



FINANCIAL STATEMENTS

September 30, 2018

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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, 2018, 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, 2018, 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 2017 financial statements, and our report dated January 23, 2018, 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, 2017, 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, 2019

**THE FINANCIAL CLINIC**  
**STATEMENT OF FINANCIAL POSITION**  
September 30, 2018 with comparative totals for September 30, 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 507,286	\$ 581,451
Accounts receivable	371,213	492,036
Promises to give (see note 3)	1,435,000	3,145,750
Prepaid expenses	<u>67,749</u>	<u>62,633</u>
Total current assets	2,381,248	4,281,870
<b>OTHER ASSETS</b>		
Equipment and leasehold improvements - net (see note 4)	48,059	51,779
Software - net (see note 5)	319,207	243,030
Security deposits	84,852	105,152
Long term promises to give - net (see note 3)	<u>623,000</u>	<u>1,315,672</u>
Total other assets	<u>1,075,118</u>	<u>1,715,633</u>
<b>Total assets</b>	<u>\$ 3,456,366</u>	<u>\$ 5,997,503</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 31,203	\$ 135,493
Payroll liabilities	102,431	105,663
Deferred revenue	178,563	236,068
Deferred lease liability	20,042	2,971
Line of credit - current (see note 6)	<u>494,895</u>	<u>-</u>
Total current liabilities	827,134	480,195
<b>LONG TERM LIABILITIES</b>		
Line of credit - long-term (see note 6)	<u>-</u>	<u>494,895</u>
Total liabilities	827,134	975,090
<b>NET ASSETS</b>		
Unrestricted	18,959	223,377
Temporarily restricted (see note 7)	<u>2,610,273</u>	<u>4,799,036</u>
Total net assets	<u>2,629,232</u>	<u>5,022,413</u>
<b>Total liabilities and net assets</b>	<u>\$ 3,456,366</u>	<u>\$ 5,997,503</u>

See accompanying notes.

**THE FINANCIAL CLINIC**  
**STATEMENT OF ACTIVITIES**

Year ended September 30, 2018 with comparative totals for the year ended September 30, 2017

	2018			2017
	Unrestricted	Temporarily Restricted	Total	Total
<b>SUPPORT AND REVENUE</b>				
Program service fees	\$ 984,682	\$ -	\$ 984,682	\$ 997,080
Grants and contributions	174,895	807,329	982,224	4,185,526
Donated legal services	2,000	-	2,000	33,500
Miscellaneous income	1,061	-	1,061	9,922
Net assets released from restrictions	2,996,092	(2,996,092)	-	-
<b>Total support and revenue</b>	<b>4,158,730</b>	<b>(2,188,763)</b>	<b>1,969,967</b>	<b>5,226,028</b>
<b>EXPENSES</b>				
Program services				
Direct Services	1,496,208	-	1,496,208	1,436,194
Capacity Building	851,679	-	851,679	549,690
Product Development	350,506	-	350,506	404,237
Research & Policy	293,379	-	293,379	228,570
<b>Total program services</b>	<b>2,991,772</b>	<b>-</b>	<b>2,991,772</b>	<b>2,618,691</b>
Supporting activities				
Management and general	1,014,864	-	1,014,864	952,870
Fundraising	356,512	-	356,512	287,244
<b>Total expenses</b>	<b>4,363,148</b>	<b>-</b>	<b>4,363,148</b>	<b>3,858,805</b>
<b>Change in net assets</b>	<b>(204,418)</b>	<b>(2,188,763)</b>	<b>(2,393,181)</b>	<b>1,367,223</b>
Net assets - beginning of year	223,377	4,799,036	5,022,413	3,655,190
<b>Net assets - end of year</b>	<b>\$ 18,959</b>	<b>\$ 2,610,273</b>	<b>\$ 2,629,232</b>	<b>\$ 5,022,413</b>

See accompanying notes.

**THE FINANCIAL CLINIC**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year ended September 30, 2018 with comparative totals for the year ended September 30, 2017

	2018							2017	
	Direct Services	Capacity Building	Product Development	Research & Policy	Total Program Services	Management and General	Fundraising	Total	Total
Personnel	\$ 1,142,956	\$ 595,058	\$ 201,918	\$ 260,570	\$ 2,200,502	\$ 563,354	\$ 313,913	\$ 3,077,769	\$ 2,670,820
Professional fees	106,645	95,760	77,449	5,543	285,397	233,113	6,784	525,294	555,920
Occupancy	88,625	51,372	12,456	16,946	169,399	59,579	16,770	245,748	214,870
Travel	47,040	39,644	5,630	2,081	94,395	9,283	1,632	105,310	71,266
Depreciation and amortization	34,424	31,890	30,104	1,152	97,570	4,052	1,140	102,762	61,901
Conference and facility fees	29,222	12,055	1,189	1,442	43,908	14,382	2,553	60,843	39,721
Web services	6,853	9,791	18,189	1,095	35,928	13,060	6,770	55,758	84,574
Interest	-	-	-	-	-	38,412	-	38,412	34,663
Bad debt	-	-	-	-	-	34,137	-	34,137	-
Insurance	11,555	6,756	1,684	2,260	22,255	6,641	2,197	31,093	25,981
Supplies	8,731	3,123	1,026	823	13,703	10,310	859	24,872	23,490
Postage and printing	7,048	3,706	710	941	12,405	8,622	1,131	22,158	22,209
Bank and credit score fees	10,266	-	-	-	10,266	2,870	1,020	14,156	28,013
Office equipment	1,424	545	136	182	2,287	1,708	177	4,172	21,483
Dues and membership	156	641	-	293	1,090	817	997	2,904	3,107
Miscellaneous	1,263	1,338	15	51	2,667	14,524	569	17,760	787
<b>Total expenses</b>	<b>\$ 1,496,208</b>	<b>\$ 851,679</b>	<b>\$ 350,506</b>	<b>\$ 293,379</b>	<b>\$ 2,991,772</b>	<b>\$ 1,014,864</b>	<b>\$ 356,512</b>	<b>\$ 4,363,148</b>	<b>\$ 3,858,805</b>

See accompanying notes.

**THE FINANCIAL CLINIC**  
**STATEMENT OF CASH FLOWS**

Year ended September 30, 2018 with comparative totals for the year ended September 30, 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (2,393,181)	\$ 1,367,223
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	102,762	61,901
Loss on disposal of equipment and leasehold improvements	7,084	-
Bad debt expense	34,137	-
Discount on long term promises to give (see note 3)	(57,328)	84,328
(Increase) decrease in assets		
Accounts receivable	120,823	(250,802)
Promises to give	2,426,613	(1,168,216)
Prepaid expenses	(5,116)	(35,020)
Security deposits	20,300	(80,352)
Increase (decrease) in liabilities		
Accounts payable	(104,290)	19,136
Payroll liabilities	(3,232)	16,359
Deferred revenue	(57,505)	183,017
Deferred lease liability	17,071	(139)
<b>Net cash flows from operating activities</b>	<u>108,138</u>	<u>197,435</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment and leasehold improvements	(20,076)	(38,936)
Purchase of software	(162,227)	(70,240)
<b>Net cash flows from investing activities</b>	<u>(182,303)</u>	<u>(109,176)</u>
<b>Net change in cash</b>	(74,165)	88,259
Cash - beginning of year	<u>581,451</u>	<u>493,192</u>
<b>Cash - end of year</b>	<u>\$ 507,286</u>	<u>\$ 581,451</u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Cash paid for interest	\$ 38,412	\$ 34,663
Noncash investing and financing transactions		
Software acquisitions included in accounts payable	-	21,800

See accompanying notes.



**THE FINANCIAL CLINIC**  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2018 with comparative totals for September 30, 2017

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## NATURE OF ACTIVITIES

The Financial Clinic (Clinic) was incorporated in September 2006 as a not-for-profit organization in the State of New York. The 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 support that addresses immediate challenges and creates 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 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, 2018 with comparative totals for September 30, 2017

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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 reports 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 at cost. Depreciation is provided using the straight-line method over 3 to 5 years, the estimated useful lives of the assets.

**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.

**THE FINANCIAL CLINIC**  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2018 with comparative totals for September 30, 2017

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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 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.

**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.

**Reclassifications**

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

**Date of Management's Review**

Management has evaluated subsequent events through January 23, 2019, the date which the financial statements were available to be issued.

**THE FINANCIAL CLINIC**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2018 with comparative totals for September 30, 2017

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**NOTE 2 – CONCENTRATIONS**

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, 2018 and 2017, the Clinic's uninsured cash balance totaled approximately \$29,000 and \$152,000.

At September 30, 2018, approximately 65% of the Clinic's total promises to give was receivable from one donor. Additionally, during the year ended September 30, 2018, the Clinic received 65% of total contributions from three donors.

At September 30, 2018, approximately 70% of the Clinic's total accounts receivable was due from one organization.

**NOTE 3 – PROMISES TO GIVE**

Promises to give at September 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 1,435,000	\$ 3,145,750
Receivable in one to five years	<u>650,000</u>	<u>1,400,000</u>
Promises to give	2,085,000	4,545,750
Discount to net present value	<u>(27,000)</u>	<u>(84,328)</u>
Promises to give - net	<u>\$ 2,058,000</u>	<u>\$ 4,461,422</u>

Promises to give receivable in more than one year at September 30, 2018 and 2017 were discounted at a rate of 4.35%.

**NOTE 4 – EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

Equipment and leasehold improvements at September 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$ 12,300	\$ 15,392
Computer equipment	32,036	24,930
Equipment and furniture	<u>37,117</u>	<u>46,067</u>
Equipment and leasehold improvements	81,453	86,389
Accumulated depreciation	<u>(33,394)</u>	<u>(34,610)</u>
Equipment and leasehold improvements - net	<u>\$ 48,059</u>	<u>\$ 51,779</u>

Depreciation expense for the years ended September 30, 2018 and 2017 was \$16,713 and \$7,607.

**THE FINANCIAL CLINIC**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2018 with comparative totals for September 30, 2017

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**NOTE 5 – SOFTWARE**

Software at September 30, 2018 and 2017 consisted of the following:

	2018	2017
Software	\$ 512,417	\$ 350,190
Accumulated amortization	193,210	107,160
Software - net	\$ 319,207	\$ 243,030

Amortization expense for the years ended September 30, 2018 and 2017 was \$86,049 and \$54,294.

**NOTE 6 – LINE OF CREDIT**

The Clinic has a \$500,000 revolving line of credit with an outstanding balance at September 30, 2018 and 2017 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.

**NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at September 30, 2018 and 2017 were available for the following purposes:

	2018	2017
Purpose restricted		
Financial Security EcoSystem Project	\$ 2,610,273	\$ 4,652,672
Capacity Building	-	20,000
Financial Coaching	-	20,000
VITA Program	-	106,364
Temporarily restricted net assets	\$ 2,610,273	\$ 4,799,036

**NOTE 8 – 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, 2018 and 2017 was \$124,723 and \$128,165.

**NOTE 9 – DONATED SERVICES**

During the years ended September 30, 2018 and 2017 the Clinic received donated legal services of \$2,000 and \$33,500 and were for management and general activities.

**THE FINANCIAL CLINIC**  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2018 with comparative totals for September 30, 2017

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NOTE 10 – OPERATING LEASES

The Clinic 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, 2018 and 2017 was \$165,490 and \$145,003. Future minimum lease payments for the years ending September 30, 2018 consist of the following:

2019	\$	156,288
2020		160,980
2021		165,804
2022		170,772
2023		187,884
2024		<u>193,512</u>
Total	\$	<u>1,035,240</u>