

**Pathway Society, Inc.**

Financial Statements  
and Single Audit Reports and Schedules

June 30, 2022  
(With Comparative Totals for 2021)



## TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 3
Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to Financial Statements	8 - 17
Single Audit Reports and Schedules	
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 <i>Government Auditing Standards</i>	19 - 20
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	21 - 23
Schedule of Expenditures of Federal Awards	24
Notes to Schedule of Expenditures of Federal Awards	25
Schedule of Findings and Questioned Costs	26 - 27
Summary Schedule of Prior Audit Findings	28



## INDEPENDENT AUDITOR'S REPORT

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

### **Opinion**

We have audited the accompanying financial statements of Pathway Society, Inc. (a California nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

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, 2022, 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.

### **Basis for Opinion**

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Pathway Society, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Report on Summarized Comparative Information**

The financial statements of Pathway Society, Inc. as of June 30, 2021, were audited by other auditors whose report dated November 5, 2021, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent in all material respects, with the audited financial statements from which it has been derived.

### **Responsibilities of Management 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, and for 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.



An independent firm  
associated with Moore  
Global Network Limited

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Pathway Society, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Pathway Society, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Pathway Society, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

## Supplementary 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*, is presented for purposes 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.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2022, on our consideration of the Organization'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 the effectiveness of the Organization's 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 the Organization's internal control over financial reporting and compliance.



Armanino<sup>LLP</sup>  
San Jose, California

November 15, 2022

Pathway Society, Inc.  
Statement of Financial Position  
June 30, 2022  
(With Comparative Totals for 2021)

	2022	2021
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,258,336	\$ 1,880,817
Grants receivable	2,034,425	1,205,987
Prepaid and other current assets	<u>190,019</u>	<u>144,973</u>
Total current assets	<u>3,482,780</u>	<u>3,231,777</u>
Property and equipment, net	<u>796,422</u>	<u>777,208</u>
Other assets		
Deposits	55,921	58,507
Operating lease - right-of-use assets	<u>168,594</u>	<u>250,613</u>
Total other assets	<u>224,515</u>	<u>309,120</u>
Total assets	<u><u>\$ 4,503,717</u></u>	<u><u>\$ 4,318,105</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 150,549	\$ 168,031
Accrued expenses	1,135,569	1,094,106
Deferred revenue	59,073	15,803
Current portion of operating lease liability	<u>79,639</u>	<u>81,279</u>
Total current liabilities	<u>1,424,830</u>	<u>1,359,219</u>
Long-term liabilities		
Notes payable - auto loans	54,048	33,056
Operating lease liability, net of current portion	<u>97,080</u>	<u>176,718</u>
Total long-term liabilities	<u>151,128</u>	<u>209,774</u>
Total liabilities	<u>1,575,958</u>	<u>1,568,993</u>
Net assets		
Without donor restrictions	<u>2,927,759</u>	<u>2,749,112</u>
Total net assets	<u>2,927,759</u>	<u>2,749,112</u>
Total liabilities and net assets	<u><u>\$ 4,503,717</u></u>	<u><u>\$ 4,318,105</u></u>

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

Pathway Society, Inc.  
Statement of Activities  
For the Year Ended June 30, 2022  
(With Comparative Totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
Revenue and support				
Grant revenue				
County of Santa Clara	\$ 7,924,278	\$ -	\$ 7,924,278	\$ 8,788,646
Medi-Cal	3,286,048	-	3,286,048	2,123,011
U.S. District Court	300,285	-	300,285	370,730
Forgiveness of PPP loan	-	-	-	50,000
CARES Act Provider Relief	-	-	-	5,758
Total grant revenue	<u>11,510,611</u>	<u>-</u>	<u>11,510,611</u>	<u>11,338,145</u>
Contributions and other revenue				
Counseling, training, and intake fees	161,601	-	161,601	131,187
Other program income	87,325	-	87,325	93,770
Donated food	36,229	-	36,229	65,167
Contributions	8,659	-	8,659	5,663
Contract revenue	-	-	-	1,799
Total contributions and other revenue	<u>293,814</u>	<u>-</u>	<u>293,814</u>	<u>297,586</u>
Total revenue and support	<u>11,804,425</u>	<u>-</u>	<u>11,804,425</u>	<u>11,635,731</u>
Functional expenses				
Program services				
Residential services	8,884,587	-	8,884,587	8,640,218
Outpatient counseling and relapse prevention	1,222,267	-	1,222,267	1,410,086
Public awareness and education	28,394	-	28,394	24,266
Total program services	<u>10,135,248</u>	<u>-</u>	<u>10,135,248</u>	<u>10,074,570</u>
Support services				
General and administrative	1,483,993	-	1,483,993	1,264,495
Fundraising	6,537	-	6,537	6,216
Total support services	<u>1,490,530</u>	<u>-</u>	<u>1,490,530</u>	<u>1,270,711</u>
Total functional expenses	<u>11,625,778</u>	<u>-</u>	<u>11,625,778</u>	<u>11,345,281</u>
Change in net assets	178,647	-	178,647	290,450
Net assets, beginning of year	<u>2,749,112</u>	<u>-</u>	<u>2,749,112</u>	<u>2,458,662</u>
Net assets, end of year	<u>\$ 2,927,759</u>	<u>\$ -</u>	<u>\$ 2,927,759</u>	<u>\$ 2,749,112</u>

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

Pathway Society, Inc.  
Statement of Functional Expenses  
For the Year Ended June 30, 2022  
(With Comparative Totals for 2021)

	Program Services				Support Services		2022 Total	2021 Total
	Residential Services	Outpatient Counseling and Relapse Prevention	Public Awareness and Education	Total Program Services	General and Administrative	Fundraising		
Expenses								
Salaries and related expenses								
Salaries and wages	\$ 4,600,346	\$ 720,316	\$ 13,753	\$ 5,334,415	\$ 1,014,396	\$ 4,508	\$ 6,353,319	\$ 6,137,561
Fringe benefits	662,240	118,075	755	781,070	102,719	643	884,432	986,255
Payroll taxes	404,205	61,850	1,227	467,282	75,460	1,386	544,128	445,330
Pension contribution	368,028	57,625	1,100	426,753	81,513	-	508,266	491,006
Total salaries and related expenses	<u>6,034,819</u>	<u>957,866</u>	<u>16,835</u>	<u>7,009,520</u>	<u>1,274,088</u>	<u>6,537</u>	<u>8,290,145</u>	<u>8,060,152</u>
Professional fees	394,453	103,541	5,887	503,881	37,522	-	541,403	624,044
Food	393,397	-	-	393,397	-	-	393,397	348,096
Donated food	36,229	-	-	36,229	-	-	36,229	65,167
Drug screening	14,163	393	-	14,556	-	-	14,556	13,452
Office	77,068	16,727	896	94,691	37,486	-	132,177	121,960
Household	220,655	-	-	220,655	-	-	220,655	186,652
Communication	75,810	5,406	270	81,486	6,935	-	88,421	83,445
Taxes & license	26,378	4,122	8	30,508	1,378	-	31,886	45,484
Occupancy	1,284,829	110,293	2,878	1,398,000	84,657	-	1,482,657	1,438,554
Equipment lease	36,332	6,546	83	42,961	3,894	-	46,855	47,359
Printing and publications	9,054	3,568	181	12,803	4,949	-	17,752	19,587
Automotive and travel	51,552	1,518	709	53,779	1,089	-	54,868	42,294
Conferences and education	24,078	3,474	57	27,609	10,339	-	37,948	31,465
Clothing and personal	8,820	-	-	8,820	-	-	8,820	8,178
Membership and dues	12,767	1,723	45	14,535	1,950	-	16,485	8,621
Insurance	64,938	6,310	225	71,473	3,991	-	75,464	72,516
Interest	1,948	-	-	1,948	-	-	1,948	782
Miscellaneous	22,462	780	320	23,562	15,715	-	39,277	47,203
Total expenses before depreciation and amortization	<u>8,789,752</u>	<u>1,222,267</u>	<u>28,394</u>	<u>10,040,413</u>	<u>1,483,993</u>	<u>6,537</u>	<u>11,530,943</u>	<u>11,265,011</u>
Depreciation and amortization	<u>94,835</u>	<u>-</u>	<u>-</u>	<u>94,835</u>	<u>-</u>	<u>-</u>	<u>94,835</u>	<u>80,270</u>
	<u>\$ 8,884,587</u>	<u>\$ 1,222,267</u>	<u>\$ 28,394</u>	<u>\$ 10,135,248</u>	<u>\$ 1,483,993</u>	<u>\$ 6,537</u>	<u>\$ 11,625,778</u>	<u>\$ 11,345,281</u>

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



Pathway Society, Inc.  
Statement of Cash Flows  
For the Year Ended June 30, 2022  
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Change in net assets	\$ 178,647	\$ 290,450
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	94,835	80,270
Gain on sale of property and equipment	-	(1,000)
Forgiveness of PPP loan	-	(50,000)
Changes in operating assets and liabilities		
Grants receivable	(828,437)	807,694
Prepaid expenses and other current assets	(45,046)	(7,247)
Deposits	2,585	20,423
Accounts payable	(17,483)	84,313
Accrued expenses	41,462	278,834
Deferred revenue	43,270	-
Operating lease liability	741	3,387
Net cash provided by (used in) operating activities	<u>(529,426)</u>	<u>1,507,124</u>
Cash flows from investing activities		
Purchases of property and equipment	(114,047)	(190,231)
Proceeds from sale of property and equipment	-	1,000
Net cash used in investing activities	<u>(114,047)</u>	<u>(189,231)</u>
Cash flows from financing activities		
Proceeds from note payable - auto loan	33,508	-
Payments of notes payable - auto loans	(12,516)	(9,039)
Net cash provided by (used in) financing activities	<u>20,992</u>	<u>(9,039)</u>
Net increase (decrease) in cash and cash equivalents	(622,481)	1,308,854
Cash and cash equivalents, beginning of year	<u>1,880,817</u>	<u>571,963</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,258,336</u></u>	<u><u>\$ 1,880,817</u></u>

Supplemental disclosure of cash flow information

Cash paid during the year interest	\$ 1,757	\$ 782
------------------------------------	----------	--------

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

Pathway Society, Inc.  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

1. NATURE OF OPERATIONS

Pathway Society, Inc. ("PSI" or "Pathway" or "Organization"), 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 ("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. Pathway works 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 16 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.

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.

Pathway Society, Inc.  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

1. NATURE OF OPERATIONS (continued)

*Outpatient Counseling and Relapse Prevention:*

*Outpatient Counseling* provides services on a group, family, or individual basis for adults. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

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

In accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), the Organization reports its financial position and operating activities in two classes of net assets:

- *Net assets without donor restrictions* - include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. Under this category, the Organization maintains an operating fund, any net assets designated by the Board for specific purposes.
- *Net assets with donor restrictions* - include contributions received from donors that are restricted for specific purposes or for subsequent periods. When a donor restriction expires, net assets with donor restrictions are classified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction. Net assets held in perpetuity include those assets which are subject to a non-expiring donor restriction, such as endowments.

Pathway Society, Inc.  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new accounting standards

In September 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The update requires nonprofits to expand their financial statement presentation and disclosure of contributed nonfinancial assets, including fixed assets, supplies, services, and other items. The update includes disclosure of information on an entity's policies on contributed nonfinancial assets about monetization and utilization during the reporting period, information on donor-imposed restrictions, and valuation techniques. The Organization adopted ASU 2020-07 with a date of the initial application of July 1, 2021, using the full retrospective method.

The adoption of ASU 2020-07 did not have a significant impact on the Organization's financial position, result of operations, or cash flows. The Organization has updated disclosures as necessary.

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 the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue, support, and expenses during the period. Accordingly, actual results could differ from those estimates.

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, 2021, from which the summarized information was derived.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments and investments with a maturity of three months or less.

Grants and accounts receivable

The Organization considers all grants and accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary.

Pathway Society, Inc.  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

PSI capitalizes acquisitions of property and equipment with a cost or value in excess of \$5,000. All property and equipment is valued and capitalized at historical cost or estimated historical cost if historical cost is not available. Donated property and equipment is valued at estimated fair market value as of the date donated.

Depreciation and amortization

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.

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.

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.

Pathway Society, Inc.  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated services and food

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. No donated services were rendered for the years ended June 30, 2022 and 2021, respectively.

The donated food was valued at \$1.92 and \$1.79 per pound for the years ended June 30, 2022 and 2021, respectively. This valuation is based on a cost study conducted for Feeding America. Donated food totaled \$36,229 and \$65,167 for the years ended June 30, 2022 and 2021, respectively.

Functional expense allocation

Directly identifiable expenses are charged to programs and support services. Expenses related to more than one function are charged to programs and support 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.

Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation. None of the reclassifications have changed the net assets.

Income tax status

Pathway Society, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under Section 23701(d) of the California Revenue Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements.

Management believes that PSI has no uncertain tax positions as of June 30, 2022.

Subsequent events

Management of the Organization has evaluated events and transactions subsequent to June 30, 2022 for potential recognition or disclosure in the financial statements. The Organization did not have subsequent events that required recognition or disclosure in the financial statements. Subsequent events have been evaluated through the date the financial statements became available to be issued, November 15, 2022.

Pathway Society, Inc.  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

3. 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.

4. GRANTS RECEIVABLE

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

	2022	2021
Santa Clara County	\$ 1,965,140	\$ 1,166,131
U.S. District Court	51,359	35,199
Fees and other	17,926	4,657
	\$ 2,034,425	\$ 1,205,987

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

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2022	2021
Land	\$ 190,526	\$ 190,526
Buildings	176,571	176,571
Building improvements	1,109,227	1,047,751
Equipment and vehicles	400,012	347,439
	1,876,336	1,762,287
Accumulated depreciation and amortization	(1,079,914)	(985,079)
	\$ 796,422	\$ 777,208

Depreciation and amortization expense for the years ended June 30, 2022 and 2021 was \$94,835 and \$80,270, respectively.

Pathway Society, Inc.  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

6. ACCRUED EXPENSES

Accrued expenses consisted of the following:

	2022	2021
Accrued pension liabilities	\$ 505,878	\$ 491,005
Accrued PTO	282,237	287,245
Accrued salaries and wages	255,392	247,485
Other accrued expenses	71,488	47,216
Accrued payroll taxes payable	20,574	21,155
	\$ 1,135,569	\$ 1,094,106

7. LINE OF CREDIT

PSI had a line of credit with a bank providing up to \$500,000 through January 15, 2022 with the bank's prime rate plus 1.50% and secured by PSI's assets. On February 28, 2022, PSI entered a new line of credit agreement with the bank. The available line of credit is \$300,000 through March 15, 2023, and bears the same interest rate as the prior line of credit. As of June 30, 2022 and 2021, no amounts had been drawn down and was outstanding, respectively.

8. NOTES PAYABLE - AUTO LOANS

During the 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. In December 2021, PSI entered into another agreement with Toyota Financial to finance the purchase of a company vehicle amounting to \$33,508 with annual interest of 6.88%. As of June 30, 2022 and 2021, the balance on the auto loans payable amounted to \$54,048 and \$33,056, respectively.

9. LOAN PAYABLE - PPP LOAN

On May 3, 2020, PSI received a loan from Wells Fargo in the aggregate amount of \$50,000, with interest rate of 1%, pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the CARES Act, which was enacted March 27, 2020. The PPP loan was subject to forgiveness to the extent that proceeds are used to pay eligible program expenses including payroll costs, rent obligations, and utility payments. The loan was forgiven on April 22, 2021, and the income from the loan forgiveness was recorded in the statement of activities for the year ended June 30, 2021.



Pathway Society, Inc.  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

10. RECONCILIATION OF TOTAL FUNCTIONAL EXPENSES AND INTERNAL EXPENSES

Capital expenditures purchased with contract funds are expensed in the period of acquisition and reported in Pathway's internal statement of activities. As a part of audited financial statements presentation, capital expenditures were subtracted from and related depreciation expense was added to the statement of activities in accordance with generally accepted accounting principles. The following is a reconciliation of the adjustment:

	2022	2021
Total functional expense reported per Pathway's internal statement of activities	\$ 11,629,860	\$ 11,489,135
Add: depreciation on capital expenditures purchased with contract funds	57,391	46,377
Less: capital expenditures purchased with contract funds	(61,473)	(190,231)
Total functional expenses	\$ 11,625,778	\$ 11,345,281

11. 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.

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.

Pathway Society, Inc.  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

11. LEASE COMMITMENTS (continued)

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

<u>Year ending June 30,</u>	
2023	\$ 123,096
2024	117,889
2025	44,256
2026	12,834
2027	<u>2,233</u>
	<u>\$ 300,308</u>

12. 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 \$508,266 and \$491,006 for the years ended June 30, 2022 and 2021, respectively.

13. CONTINGENCIES

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

14. LIQUIDITY AND AVAILABILITY OF RESOURCES

As part of Pathway's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, Pathway is able draw upon its line of credit (see Note 7).

Pathway Society, Inc.  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

14. LIQUIDITY AND AVAILABILITY OF RESOURCES (continued)

The following reflects PSI's financial assets as of June 30, 2022, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of June 30, 2022.

Available financial assets consisted of the following:

Cash and cash equivalents	\$ 1,258,336
Grants receivable	<u>2,034,425</u>
	<u>\$ 3,292,761</u>

PSI has \$3,292,761 of financial assets available within one year of June 30, 2022 to meet cash needs for general expenditures. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of June 30, 2022. 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 \$1,400,000. PSI has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

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 new line of credit with Wells Fargo Bank in the amount of \$300,000. There were no borrowings against the credit line as of June 30, 2022.

SINGLE AUDIT REPORTS AND SCHEDULES

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*

To the 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. (a California nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of June 30, 2022, 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 November 15, 2022.

### **Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 or significant deficiencies may exist that were not identified.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization'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 financial statements. 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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Armanino<sup>LLP</sup>  
San Jose, California

November 15, 2022

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

## Report on Compliance for Each Major Federal Program

### Opinion on Each Major Federal Program

We have audited Pathway Society, Inc. (a California nonprofit corporation) (the "Organization")'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2022. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization 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, 2022.

### Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

### Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

## **Auditor's Responsibilities for the Audit of Compliance**

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## **Report on Internal Control Over Compliance**

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino<sup>LLP</sup>  
San Jose, California

November 15, 2022

Pathway Society, Inc.  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal AL Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
<u>Expenditures of Federal Awards</u>			
U.S. Department of Health and Human Services Block Grants for Prevention and Treatment of Substance Abuse Pass Through Santa Clara County, Behavioral Health Services SABG Discretionary - Audit Residential	93.959	N/A	\$ <u>1,500,000</u>
Total Expenditures of Federal Awards			\$ <u><u>1,500,000</u></u>

The accompanying notes to the Schedule of Expenditures of Federal Awards  
 are an integral part of this schedule.

Pathway Society, Inc.  
Notes to Schedule of Expenditures of Federal Awards  
June 30, 2022

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Pathway Society, Inc. (a California nonprofit corporation) (the "Organization") under programs of the federal government for the year ended June 30, 2022. 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 the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 limited as to reimbursement. Pass-through entity identifying numbers are presented where available and applicable.

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

Pathway Society, Inc.  
 Schedule of Findings and Questioned Costs  
 For the Year Ended June 30, 2022

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>AL Number</u>
Block Grants for Prevention and Treatment for Substance Abuse	93.959
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

Pathway Society, Inc.  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2022

SECTION II - SUMMARY OF FINANCIAL STATEMENT FINDINGS

There are no financial statement findings to be reported.

SECTION III - SUMMARY OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no federal award findings to be reported.

Pathway Society, Inc.  
Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2022

There were no prior year findings.