

DEBTWAVE CREDIT COUNSELING, INC.  
FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

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**Matranga & Company**  
An Accountancy Corporation

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Debtwave Credit Counseling, Inc.

We have audited the accompanying financial statements of Debtwave Credit Counseling, Inc. (a California corporation), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets 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 error or fraud.

**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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 principles used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

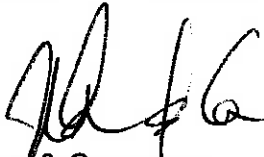
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of Debtwave Credit Counseling, Inc., as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of expenses on page 15 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 taken as a whole.



Matranga & Company

San Diego, California  
March 17, 2017

DEBTWAVE CREDIT COUNSELING, INC.  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2016 AND 2015

ASSETS

	2016	2015
Cash - unrestricted	\$ 266,907	\$ 269,106
Client trust funds - restricted (Note 1)	586,447	3,477,491
Accounts receivable	0	17,481
Accrued income	10,094	13,824
Prepaid expenses	8,549	6,761
Total current assets	871,997	3,784,663
Fixed assets - net (Note 2)	84,990	101,020
Other Assets:		
Deposit	74,914	74,914
Total assets	\$ 1,031,901	\$ 3,960,597

LIABILITIES AND NET ASSETS

	2016	2015
Accounts payable	\$ 22,702	\$ 50,537
Accrued expenses (Note 3)	76,284	103,779
Client creditor payables (Note 1)	586,447	3,477,491
Total current liabilities	685,433	3,631,807
Total liabilities	685,433	3,631,807
Commitments and contingencies (Note 5)		
Net assets (Unrestricted)	346,468	328,790
Total liabilities and net assets	\$ 1,031,901	\$ 3,960,597

See independent auditor's report and accompanying notes to the financial statements.

DEBTWAVE CREDIT COUNSELING, INC.  
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
DECEMBER 31, 2016 AND 2015

	2016	2015
Revenues, Gains and Other Support		
Service fee revenue	\$ 2,106,633	\$ 1,842,188
First pay revenue	190,608	157,878
Fairshare	905,749	707,829
Grant income	508,210	480,509
Other income	112,594	120,700
Total revenues, gains and other support	3,823,794	3,309,104
Less service fee refunds	0	0
Total revenues, gains and other support (net)	3,823,794	3,309,104
 Expenses (Schedule I)	 3,806,116	 3,447,104
 Increase (decrease) in net assets (Unrestricted)	 17,678	 (138,000)
 Net assets (Unrestricted) at beginning of year	 328,790	 466,790
 Net assets (Unrestricted) at end of year	 \$ 346,468	 \$ 328,790

See independent auditor's report and accompanying notes to the financial statements.

DEBTWAVE CREDIT COUNSELING, INC.  
STATEMENTS OF CASH FLOWS  
DECEMBER 31, 2016 AND 2015

	2016	2015
<b>Cash Flows From Operating Activities:</b>		
Increase (decrease) in net assets	\$ 17,678	\$ (138,000)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	38,237	22,084
Change in operating assets:		
Client trust funds - restricted	2,891,044	3,383,240
Accounts receivable	17,481	(17,481)
Accrued income	3,730	6,587
Prepaid expenses	(1,788)	7,585
Deposits	0	(24,000)
Accounts payable	(27,835)	33,177
Accrued expenses	(27,495)	70,393
Client creditor payables	(2,891,044)	(3,383,240)
Net cash (used in) provided by operating activities	20,008	(39,655)
<b>Cash Flows From Investing Activities</b>		
Purchases of fixed assets	(22,207)	(71,182)
<b>Cash Flows From Financing Activities</b>		
	0	0
Net (decrease) increase in cash	(2,199)	(110,837)
Cash at Beginning of Year	269,106	379,943
Cash at End of Year	\$ 266,907	\$ 269,106
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid during the year for:		
Interest	\$ 0	\$ 0
Taxes	\$ 0	\$ 0

See independent auditor's report and accompanying notes to the financial statements.

DEBTWAVE CREDIT COUNSELING, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Company's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Business Activity

Debtwave Credit Counseling, Inc. (the "Company") is a California non-profit public benefit corporation organized for charitable purposes and exempt from taxation under the Internal Revenue Code, and incorporated June 27, 2001. The purpose of the Company is to assist needy debtors in improving their finances through educating them as to better means of managing their money and seeking for them, if appropriate, an extension or other reorganization of their debts.

Use of Estimates

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

Income Taxes

The Company is generally exempt from income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code and comparable statutes of California.

The Company files exempt organization business income tax returns in the U.S. federal jurisdiction and the California, state jurisdiction. The Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2013.

Cash and Cash Equivalents

The Company maintains cash on deposit with financial institutions, which are insured for a maximum of \$250,000 during 2016 and 2015, by the U.S. Federal Deposit Insurance Corporation (FDIC). At various times throughout the year the Company's cash balances may be in excess of the FDIC limit. The Company considers cash equivalents to include only highly liquid temporary investments purchased with an original maturity of three months or less.

Client Trust Funds-Restricted

The Company maintains bank accounts that are held in trust for the clients' creditor payables. All cash received from the Company's clients is deposited into these accounts. These accounts were controlled by the Company at December 31, 2016 and 2015.

See Independent Auditor's report.



DEBTWAVE CREDIT COUNSELING, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Fixed Assets

Assets donated for use by the Company in carrying out its exempt purpose, along with assets purchased with contributions restricted to the purchase of fixed assets, are considered temporarily restricted for the useful life of the asset. Restrictions are satisfied by the expiration of the assets' usefulness (depreciation).

The Company's policy is to capitalize assets with a useful life of greater than one year and a value of \$500 or more. The basis for valuation of fixed assets is cost, if purchased, and estimated fair value on the date of contribution, if contributed.

Depreciation is provided on the double-declining balance method with a half-year convention over the estimated useful lives of the related assets, which range from three to thirty nine years.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the Company, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund. The Company follows the provisions of Statement of Financial Accounting Standards Accounting Standards Codification (ASC 958), "Financial Statements of Not-for-Profit Entities" (ASC 958). The ASC 958 established standards for general-purpose external financial statements provided by not-for-profit organizations, in order to enhance the relevance, understandability, and comparability of financial statements issued by those organizations. ASC 958 also requires that net assets, revenue, gains, expenses and losses be classified as unrestricted, temporarily restricted or permanently restricted, as follows:

- (1) Unrestricted net assets represent the portion of expendable funds that are available for support of the operations as determined by the Board of Directors of the Company.
- (2) Temporarily restricted net assets consist of contributions that are subject to specific donor-imposed stipulations that can be fulfilled by actions of the Company pursuant to those stipulations or that expire by the passage of time. Temporarily restricted contributions whose restrictions are met in the same reporting period as the contributions are received are reflected as unrestricted contributions.
- (3) Permanently restricted net assets consist of contributions subject to donor-imposed stipulations that they be maintained permanently by the Company.

See Independent Auditor's report.

DEBTWAVE CREDIT COUNSELING, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Revenue Recognition

The Company follows the provisions of Statement of Financial Accounting Standards Board Accounting Standards Codification (ASC 958-605-25), "Financial Statements of Not-for-Profit Entities- Revenue Recognition" (ASC 958-605-25).

The Company recognizes unconditional promises to give upon receipt of the promise. Conditional promises to give are recognized upon determination that there is only a remote possibility that the donor conditions will not be met.

Contributed services that meet the criteria outlined by (ASC 958-605-25-16) are recognized as a contribution and an expense.

Fair Value of Financial Instruments

Effective January 1, 2009, the Company adopted the provisions of FASB ASC 820-10 which provides a framework for measuring fair value under GAAP. It defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. It also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

There are three general valuation techniques that may be used to measure fair value, as described below:

- A) Market approach – Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;
- B) Cost approach – Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and
- C) Income approach – Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques, and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

See Independent Auditor's Report.

DEBTWAVE CREDIT COUNSELING, INC.  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Fair Value of Financial Instruments (Cont.)

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practical to estimate that value.

Cash and Cash Equivalents, prepaid expenses, accrued income and deposits. The carrying amount is a reasonable estimate of fair value.

Accounts Payable, Creditor Payable and Accrued Expenses. The carrying value of accounts payable, creditor payable and accrued expenses approximates the fair value due to the short-term nature of these instruments.

NOTE 2 - FIXED ASSETS

Fixed assets consisted of the following:

	<u>2016</u>	<u>2015</u>
Furniture and fixtures	\$ 93,520	\$ 93,520
Computer systems	204,439	204,439
Software	373,525	351,318
Phone system	44,951	44,951
Equipment	3,811	3,811
Leasehold Improvements	<u>24,992</u>	<u>24,992</u>
Total fixed assets	745,238	723,031
Less accumulated depreciation	<u>(660,248)</u>	<u>(622,011)</u>
Total fixed assets - net	<u>\$ 84,990</u>	<u>\$ 101,020</u>

Depreciation expense was \$38,237 and \$22,084 for the years ended December 31, 2016 and 2015, respectively.

See Independent Auditor's Report.

DEBTWAVE CREDIT COUNSELING, INC.  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2016 AND 2015

NOTE 3 - ACCRUED EXPENSES

Accrued expenses consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Vacation accrual	\$ 58,116	\$ 46,277
Consulting expense	0	48,000
Credit Card payable	<u>18,168</u>	<u>9,502</u>
Total accrued expenses	<u>\$ 76,284</u>	<u>\$ 103,779</u>

NOTE 4 - RELATED PARTY TRANSACTIONS

Contributed Services

During 2016 and 2015, the President donated his personal services to the Company. No expense or support has been recognized.

NOTE 5 - COMMITMENTS

Operating Lease

Beginning December of 2013 the Company began leasing a new facility under a non-cancelable operating lease which expires August 31, 2019. Monthly rent under this lease for 2016 was \$11,865 per month for two months and \$12,219 for nine months with one month of rent being abated per the lease agreement.

Rent expenses for 2016 and 2015 under the terms of the leases amounted to \$133,703 and \$107,342 respectively.

Future minimum rental payments required under this lease is as follows:

<u>Year Ending</u>	<u>Amount Due</u>
2017	\$ 150,172
2018	154,422
2019	105,900
2020	0
2021	0
Thereafter	<u>0</u>
Total	<u>\$ 410,494</u>

See Independent Auditor's Report.

DEBTWAVE CREDIT COUNSELING, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

NOTE 6 – CONCENTRATIONS

Credit Risk

The Company maintains cash balances at financial institutions located primarily in San Diego. Accounts at these institutions are secured by the Federal Deposit Insurance Corporation up to \$250,000. Management believes that the Company is not exposed to any significant credit risk on cash.

NOTE 7 – RETIREMENT PLAN

Effective January 1, 2005, the Company has a 401(k) Plan ("Plan") to provide retirement and incidental benefits for its employees. Employees may contribute from 1% to 15% of their annual compensation to the Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. The Company, at its discretion, can match employee contributions to the Plan. All matching contributions vest fully after three years of service. Company matching contributions to the Plan totaled \$42,533 and \$41,211 in 2016 and 2015, respectively.

NOTE 8 – DATE OF MANAGEMENT EVALUATION

Management has evaluated subsequent events through March 17, 2017, the date on which the financial statements were available to be issued.

See Independent Auditor's Report.

## SUPPLEMENTARY INFORMATION

DEBTWAVE CREDIT COUNSELING, INC.  
SCHEDULE I - SCHEDULE OF EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Accounting	\$ 31,020	\$ 27,624
Advertising	11,122	22,742
Bank fees	17,077	12,903
Client services	178,466	226,849
Computer expense	16,032	10,451
Conferences/meetings	990	1,093
Consulting	884,468	700,391
Depreciation	38,237	22,084
Dues and subscriptions	18,676	16,815
Equipment rental	5,456	5,803
Insurance	114,731	108,120
Integrant fees	38,814	41,016
Internet/web hosting	2,780	2,121
Legal and professional fees	118,385	6,319
Licenses and permits	97,938	61,208
Marketing expenses	76,383	180,441
Meals and entertainment	13,583	17,515
Moving expenses	68	2,635
Office supplies/expense	30,492	40,515
Payroll service	7,064	5,988
Payroll taxes	147,037	134,810
Pension contributions (Note 7)	42,533	41,211
Postage	32,588	34,430
Printing	12,302	6,984
Property tax	930	1,213
Rent (Note 5)	133,703	107,342
Repairs and maintenance	0	2,459
Salaries	1,671,903	1,534,843
Security	628	734
Telephone	43,457	50,347
Travel	10,546	12,097
Utilities	8,707	8,001
	\$ 3,806,116	\$ 3,447,104
Total expenses		

See independent auditor's report and accompanying notes to the financial statements.