PATHWAYS TO INDEPENDENCE
FINANCIAL STATEMENTS

DECEMBER 31, 2014

CONTENTS

Guzman & Gray

Certified Public Accountants

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

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

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

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
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, 2014, 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, 2014, 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

GUZMAN & GRAY
Long Beach, CA
May 22, 2015

PATHWAYS TO INDEPENDENCE
STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2014

CURRENT ASSETS	
Cash	$1,371,231
Accounts receivable	26,600
Loans receivable	8,771
Income tax refund	5,169
Prepaid expenses	12,692
Total current assets	1,424,463
FIXED ASSETS	
Land, buildings and equipment at cost, net of accumulated depreciation of $584,543	5,549,814
TOTAL ASSETS	$6,974,277

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Loans payable	$ 1,120
Deferred revenue	16,623
Security deposits	1,865
Long term debt, current	56,063
Accrued liabilities	1,658
Other liabilities	18,726
Total current liabilities	96,055
NONCURRENT LIABILITIES	
Long term debt, noncurrent	244,294
Total liabilities	340,349
NET ASSETS	
Unrestricted	6,633,928
Total net assets	6,633,928
TOTAL LIABILITIES AND NET ASSETS	$6,974,277

See Independent Auditors' Report and Notes to Financial Statements

PATHWAYS TO INDEPENDENCE
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2014

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Contributions			
Business	$ 3,550		$ 3,550
Foundations	567,428		567,428
Service clubs/ churches	14,303		14,303
Individuals	182,531		182,531
Capital campaign	69,168		69,168
Grants	88,564		88,564
Fundraising	392,694		392,694
Dunbar residential program rental income	160,975		160,975
Interest income	370		370
Rental income	120,233		120,233
Realized gain from investments	3,544		3,544
Other income	3,777		3,777
In-kind	696,679		696,679
	2,303,816		2,303,816
Net assets released from restrictions	37,000	$ (37,000)	
Total Support and Revenue	2,340,816	(37,000)	2,303,816
EXPENSES			
Program sevices	1,665,323		1,665,323
Management and general	235,245		235,245
Fundraising	50,632		50,632
TOTAL EXPENSES	1,951,200		1,951,200
CHANGE IN NET ASSETS	389,616	(37,000)	352,616
BEGINNING NET ASSETS	6,244,312	37,000	6,281,312
ENDING NET ASSETS	$ 6,633,928	$ -	$ 6,633,928

PATHWAYS TO INDEPENDENCE
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 352,616
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	120,579
Realized gains from investments	(3,544)
(Increase)decrease in:	
Accounts receivable	(3,900)
Loans receivable	(5,188)
Investment withholding receivables	(5,169)
Prepaid expenses	(1,665)
Increase(decrease) in	
Accounts payable	(11,310)
Loans payable	1,120
Deferred revenue	12,422
Security deposits	(7,875)
Accrued expenses	1,658
Other liabilities	6,171
Net cash used in operating activities	455,915
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of fixed assets	(9,597)
Shares donated	(6,453)
Net cash used in investing activities	(16,050)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from sale of investments	18,461
Cash payments on long term debt	(249,994)
Net cash from financing activities	(231,533)
NET INCREASE (DECREASE) IN CASH	208,332
CASH, BEGINNING OF YEAR	1,162,899
CASH, END OF YEAR	$ 1,371,231
SUPPLEMENTAL DISCLOSURES	
Interest paid	$ 19,235
Taxes paid	$ 34,658
Noncash operating activities	
Inkind services donated	$ 696,679

See Independent Auditors' Report and Notes to Financial Statements

PATHWAYS TO INDEPENDENCE
STATEMENT OF FUNCTIONAL EXPENSE

FOR THE YEAR ENDED DECEMBER 31, 2014

	Program Service	Management & General	Fundraising	Total
Mortgage interest	$ 10,387	$ 8,848		$ 19,235
Auto	166,282			166,282
Books and supplies	43,820			43,820
Client services	70,458			70,458
Depreciation	86,817	33,762		120,579
Emergency living	10,453			10,453
Fundraising			$ 50,632	50,632
Housing	375,280			375,280
Inkind	627,011	69,668		696,679
Insurance	7,686	13,664		21,350
Medical	63,897			63,897
Move-in	8,099			8,099
Property taxes	16,196	16,196		32,392
Tuition fees	54,226			54,226
Utilities	47,036			47,036
Other	2,726	1,818		4,544
Repairs and maintenance	19,348	19,348		38,696
Accounting		32,030		32,030
Bank fees		1,568		1,568
Outside services		6,388		6,388
Tax provision		1,842		1,842
Salaries and wages	43,087	18,466		61,553
Payroll taxes	12,320	5,280		17,600
Printing	194	3,681		3,875
Pertmits, fees and dues		1,246		1,246
Postage		1,440		1,440
Total expenses	$ 1,665,323	$ 235,245	$ 50,632	$ 1,951,200

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.

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.

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 2014 financial statements that could affect the comparability of amounts presented in the 2013 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 May 22, 2015 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	50,534
	6,134,357
Less: Accumulated Depreciation	(584,543)
	$ 5,549,814

The depreciation expense for the year was $120,579.

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 continue replacing the remaining tenants in the building with clients of the program in 2015.

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	$ 300,357
Less current portion	(56,063)
Net long-term debt	$ 244,294

As of December 31, 2014 the annual maturities of long-term debt for the succeeding years are as follows:

2015	56,063
2016	58,808
2017	61,687
2018	64,708
Thereafter,	59,091
Total	$ 300,357

NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS

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

Programming	$ 37,000

NOTE 5 – 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, 2014 for federal and state tax authorities to be $1,153 and $689 respectively.

NOTE 6 – 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, 2014, $1,154,535 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 2014, Pathways received 86% of its total revenue and support from contributions and 30% of those contributions were in-kind contributions of services. There is no assurance that these contributions will continue in the future, although management is not aware of any potential reductions at this time.

NOTE 7 – 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 $ 20,701 for services rendered during the year.