

PATHWAY SOCIETY, INC.

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED JUNE 30, 2019
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018**

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

**PATHWAY SOCIETY, INC,
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2019
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018**

TABLE OF CONTENTS

<u>Audited Financial Statements</u>	<u>Page</u>
Independent Auditor's Report	1
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows.....	5
Statement of Functional Expenses	6
Notes to Financial Statements	7-15
 <u>Supplementary Information</u>	
Report on Schedule of Expenditures of Federal Awards Required by The Uniform Guidance	16
Schedule of Expenditures of Federal Awards.....	17
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance And on Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	18-19
Independent Auditor's Report on Compliance With Requirements that could have a Direct and Material Effect on each Major Program and on internal control Over Compliance in Accordance with The Uniform Guidance.....	20-21
Schedule of Findings and Questioned Costs.....	22
Summary Schedule of Prior Year Audit Findings.....	23

IZABAL, BERNACIAK & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of Pathway Society, Inc., which comprise the statement of financial position as of June 30, 2019, 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 2018 financial statements and, in our report dated October 12, 2018 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, 2019, 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 Standard

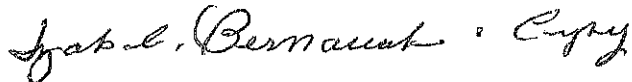
As discussed in Note A to the financial statements, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) -- Presentation of Financial Statements of Not-for-Profit Entities as of and for the year ended June 30, 2019. The requirements of the ASU have been applied retrospectively to all periods presented. 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 November 04, 2019, 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 2018 financial statements, and our report dated October 12, 2018, 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, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it was derived.

Handwritten signature of Isabel Bernauk in cursive script.

San Francisco, California
November 04, 2019

PATHWAY SOCIETY, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 59,992	\$ 996,524
Grants Receivable	2,320,037	1,155,172
Prepaid Assets	123,879	138,421
Total Current Assets	<u>2,503,908</u>	<u>2,290,117</u>
Fixed Assets		
Property and Equipment	1,273,321	1,261,721
Less: Accumulated Depreciation	<u>(893,156)</u>	<u>(856,845)</u>
Net Fixed Assets	380,165	404,876
Other Non-Current Assets		
Deposits and Other Assets	<u>85,218</u>	<u>96,236</u>
TOTAL ASSETS	\$ <u><u>2,969,291</u></u>	\$ <u><u>2,791,229</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 488,371	\$ 397,940
Accrued pension contribution	389,021	339,349
Deferred compensation payable	39,278	53,496
Resident Fund Payable	-	410
Total Current Liabilities	<u>916,670</u>	<u>791,195</u>
TOTAL LIABILITIES	<u>916,670</u>	<u>791,195</u>
Net Assets		
Without Donor Restrictions	<u>2,052,621</u>	<u>2,000,034</u>
Total Net Assets	<u>2,052,621</u>	<u>2,000,034</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u><u>2,969,291</u></u>	\$ <u><u>2,791,229</u></u>

See notes to the financial statements.

PATHWAY SOCIETY, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018

	Without Donor Restrictions	
	<u>2019</u>	<u>2018</u>
REVENUE		
Grant Revenue		
County of Santa Clara	\$ 6,207,866	\$ 5,737,666
Medi-Cal	2,145,156	1,825,161
U.S. District Court	280,510	19,862
Contributions and Other Revenue		
Contract Fees	39,969	35,573
Counseling, training, and intake fees	173,279	187,175
Other program income	117,685	116,674
Donated services	6,638	14,064
Donated food	84,627	61,998
Contributions	1,067	4,232
Interest Income	-	14
Total Revenue	<u>9,056,797</u>	<u>8,002,419</u>
EXPENSES		
Program Services:		
Residential services	6,849,928	5,962,940
Outpatient counseling		
and relapse prevention	658,566	455,768
Youth counseling and intervention	301,224	330,428
Public Awareness & Education	69,471	151,844
Support Services:		
General and administrative	1,116,172	1,063,792
Fundraising	5,249	7,343
Total Expenses	<u>9,000,610</u>	<u>7,972,115</u>
CHANGE IN NET ASSETS	56,187	30,304
INCREASE/(DECREASE) IN NET ASSETS		
Net Assets - Beginning of Year	2,000,034	1,973,330
Depreciation on fixed assets purchased		
with restricted funds	<u>(3,600)</u>	<u>(3,600)</u>
NET ASSETS - END OF YEAR	<u>\$ 2,052,621</u>	<u>\$ 2,000,034</u>

See notes to the financial statements.

PATHWAY SOCIETY, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenue Over/(Under) Expenses	\$ 56,187	\$ 30,304
<i>Adjustment to Reconcile Revenue Over/(Under) Expenses To Net Cash Provided By Operating Activities</i>		
Depreciation	32,711	28,892
(Increase)/Decrease In:		
Grants Receivable	(1,164,865)	80,389
Prepaid Assets	14,542	(34,094)
Deposits and Other Assets	11,018	14,526
Increase/(Decrease) In:		
Accounts Payable and Accrued Expenses	90,431	(104,025)
Accrued Pension Contribution	49,672	11,301
Deferred Revenue	-	(7,555)
Deferred Compensation Payable	(14,218)	(14,494)
Resident Fund Payable	(410)	(1,637)
NET CASH PROVIDED BY/ (USED IN) OPERATING ACTIVITIES	<u>(924,932)</u>	<u>3,607</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	<u>(11,600)</u>	<u>(83,911)</u>
NET CASH PROVIDED BY/ (USED IN) INVESTING ACTIVITIES	<u>(11,600)</u>	<u>(83,911)</u>
NET INCREASE/(DECREASE) IN CASH	(936,532)	(80,304)
Beginning Cash and Cash Equivalents Balance, July 1, 2018 and 2017	<u>996,524</u>	<u>1,076,828</u>
ENDING CASH AND CASH EQUIVALENTS BALANCE, JUNE 30, 2019 AND 2018	<u>\$ 59,992</u>	<u>\$ 996,524</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>

See notes to the financial statements.

EXPENSES

See notes to the financial statements

**PATHWAY SOCIETY, INC.,
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018**

Note A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

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

Inpatient Residential Services:

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

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

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

**PATHWAY SOCIETY, INC.,
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018**

Note A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

Outpatient Counseling and Relapse Prevention:

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

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 for each session. 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 in one of the Department of Health Care Services Drug-Medi-Cal Certified outpatient counseling centers at Pathway Society.

Youth Treatment Counseling and Intervention:

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

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

Basis of Accounting

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

**PATHWAY SOCIETY, INC.,
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018**

Note A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Basis of Presentation

Pathway Society 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.

New Accounting Pronouncement

Effective December 15, 2018, the Organization adopted FASB Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, ("ASU 2016-14"). The provisions of ASU 2016-14 are intended to simplify and improve the presentation of net assets, as well as information regarding liquidity, financial performance and cash flows. ASU 2016-14 revises the net asset classification structure to two classes (net assets with donor restrictions and net assets without donor restrictions) instead of the previous three. ASU 2016-14 also enhances disclosures for self-imposed limits on the use of resources both with and without donor-imposed restrictions and requires qualitative disclosures on liquidity and the availability of resources to fund operations.

Implementation of ASU 2016-14 did not require reclassification or restatement of any opening balances related to the period presented. The Organization's net assets previously reported as unrestricted are now reported as net assets without donor restrictions. The Organization's net assets previously reported as temporarily restricted are now reported as net assets with donor restrictions.

Tax Status

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

Management believes that Pathway has no uncertain tax positions as of June 30, 2019.

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.

**PATHWAY SOCIETY, INC.,
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018**

Note A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Pathway's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Allocation of Expenses

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

Cash and Cash Equivalents

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

Fixed Assets

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

	2019	2018
Land	\$ 190,526	\$ 190,526
Buildings	176,571	176,571
Building Improvements	467,626	383,715
Equipment and Vehicles	438,598	510,909
Total Fixed Assets	<u>\$ 1,273,321</u>	<u>\$ 1,261,721</u>

Accumulated depreciation for June 30, 2019 and 2018 is \$893,156 and \$856,845, respectively.

**PATHWAY SOCIETY, INC.,
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018**

Note A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

Revenue Recognition

Contributions are recognized when the donor makes a promise to give to the Organization 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
FOR THE YEAR ENDED JUNE 30, 2019
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018**

Note A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 \$6,638 in 2019 and \$14,064 in 2018. Donated food totaled \$84,627 in 2019 and \$61,998 in 2018.

Note B: GRANTS RECEIVABLE

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

Program	2019	2018
County of Santa Clara	\$ 2,236,031	\$ 1,133,661
U.S. District Court	67,644	1,178
Fees and other	16,362	20,333
TOTAL GRANTS RECEIVABLE	<u>\$ 2,320,037</u>	<u>\$ 1,155,172</u>

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

Note C: PENSION PLAN

Pathway has a defined contribution pension plan covering all regular, full-time employees who have been with Pathway for six months and are at least twenty-one years of age and complete over 1,000 hours of service during the plan year. Starting July 2002, employees become 20% vested after two years of employment and are fully vested after six years. In July 2017, Pathway has elected to make Safe Harbor Nonelective Employer Contributions to all eligible Participants in an amount equal to 3% of the eligible compensation if they are eligible to participate in the Plan during the Plan Year. Employees are 100% vested in the Safe Harbor contributions when made. Total contribution expense was \$389,020 in 2019 and \$339,349 in 2018.

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, 2019 and 2018 were \$39,278 and \$53,496, respectively. The same amount is included in deposits and other assets.

PATHWAY SOCIETY, INC.,
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018

Note D: LINE OF CREDIT

Pathway has a line of credit with a bank providing up to \$150,000 through March 15, 2020. Borrowings are at the bank's prime rate plus 1.50% and are secured by Pathway's assets. The line of credit is subject to annual bank review. As of June 30, 2019 and 2018, \$0 and \$0 had been drawn down and was outstanding, respectively.

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

Pathway is the lessee of certain real properties and equipment. Rent expense for the years ended June 30, 2019 and 2018 was \$638,342 and \$606,296 respectively for month to month operating leases.

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

2020	\$ 48,986
2021	48,295
2022	<u>4,123</u>
TOTAL LEASE COMMITMENTS	<u>\$ 101,404</u>

**PATHWAY SOCIETY, INC,
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018**

Note G: CONTINGENCIES

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

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

Note H: LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Organization'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	\$ 59,992
Accounts Receivable	2,320,038
Total Financial Assets	<u>2,380,029</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,380,029</u>

The Organization has \$2,380,029 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures including cash of \$59,992. 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.

The Organization 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 \$1,100,000.

**PATHWAY SOCIETY, INC,
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018**

Note H: LIQUIDITY AND AVAILABILITY OF RESOURCES – Continued

The Organization 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, the Organization invests cash in excess of daily requirements in various short term investments, including certificate of deposits and short term treasury instruments. The Organization has a line of credit with Wells Fargo Bank in the amount of \$150,000. There were no borrowings against the credit line at June 30, 2019.

Note I: EVALUATION OF SUBSEQUENT EVENTS

The Organization evaluated all subsequent events through November 04, 2019, 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

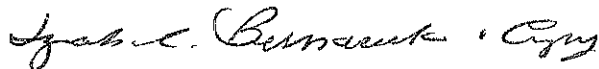
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**REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

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

We have audited the financial statements of Pathway Society, Inc. for the year ended June 30, 2019, and have issued our report thereon dated November 04, 2019, 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
November 04, 2019

PATHWAY SOCIETY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

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, 2019. 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.
Santa Clara, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Pathway Society, Inc., which comprise the statement of financial position as of June 30, 2019, 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 04, 2019.

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.

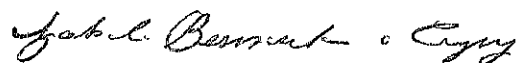
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Handwritten signature of Gabriel L. Bernstein in cursive script.

San Francisco, California
November 04, 2019

**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.
Santa Clara, 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, 2019. 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, 2019.

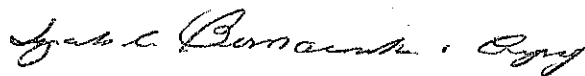
Report on Internal Control Over Compliance

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
November 04, 2019

PATHWAY SOCIETY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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	HIGH 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, 2019

There were no prior year findings.

IZABAL, BERNACIAK & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

388 Market Street, Suite 888
San Francisco, California 94111

Tel. (415) 896-5551
Fax (415) 896-0584

November 04, 2019

To the Board of Directors
PATHWAY SOCIETY, INC.
Santa Clara, CA

We have audited the financial statements of Pathway Society, Inc. for the year ended June 30, 2019, and have issued our report thereon dated November 04, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Pathway Society, Inc. are described in Note A to the financial statements. As described in Note A, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities as of and for the year ended June 30, 2019. The requirements of the ASU have been applied retrospectively to all periods presented as if the policy had always been used. We noted no transactions entered into by the Organization during the year for which there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The financial statements disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 04, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Pathway Society, Inc.'s financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

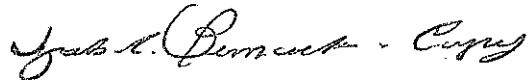
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Pathway Society, Inc.'s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of Pathway Society, Inc.'s management and Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, appearing to read "John L. Demme".

San Francisco, California