u> | <u>97,604</u> | <u>33,406</u> |
| Total | | <u>\$496,406</u> | <u>\$212,755</u> | <u>\$283,651</u> | <u>\$102,639</u> |

*Term of underlying lease

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

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(Continued)

NOTE 5 *(Continued)*

During the year ended August 31, 2020, the Organization disposed of fully depreciated furniture and equipment with an original cost of \$38,303. The disposal of these assets had no impact on the change in net assets for that year.

NOTE 6 NET ASSETS WITH DONOR RESTRICTIONS

As of August 31, 2020 and 2019, net assets with donor restrictions is comprised of grants and donations restricted for the following donor-specified purposes:

| <u>Nature of Restriction</u> | <u>2020</u> | <u>2019</u> |
|------------------------------|--------------------|--------------------|
| Direct FSS Service Sites* | \$ 496,472 | \$ 861,033 |
| National Field-Building | 514,765 | 313,069 |
| Other Purpose Restrictions | 15,000 | 53,555 |
| Time Restricted | <u>111,327</u> | <u>557,451</u> |
| Total | <u>\$1,137,564</u> | <u>\$1,785,108</u> |

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

| <u>Nature of Restriction</u> | <u>2020</u> | <u>2019</u> |
|------------------------------|--------------------|--------------------|
| Direct FSS Service Sites* | \$ 923,310 | \$ 737,578 |
| National Field-Building | 383,563 | 707,789 |
| Other Purpose Restrictions | 63,371 | 63,650 |
| Lapse of Time Restrictions | <u>471,582</u> | <u>813,273</u> |
| Total | <u>\$1,841,826</u> | <u>\$2,322,290</u> |

*Amounts included in net assets with donor restrictions 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:

During the years ended August 31, 2020 and 2019, Compass had nine written agreements (e.g. Memorandums of Understanding or Professional Services Agreements) with public housing authorities, nonprofit housing agencies, and other organizations that provide contract funding to Compass to support the FSS program or other financial coaching programs. These partnerships provide an earned revenue stream for the Organization. Seven 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, 2020 and 2019, revenue from these partnerships totaled \$1,161,069 and \$1,416,355, respectively.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020

(With Summarized Comparative Information for 2019)

(Continued)

NOTE 7 (Continued)

Blue Meridian Grant Award:

In September 2019, Compass was awarded a conditional grant award totaling \$6,000,000 from Blue Meridian Partners, Inc. (“Blue Meridian”), which was fully funded with the execution of the grant agreement. The grant does not carry any donor restrictions and is intended to be used for general operating support. Other than the initial installment of \$2,700,000, which was recognized as grant revenue without donor restrictions in FY 2020, the remaining grant award is strictly conditional upon satisfactory program accomplishments, benchmarks and progress reports in the sole discretion of Blue Meridian. Therefore, the grant funds received in advance are held as a liability, *Conditional Grant Advance*, as of August 31, 2020. As of August 31, 2020, the conditional component of the grant totaling \$3,300,000, has not been recorded as revenue and will be recognized in subsequent years as the conditions are met. Compass expects to recognize revenue related to this grant in the amounts of \$2,700,000 in FY 2021 and \$600,000 in FY 2022. For the year ended August 31, 2020, total support from Blue Meridian amounted to \$2,700,000, representing 40% of the Organization’s total support and revenue.

Conditional Grants and Donor Intentions:

During the years presented, the Organization was the recipient of multi-year grants to Compass through donor-advised funds. Future contributions received through donor-advised funds represent donor intentions, and not unconditional promises to give, and therefore, are not reported as support/revenue until received. Amounts paid to Compass, and recognized as revenue, under these multi-year gifts totaled \$850,000 and \$350,000, respectively, for the years ended August 31, 2020 and 2019. The remaining commitments from donor-advised funds totaling \$750,000 are expected to be received 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 was conditional upon continued partnership with the Philadelphia Housing Authority and availability of funds. As of August 31, 2020 and 2019, amounts paid to Compass and recognized as revenue under this grant totaled \$525,000 and \$350,000, respectively. The remaining conditional payments as of August 31, 2020, totaling \$75,000, are expected to be received as follows: \$62,500 in 2021, and \$12,500 in FY 2022.

During the year ended August 31, 2020, the Organization was awarded a multi-year grant from The Boston Foundation totaling \$100,000 that was conditional upon the availability of funds. As of August 31, 2020, amounts paid to Compass and recognized as revenue under this grant totaled \$50,000. The remaining conditional payment of \$50,000 is expected to be received in FY 2021.

As of August 31, 2020 and 2019, the aggregate conditional amount of conditional commitments, including the grant award from Blue Meridian, was \$4,175,000 and \$750,000, respectively. As the terms of the conditions had not been met, the support has not been recognized in the accompanying financial statements.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020

(With Summarized Comparative Information for 2019)

(Continued)

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, 2020 and 2019, the Organization recognized the following in-kind contributions in its financial statements:

| <u>Description</u> | <u>2020</u> | <u>2019</u> |
|---|------------------|-----------------|
| Legal Services | \$ 41,527 | \$38,214 |
| Leasehold Improvements and Office Equipment | 50,000 | - |
| Supplies | 5,992 | 5,176 |
| Professional Fees | <u>9,224</u> | <u>1,187</u> |
| Total | <u>\$106,743</u> | <u>\$44,577</u> |

*For the year ended August 31, 2020, Leasehold Improvements and Office Equipment includes donated goods and services 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 2020, the Organization amended the existing lease agreement with TSNE to expand its office space and extend the lease term through September 2026. Monthly payments under the amended agreement range from \$10,989 to \$12,363. Rent expense related to the Boston office was \$115,677 and \$94,688 for the years ended August 31, 2020 and 2019, respectively, and is included in *Rent and Utilities* in the accompanying Statement of Functional Expenses.

Lynn Office:

The Organization occupied office space in Lynn, Massachusetts with an original lease expiration date of January 31, 2021, but terminated the lease early, effective October 1, 2020. Monthly rent expense under the lease agreement was \$1,550.

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

| <u>Fiscal Year Ended</u> | <u>Amount</u> |
|--------------------------|------------------|
| August 31, 2021 | \$135,650 |
| August 31, 2022 | 139,771 |
| August 31, 2023 | 143,892 |
| August 31, 2024 | 144,235 |
| August 31, 2025 | 148,013 |
| Thereafter | <u>160,717</u> |
| Total | <u>\$872,278</u> |

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020

(With Summarized Comparative Information for 2019)

(Continued)

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, 2020 and 2019, the employer contributions to the Plan were \$61,736 and \$55,006, respectively, and are included in *Employee Benefits* in the accompanying Statement of Functional Expenses.

NOTE 11 EMPLOYMENT ARRANGEMENT

For the years presented, Compass was party to 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 serves as 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 external reporting.

NOTE 12 CONTINGENCIES

Impact of COVID-19:

In early 2020, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, events have occurred including mandates from federal, state and local authorities leading to an overall decline in economic activity which could result in a loss of grants, contributions, revenue and other material adverse effects to the Organization’s financial position, change in net assets and cash flows. The Organization is not able to estimate the length of severity of this outbreak and the related financial impact. Management plans to adjust its operations accordingly and will continue to assess and monitor the situation as it evolves. If the length of the outbreak and related effected on the Organization’s operations continue for an extended period of time, the Organization may have to seek alternative measures to finance its operation. There is no assurance these measures will be successful. In March 2020, Compass cancelled its annual fundraising event that was scheduled for May 4, 2020, given the guidance recommended by the CDC at that time. As a result, it did not incur any expenses for the event.

NOTE 13 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, the Organization had no cash balances in excess of insurance limits as of August 31, 2020 and 2019. The Organization has not experienced any losses on uninsured cash balances and Management considers credit risk on cash to be low.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020

(With Summarized Comparative Information for 2019)

(Continued)

NOTE 13 (Continued)

Receivables:

For the years ended August 31, 2020 and 2019, multi-year gifts from three donors accounted for 84% and 66%, respectively, of total *Grants and Contributions Receivable*.

For the year ended August 31, 2020 and 2019, amounts due from one contract represents 45% and 32%, respectively, of total *Accounts Receivable, Program Services*.

Revenue:

During the years ended August 31, 2020 and 2019, 56% and 58%, respectively, of the Organization's *Financial Coaching Programs* revenue was received from two sources.

Accounts Payable and Accrued Expenses:

As of August 31, 2020 and 2019, amounts owed to one vendor represents 71% and 50% respectively, of total *Accounts Payable and Accrued Expenses*.

NOTE 14 LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following table reflects the Organization's financial assets as of August 31, 2020 and 2019, reduced by amounts which are not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year of the Statement of Financial Position date, because the governing board or management policy has set aside the funds for a specific use or a long-term investment as board designated endowments, or when restricted by donors for purposes more limited than general expenditures. Financial assets available for general expenditures within one year at August 31, 2020 and 2019, are as follows:

| | <u>2020</u> | <u>2019</u> |
|--|--------------------|--------------------|
| Financial Assets: | | |
| Operating Cash | \$3,175,710 | \$1,121,407 |
| Donor Restricted Cash | 426,394 | 498,269 |
| General Operating Reserve | 663,465 | 401,648 |
| Cash - Conditional Grant Advance | 3,300,000 | - |
| Accounts Receivable, Program Services | 144,494 | 177,503 |
| Grants and Contributions Receivable | <u>468,689</u> | <u>873,166</u> |
| Total | 8,178,752 | 3,071,993 |
| Less Amounts Not Intended to be Used Within One Year: | | |
| General Operating Reserve | (663,465) | (401,648) |
| Cash - Conditional Grant Advance | <u>(600,000)</u> | <u>-</u> |
| Financial Assets Available to be Used Within One Year | <u>\$6,915,287</u> | <u>\$2,670,345</u> |

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020

(With Summarized Comparative Information for 2019)

(Continued)

NOTE 14 *(Continued)*

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization has various sources of liquidity at its disposal, including cash, accounts receivable and grants and contributions receivable. The *General Operating Reserve* is available with authorization from the Board of Directors, but the Organization has no intention of using the funds unless necessary.

For purposes of analyzing resources available to meet general expenditures over a twelve-month period, the Organization considers all expenditures related to its ongoing activities of providing financial coaching and savings programs that support families with low incomes to build assets, achieve their financial goals, and become financially secure, as well as the conduct of services undertaken to support those activities to be general expenditures.

NOTE 15 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 14, 2020, the date which the financial statements were available for issue, and noted the following events that met the disclosure criteria:

Conditional Grants:

In September 2020, the conditions to recognize \$2,700,000 of the \$6,000,000 conditional grant from Blue Meridian to support operations was met.

In November 2020, the Organization was notified of a new commitment from a Donor Advised Fund totaling \$150,000 that will be paid out in \$50,000 installments in FY 2021 through FY 2023.

Unconditional Grants:

On October 30, 2020, the Organization was awarded a grant totaling \$1,000,000 and received the first \$600,000 payment on November 19, 2020.