PATHWAYS TO INDEPENDENCE

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT

December 31, 2022 and 2021

PATHWAYS TO INDEPENDENCE

December 31, 2022 and 2021

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Pathways to Independence
Huntington Beach, California

Opinion

We have audited the financial statements of Pathways to Independence which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years 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, 2022 and 2021, and the changes in its net assets and its cash flows for the years 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.

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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
December 12, 2023

PATHWAYS TO INDEPENDENCE

STATEMENTS OF FINANCIAL POSITION
December 31, 2022 and 2021

	2022	2021
ASSETS		
Current assets:		
Cash and cash equivalents - unrestricted	$ 1,016,686	$ 820,523
Cash and cash equivalents - restricted	63,301	10,301
Total cash and cash equivalents	1,079,987	830,824
Investments	391,671	373,320
Client loans receivable	2,575	2,800
Prepaid expenses	30,760	22,800
Total current assets	1,504,993	1,229,744
Noncurrent assets:		
Property and equipment, net	4,482,035	4,612,572
Total noncurrent assets	4,482,035	4,612,572
Total assets	$ 5,987,028	$ 5,842,316
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 44,424	$ 30,541
Accrued expenses	26,386	28,194
Total current liabilities	70,810	58,735
Total liabilities	70,810	58,735
Net assets:		
Without donor restrictions:		
Undesignated	5,673,055	5,593,388
Board designated	179,862	179,892
With donor restrictions	63,301	10,301
Total net assets	5,916,218	5,783,581
Total liabilities and net assets	$ 5,987,028	$ 5,842,316

PATHWAYS TO INDEPENDENCE

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2022 and 2021

	2022			2021		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Support and revenues:						
Contributions	$ 60,419	$ -	$ 60,419	$ 93,230	$ -	$ 93,230
Donated stock	40,371	-	40,371	14,500	-	14,500
Grants	493,550	190,893	684,443	564,981	113,607	678,588
Special events, net	791,201	-	791,201	443,623	-	443,623
Occupancy fees - Residential Program	186,848	-	186,848	188,838	-	188,838
Investment income (loss), net	(21,095)	-	(21,095)	21,998	-	21,998
Other	-	-	-	1,150	-	1,150
Net assets released from restriction	137,893	(137,893)	-	118,607	(118,607)	-
Total support and revenue	1,689,187	53,000	1,742,187	1,446,927	(5,000)	1,441,927
Expenses:						
Program activities	982,425	-	982,425	1,007,358	-	1,007,358
Supporting activities:						
General and administrative	395,611	-	395,611	311,788	-	311,788
Fundraising	231,514	-	231,514	171,918	-	171,918
Total supporting activities	627,125	-	627,125	483,706	-	483,706
Total expenses	1,609,550	-	1,609,550	1,491,064	-	1,491,064
Change in net assets	79,637	53,000	132,637	(44,137)	(5,000)	(49,137)
Net assets, beginning of year	5,773,280	10,301	5,783,581	5,817,417	15,301	5,832,718
Net assets, end of year	$ 5,852,917	$ 63,301	$ 5,916,218	$ 5,773,280	$ 10,301	$ 5,783,581

See independent auditors' report and accompanying notes

PATHWAYS TO INDEPENDENCE

STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2022

	Program activities	Supporting activities: General and administrative	Supporting activities: Fundraising	Total
Expenses:				
Advertising and marketing	$ 7,872	$ 9,300	$ 192	$ 17,364
Auto	124,961	1,943	-	126,904
Bank and merchant fees	1,540	1,975	21,926	25,441
Books and supplies	20,646	7,201	1,961	29,808
Client services	34,006	13,903	47	47,956
Conferences and meetings	115	7,364	20	7,499
Depreciation	-	151,418	-	151,418
Dues, subscriptions, and fees	6,658	9,778	744	17,180
Employee benefits	17,533	6,118	12,162	35,813
Furnishings	14,776	-	-	14,776
Housing	216,303	500	-	216,803
Insurance	5,204	30,845	1,986	38,035
Interest	-	125	20	145
Miscellaneous	1,231	-	-	1,231
Payroll taxes	16,901	5,988	13,595	36,484
Printing and postage	397	7,716	1,666	9,779
Professional fees	1,493	44,980	5,040	51,513
Repairs and maintenance	90,494	-	-	90,494
Salaries and wages	208,603	74,971	172,155	455,729
Telecommunications	235	20,869	-	21,104
Therapy and medical	75,947	-	-	75,947
Travel	-	601	-	601
Tuition fees	66,060	-	-	66,060
Utilities	71,450	16	-	71,466
Total expenses	$ 982,425	$ 395,611	$ 231,514	$ 1,609,550

PATHWAYS TO INDEPENDENCE

STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)
For the Year Ended December 31, 2021

	Program activities	Supporting activities: General and administrative	Supporting activities: Fundraising	Total
Expenses:				
Advertising and marketing	$ 628	$ 1,079	$ 228	$ 1,935
Auto	149,517	-	-	149,517
Bad debt	-	1,520	-	1,520
Bank and merchant fees	831	488	6,454	7,773
Books and supplies	38,713	6,376	646	45,735
Client services	25,770	160	1,128	27,058
Conferences and meetings	125	-	1,665	1,790
Depreciation	-	151,542	-	151,542
Dues, subscriptions, and fees	2,842	6,208	1,435	10,485
Employee benefits	9,349	8,292	1,296	18,937
Furnishings	20,139	-	-	20,139
Housing	277,931	980	-	278,911
Insurance	1,782	7,250	459	9,491
Miscellaneous	2,517	-	-	2,517
Payroll taxes	12,664	5,106	10,927	28,697
Printing and postage	1,014	9,548	61	10,623
Professional fees	281	34,756	9,350	44,387
Repairs and maintenance	51,402	180	-	51,582
Salaries and wages	154,846	63,152	138,269	356,267
Telecommunications	4,182	9,174	-	13,356
Therapy and medical	86,547	5,977	-	92,524
Tuition fees	99,559	-	-	99,559
Utilities	66,719	-	-	66,719
Total expenses	$ 1,007,358	$ 311,788	$ 171,918	$ 1,491,064

PATHWAYS TO INDEPENDENCE

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	$ 132,637	$ (49,137)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Bad debt	-	1,520
Depreciation expense	151,418	151,542
Donated stock	(40,371)	(14,500)
Realized and unrealized (gain) loss	28,773	(18,218)
Investment fees - noncash	1,941	633
Dividends reinvested	(9,619)	(4,413)
Changes in:		
Client loans receivable	225	(1,924)
Prepaid expenses	(7,960)	(12,996)
Accounts payable	13,883	25,453
Accrued expenses	(1,808)	(4,747)
Deferred grant income - PPP	-	(49,177)
Net cash flows from operating activities	269,119	24,036
Cash flows from investing activities:		
Purchases of investments	(149,075)	(251,827)
Cash proceeds from investments	150,000	251,827
Acquisition of property and equipment	(20,881)	(3,301)
Net cash flows from investing activities	(19,956)	(3,301)
Net change in cash and cash equivalents	249,163	20,735
Total cash and cash equivalents, beginning of year	830,824	810,089
Total cash and cash equivalents, end of year	$ 1,079,987	$ 830,824
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$ -	$ -
Cash paid for interest	$ 145	$ -

There were no financing activities for the years ended December 31, 2022 and 2021.

There were no non-cash investing activities for the years ended December 31, 2022 and 2021.

Note 1 – Summary of significant accounting policies

This summary of significant accounting policies is presented to assist the reader in understanding the accompanying financial statements. The financial statements and notes are the representations of management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (US GAAP) 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 participation 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 US GAAP 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, 2022 and 2021, cash balances exceeded insured limits by $726,063 and $459,199, respectively. 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.

Cash and cash equivalents – restricted

The Organization routinely receives contributions that are subject to donor-imposed restrictions. Restricted cash consists of those amounts set aside to comply with such restrictions.

Note 1 – Summary of significant accounting policies (continued)

Client 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 years ended December 31, 2022 and 2021, was $151,418 and $151,542, respectively.

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 2022 and 2021, 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, 2022 and 2021, net assets with donor restrictions consisted of $63,301 and $10,301, respectively.

NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

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.

Gits-in-Kind

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 US GAAP. Gifts-in-kind are recorded at fair value at the date of the donation. No significant gifts-in-kind were received during the years ended December 31, 2022 and 2021.

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 years ended December 31, 2022 and 2021, was $17,364 and $1,935, respectively.

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 years ended December 31, 2022 and 2021, 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 US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Reclassifications

Certain prior year amounts were reclassified to conform to the current year presentation. These reclassifications had no impact on the change in net assets.

Adoption of new accounting standards

Gifts-in-Kind

Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, went into effect and was adopted by the Organization for the year ended December 31, 2022. The ASU requires the Organization to present gifts-in-kid as a separate line item in the statements of activities, apart from contributions of cash and other financial assets. The standard also increase the disclosure requirements related to contributed materials and services, including a disaggregation of contributions by type. Adoption of this ASU did not have a significant impact on the financial statements.

Note 1 – Summary of significant accounting policies (continued)

Adoption of new accounting standards (continued)

Leases

In February 2016, the Financial Accounting Standards Board (FASB) established Accounting Standards Codification (ASC) Topic 842, *Leases*, by issuing Accounting Standards Update (ASU) 2016-02, which requires lessees to recognize leases on the statements of financial position, and disclose key information about leasing arrangements. After a series of amendments and delays, the ASU went into effect for non-public entities with fiscal years beginning after December 15, 2021. Therefore, the Organization has adopted the new accounting standard on January 1, 2022.

The Organization has elected to transition using the effective method under the modified retrospective approach, which means that a cumulative-effect adjustment is made on the initial date of adoption for existing leases, and comparative periods are presented under the prior lease Topic ASC 840, that was superseded by ASC 842. Additionally, the Organization has elected to apply the package of practical expedients that allows opting out of re-evaluation and re-assessment of existing lease agreements under the new standard, instead relying on the historical determination and values.

There were no contracts that met the recognition threshold for leases as of December 31, 2022.

Note 2 – Liquidity and availability

As part of liquidity management, the Organization has adopted a policy 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, 2022:

Total cash and cash equivalents	$ 1,079,987
Investments	391,671
Loans receivable	2,575
Total financial assets	1,474,233
Donor or other contractual restrictions:	
Donor contributions with specific purpose restrictions	63,301
Board designated Rainy Day Fund	179,862
Total donor or other contractual restrictions	243,163
Financial assets available to meet cash needs for general expenditures within one year	$ 1,231,070

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, 2022 and 2021.

Equity securities, mutual funds, and ETFs: Valued at the closing price reported on the active market on which individual securities are traded.

NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

Note 3 – Investments (continued)

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

	2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments:				
Cash equivalents	$ 147,004	$ -	$ -	$ 147,004
Mutual funds, ETFs	244,667	-	-	244,667
	$ 391,671	$ -	$ -	$ 391,671

	2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments:				
Cash equivalents	$ 106,550	$ -	$ -	$ 106,550
Equity securities	9,832	-	-	9,832
Mutual funds, ETFs	256,938	-	-	256,938
	$ 373,320	$ -	$ -	$ 373,320

Investment income (loss) was comprised of the following for the year ended December 31:

	2022	**2021**
Dividends and interest	$ 9,619	$ 4,413
Realized and unrealized gain (loss)	(28,773)	18,218
Investment fees	(1,941)	(633)
Total investment income (loss), net	$ (21,095)	$ 21,998

Note 4 – Property and equipment

Property and equipment consisted of the following at December 31:

	2022	2021
Land	$ 1,851,301	$ 1,851,301
Buildings and improvements	4,253,162	4,236,134
Appliances and furniture	60,765	56,912
Total property and equipment	6,165,228	6,144,347
Less: accumulated depreciation	(1,683,193)	(1,531,775)
Property and equipment, net	$ 4,482,035	$ 4,612,572

Note 5 – Net assets with donor restrictions

Net assets with donor restrictions consisted of the following at December 31:

	2022	2021
Tuition and virtual learning	$ 13,301	$ 10,301
Mental health	50,000	-
Total net assets with donor restrictions	$ 63,301	$ 10,301

Note 6 – Risks and uncertainties

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 7 – Subsequent events

Management's evaluation

Management has evaluated subsequent events through December 12, 2023, the date the financial statements were available to be issued.