

PATHWAYS TO INDEPENDENCE

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

December 31, 2020

PATHWAYS TO INDEPENDENCE

December 31, 2020

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Pathways to Independence
Huntington Beach, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Pathways to Independence which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Pathways to Independence as of December 31, 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Pathways to Independence and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Pathways to Independence's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal controls relevant to the audit 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 Pathways to Independence's internal controls. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Pathways to Independence's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Ronald Blue & Co. CPAs

Santa Ana, California

June __, 2022

PATHWAYS TO INDEPENDENCE

STATEMENT OF FINANCIAL POSITION

December 31, 2020

ASSETS

Current assets:

Cash and cash equivalents - unrestricted	\$ 810,089
Total cash and cash equivalents	810,089
Investments - unrestricted	60,132
Investments - restricted	<u>276,690</u>
Total investments	<u>336,822</u>
Loans receivable	2,396
Prepaid expenses	<u>9,804</u>
Total current assets	<u>1,159,111</u>

Noncurrent assets:

Property and equipment, net	<u>4,760,813</u>
Total noncurrent assets	<u>4,760,813</u>
Total assets	<u>\$ 5,919,924</u>

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 5,088
Accrued expenses	32,941
Deferred grant income - PPP	<u>49,177</u>
Total current liabilities	<u>87,206</u>
Total liabilities	<u>87,206</u>

Net assets:

Without donor restrictions	5,556,028
With donor restrictions	<u>276,690</u>
Total net assets	<u>5,832,718</u>
Total liabilities and net assets	<u>\$ 5,919,924</u>

See independent auditors' report and accompanying notes

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STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2020

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Support and revenues:			
Contributions	\$ 146,540	\$ -	\$ 146,540
Grants	44,750	45,000	89,750
Special events, net	870,522	-	870,522
Rent income - Residential Program	149,465	-	149,465
Investment income, net	3,970	84,346	88,316
Net assets released from restriction	<u>26,981</u>	<u>(26,981)</u>	<u>-</u>
Total support and revenues	<u>1,242,228</u>	<u>102,365</u>	<u>1,344,593</u>
Expenses:			
Program activities	<u>1,136,757</u>	<u>-</u>	<u>1,136,757</u>
Supporting activities:			
General and administrative	122,213	-	122,213
Fundraising	<u>164,057</u>	<u>-</u>	<u>164,057</u>
Total supporting activities	<u>286,270</u>	<u>-</u>	<u>286,270</u>
Total expenses	<u>1,423,027</u>	<u>-</u>	<u>1,423,027</u>
Change in net assets	(180,799)	102,365	(78,434)
Net assets, beginning of year	<u>5,736,827</u>	<u>174,325</u>	<u>5,911,152</u>
Net assets, end of year	<u>\$ 5,556,028</u>	<u>\$ 276,690</u>	<u>\$ 5,832,718</u>

See independent auditors' report and accompanying notes

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STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2020

	Supporting activities			Total
	Program activities	General and administrative	Fundraising	
Expenses:				
Advertising and marketing	\$ 383	\$ 67	\$ 1,283	\$ 1,733
Auto	125,632	-	-	125,632
Bank and merchant fees	648	342	6,397	7,387
Books and supplies	39,464	3,479	859	43,802
Client Services	18,227	-	-	18,227
Conferences and meetings	477	89	327	893
Depreciation	151,060	-	-	151,060
Dues, subscriptions, and fees	3,893	2,109	373	6,375
Employee benefits	10,932	7,458	221	18,611
Furnishings	16,586	-	-	16,586
Housing	299,123	-	-	299,123
Insurance	2,670	14,205	261	17,136
Miscellaneous	9,616	-	-	9,616
Payroll taxes	7,425	3,056	16,480	26,961
Printing and postage	3,788	4,768	2,104	10,660
Professional fees	23,743	13,753	-	37,496
Repairs and maintenance	51,242	-	-	51,242
Salaries and wages	132,949	54,590	133,496	321,035
Telecommunications	2,756	18,298	2,256	23,311
Therapy and medical	67,323	-	-	67,323
Tuition fees	96,359	-	-	96,359
Utilities	72,459	-	-	72,459
	<u>\$ 1,136,757</u>	<u>\$ 122,213</u>	<u>\$ 164,057</u>	<u>\$ 1,423,027</u>
Total expenses	<u>\$ 1,136,757</u>	<u>\$ 122,213</u>	<u>\$ 164,057</u>	<u>\$ 1,423,027</u>

See independent auditors' report and accompanying notes

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STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2020

Cash flows from operating activities:

Change in net assets	\$	(78,434)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Gain (loss) on investments		(83,348)
Dividends reinvested		(3,420)
Depreciation expense		151,060
Changes in:		
Client loans receivable		225
Prepaid expenses		283
Accounts payable		(24,737)
Accrued expenses		(20,873)
Deferred grant income - PPP		49,177
Deferred revenue		<u>(141,000)</u>
Net cash flows from operating activities		<u>(151,067)</u>
Net change in cash and cash equivalents		(151,067)
Total cash and cash equivalents, beginning of year		<u>961,156</u>
Total cash and cash equivalents, end of year	\$	<u><u>810,089</u></u>

There were no investing or financing activities during the year ended December 31, 2020.

See independent auditors' report and accompanying notes

PATHWAYS TO INDEPENDENCE

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

Note 1 – Summary of significant accounting policies

This summary of significant accounting policies is presented to assist in understanding the accompanying financial statements. The financial statements and notes are the representations of Pathways to Independence's management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting policies and have been consistently applied in the preparation of the financial statements.

Nature of activities

Pathways to Independence (the Organization) was incorporated in 1994 as a California nonprofit corporation to provide long-term and comprehensive assistance through personalized strategies to young women in Long Beach and Orange County who are living below the poverty level, who come from an abusive background, and who have a serious desire to become financially and socially self-sufficient and to 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, the Organization seeks participating and contributions from individuals, healthcare professionals, and businesses.

Basis of accounting

The financial statements of the Organization have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America and accordingly reflect all significant receivables, payables, and other liabilities.

Concentrations of credit risk

The Organization maintains its cash deposit accounts at various commercial banks located in Southern California. Cash accounts at banks are insured by the Federal Deposit Insurance Corporation (FDIC) and National Credit Union Administration (NCUA) up to \$250,000. The balances in these accounts may, at times, exceed federally insured limits. At December 31, 2020, cash balances exceeded insured limits by \$329,149. Management believes the Organization is not exposed to any significant risk in connection with cash accounts.

Cash and cash equivalents

All cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, are considered to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building project endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2020

Note 1 – Summary of significant accounting policies (continued)

Loans receivable

From time to time and on a case-by-case basis, the Organization will provide an advance of the monthly stipend to a client. These advances are recorded as loans receivable on the statement of financial position and are paid back by the clients through a deduction of future stipends.

Promises to give

The Organization may at times receive pledges from donors. Since these pledges do not meet the criteria for revenue recognition they are not reflected as contributions in the statements of activities until the donations are received.

Property and equipment

Capital expenditures over \$1,000 for property and equipment are capitalized, and presented at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which range from three to forty years. Donated assets are capitalized at their approximate fair value at the date of the gift. Depreciation expense for the year ended December 31, 2020, was \$151,060.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. During 2020, there were no events or changes in circumstances indicating that the carrying amount of long-lived assets may not be recoverable.

Net assets

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as net assets with donor restrictions, depending on the nature of restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. At December 31, 2020 and 2019, net assets with donor restrictions consisted of \$276,690.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2020

Note 1 – Summary of significant accounting policies (continued)

Revenue recognition

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a benefit interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Revenue is recognized when earned.

Rental income under an operating lease agreement should be recognized on a straight-line basis. The Organization records rental income according to each tenant's lease agreement. The difference between the two methods was determined to be immaterial to the financial statements.

Revenue from contracts is recognized when the Organization satisfies a performance obligation by transferring a promised good or service to a customer. The Organization considers the terms of the contract and all relevant facts and circumstances when applying the revenue recognition standard. The Organization also applies the revenue recognition standard consistently to contracts with similar characteristics and in similar circumstances.

Contributed goods and services

Volunteers contribute amounts of time to the program activities, administration, and fundraising and development activities carried out by the Organization. However, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by accounting principles generally accepted in the United States. Contributed goods are recorded at fair value at the date of the donation. Donated professional services are recorded at their respective fair values. No significant contributions of such goods or services were received during the years ended December 31, 2020.

Functional allocation of expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Certain significant expenses are allocated on a basis of square footage, such as depreciation and other facilities expenses; while others are allocated on a basis of time and effort estimates, such as items related to payroll.

Advertising and marketing costs

The Organization records advertising and marketing expenses when incurred. Advertising and marketing expense for the year ended December 31, 2020, was 1,733.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2020

Note 1 – Summary of significant accounting policies (continued)

Income taxes

The Organization is exempt from Federal and California income tax under Internal Revenue Code section 501(c)(3). The Organization is subject, however, to Federal and California income tax on unrelated business income as stipulated in Internal Revenue Code Section 511 and Regulation Section 1.511. During the year ended December 31, 2020, the Organization had no activities unrelated to its exempt purpose, and therefore incurred no tax liability due to unrelated business income. The Organization does not believe its financial statements include (or reflect) any uncertain tax positions.

Use of estimates

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

Note 2 – Liquidity and availability

As part of liquidity management, the Organization has put a policy in place to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Financial assets available for general expenditure within one year consisted of the following at December 31, 2020:

Total cash and cash equivalents	\$ 810,089
Investments	60,132
Loans receivable	<u>2,396</u>
Total financial assets	872,617
Donor contributions with specific purpose restrictions	<u>276,690</u>
Total restrictions	<u>276,690</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 595,927</u>

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NOTES TO FINANCIAL STATEMENTS

December 31, 2020

Note 3 – Investments

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2020

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Equity securities	\$ 325,550	\$ -	\$ -	\$ 325,550
Cash, money markets	9,922	-	-	9,922
Fixed income funds	<u>1,350</u>	<u>-</u>	<u>-</u>	<u>1,350</u>
	<u>\$ 336,822</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 336,822</u>

Investment income was comprised of the following for the year ended December 31, 2020:

Dividends and interest	\$ 3,970
Realized and unrealized gain (loss)	<u>84,346</u>
Total investment income, net	<u>\$ 88,316</u>

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NOTES TO FINANCIAL STATEMENTS

December 31, 2020

Note 4 – Property and equipment

Property and equipment consisted of the following at December 31, 2020:

Land	\$ 1,851,301
Buildings and improvements	4,236,135
Appliances and furniture	<u>53,712</u>
Total property and equipment	6,141,148
Less: accumulated depreciation	<u>(1,380,335)</u>
Property and equipment, net	<u>\$ 4,760,813</u>

Note 5 – Deferred grant income – PPP

On August 6, 2020, the Organization received funds in the amount of \$49,177 via the Paycheck Protection Program under the CARES Act. The funds were initially recorded as deferred grant income and will be recognized as revenue upon forgiveness. The Organization expects to receive forgiveness in full. See Note 9.

Note 6 – Net assets with donor restrictions

Net assets with donor restrictions consisted of the following at June 30:

Perpetual restriction for Program Development	<u>\$ 276,690</u>
Total net assets with donor restrictions	<u>\$ 276,690</u>

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NOTES TO FINANCIAL STATEMENTS

December 31, 2020

Note 7 – Risks and uncertainties

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The United States and global markets experienced significant declines in value resulting from uncertainty caused by the pandemic. The Organization is closely monitoring its liquidity and is actively working to minimize the impact of these declines. The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on the Organization's donors, employees, and vendors, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact the Organization's financial position and changes in net assets and cash flows is uncertain and the accompanying consolidated financial statements include no adjustments relating to the effects of this pandemic.

The Organization is party to occasional legal disputes in the normal course of business, and maintains adequate general counsel in order to mitigate risks and losses. The Organization believes its insurance coverage would cover any potential settlements or losses, therefore the accompanying financial statements include no adjustments relating to the effects of such matters.

Note 8 – Subsequent events

Grant income – PPP

On July 7, 2021, the funds received via the Paycheck Protection Program were forgiven in full and recognized as grant income, amounting to \$49,177.

Management's evaluation

Management has evaluated subsequent events through June __, 2022, the date the financial statements were available to be issued.