



Formerly **The Financial Clinic**

FINANCIAL STATEMENTS

September 30, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Change Machine f/k/a The Financial Clinic
Brooklyn, New York

We have audited the accompanying financial statements of Change Machine, which comprise the statement of financial position as of September 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 Change Machine as of September 30, 2020, 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.

Adoption of New Accounting Guidance

As discussed in Note 1 to the financial statements, Change Machine adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2018-08, *Not-For Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, as of October 1, 2019. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Change Machine's 2019 financial statements, and our report dated January 28, 2020, 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, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Wegner CPAs, LLP
New York, New York
February 25, 2021

CHANGE MACHINE F/K/A THE FINANCIAL CLINIC
STATEMENT OF FINANCIAL POSITION
September 30, 2020 with comparative totals for September 30, 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash	\$ 3,419,060	\$ 2,328,125
Accounts receivable, net	85,299	174,880
Unconditional promises to give	972,000	1,860,000
Prepaid expenses	90,827	70,313
Total current assets	4,567,186	4,433,318
OTHER ASSETS		
Equipment and leasehold improvements, net	48,680	57,253
Software, net	241,754	262,709
Security deposits	84,852	84,852
Long term unconditional promises to give, net	-	484,300
Total other assets	375,286	889,114
Total assets	\$ 4,942,472	\$ 5,322,432
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 24,053	\$ 39,436
Accrued payroll and vacation	205,676	97,250
Deferred revenue	47,683	157,436
Deferred lease liability	40,325	32,540
Total current liabilities	317,737	326,662
OTHER LIABILITIES		
Paycheck Protection Program loan payable	440,390	-
Line of credit	429,895	494,895
Total liabilities	1,188,022	821,557
NET ASSETS		
Without donor restrictions	1,017,830	276,634
With donor restrictions	2,736,620	4,224,241
Total net assets	3,754,450	4,500,875
Total liabilities and net assets	\$ 4,942,472	\$ 5,322,432

See accompanying notes.

CHANGE MACHINE F/K/A THE FINANCIAL CLINIC
STATEMENT OF ACTIVITIES

Year ended September 30, 2020 with comparative totals for the year ended September 30, 2019

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUES				
Contributions	\$ 338,659	\$ 2,630,000	\$ 2,968,659	\$ 4,353,894
Program service revenue	520,864	-	520,864	935,222
Donated legal services	180,052	-	180,052	-
Miscellaneous income	7,178	-	7,178	8,218
Net assets released from restrictions				
Satisfaction of purpose restrictions	4,117,621	(4,117,621)	-	-
Total revenues	5,164,374	(1,487,621)	3,676,753	5,297,334
EXPENSES				
Program services				
Direct Services	963,697	-	963,697	825,562
Capacity Building	275,491	-	275,491	366,888
Product Development	1,211,071	-	1,211,071	688,521
Research & Policy	211,437	-	211,437	327,450
Total program services	2,661,696	-	2,661,696	2,208,421
Supporting activities				
Management and general	1,428,440	-	1,428,440	861,626
Fundraising	333,042	-	333,042	355,644
Total expenses	4,423,178	-	4,423,178	3,425,691
Change in net assets	741,196	(1,487,621)	(746,425)	1,871,643
Net assets at beginning of year	276,634	4,224,241	4,500,875	2,629,232
Net assets at end of year	\$ 1,017,830	\$ 2,736,620	\$ 3,754,450	\$ 4,500,875

See accompanying notes.

CHANGE MACHINE F/K/A THE FINANCIAL CLINIC
STATEMENT OF FUNCTIONAL EXPENSES
Year ended September 30, 2020 with comparative totals for the year ended September 30, 2019

	2020							2019	
	Direct Services	Capacity Building	Product Development	Research & Policy	Total Program Services	Management and General	Fundraising	Total	Total
Personnel	\$ 530,968	\$ 210,990	\$ 985,993	\$ 179,367	\$ 1,907,318	\$ 797,111	\$ 283,204	\$ 2,987,633	\$ 2,473,935
Professional fees	256,411	28,643	63,702	12,524	361,280	306,204	11,174	678,658	372,890
Occupancy	39,181	14,908	84,696	11,895	150,680	56,961	19,682	227,323	219,289
Donated legal services	-	-	-	-	-	180,052	-	180,052	-
Depreciation and amortization	97,024	1,284	6,084	894	105,286	7,005	1,366	113,657	110,780
Travel	3,786	10,953	28,863	2,732	46,334	10,693	301	57,328	66,912
Web services	23,416	811	6,705	566	31,498	3,144	8,099	42,741	38,703
Interest	-	-	-	-	-	32,460	-	32,460	42,175
Insurance	4,396	1,710	9,425	1,310	16,841	6,257	2,189	25,287	26,051
Conference and facility fees	3,447	1,007	6,147	896	11,497	6,083	2,088	19,668	14,585
Bank and credit score fees	-	-	10,117	-	10,117	3,342	1,206	14,665	20,652
Postage and printing	993	1,320	2,258	332	4,903	2,521	2,107	9,531	10,764
Office equipment	1,540	491	2,383	421	4,835	1,864	596	7,295	4,837
Supplies	1,534	471	2,257	246	4,508	1,857	504	6,869	10,846
Miscellaneous	1,001	812	2,266	254	4,333	1,262	526	6,121	1,480
Dues and membership	-	2,091	175	-	2,266	-	-	2,266	840
Bad debt expense	-	-	-	-	-	11,624	-	11,624	10,952
Total expenses	\$ 963,697	\$ 275,491	\$ 1,211,071	\$ 211,437	\$ 2,661,696	\$ 1,428,440	\$ 333,042	\$ 4,423,178	\$ 3,425,691

See accompanying notes.

CHANGE MACHINE F/K/A THE FINANCIAL CLINIC
STATEMENT OF CASH FLOWS

Year ended September 30, 2020 with comparative totals for the year ended September 30, 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (746,425)	\$ 1,871,643
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	113,657	110,780
Bad debt expense	11,624	10,952
Amortization of discount on long term promises to give	(15,700)	(11,300)
(Increase) decrease in assets		
Accounts receivable	89,581	196,333
Unconditional promises to give	1,376,376	(285,952)
Prepaid expenses	(20,514)	(2,564)
Increase (decrease) in liabilities		
Accounts payable	(15,383)	(5,732)
Accrued payroll and vacation	108,426	(5,181)
Deferred revenue	(109,753)	(21,127)
Deferred lease liability	7,785	12,498
Net cash flows from operating activities	799,674	1,870,350
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of equipment	(10,129)	(7,011)
Expenditures for software development	(74,000)	(42,500)
Net cash flows from investing activities	(84,129)	(49,511)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payment on line of credit	(65,000)	-
Proceeds from Paycheck Protection Program loan payable	440,390	-
Net cash flows from financing activities	375,390	-
Net change in cash	1,090,935	1,820,839
Cash at beginning of year	2,328,125	507,286
Cash at end of year	<u>\$ 3,419,060</u>	<u>\$ 2,328,125</u>
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	\$ 32,460	\$ 42,175
Noncash investing and financing transactions		
Equipment acquisitions included in accounts payable	-	13,965

See accompanying notes.

CHANGE MACHINE F/K/A THE FINANCIAL CLINIC
NOTES TO FINANCIAL STATEMENTS
September 30, 2020 with comparative totals for September 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Change Machine f/k/a The Financial Clinic was incorporated in September 2006 as a not-for-profit organization headquartered in Brooklyn, New York. Change Machine's mission is to build the working poor people's financial security. Change Machine accomplishes this mission through a range of direct services and capacity building support that addresses immediate challenges and creates trajectories for long-term goals. Change Machine 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, Change Machine is also shaping policy and leading the field of financial development.

Change Machine's major programs are as follows:

Direct Services – Change Machine's Direct Services team applies a holistic partnership approach, combined with direct service provision, which build financial security for low-income communities at scale. The team engages regional and sector-based nonprofits, providing a variety of high-touch services including direct access to Change Machine's experienced financial coaches, training and capacity building, and data-based insights to promote policy solutions and systemic change.

Capacity Building – Change Machine's business-to-business consulting services are designed to build capacity at organizations that work with low-income people locally and nationally. The team provides training and technical assistance to build financial security strategies into the daily interactions of frontline staff at partner organizations. This includes training for frontline staff to engage their customers in conversations about personal finance, as well as support for leadership to fully implement an integrated approach to financial security services within their programs and organizations.

Product Development (Platform) – Building financial security using people-powered technology is core to Change Machine's mission. Its revolutionary cloud-based platform, which operates as a B2B2C software as a service (SaaS) social enterprise, provides a single platform where practitioners can learn best financial coaching practices; access tools and information; and participate in a professional social network specifically designed for the field. Built by practitioners for practitioners, Change Machine's financial coaching platform provides a one-stop shop for effective resources practitioners can use to address their customers' underlying financial insecurity.

Research & Policy – Change Machine develops and advocates for policy reforms and systemic changes that will remove obstacles to financial security. Change Machine builds coalitions and partners with advocacy groups, researchers, think tanks, practitioners, and local, state, and federal policymakers to guide and support its policy agenda. Its in-house Research and Policy team surfaces insights using customer data captured on the Change Machine platform. Change Machine uses its data and research to leverage lessons learned on the ground to create impact far beyond an initial program – informing best practices, the field, and public policy.

CHANGE MACHINE F/K/A THE FINANCIAL CLINIC
NOTES TO FINANCIAL STATEMENTS
September 30, 2020 with comparative totals for September 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable

Accounts receivable consist of services that were performed in accordance with the terms of certain agreements. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts and historical collections. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance.

Promises to Give

Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits 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 due in more than one year are discounted at an interest rate commensurate with risk involved if material to the financial statements.

Equipment and Leasehold Improvements

Acquisitions of equipment and leasehold improvements in excess of \$1,000 are capitalized at cost. Depreciation is provided using the straight-line method over 3 to 5 years, the estimated useful lives of the assets.

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 a) current gross revenue attributed to the software product over total current and anticipated future gross revenue for that product or b) the straight-line method over the remaining estimated economic life of the product.

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 net assets with donor restrictions or without donor restrictions, depending on the existence of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

CHANGE MACHINE F/K/A THE FINANCIAL CLINIC
NOTES TO FINANCIAL STATEMENTS
September 30, 2020 with comparative totals for September 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Services

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

Expense Allocation

The financial statements report certain expenses that are attributable to more than one program service or supporting activity. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include personnel, professional fees, occupancy, travel, insurance, and depreciation and amortization, which are allocated on the basis of estimates of time and effort. All other expenses are charged directly to the appropriate program service or supporting activity.

Revenue Recognition

Change Machine partners with colleges, universities, and employers to deliver programming and help people achieve their financial goals. Program service revenue, primarily consulting services, consists of single performance obligations that are satisfied at a point in time (when deliverables are provided), as well as over time within the designated contract period.

Adoption of New Accounting Guidance

On June 21, 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU provides a more robust framework for evaluating whether transactions such as grants and similar contracts with government agencies and others should be accounted for as exchange transactions or contributions. The ASU also assists entities in determining whether a contribution is conditional. Change Machine adopted the requirements of the ASU as of October 1, 2019. The changes in the ASU have been applied on a modified prospective basis, that is, the changes applied to agreements that are either not completed as of October 1, 2019 or entered into after that date.

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

Change Machine 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.

CHANGE MACHINE F/K/A THE FINANCIAL CLINIC
NOTES TO FINANCIAL STATEMENTS
September 30, 2020 with comparative totals for September 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Date of Management’s Review

Management has evaluated subsequent events through February 25, 2021, the date which the financial statements were available to be issued.

NOTE 2 – CONCENTRATIONS

Change Machine 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, 2020 and 2019, Change Machine's uninsured cash balance totaled approximately \$3,169,000 and \$2,077,000.

At September 30, 2020, 82% of Change Machine’s promises to give were receivable from two donors. Additionally, during the year ended September 30, 2020, Change Machine received 43% of total contributions from two donors.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

	<u>2020</u>	<u>2019</u>
Accounts receivable	\$ 95,122	\$ 174,880
Less allowance for doubtful accounts	<u>(9,823)</u>	<u>-</u>
Accounts receivable, net	<u>\$ 85,299</u>	<u>\$ 174,880</u>

NOTE 4 – PROMISES TO GIVE

Unconditional promises to give consist of the following:

	<u>2020</u>	<u>2019</u>
Receivable in less than one year	\$ 972,000	\$ 1,860,000
Receivable in one to five years	<u>-</u>	<u>500,000</u>
Unconditional promises to give	972,000	2,360,000
Discount to net present value	<u>-</u>	<u>(15,700)</u>
Unconditional promises to give, net	<u>\$ 972,000</u>	<u>\$ 2,344,300</u>

Unconditional promises to give receivable in more than one year at September 30, 2019 are discounted at a rate of 3.25%.

CHANGE MACHINE F/K/A THE FINANCIAL CLINIC
NOTES TO FINANCIAL STATEMENTS
September 30, 2020 with comparative totals for September 30, 2019

NOTE 5 – EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following:

	2020	2019
Leasehold improvements	\$ 12,300	\$ 12,300
Computer equipment	50,984	52,933
Equipment and furniture	29,738	37,117
Equipment and leasehold improvements	93,022	102,350
Accumulated depreciation	(44,342)	(45,097)
Equipment and leasehold improvements, net	\$ 48,680	\$ 57,253

Depreciation expense for the years ended September 30, 2020 and 2019 was \$18,702 and \$11,782.

NOTE 6 – SOFTWARE

Software consists of the following:

	2020	2019
Software	\$ 487,317	\$ 554,917
Accumulated amortization	(245,563)	(292,208)
Software, net	\$ 241,754	\$ 262,709

Amortization expense for the years ended September 30, 2020 and 2019 was \$94,955 and \$98,998.

NOTE 7 – LINE OF CREDIT

In February 2019, Change Machine renewed its \$500,000 revolving line of credit. The line of credit had an outstanding balance of \$429,895 at September 30, 2020 and \$494,895 at September 30, 2019 and matures on March 31, 2024. Advances on the credit line carry an interest rate equal to the prime rate plus 3%. The line of credit is secured by a general business security agreement.

NOTE 8 – PAYCHECK PROTECTION PROGRAM LOAN

On April 28, 2020, Change Machine was awarded a \$440,390 loan under the Paycheck Protection Program established by the Coronavirus Aid, Relief, and Economic Security Act and administered by the U.S. Small Business Administration. The loan accrues interest at 1% but payments are deferred until a determination of the amount of forgiveness is made. Change Machine will apply for forgiveness in fiscal year 2021. The amount of forgiveness depends, in part, on the total amount of eligible expenses paid by Change Machine during the covered period. Eligible expenses include payroll costs, rent, and utilities. Any unforgiven portion is payable over two years.

CHANGE MACHINE F/K/A THE FINANCIAL CLINIC
NOTES TO FINANCIAL STATEMENTS
September 30, 2020 with comparative totals for September 30, 2019

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes:

	<u>2020</u>	<u>2019</u>
Direct Services	\$ 767,870	\$ 2,056,216
Product Development	1,806,250	1,445,249
Capacity Building	37,500	590,113
Research & Policy	<u>125,000</u>	<u>132,663</u>
Net assets with donor restrictions	<u>\$ 2,736,620</u>	<u>\$ 4,224,241</u>

NOTE 10 – LIQUIDITY AND AVAILABILITY

The following represents Change Machine's financial assets as of September 30, 2020 and 2019, reduced by amounts not available for general expenditures within one year because of contractual or donor-imposed restrictions. General expenditures are defined as all budgeted programmatic and operational expenses for the years ending September 30, 2021 and 2020.

	<u>2020</u>	<u>2019</u>
Cash	\$ 3,419,060	\$ 2,328,125
Accounts receivable, net	85,299	174,880
Unconditional promises to give, net	<u>972,000</u>	<u>1,860,000</u>
Financial assets at year-end	4,476,359	4,363,005
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor purpose restrictions	<u>(2,736,620)</u>	<u>(4,224,241)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,739,739</u>	<u>\$ 138,764</u>

Change Machine strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Change Machine's cash flows have seasonal variations during the year attributable to cash receipts for earned income and a concentration of contributions received. Change Machine has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 11 – RETIREMENT PLAN

Change Machine sponsors a 401(k) plan through Charles Schwab. Full-time employees become eligible to participate following one year of employment. Change Machine matches 200% of the amount deferred by the employee up to a maximum of 5% of compensation. Retirement plan matches for the years ended September 30, 2020 and 2019 were \$132,164 and \$74,130.

CHANGE MACHINE F/K/A THE FINANCIAL CLINIC
NOTES TO FINANCIAL STATEMENTS
September 30, 2020 with comparative totals for September 30, 2019

NOTE 12 – OPERATING LEASES

Change Machine leases office space located in Brooklyn, New York. The lease requires monthly payments with annual increases in base rent and matures September 30, 2024. Lease expense for the years ended September 30, 2020 and 2019 was \$169,569 and \$164,579. Future minimum lease payments for the years ending September 30 are as follows:

2021	\$	165,804
2022		170,772
2023		187,884
2024		<u>193,512</u>
Total	\$	<u>717,972</u>

NOTE 13 – COVID-19 CONSIDERATIONS

The extent of the impact of COVID-19 on Change Machine's operations will depend on certain developments, including the duration and spread of the outbreak, and impact on Change Machine's employees, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact Change Machine's operations is uncertain.