

Positive Tomorrows, Inc.

Financial Statements

June 30, 2013 and 2012
(With Independent Auditors' Report Thereon)



POSITIVE TOMORROWS, INC.

FINANCIAL STATEMENTS

Table of Contents

	<u>Page</u>
<u>Independent Auditors' Report</u>	1
<u>Financial Statements:</u>	
Statements of Financial Position.....	3
Statements of Activities	5
Statements of Functional Expenses	7
Statements of Cash Flows.....	9
Notes to Financial Statements.....	10



INDEPENDENT AUDITORS' REPORT

Board of Directors
Positive Tomorrows, Inc.
Oklahoma City, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Positive Tomorrows, Inc. ("Positive Tomorrows") [a nonprofit organization], which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years 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; 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors consider 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.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Positive Tomorrows as of June 30, 2013 and 2012, 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.

Finley + Cook, PLLC

Shawnee, Oklahoma
January 2, 2014

POSITIVE TOMORROWS, INC.**STATEMENTS OF FINANCIAL POSITION**

<i>June 30,</i>	<i>2013</i>	<i>2012</i>
Assets		
Current assets:		
Cash	\$ 429,994	186,643
Current promises to give, net of allowance	368,031	453,378
Current promise to give—building lease	12,495	49,877
Distributions receivable from OCCF	19,617	18,867
Investments, at fair value	100,108	99,984
Prepaid expenses	3,673	3,258
Total current assets	<u>933,918</u>	<u>812,007</u>
Property and equipment, at cost:		
Leasehold improvements	250,906	224,070
Vehicles	110,997	110,997
Furniture and equipment	113,231	86,067
Computer software	11,592	11,592
	<u>486,726</u>	<u>432,726</u>
Less accumulated depreciation	<u>(234,250)</u>	<u>(207,132)</u>
Net property and equipment	<u>252,476</u>	<u>225,594</u>
Other assets:		
Cash, restricted	17,591	-
Long-term promises to give, net of allowance and discount	222,045	152,565
Long-term promise to give—building lease, net of discount	-	10,564
Beneficial interest in assets held by others— restricted for endowment	<u>212,796</u>	<u>202,761</u>
Total other assets	<u>452,432</u>	<u>365,890</u>
Total assets	<u>\$ 1,638,826</u>	<u>1,403,491</u>

(Continued)

See Independent Auditors' Report.
See accompanying notes to financial statements.

POSITIVE TOMORROWS, INC.

STATEMENTS OF FINANCIAL POSITION, CONTINUED

<i>June 30,</i>	<i>2013</i>	<i>2012</i>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 17,139	16,454
Compensated absences	14,292	20,628
Payroll liabilities	3,185	4,106
Total liabilities	<u>34,616</u>	<u>41,188</u>
Net assets:		
Unrestricted:		
Invested in property and equipment	252,476	225,594
Other unrestricted	890,802	644,829
	<u>1,143,278</u>	<u>870,423</u>
Temporarily restricted	250,951	281,899
Permanently restricted	209,981	209,981
Total net assets	<u>1,604,210</u>	<u>1,362,303</u>
Total liabilities and net assets	<u>\$ 1,638,826</u>	<u>1,403,491</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

POSITIVE TOMORROWS, INC.**STATEMENTS OF ACTIVITIES***Year Ended June 30, 2013*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue				
Contributions	\$ 948,063	238,456	-	1,186,519
Fundraising events, net of costs of direct benefits to donors	68,995	-	-	68,995
Investment return	30,159	-	-	30,159
In-kind donations	65,100	-	-	65,100
Release of restrictions	<u>269,404</u>	<u>(269,404)</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>1,381,721</u>	<u>(30,948)</u>	<u>-</u>	<u>1,350,773</u>
Expenses				
Program services:				
School	551,961	-	-	551,961
Extra-curricular	88,518	-	-	88,518
Social services	<u>148,636</u>	<u>-</u>	<u>-</u>	<u>148,636</u>
Total program services	<u>789,115</u>	<u>-</u>	<u>-</u>	<u>789,115</u>
Supporting services:				
Administration and general	137,920	-	-	137,920
Fundraising	<u>181,831</u>	<u>-</u>	<u>-</u>	<u>181,831</u>
Total supporting services	<u>319,751</u>	<u>-</u>	<u>-</u>	<u>319,751</u>
Total expenses	<u>1,108,866</u>	<u>-</u>	<u>-</u>	<u>1,108,866</u>
Changes in net assets	<u>272,855</u>	<u>(30,948)</u>	<u>-</u>	<u>241,907</u>
Net assets at beginning of year	<u>870,423</u>	<u>281,899</u>	<u>209,981</u>	<u>1,362,303</u>
Net assets at end of year	<u>\$ 1,143,278</u>	<u>250,951</u>	<u>209,981</u>	<u>1,604,210</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

POSITIVE TOMORROWS, INC.**STATEMENTS OF ACTIVITIES, CONTINUED***Year Ended June 30, 2012*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue				
Contributions	\$ 595,634	297,808	-	893,442
Fundraising events, net of costs of direct benefits to donors	28,074	-	-	28,074
Investment return	12,041	-	-	12,041
In-kind donations	7,064	-	-	7,064
Release of restrictions	<u>329,255</u>	<u>(329,255)</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>972,068</u>	<u>(31,447)</u>	<u>-</u>	<u>940,621</u>
Expenses				
Program services:				
School	554,419	-	-	554,419
Social services	<u>239,479</u>	<u>-</u>	<u>-</u>	<u>239,479</u>
Total program services	<u>793,898</u>	<u>-</u>	<u>-</u>	<u>793,898</u>
Supporting services:				
Administration and general	106,738	-	-	106,738
Fundraising	<u>165,839</u>	<u>-</u>	<u>-</u>	<u>165,839</u>
Total supporting services	<u>272,577</u>	<u>-</u>	<u>-</u>	<u>272,577</u>
Total expenses	<u>1,066,475</u>	<u>-</u>	<u>-</u>	<u>1,066,475</u>
Changes in net assets	<u>(94,407)</u>	<u>(31,447)</u>	<u>-</u>	<u>(125,854)</u>
Net assets at beginning of year	<u>964,830</u>	<u>313,346</u>	<u>209,981</u>	<u>1,488,157</u>
Net assets at end of year	<u>\$ 870,423</u>	<u>281,899</u>	<u>209,981</u>	<u>1,362,303</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

POSITIVE TOMORROWS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2013

	Program Services				Supporting Services			Total Expenses
	School	Extra-curricular	Social Services	Total	General and Administration	Fundraising	Total	
Salaries and related expenses	\$ 337,892	61,139	108,682	507,713	78,190	79,027	157,217	664,930
Professional fees	24,161	3,953	7,988	36,102	17,077	5,180	22,257	58,359
Rent	23,682	-	14,541	38,223	4,835	6,922	11,757	49,980
Bad debt expense	-	-	-	-	-	15,523	15,523	15,523
Travel and transportation	8,528	2,811	2,727	14,066	24	15	39	14,105
Program services	43,453	4,900	189	48,542	8	965	973	49,515
Occupancy	31,885	5,691	4,742	42,318	3,040	2,806	5,846	48,164
Supplies	4,957	1,359	216	6,532	482	379	861	7,393
Insurance	10,226	2,252	2,620	15,098	1,130	1,487	2,617	17,715
Depreciation	33,180	-	-	33,180	-	-	-	33,180
Printing and publications	1,107	209	1,004	2,320	325	24,502	24,827	27,147
Equipment rental and maintenance	5,272	879	806	6,957	1,005	476	1,481	8,438
Telephone	4,665	874	1,074	6,613	474	474	948	7,561
Specific assistance to individuals	89	1,204	113	1,406	3	3	6	1,412
Miscellaneous expenses	7,703	1,736	2,433	11,872	1,085	2,542	3,627	15,499
Fundraising costs	69	-	13	82	602	37,090	37,692	37,774
Conferences and meetings	3,154	574	629	4,357	2,244	426	2,670	7,027
Postage	1,690	317	291	2,298	182	3,336	3,518	5,816
Dues and subscriptions	3,803	620	568	4,991	1,033	678	1,711	6,702
In-kind expense	6,445	-	-	6,445	26,181	-	26,181	32,626
	<u>\$ 551,961</u>	<u>88,518</u>	<u>148,636</u>	<u>789,115</u>	<u>137,920</u>	<u>181,831</u>	<u>319,751</u>	<u>1,108,866</u>

See Independent Auditors' Report.

See accompanying notes to financial statements.

POSITIVE TOMORROWS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES, CONTINUED

Year Ended June 30, 2012

	Program Services			Supporting Services			Total Expenses
	School	Social Services	Total	General and Administration	Fundraising	Total	
Salaries and related expenses	\$ 360,054	172,276	532,330	77,718	94,646	172,364	704,694
Professional fees	25,367	20,647	46,014	11,282	8,934	20,216	66,230
Rent	23,682	14,541	38,223	4,835	6,922	11,757	49,980
Bad debt expense	-	-	-	-	13,889	13,889	13,889
Travel and transportation	6,124	6,119	12,243	22	27	49	12,292
Program services	46,659	-	46,659	-	-	-	46,659
Occupancy	22,159	9,406	31,565	3,049	3,472	6,521	38,086
Supplies	10,190	489	10,679	763	2,650	3,413	14,092
Insurance	10,458	4,074	14,532	1,164	1,940	3,104	17,636
Depreciation	20,257	-	20,257	-	-	-	20,257
Printing and publications	8,077	3,077	11,154	1,496	1,763	3,259	14,413
Equipment rental and maintenance	6,751	2,366	9,117	799	1,106	1,905	11,022
Telephone	5,342	2,081	7,423	611	991	1,602	9,025
Specific assistance to individuals	604	1,114	1,718	-	12	12	1,730
Miscellaneous expenses	1,731	750	2,481	83	249	332	2,813
Fundraising costs	1,833	714	2,547	204	27,250	27,454	30,001
Conferences and meetings	3,449	932	4,381	2,843	1,069	3,912	8,293
Postage	1,640	893	2,533	281	607	888	3,421
Dues and subscriptions	42	-	42	1,588	312	1,900	1,942
	<u>\$ 554,419</u>	<u>239,479</u>	<u>793,898</u>	<u>106,738</u>	<u>165,839</u>	<u>272,577</u>	<u>1,066,475</u>

See Independent Auditors' Report.

See accompanying notes to financial statements.

POSITIVE TOMORROWS, INC.

STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

<i>Years Ended June 30,</i>	<i>2013</i>	<i>2012</i>
Cash flows from operating activities:		
Changes in net assets	\$ 241,907	(125,854)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	33,180	20,257
Bad debts expense	15,523	13,889
Unrealized (gain) loss in assets held by OCCF	(10,035)	7,220
Noncash donated facilities use	47,946	45,711
(Increase) decrease in operating assets:		
Accounts receivable	-	6,690
Promises to give	344	(62,955)
Prepaid expenses	(415)	2,906
Distributions receivable from OCCF	(750)	(713)
Increase (decrease) in operating liabilities:		
Accounts payable	685	(18,165)
Compensated absences expense	(6,336)	3,874
Payroll liabilities	(921)	4,106
Net cash provided by (used in) operating activities	<u>321,128</u>	<u>(103,034)</u>
Cash flows from investing activities:		
Purchase of property and equipment, net	(60,062)	(23,345)
Reinvestment of interest income	<u>(124)</u>	<u>(730)</u>
Net cash used in investing activities	<u>(60,186)</u>	<u>(24,075)</u>
Net increase (decrease) in cash	260,942	(127,109)
Cash at beginning of year	<u>186,643</u>	<u>313,752</u>
Cash at end of year	<u>\$ 447,585</u>	<u>186,643</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Positive Tomorrows, Inc. (“Positive Tomorrows”) was organized and incorporated in 1991 in Oklahoma as a nonprofit organization which has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

The stated purpose of Positive Tomorrows is to provide education and social services to students who are not presently enrolled in or attending school and who live in an Oklahoma City shelter for homeless families, domestic violence shelter, or other temporary nighttime residence, and to process them as expediently as possible into permanent enrollment in Oklahoma City Public Schools.

Positive Tomorrows receives an annual allocation from the United Way of Oklahoma City. Other revenue sources include fundraisers, pledges, donations, and various grants by individuals and other organizations.

Basis of Accounting

Positive Tomorrows uses the accrual basis of accounting whereby revenues are recognized when earned and expenses when incurred. Contribution revenues are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the existence and/or nature of any donor restrictions. Expenses incurred but not paid at year-end are represented by a liability on the statements of financial position. Expenses paid but not incurred at year-end are represented by an asset on the financial statements. Net assets represent the cumulative excess of revenues recognized over expenses incurred.

Basis of Presentation

Financial statement presentation follows the recommendations of the *Accounting Standards Codification* (ASC) Topic 958, “Not-for-Profit Entities.” Under those provisions, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

- *Unrestricted net assets*—Net assets that are not subject to donor-imposed stipulations.

See Independent Auditors’ Report.

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Basis of Presentation, Continued

- *Temporarily restricted net assets*—Net assets subject to donor-imposed stipulations that may or will be met, either by actions of Positive Tomorrows and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, Positive Tomorrows reports the support as unrestricted.
- *Permanently restricted net assets*—Net assets subject to donor-imposed stipulations that they be permanently maintained by Positive Tomorrows.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Expenses

Expenses by function have been allocated among program and supporting services, with general and administration and fundraising classifications on the basis of estimates made by Positive Tomorrows' management.

Statements of Cash Flows

For purposes of the statements of cash flows, cash includes all cash and checking accounts held by Positive Tomorrows in financial institutions.

Promises to Give

Contributions are recognized when the donor makes a promise to give to Positive Tomorrows that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restricted purpose is met, temporarily restricted net assets are reclassified to unrestricted net assets. However, if a restriction is fulfilled in the same time period in which the contribution is received, Positive Tomorrows reports the support as unrestricted.

See Independent Auditors' Report.

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Allowance for Uncollectible Amounts

Promises to give are stated at unpaid balances (discounted for the present value of long-term pledges) less an allowance for uncollectible amounts. Positive Tomorrows reviews outstanding pledges and provides for the probable uncollectible amounts based on prior years' experience, management's analysis of specific promises made, and other factors.

Investments

Investments in marketable securities are reported at fair value in the statements of financial position.

Investment income and gains and losses on investments are reported as increases or decreases in unrestricted net assets.

Property and Equipment

Property and equipment of \$500 or more are recorded at cost. Donated property and equipment are recorded at fair value as of the date contributed. If donors stipulate how the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Property and equipment are depreciated over their estimated useful lives of 3 to 39 years using the straight-line method.

Donated Services and Materials

Donated services requiring specialized skills which would otherwise have to be purchased have been recorded at fair value. Positive Tomorrows received in-kind contributions of approximately \$7,700 in 2013. There were no donated services in 2012.

Donated materials such as used furniture and clothing are not recorded in the financial statements because a fair value cannot be objectively measured. Donated materials whose value can be measured and are greater than \$1,000 are recorded at fair value as of the date the materials are received.

Advertising Costs

All costs associated with advertising are expensed as incurred.

See Independent Auditors' Report.

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Income Taxes

Positive Tomorrows qualifies as an organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. As such, no provision has been made for federal or state income taxes.

Positive Tomorrows evaluates and accounts for its uncertain tax positions in accordance with ASC Topic 740, "Income Taxes," including Positive Tomorrows' tax position as a pass-through entity. Through its evaluation of Positive Tomorrows' uncertain tax positions, management has determined no uncertain tax positions existed as of June 30, 2013 or 2012, which would require Positive Tomorrows to record a liability for the uncertain tax positions in its financial statements. Interest and penalties, if any, resulting from any uncertain tax position required to be recorded by Positive Tomorrows would be presented in other noninterest expense in the statements of activities.

Federal and state income tax statutes dictate that tax returns filed in any of the previous three reporting periods remain open to examination. Currently, Positive Tomorrows has no open examinations with either the Internal Revenue Service or the Oklahoma Tax Commission.

Compensated Absences

Employees of Positive Tomorrows are entitled to paid vacations and medical leave, depending on job classification, length of service, and other factors.

Recent Accounting Pronouncement

In October 2012, the Financial Accounting Standards Board issued Accounting Standards Update No. 2012-04, "Technical Corrections and Improvements" (ASU 2012-04). ASU 2012-04 covers a wide range of ASC topics and is presented in two sections—Technical Corrections and Improvements and Conforming Amendments Related to Fair Value Measurements. Technical Corrections and Improvements include source literature amendments, guidance clarification and reference corrections, and relocated guidance. Fair Value Measurements are intended to conform terminology and clarify certain guidance in various ASC topics to fully reflect the fair value measurement and disclosure requirements of ASC Topic 820, "Fair Value Measurement" (ASC 820). The amendments are not introducing any new fair value measurements. The amendments in ASU 2012-04 that do not have transition guidance were adopted by Positive Tomorrows in 2012. The amendments in ASU 2012-04 that are subject to transition guidance will be effective for fiscal periods beginning after December 15, 2013. ASU 2012-04 did not and is not expected to have a significant effect on Positive Tomorrows' financial statements.

See Independent Auditors' Report.

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through January 2, 2014, the date which the financial statements were available to be issued.

(2) **FUNDRAISING EVENTS**

One silent auction and various small sales were held during the year as fundraising activities. The costs of direct benefits to donors are included in the revenue section of the statements of activities. Indirect fundraising costs associated with these activities are reported on the statements of functional expenses.

(3) **CASH**

As of June 30, 2013, \$17,591 of cash was restricted for capital improvements. Positive Tomorrows had no restricted cash as of June 30, 2012.

(4) **INVESTMENTS**

As of June 30, 2013 and 2012, investments consisted of a certificate of deposit with a fair value of \$100,108 and \$99,984, respectively. The certificate of deposit matures in December 2013 and has a nominal interest rate.

(5) **BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS**

Oklahoma City Community Foundation

Positive Tomorrows is the beneficiary of distributions from a designated endowment fund under the control of the Oklahoma City Community Foundation (OCCF). OCCF has variance power over the funds and is the legal owner of the funds. As of June 30, 2013 and 2012, the total value of this fund was \$405,842 and \$386,233, respectively. Distributions are calculated at 5% of the fair value of the fund, averaged over 12 quarters to smooth out market fluctuations. During 2013 and 2012, distributions from the fund were \$19,617 and \$18,867, respectively. The distribution amounts were subsequently received after year-end and are reflected as distributions receivable from OCCF on the statements of financial position.

As of June 30, 2013 and 2012, included in the designated endowment fund is a beneficial interest in assets held by others of \$212,796 and \$202,761, respectively, which results from transfers from Positive Tomorrows to OCCF, with Positive Tomorrows as beneficiary. As such, these amounts are reported as liabilities by OCCF and a beneficial interest by Positive Tomorrows. This interest is reported at its fair value as determined by OCCF.

See Independent Auditors' Report.

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS, CONTINUED

Oklahoma City Community Foundation, Continued

As of June 30, 2013 and 2012, the remaining balances of the designated endowment fund at OCCF of \$193,046 and \$183,472, respectively, include contributions made by others for the benefit of Positive Tomorrows. The OCCF board has the power to modify the donor's stipulations under certain circumstances as the OCCF board monitors the changing needs of the community. As such, this amount is not included as an asset, but distributions are recorded as a contribution when received.

OCCF's various investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Risk is reduced by maintaining high-quality diversification. Investments are overseen by an active committee. Positive Tomorrows' beneficial interest held with OCCF was made up of the following types of investments at June 30:

	<u>2013</u>		<u>2012</u>	
	<u>Fair Value</u>	<u>Credit Exposure as a Percentage of Total Investment</u>	<u>Fair Value</u>	<u>Credit Exposure as a Percentage of Total Investment</u>
OCCF investments:				
Cash and equivalent funds	\$ 1,596	0.75%	689	0.34%
Securities:				
Equity funds	124,741	58.62%	117,500	57.95%
Fixed-income funds	<u>86,459</u>	<u>40.63%</u>	<u>84,572</u>	<u>41.71%</u>
	<u>\$ 212,796</u>	<u>100.00%</u>	<u>202,761</u>	<u>100.00%</u>

The assets held by OCCF are permanently restricted endowment funds. Positive Tomorrows cannot access any of the monies at OCCF.

See Independent Auditors' Report.

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) PROMISES TO GIVE

Unconditional promises to give at June 30 consisted of:

	<u>2013</u>	<u>2012</u>
Grant receivable	\$ 220,865	221,458
Multi-year pledge	424,372	426,670
Less allowance	(37,708)	(24,000)
Less discount	<u>(17,453)</u>	<u>(18,185)</u>
	<u>590,076</u>	<u>605,943</u>
Current portion:		
Grant receivable	220,865	221,458
Multi-year pledge	181,725	250,920
Less allowance	<u>(34,559)</u>	<u>(19,000)</u>
Total current portion	<u>368,031</u>	<u>453,378</u>
Long-term portion (1 to 5 years)	<u>\$ 222,045</u>	<u>152,565</u>

Unconditional promises to give due in more than 1 year are recognized at fair value and are discounted to its net present value using a discount rate of 5%.

(7) PROMISE TO GIVE—BUILDING LEASE

During the year ended June 30, 2006, Positive Tomorrows entered into a lease agreement which expired in September 2013, whereby Positive Tomorrows paid \$1 per year to lease its existing facilities. The fair value of this donation was \$49,980 per year. This donation was discounted to its net present value using a discount rate of 5% and is reflected as a promise to give, net of the related discount, in the statements of financial position. The discount was amortized over the life of the lease. Amortization of the discount is shown on the statements of activities as in-kind donations.

At June 30, 2013, there was no discount remaining as the lease agreement ended in September.

Subsequent to June 30, 2013, a new lease agreement was signed, with substantially the same terms as the expired lease noted above.

See Independent Auditors' Report.

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) PROMISE TO GIVE—BUILDING LEASE, CONTINUED

The unconditional promise to give—building lease is summarized as follows as of June 30:

	<u>2013</u>	<u>2012</u>
Receivable in less than 1 year	\$ 12,495	49,980
Receivable in 1 to 5 years	-	12,495
Total unconditional promise to give— building lease	12,495	62,475
Less discounts to net present value	-	(2,034)
Net unconditional promise to give— building lease	12,495	60,441
Less current portion	(12,495)	(49,877)
Long-term portion	<u>\$ -</u>	<u>10,564</u>

(8) INVESTMENT RETURN

The following schedule summarizes investment return and its classification in the statements of activities as of June 30:

	<u>2013</u>	<u>2012</u>
Investment distribution from OCCF	\$ 19,617	18,867
Unrealized gain (loss) in assets held by OCCF	10,035	(7,220)
Other investment gain	507	394
Investment return	<u>\$ 30,159</u>	<u>12,041</u>

See Independent Auditors' Report.

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) RESTRICTED NET ASSETS

As of both June 30, 2013 and 2012, permanently restricted net assets of \$209,981 were restricted for endowment. This is an apportionment of funds held by OCCF for the benefit of Positive Tomorrows (see Note 5).

As of June 30, temporarily restricted net assets were available for the following time and/or purpose restrictions:

	<u>2013</u>
Time and/or purpose restriction:	
Education services in 2014	\$ 139,145
Family support services in 2014	81,720
Building lease to be released in fiscal year 2014	12,495
Restricted for capital improvements	<u>17,591</u>
Total temporarily restricted net assets	<u>\$ 250,951</u>

	<u>2012</u>
Time and/or purpose restriction:	
Education services in 2013	\$ 135,458
Family support services in 2013	86,000
Building lease to be released in fiscal year 2013	49,877
Building lease to be released in fiscal year 2014	<u>10,564</u>
Total temporarily restricted net assets	<u>\$ 281,899</u>

See Independent Auditors' Report.

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) RESTRICTED NET ASSETS, CONTINUED

As of June 30, net assets released from donor restrictions by incurring expenses satisfying the time and/or purpose restrictions specified by donors were as follows:

	<u>2013</u>	<u>2012</u>
Time and/or purpose restriction accomplished:		
Education	\$ 135,458	157,754
Family support services	86,000	88,876
Fundraising	-	30,000
Salary expenses	-	6,914
Building lease	<u>47,946</u>	<u>45,711</u>
Total restrictions released	<u>\$ 269,404</u>	<u>329,255</u>

(10) FAIR VALUE MEASUREMENTS

ASC 820 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 is as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 inputs consist of unobservable inputs which are used when observable inputs are unavailable and reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Positive Tomorrows uses appropriate valuation methods based on the available inputs to measure the fair value of its assets and liabilities.

See Independent Auditors' Report.

(10) FAIR VALUE MEASUREMENTS, CONTINUED

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In estimating fair value, Positive Tomorrows utilizes valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset. Fair values may not represent actual values of assets that could have been realized on the measurement date or that will be realized in the future. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statement of financial position as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy:

Investments

Investments consist of a certificate of deposit with a local financial institution. The cost and fair value are approximately the same.

Long-Term Promises to Give

Long-term promises to give are unconditional promises to give due in more than 1 year and are estimated by discounting expected future cash flows using a discount rate of 5%.

Long-Term Promise to Give—Building Lease

Long-term promise to give—building lease is an unconditional in-kind building lease donation. The fair value of the building lease is based on the fair value of the annual lease donation and discounted to its net present value using a discount rate of 5%.

Beneficial Interest in Assets Held by Others—Restricted for Endowment

Beneficial interest in assets held by others—restricted for endowment consists of a financial interest in pooled investments held by OCCF. The fair value of the investments is reported by OCCF based on their various inputs to measure the fair value of their investments.

See Independent Auditors' Report.

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(10) FAIR VALUE MEASUREMENTS, CONTINUED

The fair values of financial instruments measured on a recurring basis as of June 30 were as follows:

	Measured at Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>2013</u>				
Financial assets:				
Investments	\$ 100,108	-	100,108	-
Long-term promises to give, net Beneficial interest in assets held by others—restricted for endowment	222,045	-	-	222,045
	<u>212,796</u>	<u>-</u>	<u>-</u>	<u>212,796</u>
	<u>\$ 534,949</u>	<u>-</u>	<u>100,108</u>	<u>434,841</u>
<u>2012</u>				
Financial assets:				
Investments	\$ 99,984	-	99,984	-
Long-term promises to give, net Long-term promise to give— building lease, net Beneficial interest in assets held by others—restricted for endowment	152,565	-	-	152,565
	10,564	-	-	10,564
	<u>202,761</u>	<u>-</u>	<u>-</u>	<u>202,761</u>
	<u>\$ 465,874</u>	<u>-</u>	<u>99,984</u>	<u>365,890</u>

See Independent Auditors' Report.

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(10) FAIR VALUE MEASUREMENTS, CONTINUED

The following is a reconciliation of the beginning and ending balances for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30:

	Long-Term Promises to Give, Net	Long-Term Promise to Give—Building Lease, Net	Beneficial Interest in Assets Held by Others— Restricted for Endowment	<u>Total</u>
<u>2013</u>				
Balance at beginning of year	\$ 152,565	12,392	202,761	367,718
Realized and unrealized changes in value	-	-	10,035	10,035
Pledges	41,664	-	-	41,664
Pledges transferred from current to long term	150,000	-	-	150,000
Settlements/Payments received	<u>(122,184)</u>	<u>(12,392)</u>	<u>-</u>	<u>(134,576)</u>
Balance at end of year	<u>\$ 222,045</u>	<u>-</u>	<u>212,796</u>	<u>434,841</u>
<u>2012</u>				
Balance at beginning of year	\$ 232,415	58,206	209,981	500,602
Realized and unrealized changes in value	-	-	(7,220)	(7,220)
Pledges	16,750	-	-	16,750
Settlements/Payments received	<u>(96,600)</u>	<u>(45,814)</u>	<u>-</u>	<u>(142,414)</u>
Balance at end of year	<u>\$ 152,565</u>	<u>12,392</u>	<u>202,761</u>	<u>367,718</u>

See Independent Auditors' Report.

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(11) OPERATING LEASE

In 2010, Positive Tomorrows entered into a 5-year operating lease agreement for the lease of office equipment. Lease expense for the year ended June 30, 2013, was \$5,713. Future minimum lease payments are:

<u>Year Ending June 30,</u>		
2014	\$	5,713
2015		5,713
2016		<u>1,429</u>
	\$	<u>12,855</u>

(12) EMPLOYEE COST

Positive Tomorrows had an agreement with a professional personnel staffing company to provide personnel services. The staffing company was the employer of record for tax purposes, responsible for withholding and remitting federal and state taxes under its own federal identification number. Positive Tomorrows directed the employees' day-to-day activities. Positive Tomorrows' payment to the staffing company included a service fee for managing the human resources and payroll functions. Positive Tomorrows stopped utilizing the staffing company on January 1, 2013.

(13) RETIREMENT PLANS

Positive Tomorrows had a 401(k) retirement plan through the staffing company for its employees until January 1, 2013. Positive Tomorrows stopped utilizing the staffing company on January 1, 2013, and sponsored a SIMPLE IRA. Employee contributions are matched at 50% up to a maximum of 6% of the employee's salary for both plans. For the 2013 and 2012 fiscal years, Positive Tomorrows contributed \$6,010 and \$5,812, respectively, to the plans, which is included in salaries and related expenses on the statements of functional expenses. Employees are fully vested in all employer contributions made to the SIMPLE IRA plan.

(14) GRANT AGREEMENT—CITY OF OKLAHOMA CITY

During 2013 and 2012, Positive Tomorrows had an agreement with the City of Oklahoma City to utilize grant funds from the Social Services Grant (the "Grant") to support staff education expenses. Positive Tomorrows received \$5,000 from the Grant for each of the years ended June 30, 2013 and 2012. There were no items of non-compliance with the Grant noted during the audit.

See Independent Auditors' Report.

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(15) CONCENTRATIONS OF CREDIT RISK

Financial Institutions

As of June 30, 2013, Positive Tomorrows had a concentration of credit risk of \$171,961 with financial institutions. As of June 30, 2012, Positive Tomorrows had no concentrations of credit risk with financial institutions.

Major Contributors

Positive Tomorrows received contributions from three donors totaling approximately \$361,000 and \$394,000 in 2013 and 2012, respectively. These contributions represented approximately 28% and 46% of total contribution revenue in 2013 and 2012, respectively. The above amounts include total contributions in 2013 and 2012 from United Way of Oklahoma City of \$225,440 and \$214,694, respectively, which represented approximately 18% and 25%, respectively, of total contribution revenue.

Promises to give totaling approximately \$521,000 and \$554,000 were due from two donors at June 30, 2013 and 2012, respectively. These receivables represented approximately 88% and 91% of total promises to give at June 30, 2013 and 2012, respectively. The above amounts include receivables from United Way of Oklahoma City as of June 30, 2013 and 2012, of \$220,865 and \$214,694, respectively, which represented approximately 37% and 35%, respectively, of total promises to give.

(16) COMMITMENTS AND CONTINGENT LIABILITIES

Grants and Contracts

Positive Tomorrows receives grant and contract funds from private and government agencies. Governmental funds are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions of the contracts and/or grants. Such an audit could result in a liability of Positive Tomorrows to reimburse the granting authority for monies not spent in compliance with contractual agreements. Any liability which may arise as a result of these audits is not believed by management to be material. As of June 30, 2013, there were no grantor audits in progress or requests to refund monies.

See Independent Auditors' Report.

(16) **COMMITMENTS AND CONTINGENT LIABILITIES, CONTINUED**

Litigation

The nature of Positive Tomorrows' activities may result in claims and litigation alleging that Positive Tomorrows is liable for damages arising from the conduct of its employees or others. In the opinion of management, there are no pending legal proceedings that would have a material effect on Positive Tomorrows' financial position or the results of its operations.

Risk Management

Positive Tomorrows is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. Positive Tomorrows maintains insurance coverage for these risks.