

**PATHWAY SOCIETY, INC.**

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**AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED JUNE 30, 2017  
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016**

**IZABAL, BERNACIAK & COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS**

**PATHWAY SOCIETY, INC,  
FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2017  
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016**

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
**Pathway Society, Inc.**  
Santa Clara, California

### **Report on Financial Statements**

We have audited the accompanying financial statements of Pathway Society, Inc., which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from the organization's 2016 financial statements and, in our report dated September 30, 2016 we expressed an unqualified opinion on those 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.

### **Auditor's 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 auditor's 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 Organization'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 Organization'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 Pathway Society, Inc. as of June 30, 2017, 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.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2017, on our consideration of Pathway Society, Inc.'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 Pathway Society, Inc.'s internal control over financial reporting and compliance.

**Report on Summarized Comparative Information**

We have previously audited Pathway Society, Inc.'s 2016 financial statements, and our report dated September 30, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it was derived.



San Francisco, California  
October 6, 2017

**PATHWAY SOCIETY, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2017**  
**WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,076,828	\$ 629,095
Grants Receivable	1,235,561	1,808,943
Prepaid Assets	<u>104,327</u>	<u>112,743</u>
Total Current Assets	2,416,716	2,550,781
<b>Fixed Assets</b>		
Property and Equipment	1,177,810	1,154,928
Less: Accumulated Depreciation	<u>(824,353)</u>	<u>(800,166)</u>
Net Fixed Assets	353,457	354,762
<b>Other Non-Current Assets</b>		
Deposits and Other Assets	<u>110,762</u>	<u>115,330</u>
<b>TOTAL ASSETS</b>	\$ <u><u>2,880,935</u></u>	\$ <u><u>3,020,873</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 501,965	\$ 510,241
Accrued pension contribution	328,048	318,224
Deferred revenue	7,555	11,653
Deferred compensation payable	67,990	82,130
Resident Fund Payable	2,047	2,047
Measure A Refundable Payment	<u>-</u>	<u>72,159</u>
Total Current Liabilities	907,605	996,454
<b>TOTAL LIABILITIES</b>	<u>907,605</u>	<u>996,454</u>
<b>Net Assets</b>		
Unrestricted	1,973,330	2,024,419
Temporarily restricted	<u>-</u>	<u>-</u>
Total Net Assets	<u>1,973,330</u>	<u>2,024,419</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ <u><u>2,880,935</u></u>	\$ <u><u>3,020,873</u></u>

See notes to the financial statements.

**PATHWAY SOCIETY, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2017**  
**WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2017</u>	<u>Total 2016</u>
<b>REVENUE</b>				
Grant Revenue				
County of Santa Clara	\$ 7,074,190	\$ -	\$ 7,074,190	\$ 6,900,804
City of San Jose	-	-	-	-
U.S. District Court	40,576	-	40,576	69,822
Contributions and Other Revenue				
Contract Fees	59,166	-	59,166	33,497
Counseling, training, and intake fees	224,286	-	224,286	264,606
Other program income	199,497	-	199,497	99,476
Donated services	28,686	-	28,686	38,859
Donated food	81,068	-	81,068	-
Contributions	8,540	-	8,540	10,825
Net Investment Income/(Loss)	-	-	-	-
Total Revenue	<u>7,716,009</u>	<u>-</u>	<u>7,716,009</u>	<u>7,417,889</u>
<b>EXPENSES</b>				
Program Services:				
Residential services	5,655,504	-	5,655,504	5,486,361
Outpatient counseling and relapse prevention	448,016	-	448,016	493,635
Youth counseling and intervention	309,565	-	309,565	274,429
Public Awareness & Education	168,096	-	168,096	172,180
Support Services:				
General and administrative	1,115,578	-	1,115,578	963,597
Fundraising	66,739	-	66,739	62,459
Total Expenses	<u>7,763,498</u>	<u>-</u>	<u>7,763,498</u>	<u>7,452,661</u>
<b>CHANGE IN NET ASSETS</b>	(47,489)	-	(47,489)	(34,772)
<b>INCREASE/(DECREASE) IN NET ASSETS</b>				
Net Assets - Beginning of Year	2,024,419	-	2,024,419	2,062,791
Depreciation on fixed assets purchased with restricted funds	<u>(3,600)</u>	<u>-</u>	<u>(3,600)</u>	<u>(3,600)</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 1,973,330</u>	<u>\$ -</u>	<u>\$ 1,973,330</u>	<u>\$ 2,024,419</u>

See notes to the financial statements.

**PATHWAY SOCIETY, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2017**  
**WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Revenue Over/(Under) Expenses	\$ (47,489)	\$ (34,772)
Depreciation	19,800	18,678
(Increase)/Decrease In:		
Grants Receivable	573,382	(447,588)
Prepaid Assets	8,416	(12,303)
Deposits and Other Assets	4,568	18,888
Increase/(Decrease) In:		
Accounts Payable and Accrued Expenses	(8,276)	(29,203)
Accrued Pension Contribution	9,824	29,184
Deferred Revenue	(4,098)	-
Deferred Compensation Payable	(14,140)	(16,688)
Resident Fund Payable	-	(45)
Measure A Refundable Payment	(72,159)	(72,156)
<b>NET CASH PROVIDED</b>		
<b>BY/ (USED IN) OPERATING ACTIVITIES</b>	<u>469,828</u>	<u>(546,005)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Property and Equipment	<u>(22,882)</u>	<u>(9,895)</u>
<b>NET CASH PROVIDED</b>		
<b>BY/ (USED IN) INVESTING ACTIVITIES</b>	<u>(22,095)</u>	<u>(9,895)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments of Notes Payable	<u>-</u>	<u>(134,851)</u>
<b>NET CASH PROVIDED</b>		
<b>BY/ (USED IN) FINANCING ACTIVITIES</b>	<u>-</u>	<u>(134,851)</u>
<b>NET INCREASE/(DECREASE) IN CASH</b>		
Beginning Cash and Cash Equivalents		
Balance, July 1, 2016 and 2015	<u>629,095</u>	<u>1,319,846</u>
<b>ENDING CASH AND CASH EQUIVALENTS</b>		
<b>BALANCE, JUNE 30, 2017 AND 2016</b>	<u>\$ 1,076,828</u>	<u>\$ 629,095</u>
 Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ 420</u>	<u>\$ 5,840</u>

See notes to the financial statements.

## EXPENSES

See notes to the financial statements



**PATHWAY SOCIETY, INC.,  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017  
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016**

**Note A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Background**

The Pathway Society, Inc., (PSI), is a nonprofit public benefit corporation organized under the Nonprofit Public Benefit Corporation law for charitable and educational purposes. Founded in 1964 and incorporated in 1968, PSI provides programs and services to residents of Santa Clara County in substance abuse prevention and education, intervention, and residential treatment. PSI provides a full spectrum of substance abuse services, including inpatient (residential) and outpatient treatment programs and transitional housing. PSI also provides treatment, intervention, and education services for youth within James Ranch Santa Clara County. We work closely with various private and public systems of care and the criminal justice system. Administrative offices are located in Santa Clara, California. Pathway Society's major programs include the following:

*Inpatient Residential Services:*

*Pathway House* is a 65-bed inpatient (residential) treatment facility in downtown San Jose, California. Treatment is individualized based on the client's needs. This live-in program provides clients suffering from substance use a chance to rehabilitate and transform their lives in a safe and respectful environment under the guidance of licensed practitioners. The program emphasizes the evidence-based principles necessary for independent, responsible, and productive living, free of the need for substances and alcohol. Pathway House is licensed and Drug Medi-Cal Certified by the Department of Health Care Services.

*Mariposa Lodge* is a 48-bed, women-only, inpatient (residential) treatment facility located in a rural area of South San Jose, California for adults who are chemically dependent. Treatment is individualized based on client need. This live-in program provides clients suffering from substance abuse and alcohol dependency a chance to rehabilitate their lives and embrace the principles of independent, responsible, and productive living, free of the need for substances and alcohol. Mariposa Lodge is licensed and Drug Medi-Cal Certified by the Department of Health Care Services.

In addition, *Mariposa Lodge* provides non-medical, social model withdrawal management for up to 10 adult women. The primary goal is to provide a safe structured environment to support adult women in their withdrawal process—and potentially the first steps of their recovery process.

**PATHWAY SOCIETY, INC,**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**  
**WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016**

**Note A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

*Recovery Residences (transitional housing)* is provided for clients who have successfully completed treatment at an inpatient (residential) treatment facility, or who have completed a primary treatment phase at another program for substance abuse. This housing offers clients an opportunity to initiate an affordable independent living situation in the community before transitioning to future housing on their own.

*Outpatient Counseling and Relapse Prevention:*

*Outpatient counseling* provides services on a group, family, or individual basis for adults and adolescents. Assessments and treatment services are provided by California state-licensed therapists and counselors with extensive drug and alcohol treatment experience. Sessions are provided on a number of tracks, including, but not limited to, relapse prevention through outpatient drug-free services. PSI specializes in drug and alcohol, as well as mental health outpatient services. Pathway Society's outpatient locations are licensed and Drug Medi-Cal Certified by the Department of Health Care Services.

*Youth Treatment Counseling and Intervention:*

Pathway Society offers a variety of youth intervention and counseling programs, including alcohol and substance use counseling programs at the James Ranch in Morgan Hill, CA.

Pathway Society also organizes and leads a county-wide youth coalition focused on community-based prevention strategies for youth regarding marijuana use and related policies.

**Basis of Accounting**

The accompanying financial statements are prepared on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when incurred.

**Basis of Presentation**

Pathway is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Pathway has no temporarily restricted net assets or permanently restricted net assets.

**PATHWAY SOCIETY, INC,  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017  
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016**

**Note A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**Tax Status**

Pathway is an exempt organization under Internal Revenue Service Code 501(c)(3) and California Franchise Tax Board code section 23701(d). No provision for income taxes has been made.

Management believes that Pathway has no uncertain tax positions as of June 30, 2017.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

**Comparative Financial Information**

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 generally accepted accounting principles. Accordingly such information should be read in conjunction with Pathway's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

**Allocation of Expenses**

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of Pathway.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, Pathway considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

**Reclassifications**

Certain reclassifications have been made to the 2016 financial statement presentation to correspond to the current year's format. Total net assets and net income are unchanged due to these reclassifications.

**PATHWAY SOCIETY, INC,  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017  
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016**

**Note A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**Fixed Assets**

Pathway capitalizes acquisitions of property and equipment with a cost or value in excess of \$5,000. All fixed assets are valued and capitalized at historical cost or estimated historical cost if historical cost is not available. Donated fixed assets are valued at estimated fair market value as of the date donated. The fixed asset balance is comprised of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Land	\$ 190,526	\$ 190,526
Buildings	176,571	176,571
Building Improvements	383,715	383,715
Equipment and vehicles	426,998	404,116
Total Fixed Assets	<u>\$ 1,177,810</u>	<u>\$ 1,154,928</u>

Accumulated depreciation for June 30, 2017 and 2016 is \$824,353 and \$800,166, respectively.

**Depreciation and Amortization Method**

Depreciation is provided on the straight-line basis over the estimated useful lives of three to ten years for equipment and vehicles and 20 years for buildings. Leasehold improvements are amortized over the shorter of the remaining lease term or the estimated useful life of the asset.

Assets purchased with unrestricted general funds and assets donated to Pathway are depreciated through the statement of activities. Assets purchased with grant funds are recorded as revenue and expensed in the period of acquisition through the statement of activities.

The corresponding capitalization and depreciation for these grant purchases is accounted for through increases and decreases in net assets in the statement of activities.

**Revenue Recognition**

A majority of Pathway revenue is derived from cost reimbursement contracts. Advances received on these contracts are deferred as unearned income and recognized as revenue as allowable costs are incurred. Revenue from fee for service contracts is recognized when services are provided.

**PATHWAY SOCIETY, INC.,  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017  
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016**

**Note A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**Restricted and Unrestricted Revenue**

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restricted is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the Statement of Activities as net assets released from restrictions.

**Contributions**

Pathway accounts for contributions and promises to give in accordance with provisions of FASB topic Not-for-Profit Entities Revenue Recognition Standards. FASB requires that contributions received, including unconditional promises to give (pledges), be recognized as revenue at their fair value in the period the contribution or pledge is made. FASB also requires not-for-profit organizations to distinguish between contributions received that increase any on the three categories of net assets, with recognition being made of the expiration of donor-imposed restrictions in the period which the restrictions expire.

**Donated Services**

Donated residential client assistance services are an integral part of Pathway's programs, which would otherwise have to be purchased. Accordingly, these specialized services are recorded as both contributions and program service expenses, at their estimated fair values as the services are rendered. Donated services totaled \$28,686 in 2017 and \$38,859 in 2016.

**Note B: GRANTS RECEIVABLE**

Grants Receivable represents the excess of grant expenditures over grant receipts for the years ended June 30:

Program	2017	2016
County of Santa Clara	\$ 1,222,100	\$ 1,797,415
U.S. District Court	4,424	4,678
Fees and other	9,037	6,850
TOTAL GRANTS RECEIVABLE	<u>\$ 1,235,561</u>	<u>\$ 1,808,943</u>

Grants receivable are considered fully collectible by management; therefore, no reserve for uncollectible accounts has been established.

**PATHWAY SOCIETY, INC,  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017  
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016**

**Note C: LINE OF CREDIT**

Pathway has a line of credit with a bank providing up to \$150,000 through March 15, 2018. Borrowings are at the bank's prime rate plus 1.75% and are secured by Pathway's assets. The agreement requires Pathway to meet certain financial covenants and ratios. The line of credit is subject to annual bank review. As of June 30, 2017 and 2016, \$0 and \$0 had been drawn down and was outstanding, respectively.

**Note D: PENSION PLAN**

Pathway has a defined contribution pension plan covering all regular, full-time employees who have been with Pathway for six months and are at least twenty-one years of age and complete over 1,000 hours of service during the plan year. Starting July 2002, employees become 20% vested after two years of employment and are fully vested after six years. In July 2016, Pathway has elected to make Safe Harbor Nonelective Employer Contributions to all eligible Participants in an amount equal to 3% of the eligible compensation if they are eligible to participate in the Plan during the Plan Year. Employees are 100% vested in the Safe Harbor contributions when made. Total contribution expense was \$328,048 in 2017 and \$318,224 in 2016.

A deferred compensation plan has been established under 457b and 457f to augment the existing pension plan. The liability related to this plan as of June 30, 2017 and 2016 were \$67,990 and \$82,130, respectively. The same amount is included in deposits and other assets.

**Note E: CONCENTRATION OF CREDIT RISK ARISING FROM CASH DEPOSITS IN EXCESS OF INSURED LIMITS**

Pathway maintains its cash balances and money market accounts in several financial institutions. The balances at the financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. While Pathway maintains cash in amounts which at times, exceed the federally insured limits, Pathway has not experienced any losses in such accounts and believes they are not exposed to any significant credit risk on cash.

**PATHWAY SOCIETY, INC,**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**  
**WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016**

**Note F: LEASE COMMITMENTS**

Pathway is the lessee of certain real properties and equipment. Rent expense for the years ended June 30, 2017 and 2016 was \$495,654 and \$437,136 respectively for non-cancelable operating leases.

Future minimum lease payments on non-cancelable leases as of June 30 are as follows:

2018	\$ 16,788
2019	16,788
2020	16,788
2021	16,788
TOTAL LEASE COMMITMENTS	<u>\$ 67,152</u>

**Note G: CONTINGENCIES**

Pathway received a substantial amount of its support from federal, state, and county governments. A significant reduction in the level of this support, if this were to occur, may have an effect on Pathway's program and activities.

Grant awards require the fulfillment of certain conditions as set forth in the instrument of grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. Pathway deems this contingency remote since by accepting the grants and their terms, it has accommodated the objectives of Pathway to the provisions of the grants. Pathway's management is of the opinion that Pathway has complied with the terms of all grants.

**Note J: EVALUATION OF SUBSEQUENT EVENTS**

The Organization has evaluated all subsequent events through October 6, 2017, the date which the financial statements were available to be issued.

**IZABAL, BERNACIAK & COMPANY**  
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITOR'S REPORT  
ON ADDITIONAL INFORMATION**

Board of Directors  
**Pathway Society, Inc.**  
Santa Clara, California

We have audited the financial statements of Pathway Society, Inc. for the year ended June 30, 2017, and have issued our report thereon dated October 6, 2017 and is presented in the preceding section. That examination was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The following Schedule of Expenditures of Federal Awards are presented for purposes of additional analysis and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the examination of the general purpose financial statements, and, in our opinion the information is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.



San Francisco, California  
October 6, 2017



**PATHWAY SOCIETY, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Grantor Number	Expenditures
<b>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<i>Pass Through</i> County of Santa Clara			
Block Grants for Preventive and Treatment of Substance Abuse	93.959	N/A	\$ 130,000
Substance Abuse and Mental Health Services - Project of National Significance	93.243	N/A	<u>222,655</u>
<b>TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<u>352,655</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 352,655</u>

See notes to the financial statements

**INDEPENDENT AUDITOR'S 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**

Board of Directors  
**Pathway Society, Inc.**  
Santa Clara, California

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 Pathway Society, Inc., which comprise the statement of financial position as of June 30, 2017, 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 6, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Pathway Society, Inc.'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pathway Society, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Pathway Society, Inc.'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 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 Pathway Society, Inc.'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*.

**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.

A handwritten signature in cursive script, appearing to read "Jacob L. Bernum".

San Francisco, California  
October 6, 2017