



FINANCIAL STATEMENTS

September 30, 2017

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
The Financial Clinic  
Brooklyn, New York

We have audited the accompanying financial statements of The Financial Clinic, which comprise the statement of financial position as of September 30, 2017, 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.

### ***Auditor's 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 from 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 entity'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 entity'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 The Financial Clinic as of September 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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**Report on Summarized Comparative Information**

We have previously audited The Financial Clinic's 2016 financial statements, and our report dated January 13, 2017, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Wegner CPAs LLP*

Wegner CPAs, LLP  
New York, New York  
January 23, 2018

**THE FINANCIAL CLINIC**  
**STATEMENT OF FINANCIAL POSITION**  
September 30, 2017 with comparative totals for September 30, 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 581,451	\$ 493,192
Accounts receivable	492,036	241,234
Promises to give (see note 3)	3,145,750	1,924,750
Prepaid expenses	<u>62,633</u>	<u>27,613</u>
Total current assets	4,281,870	2,686,789
<b>OTHER ASSETS</b>		
Equipment and leasehold improvements - net (see note 4)	51,779	20,450
Software - net (see note 5)	243,030	205,284
Security deposits	105,152	24,800
Long term promises to give - net (see note 3)	<u>1,315,672</u>	<u>1,452,784</u>
Total other assets	<u>1,715,633</u>	<u>1,703,318</u>
<b>Total assets</b>	<u><u>\$ 5,997,503</u></u>	<u><u>\$ 4,390,107</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 135,493	\$ 94,557
Payroll liabilities	105,663	89,304
Deferred revenue	236,068	53,051
Deferred lease liability	<u>2,971</u>	<u>3,110</u>
Total current liabilities	480,195	240,022
<b>LONG TERM LIABILITIES</b>		
Line of credit (see note 6)	<u>494,895</u>	<u>494,895</u>
Total liabilities	975,090	734,917
<b>NET ASSETS</b>		
Unrestricted	223,377	10,540
Temporarily restricted (see note 7)	<u>4,799,036</u>	<u>3,644,650</u>
Total net assets	<u>5,022,413</u>	<u>3,655,190</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 5,997,503</u></u>	<u><u>\$ 4,390,107</u></u>

See accompanying notes.

**THE FINANCIAL CLINIC**  
STATEMENT OF ACTIVITIES

Year ended September 30, 2017 with comparative totals for the year ended September 30, 2016

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Total
<b>SUPPORT AND REVENUE</b>				
Program service fees	\$ 997,080	\$ -	\$ 997,080	\$ 804,902
Grants and contributions	40,526	4,145,000	4,185,526	5,918,974
Donated services (see note 8)	33,500	-	33,500	199,235
Miscellaneous income	9,922	-	9,922	17,583
Total support and revenue	1,081,028	4,145,000	5,226,028	6,940,694
<b>EXPENSES</b>				
Program services				
Direct Services	1,436,194	-	1,436,194	1,103,817
Capacity Building	549,690	-	549,690	510,895
Product Development	404,237	-	404,237	508,751
Research & Policy	228,570	-	228,570	178,680
Total program services	2,618,690	-	2,618,690	2,302,143
Supporting activities				
Management and general	952,871	-	952,871	725,325
Fundraising	287,244	-	287,244	251,948
Total expenses	3,858,805	-	3,858,805	3,279,416
Net assets released from restriction	2,990,614	(2,990,614)	-	-
<b>Change in net assets</b>	212,837	1,154,386	1,367,223	3,661,278
Net assets (deficit) - beginning of year	10,540	3,644,650	3,655,190	(6,088)
<b>Net assets - end of year</b>	<u>\$ 223,377</u>	<u>\$ 4,799,036</u>	<u>\$ 5,022,413</u>	<u>\$ 3,655,190</u>

See accompanying notes.

**THE FINANCIAL CLINIC**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year ended September 30, 2017 with comparative totals for the year ended September 30, 2016

	2017							2016	
	Direct Services	Capacity Building	Product Development	Research & Policy	Total Program Services	Management and General	Fundraising	Total	Total
Personnel	\$ 999,803	\$ 389,328	\$ 237,209	\$ 189,437	\$ 1,815,777	\$ 619,363	\$ 235,680	\$ 2,670,820	\$ 2,116,801
Professional fees	220,306	57,009	89,194	5,138	371,647	160,903	14,411	546,961	631,143
Occupancy	83,588	26,586	13,071	14,633	137,878	63,045	13,947	214,870	174,051
Web services	12,058	4,096	47,710	2,471	66,335	15,844	2,395	84,574	67,028
Depreciation and amortization	24,081	7,659	3,766	4,216	39,721	18,162	4,018	61,901	51,029
Conference and facility fees	9,039	13,983	964	1,667	25,653	9,211	4,857	39,721	40,800
Travel	19,621	35,579	6,025	4,503	65,728	2,991	2,547	71,266	40,732
Interest	-	-	-	-	-	34,663	-	34,663	32,406
Insurance	10,677	4,327	1,557	2,448	19,009	4,704	2,268	25,981	24,451
Postage and printing	6,503	1,615	1,469	729	10,316	7,082	4,811	22,209	23,270
Bank and credit score fees	26,805	-	269	-	27,074	939	-	28,013	20,765
Supplies	9,716	4,248	1,251	1,431	16,646	5,599	1,245	23,490	19,328
Office equipment	10,987	4,750	778	1,131	17,646	2,776	1,061	21,483	17,200
Dues and membership	1,012	4	101	552	1,669	1,436	2	3,107	11,944
Miscellaneous	1,998	506	873	214	3,591	6,153	2	9,746	5,616
Bad debt	-	-	-	-	-	-	-	-	2,852
<b>Total expenses</b>	<b>\$ 1,436,194</b>	<b>\$ 549,690</b>	<b>\$ 404,237</b>	<b>\$ 228,570</b>	<b>\$ 2,618,690</b>	<b>\$ 952,871</b>	<b>\$ 287,244</b>	<b>\$ 3,858,805</b>	<b>\$ 3,279,416</b>

See accompanying notes.

**THE FINANCIAL CLINIC**  
STATEMENT OF CASH FLOWS

Year ended September 30, 2017 with comparative totals for the year ended September 30, 2016

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,367,223	\$ 3,661,278
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	61,901	51,029
Discount on long term promises to give (see note 3)	37,112	47,216
(Increase) decrease in assets		
Accounts receivable	(250,802)	(90,146)
Promises to give	(1,121,000)	(3,200,753)
Prepaid expenses	(35,020)	(19,987)
Security deposits	(80,352)	(4,500)
Increase (decrease) in liabilities		
Accounts payable	19,136	(10,858)
Payroll liabilities	16,359	27,405
Deferred revenue	183,017	(65,085)
Deferred lease liability	(139)	(1,173)
<b>Net cash flows from operating activities</b>	<b>197,435</b>	<b>394,426</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment and leasehold improvements	(38,936)	(10,363)
Purchase of software	(70,240)	(103,230)
<b>Net cash flows from investing activities</b>	<b>(109,176)</b>	<b>(113,593)</b>
<b>Net change in cash</b>	<b>88,259</b>	<b>280,833</b>
Cash - beginning of year	493,192	212,359
<b>Cash - end of year</b>	<b>\$ 581,451</b>	<b>\$ 493,192</b>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Cash paid for interest	\$ 34,663	\$ 32,406
Noncash investing and financing transactions		
Software acquisitions included in accounts payable	21,800	13,320

See accompanying notes.



**THE FINANCIAL CLINIC**  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2017 with comparative totals for September 30, 2016

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## NATURE OF ACTIVITIES

The Financial Clinic was incorporated in September 2006 as a not-for-profit organization in the State of New York. The Financial Clinic's mission is to build the working poor people's financial security. The Financial Clinic accomplishes this mission through a range of direct services and capacity building supports that address immediate challenges and create trajectories for long-term goals. The Clinic defines and measures financial security around six pillars: assets, banking, credit, debt, taxes, and goals. By demonstrating improved financial security for its customers and sharing that expertise with its partners, the Clinic is also shaping policy and leading the field of financial development.

The Clinic's major programs are as follows:

*Direct Services* – The Clinic provides one-on-one consulting that helps customers develop sound financial goals and habits. Part of the direct services program provides “on-ramp” assistance with budgeting and banking. The Clinic also provides tax preparation through the VITA program.

*Capacity Building* – To support the Organizations through the process of embedding financial security into their programs, the Clinic will use its Capacity Building Framework which supports organizations to examine and prioritize all of the elements of their business model to sustainably embed financial security work. The following framework areas are addressed in the capacity building process with each Organization. Organizations can decide which areas are the highest priority for them.

- *Goal & Vision Setting*: Organizations set goals for financial security work in their program and envision how financial security services will enhance the achievement of their mission.
- *Service Delivery*: Organizations implement financial security activities into their existing service delivery and programs.
- *Infrastructure & Staff Support*: Organizations memorialize financial security work by changing organizational protocols and integrating staff onboarding and professional development services into existing procedures.
- *Development*: Organizations identify development priorities and create a strategy to fundraise for and sustain financial security strategies.
- *Outreach, Marketing, and Communications*: Organizations review and revise stakeholder materials to include financial security services.
- *Partnership Building*: Organizations create plans and develop referral processes to community partners whose services would enhance their delivery of financial security strategies.
- *Lasting Change*: Organizations promote best practices in their community through a community of practice, field-wide conferences, coalitions, and other policy and advocacy work.

*Product Development* – The revolutionary online platform that significantly improves service to America's working poor, Change Machine contains all the tools and resources practitioners need to address their customers' underlying financial insecurity. Built by practitioners for practitioners, Change Machine offers unprecedented opportunities for dramatically increasing the impact of financial coaching. Change Machine provides a single platform where practitioners can learn best financial coaching practices; access all the tools and worksheets they need to coach their customers; a professional social network specifically designed for the field to share best practices; and special access for supervisors to manage their staff, customers and data.

**THE FINANCIAL CLINIC**  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2017 with comparative totals for September 30, 2016

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NATURE OF ACTIVITIES (continued)

*Policy & Advocacy* – Based on what we learn from our on-the-ground work with thousands of working poor people each year, we research, develop, and advocate for policy reforms and systemic changes that will remove obstacles to financial security. We build coalitions and partner with advocacy groups, researchers, think-tanks, practitioners, and local, state, and federal policymakers to guide and support our policy agenda.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**

The Clinic is required to report information regarding its financial position and activities according to three classes of net assets:

*Unrestricted net assets*—Net assets that are not restricted by donors. Designations are voluntary board-approved segregations of unrestricted net assets for specific purposes, projects, or investments.

*Temporarily restricted net assets*—Net assets whose use has been limited by donor-imposed time restrictions or purpose restrictions.

*Permanently restricted net assets*—Net assets that have been restricted by donors to be maintained by the Clinic in perpetuity.

**Accounts Receivable**

Management considers all accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts has been developed. If an account becomes uncollectible, it will be charged to operations when that determination is made.

**Promises to Give**

Unconditional promises to give are recognized as support in the period the promises are received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Promises to give receivable in less than one year are recorded at their net realizable value and those due in more than one year are reported at the present value of their net realizable value, using risk-free interest rate applicable to the years in which the promises are to be received.

**Equipment and Leasehold Improvements**

Acquisitions of equipment and leasehold improvements in excess of \$1,000 are capitalized. Purchases of equipment and leasehold improvements are recorded at cost. Donations of equipment and leasehold improvements are recorded as support at their estimated fair value on the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Depreciation is provided using the straight-line method over 3 to 5 years, the estimated useful lives of the assets.

**THE FINANCIAL CLINIC**  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2017 with comparative totals for September 30, 2016

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Software**

All software research and development costs along with any maintenance and customer support are expensed as incurred. All software production costs including any indirect costs are recorded at cost and amortized over the greater of the ratio that current gross revenue for a product bear to the total of current and anticipated future gross revenue for that product and the straight-line method over the remaining estimated economic life of the product including the period being reported on.

**Deferred Revenue**

Program service revenue is recognized based on contract delivery dates. Revenue received prior to the contract dates to which it applies is recorded as deferred revenue.

**Contributions**

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**Donated Services**

Donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their estimated fair values in the period received.

**Expense Allocation**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

**Estimates**

The preparation of financial statements 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Income Tax Status**

The Clinic is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is therefore not subject to federal and state income or franchise taxes.

**THE FINANCIAL CLINIC**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2017 with comparative totals for September 30, 2016

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Date of Management’s Review**

Management has evaluated subsequent events through January 23, 2018, the date which the financial statements were available to be issued.

NOTE 2 – CONCENTRATIONS OF CREDIT RISK

The Clinic maintains its cash balances at two financial institutions located in New York. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At September 30, 2017 and 2016, the Clinic’s uninsured cash balance totaled approximately \$152,000 and \$245,000.

NOTE 3 – PROMISES TO GIVE

Promises to give at September 30, 2017 and 2016 consisted of the following:

	2017	2016
Receivable in less than one year	\$ 3,145,750	\$ 1,924,750
Receivable in one to five years	1,400,000	1,500,000
Promises to give	4,545,750	3,424,750
Discount to net present value	(84,328)	(47,216)
Promises to give - net	\$ 4,461,422	\$ 3,377,534

Promises to give receivable in more than one year at September 30, 2017 and 2016 are discounted at a rate of 4.35% and 3.25%.

During each of the years ended September 30, 2017 and 2016, the Clinic received promises to give of \$260,000 that contained donor conditions and recognized \$130,000 as contributions in each fiscal year. Contributions will be recognized on the remaining amount when donor conditions are satisfied in the subsequent year. The amount awarded in the subsequent year may be increased or decreased depending on the Congressional appropriation for the program.

NOTE 4 – LINE OF CREDIT

The Clinic has a \$500,000 revolving line of credit with an outstanding balance at September 30, 2017 and 2016 of \$494,895. The credit line matures on March 31, 2019. Advances on the credit line are payable on demand and carry an interest rate equal to the prime rate plus 3%. The line of credit is secured by a general business security agreement.

**THE FINANCIAL CLINIC**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2017 with comparative totals for September 30, 2016

**NOTE 5 – EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

Equipment and leasehold improvements at September 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$ 15,392	\$ 15,392
Computer equipment	24,930	22,441
Equipment and furniture	<u>46,067</u>	<u>9,619</u>
Equipment and leasehold improvements	86,389	47,452
Accumulated depreciation	<u>(34,610)</u>	<u>(27,002)</u>
Equipment and leasehold improvements - net	<u>\$ 51,779</u>	<u>\$ 20,450</u>

Depreciation expense for the years ended September 30, 2017 and 2016 was \$7,607 and \$14,106.

**NOTE 6 – SOFTWARE**

Software at September 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Software	\$ 350,190	\$ 258,150
Accumulated amortization	<u>107,160</u>	<u>52,866</u>
Software - net	<u>\$ 243,030</u>	<u>\$ 205,284</u>

Amortization expense for the years ended September 30, 2017 and 2016 was \$54,294 and \$36,922.

**NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at September 30, 2017 and 2016 are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Financial Security EcoSystem Project	\$ 4,652,672	\$ 2,790,377
VITA Program	106,364	97,500
Capacity Building	20,000	-
Financial Coaching	20,000	-
Growth Plan	-	57,989
Change Machine	-	12,500
Building Financial Security at Scale	-	436,284
Workforce Development Project	<u>-</u>	<u>250,000</u>
Temporarily restricted net assets	<u>\$ 4,799,036</u>	<u>\$ 3,644,650</u>

**THE FINANCIAL CLINIC**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2017 with comparative totals for September 30, 2016

**NOTE 8 – DONATED SERVICES**

The fair value of donated services for the years ended September 30, 2017 and 2016 included in the statement of activities and the corresponding expenses are as follows:

	2017		
	Management and General	Total	
Donated legal services	\$ 33,500	\$ 33,500	
	2016		
	Direct Services	Management and General	Total
Individual tax preparation services	\$ 141,434	\$ -	\$ 141,434
Legal services	-	57,801	57,801
Donated services	\$ 141,434	\$ 57,801	\$ 199,235

**NOTE 9 – RETIREMENT PLAN**

The Clinic sponsors a 401(k) plan through Charles Schwab that is administered by a Supplemental Participation Agreement with CMC Interactive. Full-time employees become eligible to participate following one-year of employment. The Clinic matches 200% of the amount deferred by the employee up to a maximum of 5% of compensation. Vesting period on the match is 3 years. Retirement expense for the match for the years ended September 30, 2017 and 2016 was \$128,165 and \$103,918.

**NOTE 10 – OPERATING LEASES**

The Clinic entered into an operating lease for new office space effective upon the expiration of their previous office lease in November 2017. The new office space is located in Brooklyn, New York and requires monthly payments of \$12,645. The lease includes annual increases in base rent and matures November 30, 2024. The Clinic also leases additional shared working space on a month to month basis requiring aggregate monthly payments of \$6,088. Lease expense for the years ended September 30, 2017 and 2016 was \$145,003 and \$114,432. Future minimum lease payments for the years ending September 30, 2017 consist of the following:

2018	\$ 126,450
2019	155,530
2020	160,198
2021	165,000
2022	169,944
Thereafter	409,858