Guzman & Gray

Certified Public Accountants

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

Mark Gray, CPA
Patrick S. Guzman, CPA

COMMUNICATION OF NO MATERIAL WEAKNESSES

November 19, 2018
To the Board Members of
Pathways to Independence
Dear Members of the Board:

In planning and performing our audit of the financial statements of Pathways to Independence as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Institute's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control.

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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

This communication is intended solely for the information and use of management, Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Guzman & Gray

Guzman & Gray CPAs
Long Beach, California

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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

November 19, 2018

To the Board of Directors
and Management of
Pathways to Independence

We have audited the financial statements of Pathways to Independence for the year ended December 31, 2017, and have issued our report thereon dated November 19, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Pathways to Independence are described in Note 1 to the financial statements. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimate affecting the financial statements was:

1. Management's estimate of in-kind revenue and expense. We evaluated the valuation used to develop the estimated fair market value of the in-kind contributions and expenditures in determining that these estimates are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Qualitative Aspects of Accounting Practices (continued)

Corrected and Uncorrected Misstatements
Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management
For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management representations
We have requested certain representations from management that are included in the management representation letter dated November 19, 2018.

Management Consultations with Other Independent Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

Matters and recommendations to improve operating procedures and administrative efficiency and to strengthen internal accounting controls are described in the memorandum that accompanies this letter.

Other Information in Documents Containing Audited Financial Statements (Continued)

This information is intended solely for the use of the Audit Committee and management of Pathways to Independence and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Patrick S. Guzman, CPA
Guzman & Gray CPAs
Long Beach, California

CONSIDER ADOPTING AN ACCOUNTABLE PLAN

We recommend that the organization adopt a written accountable plan pertaining to expense reimbursements to employees. To be an accountable plan, an expense reimbursement arrangement must include all three of the following rules:

- The expenses must have a business connection, that is, the employee must have paid or incurred deductible expenses while performing services as an employee of the employer.
- The employee must adequately account to the employer for these expenses within a reasonable period of time. (IRS considers this to be less than 60 days)
- The employee must return any excess reimbursement or allowance within a reasonable period of time. (IRS considers this to be less than 120 days)

By meeting the accountable plan rules, the employer would not need to include any reimbursements in the W-2 form of the employee. If reimbursements are made without a written accountable plan and not reported on the W-2 form, then W-2 forms would be incorrect and the expense reimbursement would be considered an excess benefit transaction in violation of IRS regulations, even though they may be for legitimate business expenses.

BANK RECONCILIATION REVIEW

We found where the bank reconciliation cut offs were, in some cases, a few days different that the end of the month and did not agree with the general ledger. We would recommend that the reconciliations be performed as of the end of the month and agree to the general ledger. In addition the bank reconciliations should be reviewed by supervisory personnel, and initialed and dated as reviewed.

RECORDING OF INVESTMENT ACTIVITIES

We recommend that a member of the board review the investment statements and compare to the general ledger. We recommend that the Organization develop and implement an investment statement review policy for the investment statements to be reviewed by the CFO and for the investment statements to be signed or initialed by the reviewer. Implementing such a policy will improve financial reporting and provide an additional control to safe guard the Organization's assets.

PATHWAYS TO INDEPENDENCE
FINANCIAL STATEMENTS

DECEMBER 31, 2017

CONTENTS

Guzman & Gray

Certified Public Accountants

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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, 2017, 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.

Board of Directors
Page 2

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, 2017, 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
November 19, 2018

PATHWAYS TO INDEPENDENCE
STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2017

ASSETS

CURRENT ASSETS	
Cash	$ 1,326,749
Investments	141,102
Loans receivable	6,861
Prepaid expenses	16,356
Total current assets	1,491,068
LAND, BUILDING, AND EQUIPMENT	
Land, buildings and equipment at cost, net of accumulated depreciation of $966,718	5,174,430
Software, net of accumulated depreciation of $3,989	13,000
Total land, building, and equipment	5,187,430
TOTAL ASSETS	$ 6,678,498

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	$ 5,653
Loans payable	1,281
Long term debt - current	64,707
Accrued liabilities	10,721
Client savings payable	43,009
Total current liabilities	125,371
NONCURRENT LIABILITIES	
Long term debt, noncurrent	59,593
Total liabilities	184,964
NET ASSETS	
Unrestricted	6,392,597
Restricted	100,937
Total net assets	6,493,534
TOTAL LIABILITIES AND NET ASSETS	$ 6,678,498

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, 2017

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Contributions			
Business	$ 30,862		$ 30,862
Foundations	235,379		235,379
Service clubs/ churches	17,922		17,922
Individuals	45,279	$ 100,937	146,216
Capital campaign	10,000		10,000
Grants	59,000		59,000
Fundraising	663,618		663,618
Dunbar residential program rental	220,848		220,848
Interest	188		188
Other	60		60
In-kind	361,532		361,532
Unrealized gain	4,767		4,767
Total Support and Revenue	1,649,455	100,937	1,750,392
EXPENSES			
Program sevices	1,581,355		1,581,355
Management and general	232,888		232,888
Fundraising	91,904		91,904
TOTAL EXPENSES	1,906,147	-	1,906,147
CHANGE IN NET ASSETS	(256,692)	100,937	(155,755)
BEGINNING NET ASSETS	6,649,289		6,649,289
ENDING NET ASSETS	$ 6,392,597	$ 100,937	$ 6,493,534

See Independent Auditors' Report and Notes to Financial Statements

PATHWAYS TO INDEPENDENCE
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ (155,755)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	126,255
Amortization	3,989
Unrealized gain	(4,767)
Contributed stock	(108,797)
(Increase)decrease in:	
Loans receivable	82
Prepaid expenses	8,672
Increase(decrease) in	
Accounts payable	5,653
Accrued expenses	7,906
Other liabilities	(1,965)
Net cash from operating activities	(118,727)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of fixed assets	(18,149)
Net cash from investing activities	(18,149)
CASH FLOWS FROM FINANCING ACTIVITIES	
Cash payments on long term debt	(61,687)
Net cash from financing activities	(61,687)
NET INCREASE IN CASH	(198,563)
CASH, BEGINNING OF YEAR, UNADJUSTED	1,552,851
PRIOR PERIOD ADJUSTMENT	(27,539)
CASH, BEGINNING OF YEAR, ADJUSTED	1,525,312
CASH, END OF YEAR	$ 1,326,749
SUPPLEMENTAL DISCLOSURES	
Interest paid	$ 7,661

See Independent Auditors' Report and Notes to Financial Statements

PATHWAYS TO INDEPENDENCE
STATEMENT OF FUNCTIONAL EXPENSE

FOR THE YEAR ENDED DECEMBER 31, 2017

	Program Service	Management & General	Fundraising	Total
Mortgage interest	$ 4,137	$ 3,524		$ 7,661
Auto	158,670			158,670
Books and supplies	77,728			77,728
Client services	96,281			96,281
Depreciation	126,255			126,255
Amortization	3,989			3,989
Emergency living	9,424			9,424
Fundraising		1,876	$ 91,904	93,780
Housing	390,386			390,386
In-kind	325,379	36,153		361,532
Travel	1,680	720		2,400
Insurance	8,905	15,832		24,737
Medical	77,331			77,331
Move-in	1,041			1,041
Property taxes	14,194	14,194		28,388
Tuition fees	66,392			66,392
Utilities	62,366			62,366
Telecommunications	602	258		860
Other	6,977	4,651		11,628
Repairs and maintenance	19,489	19,489		38,978
Accounting		29,690		29,690
Bank fees		7,723		7,723
Outside services		34,436		34,436
Salaries and wages	119,588	51,252		170,840
Payroll taxes	10,386	4,451		14,837
Printing	155	2,946		3,101
Pertmits, fees and dues		2,986		2,986
Postage		2,707		2,707
Total expenses	$ 1,581,355	$ 232,888	$ 91,904	$ 1,906,147

See Independent Auditors' Report and Notes to Financial Statements

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. The Organization does not currently have temporarily restricted net assets.

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.

Investments

Pathways to Independence records investments at their fair market value. Contributed securities are stated at their market value on the date of donation. Net realized and unrealized gains and losses on investments are reflected in the statement of activities.

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.

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

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.

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.

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 November 19, 2018, 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	4,236,135
Appliances and funiture	53,712
	6,141,148
Less: Accumulated Depreciation	(966,718)
	$ 5,174,430

The depreciation expense for the year was $126,255.

NOTE 3 – SOFTWARE

Software	$ 16,989
Less: Accumulated Amortization	(3,989)
	$ 13,000

The amortization expense for the year was $3,989.

NOTE 4 – 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 2017.

The composition of long-term debt follows:

NOTE 4 – LONG-TERM DEBT (Continued)

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	$ 124,300
Less current portion	(64,707)
Net long-term debt	$ 59,593

As of December 31, 2017 the annual maturities of long-term debt for the succeeding years are as follows:

2018	$ 64,707
2019	59,593
Total	$ 124,300

NOTE 5 – 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, 2017, $1,127,635 of cash was over the FDIC limits. The Organization has not experienced 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 2017, Pathways received 87% of its total revenue and support from contributions and 24% of those contributions were in-kind contributions or 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 6 – RELATED PARTY

Pathways to Independence's Chief Financial Officer contributed $108,797 in stock for restricted purposes. All transactions have been reviewed and approved by the Board of Director.

NOTE 7 – INVESTMENTS

Investments in marketable securities consist of the following:

	Market	Cost
Equity securities	$ 140,237	$ 135,470

Investment income earned on the above marketable securities are summarized as follows:

Unrealized gain (loss)	$ 4,767

NOTE 8 – FAIR VALUE MEASUREMENTS

GAAP establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Other observable inputs, which include quoted prices for similar assets and liabilities, and market support inputs. These inputs could include such items as interest rates, yield curves, auction prices for equipment or per square foot selling prices for real estate.

Level 3: Inputs that are unobservable inputs for assets and liabilities are based on the Organization's assumptions. These include inputs that are internally developed and estimated.

NOTE 8 – FAIR VALUE MEASUREMENTS (Continued)

In instances where the determination of the fair value measurement is based upon inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair measurement in its entirety.

Fair values of assets measured on a recurring basis at December 31, 2017 are as follows:

	Fair Market Value	Quoted Prices in Active Markets for Identical Assets (Level 1)
Assets		
Stocks	$ 140,237	$ 135,470

Fair values for all stocks and mutual funds are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair values for bonds are generally determined based on market prices for comparable similar assets and other relevant information generated by market transactions. Fair value for beneficial interest in perpetual trust, split interest agreements, and asset held in trust is determined by calculating the present value of the estimated future distributions expected to be received.

The carrying value of cash equivalents, accounts payable and accrued expenses are reasonable estimates of fair value due to the short term nature of these financial instruments and consequently these instruments are not presented in the table shown above, as there are no changes in the valuation of any of these financial instruments.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets for the years ended December 31, 2017 totaled $100,937. Temporarily restricted net assets released from restrictions during the years ended December 31, 2017 were $0.