

PATHWAYS TO INDEPENDENCE
FINANCIAL STATEMENTS

DECEMBER 31, 2013

CONTENTS

Independent Auditors' Report	1
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Cash Flows	5
Statement of Functional Expenses	6
Notes to the Financial Statements	7-12

Guzman & Gray

Certified Public Accountants

4510 East Pacific Coast Highway, Suite 270
Long Beach, California 90804

Mark Gray, C.P.A.
Patrick S. Guzman, C.P.A.

(562) 498-0997 Fax: (562) 597-7359

INDEPENDENT AUDITORS' REPORT

Board of Directors
Pathways to Independence

We have audited the accompanying financial statements of Pathways to Independence, (a nonprofit organization), which comprise the financial position as of December 31, 2013, and the related statements of activities and changes in net assets, 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

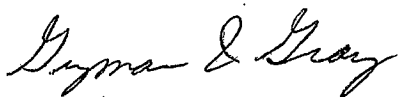
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pathways to Independence, as of December 31, 2013, 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.



GUZMAN & GRAY

Long Beach, CA

June 19, 2014

PATHWAYS TO INDEPENDENCE
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2013

CURRENT ASSETS	
Cash	\$ 887,899
Cash restricted for new building	275,000
Investments	8,464
Accounts receivable	26,283
Prepaid expenses	11,027
Total current assets	<u>1,208,673</u>
 FIXED ASSETS	
Land, buildings and equipment at cost, net of accumulated depreciation of \$463,964	<u>5,660,796</u>
 TOTAL ASSETS	 <u><u>\$ 6,869,469</u></u>
 LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	\$ 15,511
Security deposits	9,740
Long term debt, current	23,868
Other liabilities	12,555
Total current liabilities	<u>61,674</u>
 NONCURRENT LIABILITIES	
Long term debt, noncurrent	<u>526,483</u>
Total liabilities	<u>588,157</u>
 NET ASSETS	
Unrestricted	6,244,312
Temporarily restricted	37,000
Total net assets	<u>6,281,312</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 6,869,469</u></u>

See Independent Auditors' Report and Accompanying Notes to Financial Statements

PATHWAYS TO INDEPENDENCE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions			
Business	\$ 3,825		\$ 3,825
Foundations	506,451	\$ 37,000	543,451
Service clubs/ churches	13,463		13,463
Individuals	95,638		95,638
Capital campaign		275,000	275,000
Grants	53,000		53,000
Fundraising	476,181		476,181
Dunbar residential program rental income	124,689		124,689
Interest income	1,421		1,421
Rental income	187,141		187,141
Other income	2,127		2,127
In-kind	665,250		665,250
	<u>2,129,186</u>	<u>312,000</u>	<u>2,441,186</u>
Net assets released from restrictions	<u>531,386</u>	<u>(531,386)</u>	
Total Support and Revenue	<u>2,660,572</u>	<u>(219,386)</u>	<u>2,441,186</u>
EXPENSES			
Program sevicess	1,581,779		1,581,779
Management and general	183,088		183,088
Fundraising	52,122		52,122
	<u>1,816,989</u>		<u>1,816,989</u>
TOTAL EXPENSES	<u>1,816,989</u>		<u>1,816,989</u>
CHANGE IN NET ASSETS	843,583	(219,386)	624,197
BEGINNING NET ASSETS	<u>5,400,729</u>	<u>256,386</u>	<u>5,657,115</u>
ENDING NET ASSETS	<u>\$ 6,244,312</u>	<u>\$ 37,000</u>	<u>\$ 6,281,312</u>

See Independent Auditors' Report and Accompanying Notes to Financial Statements

PATHWAYS TO INDEPENDENCE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 624,197
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	124,452
Less cash received for purchase of building	(275,000)
(Increase)decrease in:	
Accounts receivable	(4,221)
Prepaid expenses	2,803
Increase(decrease) in	
Accounts payable	(34,534)
Security deposits	715
Other liabilities	11,595
Net cash used in operating activities	<u>450,007</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	<u>(8,464)</u>
Net cash used in investing activities	<u>(8,464)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Cash received for purchase of building	275,000
Cash payments on long term debt	<u>(444,051)</u>
Net cash from financing activities	<u>(169,051)</u>
NET INCREASE (DECREASE) IN CASH	272,492
CASH, BEGINNING OF YEAR	<u>615,407</u>
CASH, END OF YEAR	<u><u>\$ 887,899</u></u>
SUPPLEMENTAL DISCLOSURES	
Interest paid	<u>\$ 32,251</u>
Taxes paid	<u><u>\$ 4,681</u></u>

See Independent Auditors' Report and Accompanying Notes to Financial Statements

PATHWAYS TO INDEPENDENCE

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013

	Program Service	Management & General	Fundraising	Total
Mortgage interest		\$ 32,251		\$ 32,251
Auto	\$ 142,505			142,505
Books and supplies	39,249			39,249
Client services	25,457			25,457
Depreciation	89,606	34,846		124,452
Emergency living	13,361			13,361
Fundraising		1,063	\$ 52,122	53,185
Housing	363,049			363,049
Inkind	658,598	6,652		665,250
Insurance	8,266	14,696		22,962
Medical	57,646			57,646
Move-in	3,577			3,577
Property taxes	7,252	7,251		14,503
Tuition fees	62,457			62,457
Utilities	43,004			43,004
Other	5,094	3,397		8,491
Repairs and maintenace	12,062	12,062		24,124
Accounting		32,807		32,807
Bank fees		4,036		4,036
Outside services		3,200		3,200
Tax provision		4,681		4,681
Salaries and wages	44,171	18,931		63,102
Payroll taxes	6,343	2,718		9,061
Printing	82	1,553		1,635
Pertmits, fees and dues		1,730		1,730
Postage		1,214		1,214
Total expenses	<u>\$ 1,581,779</u>	<u>\$ 183,088</u>	<u>\$ 52,122</u>	<u>\$ 1,816,989</u>

See Independent Auditors' Report and Accompanying Notes to Financial Statements

PATHWAYS TO INDEPENDENCE
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Pathways to Independence was founded in 1991 to provide long-term, comprehensive assistance through personalized strategies to young women in Long Beach and Orange County who are living below the poverty level, come from an abusive background, and have a serious desire to become financially and socially self-sufficient and contribute to our society. This assistance includes education and job training, professional counseling and medical care, part-time employment, and mentoring.

In order to provide for the physical, emotional and psychological needs of its clients throughout their educational training, Pathways seeks participation and contributions from individuals, health care professionals and businesses.

Pathways to Independence was incorporated as a nonprofit organization under the laws of the State of California in February of 1994.

Basis of Presentation

The financial statements of Pathways to Independence have been prepared on the accrual basis of accounting. Generally Accepted Accounting Principles require that all not-for-profit organizations provide a statement of financial position, a statement of activities and changes in net assets, and a statement of cash flows, and that net assets and changes in net assets be classified as permanently restricted, temporarily restricted or unrestricted.

A description of the categories of net assets is as follows:

Unrestricted Net Assets

Unrestricted net assets is utilized to record contributions, special events, fees and other forms of unrestricted revenue and expenditures related to the general operations and special events efforts of the organization that are not restricted by the donor through use or time restrictions.

Temporarily Restricted Net Assets

Temporarily restricted net assets is utilized to record resources received that are temporarily restricted as to use or expiration of time. Contributions whose restrictions are met in the same reporting period are recorded as unrestricted.

Fair Value of Financial Instruments

Generally accepted accounting principles define fair value as the price that would be received to sell an asset or paid to transfer liability in an orderly transaction between market participants at the measurement date.

PATHWAYS TO INDEPENDENCE
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

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

Permanently Restricted Net Asset

Permanently restricted net assets is utilized to record resources received that are permanently restricted as to use by the donor or grantor. Pathways to Independence does not currently have any such resources.

Contributions

All contributions are considered to be for unrestricted use unless specifically restricted by the donor. Any such contributions are recognized as increases to unrestricted net assets.

Contributed Materials and Services

Contributed materials are recorded at their fair market value where an objective basis is available to measure their value. Such items are capitalized or charged to operations as appropriate.

A substantial number of businesses and unpaid volunteers have made significant contributions of time to the Pathways to Independence program in the areas of professional counseling, medical care, and mentoring. Contributed services are recorded at fair value at the date of donation only if the services (a) create or enhance non-financial assets, or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Cash and Cash Equivalents

Pathways to Independence considers all highly-liquid investments, which are readily convertible to known amounts of cash and which have an original maturity of three months or less, to be cash equivalents.

Accounting Estimates

The preparation of 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.

Land, Building and Equipment

Land, building and equipment are stated at cost or fair market value at date of contribution. Depreciation is computed under the straight line method, with estimated useful lives ranging from three to forty years. Additions and improvements that increase the capacity or lengthen the useful lives of the assets are capitalized. Repairs and maintenance are expensed as incurred.

PATHWAYS TO INDEPENDENCE
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

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

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. As described above in Contributed Materials and Services, volunteer labor for this type of activity is not recognized as a donation.

Reclassifications

Certain reclassifications have been made in the 2013 financial statements that could affect the comparability of amounts presented in the 2012 financial statements.

Income Taxes

Pathways to Independence is a qualified nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. This exemption is for all income taxes except for those assessed on unrelated business income, if any. The Internal Revenue Service has classified the organization as "other than a private foundation".

Generally accepted accounting principles (GAAP) requires that management determines whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets the recognition threshold, the position is measured to determine the amount of benefit to be recognized in the financial statements.

Subsequent events

Pathways to Independence has evaluated events and transactions for potential recognition or disclosure through June 19, 2014 which represents the date the financial statements were available to be issued.

NOTE 2 - LAND, BUILDING AND EQUIPMENT

Land, building and equipment consists of the following:

Land	\$ 1,851,301
Buildings and improvements	4,232,522
Appliances and furniture	<u>40,937</u>
	6,124,760
Less: Accumulated Depreciation	<u>(463,964)</u>
	<u>\$ 5,660,796</u>

The depreciation expense for the year was \$124,452.

PATHWAYS TO INDEPENDENCE
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

NOTE 3 – LONG-TERM DEBT

In 2012, Pathways took on \$999,999 of long term debt in order to partially finance the \$1,792,550 purchase price of an apartment building adjacent to other wholly owned apartment buildings used to house clients in the program. The motivation for acquiring the building was to help further lower housing related expenses which historically have been the program's largest expense category. Management plans to begin replacing tenants in the building with clients of the program starting in 2014.

The composition of long-term debt follows:

The Organization has a 4.79% mortgage payable to US Bank, due in monthly installments of \$5,769 including principal and interest commencing on May 1, 2012, and on the same date of each consecutive month thereafter. All principal and interest shall be due and payable April 1, 2022. Commencing with the first payment on May 1, 2019 and every 3 years thereafter, the interest rate charged on the outstanding principal balance shall be adjusted to current U.S. Treasury Index.

Total long-term debt	\$ 550,351
Less current portion	(23,868)
Net long-term debt	<u>\$ 526,483</u>

As of December 31, 2013 the annual maturities of long-term debt for the succeeding years are as follows:

2014	23,868
2015	25,037
2016	26,263
2017	27,549
Thereafter,	<u>447,634</u>
	<u>\$ 550,351</u>

PATHWAYS TO INDEPENDENCE
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

NOTE 4 – NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2013:

Programming	\$ 37,000
Capital campaign/building	<u>275,000</u>
	<u>\$ 312,000</u>

During the year the following net assets were released from restriction:

Capital campaign/building	\$ 400,000
Programing	<u>131,386</u>
	<u>\$ 531,386</u>

NOTE 5 – CASH RESTRICTED FOR NEW BUILDING

Cash restricted for new building consisted of contributions received in 2013 stipulated as temporarily restricted cash contributions to help pay-off the long term debt acquired to purchase a new building.

NOTE 6 – TAX PROVISION

The Organization earned revenue from rental property. The rental income earned from the rental property is considered unrelated to the exempt purpose of the organization and is subject to income tax. Management has estimated the tax liabilities at December 31, 2013 for federal and state tax authorities to be \$4,681.

NOTE 7 – CONCENTRATIONS

Pathways to Independence maintains cash in several accounts in financial institutions which are presently insured by the Federal Deposit Insurance Corporation up to \$250,000. At times during the year the FDIC limit has been exceeded. At year ended December 31, 2013, \$912,899 of cash was over the FDIC limits. The Organization has not experience any losses in such accounts and believes it is not exposed to any significant credit risk in these accounts.

Pathways to Independence operates in Long Beach and Orange County, California and is dependent upon the local economy. It receives the majority of its support from contributions. In 2013, Pathways received 60% of its total revenue and support from contributions. There is no assurance that these contributions will continue in the future, although management is not aware of any potential reductions at this time.

PATHWAYS TO INDEPENDENCE
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

NOTE 8 – RELATED PARTY

Pathway's President provides construction and maintains services to some of the housing buildings for a fee below the fair market value. All transactions, including the fee rates for service have been reviewed and approved by the Board of Director. The Organization paid the president \$ 5,352 for services rendered during the year.