PATHWAYS TO INDEPENDENCE

FINANCIAL STATEMENTS

DECEMBER 31, 2018

CONTENTS

Guzman & Gray

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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, 2018, 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.

Auditors' Responsibility (Continued)

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, 2018, 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
August 15, 2019

PATHWAYS TO INDEPENDENCE
STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2018

ASSETS

CURRENT ASSETS	
Cash	$ 1,177,639
Investments	162,794
Loans receivable	2,143
Prepaid expenses	14,140
Total current assets	1,356,716
LAND, BUILDING, AND EQUIPMENT	
Land, buildings and equipment at cost, net of accumulated depreciation of $1,089,842	5,051,306
Software, net of accumulated amortization of $10,149	12,792
Total land, building, and equipment	5,064,098
TOTAL ASSETS	$ 6,420,814

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	$ 24,817
Accrued liabilities	3,976
Client savings payable	45,349
Total current liabilities	74,142
NET ASSETS	
Without donor restrictions	
Undesignated	6,193,905
With donor restrictions	
Time and purpose restricted	152,767
Total net assets	6,346,672
TOTAL LIABILITIES AND NET ASSETS	$ 6,420,814

PATHWAYS TO INDEPENDENCE
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions			
Business	$ 3,350		$ 3,350
Foundations	64,023	$ 40,030	104,053
Service clubs/ churches	5,399		5,399
Individuals	37,679		37,679
Grants	15,000		15,000
Inkind income	256,694		256,694
Gross special event revenue	873,792		873,792
Less cost of direct benefits to donors	(94,406)		(94,406)
Net special event revenue	779,386		779,386
Dunbar residential program rental	187,982		187,982
Interest	775		775
Other	14,226		14,226
Tax overpayment refund	20,666		20,666
Unrealized gain	1,892	19,800	21,692
NET ASSETS RELEASED FROM RESTRICTIONS	8,000	(8,000)	
Total Support and Revenue	1,395,072	51,830	1,446,902
EXPENSES			
Program sevices	1,192,603		1,192,603
Management and general	364,617		364,617
Fundraising	36,544		36,544
TOTAL EXPENSES	1,593,764	-	1,593,764
CHANGE IN NET ASSETS	(198,692)	51,830	(146,862)
BEGINNING NET ASSETS	6,392,597	100,937	6,493,534
ENDING NET ASSETS	$ 6,193,905	$ 152,767	$ 6,346,672

See Independent Auditors' Report and Notes to Financial Statements

PATHWAYS TO INDEPENDENCE
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ (146,862)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	123,124
Amortization	6,160
Unrealized gain	(21,692)
(Increase)decrease in:	
Loans receivable	4,718
Prepaid expenses	2,216
Increase(decrease) in	
Accounts payable	19,164
Loans payable	(1,281)
Accrued expenses	(6,745)
Other liabilities	2,340
Net cash from operating activities	(18,858)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of software	(5,952)
Net cash from investing activities	(5,952)
CASH FLOWS FROM FINANCING ACTIVITIES	
Cash payments on long term debt	(124,300)
Net cash from financing activities	(124,300)
NET INCREASE IN CASH	(149,110)
CASH, BEGINNING OF YEAR	1,326,749
CASH, END OF YEAR	$ 1,177,639
SUPPLEMENTAL DISCLOSURES	
Interest paid	$ 636

PATHWAYS TO INDEPENDENCE
STATEMENT OF FUNCTIONAL EXPENSE

FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Service	Management & General	Fundraising	Total
Housing	$ 323,133			$ 323,133
Inkind expense	256,694			256,694
Salaries and wages	70,727	$ 108,943		179,670
Auto	128,196			128,196
Depreciation		123,124		123,124
Special event expense			$ 119,406	119,406
Tuition fees	94,976			94,976
Client services	68,162			68,162
Utilities	65,541			65,541
Medical	61,947			61,947
Books and supplies	51,012			51,012
Repairs and maintenance	43,241			43,241
Outside services		32,275		32,275
Accounting		29,015		29,015
Insurance		24,700		24,700
Payroll taxes	5,494	8,719		14,213
Furnishing	12,425			12,425
Pertmits, fees and dues			11,544	11,544
Other	5,755	5,754		11,509
Legal expense		10,931		10,931
Amortization		6,160		6,160
Travel	5,300			5,300
Bad debt expense		4,137		4,137
Subscriptions		3,459		3,459
Printing		2,336		2,336
Bank fees		2,315		2,315
Postage		2,113		2,113
Mortgage interest		636		636
Total expenses by function	1,192,603	364,617	130,950	1,688,170
Less expenses included with revenues on the statement of activities				
Cost of direct benefits to donors			(94,406)	(94,406)
Total expenses	$ 1,192,603	$ 364,617	$ 36,544	$ 1,593,764

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 Accounting

The Organization uses the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor – (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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

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.

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.

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.

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.

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

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 August 15, 2019, which represents the date the financial statements were available to be issued.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers.

The updated standard will replace most existing revenue recognition guidance in generally accepted accounting principles of the United States when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. We have implemented ASU 2016-14 and have adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods with no change in net assets or reclassifications. The Organization has elected to adopt this pronouncement before the effective date.

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 furniture	53,712
	6,141,148
Less: Accumulated Depreciation	(1,089,842)
	$ 5,051,306

The depreciation expense for the year was $123,124.

NOTE 3 – SOFTWARE

Software	$ 22,941
Less: Accumulated Amortization	(10,149)
	$ 12,792

The amortization expense for the year was $6,160.

NOTE 4 – LONG-TERM DEBT

In 2012, the Organization 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. In 2018, the Organization paid off the remaining balance of the long term debt.

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, 2018, $718,913 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 Orange County, California and is dependent upon the local economy. It receives the majority of its support from contributions. In 2018, Pathways received 82% 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.

NOTE 6 – INVESTMENTS

Investments in marketable securities consist of the following:

	Market	Cost
Equity securities	$ 162,794	$ 135,470

Investment income earned on the above marketable securities for the year ending December 31, 2018 are summarized as follows:

Unrealized gain (loss)	$ 21,692

NOTE 7 – 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.

NOTE 7 – FAIR VALUE MEASUREMENTS (Continued)

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.

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, 2018 are as follows:

	Fair Market Value	Quoted Prices in Active Markets for Identical Assets (Level 1)
Asset		
Stocks	$ 162,794	$ 162,794

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 8 - LIQUIDITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash	$ 1,187,775
Investments	159,267
Loans receivable	2,143
	1,349,185
Less temporarily restricted cash	(152,767)
	$ 1,196,418

The Organization's board of directors review and approve a yearly budget created by management and review the liquidity and operational budget of the Organization each month.