

COMPASS WORKING CAPITAL, INC.

FINANCIAL STATEMENTS

with

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

YEARS ENDED AUGUST 31, 2012 AND 2011

**Smith  Sullivan
& Company PC**

CERTIFIED PUBLIC ACCOUNTANTS

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COMPASS WORKING CAPITAL, INC.
REPORT ON FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2012 AND 2011

Mission Statement

Compass Working Capital, Inc. (“Compass”) provides incentive-based savings and financial coaching programs that enable low-income families to access opportunities, build assets, and achieve their financial aspirations. More broadly, Compass seeks to catalyze and expand asset building opportunities for low-income families by sharing innovative, replicable ideas that help place families on the pathway to economic security.

COMPASS WORKING CAPITAL, INC.
REPORT ON FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2012 AND 2011

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying statements of financial position of Compass Working Capital, Inc. (a Massachusetts nonprofit organization) as of August 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Organization's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Smith, Sullivan & Company PC

Westborough, Massachusetts
December 12, 2012

COMPASS WORKING CAPITAL, INC.

STATEMENTS OF FINANCIAL POSITION AS OF AUGUST 31, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
<u>CURRENT ASSETS:</u>		
Cash	\$ 131,682	\$ 200,559
Accounts Receivable, Program Services	20,000	4,539
Grant Receivable	66,198	118,426
Contributions Receivable	-	10,000
Advances on Behalf of Participants	4,500	9,560
Prepaid Expenses and Deposits	<u>10,286</u>	<u>8,872</u>
Total Current Assets	<u>232,666</u>	<u>351,956</u>
<u>PROPERTY AND EQUIPMENT:</u>		
Equipment and Software	15,770	15,770
Less: Accumulated Depreciation	<u>(15,661)</u>	<u>(14,101)</u>
Net Property and Equipment	<u>109</u>	<u>1,669</u>
<u>NON-CURRENT ASSETS:</u>		
Non-Current Grant Receivable	<u>62,000</u>	<u>-</u>
<u>TOTAL ASSETS</u>	<u>\$ 294,775</u>	<u>\$ 353,625</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES:</u>		
Accounts Payable and Accrued Expenses	\$ 19,332	\$ 8,816
Accrued Payroll and Related Costs	4,800	8,891
Accrued IDA Program Matching Funds	28,136	54,554
Deferred Revenue	<u>71,581</u>	<u>77,047</u>
Total Current Liabilities	<u>123,849</u>	<u>149,308</u>
<u>NET ASSETS:</u>		
Unrestricted Net Assets (Deficit)	(40,449)	(28,494)
Temporarily Restricted Net Assets	<u>211,375</u>	<u>232,811</u>
Total Net Assets	<u>170,926</u>	<u>204,317</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 294,775</u>	<u>\$ 353,625</u>

COMPASS WORKING CAPITAL, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2012
(With Summarized Comparative Totals for 2011)

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL ACTIVITIES</u> <u>2012</u>	<u>2011</u>
<u>SUPPORT, REVENUES AND RECLASSIFICATIONS:</u>				
<i>Program Service Revenues:</i>				
Financial Coaching, Training and Consultation Fees	\$ 85,471	\$ -	\$ 85,471	\$ 47,214
Housing Authority Contract Revenue	20,000	-	20,000	-
Total Program Service Revenues	<u>105,471</u>	<u>-</u>	<u>105,471</u>	<u>47,214</u>
<i>Public Support:</i>				
Contributions, Foundation and Corporate Grants	48,995	184,206	233,201	56,631
Special Event Revenue, Net of Direct Costs	6,573	-	6,573	1,526
Government Grants	11,560	-	11,560	-
In-Kind Goods and Services	60,456	-	60,456	71,386
Total Public Support	<u>127,584</u>	<u>184,206</u>	<u>311,790</u>	<u>129,543</u>
<i>Other Revenues:</i>				
IDA Match Recapture	1,392	-	1,392	-
Interest Income	35	-	35	250
Total Other Revenues	<u>1,427</u>	<u>-</u>	<u>1,427</u>	<u>250</u>
<i>Reclassifications of Net Assets:</i>				
Net Assets Released from Restriction	218,593	(218,593)	-	-
Restoration of Restricted IDA Funds	(12,951)	12,951	-	-
Total Reclassifications of Net Assets	<u>205,642</u>	<u>(205,642)</u>	<u>-</u>	<u>-</u>
<u>TOTAL SUPPORT, REVENUES AND RECLASSIFICATIONS</u>	<u>440,124</u>	<u>(21,436)</u>	<u>418,688</u>	<u>177,007</u>
<u>FUNCTIONAL EXPENSES BEFORE IN-KIND SERVICES:</u>				
Program Services	334,788	-	334,788	306,539
Administrative	39,516	-	39,516	43,773
Fund Raising	17,319	-	17,319	9,295
<u>TOTAL FUNCTIONAL EXPENSES BEFORE IN-KIND SERVICES</u>	<u>391,623</u>	<u>-</u>	<u>391,623</u>	<u>359,607</u>
In-Kind Legal Services	51,456	-	51,456	60,586
In-Kind Financial Education Instructors	9,000	-	9,000	10,800
<u>TOTAL FUNCTIONAL EXPENSES AFTER IN-KIND SERVICES</u>	<u>452,079</u>	<u>-</u>	<u>452,079</u>	<u>430,993</u>
<u>CHANGE IN NET ASSETS</u>	<u>(11,955)</u>	<u>(21,436)</u>	<u>(33,391)</u>	<u>(253,986)</u>
<u>NET ASSETS (DEFICIT) - BEGINNING OF YEAR</u>	<u>(28,494)</u>	<u>232,811</u>	<u>204,317</u>	<u>458,303</u>
<u>NET ASSETS (DEFICIT) - END OF YEAR</u>	<u>\$ (40,449)</u>	<u>\$ 211,375</u>	<u>\$ 170,926</u>	<u>\$ 204,317</u>

COMPASS WORKING CAPITAL, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2012

(With Summarized Comparative Totals for 2011)

	<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>2012</u>	<u>2011</u>
Salaries and Wages	\$ 187,989	\$ 11,765	\$ 7,270	\$ 207,024	\$ 197,546
Payroll Taxes	18,235	698	747	19,680	19,062
Employee Benefits	10,327	248	383	10,958	16,897
Staff Recruitment, Development and Training	2,210	200	-	2,410	420
Contracted Services	39,652	2,155	-	41,807	22,836
Matching Funds for IDA Program Participants	-	-	-	-	3,010
Rent and Occupancy	46,848	1,014	2,028	49,890	35,386
Insurance	1,675	100	200	1,975	1,850
Marketing	1,194	25	-	1,219	1,649
Depreciation	1,497	63	-	1,560	6,202
Conferences, Meetings and Events	886	958	-	1,844	1,765
Accounting Fees	-	17,925	-	17,925	18,702
Other Professional Fees	145	73	5,500	5,718	2,263
Program Supplies and Materials	4,978	-	-	4,978	7,513
Office Supplies and Expenses	5,806	57	273	6,136	2,857
Telecommunications	9,877	970	212	11,059	12,780
Postage and Printing	1,624	122	706	2,452	3,643
Bank/Payroll/Filing Fees/Participant Credit Reports	1,845	2,717	-	4,562	4,808
Miscellaneous	-	426	-	426	418
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Functional Expenses Before In-Kind Services	334,788	39,516	17,319	391,623	359,607
In-Kind Legal Services	12,694	38,762	-	51,456	60,586
In-Kind Financial Education Instructors	9,000	-	-	9,000	10,800
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Functional Expenses After In-Kind Services	\$ 356,482	\$ 78,278	\$ 17,319	\$ 452,079	\$ 430,993

COMPASS WORKING CAPITAL, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Change in Net Assets	\$ (33,391)	\$ (253,986)
<i>Adjustments to Reconcile the Above to Net Cash Provided (Used) by Operating Activities:</i>		
Depreciation	1,560	6,202
<i>(Increase) Decrease in Current Assets:</i>		
Accounts Receivable, Program Services	(15,461)	22,857
Grant Receivable	52,228	181,942
Contributions Receivable	10,000	(3,146)
Advances on Behalf of Participants	5,060	4,820
Prepaid Expenses and Deposits	(1,414)	(8,217)
<i>Increase (Decrease) in Current Liabilities:</i>		
Accounts Payable and Accrued Expenses	10,516	(2,765)
Accrued Payroll and Related Costs	(4,091)	7,947
Accrued IDA Program Matching Funds	(26,418)	(62,907)
Deferred Revenue	(5,466)	33,284
<i>(Increase) Decrease in Non-Current Assets:</i>		
Non-Current Grant Receivable	(62,000)	152,426
Net Adjustment	(35,486)	332,443
<u>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>	<u>(68,877)</u>	<u>78,457</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchase of Equipment and Software	-	(2,621)
<u>NET INCREASE (DECREASE) IN CASH BALANCES</u>	<u>(68,877)</u>	<u>75,836</u>
<u>CASH - BEGINNING OF YEAR</u>	<u>200,559</u>	<u>124,723</u>
<u>CASH - END OF YEAR</u>	<u>\$ 131,682</u>	<u>\$ 200,559</u>
<i>Supplemental Disclosures :</i>		
Interest and Finance Charges Paid	\$ -	\$ -
Income Taxes Paid	\$ -	\$ -

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2012

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 incentive-based savings and financial coaching programs that help low-income families access opportunities, build assets, and achieve their financial aspirations. More broadly, Compass seeks to catalyze and expand asset-building opportunities for low-income families by sharing innovative, replicable ideas that help place families on the pathway to economic security.

Compass’ work builds on the research and practice of a broader asset development field, which has demonstrated the importance of helping poor families build savings and assets. Assets provide a cushion in times of economic distress and can be passed down to future generations, enabling families to escape the intergenerational transfer of poverty. By empowering families to increase their earnings, build savings, repair credit, reduce their reliance on benefits, create new businesses, and invest in homes, Compass also positions families to be informed, contributing participants in a productive economy. This, in turn, helps to fuel economic growth.

Through its core programs, Compass works with low-income families who aspire to build a strong financial future for themselves and their families. Compass’ savings and customized financial coaching programs empower families to achieve their goals by helping them establish the financial skills, practices, and confidence that are predictive of future financial wellbeing.

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 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 the completion of a financial education and coaching program. Participants can utilize their savings to achieve their financial goals and reduce their reliance on public assistance.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2012

(Continued)

NOTE 2 *(Continued)*

Compass launched its first FSS program in Lynn, MA through a unique collaboration with Lynn Housing Authority and Neighborhood Development (“LHAND”), a local housing authority with a strong track record of promoting economic mobility for its residents. Early data emerging from the Compass FSS program has been very promising. At the end of FY 2012, Compass had enrolled about 20% of the Section 8 population in Lynn, a figure nearly four times the national average. After just one year in the FSS program, 63% of participants had increased their income, 65% had reduced their debt, 64% had improved their credit, and 68% had saved an average of \$1,042.

Building on the success of the initial pilot program in Lynn, Compass launched its first replication effort in partnership with Cambridge Housing Authority (“CHA”) in August 2012. A housing authority with nationally respected leadership and results, CHA provides Compass with an opportunity to demonstrate proof of concept in a larger, urban market and positions us for broader policy influence. The first program of its kind in the country, the Compass FSS program has recently attracted local and national attention as a scalable, housing-based model to promote economic mobility and financial security for working poor families.

Financial Coaching Programs

In 2009, Compass introduced a contract-based financial coaching program designed to help other community organizations integrate asset building into their work. Notably, Compass developed a customized financial coaching program for a Boston-based nonprofit organization that offers college scholarships for formerly homeless and low-income single parents. In FY 2012 and in FY 2011, Compass expanded significantly its contract-based financial coaching programs, and the program now provides an earned revenue stream for the Organization. Moreover, the early results of the financial coaching program are promising. Participants have demonstrated strong gains in key financial health indicators, including utilization of high quality financial products, increased credit scores, and higher savings. To date, Compass has served approximately 260 families through its contract-based financial coaching programs.

Individual Development Account (IDA) Program

Compass’ IDA program provides financial education, financial coaching, and matched savings accounts for working, low-income parents to help them save toward homeownership, small business development, or post-secondary education. Participants commit to a monthly savings goal of \$25 - \$75 and receive a 2:1 or 3:1 match on their savings. At the end of the two-year savings period, participants can apply their savings toward an asset purchase. To date, Compass has enrolled 140 participants in this flagship program. At the end of FY 2012, IDA participants had saved \$158,465 and earned \$290,591 in match funds toward their asset goals. Among program graduates, IDA participants who utilized their savings toward a first-time home purchase have, to date, leveraged more than \$3.6 million in affordable mortgage financing.

College Savings Initiative

Through education and outreach, Compass helps low-income families access 529 college savings plans, which offer an affordable but powerful means to save for college. In addition to helping families save for college, college savings plans have a significant impact on low-income students’ aspirations and expectations about college. Through partnerships with Fidelity Investments, the Massachusetts Educational Financing Authority (“MEFA”), and local schools and nonprofit organizations, Compass has opened 148 college savings plans for families.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2012

(Continued)

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. The following policies should be read in conjunction with the accompanying notes to the financial statements.

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.

Fair Value of Financial Instruments:

The Organization reports its fair value measures by using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by generally accepted accounting principles, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1 - Quoted prices for identical assets or liabilities in active markets to which the Organization has access at the measurement date.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in markets that are not active; observable inputs other than quoted prices for the asset or liability (for example, interest rate and yield curves); and inputs derived principally from, or corroborated by, observable market data by correlation or by other means.
- Level 3 - Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

For the years presented, the Organization did not have any assets that require re-measurement on a recurring basis, which would be required to be classified under the fair value hierarchy.

Financial Statement Presentation:

As required by the *FASB Accounting Standards Codification*TM, 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, 2012

(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.

Accounts Receivable, Program Services:

Accounts Receivable, Program Services represent amounts due in connection with training and consulting services, and for FY 2012, includes the first installment on the FSS contract with the Cambridge Housing Authority. These amounts are considered fully collectible by management; accordingly, these financial statements do not contain a provision for uncollectible receivables. If amounts owed become uncollectible, they will be charged to activities when that determination is made. The Organization did not experience any loss on uncollectible receivables for the years presented.

Grant Receivable:

Grant Receivable represents a multi-year grant commitment for the FSS program. 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. As of August 31, 2012, the non-current grant commitment is due in FY 2014. Outstanding grant payments with expected receipt dates that extend beyond one year have not been discounted in these financial statements because these amounts are considered to be immaterial. Management believes that these grants are fully collectible, and therefore, no allowance for doubtful amounts has been established. If grants are determined to be uncollectible in subsequent periods, they will be charged to activities at that time. The Organization did not experience any loss on uncollectible grants for the years presented.

Property and Equipment:

Property, equipment and software, furnishing and improvement purchases in excess of \$1,000 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 against income over the estimated useful lives of the assets, as expressed in terms of years.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2012

(Continued)

NOTE 3 (Continued)

As of August 31, 2012 and 2011, property and equipment consisted of computer software and equipment with an estimated useful life of two years.

Accrued IDA Program Matching Funds:

Under the Organization's IDA program, participants set aside a minimum of \$25 per month for a two-year period. Compass then matches these funds on a 2:1 or 3:1 ratio for participant contributions up to \$75 per month, per participant, with a maximum match of \$225 per month or \$5,400 for the two-year savings period. As the participants fund their accounts, Compass records an expense for the accrued match obligation. *Accrued IDA Program Matching Funds* represents the cumulative earned (but unpaid) match funds recognized by Compass for each participant as of August 31, 2012 and 2011. The accrued matching funds are disbursed upon successful completion of the IDA program. If the participant does not complete the program, the obligation for the accrued match expires and the funds restored in accordance with the terms of the funding agreements.

Deferred Revenue and Revenue Recognition:

Deferred Revenue includes grant funds from the Massachusetts Department of Housing and Community Development ("DHCD") and the Lynn Housing Authority of \$24,143 and \$48,297, as of August 31, 2012 and 2011, respectively, which have been received by the Organization for IDA matching purposes and have not yet been earned by the participants. At the time the match is earned, the amounts are released from deferred revenue and recognized as government grant revenue.

As of August 31, 2012 and 2011, the Organization also had received funds in advance on coaching, training and consultation contracts in the amount of \$47,438 and \$28,750, respectively, which is included in *Deferred Revenue*. Revenue related to these contracts is recognized as earned.

Contributions, Gifts and Grants:

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

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2012

(Continued)

NOTE 3 (Continued)

In-Kind Goods and Services:

As required by the *FASB Accounting Standards Codification*TM, 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 listed as expenses on the Statement of Functional Expenses.

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, indirect costs of special events, distribution of materials and other similar projects related to the procurement of funds for Compass Working Capital, Inc.'s programs. Fund raising expenses which represent direct costs of special events are netted against the related revenues. For the years ended August 31, 2012 and 2011, total fund raising expenses, including both indirect fund raising expenses and direct costs of the fund raising event, were \$24,896 and \$14,294, respectively.

Tax Position:

The Organization currently evaluates all tax positions, and makes a determination regarding the likelihood of those positions being upheld under review. The primary tax positions made by the Organization are the existence of Unrelated Business Income Tax and the Organization's status as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. For the year presented, the Organization has not recognized any tax benefits or loss contingencies for uncertain tax positions based on this evaluation. All tax periods prior to FY 2008 are no longer subject to examination by tax authorities.

Reclassification:

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

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2012

(Continued)

NOTE 4 RESTRICTED NET ASSETS

As of August 31, 2012 and 2011, temporarily restricted net assets reflect grants and donations restricted for the following donor-specified purposes:

<u>Nature of Restriction</u>	<u>2012</u>	<u>2011</u>
FSS Program	\$179,657	\$214,044
IDA Program	31,718	18,767
Total	<u>\$211,375</u>	<u>\$232,811</u>

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

<u>Nature of Restriction</u>	<u>2012</u>	<u>2011</u>
FSS Program	\$218,593	\$231,646
IDA Program	-	1,233
Total	<u>\$218,593</u>	<u>\$232,879</u>

Additionally, for the year ended August 31, 2012, IDA funds totaling \$12,951 were restored to *Temporarily Restricted Net Assets*, as the accumulated match was forfeited by the participants. As Compass releases these funds to *Unrestricted Net Assets* when the match is accrued, it is necessary to restore these funds to *Temporarily Restricted Net Assets* when forfeited.

NOTE 5 MAJOR SOURCE OF FUNDING AND CONDITIONAL GRANTS

For the year ended August 31, 2012, a grant from one organization accounted for 42% of total support and revenue. As of August 31, 2012 and 2011, a grant from this organization accounted for 100% of both current and non-current *Grant Receivable*.

As of August 31, 2011, \$47,206 in grant funds was conditional upon the program's achievement of certain milestones, and therefore, had not been reflected in the accompanying financial statements. These milestones were met during FY 2012, and are reflected as grant revenue for that year.

During FY 2012, a second grant was awarded to the Organization, subject to a 1:1 matching requirement. Amounts granted to Compass Working Capital conditional upon matching grant funds are tentatively scheduled for payment in the following fiscal years.

<u>Fiscal Year Ending</u>	<u>Amount</u>
August 31, 2013	\$ 93,000
August 31, 2014	100,000
August 31, 2015	<u>110,000</u>
Total	<u>\$303,000</u>

As of August 31, 2012 and 2011, conditional grants totaling \$303,000 and \$47,206 have not been recognized as support, as conditions upon which the funding depends had not been met.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2012

(Continued)

NOTE 5 *(Continued)*

In FY 2012, Compass signed a Memorandum of Understanding (“MOU”) with Cambridge Housing Authority (“CHA”) which stipulates that CHA will provide up to \$295,000 in contract funding to Compass to support the FSS program in Cambridge from FY 2013 – FY 2016. This funding is contingent upon Compass’ ability to meet enrollment and performance targets.

NOTE 6 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, 2012 and 2011, the Organization recognized the following in-kind contributions in its financial statements:

<u>Description</u>	<u>2012</u>	<u>2011</u>
Legal Services	\$51,456	\$60,586
Financial Education Instructors	<u>9,000</u>	<u>10,800</u>
Total	<u>\$60,456</u>	<u>\$71,386</u>

NOTE 7 OPERATING LEASE COMMITMENTS

Boston Office:

For each of the years presented, the Organization was a party to an annually-renewable license agreement with Third Sector New England to occupy office space within the NonProfit Center in Boston, Massachusetts, with monthly payments of \$1,690. Rent expense for each of the years presented related to this lease was \$20,280 and is included in *Rent and Occupancy* in the accompanying Statement of Functional Expenses. A new license agreement was signed on September 6, 2012, as further discussed in Note 10.

Lynn Office:

On August 8, 2011, the Organization entered into a three-year lease agreement for 1,987 square feet of office space in Lynn, Massachusetts. The lease term commenced on September 1, 2011 and rent payments are fixed at \$1,987 per month for the three-year period.

As of August 31, 2012, the future minimum lease obligations under the above commitments are as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
August 31, 2013	\$45,983
August 31, 2014	<u>23,844</u>
Total	<u>\$69,827</u>

NOTE 8 SPECIAL EVENT REVENUE

Compass hosts an annual fund raising breakfast. For the years ended August 31, 2012 and 2011, sponsorship and contribution revenue of \$14,150 and \$6,525 (net of \$7,577 and \$4,999 in direct costs), respectively, was recognized in the accompanying Statement of Activities as *Special Event Revenue, Net of Direct Costs*.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2012

(Continued)

NOTE 9 EMPLOYEE BENEFIT PLAN

Effective November 1, 2010, Compass adopted a salary deferral plan, qualified under Section 403(b) of the Internal Revenue Code. The plan allows eligible employees of the Organization to defer a percentage of their earnings from current taxation by investing in annuities. The plan is funded by employee salary deferrals; therefore, these financial statements do not reflect an employee benefit plan expense for the salary deferral plan.

NOTE 10 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, 2012, the date which the financial statements were available for issue, and noted the following event which met the criteria:

License Agreement:

On September 6, 2012, the Organization renewed its annual license agreement with Third Sector New England for lease space at the NonProfit Center in Boston, Massachusetts. The new lease agreement includes monthly payments of \$1,859 and is for a one-year period commencing October 1, 2012.