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PATHPOINT

**FINANCIAL STATEMENTS,
SUPPLEMENTAL SCHEDULE,
and
ADDITIONAL INFORMATION**

JUNE 30, 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
PathPoint

We have audited the accompanying Statement of Financial Position of PathPoint (a nonprofit organization) as of June 30, 2011, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from PathPoint's June 30, 2010 financial statements and, in our report dated October 8, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PathPoint's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PathPoint as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2011, on our consideration of PathPoint's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of PathPoint taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "*Audits of States, Local Governments, and Nonprofit Organizations*," and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and, certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Harrington Group
San Marino, California
October 17, 2011

PATHPOINT

STATEMENT OF FINANCIAL POSITION

June 30, 2011

With comparative totals at June 30, 2010

	Unrestricted	Temporarily Restricted	2011	2010
Assets				
Cash	\$ 2,137,747	\$ 37,870	\$ 2,175,617	\$ 2,091,439
Cash - unemployment trust (Note 8)	54,975		54,975	34,471
Accounts and grants receivable	2,499,708	61,000	2,560,708	2,632,298
Prepaid expenses and other assets	387,554		387,554	325,190
Investments (Note 3)	1,865,826		1,865,826	1,691,445
Property and equipment (Note 5)	7,572,744		7,572,744	7,883,725
	\$ 14,518,554	\$ 98,870	\$ 14,617,424	\$ 14,658,568
Liabilities and net assets				
Liabilities				
Accounts payable	\$ 101,588	\$ -	\$ 101,588	\$ 163,057
Accrued liabilities (Note 6)	1,499,947		1,499,947	1,523,089
Accrued unemployment liability (Note 7)	150,000		150,000	150,000
Notes payable (Note 9)	4,679,562		4,679,562	4,852,403
	6,431,097	-	6,431,097	6,688,549
Net assets				
Unrestricted	8,087,457		8,087,457	7,889,791
Temporarily restricted (Note 11)		98,870	98,870	80,228
	8,087,457	98,870	8,186,327	7,970,019
Total liabilities and net assets	\$ 14,518,554	\$ 98,870	\$ 14,617,424	\$ 14,658,568

The accompanying notes are an integral part of these financial statements.

PATHPOINT

STATEMENT OF ACTIVITIES
For the year ended June 30, 2011
With comparative totals for the year ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2011</u>	<u>2010</u>
Revenue and support				
Program service fees and contracts	\$ 21,364,454	\$ -	\$ 21,364,454	\$ 21,128,083
Room, board, and supervision	651,590		651,590	670,420
In-kind contribution (Note 2)	392,096		392,096	295,332
Contributions and grants	163,332	172,250	335,582	414,018
Lease income	248,181		248,181	180,564
Other income	14,583		14,583	11,433
(Loss) gain on disposal of property and equipment	(548)		(548)	2,161
Opportunity shop			-	64,946
(Loss) on disposal of other assets			-	(31,249)
Net assets released from restrictions (Note 12)	153,608	(153,608)	-	-
Total revenue and support	<u>22,987,296</u>	<u>18,642</u>	<u>23,005,938</u>	<u>22,735,708</u>
Expenses				
Program services	20,093,568		20,093,568	19,926,473
Management and general	2,647,110		2,647,110	2,750,836
Fundraising	119,713		119,713	61,396
Total expenses	<u>22,860,391</u>	<u>-</u>	<u>22,860,391</u>	<u>22,738,705</u>
Change in net assets before gain (loss) on investments, and interest and dividends	126,905	18,642	145,547	(2,997)
Gain on investment, net of fees of \$17,992	122,591		122,591	49,932
Interest and dividends	60,099		60,099	56,140
Change in net assets after gain (loss) on investments, and interest and dividends, and before contract settlement	309,595	18,642	328,237	103,075
Contract settlement - (expense) (Note 11)	(111,929)		(111,929)	(12,995)
Change in net assets	197,666	18,642	216,308	90,080
Net assets, beginning of year	<u>7,889,791</u>	<u>80,228</u>	<u>7,970,019</u>	<u>7,879,939</u>
Net assets, end of year	<u>\$ 8,087,457</u>	<u>\$ 98,870</u>	<u>\$ 8,186,327</u>	<u>\$ 7,970,019</u>

The accompanying notes are an integral part of these financial statements.

PATHPOINT

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2011

With comparative totals for the year ended June 30, 2010

	Program Services	Management and General	Fundraising	Total Expenses	
				2011	2010
Salaries - PathPoint	\$ 11,814,367	\$ 1,709,159	\$ 87,185	\$ 13,610,711	\$ 13,132,999
Salaries - clients	832,551			832,551	1,026,672
Employee benefits - PathPoint	1,773,305	202,932	8,989	1,985,226	1,893,022
Employee benefits - clients	111,967			111,967	100,199
Payroll taxes - PathPoint	1,130,739	135,797	6,574	1,273,110	1,241,153
Payroll taxes - clients	74,778			74,778	80,590
Total personnel costs	<u>15,737,707</u>	<u>2,047,888</u>	<u>102,748</u>	<u>17,888,343</u>	<u>17,474,635</u>
Rent	1,295,996	271,520	7,372	1,574,888	1,622,682
Repair and maintenance	420,039		697	420,736	429,977
Mileage	375,149	12,727	39	387,915	392,864
Depreciation and amortization	354,711	29,092		383,803	418,042
In-kind (Note 2)	342,624			342,624	243,560
Interest	292,671		1,901	294,572	298,150
Program supplies	256,227			256,227	289,518
Utilities	221,636		1,045	222,681	212,797
Miscellaneous	37,673	159,484	487	197,644	170,549
Communication	158,670		577	159,247	178,221
Professional fees	83,318	69,178		152,496	178,600
Insurance	120,117	20,630		140,747	135,154
Training and recruitment	53,420	36,591	3,095	93,106	102,020
Food and food services	79,116			79,116	81,205
Equipment rental	56,794			56,794	59,016
Supplies	51,150			51,150	73,743
Marketing	46,075		1,022	47,097	49,678
Employee appreciation	42,552			42,552	31,320
Dues and subscriptions	34,011		475	34,486	20,583
Licenses and tax	22,537		255	22,792	26,319
Postage	11,250			11,250	5,970
Bad debt	125			125	13,282
Subcontractor payments				-	142,602
Cost of sales				-	88,218
Total 2011 functional expenses	<u>\$ 20,093,568</u>	<u>\$ 2,647,110</u>	<u>\$ 119,713</u>	<u>\$ 22,860,391</u>	
Total 2010 functional expenses	<u>\$ 19,926,473</u>	<u>\$ 2,750,836</u>	<u>\$ 61,396</u>		<u>\$ 22,738,705</u>

The accompanying notes are an integral part of these financial statements.

PATHPOINT

STATEMENT OF CASH FLOWS

For the year ended June 30, 2011

With comparative totals for the year ended June 30, 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 216,308	\$ 90,080
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	383,803	418,042
Loss (gain) on disposal of property and equipment	548	(2,161)
(Gain) on investments	(122,591)	(49,932)
Reinvested interest and dividends	(51,790)	(49,855)
Changes in operating assets and liabilities		
(Increase) decrease in unemployment trust	(20,504)	16,430
Decrease in accounts receivable	71,590	189,032
(Increase) in prepaid expenses and other assets	(62,364)	(10,298)
Decrease in inventory	-	80,160
(Decrease) increase in accounts payable	(61,469)	16,945
(Decrease) in accrued liabilities	(23,142)	(7,373)
(Decrease) in accrued unemployment liability	-	80,650
Net cash provided by operating activities	330,389	771,720
Cash flows from investing activities:		
Purchase of property and equipment	(73,690)	(108,683)
Proceeds from disposal of property and equipment	320	4,110
Net cash (used) by investing activities	(73,370)	(104,573)
Cash flows from financing activities:		
New borrowings from notes payable	1,042,000	-
Principal payments on notes payable	(1,214,841)	(127,988)
Net cash (used) by financing activities	(172,841)	(127,988)
Net increase in cash	84,178	539,159
Cash, beginning of year	2,091,439	1,552,280
Cash, end of year	\$ 2,175,617	\$ 2,091,439
Supplemental disclosure		
Operating activities reflect interest paid of:	\$ 294,572	\$ 298,150

The accompanying notes are an integral part of these financial statements.

PATHPOINT

NOTES TO FINANCIAL STATEMENTS

1. Organization

Established in 1964, PathPoint (formerly known as Work Training Programs, Inc.) is a 501(c)(3) non profit organization dedicated to helping people with disabilities or disadvantages to reach their fullest potential. PathPoint is a preeminent human services provider, nationally recognized and accredited, and a leader in the field of supported employment and independent living services. The mission of PathPoint is “to provide comprehensive training and support services that empower people with disabilities or disadvantages to live and work as valued members of our communities.” PathPoint accomplishes its mission by providing the following types of programs/services:

Employment Services – PathPoint offers a wide variety of employment services to help individuals overcome barriers to employment, quickly place them on jobs, and provide them with the training and support they need to keep their jobs. Services include service coordination, external situational assessment, personal and social adjustment, job development and placement, supported employment, work adjustment, and computer skills training.

Employer Services – PathPoint offers a select line of unique options to help manage employer staffing needs. Because PathPoint works with people with disabilities or who are disadvantaged, PathPoint has found several “sure” methods for assuring staff placements that deliver high quality and retention. A PathPoint job coach may be available at no cost, which means that helping the client-employee learn his/her job would be the responsibility of PathPoint’s job coach. PathPoint staffs all layers of the employment spectrum, from small independently owned businesses, to mid-sized companies, and to Fortune 500 corporations that boast a high retention rate.

Day Programs – PathPoint’s day programs provide vocational training, consumer work readiness, and community access skills. Clients receive part-time paid vocational training at a variety of community employment sites. The other portion of the client’s day is dedicated to community services and social-survival skills: banking, budgeting, public transportation, safety, and recreational planning. PathPoint’s Senior Day Services Program provides recreational and leisure-based services that support individual needs and friendships for the mature individual.

Assisted Living Programs – PathPoint offers several programs to assist people with developmental disabilities who wish to live in their communities as independently as possible. PathPoint’s instructors teach residents independent living skills and household responsibilities such as cooking, cleaning, shopping, and personal care. Residents participate in classes designed to teach community mobility and safety, personal effectiveness, social skills, social sexual education, health and nutrition, recreation planning, budgeting, and banking.

Mental Health Services – Mental health services were born out of a need, over thirty years ago, to find a place for the mentally ill in our community. PathPoint started with a triplex and twelve clients on the westside of Santa Barbara. From that small beginning, PathPoint’s services have grown into a countywide support system. PathPoint helps hundreds of individuals with mental illness find and keep jobs and housing in their community. In addition, rehabilitation services are also provided in Ventura County.

PATHPOINT

NOTES TO FINANCIAL STATEMENTS

1. **Organization**, continued

PathPoint's programs and services are funded by: fundraisers, private charitable donations, county, state, and federal government agencies, and grants from foundations and corporations.

2. **Summary of Significant Accounting Policies**

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of PathPoint are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted. These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Temporarily Restricted. PathPoint reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit PathPoint to expend all of the income (or other economic benefits) derived from the donated assets. PathPoint has no permanently restricted net assets at June 30, 2011.

PATHPOINT

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Accounts Receivable

PathPoint utilizes the direct write-off method with respect to its accounts receivable.

Contributions and Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as net realizable value. Unconditional promises to give that are expected to be collected in future years are measured on a nonrecurring basis at the date of the pledge and recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Investments

Investments in money market funds and marketable securities are reported at their fair market values based upon published quotations. Investments for which the fair market values are not readily determinable are recorded at cost or, if received as a contribution, at their market values as determined at the time of the gift. Securities are generally held in custodial investment accounts administered by financial institutions. Money market funds held at securities institutions and not used for operations are included in investments.

Investment purchases and sales are accounted for on a trade-date basis. Realized gains and losses are calculated based upon the underlying cost of the securities traded. Interest and dividend income are recorded when earned.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

PathPoint is required to measure investments and in-kind contributions at fair value. The specific techniques used to measure the fair value for each element is described in the notes below that relate to each element.

continued

2. Summary of Significant Accounting Policies, continued**Property and Equipment**

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to two thousand dollars and the useful life is greater than three years.

Concentration of Credit Risks

PathPoint places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. PathPoint has not incurred losses related to these investments.

The primary receivable balance outstanding at June 30, 2011 consists of government contract receivables due from county, state, and federal granting agencies. Concentration of credit risks with respect to trade receivables are limited, as the majority of PathPoint's receivables consist of earned fees from contract programs granted by governmental agencies.

PathPoint holds investments in the form of short-term money market investments, taxable fixed income, and equities. PathPoint's decisions on its investment portfolio are governed by its investment policy and the performance is periodically reviewed by management. The investment policy is reviewed periodically and approved by the Board of Directors.

Donated Materials and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received.

For the year ended June 30, 2011, PathPoint received donated services from the hosting agencies that operate Senior Community Service Employment Programs in the amount of \$342,624. This amount is included in in-kind contributions in the Statement of Activities and in-kind expenses in the Statement of Functional Expenses for the year ended June 30, 2011. Other donated materials and services in the amount of \$49,472 are also included in in-kind contributions in the Statement of Activities and included in various expense line items in the Statement of Functional Expenses according to the nature of items. Valuation techniques used to measure the fair market value of donated services and materials are summarized in Note 4.

PATHPOINT

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Income Taxes

PathPoint is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by PathPoint in their federal and state exempt organization tax returns are more likely than not to be sustained upon examination. PathPoint's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Functional Allocation of Expenses

Costs of providing PathPoint's programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services based on direct expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with PathPoint's financial statements for the year ended June 30, 2010 from which the summarized information was derived.

Reclassifications

For comparability, certain June 30, 2010 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used at June 30, 2011.

continued

PATHPOINT

NOTES TO FINANCIAL STATEMENTS

3. Investments

Investments at June 30, 2011 consist of the following:

	<u>Fair Value</u>
Fixed income	\$1,030,987
Equities	571,374
Cash and equivalents	<u>263,465</u>
	<u>\$1,865,826</u>

4. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2011 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Fixed income	\$ -	\$1,030,987	\$1,030,987
Equities	<u>571,374</u>	<u> </u>	<u>571,374</u>
	<u>\$571,374</u>	<u>\$1,030,987</u>	<u>\$1,602,361</u>

The fair value of equities has been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

The fair value of fixed income securities has been measured on a recurring basis using quoted prices for similar assets in inactive markets (Level 2 inputs).

PathPoint has received significant contributions of professional services and materials during the fiscal year. The fair value of contributed services and materials of \$392,096 has been measured on a non-recurring basis using quoted prices for similar assets in inactive markets (Level 2 inputs).

5. Property and Equipment

Property and equipment at June 30, 2011 consist of the following:

Land	\$ 1,450,946
Buildings	7,110,353
Vehicles	1,112,215
Furniture and equipment	735,752
Facility improvements	<u>231,161</u>
	10,640,427
Less: accumulated depreciation	<u>(3,067,683)</u>
	<u>\$ 7,572,744</u>

continued

PATHPOINT

NOTES TO FINANCIAL STATEMENTS

5. **Property and Equipment**, continued

Current year property and equipment activity consists of the following:

Purchases	\$ 73,690
Net book value of disposed property and equipment	(869)
Depreciation	<u>(383,275)</u>
Net change in value of property and equipment	<u><u>\$ (310,454)</u></u>

6. **Accrued Liabilities**

Accrued liabilities at June 30, 2011 consist of the following:

Accrued salaries	\$ 632,932
Accrued vacation	558,376
Other accrued liabilities	<u>308,639</u>
	<u><u>\$1,499,947</u></u>

7. **Accrued Unemployment Liability**

PathPoint has elected to be self-insured for the purposes of California State Unemployment Insurance. Accrued unemployment liability at June 30, 2011, of \$150,000, represents estimated future claims arising from payroll paid to June 30, 2011. Unemployment expense for the year ended June 30, 2011 was \$254,902. PathPoint utilizes the services of an unemployment trust to handle its claims. The cash amount of \$54,975, held by the trust as a reserve for future claims, is reflected as a separate cash line item in the Statement of Financial Position. Quarterly cash contributions to the trust, in the subsequent period, were increased to replenish the funds that are to be available for future claims.

8. **Line of Credit**

PathPoint has a \$500,000 secured line of credit, with a bank, with variable interest at 6%, due on July 2012. There was no outstanding balance as of June 30, 2011.

continued

PATHPOINT

NOTES TO FINANCIAL STATEMENTS

9. Notes Payable

Notes payable at June 30, 2011 consist of the following:

Note payable to a bank, secured by real property, monthly payments of \$13,300, including variable interest currently at 6.750%, due September 2017.	\$1,798,819
Note payable to a bank, secured by real property, monthly payments of \$6,138, including variable interest currently at 5.50%, due August 2018.	1,042,000
Note payable to a bank, secured by real property, monthly payments of \$6,736, including variable interest currently at 6.750%, due November 2017.	914,286
Note payable to a bank, secured by real property, monthly payments of \$5,394, including variable interest currently at 5.500%, due November 2035.	868,666
Note payable to a city, secured by real property, monthly payments of \$638, including interest at 3.000%, due December 2019.	<u>55,791</u>
	<u>\$4,679,562</u>

Maturities for notes payable are as follows:

<u>Year ended June 30,</u>	
2012	\$ 95,021
2013	105,244
2014	111,854
2015	117,235
2016	124,633
Thereafter	<u>4,125,575</u>
	<u>\$4,679,562</u>

continued

PATHPOINT

NOTES TO FINANCIAL STATEMENTS

10. Commitments and Contingencies

Obligations Under Operating Leases

PathPoint leases various facilities under operating leases with various terms. Future minimum payments, which does not include payments on year-to-year leases, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

<u>Year ended June 30,</u>	
2012	\$ 889,241
2013	460,970
2014	126,098
2015	93,536
2016	<u>29,272</u>
	<u>\$1,599,117</u>

Rent expense under operating leases, which includes year-to-year leases, for the year ended June 30, 2011 was \$1,574,888.

The above maturities reflect rental agreements in effect as of June 30, 2011. PathPoint continually renegotiates its lease agreements; therefore, future maturity amounts may change.

Contracts

PathPoint's grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously-funded program costs. PathPoint records known prior year settlements (disallowances and additional funding) as "contract settlements" in its general ledger. The amount of \$111,929 shown on the Statement of Activities represents known prior year unfunded contract amounts. Liabilities, if any, which may result from any other governmental audits or disallowances cannot be reasonably estimated and, accordingly, PathPoint has no provisions for the possible disallowance of any program costs on its financial statements.

PATHPOINT

NOTES TO FINANCIAL STATEMENTS

11. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2011 consist of the following:

Acquisition of capital assets	\$61,000
El Carrillo Substance Abuse Specialist	29,970
Others	<u>7,900</u>
	<u>\$98,870</u>

For the year ended June 30, 2011, net assets released from restrictions were \$153,608, which consist of \$115,608 released for program restrictions and \$38,000 for acquisition of capital assets.

12. Employee Benefit Plan

PathPoint has a 403(b) plan available to all employees who have completed two years of service and who work twenty hours or more per week, as defined. Employees may contribute any whole percentage of annual compensation provided that it does not exceed maximum amounts as permitted by law. PathPoint made matching contributions from 1.5% up to the first 6% of the employee contributions based on years of service. Employer contributions under this plan for the year ended June 30, 2011 were \$178,686. PathPoint also has a deferred compensation plan under Section 457 of the Internal Revenue Code for highly compensated employees.

13. United Way

In September 2009, the Northern Santa Barbara United Way agreed to partner with and allow PathPoint to run its Gifts In-Kind Distribution Center for the purpose of receiving and distributing product from community businesses, organizations and individuals. United Way pays a \$600 monthly stipend to PathPoint to help underwrite the costs of running the program. United Way also donated the entire proceeds from sale of goods in the In-Kind Store to PathPoint. For the year ended June 30, 2011, the donated sales proceeds were \$23,330.

14. Subsequent Events

In August 2011, PathPoint purchased a second parcel of the lot at 315 West Haley Street, Santa Barbara, California for a total consideration of \$621,921. No adjustments related to this transaction have been made to the financial statements for the year ended June 30, 2011.

SUPPLEMENTAL SCHEDULE

PATHPOINT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2011

Program Name Federal Award	Contract Number	Federal CFDA Number	Contract Term	Program Award	Program Expenditures
U.S. Department of Labor ("DOL"):					
Pass-through, Senior Service America, Inc.:					
Senior Community Service Employment Program (CAA) (a) (b)	278	17.235	07/01/10 - 06/30/11	\$ 1,134,090	\$ 1,031,797
Senior Community Service Employment Program (a)	278	17.235	02/01/10 - 06/30/11	1,083,575	1,138,733
Senior Community Service Employment Program - Digital Inclusion ARRA (a)	278	17.235	07/01/10 - 06/30/11	<u>60,001</u>	<u>61,042</u>
Sub-total pass-through, Senior Service America, Inc.				<u>2,277,666</u>	<u>2,231,572</u>
Pass-through, County of Ventura Human Services Agency:					
Workforce Investment Act Youth Activities	W916	17.259	07/01/10 - 06/30/11	624,813	596,374
Workforce Investment Act Youth Activities	6018	17.259	04/01/09 - 06/30/10	<u>99,900</u>	<u>-</u>
Sub-total pass-through, County of Ventura Human Service Agency				<u>724,713</u>	<u>596,374</u>
Total DOL				<u>3,002,379</u>	<u>2,827,946</u>
U.S. Department of Education ("ED"):					
Pass-through, State of California Department of Rehabilitation					
Vocational Rehabilitation Grants to States (a)	27411	84.126	07/01/10 - 06/30/11	134,340	68,447
Vocational Rehabilitation Grants to States (a)	26833	84.126	07/01/10 - 06/30/11	91,500	78,325
Vocational Rehabilitation Grants to States	27796	84.169	07/01/10 - 06/30/11	10,000	9,533
Vocational Rehabilitation Grants to States ARRA (a)	27618A	84.390	03/01/10 - 09/30/11	494,979	361,207
Vocational Rehabilitation Grants to States ARRA (a)	27545A	84.390	09/01/09 - 09/30/10	<u>21,188</u>	<u>3,692</u>
Sub-total pass-through, State of California Department of Rehabilitation				<u>752,007</u>	<u>521,204</u>
Total ED				<u>752,007</u>	<u>521,204</u>
U.S. Department of Health and Human Services ("DHHS"):					
Pass-through, Community Action Commission of Santa Barbara County					
Community Services Block Grant ARRA	09F-5143-11	93.710	07/01/09 - 09/30/10	<u>50,000</u>	<u>16,115</u>
Sub-total pass-through, Coomunity Action Commission of Santa Barbara				<u>50,000</u>	<u>16,115</u>
Pass-through, County of Ventura Human Services Agency:					
Emergency Contingency Fund for Temporary Assistance for Needy Families ("TANF") State Program ARRA		93.714	07/01/10 - 11/30/10	<u>207,000</u>	<u>76,399</u>
Sub-total pass-through, County of Ventura Human Services Agency				<u>207,000</u>	<u>76,399</u>
Total DHHS				<u>257,000</u>	<u>92,514</u>
Total Federal Awards				<u>\$ 4,011,386</u>	<u>\$ 3,441,664</u>

(a) Audited as a major program

(b) Included in \$1,138,733 program expenditure was \$39,659 additional billings related to prior year contract approved to be claimed in the year ended June 30, 2011.

Summary of Significant Accounting Policies

- 1) Basis of Accounting - The Schedule of Expenditures of Federal Awards has been reported on the accrual basis of accounting.
- 2) PathPoint is exempt from income taxation under Internal Revenue Code Section 501(c)(3) and California Revenue Taxation Code Section 23701d.

See independent auditors' report.

ADDITIONAL INFORMATION



J. Joseph Harrington
Emeritus

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Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
PathPoint

We have audited the financial statements of PathPoint as of and for the year ended June 30, 2011, and have issued our report thereon dated October 17, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PathPoint's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PathPoint's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PathPoint's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of PathPoint's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PathPoint's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within PathPoint, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Harrington Group

San Marino, California
October 17, 2011



J. Joseph Harrington
Emeritus

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Job M. Quesada
Sean E. Cain
Tonetta L. Conner

**Independent Auditors' Report on Compliance With Requirements
That Could Have a Direct and Material Effect on Each Major Program and on
Internal Control Over Compliance in Accordance With OMB Circular A-133**

To the Board of Directors
PathPoint

Compliance

We have audited the compliance of PathPoint with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. PathPoint's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of PathPoint's management. Our responsibility is to express an opinion on PathPoint's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about PathPoint's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of PathPoint's compliance with those requirements.

In our opinion, PathPoint complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of PathPoint is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered PathPoint's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of PathPoint's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

**Independent Auditors' Report on Compliance With Requirements
That Could Have a Direct and Material Effect on Each Major Program and on
Internal Control Over Compliance in Accordance With OMB Circular A-133**
continued

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within PathPoint, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Harrington Group

San Marino, California

October 17, 2011

PATHPOINT
Schedule of Findings and Questioned Costs
For the year ended June 30, 2011

Section I – Summary of Auditors’ Results

Financial Statements:

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified that are not considered to be material weaknesses? No

Noncompliance material to financial statements noted? No

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified that are not considered to be material weaknesses? No

Type of auditors’ report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes

Identification of Major Programs:

U.S. Department of Labor:

Pass-through, Senior Service America, Inc.:

Senior Community Service Employment Program 17.235

Senior Community Service Employment Program (CAA) 17.235

Senior Community Service Employment Program (Digital Inclusion ARRA) 17.235

U.S. Department of Education:

Pass through, State of California Department of Rehabilitation:

Vocational Rehabilitation Grants to States 84.126

Vocational Rehabilitation Grants to States (ARRA) 84.390

Section II – Financial Statements Findings

There are no findings required to be reported in accordance with *Generally Accepted Government Auditing Standards*.

Section III – Federal Award Findings and Questioned Costs

There are neither findings nor questioned costs for Federal awards as defined in OMB Circular A-133.

Section IV – Summary Schedule of Prior Year Findings

None.