

Positive Tomorrows, Inc.

Financial Statements

June 30, 2018 and 2017
(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, 2018 and 2017, 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, 2018 and 2017, 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.

Finlay + Cook, PLLC

Shawnee, Oklahoma
January 23, 2019

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

<i>June 30,</i>	<i>2018</i>	<i>2017</i>
Assets		
Current assets:		
Cash—unrestricted	\$ 1,107,151	1,004,107
Cash—restricted	5,936,486	170,016
Current promises to give—capital campaign	784,740	161,000
Current promises to give—other, net of allowance	322,825	450,753
Distributions receivable from OCCF	21,981	21,853
Investments, at fair value	205,262	203,589
Prepaid expenses and other assets	85,686	12,778
Total current assets	<u>8,464,131</u>	<u>2,024,096</u>
Property and equipment, at cost:		
Construction in progress	430,975	57,750
Premises (including land of \$815,938 and \$193,163 at June 30, 2018 and 2017, respectively)	1,144,092	521,317
Vehicles	216,316	156,320
Furniture and equipment	179,576	212,153
Computer software	26,921	26,921
	<u>1,997,880</u>	<u>974,461</u>
Less accumulated depreciation	<u>(305,316)</u>	<u>(282,855)</u>
Net property and equipment	<u>1,692,564</u>	<u>691,606</u>
Other assets:		
Long-term investments, at fair value	250,626	250,000
Long-term promises to give—capital campaign, net of discount	1,141,476	142,492
Long-term promises to give—other, net of discount	63,861	333,333
Beneficial interest in assets held by others— restricted for endowment	233,865	228,838
Total other assets	<u>1,689,828</u>	<u>954,663</u>
Total assets	<u>\$ 11,846,523</u>	<u>3,670,365</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>2018</i>	<i>2017</i>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 21,621	49,670
Compensated absences	41,833	26,186
Payroll liabilities	27,686	10,316
Current portion of long-term debt	19,696	19,646
Total current liabilities	<u>110,836</u>	<u>105,818</u>
Long-term liabilities:		
Long-term debt	311,760	332,501
Total long-term liabilities	<u>311,760</u>	<u>332,501</u>
Total liabilities	<u>422,596</u>	<u>438,319</u>
Net assets:		
Unrestricted	2,381,054	2,189,520
Temporarily restricted	8,832,892	832,545
Permanently restricted	209,981	209,981
Total net assets	<u>11,423,927</u>	<u>3,232,046</u>
Total liabilities and net assets	<u>\$ 11,846,523</u>	<u>3,670,365</u>

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

POSITIVE TOMORROWS, INC.**STATEMENTS OF ACTIVITIES***Year Ended June 30, 2018*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue				
Contributions—capital campaign	\$ -	8,147,432	-	8,147,432
Contributions—other	1,580,484	251,304	-	1,831,788
Fundraising events, net of costs of direct benefits to donors	124,005	-	-	124,005
Investment return	59,900	-	-	59,900
In-kind donations	72,740	-	-	72,740
Release of restrictions	398,389	(398,389)	-	-
Total public support and revenue	<u>2,235,518</u>	<u>8,000,347</u>	<u>-</u>	<u>10,235,865</u>
Expenses				
Program services:				
School	846,855	-	-	846,855
Extra-curricular	227,018	-	-	227,018
Social services	273,675	-	-	273,675
Total program services	<u>1,347,548</u>	<u>-</u>	<u>-</u>	<u>1,347,548</u>
Supporting services:				
Administration and general	209,229	-	-	209,229
Fundraising	290,248	-	-	290,248
Capital campaign	196,959	-	-	196,959
Total supporting services	<u>696,436</u>	<u>-</u>	<u>-</u>	<u>696,436</u>
Total expenses	<u>2,043,984</u>	<u>-</u>	<u>-</u>	<u>2,043,984</u>
Changes in net assets	<u>191,534</u>	<u>8,000,347</u>	<u>-</u>	<u>8,191,881</u>
Net assets at beginning of year	<u>2,189,520</u>	<u>832,545</u>	<u>209,981</u>	<u>3,232,046</u>
Net assets at end of year	<u>\$ 2,381,054</u>	<u>8,832,892</u>	<u>209,981</u>	<u>11,423,927</u>

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

POSITIVE TOMORROWS, INC.

STATEMENTS OF ACTIVITIES, CONTINUED

Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue				
Contributions—capital campaign	\$ -	664,746	-	664,746
Contributions—other	1,728,130	225,050	-	1,953,180
Fundraising events, net of costs of direct benefits to donors	100,490	-	-	100,490
Investment return	44,545	-	-	44,545
In-kind donations	64,232	-	-	64,232
Release of restrictions	<u>322,121</u>	<u>(322,121)</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>2,259,518</u>	<u>567,675</u>	<u>-</u>	<u>2,827,193</u>
Expenses				
Program services:				
School	837,855	-	-	837,855
Extra-curricular	156,275	-	-	156,275
Social services	<u>254,630</u>	<u>-</u>	<u>-</u>	<u>254,630</u>
Total program services	<u>1,248,760</u>	<u>-</u>	<u>-</u>	<u>1,248,760</u>
Supporting services:				
Administration and general	204,150	-	-	204,150
Fundraising	<u>335,183</u>	<u>-</u>	<u>-</u>	<u>335,183</u>
Total supporting services	<u>539,333</u>	<u>-</u>	<u>-</u>	<u>539,333</u>
Total expenses	<u>1,788,093</u>	<u>-</u>	<u>-</u>	<u>1,788,093</u>
Changes in net assets	<u>471,425</u>	<u>567,675</u>	<u>-</u>	<u>1,039,100</u>
Net assets at beginning of year	<u>1,718,095</u>	<u>264,870</u>	<u>209,981</u>	<u>2,192,946</u>
Net assets at end of year	<u>\$ 2,189,520</u>	<u>832,545</u>	<u>209,981</u>	<u>3,232,046</u>

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

POSITIVE TOMORROWS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2018

	Program Services				Supporting Services				Total Expenses
	<u>School</u>	<u>Extra-curricular</u>	<u>Social Services</u>	<u>Total</u>	<u>Administration and General</u>	<u>Fundraising</u>	<u>Capital Campaign</u>	<u>Total</u>	
Salaries and related expenses	\$ 607,402	170,078	221,087	998,567	62,907	138,178	98,620	299,705	1,298,272
Professional fees	41,134	7,617	13,111	61,862	18,025	15,769	71,394	105,188	167,050
Bad debt expense	-	-	-	-	95,930	-	-	95,930	95,930
Travel and transportation	8,175	4,330	2,132	14,637	107	113	-	220	14,857
Program services	45,720	20,498	12	66,230	99	-	-	99	66,329
Occupancy	30,004	7,252	5,031	42,287	1,598	1,950	-	3,548	45,835
Supplies	6,521	1,949	781	9,251	914	904	-	1,818	11,069
Insurance	15,393	4,151	2,858	22,402	1,012	896	-	1,908	24,310
Depreciation	53,629	-	-	53,629	-	-	-	-	53,629
Printing and publications	672	69	439	1,180	67	33,501	-	33,568	34,748
Equipment rental and maintenance	5,701	1,089	1,005	7,795	419	419	-	838	8,633
Telephone	4,500	1,497	3,082	9,079	538	1,291	-	1,829	10,908
Specific assistance to individuals	666	2,872	6,274	9,812	1	1	-	2	9,814
Miscellaneous expenses	-	-	-	-	2,260	-	-	2,260	2,260
Fundraising costs	386	76	70	532	103	59,516	-	59,619	60,151
Conferences and meetings	9,849	2,135	2,698	14,682	1,380	1,571	-	2,951	17,633
Postage	1,790	358	330	2,478	143	7,008	-	7,151	9,629
Dues and subscriptions	7,796	1,027	370	9,193	951	3,098	-	4,049	13,242
In-kind expense	7,517	2,020	14,395	23,932	22,775	26,033	-	48,808	72,740
Capital campaign	-	-	-	-	-	-	26,945	26,945	26,945
	<u>\$ 846,855</u>	<u>227,018</u>	<u>273,675</u>	<u>1,347,548</u>	<u>209,229</u>	<u>290,248</u>	<u>196,959</u>	<u>696,436</u>	<u>2,043,984</u>

See Independent Auditors' Report.

See accompanying notes to financial statements.

POSITIVE TOMORROWS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES, CONTINUED

Year Ended June 30, 2017

	Program Services				Supporting Services			Total Expenses
	School	Extra-curricular	Social Services	Total	Administration and General	Fundraising	Total	
Salaries and related expenses	\$ 583,699	96,145	191,531	871,375	93,667	146,759	240,426	1,111,801
Professional fees	43,818	8,046	16,681	68,545	6,313	16,080	22,393	90,938
Bad debt expense	-	-	-	-	72,880	-	72,880	72,880
Travel and transportation	8,771	6,174	2,146	17,091	151	137	288	17,379
Program services	42,697	19,227	58	61,982	227	24	251	62,233
Occupancy	34,079	7,817	5,425	47,321	4,260	2,392	6,652	53,973
Supplies	8,260	3,153	629	12,042	1,078	370	1,448	13,490
Insurance	14,613	3,930	2,638	21,181	866	866	1,732	22,913
Equipment acquisition	7,193	1,553	-	8,746	-	-	-	8,746
Depreciation	64,024	-	-	64,024	-	-	-	64,024
Printing and publications	785	215	448	1,448	60	42,527	42,587	44,035
Equipment rental and maintenance	9,644	2,210	1,605	13,459	669	669	1,338	14,797
Telephone	4,819	1,014	3,134	8,967	761	1,187	1,948	10,915
Specific assistance to individuals	968	4,192	14,235	19,395	-	-	-	19,395
Miscellaneous expenses	-	-	-	-	44	-	44	44
Fundraising costs	605	118	95	818	59	57,544	57,603	58,421
Conferences and meetings	5,231	1,398	1,442	8,071	2,842	1,302	4,144	12,215
Postage	3,495	697	643	4,835	280	1,806	2,086	6,921
Dues and subscriptions	2,199	386	353	2,938	1,296	136	1,432	4,370
In-kind expense	2,955	-	13,567	16,522	18,697	29,013	47,710	64,232
Capital campaign	-	-	-	-	-	34,371	34,371	34,371
	<u>\$ 837,855</u>	<u>156,275</u>	<u>254,630</u>	<u>1,248,760</u>	<u>204,150</u>	<u>335,183</u>	<u>539,333</u>	<u>1,788,093</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>2018</i>	<i>2017</i>
Cash flows from operating activities:		
Changes in net assets	\$ 8,191,881	1,039,100
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	53,629	64,024
Bad debt expense	95,930	72,880
Unrealized gain in assets held by OCCF	(5,027)	(10,978)
(Increase) decrease in operating assets:		
Promises to give, net	(1,321,254)	(665,757)
Prepaid expenses and other assets	(72,908)	25,149
Distributions receivable from OCCF	(128)	(46)
Increase (decrease) in operating liabilities:		
Accounts payable	(28,049)	6,339
Compensated absences	15,647	(2,853)
Payroll liabilities	17,370	4,023
Net cash provided by operating activities	<u>6,947,091</u>	<u>531,881</u>
Cash flows from investing activities:		
Purchase of property and equipment, net	(1,054,587)	(79,983)
Reinvestment of interest income	<u>(2,299)</u>	<u>(1,448)</u>
Net cash used in investing activities	<u>(1,056,886)</u>	<u>(81,431)</u>
Cash flows from financing activities:		
Repayments of long-term debt	<u>(20,691)</u>	<u>(17,979)</u>
Net cash used in investing activities	<u>(20,691)</u>	<u>(17,979)</u>
Net increase in cash	5,869,514	432,471
Cash at beginning of year	<u>1,174,123</u>	<u>741,652</u>
Cash at end of year	<u>\$ 7,043,637</u>	<u>1,174,123</u>
Reconciliation to cash on the statements of financial position:		
Cash—unrestricted	\$ 1,107,151	1,004,107
Cash—restricted	<u>5,936,486</u>	<u>170,016</u>
	<u>\$ 7,043,637</u>	<u>1,174,123</u>

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

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

(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 statements of financial position. 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.
- *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.

See Independent Auditors’ Report.

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

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.

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.

See Independent Auditors' Report.

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

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 in the statements of activities.

Property and Equipment

Property and equipment of \$500 or more are recorded at cost, net of accumulated depreciation. 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 \$107,000 and \$64,000 in 2018 and 2017, 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.

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, 2018 or 2017, 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 February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02), which requires that lessees recognize on the balance sheet the assets and liabilities for the rights and obligations created by operating leases. ASU 2016-02 is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2018, and for financial statements issued for fiscal years beginning after December 15, 2019, for all other entities. Currently, Positive Tomorrows has not evaluated the impact on the financial statements of adopting ASU 2016-02.

In June 2016, FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments* (ASU 2016-13), in order to provide more timely recording of credit losses on loans and other financial instruments. ASU 2016-13 adds an impairment model (known as the current expected credit loss (CECL) model) that is based on expected credit losses rather than incurred credit losses. It requires an organization to measure all expected credit losses for financial assets carried at amortized cost at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. ASU 2016-13 is effective for financial statements issued for fiscal years beginning after December 15, 2020. In November 2018, FASB issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, which defers the effective date of ASU 2016-13 by 1 year. Currently, Positive Tomorrows has not evaluated the impact on the financial statements of adopting ASU 2016-13.

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.

In August 2016, FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15), which clarifies the classification of certain cash receipts and payments in the statement of cash flows. ASU 2016-15 addresses eight cash flow issues, including debt repayment and extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments following a business combination, proceeds from the settlement of insurance claims and corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows. ASU 2016-15 is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2017, and for financial statements issued for fiscal years beginning after December 15, 2018, for all other entities. Currently, Positive Tomorrows has not evaluated the impact on the financial statements of adopting ASU 2016-15.

See Independent Auditors' Report.

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

Recent Accounting Pronouncements, Continued

In November 2016, FASB issued ASU No. 2016-18, *Restricted Cash* (ASU 2016-18), which requires restricted cash or restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2017, and for financial statements issued for fiscal years beginning after December 15, 2018, for all other entities. Adoption of ASU 2016-18 is not expected to have a significant effect on Positive Tomorrows' financial statements.

In December 2016, FASB issued ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers* (ASU 2016-20), which affects narrow aspects of the guidance issued in ASU 2014-09. ASU 2016-20 is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2017, and for financial statements issued for fiscal years beginning after December 15, 2018, for all other entities. Currently, Positive Tomorrows has not evaluated the impact on the financial statements of adopting ASU 2016-20.

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through January 23, 2019, the date that the financial statements were available to be issued. See Note 16 for a discussion of significant subsequent events.

(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 in the expense section of the statements of activities.

(3) **RESTRICTED CASH**

At both June 30, 2018 and 2017, \$13,137 of cash was restricted for capital improvements and/or purchases of equipment. As of June 30, 2018 and 2017, \$5,923,349 and \$156,839, respectively, of cash was restricted for the capital campaign.

See Independent Auditors' Report.

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) INVESTMENTS

As of June 30, 2018 and 2017, investments consisted of two certificates of deposit with a total fair value of \$455,888 and \$453,589, respectively. One certificate of deposit matures in August 2018 (1.25% as of June 30, 2018) and the other certificate of deposit matures in January 2026 (2.95% as of June 30, 2018). Subsequent to June 30, 2018, the certificate of deposit that matured in August 2018 was automatically renewed.

(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, 2018 and 2017, the total value of this fund was \$450,710 and \$440,337, respectively. Distributions are calculated at 5% of the fair value of the fund, averaged over 12 quarters to smooth out market fluctuations. During 2018 and 2017, distributions from the fund were \$21,981 and \$21,853, 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, 2018 and 2017, included in the designated endowment fund is a beneficial interest in assets held by others of \$233,865 and \$228,838, 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, 2018 and 2017, the remaining balances of the designated endowment fund at OCCF of \$216,845 and \$211,499, 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

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

Oklahoma City Community Foundation, Continued

OCCF's 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 investment committee. Positive Tomorrows' beneficial interest held with OCCF is included as part of OCCF's investment pool. The following table details OCCF's target allocation of its investment pool at June 30:

	<u>2018</u>	<u>2017</u>
Equity	57.5%	56.0%
Fixed income	32.5%	34.0%
Alternatives	10.0%	10.0%

The original amount transferred by Positive Tomorrows to OCCF that is held by OCCF is classified as permanently restricted endowment funds. Investment return on the permanently restricted endowment funds is classified as unrestricted as it is available for distribution at the discretion of OCCF. Positive Tomorrows cannot access any of the permanently restricted endowment funds held by OCCF.

(6) PROMISES TO GIVE

Unconditional promises to give at June 30 consisted of:

	<u>2018</u>	<u>2017</u>
United Way	\$ 226,300	225,050
Promises to give—other	224,498	584,326
Promises to give—capital campaign	2,012,614	326,000
Less allowance	(54,845)	(3,523)
Less discount	(95,665)	(44,275)
	<u>2,312,902</u>	<u>1,087,578</u>
Current portion:		
United Way	226,300	225,050
Promises to give—other	96,525	225,703
Promises to give—capital campaign	784,740	161,000
Total current portion	<u>1,107,565</u>	<u>611,753</u>
Long-term portion, net of allowance (1 to 5 years)	<u>\$ 1,205,337</u>	<u>475,825</u>

See Independent Auditors' Report.

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) PROMISES TO GIVE, CONTINUED

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) INVESTMENT RETURN

The following schedule summarizes investment return included in the statements of activities for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Investment distribution from OCCF	\$ 21,981	21,853
Unrealized gain in assets held by OCCF	5,027	8,023
Other investment income	<u>32,892</u>	<u>14,669</u>
Investment return	<u>\$ 59,900</u>	<u>44,545</u>

(8) 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 2018, the balance of the long-term debt was \$331,456, bearing interest at 0.25%, requiring monthly payments of \$1,709, with a maturity date of December 18, 2019.

As of June 30, 2018, scheduled principal payments of long-term debt are as follows:

Year ended June 30,

2019	\$ 19,696
2020	<u>311,760</u>
	<u>\$ 331,456</u>

(9) RESTRICTED NET ASSETS

At both June 30, 2018 and 2017, permanently restricted net assets of \$209,981, respectively, were restricted for endowment. This is an apportionment of funds held by OCCF for the benefit of Positive Tomorrows (see Note 5).

See Independent Auditors' Report.

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) RESTRICTED NET ASSETS, CONTINUED

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

	<u>2018</u>
Time and/or purpose restriction:	
Capital campaign	\$ 8,538,664
Education services in 2019	138,800
Family support services in 2019	87,500
Art and music	3,774
Bus fund	<u>64,154</u>
Total temporarily restricted net assets	<u>\$ 8,832,892</u>

	<u>2017</u>
Time and/or purpose restriction:	
Capital campaign	\$ 572,625
Education services in 2018	139,350
Family support services in 2018	90,650
Capital improvements	16,783
Bus fund	<u>13,137</u>
Total temporarily restricted net assets	<u>\$ 832,545</u>

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

	<u>2018</u>	<u>2017</u>
Time and/or purpose restriction accomplished:		
Education services	\$ 137,550	139,350
Family support services	87,500	90,650
Bus fund	75,000	-
Capital campaign	<u>98,339</u>	<u>92,121</u>
Total restrictions released	<u>\$ 398,389</u>	<u>322,121</u>

See Independent Auditors' Report.

(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.

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.

(10) **FAIR VALUE MEASUREMENTS, CONTINUED**

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

(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>2018</u>				
Financial assets:				
Investments	\$ 455,888	-	455,888	-
Long-term promises to give, net Beneficial interest in assets held by others—restricted for endowment	1,205,337	-	-	1,205,337
	<u>233,865</u>	<u>-</u>	<u>-</u>	<u>233,865</u>
	<u>\$ 1,895,090</u>	<u>-</u>	<u>455,888</u>	<u>1,439,202</u>
<u>2017</u>				
Financial assets:				
Investments	\$ 453,589	-	453,589	-
Long-term promises to give, net Beneficial interest in assets held by others—restricted for endowment	475,825	-	-	475,825
	<u>228,838</u>	<u>-</u>	<u>-</u>	<u>228,838</u>
	<u>\$ 1,158,252</u>	<u>-</u>	<u>453,589</u>	<u>704,663</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:

	<u>Long-Term Promises to Give, Net</u>	<u>Beneficial Interest in Assets Held by Others— Restricted for Endowment</u>	<u>Total</u>
<u>2018</u>			
Balance at beginning of year	\$ 475,825	228,838	704,663
Realized and unrealized changes in value	-	5,027	5,027
Pledges	5,138,125	-	5,138,125
Settlements/payments received	<u>(4,408,613)</u>	<u>-</u>	<u>(4,408,613)</u>
Balance at end of year	<u>\$ 1,205,337</u>	<u>233,865</u>	<u>1,439,202</u>
<u>2017</u>			
Balance at beginning of year	\$ 110,545	217,860	328,405
Realized and unrealized changes in value	-	10,978	10,978
Pledges	549,041	-	549,041
Settlements/payments received	<u>(183,761)</u>	<u>-</u>	<u>(183,761)</u>
Balance at end of year	<u>\$ 475,825</u>	<u>228,838</u>	<u>704,663</u>

See Independent Auditors' Report.

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(11) OPERATING LEASE

In 2018, Positive Tomorrows entered into a 5-year operating lease agreement for the lease of office equipment. Lease expense for the years ended June 30, 2018 and 2017, was \$6,291 and \$7,356, respectively. Future minimum lease payments as of June 30, 2018, are:

<u>Year Ended June 30,</u>	
2019	\$ 4,800
2020	4,800
2021	4,800
2022	4,800
2023	2,800

(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 100% up to a maximum of 3% of the employee's salary for both plans. For the 2018 and 2017 fiscal years, Positive Tomorrows contributed approximately \$23,000 and \$18,000, respectively, to the SIMPLE IRA plan, which is included in salaries and related expenses in 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 2018 and 2017, 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 from the Grant for each of the years ended June 30, 2018 and 2017, respectively. There were no items of noncompliance with the Grant noted during the audit.

(14) CONCENTRATIONS OF CREDIT RISK

Financial Institutions

As of June 30, 2018 and 2017, Positive Tomorrows had concentrations of credit risk of \$473,504 and \$3,554, respectively, in the form of bank deposits in excess of FDIC insurance limits with financial institutions.

See Independent Auditors' Report.

POSITIVE TOMORROWS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(14) CONCENTRATIONS OF CREDIT RISK, CONTINUED

Major Contributors

Positive Tomorrows received contributions from three donors totaling approximately \$2,752,000 and \$625,000 in 2018 and 2017, respectively. These contributions represented approximately 28% and 24% of total contribution revenue in 2018 and 2017, respectively. The above amounts include total contributions in 2018 and 2017 from the United Way of Oklahoma City of \$252,482 and \$231,773, respectively, which represented approximately 3% and 9%, respectively, of total contribution revenue received each year.

Promises to give totaling approximately \$1,026,300 and \$525,000 were due from three donors at June 30, 2018 and two donors at June 30, 2017, respectively. These receivables represented approximately 44% and 48% of total promises to give at June 30, 2018 and 2017, respectively. The above amounts include receivables from the United Way of Oklahoma City as of June 30, 2018 and 2017, of \$226,300 and \$225,050, respectively, which represented approximately 10% and 21%, 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 Positive Tomorrows being required 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, 2018, there were no grantor audits in progress or requests to refund monies.

Land Purchase

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. As of July 10, 2017, the purchase agreement was amended to include a total of 3.192 acres to be purchased for a total cost of \$580,430. Effective September 25, 2017, the purchase agreement was amended a second time to reflect a total of 3.4152 acres and to extend the closing date through December 31, 2017. Effective December 20, 2017, the agreement was amended a third time to reflect a total of 3.803 acres, reflect a purchase price of \$612,408, and extend the closing date through March 31, 2018. As of May 11, 2018, Positive Tomorrows closed and completed the purchase of the land for \$622,775, including closing costs.

See Independent Auditors' Report.

(15) COMMITMENTS AND CONTINGENT LIABILITIES, CONTINUED

Architect Agreement

In September 2016, Positive Tomorrows entered into an agreement with an architectural firm for the design and development of its new school building and to provide oversight assistance in the construction process. The fee for the agreement is approximately \$440,000, with the final fee calculated based on 5.5% of the total cost of construction. Positive Tomorrows has paid approximately \$430,000 to the architectural firm in relation to the agreement through June 30, 2018.

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 third-party insurance coverage for these risks.

(16) SUBSEQUENT EVENT

In September 2018, Positive Tomorrows entered into several agreements in relation to the construction of a new elementary and middle school building on the land that was purchased in May 2018, as discussed in Note 15. A new entity named Positive Tomorrows Villa Campus, Inc. ("PT Villa") was formed to serve as the project developer. Other conduit entities were also formed to facilitate the issuance of new market tax credits that were to be used to fund a portion of the construction cost. Positive Tomorrows transferred ownership of the land to PT Villa and advanced approximately \$10.2 million from its capital campaign through the conduit entities to PT Villa to fund construction of the building. Positive Tomorrows also received a loan of approximately \$2.4 million through the conduit entities, with the loan supported by the issuance of the new market tax credits. During the construction period, Positive Tomorrows will make interest-only payments on the funds it received from the conduit entities. Upon completion of the construction of the building, PT Villa will lease the land and building to Positive Tomorrows. The construction of the building is anticipated to be completed during 2019.

See Independent Auditors' Report.