

COMPASS WORKING CAPITAL, INC.

FINANCIAL STATEMENTS

with

INDEPENDENT AUDITORS' REPORT

YEARS ENDED AUGUST 31, 2014 AND 2013

Smith  Sullivan
& Brown PC
CERTIFIED PUBLIC ACCOUNTANTS

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COMPASS WORKING CAPITAL, INC.
REPORT ON FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2014 AND 2013

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, 2014 AND 2013

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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, 2014, 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, 2014 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors
Compass Working Capital, Inc.

Report on Summarized Comparative Information

We have previously audited Compass Working Capital, Inc.'s FY 2013 financial statements, and our report dated December 12, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Smith, Sullivan & Brown, P.C.

Westborough, Massachusetts
December 9, 2014

COMPASS WORKING CAPITAL, INC.

STATEMENTS OF FINANCIAL POSITION AS OF AUGUST 31, 2014 AND 2013

ASSETS

	<u>2014</u>	<u>2013</u>
<u>CURRENT ASSETS:</u>		
Cash	\$ 418,313	\$ 46,382
Accounts Receivable, Program Services	20,646	25,639
Grants Receivable	288,633	164,125
Contributions Receivable	-	2,100
Advances on Behalf of Participants	-	4,500
Prepaid Expenses and Deposits	8,945	27,348
Total Current Assets	<u>736,537</u>	<u>270,094</u>
<u>PROPERTY AND EQUIPMENT:</u>		
Equipment and Software	4,750	7,371
Less: Accumulated Depreciation	<u>(3,960)</u>	<u>(4,205)</u>
Net Property and Equipment	<u>790</u>	<u>3,166</u>
<u>NON-CURRENT ASSETS:</u>		
Non-Current Grants Receivable	<u>378,605</u>	<u>150,000</u>
<u>TOTAL ASSETS</u>	<u>\$ 1,115,932</u>	<u>\$ 423,260</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES:</u>		
Accounts Payable and Accrued Expenses	\$ 3,654	\$ -
Accrued Payroll and Related Costs	17,304	8,813
Accrued IDA Program Matching Funds	25,500	49,087
Deferred Revenue	29,400	-
Total Current Liabilities	<u>75,858</u>	<u>57,900</u>
<u>NET ASSETS:</u>		
Unrestricted Net Assets (Deficit)	250,987	(39,584)
Temporarily Restricted Net Assets	<u>789,087</u>	<u>404,944</u>
Total Net Assets	<u>1,040,074</u>	<u>365,360</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 1,115,932</u>	<u>\$ 423,260</u>

COMPASS WORKING CAPITAL, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2014
(With Summarized Comparative Totals for 2013)

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL ACTIVITIES</u> 2014	<u>2013</u>
<u>SUPPORT, REVENUES AND RECLASSIFICATIONS:</u>				
<i>Program Service Revenues:</i>				
Financial Coaching, Training and Consultation Fees	\$ 95,542	\$ -	\$ 95,542	\$ 98,866
Housing Authority / Agency Contract Revenue	<u>162,307</u>	<u>-</u>	<u>162,307</u>	<u>89,476</u>
Total Program Service Revenues	<u>257,849</u>	<u>-</u>	<u>257,849</u>	<u>188,342</u>
<i>Public Support:</i>				
Contributions, Foundation and Corporate Grants	380,926	770,868	1,151,794	544,585
Special Event Revenue, Net of Direct Costs	50,735	-	50,735	14,624
Government Grants	-	-	-	16,502
In-Kind Goods and Services	<u>133,664</u>	<u>-</u>	<u>133,664</u>	<u>86,678</u>
Total Public Support	<u>565,325</u>	<u>770,868</u>	<u>1,336,193</u>	<u>662,389</u>
<i>Other Revenues:</i>				
IDA Match Recapture	8,273	-	8,273	-
Miscellaneous Income	<u>3,201</u>	<u>-</u>	<u>3,201</u>	<u>4</u>
Total Other Revenues	<u>11,474</u>	<u>-</u>	<u>11,474</u>	<u>4</u>
<i>Reclassification of Net Assets:</i>				
Net Assets Released from Restriction	<u>386,725</u>	<u>(386,725)</u>	<u>-</u>	<u>-</u>
<u>TOTAL SUPPORT, REVENUES AND RECLASSIFICATIONS</u>	<u>1,221,373</u>	<u>384,143</u>	<u>1,605,516</u>	<u>850,735</u>
<u>FUNCTIONAL EXPENSES BEFORE IN-KIND SERVICES:</u>				
Program Services	623,189	-	623,189	476,089
Administrative	116,593	-	116,593	44,316
Fund Raising	<u>57,356</u>	<u>-</u>	<u>57,356</u>	<u>49,218</u>
<u>TOTAL FUNCTIONAL EXPENSES BEFORE IN-KIND SERVICES</u>	<u>797,138</u>	<u>-</u>	<u>797,138</u>	<u>569,623</u>
In-Kind Legal Services	116,864	-	116,864	66,278
In-Kind Financial Education Instructors	<u>16,800</u>	<u>-</u>	<u>16,800</u>	<u>20,400</u>
<u>TOTAL FUNCTIONAL EXPENSES</u>	<u>930,802</u>	<u>-</u>	<u>930,802</u>	<u>656,301</u>
<u>CHANGE IN NET ASSETS</u>	<u>290,571</u>	<u>384,143</u>	<u>674,714</u>	<u>194,434</u>
<u>NET ASSETS (DEFICIT) - BEGINNING OF YEAR</u>	<u>(39,584)</u>	<u>404,944</u>	<u>365,360</u>	<u>170,926</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 250,987</u>	<u>\$ 789,087</u>	<u>\$ 1,040,074</u>	<u>\$ 365,360</u>

COMPASS WORKING CAPITAL, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2014

(With Summarized Comparative Totals for 2013)

	<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>2014</u>	<u>2013</u>
Salaries and Wages	\$ 390,301	\$ 36,854	\$ 41,694	\$ 468,849	\$ 324,967
Payroll Taxes	34,061	3,140	3,624	40,825	28,750
Employee Benefits	25,652	2,409	2,742	30,803	13,137
Staff Recruitment, Development and Training	205	610	765	1,580	779
Contracted Evaluation and Research Services	43,681	-	-	43,681	16,504
Other Professional Fees	1,160	14,478	125	15,763	36,080
Matching Funds for IDA Program Participants	-	-	-	-	30,971
Rent and Utilities	57,638	4,336	2,920	64,894	49,792
Insurance	775	953	97	1,825	2,368
Marketing/Outreach	9,417	122	2,200	11,739	8,597
Depreciation	-	2,376	-	2,376	1,694
Conferences, Meetings and Travel	4,114	683	1,036	5,833	2,228
Accounting, Bookkeeping, and Audit Fees	-	40,859	-	40,859	17,175
Workshops	13,786	-	-	13,786	5,167
Other Program Activities	4,037	-	-	4,037	2,276
IT services	19,037	1,037	1,182	21,256	3,670
Supplies and Equipment	5,144	4,040	6	9,190	6,746
Telecommunications	9,048	2,876	436	12,360	13,869
Postage and Printing	4,071	758	-	4,829	3,783
Bank Fees, Filing Fees and Dues	1,062	672	529	2,263	1,070
Miscellaneous	-	390	-	390	-
Total Functional Expenses Before In-Kind Services	623,189	116,593	57,356	797,138	569,623
In-Kind Legal Services	58,447	58,447	-	116,894	66,278
In-Kind Financial Education Instructors	16,800	-	-	16,800	20,400
Total Functional Expenses After In-Kind Services	\$ 698,436	\$ 175,040	\$ 57,356	\$ 930,832	\$ 656,301

COMPASS WORKING CAPITAL, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Change in Net Assets	\$ 674,714	\$ 194,434
<i>Adjustments to Reconcile the Above to Net Cash Provided (Used) by Operating Activities:</i>		
Depreciation	2,376	1,694
<i>(Increase) Decrease in Current Assets:</i>		
Accounts Receivable, Program Services	4,993	(5,639)
Grants Receivable	(124,508)	(97,927)
Contributions Receivable	2,100	(2,100)
Advances on Behalf of Participants	4,500	-
Prepaid Expenses and Deposits	18,403	(17,062)
<i>Increase (Decrease) in Current Liabilities:</i>		
Accounts Payable and Accrued Expenses	3,654	(19,332)
Accrued Payroll and Related Costs	8,491	4,013
Accrued IDA Program Matching Funds	(23,587)	20,951
Deferred Revenue	29,400	(71,581)
<i>(Increase) Decrease in Non-Current Assets:</i>		
Non-Current Grants Receivable	(228,605)	(88,000)
Net Adjustment	(302,783)	(274,983)
<u>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>	<u>371,931</u>	<u>(80,549)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchase of Equipment and Software	-	(4,751)
Net Cash from Investing Activities	-	(4,751)
<u>NET INCREASE (DECREASE) IN CASH BALANCES</u>	<u>371,931</u>	<u>(85,300)</u>
<u>CASH - BEGINNING OF YEAR</u>	<u>46,382</u>	<u>131,682</u>
<u>CASH - END OF YEAR</u>	<u>\$ 418,313</u>	<u>\$ 46,382</u>

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

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, 2014

(Continued)

NOTE 2 *(Continued)*

The Compass FSS model integrates financial coaching and asset building strategies into the traditional FSS model, with the goal of promoting economic mobility and financial security for participating families. The first public-private model of its kind in the country, the Compass FSS program is currently offered through partnerships with public housing authorities and nonprofit housing agencies in Lynn, Cambridge, and Boston. The Compass FSS program has recently attracted local and national attention as a scalable, housing-based model to help working, low-income families build assets, reduce their reliance on public assistance, and become financially secure.

Early data emerging from the Compass FSS program has been very promising. Key financial security metrics for participants who have been in the program for two years are summarized below:

- 64% increased their earned income by an average of \$8,100 per year
- 83% started to save in their FSS accounts, with an average savings of \$2,211
- 70% increased their credit score, with an average increase of 51 points
- 51% reduced their debt burden, with an average decrease of \$4,670

At the end of FY 2014, Compass had enrolled 327 families in its FSS programs.

Financial Coaching Programs:

Compass provides contract-based financial coaching programs to help other community organizations integrate asset building into their work. In FY 2014, Compass expanded 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 382 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 139 participants in this flagship program. At the end of FY 2014, IDA participants had saved \$173,076 and earned \$304,521 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 \$4.1 million in affordable mortgage financing and down payment assistance. During FY 2014 and FY 2013, the IDA program was winding down. The program will be completed in FY 2015.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

(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.

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.

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.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

(Continued)

NOTE 3 (Continued)

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, 2014, non-current grants in the amounts of \$222,911 and \$155,694, are due in FY 2016 and FY 2017, respectively. 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. 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 \$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 against income over the estimated useful lives of the assets, as expressed in terms of years.

During the years ended August 31, 2014 and 2013, Compass disposed of fully depreciated assets with original costs of \$2,621 and \$13,150, respectively. This adjustment had no impact on the change in net assets for the years then ended. As of August 31, 2014 and 2013, 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, 2014 and 2013. 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.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

(Continued)

NOTE 3 (Continued)

Deferred Revenue and Revenue Recognition:

As of August 31, 2014, the Organization received funds in advance on a coaching, training and consultation contract in the amount of \$29,400, which is included in *Deferred Revenue*. Revenue related to this contract is recognized as the services are rendered.

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.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

(Continued)

NOTE 3 (Continued)

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, 2014 and 2013, total fund raising expenses, including both indirect fund raising expenses and direct costs of the fund raising event, were \$76,230 and \$57,024, 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 2011 are no longer subject to examination by tax authorities.

NOTE 4 RESTRICTED NET ASSETS

As of August 31, 2014 and 2013, temporarily restricted net assets reflect grants and donations restricted for the following donor-specified purposes:

<u>Nature of Restriction</u>	<u>2014</u>	<u>2013</u>
FSS Program*	\$533,488	\$ 62,000
Technology	95,599	86,854
Time Restricted	160,000	250,000
IDA Program	-	6,090
Total	<u>\$789,087</u>	<u>\$404,944</u>

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

<u>Nature of Restriction</u>	<u>2014</u>	<u>2013</u>
FSS Program*	\$154,250	\$174,590
Technology	91,385	28,014
Planning	35,000	-
Time Restricted	100,000	-
IDA Program	6,090	25,628
Total	<u>\$386,725</u>	<u>\$228,232</u>

*Amounts included in temporarily restricted net assets for the FSS Program includes amounts restricted by donors for a specific FSS site.

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

(Continued)

NOTE 5 MAJOR SOURCES OF FUNDING AND CONDITIONAL GRANTS

Conditional Grants:

In FY 2013, the Organization received a three-year technology grant, the second and third years of which were conditional upon Compass both allocating the funds toward specified expenditures and achieving a number of benchmarks. Amounts granted to Compass under this award totaled \$100,130 and \$94,668 for the years ended August 31, 2014 and 2013, respectively. Assuming continued successful performance by Compass, the final installment of \$83,202 is expected to be received in FY 2015.

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. Payments totaling \$125,392, which are conditional upon the Organization raising matching funds from qualified donors, are tentatively scheduled to be received in FY15.

As of August 31, 2014 and 2013, total conditional grants totaling \$193,202 and \$453,525 had not been recognized as support, as conditions upon which the funding depends had not been met.

Housing Authority Agreements:

In July 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 \$75,000 and \$45,000 during the years ended August 31, 2014 and 2013, respectively, and the remaining funding is contingent upon Compass’ ability to meet enrollment and performance targets.

In September 2013, Compass entered into a second MOU with Lynn Housing Authority and Neighborhood Development (“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.

In April 2014, Compass signed a MOU with Metropolitan Boston Housing Partnership (“MBHP”) to expand the FSS program to Boston. Under this agreement, MBHP will provide up to \$225,000 in contract funding to Compass for an initial term of three years. The Organization received \$25,000 under this agreement during the year ended August 31, 2014, and the remaining funding is conditional 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, 2014 and 2013, the Organization recognized the following in-kind contributions in its financial statements:

<u>Description</u>	<u>2014</u>	<u>2013</u>
Legal Services	\$116,864	\$66,278
Financial Education Instructors	<u>16,800</u>	<u>20,400</u>
Total	<u>\$133,664</u>	<u>\$86,678</u>

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

(Continued)

NOTE 7 SPECIAL EVENT REVENUE

Compass hosts an annual fund raising breakfast. For the years ended August 31, 2014 and 2013,, sponsorship and contribution revenue of \$69,609 and \$22,430 (net of \$18,874 and \$7,806 in direct costs), respectively, was recognized in the accompanying Statement of Activities as *Special Event Revenue, Net of Direct Costs*.

NOTE 8 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 (“TSNE”) to occupy office space within the NonProfit Center in Boston, Massachusetts. During the years presented, monthly rent payments ranged from \$1,859 to \$3,800. Rent expense related to this lease was \$36,278 and \$22,308, for the years ended August 31, 2014 and 2013, respectively, and is included in *Rent and Utilities* in the accompanying Statement of Functional Expenses.

In October 2014, the Organization entered into a five-year lease agreement with TSNE to expand its office space at the NonProfit Center to 2,201 square feet. Monthly payments under the new lease will be \$5,503 for the first three years of the agreement and escalate to \$5,686 for the last two years of the agreement.

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. In August 2014, the Organization extended the lease agreement for an additional five years, through August 31, 2019. Monthly payments will remain at \$1,987 through August 31, 2016 and will increase to \$2,153 in FY 2017 and FY 2018 and \$2,318 in FY 2019.

IT Services:

On April 30, 2013, the Organization entered into a two-year commitment for hosted exchange server and data backup services. Payments for these services were \$17,089 for the year ended August 31, 2014 and are included in *IT Services* in the accompanying Statement of Functional Expenses.

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

<u>Year Ended</u>	<u>Boston Facility</u>	<u>Lynn Facility</u>	<u>IT Services</u>	<u>Total Obligations</u>
August 31, 2015	\$ 64,333	\$ 23,844	\$10,304	\$ 98,481
August 31, 2016	66,036	23,844	-	89,880
August 31, 2017	66,036	25,831	-	91,867
August 31, 2018	68,049	25,831	-	93,880
August 31, 2019	<u>68,232</u>	<u>27,818</u>	<u>-</u>	<u>96,050</u>
Total	<u>\$332,686</u>	<u>\$127,168</u>	<u>\$10,304</u>	<u>\$470,158</u>

COMPASS WORKING CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

(Continued)

NOTE 9 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.

NOTE 10 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. As of August 31, 2014, cash balances in excess of the FDIC coverage were \$180,702. There were no balances in excess of FDIC coverage for the year ended August 31, 2013. The Organization has not experienced any losses on uninsured cash balances.

Receivables:

For the year ended August 31, 2014, a multi-year grant from one foundation accounted for 31% of total support and revenue, and amounts due on this grant account for 75% of total *Grants Receivable*. 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*.

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 December 9, 2014, the date which the financial statements were available for issue, and other than the lease extension previously disclosed in Note 8, noted no events which met the criteria.