

# **Positive Tomorrows, Inc.**

## *Financial Statements*

June 30, 2014 and 2013  
(With Independent Auditors' Report Thereon)



**POSITIVE TOMORROWS, INC.**

**FINANCIAL STATEMENTS**

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## **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, 2014 and 2013, 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, 2014 and 2013, 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 21, 2015

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

<i>June 30,</i>	<i>2014</i>	<i>2013</i>
<b>Assets</b>		
Current assets:		
Cash	\$ 471,714	429,994
Current promises to give, net of allowance	502,763	368,031
Current promise to give—building lease	49,992	12,495
Distributions receivable from OCCF	20,409	19,617
Investments, at fair value	100,451	100,108
Prepaid expenses	18,044	3,673
Total current assets	<u>1,163,373</u>	<u>933,918</u>
Property and equipment, at cost:		
Leasehold improvements	258,566	250,906
Vehicles	156,320	110,997
Furniture and equipment	203,336	113,231
Computer software	26,910	11,592
	<u>645,132</u>	<u>486,726</u>
Less accumulated depreciation	<u>(232,293)</u>	<u>(234,250)</u>
Net property and equipment	<u>412,839</u>	<u>252,476</u>
Other assets:		
Cash, restricted	13,261	17,591
Long-term promises to give, net of allowance and discount	186,822	222,045
Long-term promise to give—building lease, net of discount	58,947	-
Beneficial interest in assets held by others— restricted for endowment	<u>231,492</u>	<u>212,796</u>
Total other assets	<u>490,522</u>	<u>452,432</u>
Total assets	<u>\$ 2,066,734</u>	<u>1,638,826</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>2014</i>	<i>2013</i>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 13,490	17,139
Compensated absences	18,987	14,292
Payroll liabilities	<u>5,632</u>	<u>3,185</u>
Total liabilities	<u>38,109</u>	<u>34,616</u>
Net assets:		
Unrestricted:		
Invested in property and equipment	412,839	252,476
Other unrestricted	<u>1,054,740</u>	<u>890,802</u>
	1,467,579	1,143,278
Temporarily restricted	351,065	250,951
Permanently restricted	<u>209,981</u>	<u>209,981</u>
Total net assets	<u>2,028,625</u>	<u>1,604,210</u>
Total liabilities and net assets	<u>\$ 2,066,734</u>	<u>1,638,826</u>

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

**POSITIVE TOMORROWS, INC.****STATEMENTS OF ACTIVITIES***Year Ended June 30, 2014*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Public support and revenue</b>				
Contributions	\$ 1,005,774	475,770	-	1,481,544
Fundraising events, net of costs of direct benefits to donors	78,656	-	-	78,656
Investment return	40,656	-	-	40,656
In-kind donations	78,976	-	-	78,976
Release of restrictions	<u>375,656</u>	<u>(375,656)</u>	-	-
Total public support and revenue	<u>1,579,718</u>	<u>100,114</u>	-	<u>1,679,832</u>
<b>Expenses</b>				
Program services:				
School	614,340	-	-	614,340
Extra-curricular	153,792	-	-	153,792
Social services	<u>181,273</u>	-	-	<u>181,273</u>
Total program services	<u>949,405</u>	-	-	<u>949,405</u>
Supporting services:				
Administration and general	70,090	-	-	70,090
Fundraising	<u>235,922</u>	-	-	<u>235,922</u>
Total supporting services	<u>306,012</u>	-	-	<u>306,012</u>
Total expenses	<u>1,255,417</u>	-	-	<u>1,255,417</u>
Changes in net assets	<u>324,301</u>	<u>100,114</u>	-	<u>424,415</u>
Net assets at beginning of year	<u>1,143,278</u>	<u>250,951</u>	<u>209,981</u>	<u>1,604,210</u>
Net assets at end of year	<u>\$ 1,467,579</u>	<u>351,065</u>	<u>209,981</u>	<u>2,028,625</u>

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

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Public support and revenue</b>				
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>
<b>Expenses</b>				
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 FUNCTIONAL EXPENSES**

*Year Ended June 30, 2014*

	Program Services				Supporting Services			Total Expenses
	School	Extra-curricular	Social Services	Total	Administration and General	Fundraising	Total	
Salaries and related expenses	\$ 358,907	113,620	132,912	605,439	49,370	112,545	161,915	767,354
Professional fees	34,399	8,217	13,431	56,047	3,572	7,455	11,027	67,074
Rent	23,687	-	14,543	38,230	4,836	6,923	11,759	49,989
Bad debt expense	-	-	-	-	-	24,125	24,125	24,125
Travel and transportation	11,911	5,931	1,973	19,815	7	11	18	19,833
Program services	49,180	7,768	53	57,001	32	31	63	57,064
Occupancy	21,083	4,137	3,759	28,979	1,863	1,827	3,690	32,669
Supplies	14,163	1,326	1,042	16,531	811	4,027	4,838	21,369
Insurance	12,908	2,537	2,337	17,782	1,081	1,081	2,162	19,944
Depreciation	31,437	-	-	31,437	-	-	-	31,437
Printing and publications	7,200	257	237	7,694	255	24,564	24,819	32,513
Equipment rental and maintenance	5,985	1,189	1,137	8,311	477	438	915	9,226
Telephone	4,869	964	1,106	6,939	393	393	786	7,725
Specific assistance to individuals	792	405	1,854	3,051	3	3	6	3,057
Miscellaneous expenses	8,054	1,275	1,641	10,970	1,302	1,678	2,980	13,950
Fundraising costs	857	343	-	1,200	-	43,435	43,435	44,635
Conferences and meetings	6,281	1,232	1,655	9,168	2,001	1,419	3,420	12,588
Postage	2,272	355	328	2,955	2,591	4,471	7,062	10,017
Dues and subscriptions	3,985	962	242	5,189	237	237	474	5,663
In-kind expense	16,370	3,274	3,023	22,667	1,259	1,259	2,518	25,185
	<u>\$ 614,340</u>	<u>153,792</u>	<u>181,273</u>	<u>949,405</u>	<u>70,090</u>	<u>235,922</u>	<u>306,012</u>	<u>1,255,417</u>

See Independent Auditors' Report.

See accompanying notes to financial statements.

**POSITIVE TOMORROWS, INC.**

**STATEMENTS OF FUNCTIONAL EXPENSES, CONTINUED**

*Year Ended June 30, 2013*

	Program Services				Supporting Services			Total Expenses
	School	Extra-curricular	Social Services	Total	Administration and General	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 CASH FLOWS****Increase (Decrease) in Cash and Cash Equivalents**

<i>Years Ended June 30,</i>	<i>2014</i>	<i>2013</i>
<b>Cash flows from operating activities:</b>		
Changes in net assets	\$ 424,415	241,907
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	31,437	33,180
Bad debt expense	24,125	15,523
Unrealized gain in assets held by OCCF	(18,696)	(10,035)
Noncash donated facilities use	(96,444)	47,946
(Increase) decrease in operating assets:		
Promises to give	(123,634)	344
Prepaid expenses	(14,371)	(415)
Distributions receivable from OCCF	(792)	(750)
(Decrease) increase in operating liabilities:		
Accounts payable	(3,649)	685
Compensated absence expense	4,695	(6,336)
Payroll liabilities	2,447	(921)
Net cash provided by operating activities	<u>229,533</u>	<u>321,128</u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment, net	(191,800)	(60,062)
Reinvestment of interest income	(343)	(124)
Net cash used in investing activities	<u>(192,143)</u>	<u>(60,186)</u>
<b>Net increase in cash</b>	37,390	260,942
Cash at beginning of year	<u>447,585</u>	<u>186,643</u>
Cash at end of year	<u>\$ 484,975</u>	<u>447,585</u>

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

**POSITIVE TOMORROWS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014 and 2013**

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**(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**

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**(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. In-kind contributions received in 2014 were not a significant amount. Positive Tomorrows received in-kind contributions of approximately \$7,700 in 2013.

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 is 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**

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**(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, 2014 or 2013, 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.

**Date of Management's Review of Subsequent Events**

Management has evaluated subsequent events through January 21, 2015, the date that 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.

See Independent Auditors' Report.

## **POSITIVE TOMORROWS, INC.**

### **NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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#### **(3) CASH**

As of June 30, 2014 and 2013, \$13,261 and \$17,591, respectively, of cash was restricted for capital improvements and/or purchases of equipment.

#### **(4) INVESTMENTS**

As of June 30, 2014 and 2013, investments consisted of a certificate of deposit with a fair value of \$100,451 and \$100,108, respectively. The certificate of deposit matures in December 2014 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, 2014 and 2013, the total value of this fund was \$442,497 and \$405,842, respectively. Distributions are calculated at 5% of the fair value of the fund, averaged over 12 quarters to smooth out market fluctuations. During 2014 and 2013, distributions from the fund were \$20,409 and \$19,617, 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, 2014 and 2013, included in the designated endowment fund is a beneficial interest in assets held by others of \$231,492 and \$212,796, 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.

As of June 30, 2014 and 2013, the remaining balances of the designated endowment fund at OCCF of \$211,005 and \$193,046, 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.

See Independent Auditors' Report.



**POSITIVE TOMORROWS, INC.**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Oklahoma City Community Foundation, Continued**

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>2014</u>		<u>2013</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	\$ 579	0.25%	1,596	0.75%
Securities:				
Equity funds	140,400	60.65%	124,741	58.62%
Fixed-income funds	<u>90,513</u>	<u>39.10%</u>	<u>86,459</u>	<u>40.63%</u>
	<u>\$ 231,492</u>	<u>100.00%</u>	<u>212,796</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**

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**(6) PROMISES TO GIVE**

Unconditional promises to give at June 30 consisted of:

	<u>2014</u>	<u>2013</u>
Grant receivable	\$ 228,865	220,865
Multi-year pledge	478,412	424,372
Less allowance	(4,000)	(37,708)
Less discount	<u>(13,692)</u>	<u>(17,453)</u>
	<u>689,585</u>	<u>590,076</u>
Current portion:		
Grant receivable	228,865	220,865
Multi-year pledge	273,898	181,725
Less allowance	-	<u>(34,559)</u>
Total current portion	<u>502,763</u>	<u>368,031</u>
Long-term portion (1 to 5 years)	<u>\$ 186,822</u>	<u>222,045</u>

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

**(7) PROMISE TO GIVE—BUILDING LEASE**

During the year ended June 30, 2014, Positive Tomorrows entered into a lease agreement which was to expire in September 2016, whereby Positive Tomorrows paid \$1 per year to lease its existing facilities. The fair value of this donation was \$49,992 per year. This donation was discounted to its net present value using a discount rate of 4% and 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. Positive Tomorrows purchased the leased facility in December 2014, as further discussed in Note 16.

See Independent Auditors' Report.

**POSITIVE TOMORROWS, INC.**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(7) PROMISE TO GIVE—BUILDING LEASE, CONTINUED**

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

	<u>2014</u>	<u>2013</u>
Receivable in less than 1 year	\$ 49,992	12,495
Receivable in 1 to 5 years	<u>62,490</u>	<u>-</u>
Total unconditional promise to give— building lease	112,482	12,495
Less discounts to net present value	<u>(3,543)</u>	<u>-</u>
Net unconditional promise to give— building lease	108,939	12,495
Less current portion	<u>(49,992)</u>	<u>(12,495)</u>
Long-term portion	<u>\$ 58,947</u>	<u>-</u>

**(8) INVESTMENT RETURN**

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

	<u>2014</u>	<u>2013</u>
Investment distribution from OCCF	\$ 20,409	19,617
Unrealized gain in assets held by OCCF	18,696	10,035
Other investment income	<u>1,551</u>	<u>507</u>
Investment return	<u>\$ 40,656</u>	<u>30,159</u>

See Independent Auditors' Report.

**POSITIVE TOMORROWS, INC.**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(9) RESTRICTED NET ASSETS**

As of both June 30, 2014 and 2013, 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>2014</u>
Time and/or purpose restriction:	
Education services in 2015	\$ 136,365
Family support services in 2015	92,500
Building lease to be released in fiscal year 2015	49,992
Building lease to be released in fiscal years 2016 and 2017	58,947
Capital improvements	124
Bus fund	<u>13,137</u>
Total temporarily restricted net assets	<u>\$ 351,065</u>
	<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
Capital improvements	<u>17,591</u>
Total temporarily restricted net assets	<u>\$ 250,951</u>

See Independent Auditors' Report.

**POSITIVE TOMORROWS, INC.**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(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>2014</u>	<u>2013</u>
Time and/or purpose restriction accomplished:		
Education services	\$ 139,145	135,458
Family support services	81,720	86,000
Building lease	49,989	47,946
Bus fund	87,335	-
Capital improvements	<u>17,467</u>	<u>-</u>
Total restrictions released	<u>\$ 375,656</u>	<u>269,404</u>

**(10) FAIR VALUE MEASUREMENTS**

ASC Topic 820, "Fair Value Measurement," 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 <u>Fair Value</u>	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
<u>2014</u>				
Financial assets:				
Investments	\$ 100,451	-	100,451	-
Long-term promises to give, net Beneficial interest in assets held by others—restricted for endowment	186,822	-	-	186,822
Long-term promise to give— building lease, net	231,492	-	-	231,492
	<u>58,947</u>	<u>-</u>	<u>-</u>	<u>58,947</u>
	<u>\$ 577,712</u>	<u>-</u>	<u>100,451</u>	<u>477,261</u>
<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>

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>2014</u>				
Balance at beginning of year	\$ 222,045	-	212,796	434,841
Realized and unrealized changes in value	-	-	18,696	18,696
Pledges	69,400	58,947	-	128,347
Settlements/Payments received	<u>(104,623)</u>	<u>-</u>	<u>-</u>	<u>(104,623)</u>
Balance at end of year	<u>\$ 186,822</u>	<u>58,947</u>	<u>231,492</u>	<u>477,261</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>

See Independent Auditors' Report.



**POSITIVE TOMORROWS, INC.**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(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, 2014, was \$5,713. Future minimum lease payments are:

<u>Year Ending June 30,</u>		
2015	\$	5,713
2016		<u>1,429</u>
	\$	<u><u>7,142</u></u>

**(12) 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 2014 and 2013 fiscal years, Positive Tomorrows contributed \$6,829 and \$6,010, 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.

**(13) GRANT AGREEMENT—CITY OF OKLAHOMA CITY**

During 2014 and 2013, 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 both of the years ended June 30, 2014 and 2013. There were no items of noncompliance with the Grant noted during the audit.

**(14) CONCENTRATIONS OF CREDIT RISK**

**Financial Institutions**

As of June 30, 2014 and 2013, Positive Tomorrows had concentrations of credit risk of \$271,630 and \$171,961, respectively, in excess of FDIC insurance limits with financial institutions.

See Independent Auditors' Report.

## POSITIVE TOMORROWS, INC.

### NOTES TO FINANCIAL STATEMENTS, CONTINUED

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#### (14) CONCENTRATIONS OF CREDIT RISK, CONTINUED

##### Major Contributors

Positive Tomorrows received contributions from three donors totaling approximately \$411,000 and \$361,000 in 2014 and 2013, respectively. These contributions represented approximately 28% and 30% of total contribution revenue in 2014 and 2013, respectively. The above amounts include total contributions in 2014 and 2013 from the United Way of Oklahoma City of \$237,142 and \$225,440, respectively, which represented approximately 16% and 19%, respectively, of total contribution revenue.

Promises to give totaling approximately \$529,000 and \$521,000 were due from two donors at June 30, 2014 and 2013, respectively. These receivables represented approximately 77% and 88% of total promises to give at June 30, 2014 and 2013, respectively. The above amounts include receivables from the United Way of Oklahoma City as of June 30, 2014 and 2013, of \$228,865 and \$220,865, respectively, which represented approximately 33% and 37%, respectively, of total promises to give.

#### (15) 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, 2014, there were no grantor audits in progress or requests to refund monies.

##### 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.

See Independent Auditors' Report.

**POSITIVE TOMORROWS, INC.**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(16) SUBSEQUENT EVENT**

Subsequent to June 30, 2014, Positive Tomorrows purchased property which included the facility currently leased for the school. The schedule below reflects the changes to the primary accounts affected on a pro forma basis as if the transaction had occurred on June 30, 2014:

	<u>June 30, 2014</u>	<u>Effects of Purchase Transaction</u>	<u>Pro Forma June 30, 2014</u>
Current promise to give—building lease	\$ 49,992	(49,992)	-
Long-term promise to give—building lease, net of discount	58,947	(58,947)	-
Land and building, at cost	-	500,000	500,000
Long-term debt	-	400,000	400,000
Net assets invested in property and equipment, net of depreciation	412,839	100,000	512,839
Net assets	2,028,625	(108,940)	1,919,685
Changes in net assets	424,415	(108,940)	315,475

See Independent Auditors' Report.