



Certified Public Accountants, LLP

PATHPOINT

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

JUNE 30, 2016

PASADENA
234 E Colorado Blvd
Suite M150
Pasadena, CA 91101
Tel: 626.403.6801
Fax: 626.403.6866

A Trusted Nonprofit Partner
Experience. Service. Respect.
www.npocpas.com

SAN FRANCISCO
50 Francisco St
Suite 160
San Francisco, CA 94133
Tel: 415.391.3131
Fax: 415.391.3233

CONTENTS

Independent Auditors' Report	1-2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-16
Supplemental Schedule:	
Schedule of Expenditures of Federal Awards	17
Additional Information:	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	18
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	19-20
Schedule of Findings and Questioned Costs	21

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
PathPoint

Report on the Financial Statements

We have audited the accompanying financial statements of PathPoint (a nonprofit organization), which comprise the Statement of Financial Position as of June 30, 2016, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year 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 of America; 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 audit. 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 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 auditor considers 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.

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, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

continued

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for the purpose of additional analysis and is not a required part of the 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 financial statements as a whole.

Summarized Comparative Information

We have previously audited PathPoint's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 13, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2016 on our consideration of PathPoint's internal control over financial reporting and on 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 control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PathPoint's internal control over financial reporting and compliance.

Harrington Group

Pasadena, California
October 11, 2016

PATHPOINT

STATEMENT OF FINANCIAL POSITION

June 30, 2016

With comparative totals at June 30, 2015

	Unrestricted	Temporarily Restricted	2016	2015
ASSETS				
Cash	\$ 1,727,563	\$ 163,582	\$ 1,891,145	\$ 2,838,949
Cash - unemployment trust (Note 7)	30,724		30,724	30,118
Accounts and grants receivable	2,330,246	140,000	2,470,246	2,313,113
Prepaid expenses and other assets	538,178		538,178	431,348
Investments (Note 3)	2,228,945		2,228,945	2,222,164
Property and equipment (Note 5)	14,781,003		14,781,003	11,461,373
	<u>21,636,659</u>	<u>303,582</u>	<u>21,940,241</u>	<u>19,297,065</u>
TOTAL ASSETS	\$ 21,636,659	\$ 303,582	\$ 21,940,241	\$ 19,297,065
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 148,792	\$ -	\$ 148,792	\$ 66,942
Accrued liabilities (Note 6)	1,694,660		1,694,660	2,171,350
Accrued unemployment liability (Note 7)	174,152		174,152	180,118
Line of credit (Note 8)	350,000		350,000	-
Notes payable (Note 9)	9,154,702		9,154,702	6,991,597
Capital lease obligation			-	4,770
	<u>11,522,306</u>	<u>-</u>	<u>11,522,306</u>	<u>9,414,777</u>
TOTAL LIABILITIES	11,522,306	-	11,522,306	9,414,777
NET ASSETS				
Unrestricted	10,114,353		10,114,353	9,755,022
Temporarily restricted (Note 11)		303,582	303,582	127,266
	<u>10,114,353</u>	<u>303,582</u>	<u>10,417,935</u>	<u>9,882,288</u>
TOTAL NET ASSETS	10,114,353	303,582	10,417,935	9,882,288
TOTAL LIABILITIES AND NET ASSETS	\$ 21,636,659	\$ 303,582	\$ 21,940,241	\$ 19,297,065

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

PATHPOINT

STATEMENT OF ACTIVITIES

For the year ended June 30, 2016

With comparative totals for the year ended June 30, 2015

	Unrestricted	Temporarily Restricted	2016	2015
REVENUE AND SUPPORT				
Program service fees and contracts	\$ 21,191,025	\$ -	\$ 21,191,025	\$ 20,315,705
Room, board, and supervision	638,806		638,806	606,189
Contributions and grants	248,247	342,000	590,247	444,325
In-kind contribution (Note 2)	337,635		337,635	307,261
Lease income	83,177		83,177	140,429
Gain on disposal of property and equipment	12,759		12,759	4,121
Other income/(loss)	9,340		9,340	(7,750)
Net assets released from restrictions	165,684	(165,684)	-	-
TOTAL REVENUE AND SUPPORT	22,686,673	176,316	22,862,989	21,810,280
EXPENSES				
Program services	19,190,441		19,190,441	18,521,948
Management and general	2,989,610		2,989,610	2,734,757
Fundraising	136,125		136,125	200,197
TOTAL EXPENSES	22,316,176	-	22,316,176	21,456,902
CHANGE IN NET ASSETS BEFORE LOSS ON INVESTMENTS, AND INTEREST AND DIVIDENDS				
	370,497	176,316	546,813	353,378
(Loss) on investments	(55,412)		(55,412)	(48,475)
Interest and dividends	77,601		77,601	59,485
CHANGE IN NET ASSETS AFTER LOSS ON INVESTMENTS, INTEREST AND DIVIDENDS, AND BEFORE CONTRACT SETTLEMENT				
	392,686	176,316	569,002	364,388
Contract settlement - (expense) (Note 10)	(33,355)		(33,355)	(28,127)
CHANGE IN NET ASSETS	359,331	176,316	535,647	336,261
NET ASSETS, BEGINNING OF YEAR	9,755,022	127,266	9,882,288	9,546,027
NET ASSETS, END OF YEAR	\$ 10,114,353	\$ 303,582	\$ 10,417,935	\$ 9,882,288

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

PATHPOINT

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2016

With comparative totals for the year ended June 30, 2015

	<u>Program</u>	<u>Management</u>		<u>Total Expenses</u>	
	<u>Services</u>	<u>and General</u>		<u>Fundraising</u>	<u>2016</u>
Salaries - PathPoint	\$ 10,253,944	\$ 1,954,380	\$ 98,496	\$ 12,306,820	\$ 11,631,349
Salaries - clients	1,085,439			1,085,439	1,099,909
Employee benefits - PathPoint	2,054,918	297,870	10,337	2,363,125	2,599,088
Employee benefits - clients	300,511			300,511	302,173
Payroll taxes - PathPoint	845,552	146,198	6,929	998,679	802,601
Payroll taxes - clients	87,882			87,882	88,751
Total personnel costs	<u>14,628,246</u>	<u>2,398,448</u>	<u>115,762</u>	<u>17,142,456</u>	<u>16,523,871</u>
Rent	1,136,022	213,126	493	1,349,641	1,406,302
Depreciation and amortization	480,449	25,311		505,760	455,390
Repair and maintenance	443,493		7,753	451,246	401,278
Interest	410,165			410,165	327,067
Program supplies	364,443			364,443	325,286
Insurance	236,724	64,350	198	301,272	258,409
Professional fees	211,685	57,919		269,604	305,679
Mileage	241,991	14,744	126	256,861	251,488
Utilities	252,369		837	253,206	226,921
In-kind (Note 2)	240,500			240,500	176,991
Miscellaneous	19,940	167,879	460	188,279	140,198
Training and travel	95,018	47,833	36	142,887	127,905
Communication	141,340		816	142,156	123,312
Food and food services	103,843			103,843	119,491
Printing and publications	40,048		9,644	49,692	118,704
Licenses and tax	28,609			28,609	20,965
Employee appreciation	27,896			27,896	28,299
Equipment rental	26,521			26,521	45,811
Supplies	24,848			24,848	44,595
Dues and subscriptions	19,191			19,191	18,710
Postage	9,247			9,247	9,627
Bad debt	7,853			7,853	603
TOTAL 2016 FUNCTIONAL EXPENSES	<u>\$ 19,190,441</u>	<u>\$ 2,989,610</u>	<u>\$ 136,125</u>	<u>\$ 22,316,176</u>	
TOTAL 2015 FUNCTIONAL EXPENSES	<u>\$ 18,521,948</u>	<u>\$ 2,734,757</u>	<u>\$ 200,197</u>		<u>\$ 21,456,902</u>

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

PATHPOINT

STATEMENT OF CASH FLOWS
For the year ended June 30, 2016
With comparative totals for the year ended June 30, 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 535,647	\$ 336,261
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	505,760	455,390
(Gain) on disposal of property and equipment	(12,759)	(4,121)
Loss on investments	55,412	48,475
Reinvested interest and dividends, net	(62,193)	(52,153)
(Increase) decrease in operating assets:		
Unemployment trust asset	(606)	9,375
Accounts receivable	(157,133)	(238,846)
Prepaid expenses and other assets	(106,830)	(60,447)
Increase (decrease) in operating liabilities:		
Accounts payable	81,850	(78,203)
Accrued liabilities	(476,690)	450,208
Accrued unemployment liability	(5,966)	(87,926)
	356,492	778,013
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,369,154)	(375,224)
Proceeds from disposal of property and equipment	12,773	4,500
	(1,356,381)	(370,724)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligations	(4,770)	(7,729)
Principal payments on notes payable	(293,145)	(1,598,935)
New borrowings on line of credit	350,000	-
New borrowings from notes payable	-	1,326,000
	52,085	(280,664)
NET (DECREASE) INCREASE IN CASH	(947,804)	126,625
CASH, BEGINNING OF YEAR	2,838,949	2,712,324
CASH, END OF YEAR	\$ 1,891,145	\$ 2,838,949
SUPPLEMENTAL DISCLOSURE:		
Operating activities reflect interest paid of:	\$ 410,165	\$ 327,067
Investing and financing activity:		
Purchase of property with a note payable	\$ 2,456,250	\$ -

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) nonprofit 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.

Behavioral Health Services – Behavioral 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, 2016.

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 non-recurring 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, fixed income, and equity mutual funds 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 these financial statement elements are described in the notes below that relate to each element.

PATHPOINT

NOTES TO FINANCIAL STATEMENTS

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, 2016 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 equity mutual funds. 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.

Approximately 93% of PathPoint's total revenue was generated from program fees and contracts.

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, 2016, PathPoint received donated services from the hosting agencies that operate Senior Community Service Employment Programs and Youth Network Services in the amount of \$240,500. 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, 2016. Other donated materials and services in the amount of \$97,135 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 (see Note 4).

continued

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 its 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, 2015 from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through October 11, 2016, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

PATHPOINT

NOTES TO FINANCIAL STATEMENTS

3. Investments

Investments at June 30, 2016 consist of the following:

	<u>Fair Value</u>
Cash and cash equivalents	\$ 62,542
Fixed income:	
Corporate bonds	651,205
Equities:	
Equity mutual funds	1,417,218
Other	<u>97,980</u>
	<u>\$2,228,945</u>

4. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2016 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Equity mutual funds:			
Blend	\$1,036,972	\$ -	\$1,036,972
Growth	132,899		132,899
Value	216,745		216,745
Real estate	97,980		97,980
Commodities	30,602		30,602
Fixed income:			
Corporate bonds	<u>651,205</u>	<u>651,205</u>	<u>651,205</u>
	<u>\$1,515,198</u>	<u>\$651,205</u>	<u>\$2,166,403</u>

The fair values of equity mutual funds have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

The fair value of fixed income corporate bonds have 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 \$337,635 has been measured on a non-recurring basis using quoted prices for similar assets in inactive markets (Level 2 inputs).

continued

PATHPOINT

NOTES TO FINANCIAL STATEMENTS

5. Property and Equipment

Property and equipment at June 30, 2016 consist of the following:

Land	\$ 4,273,059
Buildings	12,453,775
Vehicles	1,432,143
Furniture and equipment	812,958
Facility improvements	<u>107,962</u>
	19,079,897
Less: accumulated depreciation	<u>(4,298,894)</u>
	<u>\$14,781,003</u>

Depreciation expense for the year ended June 30, 2016 was \$505,760.

6. Accrued Liabilities

Accrued liabilities at June 30, 2016 consist of the following:

Accrued salaries	\$ 656,340
Accrued vacation	559,352
Employee benefits payable	453,433
Other accrued liabilities	<u>25,535</u>
	<u>\$1,694,660</u>

7. Accrued Unemployment Liability

PathPoint has elected to be self-insured through Nonprofit Unemployment Fund. Accrued unemployment liability at June 30, 2016, of \$174,152, represents estimated future claims arising from payroll paid to June 30, 2016. Unemployment expense for the year ended June 30, 2016 was \$125,263. PathPoint utilizes the services of an unemployment trust to handle its claims. The cash balance of \$30,724 is held by the trust as a reserve for future claims and is reflected as a separate cash line item in the Statement of Financial Position.

8. Line of Credit

PathPoint has a \$500,000 unsecured line of credit, with a bank, with variable interest based on “prime rate”, currently 3.25%, due on November 20, 2016. At June 30, 2016, there was no balance outstanding.

PathPoint also has a Securities Based line of credit with a bank, in the amount of \$1,400,000. The line of credit is secured by PathPoint’s investment portfolio, bears interest rate of .5% less than the Reference Rate. At June 30, 2016, the outstanding Securities Based line of credit balance was \$350,000.

continued

PATHPOINT

NOTES TO FINANCIAL STATEMENTS

9. Notes Payable

Notes payable at June 30, 2016 consist of the following:

Note payable to a corporation, secured by real property, monthly payments of \$13,444, including fixed interest currently at 4.35%, due August 2025.	\$2,410,098
Note payable to a corporation, secured by real property, monthly payments of \$13,162, including variable interest currently at 3.75%, due November 2019.	2,328,721
Note payable to a bank, secured by real property, monthly payments of \$7,370, including variable interest currently at 4.50%, due July 2025.	1,299,126
Note payable to a bank, secured by real property, monthly payments of \$7,648, including variable interest currently at 5.50%, due August 2018.	1,112,376
Note payable to a bank, secured by real property, monthly payments of \$6,138, including variable interest currently at 5.50%, due July 2018.	860,633
Note payable to a bank, secured by real property, monthly payments of \$5,394, including variable interest currently at 5.50%, due November 2035.	768,175
Note payable to a bank, secured by real property, monthly payments of \$3,695, including variable interest currently at 5.00%, due August 2016.	351,996
Note payable to a city, secured by real property, monthly payments of \$638, including interest at 3.00%, due December 2019.	<u>23,577</u>
	<u>\$9,154,702</u>

Maturities for notes payable are as follows:

<u>Year ended June 30,</u>	
2017	\$ 646,451
2018	308,045
2019	1,980,361
2020	214,098
2021	220,997
Thereafter	<u>5,784,750</u>
	<u>\$9,154,702</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>	
2017	\$ 714,348
2018	244,136
2019	46,848
2020	36,968
2021	<u>36,968</u>
	<u>\$1,079,268</u>

Rent expense under operating leases, which includes year-to-year leases, for the year ended June 30, 2016 was \$1,347,674.

The above maturities reflect rental agreements in effect as of June 30, 2016. 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 \$33,355 shown on the Statement of Activities represents known prior-year unfunded contract amounts which were required to be paid in the current fiscal year. 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, 2016 consist of the following:

Behavioral Health program	\$243,289
Community Placement program – North Santa Barbara	40,293
Employment service program	10,000
Project Search - San Luis Obispo	<u>10,000</u>
	<u>\$303,582</u>

For the year ended June 30, 2016, net assets released from restrictions were \$165,684, which were for program restrictions.

12. Employee Benefit Plans

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.

PathPoint also has a deferred compensation plan under Section 457 of the Internal Revenue Code for highly compensated employees.

Employer contributions under these plans for the year ended June 30, 2016 were \$282,112.

13. Related Party Transaction

PathPoint secured its general insurance from a corporation where a Board member is an agent. The Board member received \$20,273 in commissions from the insurance agency for facilitating the transactions.

SUPPLEMENTAL SCHEDULE

PATHPOINT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2016

<u>Program Name</u>	<u>Contract Number</u>	<u>Federal CFDA Number</u>	<u>Contract Term</u>	<u>Program Award</u>	<u>Program Expenditures</u>
Federal Award					
U.S. Department of Labor ("DOL"):					
Pass-through, Senior Service America, Inc.:					
Senior Community Service Employment Program (a)	278	17.235	07/01/15 - 06/30/16	\$ 821,740	\$ 821,740
Senior Community Service Employment Program (a) (b)	278	17.235	07/01/14 - 06/30/15	<u>103,779</u>	<u>103,779</u>
Sub-total pass-through, Senior Service America, Inc.				<u>925,519</u>	<u>925,519</u>
Pass-through, County of Ventura Human Services Agency:					
Network Services for Youth	PD2300-2951	17.259	07/01/15 - 06/30/16	<u>511,000</u>	<u>497,814</u>
Sub-total pass-through, County of Ventura Human Services Agency				<u>511,000</u>	<u>497,814</u>
Total DOL				<u>1,436,519</u>	<u>1,423,333</u>
U.S. Department of Education ("ED"):					
Pass-through, State of California Department of Rehabilitation:					
Vocational Rehabilitation Grants to States	28807	84.126	07/01/15 - 06/30/16	<u>91,500</u>	<u>59,082</u>
Sub-total pass-through, State of California Department of Rehabilitation				<u>91,500</u>	<u>59,082</u>
Total ED				<u>91,500</u>	<u>59,082</u>
Total Federal Awards				<u>\$ 1,528,019</u>	<u>\$ 1,482,415</u>

(a) Audited as a major program

(b) Additional contract funds made available in the 2015-16 fiscal year

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



Certified Public Accountants, LLP

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

To the Board of Directors
PathPoint

We have audited, in accordance with the 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, the financial statements of PathPoint, which comprise the Statement of Financial Position as of June 30, 2016, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 11, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PathPoint's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of PathPoint's internal control.

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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PathPoint's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harrington Group

Pasadena, California
October 11, 2016

PASADENA
234 E Colorado Blvd
Suite M150
Pasadena, CA 91101
Tel: 626.403.6801
Fax: 626.403.6866

A Trusted Nonprofit Partner
Experience. Service. Respect.
www.npocpas.com

SAN FRANCISCO
50 Francisco St
Suite 160
San Francisco, CA 94133
Tel: 415.391.3131
Fax: 415.391.3233

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance**

To the Board of Directors
PathPoint

Report on Compliance for Each Major Federal Program

We have audited PathPoint's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of PathPoint's major federal programs for the year ended June 30, 2016. PathPoint's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of PathPoint's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards, and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of PathPoint's compliance.

Opinion on Each Major Federal Program

In our opinion, PathPoint complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of PathPoint is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered PathPoint's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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.

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance**
continued

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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Harrington Group

Pasadena, California
October 11, 2016

PATHPOINT
Schedule of Findings and Questioned Costs
For the year ended June 30, 2016

Section I – Summary of Auditors’ Results

Financial Statements:

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiencies? None reported

Noncompliance material to financial statements noted? No

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiencies? None reported

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

Any audit findings disclosed that are required to be reported in accordance with section 200.516 Audit Findings of the Uniform Guidance? No

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes

Identification of Major Programs:

U.S. Department of Labor:

Senior Community Service Employment Program 17.235

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 the Uniform Guidance.

Section IV – Summary Schedule of Prior Year Findings

None.