

COMPASS WORKING CAPITAL, INC.

FINANCIAL STATEMENTS

with

INDEPENDENT AUDITORS' REPORT

YEAR ENDED AUGUST 31, 2013

Smith  Sullivan
& Brown PC
CERTIFIED PUBLIC ACCOUNTANTS

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COMPASS WORKING CAPITAL, INC.
REPORT ON FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2013 (AUDITED) AND 2012 (UNAUDITED)

Mission Statement

Compass Working Capital, Inc. (“Compass”) provides incentive-based financial coaching and savings programs that empower working, 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 working poor families by influencing field-related practice and policy.

COMPASS WORKING CAPITAL, INC.

REPORT ON FINANCIAL STATEMENTS

YEARS ENDED AUGUST 31, 2013 (AUDITED) AND 2012 (UNAUDITED)

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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, 2013, 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, 2013 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

The FY 2012 summarized comparative information was reviewed by us, and our report thereon, dated December 12, 2012, stated we were not aware of any material modifications that should be made to those statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.

Smith, Sullivan & Brown, P.C.

Westborough, Massachusetts
January 7, 2014

COMPASS WORKING CAPITAL, INC.

STATEMENTS OF FINANCIAL POSITION AS OF AUGUST 31, 2013 (AUDITED) AND 2012 (UNAUDITED)

ASSETS

	<u>2013</u> <i>(Audited)</i>	<u>2012</u> <i>(Unaudited)</i>
<u>CURRENT ASSETS:</u>		
Cash	\$ 46,382	\$ 131,682
Accounts Receivable, Program Services	25,639	20,000
Grants Receivable	164,125	66,198
Contributions Receivable	2,100	-
Advances on Behalf of Participants	4,500	4,500
Prepaid Expenses and Deposits	<u>27,348</u>	<u>10,286</u>
Total Current Assets	<u>270,094</u>	<u>232,666</u>
<u>PROPERTY AND EQUIPMENT:</u>		
Equipment and Software	7,371	15,770
Less: Accumulated Depreciation	<u>(4,205)</u>	<u>(15,661)</u>
Net Property and Equipment	<u>3,166</u>	<u>109</u>
<u>NON-CURRENT ASSETS:</u>		
Non-Current Grants Receivable	<u>150,000</u>	<u>62,000</u>
<u>TOTAL ASSETS</u>	<u>\$ 423,260</u>	<u>\$ 294,775</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES:</u>		
Accounts Payable and Accrued Expenses	\$ -	\$ 19,332
Accrued Payroll and Related Costs	8,813	4,800
Accrued IDA Program Matching Funds	49,087	28,136
Deferred Revenue	-	71,581
Total Current Liabilities	<u>57,900</u>	<u>123,849</u>
<u>NET ASSETS:</u>		
Unrestricted Net Assets (Deficit)	(39,584)	(40,449)
Temporarily Restricted Net Assets	<u>404,944</u>	<u>211,375</u>
Total Net Assets	<u>365,360</u>	<u>170,926</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 423,260</u>	<u>\$ 294,775</u>

COMPASS WORKING CAPITAL, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2013 (AUDITED)
(With Summarized Comparative Unaudited Totals for 2012)

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL ACTIVITIES</u> <u>2013</u> <i>(Audited)</i>	<u>2012</u> <i>(Unaudited)</i>
<u>SUPPORT, REVENUES AND RECLASSIFICATIONS:</u>				
<i>Program Service Revenues:</i>				
Financial Coaching, Training and Consultation Fees	\$ 98,866	\$ -	\$ 98,866	\$ 85,471
Housing Authority Contract Revenue	89,476	-	89,476	20,000
Total Program Service Revenues	<u>188,342</u>	<u>-</u>	<u>188,342</u>	<u>105,471</u>
<i>Public Support:</i>				
Contributions, Foundation and Corporate Grants	122,784	421,801	544,585	233,201
Special Event Revenue, Net of Direct Costs	14,624	-	14,624	6,573
Government Grants	16,502	-	16,502	11,560
In-Kind Goods and Services	86,678	-	86,678	60,456
Total Public Support	<u>240,588</u>	<u>421,801</u>	<u>662,389</u>	<u>311,790</u>
<i>Other Revenues:</i>				
IDA Match Recapture	-	-	-	1,392
Interest Income	4	-	4	35
Total Other Revenues	<u>4</u>	<u>-</u>	<u>4</u>	<u>1,427</u>
<i>Reclassification of Net Assets:</i>				
Net Assets Released from Restriction	228,232	(228,232)	-	-
<u>TOTAL SUPPORT, REVENUES AND RECLASSIFICATIONS</u>	<u>657,166</u>	<u>193,569</u>	<u>850,735</u>	<u>418,688</u>
<u>FUNCTIONAL EXPENSES BEFORE IN-KIND SERVICES:</u>				
Program Services	476,089	-	476,089	334,788
Administrative	44,316	-	44,316	39,516
Fund Raising	49,218	-	49,218	17,319
<u>TOTAL FUNCTIONAL EXPENSES BEFORE IN-KIND SERVICES</u>	<u>569,623</u>	<u>-</u>	<u>569,623</u>	<u>391,623</u>
In-Kind Legal Services	66,278	-	66,278	51,456
In-Kind Financial Education Instructors	20,400	-	20,400	9,000
<u>TOTAL FUNCTIONAL EXPENSES</u>	<u>656,301</u>	<u>-</u>	<u>656,301</u>	<u>452,079</u>
<u>CHANGE IN NET ASSETS</u>	<u>865</u>	<u>193,569</u>	<u>194,434</u>	<u>(33,391)</u>
<u>NET ASSETS (DEFICIT) - BEGINNING OF YEAR</u>	<u>(40,449)</u>	<u>211,375</u>	<u>170,926</u>	<u>204,317</u>
<u>NET ASSETS (DEFICIT) - END OF YEAR</u>	<u>\$ (39,584)</u>	<u>\$ 404,944</u>	<u>\$ 365,360</u>	<u>\$ 170,926</u>

The Accompanying Notes are an Integral Part of these Financial StatementsPage 4

COMPASS WORKING CAPITAL, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2013 (AUDITED)

(With Summarized Comparative Unaudited Totals for 2012)

	<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>2013</u> <i>(Audited)</i>	<u>2012</u> <i>(Unaudited)</i>
Salaries and Wages	\$ 290,049	\$ 13,734	\$ 21,184	\$ 324,967	\$ 207,024
Payroll Taxes	26,165	760	1,825	28,750	19,680
Employee Benefits	11,876	411	850	13,137	10,958
Staff Recruitment, Development and Training	680	49	50	779	2,410
Contracted Evaluation and Research Services	16,504	-	-	16,504	37,677
Other Professional Fees	7,283	6,948	21,849	36,080	12,281
Matching Funds for IDA Program Participants	30,971	-	-	30,971	-
Rent and Utilities	45,364	2,214	2,214	49,792	49,890
Insurance	1,894	237	237	2,368	1,975
Marketing/Outreach	8,597	-	-	8,597	2,843
Depreciation	1,694	-	-	1,694	1,560
Conferences, Meetings and Travel	1,738	490	-	2,228	1,844
Accounting Fees	-	17,175	-	17,175	17,925
Workshops	5,167	-	-	5,167	4,978
Other Program Activities	2,276	-	-	2,276	1,845
IT services	3,670	-	-	3,670	-
Office Supplies and Expenses	6,021	725	-	6,746	6,136
Telecommunications	13,194	512	163	13,869	11,059
Postage and Printing	2,671	607	505	3,783	828
Bank Fees, Filing Fees and Dues	275	454	341	1,070	284
Miscellaneous	-	-	-	-	426
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Functional Expenses Before In-Kind Services	476,089	44,316	49,218	569,623	391,623
In-Kind Legal Services	-	66,278	-	66,278	51,456
In-Kind Financial Education Instructors	20,400	-	-	20,400	9,000
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Functional Expenses After In-Kind Services	<u>\$ 496,489</u>	<u>\$ 110,594</u>	<u>\$ 49,218</u>	<u>\$ 656,301</u>	<u>\$ 452,079</u>

The Accompanying Notes are an Integral Part of these Financial Statements . . . Page 5

COMPASS WORKING CAPITAL, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2013 (AUDITED) AND 2012 (UNAUDITED)

	<u>2013</u> <i>(Audited)</i>	<u>2012</u> <i>(Unaudited)</i>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Change in Net Assets	\$ 194,434	\$ (33,391)
<i>Adjustments to Reconcile the Above to Net Cash (Used) by Operating Activities:</i>		
Depreciation	1,694	1,560
<i>(Increase) Decrease in Current Assets:</i>		
Accounts Receivable, Program Services	(5,639)	(15,461)
Grants Receivable	(97,927)	52,228
Contributions Receivable	(2,100)	10,000
Advances on Behalf of Participants	-	5,060
Prepaid Expenses and Deposits	(17,062)	(1,414)
<i>Increase (Decrease) in Current Liabilities:</i>		
Accounts Payable and Accrued Expenses	(19,332)	10,516
Accrued Payroll and Related Costs	4,013	(4,091)
Accrued IDA Program Matching Funds	20,951	(26,418)
Deferred Revenue	(71,581)	(5,466)
<i>(Increase) Decrease in Non-Current Assets:</i>		
Non-Current Grants Receivable	(88,000)	(62,000)
Net Adjustment	(274,983)	(35,486)
<u>NET CASH (USED) BY OPERATING ACTIVITIES</u>	<u>(80,549)</u>	<u>(68,877)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchase of Equipment and Software	(4,751)	-
Net Cash from Investing Activities	(4,751)	-
<u>NET (DECREASE) IN CASH BALANCES</u>	<u>(85,300)</u>	<u>(68,877)</u>
<u>CASH - BEGINNING OF YEAR</u>	<u>131,682</u>	<u>200,559</u>
<u>CASH - END OF YEAR</u>	<u>\$ 46,382</u>	<u>\$ 131,682</u>
 <i>Supplemental Disclosures :</i>		
Interest and Finance Charges Paid	\$ -	\$ -
Income Taxes Paid	\$ -	\$ -

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2013

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 financial coaching and savings programs that empower working, 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 working poor families by influencing field-related practice and policy.

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, 2013

(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 2013, 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, 60% had reduced their debt, 68% had improved their credit, and 68% had saved an average of \$1,245.

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 2013 and in FY 2012, 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 306 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 143 participants in this flagship program. At the end of FY 2013, IDA participants had saved \$171,736 and earned \$313,171 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, 2013

(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, 2013

(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 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 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.

Grants Receivable:

Grants Receivable represent multi-year grant 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. As of August 31, 2013, non-current grants in the amounts of \$100,000 and \$50,000, are due in FY 2015 and FY 2016, respectively. As of August 31, 2012, non-current grants were 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.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2013

(Continued)

NOTE 3 (Continued)

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.

During the year ended August 31, 2013, Compass replaced fully depreciated software with an original cost of \$13,150 which was removed from the books. This adjustment had no impact on the change in net assets for the year then ended. As of August 31, 2013 and 2012, 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, 2013 and 2012. 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:

As of August 31, 2012, *Deferred Revenue* included grant funds from the Massachusetts Department of Housing and Community Development ("DHCD") and the Lynn Housing Authority totaling \$24,143, which had been received by the Organization for IDA matching purposes and had 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, the Organization had also received funds in advance on coaching, training and consultation contracts in the amount of \$47,438, which is included in *Deferred Revenue*. Revenue related to these contracts was recognized as earned.

As of August 31, 2013, all amounts held for IDA matching purposes had been earned by participants and released from deferred revenue. Additionally, there were no funds received in advance on coaching, training and consultation contracts.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2013

(Continued)

NOTE 3 (Continued)

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.

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, 2013 and 2012, total fund raising expenses, including both indirect fund raising expenses and direct costs of the fund raising event, were \$57,024 and \$24,896, respectively.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2013

(Continued)

NOTE 3 *(Continued)*

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 2010 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.

NOTE 4 RESTRICTED NET ASSETS

As of August 31, 2013 and 2012, temporarily restricted net assets reflect grants and donations restricted for the following donor-specified purposes:

<u>Nature of Restriction</u>	<u>2013</u>	<u>2012</u>
FSS Program	\$ 62,000	\$179,657
Technology	86,854	-
Time Restricted	250,000	-
IDA Program	<u>6,090</u>	<u>31,718</u>
Total	<u>\$404,944</u>	<u>\$211,375</u>

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

<u>Nature of Restriction</u>	<u>2013</u>	<u>2012</u>
FSS Program	\$174,590	\$218,593
Technology	28,014	-
IDA Program	<u>25,628</u>	<u>-</u>
Total	<u>\$228,232</u>	<u>\$218,593</u>

NOTE 5 MAJOR SOURCES OF FUNDING AND CONDITIONAL GRANTS

Concentrations:

For the year ended August 31, 2013, a multi-year grant from one foundation accounted for 35% of total support and revenue, and amounts due on this grant account for 80% of total *Grants Receivable*. For the year ended August 31, 2012, a grant from one organization accounted for 42% of total support and revenue, and amounts due on this grant accounted for 100% of total *Grants Receivable*.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2013

(Continued)

NOTE 5 *(Continued)*

Conditional Grants:

As of August 31, 2013, the Organization had received a three-year technology grant, the second and third years of which are conditional upon Compass both allocating the funds toward specified expenditures and achieving a number of benchmarks. The conditional portion of this grant totals \$185,333 and will be paid in equal installments in FY 2014 and FY 2015 contingent upon Compass' accomplishment of the above criteria.

During each of the years presented, Compass was also a party to another multi-year grant agreement, a portion of which is subject to a 1:1 matching requirement. Amounts granted to Compass, conditional upon raising matching funds from qualified donors, are tentatively scheduled for payment in the following fiscal years.

<u>Fiscal Year Ending</u>	<u>Amount</u>
August 31, 2014	\$158,192
August 31, 2015	<u>110,000</u>
Total	<u>\$268,192</u>

As of August 31, 2013 and 2012, total conditional grants totaling \$453,525 and \$303,000 had not been recognized as support, as conditions upon which the funding depends had not been met.

Housing Authority Agreements:

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. The Organization received \$45,000 and \$20,000 during the years ended August 31, 2013 and 2012, respectively and the remaining 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, 2013 and 2012, the Organization recognized the following in-kind contributions in its financial statements:

<u>Description</u>	<u>2013</u>	<u>2012</u>
Legal Services	\$66,278	\$51,456
Financial Education Instructors	<u>20,400</u>	<u>9,000</u>
Total	<u>\$86,678</u>	<u>\$60,456</u>

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2013

(Continued)

NOTE 7 SPECIAL EVENT REVENUE

Compass hosts an annual fund raising breakfast. For the years ended August 31, 2013 and 2012, sponsorship and contribution revenue of \$22,430 and \$14,150 (net of \$7,806 and \$7,577 in direct costs), respectively, was recognized in the accompanying Statement of Activities as *Special Event Revenue, Net of Direct Costs*.

NOTE 8 OPERATING LEASE COMMITMENTS

Boston Office:

For each of the years presented, the Organization was a party to an annually-renewable lease agreement with Third Sector New England to occupy office space within the NonProfit Center in Boston, Massachusetts, with monthly payments of \$1,859 and \$1,690 in FY 2013 and FY 2012, respectively. Rent expense related to this lease was \$22,308 and \$20,280, for the years ended August 31, 2013 and 2012, respectively, and is included in *Rent and Utilities* in the accompanying Statement of Functional Expenses. A new lease agreement was signed in September 2013, as further discussed in Note 11.

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, 2013, the future minimum lease obligations under this lease commitment was \$23,844 due in FY 2014.

NOTE 9 OTHER COMMITMENTS

On April 30, 2013, the Organization entered into a two-year commitment for hosted exchange server and data backup services. Amounts owed under this agreement total \$15,456 and \$10,304 for the years ended August 31, 2014 and 2015, respectively.

NOTE 10 EMPLOYEE BENEFIT PLAN

Compass maintains 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.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2013

(Continued)

NOTE 11 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 January 7, 2014, the date which the financial statements were available for issue, and noted the following event which met the criteria:

Lease Agreement:

Effective November 1, 2013, the Organization renewed its annual lease agreement with Third Sector New England with additional office space at the NonProfit Center in Boston, Massachusetts. The new lease agreement includes monthly payments of \$2,200 and is for a one-year period ending October 31, 2014.

Housing Authority Agreement:

In September 2013, Compass entered into a second MOU with LHAND to extend its FSS model to LHAND's public housing program. The MOU stipulates that LHAND will pay to Compass all of its annual HUD public housing FSS funding during the term (through August 31, 2018), projected at \$50,000 per year.