

CompassPoint Nonprofit Services

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

December 31, 2016
with comparative totals for 2015

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INDEPENDENT AUDITORS' REPORT

Board of Directors
CompassPoint Nonprofit Services

We have audited the accompanying financial statements of CompassPoint Nonprofit Services (a California nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of December 31, 2016, 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 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 auditors' 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 CompassPoint Nonprofit Services as of December 31, 2016, 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.

Report on Summarized Comparative Information

We have previously audited the CompassPoint Nonprofit Services 2015 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated June 28, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

DZH Phillips LLP

San Francisco, California
July 11, 2017

CompassPoint Nonprofit Services

STATEMENT OF FINANCIAL POSITION

December 31, 2016 with comparative totals for 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 1,281,013	\$ 1,427,726
Grants receivable - net	3,149,408	119,937
Accounts receivable	54,801	181,769
Accounts receivable - other	71,303	81,866
Government contracts receivable	6,791	11,950
Inventory	10,325	10,625
Prepaid expenses	107,959	86,070
Deposits	23,701	23,701
Property and equipment - net	<u>293,004</u>	<u>364,178</u>
Total assets	<u>\$ 4,998,305</u>	<u>\$ 2,307,822</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 295,660	\$ 360,410
Deferred rent	108,699	128,797
Deferred revenue	<u>107,821</u>	<u>157,277</u>
Total liabilities	<u>512,180</u>	<u>646,484</u>
NET ASSETS		
Unrestricted	619,134	508,233
Temporarily restricted	<u>3,866,991</u>	<u>1,153,105</u>
Total net assets	<u>4,486,125</u>	<u>1,661,338</u>
Total liabilities and net assets	<u>\$ 4,998,305</u>	<u>\$ 2,307,822</u>

The accompanying notes are an integral part of this statement.

CompassPoint Nonprofit Services

STATEMENT OF ACTIVITIES

Year ended December 31, 2016 with comparative totals for 2015

	2016			2015
	Unrestricted	Temporarily Restricted	Total	Total
SUPPORT AND REVENUE				
Support				
Foundations	\$ 203,450	\$ 4,704,908	\$ 4,908,358	\$ 910,750
Individuals	19,479	16,149	35,628	16,280
Corporations	7,500	-	7,500	6,000
In-kind donations	11,000	-	11,000	1,500
Total support	241,429	4,721,057	4,962,486	934,530
Revenue				
Consumer fees	1,646,343	-	1,646,343	2,070,208
Government contracts	115,305	-	115,305	96,827
Publications	1,459	-	1,459	2,415
Royalties	6,641	-	6,641	9,528
Total revenue	1,769,748	-	1,769,748	2,178,978
Net assets released from restrictions	2,007,171	(2,007,171)	-	-
Total support and revenue	4,018,348	2,713,886	6,732,234	3,113,508
EXPENSES				
Program	3,167,773	-	3,167,773	3,279,848
Management and general	650,087	-	650,087	624,337
Fundraising	95,839	-	95,839	43,074
Total expenses	3,913,699	-	3,913,699	3,947,259
Change in net assets from operations	104,649	2,713,886	2,818,535	(833,751)
OTHER REVENUES				
Interest income	1,068	-	1,068	1,281
Other income	5,184	-	5,184	815
	6,252	-	6,252	2,096
CHANGE IN NET ASSETS	110,901	2,713,886	2,824,787	(831,655)
Net assets - beginning of year	508,233	1,153,105	1,661,338	2,492,993
Net assets - end of year	\$ 619,134	\$ 3,866,991	\$ 4,486,125	\$ 1,661,338

The accompanying notes are an integral part of this statement.

CompassPoint Nonprofit Services

STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2016 with comparative totals for 2015

	2016						2015	
	Program Services							
	Leadership Programs and Organizational Contracts	Public Events and Workshops	Publishing and Community Influence	Total Program Services	Management and General	Fundraising	Total	
							Total	
Salaries and employee benefits	\$ 1,046,562	\$ 527,160	\$ 253,740	\$ 1,827,462	\$ 486,986	\$ 32,166	\$ 2,346,614	\$ 2,294,154
Organizational contracting	395,884	65,283	14,812	475,979	22,126	21,427	519,532	625,947
Insurance	5,076	2,947	2,575	10,598	6,069	121	16,788	15,771
Occupancy	115,185	67,643	30,454	213,282	44,089	2,724	260,095	256,719
Printing and publication	35,697	18,665	7,836	62,198	14,672	1,113	77,983	87,734
Meetings and conferences	198,295	19,080	5,421	222,796	5,183	24,779	252,758	230,990
Client professional development	14,529	-	-	14,529	-	-	14,529	19,652
Travel and reimbursement	93,332	3,473	10,786	107,591	574	1,144	109,309	126,002
Postage and shipping	4,265	1,284	536	6,085	297	1,344	7,726	8,582
Professional services	15,699	8,725	3,650	28,074	41,613	304	69,991	55,338
Telephone	5,181	2,521	1,061	8,763	1,148	21	9,932	11,995
Supplies	15,688	10,368	2,724	28,780	4,700	964	34,444	27,603
Depreciation and amortization	50,656	29,600	13,301	93,557	10,705	661	104,923	93,358
Donated goods and services	-	11,000	-	11,000	-	-	11,000	1,500
Equipment rental and maintenance	3,128	2,163	821	6,112	4,440	7,602	18,154	9,386
Grants to others	10,500	-	-	10,500	-	-	10,500	35,000
Bank service fees	883	16,638	40	17,561	851	509	18,921	16,415
Bad debt expense	9,867	-	-	9,867	-	-	9,867	-
Other	4,604	2,880	5,555	13,039	6,634	960	20,633	31,113
Total expenses	\$ 2,025,031	\$ 789,430	\$ 353,312	\$ 3,167,773	\$ 650,087	\$ 95,839	\$ 3,913,699	\$ 3,947,259

The accompanying notes are an integral part of this statement.

CompassPoint Nonprofit Services

STATEMENT OF CASH FLOWS

Year ended December 31, 2016 with comparative totals for 2015

	<u>2016</u>	<u>2015</u>
Cash flows provided by (used in) operating activities:		
Change in net assets	\$ 2,824,787	\$ (831,655)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	104,923	93,358
Changes in operating assets and liabilities:		
Grants receivable	(3,029,471)	1,611,742
Accounts receivable	126,968	(93,906)
Accounts receivable - other	10,563	43,343
Government contracts receivable	5,159	32,483
Inventory	300	4,573
Prepaid expenses	(21,889)	14,381
Accounts payable and accrued liabilities	(64,750)	39,946
Deferred rent	(20,098)	(15,109)
Deferred revenue	(49,456)	21,336
Net cash provided by (used in) operating activities	<u>(112,964)</u>	<u>920,492</u>
Cash flows used in investing activities:		
Website/database development costs and purchase of equipment	<u>(33,749)</u>	<u>(122,873)</u>
Net cash used in investing activities	<u>(33,749)</u>	<u>(122,873)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(146,713)	797,619
Cash and cash equivalents - beginning of year	<u>1,427,726</u>	<u>630,107</u>
Cash and cash equivalents - end of year	<u><u>\$ 1,281,013</u></u>	<u><u>\$ 1,427,726</u></u>

The accompanying notes are an integral part of this statement.

CompassPoint Nonprofit Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A - DESCRIPTION OF ORGANIZATION

CompassPoint Nonprofit Services (the “Organization”) is a national, nonprofit leadership and strategy practice based in Oakland, CA that works to intensify the impact of fellow nonprofit leaders, organizations, and networks that are working for social justice. The Organization provides three types of services:

- The Organization runs several cohort leadership programs each year and engages with nonprofit organizations through consulting engagements in the areas of strategy, sustainability, internal leadership development, and governance.
- Senior practice members and key partners design and deliver roughly 140 public classes each year. The core content includes supervision and coaching skills, financial literacy, strategy development, and effective board service, among other subjects.
- Through online publishing activities, the Organization produces and curates content that informs and inspires leaders and capacity builders to consider and evolve their practices.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The accompanying financial statements are prepared on the accrual basis of accounting. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Financial statement presentation

The Organization’s net assets are classified as follows:

Unrestricted Net Assets

Unrestricted net assets are net assets that are neither temporarily restricted nor permanently restricted by donors.

CompassPoint Nonprofit Services

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial statement presentation (continued)

Temporarily Restricted Net Assets

Temporarily restricted net assets are net assets for which use by the Organization is limited by donor-imposed stipulations that expire by passage of time or can be fulfilled and removed by actions of the Organization.

Permanently Restricted Net Assets

Permanently restricted net assets are net assets for which use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can otherwise be removed by actions of the Organization. The Organization has no permanently restricted net assets at December 31, 2016.

Cash and cash equivalents

For the purpose of the statement of cash flows, the Organization considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents includes \$717,583 of temporarily restricted funds at December 31, 2016.

Contributions, accounts and government contracts receivable

The Organization considers contributions, accounts, and government contracts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If amounts become uncollectible, they will be charged to operations when that determination is made.

Inventory

Inventory consists of printed materials that are available for sale, which are stated at the lower of cost (first-in, first-out basis) or market value. Cost is determined by the manufacturers' printing and binding unit price.

CompassPoint Nonprofit Services

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment, if purchased, are recorded at cost or, if donated, at fair market value at the time of receipt. Furniture and equipment are depreciated over three to fifteen years, depending on their estimated useful lives on the straight-line basis. Website/database development costs are amortized over three to seven years depending on their estimated useful lives on the straight-line basis. The Organization generally capitalizes assets with an original cost over \$2,000.

Deferred rent

The Organization's office lease agreement provides for rent escalations during the lease term. The Organization records rent expense on a straight-line basis over the term of the lease. Accordingly, deferred rent is recorded to the extent that cumulative rent expense exceeds actual rent payments.

Revenue recognition

Contributions

The Organization recognizes grants and donor contributions upon the earlier of receipt or when unconditionally promised. Grants and donor contributions without donor-imposed restrictions are reported as unrestricted support. Grants and donor contributions with donor-imposed restrictions are reported as temporarily restricted net assets and are then reclassified to unrestricted net assets when the restrictions have been satisfied. Conditional promises to give are not included as contributions until such time as the conditions are substantially met. Grants and donor contributions to be received over more than one fiscal year are recorded at the present value of estimated future cash flows.

In-kind donations

Donated services are recognized at fair value when received if such services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. During the year ended December 31, 2016, the value of donated services included as in-kind donations in the accompanying financial statements was \$11,000, and consisted of workshop/conference instructor.

CompassPoint Nonprofit Services

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Consumer fees

The Organization recognizes revenue generated from leadership programs, consulting, public events and workshops in the period when services are provided. Payments in advance for consulting, public events and workshops are reflected as deferred revenue in the Statement of Financial Position.

Government contracts

Government contracts are funded on a fixed-fee or cost-reimbursement basis. Revenue is recognized as the service is performed up to the maximum amount allowed by the contract.

Functional allocation of expenses

The costs of providing the various program services and supporting activities of the Organization are shown on the Statement of Functional Expenses. Expenses that can be identified with a specific program are allocated directly according to the function benefited. Certain costs, including occupancy, office supplies, telephone and others have been allocated among the program services and supporting activities benefited on a pro-rata basis based on the proportion of direct costs incurred by each program.

Comparative financial information

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

CompassPoint Nonprofit Services

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

The Organization is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code, Section 23701d. Accordingly, it has not provided for income taxes in these financial statements.

Each year, management considers whether any material tax position the Organization has taken is more likely than not to be sustained upon examination by the applicable taxing authority. Management believes that any positions the Organization has taken are supported by substantial authority and, hence, do not need to be measured or disclosed in these financial statements.

Use of estimates

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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

Management has evaluated events and transactions for potential recognition or disclosure through July 11, 2017, which represents the date financial statements were available to be issued.

CompassPoint Nonprofit Services

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016

NOTE C - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents. Risks associated with cash and cash equivalents are mitigated by banking with creditworthy institutions. Such balances with any one institution may, at times, be in excess of federally insured amounts (currently \$250,000 per depositor). The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

At December 31, 2016, 83% of the total grants receivable were from three grantors. Total revenue from these three grantors made up 53% of the total revenue and support for the year ended December 31, 2016.

NOTE D - GRANTS RECEIVABLE

At December 31, 2016, grants receivable are expected to be received as follows:

Receivable in less than one year	\$ 2,081,550
Receivable in one to five years	<u>1,076,995</u>
Total grants receivable	3,158,545
Less: discount to net present value	<u>(9,137)</u>
Net grants receivable	<u><u>\$ 3,149,408</u></u>

Grants receivable due after December 31, 2016 are stated at their net present values. Management has discounted these grants to the anticipated net present value of the future cash flows using a discount rate of 0.67% determined at the time the grant was received. The present value discount will be recognized in income as a contribution over the period from the date the grant is made to the date of collection.

CompassPoint Nonprofit Services

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016

NOTE E – PROPERTY AND EQUIPMENT

Property and equipment consist of:

Furniture and equipment	\$ 431,692
Less: accumulated depreciation	<u>(297,507)</u>
	134,185
Website/database development costs	321,816
Less: accumulated amortization	<u>(162,997)</u>
	<u>158,819</u>
Property and equipment - net	<u><u>\$ 293,004</u></u>

Depreciation and amortization expense for the year ended December 31, 2016 was \$104,923.

NOTE F - LINE OF CREDIT

The Organization has a \$200,000 revolving line of credit with Torrey Pines Bank which expires in August 2018. The line includes certain financial and non-financial covenants that require, among other matters, that the Organization maintain a minimum tangible net worth and minimum average liquidity. The line of credit agreement calls for interest at 1.5% above the Wall Street Journal Prime rate (3.75% at December 31, 2016), with a 4.75% floor, and is payable monthly. At December 31, 2016, there was no balance outstanding on the line of credit and the line was not utilized during 2016.

CompassPoint Nonprofit Services

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016

NOTE G - COMMITMENTS AND CONTINGENCIES

Facilities and equipment leases

The Organization has an office lease agreement which will expire in 2020. The office lease has escalating monthly payments currently at \$22,453 per month which will increase to \$23,700 per month by the end of the lease term. The Organization also has an equipment lease that expires in May 2017 with monthly payments of \$3,728. Subsequent to year end, the Organization entered into a new equipment lease to take the place of the previous. The new equipment lease expires in 2020 with monthly payments of \$1,953 beginning after the first three complimentary months.

The future minimum lease payments required under these leases are as follows:

<u>Year ending December 31,</u>	
2017	\$ 296,819
2018	300,568
2019	305,557
2020	<u>138,166</u>
	<u>\$ 1,041,110</u>

For the year ended December 31, 2016, total rent expense under these leases was \$310,591.

Government grants and contracts

The Organization receives funding from governmental agencies and foundations in the form of grants and contracts. Accordingly, the Organization is subject to review or audit by these agencies regarding compliance with terms and conditions of the grants and contracts and specific program performance. Management believes that the Organization has complied with all aspects of the grant and contract provisions and that adjustment, if any, would be insignificant to the financial position of the Organization.

CompassPoint Nonprofit Services

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016

NOTE H - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2016 have the following purpose and time restrictions:

Network Weaving Learning Lab & Feasibility Study	\$ 912,570
Next Generation Leadership of Color Leadership Development -Southern CA	400,000
East Contra Costa Strong Nonprofit Program	380,000
Fundraising Bright Spots, Fundraising Academy Alum, Sustainability Cohort	288,000
Organizational Equity Leadership Development	150,000
Leadership Development of Emerging Reproductive Health Leaders	140,248
Leadership Coaching Focus on Organizational Sustainability	36,210
Early Education Leaders	30,400
Young Nonprofit Professional Network	23,801
Multicultural Leadership Development Learning	5,000
Training Support for Participants	3,750
L.A. Fundraising Academy for Communities of Color	2,599
General Support	1,494,413
	<u>\$ 3,866,991</u>

NOTE I - RETIREMENT PLAN

The Organization has a 401(k) plan (defined contribution plan) for all employees who have completed a 90-day period of employment and are twenty-one years of age or older. The plan provides for discretionary contributions by the Organization, such amounts to be determined annually by the Board of Directors. Employees must complete 800 hours of service during the year to be entitled to an allocation of Organization contributions. The Organization matched 100% of the contributions of eligible employees up to 4% of eligible compensation in 2016. Vesting in the Organization's contributions is immediate.

The Organization contributed \$62,694 to the plan for the year ended December 31, 2016.