

Positive Tomorrows, Inc.

Financial Statements

June 30, 2016 and 2015
(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, 2016 and 2015, 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, 2016 and 2015, 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 18, 2017

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

| <i>June 30,</i> | <i>2016</i> | <i>2015</i> |
|---|---------------------|------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 706,782 | 640,751 |
| Current promises to give, net of allowance | 384,156 | 430,558 |
| Distributions receivable from OCCF | 21,807 | 21,398 |
| Investments, at fair value | 452,141 | 200,760 |
| Prepaid expenses and other assets | 37,927 | 24,860 |
| Total current assets | <u>1,602,813</u> | <u>1,318,327</u> |
| Property and equipment, at cost: | | |
| Premises (including land of \$188,163 at June 30, 2016 and 2015) | 516,317 | 495,073 |
| Vehicles | 156,320 | 156,320 |
| Furniture and equipment | 212,273 | 212,273 |
| Computer software | 33,910 | 26,910 |
| | <u>918,820</u> | <u>890,576</u> |
| Less accumulated depreciation | <u>(243,173)</u> | <u>(184,443)</u> |
| Net property and equipment | <u>675,647</u> | <u>706,133</u> |
| Other assets: | | |
| Cash, restricted | 34,870 | 13,261 |
| Long-term promises to give, net of allowance and discount | 110,545 | 188,736 |
| Beneficial interest in assets held by others— restricted for endowment | 217,860 | 228,107 |
| Total other assets | <u>363,275</u> | <u>430,104</u> |
| Total assets | <u>\$ 2,641,735</u> | <u>2,454,564</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>2016</i> | <i>2015</i> |
|---|---------------------|------------------|
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable | \$ 43,331 | 22,723 |
| Compensated absences | 29,039 | 24,238 |
| Payroll liabilities | 6,293 | 2,708 |
| Current portion of long-term debt | 19,597 | 19,545 |
| Total current liabilities | <u>98,260</u> | <u>69,214</u> |
| Long-term liabilities: | | |
| Long-term debt | 350,529 | 370,697 |
| Total long-term liabilities | <u>350,529</u> | <u>370,697</u> |
| Total liabilities | <u>448,789</u> | <u>439,911</u> |
| Net assets: | | |
| Unrestricted: | | |
| Invested in property and equipment, net of related debt | 305,521 | 315,891 |
| Other unrestricted | 1,412,574 | 1,249,070 |
| | <u>1,718,095</u> | <u>1,564,961</u> |
| Temporarily restricted | 264,870 | 239,711 |
| Permanently restricted | 209,981 | 209,981 |
| Total net assets | <u>2,192,946</u> | <u>2,014,653</u> |
| Total liabilities and net assets | <u>\$ 2,641,735</u> | <u>2,454,564</u> |

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

POSITIVE TOMORROWS, INC.**STATEMENTS OF ACTIVITIES***Year Ended June 30, 2016*

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|------------------|
| Public support and revenue | | | | |
| Contributions | \$ 1,411,051 | 251,733 | - | 1,662,784 |
| Fundraising events, net of costs of direct benefits to donors | 86,200 | - | - | 86,200 |
| Investment return | 21,795 | - | - | 21,795 |
| In-kind donations | 67,198 | - | - | 67,198 |
| Release of restrictions | <u>226,574</u> | <u>(226,574)</u> | <u>-</u> | <u>-</u> |
| Total public support and revenue | <u>1,812,818</u> | <u>25,159</u> | <u>-</u> | <u>1,837,977</u> |
| Expenses | | | | |
| Program services: | | | | |
| School | 878,865 | - | - | 878,865 |
| Extra-curricular | 197,027 | - | - | 197,027 |
| Social services | <u>240,297</u> | <u>-</u> | <u>-</u> | <u>240,297</u> |
| Total program services | <u>1,316,189</u> | <u>-</u> | <u>-</u> | <u>1,316,189</u> |
| Supporting services: | | | | |
| Administration and general | 88,075 | - | - | 88,075 |
| Fundraising | <u>255,420</u> | <u>-</u> | <u>-</u> | <u>255,420</u> |
| Total supporting services | <u>343,495</u> | <u>-</u> | <u>-</u> | <u>343,495</u> |
| Total expenses | <u>1,659,684</u> | <u>-</u> | <u>-</u> | <u>1,659,684</u> |
| Changes in net assets | <u>153,134</u> | <u>25,159</u> | <u>-</u> | <u>178,293</u> |
| Net assets at beginning of year | <u>1,564,961</u> | <u>239,711</u> | <u>209,981</u> | <u>2,014,653</u> |
| Net assets at end of year | <u>\$ 1,718,095</u> | <u>264,870</u> | <u>209,981</u> | <u>2,192,946</u> |

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

POSITIVE TOMORROWS, INC.**STATEMENTS OF ACTIVITIES, CONTINUED***Year Ended June 30, 2015*

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|------------------|
| Public support and revenue | | | | |
| Contributions | \$ 1,420,551 | 226,450 | - | 1,647,001 |
| Fundraising events, net of costs of direct benefits to donors | 74,464 | - | - | 74,464 |
| Investment return | 20,558 | - | - | 20,558 |
| In-kind donations | 51,153 | - | - | 51,153 |
| Release of restrictions | <u>337,804</u> | <u>(337,804)</u> | <u>-</u> | <u>-</u> |
| Total public support and revenue | <u>1,904,530</u> | <u>(111,354)</u> | <u>-</u> | <u>1,793,176</u> |
| Expenses | | | | |
| Program services: | | | | |
| School | 909,969 | - | - | 909,969 |
| Extra-curricular | 215,597 | - | - | 215,597 |
| Social services | <u>270,091</u> | <u>-</u> | <u>-</u> | <u>270,091</u> |
| Total program services | <u>1,395,657</u> | <u>-</u> | <u>-</u> | <u>1,395,657</u> |
| Supporting services: | | | | |
| Administration and general | 83,649 | - | - | 83,649 |
| Fundraising | <u>327,842</u> | <u>-</u> | <u>-</u> | <u>327,842</u> |
| Total supporting services | <u>411,491</u> | <u>-</u> | <u>-</u> | <u>411,491</u> |
| Total expenses | <u>1,807,148</u> | <u>-</u> | <u>-</u> | <u>1,807,148</u> |
| Changes in net assets | <u>97,382</u> | <u>(111,354)</u> | <u>-</u> | <u>(13,972)</u> |
| Net assets at beginning of year | <u>1,467,579</u> | <u>351,065</u> | <u>209,981</u> | <u>2,028,625</u> |
| Net assets at end of year | <u>\$ 1,564,961</u> | <u>239,711</u> | <u>209,981</u> | <u>2,014,653</u> |

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

POSITIVE TOMORROWS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2016

| | Program Services | | | | Supporting Services | | | Total Expenses |
|------------------------------------|-------------------|------------------|-----------------|------------------|----------------------------|----------------|----------------|------------------|
| | School | Extra-curricular | Social Services | Total | Administration and General | Fundraising | Total | |
| Salaries and related expenses | \$ 522,348 | 87,707 | 187,874 | 797,929 | 51,981 | 113,645 | 165,626 | 963,555 |
| Professional fees | 64,157 | 13,951 | 16,115 | 94,223 | 4,713 | 19,468 | 24,181 | 118,404 |
| Bad debt expense | 87,209 | 45,617 | 1,341 | 134,167 | - | - | - | 134,167 |
| Travel and transportation | 9,045 | 4,264 | 1,448 | 14,757 | 514 | - | 514 | 15,271 |
| Program services | 38,621 | 19,875 | 360 | 58,856 | 245 | 164 | 409 | 59,265 |
| Occupancy | 28,625 | 5,728 | 5,280 | 39,633 | 2,891 | 2,199 | 5,090 | 44,723 |
| Supplies | 7,245 | 3,303 | 740 | 11,288 | 1,387 | 1,661 | 3,048 | 14,336 |
| Insurance | 15,954 | 3,191 | 2,945 | 22,090 | 1,257 | 1,233 | 2,490 | 24,580 |
| Equipment acquisition | 1,153 | 568 | - | 1,721 | - | - | - | 1,721 |
| Depreciation | 58,730 | - | - | 58,730 | - | - | - | 58,730 |
| Printing and publications | 1,256 | 360 | 153 | 1,769 | 128 | 31,976 | 32,104 | 33,873 |
| Equipment rental and maintenance | 8,744 | 1,749 | 1,614 | 12,107 | 673 | 673 | 1,346 | 13,453 |
| Telephone | 5,058 | 1,012 | 934 | 7,004 | 389 | 389 | 778 | 7,782 |
| Specific assistance to individuals | 981 | 1,584 | 12,779 | 15,344 | 108 | 8 | 116 | 15,460 |
| Miscellaneous expenses | - | - | - | - | 359 | 204 | 563 | 563 |
| Fundraising costs | 982 | 196 | 181 | 1,359 | 75 | 50,704 | 50,779 | 52,138 |
| Conferences and meetings | 6,285 | 1,057 | 1,723 | 9,065 | 2,797 | 1,855 | 4,652 | 13,717 |
| Postage | 2,005 | 387 | 358 | 2,750 | 3,599 | 5,338 | 8,937 | 11,687 |
| Dues and subscriptions | 4,976 | 826 | 800 | 6,602 | 2,086 | 373 | 2,459 | 9,061 |
| In-kind expense | 15,491 | 5,652 | 5,652 | 26,795 | 14,873 | 25,530 | 40,403 | 67,198 |
| | <u>\$ 878,865</u> | <u>197,027</u> | <u>240,297</u> | <u>1,316,189</u> | <u>88,075</u> | <u>255,420</u> | <u>343,495</u> | <u>1,659,684</u> |

See Independent Auditors' Report.

See accompanying notes to financial statements.

POSITIVE TOMORROWS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES, CONTINUED

Year Ended June 30, 2015

| | Program Services | | | | Supporting Services | | | Total Expenses |
|--|-------------------|------------------|-----------------|------------------|----------------------------|----------------|----------------|------------------|
| | School | Extra-curricular | Social Services | Total | Administration and General | Fundraising | Total | |
| Salaries and related expenses | \$ 460,198 | 115,094 | 181,675 | 756,967 | 31,416 | 110,238 | 141,654 | 898,621 |
| Professional fees | 37,802 | 8,643 | 11,473 | 57,918 | 3,571 | 11,003 | 14,574 | 72,492 |
| Rent | 11,844 | - | 7,272 | 19,116 | 2,418 | 3,462 | 5,880 | 24,996 |
| Bad debt expense | 30,444 | 15,925 | 468 | 46,837 | - | - | - | 46,837 |
| Travel and transportation | 9,174 | 4,397 | 1,449 | 15,020 | 75 | 177 | 252 | 15,272 |
| Program services | 54,222 | 7,363 | - | 61,585 | - | - | - | 61,585 |
| Occupancy | 24,405 | 4,879 | 4,493 | 33,777 | 1,846 | 1,871 | 3,717 | 37,494 |
| Supplies | 9,590 | 3,407 | 2,985 | 15,982 | 1,067 | 9,354 | 10,421 | 26,403 |
| Insurance | 15,826 | 3,165 | 2,922 | 21,913 | 1,247 | 1,213 | 2,460 | 24,373 |
| Depreciation | 38,666 | 7,734 | 7,138 | 53,538 | 2,974 | 2,974 | 5,948 | 59,486 |
| Printing and publications | 7,416 | 1,483 | 1,369 | 10,268 | 570 | 32,807 | 33,377 | 43,645 |
| Equipment rental and maintenance | 7,873 | 1,575 | 1,613 | 11,061 | 606 | 606 | 1,212 | 12,273 |
| Telephone | 5,865 | 1,173 | 1,083 | 8,121 | 451 | 451 | 902 | 9,023 |
| Specific assistance to individuals | 1,042 | 2,473 | 9,454 | 12,969 | 25 | 81 | 106 | 13,075 |
| Miscellaneous expenses | 83 | 17 | 19 | 119 | 8 | 12 | 20 | 139 |
| Fundraising costs | 11,993 | 2,399 | 2,214 | 16,606 | 11,788 | 123,089 | 134,877 | 151,483 |
| Conferences and meetings | 6,032 | 609 | 1,649 | 8,290 | 2,820 | 726 | 3,546 | 11,836 |
| Postage | 2,978 | 587 | 541 | 4,106 | 3,682 | 5,003 | 8,685 | 12,791 |
| Dues and subscriptions | 3,736 | 608 | 791 | 5,135 | 1,011 | 296 | 1,307 | 6,442 |
| Loss on disposal of assets (see Note 7) | 164,270 | 32,854 | 30,327 | 227,451 | 12,636 | 12,636 | 25,272 | 252,723 |
| In-kind expense | 6,510 | 1,212 | 1,156 | 8,878 | 5,438 | 11,843 | 17,281 | 26,159 |
| | <u>\$ 909,969</u> | <u>215,597</u> | <u>270,091</u> | <u>1,395,657</u> | <u>83,649</u> | <u>327,842</u> | <u>411,491</u> | <u>1,807,148</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>2016</i> | <i>2015</i> |
|--|-------------------|------------------|
| Cash flows from operating activities: | | |
| Changes in net assets | \$ 178,293 | (13,972) |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation | 58,730 | 59,486 |
| Bad debt expense | 134,167 | 46,837 |
| Unrealized loss in assets held by OCCF | 10,247 | 3,385 |
| Noncash donated facilities use | - | (24,996) |
| (Increase) decrease in operating assets: | | |
| Promises to give | (9,574) | 157,389 |
| Prepaid expenses and other assets | (13,067) | (6,816) |
| Distributions receivable from OCCF | (409) | (989) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | 20,608 | 9,233 |
| Compensated absences | 4,801 | 5,251 |
| Payroll liabilities | 3,585 | (2,924) |
| Net cash provided by operating activities | <u>387,381</u> | <u>231,884</u> |
| Cash flows from investing activities: | | |
| Purchase of property and equipment, net | (28,244) | (352,780) |
| Investment in certificate of deposit | (250,000) | (100,000) |
| Reinvestment of interest income | (1,381) | (309) |
| Net cash used in investing activities | <u>(279,625)</u> | <u>(453,089)</u> |
| Cash flows from financing activities: | | |
| Advances of long-term debt | - | 400,000 |
| Repayments of long-term debt | (20,116) | (9,758) |
| Net cash (used in) provided in investing activities | <u>(20,116)</u> | <u>390,242</u> |
| Net increase in cash | 87,640 | 169,037 |
| Cash at beginning of year | <u>654,012</u> | <u>484,975</u> |
| Cash at end of year | <u>\$ 741,652</u> | <u>654,012</u> |

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

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

(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.

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 \$67,000 and \$52,000 in 2016 and 2015, respectively.

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

(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, 2016 or 2015, 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 Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). ASU 2014-09 clarifies the principles for recognizing revenue by providing a more robust framework that will give greater consistency and comparability in revenue recognition practices. In the new framework, an entity recognizes revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services. The new model requires the identification of performance obligations included in contracts with customers, a determination of the transaction price, and an allocation of the price to those performance obligations. The entity recognizes revenue when performance obligations are satisfied. In August 2015, FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers—Deferral of the Effective Date*, which defers the effective date of ASU 2014-09 by one year. ASU 2014-09 is effective for Positive Tomorrows' annual periods beginning after December 15, 2018. Currently, Positive Tomorrows has not evaluated the impact on the financial statements of adopting ASU 2014-09.

See Independent Auditors' Report.

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

Recent Accounting Pronouncements, Continued

In August 2014, FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* (ASU 2014-15). ASU 2014-15 provides guidance on management's responsibility in evaluating whether there is substantial doubt about the Positive Tomorrows' ability to continue as a going concern and related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about Positive Tomorrows' ability to continue as a going concern within one year from the date the financial statements are issued. ASU 2014-15 is effective for annual periods ending after December 15, 2016. Adoption of ASU 2014-15 is not expected to have a significant effect on Positive Tomorrows' financial statements.

In April 2015, FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03), which amends ASC Subtopic 835-30, "Interest—Imputation of Interest." ASU 2015-03 requires debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability rather than as an asset. ASU 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015. Adoption of ASU 2015-03 is not expected to have a significant effect on Positive Tomorrows' financial statements.

In June 2015, FASB issued ASU No. 2015-10, *Technical Corrections and Improvements* (ASU 2015-10). ASU 2015-10 covers a wide range of ASC topics and represents changes to clarify the codification, correct unintended application of guidance, or make minor improvements to the codification that are not expected to have a significant effect on current accounting practice. The amendments in ASU 2015-10 that are subject to transition guidance are effective for fiscal years beginning after December 15, 2015; all other amendments were effective upon issuance of the update. Adoption of ASU 2015-10 did not and is not expected to have a significant effect on Positive Tomorrows' financial statements.

In August 2016, FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profits Entities* (ASU 2016-14). ASU 2016-14 will change the way all Not-for-Profits classify net assets and prepare financial statements. It is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Currently, Positive Tomorrows has not evaluated the impact on the financial statements of adopting ASU 2016-14.

Reclassification

Certain 2015 amounts have been reclassified to be comparable with the 2016 presentation.

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 18, 2017, the date that the financial statements were available to be issued.

(2) FUNDRAISING EVENTS

Various fundraising activities were held during the year. 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, 2016 and 2015, \$34,870 and \$13,261, respectively, of cash was restricted for capital improvements and/or purchases of equipment.

(4) INVESTMENTS

As of June 30, 2016, investments consisted of two certificates of deposit with a fair value of \$452,141. As of June 30, 2015, investments consisted of one certificate of deposit with a fair value of \$200,760. One certificate of deposit matures in January 2017 (nominal interest rate) and the other certificate of deposit matures in January 2026 (2.95% as of June 30, 2016).

(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, 2016 and 2015, the total value of this fund was \$418,594 and \$436,940, respectively. Distributions are calculated at 5% of the fair value of the fund, averaged over 12 quarters to smooth out market fluctuations. During 2016 and 2015, distributions from the fund were \$21,807 and \$21,398, 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, 2016 and 2015, included in the designated endowment fund is a beneficial interest in assets held by others of \$217,860 and \$228,107, 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

Oklahoma City Community Foundation, Continued

As of June 30, 2016 and 2015, the remaining balances of the designated endowment fund at OCCF of \$200,734 and \$208,832, 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>2016</u> | | <u>2015</u> | |
|---------------------------|-----------------------|--|-----------------------|--|
| | | Credit Exposure as a Percentage of Total Investment | | Credit Exposure as a Percentage of Total Investment |
| | <u>Fair Value</u> | | <u>Fair Value</u> | |
| OCCF investments: | | | | |
| Cash and equivalent funds | \$ 240 | 0.11% | 251 | 0.11% |
| Securities: | | | | |
| Equity funds | 131,457 | 60.34% | 140,263 | 61.49% |
| Fixed-income funds | <u>86,163</u> | <u>39.55%</u> | <u>87,593</u> | <u>38.40%</u> |
| | <u>\$ 217,860</u> | <u>100.00%</u> | <u>228,107</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>2016</u> | <u>2015</u> |
|---|-------------------|-----------------|
| Grant receivable | \$ 230,000 | 226,450 |
| Multi-year pledge | 276,664 | 412,018 |
| Less allowance | (3,523) | (3,850) |
| Less discount | <u>(8,440)</u> | <u>(15,324)</u> |
| | <u>494,701</u> | <u>619,294</u> |
| Current portion: | | |
| Grant receivable | 230,000 | 226,450 |
| Multi-year pledge | <u>154,156</u> | <u>204,108</u> |
| Total current portion | <u>384,156</u> | <u>430,558</u> |
| Long-term portion, net of allowance (1 to 5 years) | | |
| | <u>\$ 110,545</u> | <u>188,736</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 4%.

(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 and wrote off the remaining book value of the leasehold improvements and the related long-term promises to give—building lease totaling approximately \$250,000.

See Independent Auditors' Report.

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) INVESTMENT RETURN

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

| | <u>2016</u> | <u>2015</u> |
|--|------------------|---------------|
| Investment distribution from OCCF | \$ 21,807 | 21,398 |
| Unrealized loss in assets held by OCCF | (10,247) | (3,385) |
| Other investment income | <u>10,235</u> | <u>2,545</u> |
| Investment return | <u>\$ 21,795</u> | <u>20,558</u> |

(9) LONG-TERM DEBT

Long-term debt consists of an obligation to a local financial institution. The long-term debt was obtained to purchase the premises currently occupied by Positive Tomorrows. The premises are pledged as security for the long-term debt, which had an original balance of \$400,000. As of June 30 2016, the balance of the long-term was \$370,126, bearing interest at 0.50%, requiring monthly payments of \$1,709 with a maturity date of December 18, 2019.

As of June 30, 2016, annual maturities of long-term debt outstanding are as follows:

| | |
|------|-------------------|
| 2017 | \$ 19,597 |
| 2018 | 19,646 |
| 2019 | 19,696 |
| 2020 | <u>311,187</u> |
| | <u>\$ 370,126</u> |

See Independent Auditors' Report.

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(10) RESTRICTED NET ASSETS

As of both June 30, 2016 and 2015, 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>2016</u> |
|---|-------------------|
| Time and/or purpose restriction: | |
| Education services in 2017 | \$ 139,350 |
| Family support services in 2017 | 90,650 |
| Capital improvements | 21,733 |
| Bus fund | <u>13,137</u> |
| Total temporarily restricted net assets | <u>\$ 264,870</u> |
| | <u>2015</u> |
| Time and/or purpose restriction: | |
| Education services in 2016 | \$ 135,800 |
| Family support services in 2016 | 90,650 |
| Capital improvements | 124 |
| Bus fund | <u>13,137</u> |
| Total temporarily restricted net assets | <u>\$ 239,711</u> |

See Independent Auditors' Report.

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(10) 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>2016</u> | <u>2015</u> |
|---|-------------------|----------------|
| Time and/or purpose restriction accomplished: | | |
| Education services | \$ 135,800 | 136,365 |
| Family support services | 90,650 | 92,500 |
| Building lease | - | 108,939 |
| Capital improvements | <u>124</u> | <u>-</u> |
| Total restrictions released | <u>\$ 226,574</u> | <u>337,804</u> |

(11) 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.

(11) **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 two certificates of deposit with local financial institutions. 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 4%.

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.

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(11) 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>2016</u> | | | | |
| Financial assets: | | | | |
| Investments | \$ 452,141 | - | 452,141 | - |
| Long-term promises to give, net Beneficial interest in assets held by others—restricted for endowment | 110,545 | - | - | 110,545 |
| | <u>217,860</u> | <u>-</u> | <u>-</u> | <u>217,860</u> |
| | <u>\$ 780,546</u> | <u>-</u> | <u>452,141</u> | <u>328,405</u> |
| <u>2015</u> | | | | |
| Financial assets: | | | | |
| Investments | \$ 200,760 | - | 200,760 | - |
| Long-term promises to give, net Beneficial interest in assets held by others—restricted for endowment | 188,736 | - | - | 188,736 |
| | <u>228,107</u> | <u>-</u> | <u>-</u> | <u>228,107</u> |
| | <u>\$ 617,603</u> | <u>-</u> | <u>200,760</u> | <u>416,843</u> |

See Independent Auditors' Report.

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(11) 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>2016</u> | | | | |
| Balance at beginning of year | \$ 188,736 | - | 228,107 | 416,843 |
| Realized and unrealized changes in value | - | - | (10,247) | (10,247) |
| Pledges | 55,051 | - | - | 55,051 |
| Settlements/Payments received | <u>(133,242)</u> | <u>-</u> | <u>-</u> | <u>(133,242)</u> |
| Balance at end of year | <u>\$ 110,545</u> | <u>-</u> | <u>217,860</u> | <u>328,405</u> |
| <u>2015</u> | | | | |
| Balance at beginning of year | \$ 186,822 | 58,947 | 231,492 | 477,261 |
| Realized and unrealized changes in value | - | - | (3,385) | (3,385) |
| Pledges | 61,310 | - | - | 61,310 |
| Settlements/Payments received | <u>(59,396)</u> | <u>(58,947)</u> | <u>-</u> | <u>(118,343)</u> |
| Balance at end of year | <u>\$ 188,736</u> | <u>-</u> | <u>228,107</u> | <u>416,843</u> |

See Independent Auditors' Report.

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(12) OPERATING LEASE

In 2015, Positive Tomorrows entered into a 5-year operating lease agreement for the lease of office equipment. Lease expense for the year ended June 30, 2016, was \$8,784. Future minimum lease payments are:

| <u>Year Ending June 30,</u> | | |
|-----------------------------|----|---------------|
| 2017 | \$ | 7,356 |
| 2018 | | 7,356 |
| 2019 | | <u>5,517</u> |
| | \$ | <u>20,229</u> |

(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 100% up to a maximum of 3% of the employee's salary for both plans. For the 2016 and 2015 fiscal years, Positive Tomorrows contributed \$15,859 and \$12,655, 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 2016 and 2015, 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 \$7,000 and \$5,000 from the Grant for each of the years ended June 30, 2016 and 2015, respectively. There were no items of noncompliance with the Grant noted during the audit.

(15) CONCENTRATIONS OF CREDIT RISK

Financial Institutions

As of June 30, 2016 and 2015, Positive Tomorrows had concentrations of credit risk of \$1,814 and \$2,439, respectively, in excess of FDIC insurance limits with financial institutions.

See Independent Auditors' Report.

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(15) CONCENTRATIONS OF CREDIT RISK, CONTINUED

Major Contributors

Positive Tomorrows received contributions from three donors totaling approximately \$402,000 and \$420,000 in 2016 and 2015, respectively. These contributions represented approximately 24% and 26% of total contribution revenue in 2016 and 2015, respectively. The above amounts include total contributions in 2016 and 2015 from the United Way of Oklahoma City of \$235,821 and \$230,557, respectively, which represented approximately 14% of total contribution revenue received each year.

Promises to give totaling approximately \$260,000 and \$391,000 were due from two donors at June 30, 2016 and 2015, respectively. These receivables represented approximately 53% and 63% of total promises to give at June 30, 2016 and 2015, respectively. The above amounts include receivables from the United Way of Oklahoma City as of June 30, 2016 and 2015, of \$230,000 and \$226,450, respectively, which represented approximately 46% and 37%, 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, 2016, 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

(17) SUBSEQUENT EVENT

On August 1, 2016, Positive Tomorrows entered into an agreement to purchase 2.5 acres of real estate with a purchase price of \$454,000. The land is to be used for a new school building which will allow Positive Tomorrows to offer more services to their students, as well as increasing enrollment for Positive Tomorrows through adding more grades, as well as expanding the current classes and grades currently offered.

See Independent Auditors' Report.