

PATHWAY SOCIETY, INC.

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019**

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

**PATHWAY SOCIETY, INC,
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pathway Society, Inc.
San Jose, 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, 2020, 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 2019 financial statements and, in our report dated November 4, 2019 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, 2020, 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.

Adoption of New Accounting Standards

As discussed in Note A to the financial statements, Pathway Society, Inc. adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, as of and for the year ended June 30, 2020. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

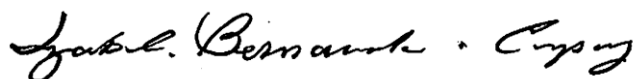
As discussed in Note A to the financial statements, Pathway Society, Inc. changed its method of accounting for leases as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2016-02, *Leases*, effective July 1, 2019. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2020, 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 2019 financial statements, and our report dated November 4, 2019, 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, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it was derived.



San Francisco, California
October 13, 2020

PATHWAY SOCIETY, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019

| | 2020 | 2019 |
|---|--------------|--------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 571,963 | \$ 59,992 |
| Grants Receivable | 2,013,681 | 2,320,037 |
| Prepaid Assets | 137,726 | 123,879 |
| Total Current Assets | 2,723,370 | 2,503,908 |
| Fixed Assets | | |
| Property and Equipment | 1,603,933 | 1,273,321 |
| Less: Accumulated Depreciation | (936,686) | (893,156) |
| Net Fixed Assets | 667,247 | 380,165 |
| Other Non-Current Assets | | |
| Deposits and Other Assets | 78,930 | 85,218 |
| Operating Lease-Right to Use Asset | 336,946 | - |
| TOTAL ASSETS | \$ 3,806,493 | \$ 2,969,291 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 471,808 | \$ 488,371 |
| Accrued pension contribution | 418,075 | 389,021 |
| Deferred compensation payable | 24,909 | 39,278 |
| Operating Lease Liability-ST | 82,946 | - |
| Total Current Liabilities | 997,738 | 916,670 |
| Long Term Liabilities | | |
| Loan Auto | \$ 42,095 | \$ - |
| Loan PPP | 50,000 | - |
| Operating Lease Liability-LT | 257,997 | - |
| Total Current Liabilities | 350,092 | - |
| TOTAL LIABILITIES | 1,347,831 | 916,670 |
| Net Assets | | |
| Without Donor Restrictions | 2,458,662 | 2,052,621 |
| Total Net Assets | 2,458,662 | 2,052,621 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 3,806,493 | \$ 2,969,291 |

See notes to the financial statements.

PATHWAY SOCIETY, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019

| | Without Donor Restrictions | |
|---|-----------------------------------|---------------------|
| | <u>2020</u> | <u>2019</u> |
| REVENUE | | |
| Grant Revenue | | |
| County of Santa Clara | \$ 7,569,283 | \$ 6,207,866 |
| Medi-Cal | 2,091,871 | 2,145,156 |
| U.S. District Court | 372,217 | 280,510 |
| Contributions and Other Revenue | | |
| Contract Fees | 77,594 | 39,969 |
| Counseling, training, and intake fees | 129,957 | 173,279 |
| Other program income | 92,363 | 117,685 |
| Donated services | 5,008 | 6,638 |
| Donated food | 46,586 | 84,627 |
| Contributions | 470 | 1,067 |
| Total Revenue | <u>10,385,349</u> | <u>9,056,797</u> |
| EXPENSES | | |
| Program Services: | | |
| Residential services | 7,753,817 | 6,849,928 |
| Outpatient counseling and relapse prevention | 1,270,264 | 658,566 |
| Youth counseling and intervention | - | 301,224 |
| Public Awareness & Education | 63,930 | 69,471 |
| Support Services: | | |
| General and administrative | 1,158,802 | 1,116,172 |
| Fundraising | - | 5,249 |
| Total Expenses | <u>10,246,813</u> | <u>9,000,610</u> |
| CHANGE IN NET ASSETS | 138,536 | 56,187 |
| INCREASE/(DECREASE) IN NET ASSETS | | |
| Net Assets - Beginning of Year | 2,052,621 | 2,000,034 |
| Fixed Assets purchased with restricted funds | 275,043 | - |
| Depreciation on fixed assets purchased with restricted funds | <u>(7,538)</u> | <u>(3,600)</u> |
| NET ASSETS - END OF YEAR | <u>\$ 2,458,662</u> | <u>\$ 2,052,621</u> |

See notes to the financial statements.

PATHWAY SOCIETY, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019

| | 2020 | 2019 |
|---|-------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Revenue Over/(Under) Expenses | \$ 138,536 | \$ 56,187 |
| <i>Adjustment to Reconcile Revenue Over/(Under) Expenses To Net Cash Provided By Operating Activities</i> | | |
| Depreciation | 35,994 | 32,711 |
| Fixed Assets Purchased with Grant Funds | 275,043 | - |
| (Increase)/Decrease In: | | |
| Grants Receivable | 306,356 | (1,164,865) |
| Prepaid Assets | (13,847) | 14,542 |
| Deposits and Other Assets | 6,288 | 11,018 |
| Increase/(Decrease) In: | | |
| Accounts Payable and Accrued Expenses | (16,563) | 90,431 |
| Accrued Pension Contribution | 29,054 | 49,672 |
| Deferred Compensation Payable | (14,369) | (14,218) |
| Operating Lease Liability, net | 3,996 | - |
| Resident Fund Payable | - | (410) |
| NET CASH PROVIDED BY/ (USED IN) OPERATING ACTIVITIES | 750,488 | (924,932) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of Property and Equipment | (330,612) | (11,600) |
| NET CASH PROVIDED BY/ (USED IN) INVESTING ACTIVITIES | (330,612) | (11,600) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from Loan Auto | 42,095 | - |
| Proceeds from Loan PPP | 50,000 | - |
| NET CASH PROVIDED BY/ (USED IN) FINANCING ACTIVITIES | 92,095 | - |
| NET INCREASE/(DECREASE) IN CASH | 511,971 | (936,532) |
| Beginning Cash and Cash Equivalents Balance, July 1, 2019 and 2018 | 59,992 | 996,524 |
| ENDING CASH AND CASH EQUIVALENTS BALANCE, JUNE 30, 2020 AND 2019 | \$ 571,963 | \$ 59,992 |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid for interest | \$ 448 | \$ - |

See notes to the financial statements.

PATHWAY SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019

| | Program Services | | | | Supporting Services | | Total 2020 | Total 2019 |
|-------------------------------------|-------------------------|---|------------------------------------|------------------------------|-----------------------------|-------------|---------------|---------------|
| | Residential Services | Outpatient Counseling & Relapse Prevention | Public Awareness & Education | Total Program Services | General & Administrative | Fundraising | | |
| EXPENSES | | | | | | | | |
| Salaries and Wages | \$ 3,755,049 | \$ 713,249 | \$ 37,038 | \$ 4,505,336 | \$ 720,607 | \$ - | \$ 5,225,943 | \$ 4,862,758 |
| Donated services | 5,008 | - | - | 5,008 | - | - | 5,008 | 6,638 |
| Fringe benefits | 707,385 | 118,630 | 1,237 | 827,252 | 78,767 | - | 906,019 | 812,061 |
| Payroll taxes | 313,695 | 61,364 | 3,415 | 378,474 | 57,945 | - | 436,419 | 402,894 |
| Pension contribution | 300,406 | 57,058 | 2,963 | 360,427 | 57,648 | - | 418,075 | 389,020 |
| Total salaries and related expenses | 5,081,543 | 950,301 | 44,653 | 6,076,497 | 914,967 | - | 6,991,464 | 6,473,371 |
| Professional fees | 306,024 | 174,194 | 5,753 | 485,971 | 59,664 | - | 545,635 | 384,702 |
| Food | 345,353 | 743 | - | 346,096 | - | - | 346,096 | 363,114 |
| Donated food | 46,586 | - | - | 46,586 | - | - | 46,586 | 84,627 |
| Drug screening | 17,676 | 139 | - | 17,815 | - | - | 17,815 | 17,800 |
| Office | 67,235 | 24,815 | 1,043 | 93,093 | 49,550 | - | 142,643 | 142,341 |
| Household | 166,269 | - | - | 166,269 | - | - | 166,269 | 174,848 |
| Communication | 45,906 | 9,247 | 1,007 | 56,160 | 8,064 | - | 64,224 | 35,438 |
| Taxes & License | 40,931 | 4,700 | 46 | 45,677 | 1,283 | - | 46,960 | 44,015 |
| Occupancy | 1,011,307 | 79,285 | 8,016 | 1,098,608 | 80,938 | - | 1,179,546 | 905,259 |
| Equipment lease | 28,286 | 6,911 | 731 | 35,928 | 2,986 | - | 38,914 | 30,691 |
| Printing and Publications | 7,870 | 2,056 | 84 | 10,010 | 3,213 | - | 13,223 | 3,785 |
| Automotive and Travel | 56,115 | 3,029 | 564 | 59,708 | 1,528 | - | 61,236 | 68,220 |
| Conferences and Education | 18,829 | 8,031 | 151 | 27,011 | 3,500 | - | 30,511 | 34,907 |
| Clothing and Personal | 9,983 | 151 | - | 10,134 | - | - | 10,134 | 25,905 |
| Membership and Dues | 5,381 | 900 | 56 | 6,337 | 1,678 | - | 8,015 | 12,238 |
| Insurance | 56,538 | 7,266 | 449 | 64,253 | 4,820 | - | 69,073 | 55,315 |
| Interest | 431 | 11 | 1 | 443 | 5 | - | 448 | - |
| Miscellaneous | 405,560 | (1,515) | 1,376 | 405,421 | 26,606 | - | 432,027 | 111,323 |
| Expenses before depreciation | 7,717,823 | 1,270,264 | 63,930 | 9,052,017 | 1,158,802 | - | 10,210,819 | 8,967,899 |
| Depreciation | 35,994 | - | - | 35,994 | - | - | 35,994 | 32,711 |
| Total expenses | \$ 7,753,817 | \$ 1,270,264 | \$ 63,930 | \$ 9,088,011 | \$ 1,158,802 | \$ - | \$ 10,246,813 | \$ 9,000,610 |

See notes to the financial statements

**PATHWAY SOCIETY, INC,
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019**

Note A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

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 San Jose, California. PSI'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.

Pathway House also provides inpatient non-medical, social withdrawal management for up to 6 adults. Under supervision of the Program Director and Medical Director, care is provided in a safe and supportive environment by trained, certified withdrawal management technicians on a 24-hour basis. The program is one part of the continuum of care to assist clients with their withdrawal process and start on the path of recovery.

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.

**PATHWAY SOCIETY, INC,
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019**

Note A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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. PSI's outpatient locations are licensed and Drug Medi-Cal Certified by the Department of Health Care Services.

Intensive Outpatient Treatment program operates as an enhanced version of outpatient services delivering a higher level of care with more frequency of services and longer duration of sessions. The structured programming addresses the needs of the clients in the course of treatment while enabling them to continue with their daily life of family responsibilities and work commitments. Therapy and recovery treatment services are provided by California licensed counselors and therapists at PSI Certified Drug Medi-Cal outpatient counseling centers.

Youth Treatment Counseling and Intervention:

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

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

PATHWAY SOCIETY, INC,
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019

Note A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

PSI is required to report information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions.

Recently Adopted Accounting Pronouncements

During the fiscal year ended June 30, 2020, PSI adopted FASB ASU No. 2018-08, *Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of ASC Topic 958, Not for Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Management has determined that this ASU did not significantly impact PSI's financial statements.

Also, during the fiscal year ended June 30, 2020, PSI adopted FASB ASU No. 2016-02, *Leases*. This ASU requires lessees to recognize assets and liabilities on the balance sheet for leases with lease terms greater than twelve months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. This amends current guidance that required only capital leases to be recognized on the lessee's balance sheet. ASU 2016-02 also requires additional disclosures on the amount, timing and uncertainty of cash flows arising from leases. PSI adopted ASU 2016-02 on July 1, 2019, using a modified retrospective approach. PSI also elected the package of practical expedients permitted under the new standard that allowed PSI to carry forward historical lease classification. The impact of adoption on the financial statements was an increase of July 1, 2019 in other noncurrent assets to record right-of-use assets and an increase in other current and noncurrent liabilities to record lease obligations for current operating leases of approximately \$404,500, representing the present value of remaining lease payments for operating leases. The impact of adopting ASU 2016-02 was not material to unrestricted revenues, excess of revenues over expenses or total net assets.

**PATHWAY SOCIETY, INC,
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019**

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 PSI has no uncertain tax positions as of June 30, 2020.

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 PSI's financial statements for the year ended June 30, 2019, 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 PSI.

Cash and Cash Equivalents

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

Fixed Assets

PSI 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.

**PATHWAY SOCIETY, INC,
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019**

Note A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Fixed Assets - continued

The fixed asset balance is comprised of the following as of June 30:

| | <u>2020</u> | <u>2019</u> |
|------------------------|---------------------|---------------------|
| Land | \$ 190,526 | \$ 190,526 |
| Buildings | 176,571 | 176,571 |
| Building Improvements | 857,521 | 467,626 |
| Equipment and Vehicles | <u>379,315</u> | <u>436,598</u> |
| Total Fixed Assets | <u>\$ 1,603,933</u> | <u>\$ 1,273,321</u> |

Accumulated depreciation for June 30, 2020 and 2019 is \$936,686 and \$893,156, 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 30 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, 2020
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019**

Note A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Revenue Recognition - continued

Contributions are recognized when the donor makes a promise to give to PSI that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor 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 two 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 \$5,008 and \$6,638 in the fiscal year ended June 30, 2020 and 2019, respectively. Donated food totaled \$46,586 and \$84,627 in the fiscal year ended June 30, 2020 and 2019, respectively.

**PATHWAY SOCIETY, INC,
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019**

Note B: GRANTS RECEIVABLE

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

| Program | 2020 | 2019 |
|-------------------------|---------------------|---------------------|
| County of Santa Clara | \$ 1,955,944 | \$ 2,236,031 |
| U.S. District Court | 53,608 | 67,644 |
| Fees and other | 4,129 | 16,362 |
| TOTAL GRANTS RECEIVABLE | <u>\$ 2,013,681</u> | <u>\$ 2,320,037</u> |

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

Note C: PENSION PLAN

PSI has a defined contribution pension plan covering all regular, full-time employees who have been with PSI 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 2017, PSI 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 \$418,075 and \$389,020 for the year ended June 30, 2020 and 2019, respectively.

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, 2020 and 2019 were \$24,909 and \$39,278, respectively. The same amount is included in deposits and other assets.

Note D: LINE OF CREDIT

PSI has a line of credit with a bank providing up to \$300,000 through October 15, 2020. Borrowings are at the bank's prime rate plus 1.50% and are secured by PSI's assets. The line of credit is subject to annual bank review. As of June 30, 2020 and 2019, \$0 and \$0 had been drawn down and was outstanding, respectively.

**PATHWAY SOCIETY, INC,
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019**

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

Pathway maintains its cash balances and money market accounts with Wells Fargo Bank. The balances at the Wells Fargo Bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per account. 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.

Note F: LEASE COMMITMENTS

With adoption of ASU No. 2016-02, PSI records its operating leases for real properties and equipment with terms greater than twelve months on the statement of financial position.

PSI elected the practical expedient to account for both non-lease and lease payments in its contracts, as a single lease component. For leases that commenced before the effective date of ASU 2016-02, PSI elected the permitted practical expedients to not reassess the following: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases.

Right-of-use assets represent PSI's right to use an underlying asset during the lease term, and lease liabilities represent PSI's obligation to make lease payments arising from the lease. Right-of-use assets and liabilities are recognized at the commencement date, based on the net present value of the fixed lease payments over the lease term. PSI's lease terms include options to extend or terminate the lease when it is reasonably certain that the options will be exercised. As most of PSI's operating leases do not provide an implicit rate, PSI uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of the lease payments.

**PATHWAY SOCIETY, INC,
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019**

Note F: LEASE COMMITMENTS - continued

PSI considers recent debt issuances as well as publicly available data for instruments with similar characteristics when calculating its incremental borrowing rates. Operating fixed lease expense is recognized on a straight-line basis over the lease term. Variable lease costs consist primarily of common area maintenance and are not significant to total lease expense.

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

| | |
|-------------------------|--------------------------|
| 2021 | \$ 82,946 |
| 2022 | 81,279 |
| 2023 | 79,639 |
| 2024 | 78,031 |
| 2025 | <u>19,048</u> |
| TOTAL LEASE COMMITMENTS | <u><u>\$ 340,943</u></u> |

Note G: LOAN PAYABLE – PPP LOAN

On May 3, 2020, PSI received a loan from Wells Fargo in the aggregate amount of \$50,000, pursuant to the Paycheck Protection Program (the PPP) under Division A, Title I of the CARES Act, which was enacted March 27, 2020.

The loan, which was in the form of a Note dated May 3, 2020 issued by the Borrower, matures on May 3, 2022 and bears interest at a rate of 1% per annum, payable in the amount of \$2,105.06 monthly commencing on November 1, 2020. The note may be prepaid by the Borrower at any time prior to maturity with no prepayment penalties. Funds from the loan may only be used for payroll costs, costs used to continue group health care benefits, mortgage payments, rent, utilities, and interest on other debt obligations. Under the terms of the PPP, certain amounts of the loan maybe forgiven if they are used for qualifying expenses as described in the CARES Act.

Note H: LOAN PAYABLE – AUTO LOAN

During the fiscal year ended June 30, 2020, PSI entered into loan agreements with Toyota Financial to finance the purchase of two company vehicles, in the amounts of \$16,000 and \$30,233, with an annual interest rate of 0.90% and 1.90%, respectively. At June 30, 2020, the balance on the auto loans payable amounted to \$42,095.

**PATHWAY SOCIETY, INC,
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019**

Note I: CONTINGENCIES

PSI 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 PSI'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. PSI deems this contingency remote since by accepting the grants and their terms, it has accommodated the objectives of PSI to the provisions of the grants. PSI's management is of the opinion that PSI has complied with the terms of all grants.

Note J: LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects PSI's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Donor-restricted amounts that are available for use within one year:

| | |
|---------------------------|------------------|
| Cash and Cash Equivalents | \$ 571,963 |
| Accounts Receivable | 2,013,681 |
| Total Financial Assets | <u>2,585,644</u> |

| | |
|---|---------------------|
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 2,585,644</u> |
|---|---------------------|

PSI has \$2,585,644 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures including cash of \$571,963. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The accounts receivable are subject to implied time restrictions but are expected to be collected within one year.

PSI has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 45 days of normal operating expenses, which are, on average, approximately \$1,200,000. PSI has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

**PATHWAY SOCIETY, INC,
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019**

Note J: LIQUIDITY AND AVAILABILITY OF RESOURCES – Continued

In addition, as part of its liquidity management, PSI invests cash in excess of daily requirements in various short-term investments, including certificate of deposits and short-term treasury instruments. PSI has a line of credit with Wells Fargo Bank in the amount of \$300,000. There were no borrowings against the credit line at June 30, 2020.

Note K: EVALUATION OF SUBSEQUENT EVENTS

PSI evaluated all subsequent events through October 13, 2020, the date which the financial statements were available to be issued and concluded that no other material subsequent events have occurred that would require recognition or disclosure in the financial statements.

IZABAL, BERNACIAK & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Pathway Society, Inc.
San Jose, California

We have audited the financial statements of Pathway Society, Inc. for the year ended June 30, 2020, and have issued our report thereon dated October 13, 2020, which contained an unmodified opinion on those financial statements. 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 is presented for purposes of additional analysis as required by the Uniform Guidance 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 their 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



San Francisco, California
October 13, 2020

PATHWAY SOCIETY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020

| Federal Grantor/ Pass Through Grantor/ Program Title | Federal CFDA Number | Grantor Number | Expenditures |
|--|---------------------------|-------------------|---------------------|
| U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | |
| <i>Pass Through Santa Clara County, Behavioral Health Services</i> | | | |
| Block Grants for Preventive and Treatment of Substance Abuse | | | |
| SABG Discretionary - Adult Residential | 93.959 | N/A | \$ 1,500,000 |
| Subtotal CFDA 93.959 | | | <u>1,500,000</u> |
| TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | <u>1,500,000</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 1,500,000</u> |

Note A: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Pathway Society, Inc. under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of Pathway Society, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Pathway Society, Inc.

Note B: Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pathway Society, Inc. has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**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.
San Jose, 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, 2020, 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 13, 2020.

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.

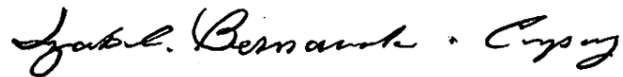
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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



San Francisco, California
October 13, 2020

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE
UNIFORM GUIDANCE**

Board of Directors
Pathway Society, Inc.
San Jose, California

Report on Compliance for Each Major Federal Program

We have audited Pathway Society, Inc.'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 Pathway Society, Inc.'s major federal programs for the year ended June 30, 2020. Pathway Society, Inc.'s major federal programs are identified in the summary of auditor's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Pathway Society, Inc.'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 compliance requirements referred to above that could have a direct and material effect on major federal programs occurred. An audit includes examining, on a test basis, evidence about Pathway Society, Inc.'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 with each major program. However, our audit does not provide a legal determination of Pathway Society, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Pathway Society, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified above for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of Pathway Society, Inc. 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 Pathway Society, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major 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 the Pathway Society, Inc.'s internal control over compliance.

A deficiency in internal control over compliance 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, noncompliance with a type of compliance requirements 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 compliance requirement 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*, as defined above. 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 our testing based on the requirements of the *Uniform Guidance*. Accordingly, this report is not suitable for any other purpose.



San Francisco, California
October 13, 2020

PATHWAY SOCIETY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

| | |
|---|---|
| A. SUMMARY OF AUDITOR'S RESULTS | |
| <i>Financial Statements</i> | |
| 1. Type of Financial Statement Report | UNMODIFIED |
| 2. Internal Control over Financial Reporting: Material Weakness(es) Identified Significant Deficiency(ies) Identified | NONE NONE REPORTED |
| 3. Noncompliance Disclosed by Audit Which Is Material to Financial Statements | NONE REPORTED |
| <i>Federal Awards</i> | |
| 1. Internal Control Over Major Programs: Material Weakness(es) Identified Significant Deficiency(ies) Identified | NONE NONE REPORTED |
| 2. Type of Compliance Report Major Programs | UNMODIFIED |
| 3. Uniform Guidance Audit Finding Required to be Disclosed by Audit in accordance with 2 CFR 200.516(a) | NONE REPORTED |
| 4. Major Programs: | 93.959 – Block Grants for Preventative and Treatment of Substance Abuse |
| 5. Dollar Threshold for Type A Programs | \$750,000 |
| 6. Auditee Qualification | LOW RISK |
| B. Findings Relating to the Financial Statements Which Are Required to Be Reported in Accordance with GAGAS | NONE REPORTED |
| C. Findings and Questioned Costs for Federal Awards Including Audit Findings Defined in the Uniform Guidance | NONE REPORTED |

PATHWAY SOCIETY, INC.
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

There were no prior year findings.