

**Audited Financial Statements and
Reports Required by Government Auditing
Standards and the Uniform Guidance**

**NATIONAL FOUNDATION FOR CREDIT
COUNSELING, INC.**

December 31, 2017

National Foundation for Credit Counseling, Inc.

Contents

| | |
|---|-------|
| <i>Independent Auditor's Report</i> | 1-2 |
| <i>Financial Statements</i> | |
| Statements of financial position | 3 |
| Statements of activities | 4 |
| Statements of cash flows | 5 |
| Notes to the financial statements | 6-12 |
| <i>Reports Required by Government Auditing Standards and the Uniform Guidance</i> | |
| Schedule of expenditures of federal awards | 13 |
| Notes to the schedule of expenditures of federal awards | 14 |
| Independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i> | 15-16 |
| Independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance | 17-18 |
| Schedule of findings and questioned costs | 19-21 |

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Independent Auditor’s Report

To the Board of Trustees
National Foundation for Credit Counseling, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of the National Foundation for Credit Counseling, Inc. (the Foundation), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 Foundation’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 Foundation’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

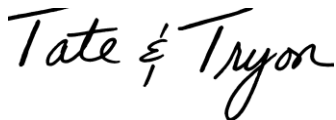
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Foundation for Credit Counseling, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2018 on our consideration of the National Foundation for Credit Counseling, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the National Foundation for Credit Counseling, Inc.'s internal control over financial reporting and compliance.



Washington, DC
September 10, 2018

National Foundation for Credit Counseling, Inc.

Statements of Financial Position

| December 31, | 2017 | 2016 |
|--|----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 6,348,706 | \$ 5,420,290 |
| Accounts receivable, net | 246,062 | 195,090 |
| Grants and contributions receivable, net | 4,231,605 | 3,583,372 |
| Prepaid expenses and other assets | 301,705 | 245,789 |
| Deferred compensation investments | 378,463 | 278,593 |
| Property and equipment, net | 256,546 | 303,079 |
| Total assets | \$ 11,763,087 | \$ 10,026,213 |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable & accrued expenses | \$ 1,876,239 | \$ 491,135 |
| Grants payable | 1,422,199 | 1,862,176 |
| Accrued payroll and related expenses | 92,816 | 99,999 |
| Deferred revenue | 4,544 | - |
| Deferred compensation | 378,463 | 278,593 |
| Deferred rent | 310,021 | 372,471 |
| Total liabilities | 4,084,282 | 3,104,374 |
| Net assets | | |
| Unrestricted: | | |
| Undesignated | 1,463,079 | 1,189,680 |
| Board designated | 606,190 | 506,190 |
| Total unrestricted | 2,069,269 | 1,695,870 |
| Temporarily restricted | 5,609,536 | 5,225,969 |
| Total net assets | 7,678,805 | 6,921,839 |
| Total liabilities and net assets | \$ 11,763,087 | \$ 10,026,213 |

See notes to the financial statements.

National Foundation for Credit Counseling, Inc.

Statements of Activities

Years Ended December 31, 2017 and 2016

| | 2017 | | | 2016 | | |
|---------------------------------------|---------------------|------------------------|---------------------|---------------------|------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| Revenue and support | | | | | | |
| Contributions & corporate grants | \$ 1,180,357 | \$ 5,354,429 | \$ 6,534,786 | \$ 615,568 | \$ 2,752,097 | \$ 3,367,665 |
| In-kind contributions | 4,009,109 | | 4,009,109 | 21,116,711 | | 21,116,711 |
| Program income | 2,653,437 | | 2,653,437 | 2,430,283 | | 2,430,283 |
| Government grants | 2,273,534 | | 2,273,534 | 2,734,956 | | 2,734,956 |
| Dues | 1,180,397 | | 1,180,397 | 1,306,038 | | 1,306,038 |
| Other | 82,861 | | 82,861 | 93,371 | | 93,371 |
| Net assets released from restriction: | | | | | | |
| Satisfaction of program restrictions | 4,970,862 | (4,970,862) | - | 3,742,396 | (3,742,396) | - |
| Total revenue and support | 16,350,557 | 383,567 | 16,734,124 | 32,039,323 | (990,299) | 31,049,024 |
| Expense | | | | | | |
| Program services | | | | | | |
| Educational services | 7,609,257 | - | 7,609,257 | 15,350,415 | - | 15,350,415 |
| Housing | 3,917,870 | | 3,917,870 | 8,145,333 | | 8,145,333 |
| Member services | 1,278,872 | | 1,278,872 | 509,577 | | 509,577 |
| Annual conference | 435,029 | | 435,029 | 377,559 | | 377,559 |
| National locator services | 311,295 | | 311,295 | 281,022 | | 281,022 |
| Creditor relations | 247,827 | | 247,827 | 223,725 | | 223,725 |
| Public awareness | 38,914 | | 38,914 | 5,265,518 | | 5,265,518 |
| Other | 35,819 | | 35,819 | 208,675 | | 208,675 |
| Total program services | 13,874,883 | - | 13,874,883 | 30,361,824 | - | 30,361,824 |
| Supporting services | | | | | | |
| Management and general | 1,936,069 | | 1,936,069 | 1,050,317 | | 1,050,317 |
| Fundraising | 166,206 | | 166,206 | 155,350 | | 155,350 |
| Total supporting services | 2,102,275 | - | 2,102,275 | 1,205,667 | - | 1,205,667 |
| Total expense | 15,977,158 | - | 15,977,158 | 31,567,491 | - | 31,567,491 |
| Change in net assets | 373,399 | 383,567 | 756,966 | 471,832 | (990,299) | (518,467) |
| Net assets, beginning of year | 1,695,870 | 5,225,969 | 6,921,839 | 1,224,038 | 6,216,268 | 7,440,306 |
| Net assets, end of year | \$ 2,069,269 | \$ 5,609,536 | \$ 7,678,805 | \$ 1,695,870 | \$ 5,225,969 | \$ 6,921,839 |

See notes to the financial statements.

National Foundation for Credit Counseling, Inc.

Statements of Cash Flows

Years Ended December 31, 2017 and 2016

| <i>Year Ended December 31,</i> | 2017 | 2016 |
|---|---------------------|---------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 756,966 | \$ (518,467) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 91,441 | 197,252 |
| Loss on disposal of property and equipment | 849 | - |
| Amortization of deferred rent | (62,450) | (52,311) |
| Changes in assets and liabilities: | | |
| Accounts receivable | (50,972) | 31,896 |
| Grants and contributions receivable | (648,233) | 3,548,479 |
| Prepaid expenses and other assets | (55,916) | (52,019) |
| Accounts payable and accrued expenses | 1,385,104 | 91,855 |
| Grants payable | (439,977) | (1,553,717) |
| Accrued payroll and related expenses | (7,183) | 16,881 |
| Deferred revenue | 4,544 | - |
| Net cash provided by operating activities | 974,173 | 1,709,849 |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (45,757) | (12,855) |
| Net increase in cash and cash equivalents | 928,416 | 1,696,994 |
| Cash and cash equivalents, beginning of year | 5,420,290 | 3,723,296 |
| Cash and cash equivalents, end of year | \$ 6,348,706 | \$ 5,420,290 |
| Supplemental Disclosure of Noncash investing activities | | |
| Change in value of deferred compensation investments | \$ (99,870) | \$ (71,704) |

National Foundation for Credit Counseling, Inc.

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: The National Foundation for Credit Counseling, Inc. (the Foundation) is a not-for-profit, membership organization dedicated to personal and family preventative and rehabilitative financial education and counseling services. Its purpose is to promote the national agenda for financially responsible behavior and build capacity for its members to deliver the highest quality services in communities throughout the United States and its territories.

Income taxes: The Foundation is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code, and has been classified by the Internal Revenue Service as other than a private foundation. The Foundation is required to report unrelated business income to the Internal Revenue Service and the appropriate state taxing authorities. The Foundation had no unrelated business income for the years ended December 31, 2017 and 2016.

Basis of accounting: The accompanying financial statements have been prepared on the accrual basis of accounting. Consequently, revenues are recognized when earned and expenses are recognized when the underlying obligations are incurred.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from estimates.

Cash and cash equivalents: For purposes of these financial statements the Foundation considers all bank deposits and highly liquid investments to be cash equivalents. Cash and cash equivalents totaling \$606,190 and \$506,190 at December 31, 2017 and 2016, respectively, have been designated by the Board of Directors. Cash and cash equivalents that have been designated can be used only with approval by the Board.

Accounts receivable: Accounts receivable consist primarily of amounts due from members throughout the United States. The allowance for doubtful accounts is based upon specific identification of uncollectible accounts and the Foundation's historical collection experience. The allowance for doubtful accounts was \$13,423 and \$2,766 as of December 31, 2017 and 2016, respectively.

Grants and contributions receivable: Grants and contributions receivable consist of receivables from the federal government and corporate donors. An allowance for uncollectible amounts has not been established for grants receivable as the Foundation believes that all grants receivable are collectible.

National Foundation for Credit Counseling, Inc.

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net assets:

Unrestricted, undesignated: Net assets that are not subject to a Board designation or a donor restriction.

Designated: Designated reserve funds have been established by the Board of Trustees to provide funds for anticipated future projects and unbudgeted expenditures or unforeseen revenue shortfalls.

Temporarily restricted: Temporarily restricted net assets represent funds limited by donor-imposed stipulations.

Government grants: Government grant revenue is recognized as costs qualified under the grants are incurred. Government funds received in advance of costs incurred are recorded as deferred revenue until expended for the purpose of the grants. Government costs incurred in excess of funds received in advance are recorded as grants receivable.

Dues: Dues income is recognized over the period of membership and dues received in advance of the membership period are recorded as deferred dues.

Contributions: Contributions are recorded as unrestricted or restricted support depending upon the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions with restrictions that are met within the same fiscal year are classified as unrestricted support.

Functional allocation of expenses: The costs of providing various programs and administrative activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassification of prior year amounts: Certain accounts relating to the prior year have been reclassified to conform to the current year presentation with no effect on the previously reported change in net assets.

Subsequent events: Subsequent events have been evaluated through September 10, 2018, which is the date the financial statements were available to be issued.

B. CONCENTRATIONS

Credit risk: Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of demand deposits. The Foundation maintains demand deposits with commercial banks which, at times, may not be fully guaranteed or insured by the U.S. federal government. The uninsured portions of cash accounts are backed solely by the assets of the underlying institution. As such, the failure of an underlying institution could result in financial loss to the Foundation.

National Foundation for Credit Counseling, Inc.

Notes to the Financial Statements

B. CONCENTRATIONS – CONTINUED

Government grants: For 2017 and 2016, approximately 19% and 25%, respectively of the Foundation's unrestricted revenues, exclusive of in-kind contributions, were derived from awards from the federal government. If the Foundation were to experience a reduction in funding from the federal government, the Foundation's operations could be significantly affected.

C. GRANTS AND CONTRIBUTIONS RECEIVABLE

Unconditional promises to give that are expected to be collected within one year are reported at their net realizable values. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts are computed using high-quality corporate bond rates applicable to the time at which the promises are received. Amortization of the discounts is included in contributions and corporate grants revenue. The discount rate used for the years ended December 31, 2017 and 2016 was 2.40% and 1.54%, respectively.

Grants and contributions receivable consist of the following at December 31,:

| | 2017 | 2016 |
|---------------------------------|---------------------|---------------------|
| Amounts due in: | | |
| Less than one year | \$ 2,942,967 | \$ 3,254,221 |
| One to five years | 1,340,719 | 340,719 |
| | <u>4,283,686</u> | <u>3,594,940</u> |
| Less: discount to present value | (52,081) | (11,568) |
| | <u>\$ 4,231,605</u> | <u>\$ 3,583,372</u> |

D. PROPERTY AND EQUIPMENT

Acquisitions of property and equipment greater than \$1,000 are recorded at cost. Depreciation and amortization is computed using the straight-line method over estimated service lives as follows: furniture and equipment - 3 to 5 years; educational development - 3 years; and leasehold improvements – over the remaining life of the lease. Property and equipment consisted of the following at December 31,:

| | 2017 | 2016 |
|---|-------------------|-------------------|
| Furniture | \$ 67,628 | \$ 84,121 |
| Equipment | 526,607 | 480,852 |
| Leasehold improvements | 520,866 | 520,866 |
| Educational development | 213,412 | 213,412 |
| | <u>1,328,513</u> | <u>1,299,251</u> |
| Less: accumulated depreciation and amortization | (1,071,967) | (996,172) |
| | <u>\$ 256,546</u> | <u>\$ 303,079</u> |

National Foundation for Credit Counseling, Inc.

Notes to the Financial Statements

E. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following for the year ended December 31, 2017:

| | January 1, 2017 | Revenue | Satisfaction of Restrictions | December 31, 2017 |
|---------------------------------|---------------------|---------------------|------------------------------|---------------------|
| Sharpen Your Financial Focus | \$ 4,733,863 | \$ 4,754,429 | \$ (3,938,280) | \$ 5,550,012 |
| Data Security Capacity Building | - | 500,000 | (491,982) | 8,018 |
| CFPB Library Program | 286,000 | | (236,000) | 50,000 |
| Counselor Training | 1,506 | | | 1,506 |
| Educational Seminars | 104,600 | 100,000 | (204,600) | - |
| Cy Pres Award | 100,000 | | (100,000) | - |
| | \$ 5,225,969 | \$ 5,354,429 | \$ (4,970,862) | \$ 5,609,536 |

Temporarily restricted net assets consisted of the following for the year ended December 31, 2016:

| | January 1, 2016 | Revenue | Satisfaction of Restrictions | December 31, 2016 |
|------------------------------|---------------------|---------------------|------------------------------|---------------------|
| Sharpen Your Financial Focus | \$ 5,834,562 | \$ 2,302,097 | \$ (3,402,796) | \$ 4,733,863 |
| CFPB Library Program | 184,000 | 250,000 | (148,000) | 286,000 |
| Educational Seminars | 4,600 | 200,000 | (100,000) | 104,600 |
| Cy Pres Award | 191,600 | | (91,600) | 100,000 |
| Counselor Training | 1,506 | | | 1,506 |
| | \$ 6,216,268 | \$ 2,752,097 | \$ (3,742,396) | \$ 5,225,969 |

F. DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES

The following significant program and supporting services are included in the accompanying financial statements:

Educational services: Develop and make available educational materials to member agencies and consumers on the responsible use of credit; develop partnerships with other national organizations to address the need for personal financial literacy; and certify member agency counselors to ensure that consumers receive quality guidance and information. During 2013, the Foundation launched the Sharpen Your Financial Focus^R initiative in order to assist consumers with identifying and solving their most pressing financial issues. In 2015, the NFCC began development of a national student loan program which was integrated into Sharpen 2.0 and launched in January 2016. Expenses related to this initiative are included within the educational services line on the statements of activities.

Housing: Develop and maintain partnerships with NeighborWorks America, the United States Department of Housing and Urban Development (HUD), and industry leaders, including mortgage lenders and servicers, to help NFCC Members assist consumers with homeownership issues.

National Foundation for Credit Counseling, Inc.

Notes to the Financial Statements

F. DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES – CONTINUED

Member services: Foster member communications, including: visits to member offices; member meetings and conferences; COA accreditation standards; counselor certification; publication of two newsletters; and maintenance of important member information through a members-only section of the Foundation's website.

Annual conference: An annual gathering to provide the Foundation's membership, key partners, and stakeholders with information on opportunities and challenges both within the financial counseling and financial education sector as well as those that may have an impact on it. This meeting also provides continuing education opportunities, a forum to honor outstanding achievements, discuss the Foundation's strategic direction, and voice opinions and vote on the general operations and leadership of the Foundation.

National locator services: Provide assistance to consumers both online through the Foundation's online counseling application and National Counseling Locator Service, and telephonically through the Foundation's toll-free National Locator Line.

Creditor relations: Develop and maintain relationships with credit granting organizations to ensure continued support of clients and member agencies.

Public awareness: Build awareness for the Foundation's mission and services through media outreach including public service announcements and news releases on issues that support personal financial responsibility.

Management and general: Management of the human and financial resources of the organization, administrative support for the Board of Trustees and governing bodies, and the development and management of budget and statistical information.

Fundraising: Provide funds for the Foundation's mission and other operating expenses.

G. OPERATING LEASE OBLIGATIONS

The Foundation entered into a lease agreement for office space in October 2010 ending in August 2021. The terms of the lease include base rental of \$312,169 per year with annual increases of 2.5%, all of which are required to be recognized ratably over the term of the lease in accordance with accounting principles generally accepted in the United States of America. Accordingly, the amount of rent expense does not coincide with the cash payments. This gives rise to a deferred rent liability, which is being amortized over the term of the lease.

In connection with the lease agreement, the landlord provided an allowance to the Foundation to pay for leasehold improvements. The allowance totaled \$513,695 and is being treated as a reduction of rent expense over the term of the lease. Deferred rent, which includes unamortized deferred tenant allowances and future rent increases, totaled \$310,021 and \$372,471 at December 31, 2017 and 2016, respectively. Office rent expense for the years ended December 31, 2017 and 2016 was \$354,079 and \$357,922, respectively. The Foundation also has lease agreements for an automobile and various pieces of equipment.

National Foundation for Credit Counseling, Inc.

Notes to the Financial Statements

G. OPERATING LEASE OBLIGATIONS – CONTINUED

The future minimum rental payments required under the operating leases are as follows:

| Year ending December 31, | Amount |
|--------------------------|---------------------|
| 2018 | \$ 377,087 |
| 2019 | 386,514 |
| 2020 | 396,177 |
| 2021 | <u>270,168</u> |
| | <u>\$ 1,429,946</u> |

H. RETIREMENT PLANS

The Foundation was an adopting employer under Mutual of America's Defined Contribution Prototype Pension Plan for all eligible employees. All full-time employees of the Foundation become eligible to participate in the plan after six months of employment and having attained the age of 20½ years. The Foundation funds benefits with an annual contribution equal to 6% and 3% of a participant's compensation for the years ended December 31, 2017 and 2016, respectively. Annual contributions are allocated, as elected by the participant, to ordinary life policies, group annuity contracts and trust fund investments. On July 24, 2017, the Board of Trustees voted to move the plan from Mutual of America to the Principal Financial Group, the change was official in February 2018.

In addition, the Foundation provides a 457(b) deferred compensation plan to certain employees. Assets and liabilities related to the 457(b) plan equaled \$378,463 and \$278,593 as of December 31, 2017 and 2016, respectively. The assets of the plan are held in publicly-traded mutual funds and are carried at fair value.

Retirement plan expense for the years ended December 31, 2017 and 2016 was \$114,109 and \$121,326, respectively.

I. FEDERAL GRANT COMPLIANCE AUDITS

The Foundation participates in a number of federally assisted grant programs which are subject to financial and compliance audits by federal agencies or their representatives. Therefore, a contingent liability may exist for potential questioned costs that would result from such an audit.

J. COMMITMENT

The Foundation reserves hotel accommodations for various meetings up to one year in advance of an event. The contracts contain contingency clauses whereby the Foundation is liable for cancellations. The monetary restitution is based on a percentage of the peak room rate, the number of rooms contracted, and the date of cancellation.

National Foundation for Credit Counseling, Inc.

Notes to the Financial Statements

K. IN-KIND CONTRIBUTIONS

The Foundation receives in-kind contributions for the value of airings of public service announcements (PSAs) for a variety of consumer-related programs. The in-kind contribution revenue and related expense is recorded based on information provided by a contracted public relations firm detailing the media outlets that aired the PSAs along with the number of airings and volume of media impressions. For the year ended December 31, 2017 and 2016, the estimated total value of these in-kind contributions was \$4,009,109 and \$21,116,711, respectively.

L. LINE OF CREDIT

During 2011, the Foundation secured a revolving line of credit for \$300,000 which has been renewed through October 31, 2018. The line carries a variable interest rate of Prime plus 1% and is secured by the general assets of the Foundation. There were no borrowings on the line during the years ended December 31, 2017 and 2016.

M. STUDENT LOAN ALLIANCE

In March 2015, the Foundation acquired the assets of the Student Loan Alliance (SLA), which was formed as a joint venture by seven Foundation member agencies. The SLA developed a student loan counseling program which included a website and online portal for individuals with student loans. As a result of this acquisition, the Foundation developed a national student loan counseling program that was launched in 2016.

National Foundation for Credit Counseling, Inc.

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2017

| Federal Grantor / Program or Cluster Title | Federal CFDA Number | Federal Expenditures | Awards to Subrecipients |
|---|---------------------------|-------------------------|----------------------------|
| <i>U.S. Department of Housing and Urban Development:</i> | | | |
| Housing Counseling Assistance Program | | | |
| Housing Counseling Assistance Program | 14.169 | \$ 1,591,202 | \$ 1,298,980 |
| Total Department of Housing and Urban Development | | 1,591,202 | 1,298,980 |
| <i>U.S. Department of the Treasury:</i> | | | |
| National Foreclosure Mitigation Counseling Program | | | |
| National Foreclosure Mitigation Counseling Program: | | | |
| <i>Pass-through grant from NeighborWorks America, grant numbers PL113-235X1350 and PL114-113X1350</i> | 21.000 | 682,332 | 535,405 |
| Total Department of the Treasury | | 682,332 | 535,405 |
| Total Expenditures of Federal Awards | | \$ 2,273,534 | \$ 1,834,385 |

National Foundation for Credit Counseling, Inc.

Notes to the Schedule of Expenditures of Federal Awards

A. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of National Foundation for Credit Counseling, Inc. (the Foundation) under programs of the federal government for the year ended December 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a selected portion of the operations of the Foundation, it is not intended to be and does not present the financial position, changes in net assets, or cash flows of the Foundation.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA are reported on the accrual basis of accounting. For new awards or modifications of existing awards after December 26, 2014, the expenditures reported in the SEFA follow the cost principles contained in the Uniform Guidance. For existing awards prior to December 26, 2014, the expenditures follow the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*. The cost principles indicate that certain types of expenditures are not allowable or reimbursements of allowable costs are limited as to reimbursement.

C. SUBRECIPIENTS

The Foundation has entered into agreements with subrecipients for certain grants. Under the terms of the agreements, payment is made to the subrecipients based on the completion of certain activities. Liabilities have only been accrued for services provided through December 31, 2017.

D. INDIRECT COST RATE

The Foundation uses a provisional indirect cost rate approved by the U.S. Department of Housing and Urban Development. The Foundation's pass-through awards from the U.S. Department of the Treasury contain a provision for operational support in lieu of indirect costs. Therefore, the Foundation elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees
National Foundation for Credit Counseling, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the National Foundation for Credit Counseling, Inc. (the Foundation), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 10, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Foundation's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2017-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2017-002 to be a significant deficiency.

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Compliance and Other Matters

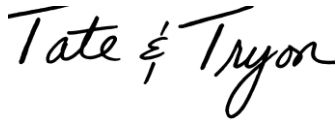
As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Foundation's Response to Findings

The Foundation's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Foundation's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Washington, DC
September 10, 2018

Independent Auditor's Report on Compliance For Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Trustees
National Foundation for Credit Counseling, Inc.

Report on Compliance for the Major Federal Programs

We have audited the National Foundation for Credit Counseling, Inc.'s (the Foundation's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Foundation's major federal programs for the year ended December 31, 2017. The Foundation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Foundation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal programs. However, our audit does not provide a legal determination of the Foundation's compliance.

Opinion on the Major Federal Programs

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended December 31, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002. Our opinion on each major federal program and is not modified with respect to these matters.

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The Foundation's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Foundation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

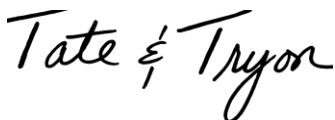
Report on Internal Control over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal programs and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-001 to be a material weakness and item 2017-002 to be a significant deficiency.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Washington, DC
September 10, 2018

National Foundation for Credit Counseling, Inc.

Year Ended December 31, 2017

Schedule of Findings and Questioned Costs

SECTION I – SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of the National Foundation for Credit Counseling, Inc. (the Foundation).
2. One material weakness and one significant deficiency were noted that are required to be reported in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the Foundation, which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
4. One material weakness and one significant deficiency were noted in internal control over major federal award programs were disclosed during the audit.
5. The auditor's report on compliance for each major program expresses an unmodified opinion.
6. Audit findings that are required to be reported in accordance with section 2 CFR Section 200.516(a) are reported in this schedule.

7. The programs identified as major programs were:

| <u>Name of Federal Program or Cluster</u> | <u>CFDA Number</u> |
|--|--------------------|
| Housing Counseling Assistance Program | 14.169 |
| National Foreclosure Mitigation Counseling Program | 21.000 |

8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. The Foundation qualified as a low-risk auditee.

National Foundation for Credit Counseling, Inc.

Year Ended December 31, 2017

Schedule of Findings and Questioned Costs

SECTION II – FINDINGS – FINANCIAL STATEMENT AUDIT

Finding 2017-001 – Account Reconciliation and Review – Material Weakness

United States Department of Housing and Urban Development (CFDA #14.169, Housing Counseling Assistance Program) and U.S. Department of the Treasury (CFDA #21.000, National Foreclosure Mitigation Counseling Program); Grant Period: Year Ended December 31, 2017

Criteria: Under the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) section 200.302, the Foundation is responsible for maintaining a financial management system sufficient to allow for the proper administration of Federal awards.

Condition: We noted inaccuracies in many of the account reconciliations and schedules initially provided for the audit. Management provided several adjusting and reclassifying entries across all financial statement area which, in total, decreased the change in net assets for the year ended December 31, 2017 by \$380,514.

Cause: The Foundation experienced significant turnover in the Finance function during the year.

Effect: Significant additional time was required by management to provide complete and accurate reconciliations for the audit. In total, the change in net assets was decreased by \$404,578 as a result of correcting entries provided during the audit.

Questioned Costs: None noted.

Context: As a result of significant accounting department turnover, many of the Foundation's controls over the financial reporting, such as standard reviews of journal entries, allocations, and reconciliations and segregation of duties between preparation and review, were not consistently followed. The current Director of Accounting and Federal Grants assumed the Director of Accounting role subsequent to year-end and was therefore not involved in the initial processing of many of the transactions requiring reconciliation for the audit. Also, the Foundation changed accounting systems during the year, which added an additional level of complexity to the review process for year-end account balances.

Recommendation: We recommend that the Foundation ensure that controls over the review and approval of journal entries, allocations, and reconciliations and segregation of duties between preparation and review are consistently followed.

Management's Response: Management of the Foundation plans to implement the recommendation. As of September 2018, the Finance team is adequately staffed to ensure controls are consistently followed.

National Foundation for Credit Counseling, Inc.

Year Ended December 31, 2017

Schedule of Findings and Questioned Costs

Finding 2017-002 – Preparation of the Schedule of Expenditures of Federal Awards – Significant Deficiency

United States Department of Housing and Urban Development (CFDA #14.169, Housing Counseling Assistance Program) and U.S. Department of the Treasury (CFDA #21.000, National Foreclosure Mitigation Counseling Program); Grant Period: Year Ended December 31, 2017

Criteria: Management is responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error. Also, the auditee is required to prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards (SEFA) as described in Section 200.510 of the Uniform Guidance.

Condition: The SEFA provided at the start of the audit was not complete. Indirect costs of \$96,776 reimbursed under the Housing Counseling and Assistance Program were omitted from the SEFA.

Cause: The SEFA was prepared and reviewed by a single member of the Finance team. The SEFA was not reviewed by another Finance or other employee with deep knowledge of the Foundation's federal grants and the requirements of the Uniform Guidance.

Effect: The Foundation reported inaccurate information on the 2017 SEFA that was prepared for the audit.

Questioned Costs: None noted.

Context: The finance function experienced significant turnover during the year. As a result, the process of reviewing the SEFA was not as thorough as in prior years.

Recommendation: We recommend the Foundation implement a standard review procedure of the SEFA after it is prepared to ensure it is complete and properly prepared.

Management's response: Management of the Foundation plans to implement the recommendation.

SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

Please see Finding 2017-001 and Finding 2017-002 as described in Section II.

CORRECTIVE ACTION PLAN

September 13, 2018

U.S. Department of Housing and Urban Development and US Department of Treasury:

The National Foundation for Credit Counseling, Inc. respectfully submits the following corrective action plan for the year ended December 31, 2017.

Name and Address of independent accounting firm:

Tate & Tryon, CPAs and Consultants
2021 L St NW, Suite 400
Washington, DC 20036

Audit Period:

January 1, 2017 – December 31, 2017

The findings from the December 31, 2017 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS – FEDERAL AWARD PROGRAM AUDITS

Finding 2017-001 – Account Reconciliation and Review – Material Weakness

Criteria: Under the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) section 200.302, the Foundation is responsible for maintaining a financial management system sufficient to allow for the proper administration of Federal awards.

Condition: We noted inaccuracies in many of the accounting reconciliations and schedules initially provided for the audit. Management provided several adjusting and reclassifying entries across all financial statement area which, in total, decreased the change in net assets for the year ended December 31, 2017 by \$404,578.

Cause: The Foundation experienced significant turnover in the Finance function during the year.

Effect: Significant additional time was required by management to provide complete and accurate reconciliations for the audit. In total, the change in net assets was decreased by \$404,578 as a result of correcting entries provided during the audit.

Questioned Costs: None noted.

Context: As a result of significant accounting department turnover, many of the Foundation's controls over the financial reporting, such as standard reviews of journal entries, allocations, and reconciliations and segregation of duties between preparation and review, were not consistently followed. The current Director of Accounting and Federal Grants assumed the Director of Accounting role subsequent to year-end and was therefore not involved in the initial processing of many of the transactions requiring reconciliation for the audit. Also, the Foundation changed accounting systems during the year, which added an additional level of complexity to the review process for year-end account balances.

Recommendation: We recommend that the Foundation ensure that controls over the review and approval of journal entries, allocations, and reconciliations and segregation of duties between preparation and review are consistently followed.

Action Taken: In May 2018, The National Foundation for Credit Counseling, Inc. appropriately filled the Director of Accounting position and implemented the recommended controls and segregation of duties. They further initialized controls internal to the accounting system to ensure the accuracy of the information contained in the financial statements to ensure that all errors and/or omissions are corrected.

Finding 2017-002 – Preparation of the Schedule of Expenditures of Federal Awards – Significant Deficiency

Criteria: Management is responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error. Also, the auditee is required to prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards (SEFA) as described in Section 200.510 of the Uniform Guidance.

Condition: The SEFA provided at the start of the audit was not complete. Indirect costs of \$97,776 reimbursed under the Housing Counseling and Assistance Program were omitted from the SEFA.

Effect: The Foundation reported inaccurate information on the 2017 SEFA that was prepared for the audit.

Questioned Costs: None noted.

Context: The finance function experienced significant turnover during the year. As a result, the process of reviewing the SEFA was not as thorough as in prior years.

Recommendation: We recommend the Foundation implement a standard review procedure of the SEFA after it is prepared to ensure it is complete and properly prepared.

Action Taken: The Foundation will implement a standard procedure effective 17 September 2018 that the CFO will review all future Schedules of Expenditures of Federal Awards prior to submission for the audit to ensure it is complete and properly prepared.



Debra Adlis
Chief Financial Officer