

Pathways, Inc.

Financial Statements

Year Ended December 31, 2010

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TIM CLARK & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

Board of Directors
Pathways, Inc.

We have audited the accompanying statement of financial position of Pathways, Inc. as of December 31, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Pathways, Inc.'s management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pathways, Inc. as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2011 on our consideration of Pathways, Inc.'s internal control over financial reporting and our tests of 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Pathways, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Tim Clark & Associates, P.C.

May 25, 2011

Tim Clark & Associates, P.C.
Birmingham, Alabama

PATHWAYS, INC.
Statement of Financial Position
December 31, 2010

Assets

Current assets:

Cash	\$ 128,756
Investments	128,249
Prepaid expenses	720
Accounts receivable	16,363
Grant funds receivable	65,306
	339,394

Total current assets

Property and equipment - net

1,763,004

Total assets

\$ 2,102,398

Liabilities and net assets

Current liabilities:

Accrued expenses	\$ 5,243
Accounts payable	35,087
Due to United Way	25,633
Note payable	60,000
	125,963

Total current liabilities

Net Assets:

Unrestricted	1,976,435
	1,976,435

Total net assets

Total liabilities and net assets

\$ 2,102,398

See accompanying notes to financial statements

PATHWAYS, INC.
Statement of Activities
Year Ended December 31, 2010

<i>Support and revenue</i>	
Grants and contracts	\$ 767,657
United Way allocation	324,109
Contributions	240,151
Rent	18,902
Special events, net	25,639
Interest earned	749
<i>Total support and revenue</i>	1,377,207
 <i>Expenses and losses</i>	
Program services	1,373,787
Management and general	142,356
Fundraising	8,888
<i>Total expenses</i>	1,525,031
<i>Increase (decrease) in unrestricted net assets</i>	(147,824)
<i>Unrestricted net assets, beginning of year</i>	2,124,259
<i>Unrestricted net assets, end of year</i>	\$ 1,976,435

See accompanying notes to financial statements

PATHWAYS, INC.
Statement of Functional Expenses

Year Ended December 31, 2010

	Day Center	Program Services				Support Services			Total
		Transitional Shelter	Transitional Housing	Employment Readiness	Management and General	Fundraising			
Conferences, conventions, training	\$ 574	1,493	459	345	-	-	-	2,871	
Contract labor	13,766	1,721	1,721	-	-	-	-	17,208	
Depreciation	26,671	27,659	25,684	12,842	5,927	-	-	98,783	
Employee benefits	10,942	35,014	10,212	7,295	8,754	729	-	72,946	
Equipment and supplies	2,235	6,854	2,086	1,490	2,235	-	-	14,900	
Financial assistance	776	16,499	2,135	-	-	-	-	19,410	
Food	2,559	47,985	13,436	-	-	-	-	63,980	
Insurance	5,607	18,691	14,953	4,673	2,804	-	-	46,728	
Interest	-	-	345	-	76	-	-	421	
Office and postage	522	5,745	5,222	-	1,565	-	-	13,054	
Other	434	2,976	1,240	620	930	-	-	6,200	
Outside consultation	7,632	15,265	14,311	4,770	5,724	-	-	47,702	
Payroll taxes	9,062	28,999	8,458	6,042	7,250	604	-	60,415	
Program supplies	1,401	5,604	-	-	-	-	-	7,005	
Rental	-	16,820	7,208	-	-	-	-	24,028	
Repairs and maintenance	25,016	61,705	53,366	16,677	10,006	-	-	166,770	
Salaries	107,549	344,156	100,379	71,699	86,039	7,170	-	716,992	
Subscriptions, reference, printing	1,206	4,020	2,010	804	-	-	-	8,040	
Telephone	6,648	7,880	3,940	2,462	3,447	246	-	24,623	
Utilities	14,852	50,498	18,813	9,902	4,951	-	-	99,016	
Vehicles and travel	3,206	4,182	2,370	1,394	2,648	139	-	13,939	
	<u>\$ 240,658</u>	<u>703,766</u>	<u>288,348</u>	<u>141,015</u>	<u>142,356</u>	<u>8,888</u>	<u>-</u>	<u>1,525,031</u>	

See accompanying notes to financial statements

PATHWAYS, INC.
Statement of Cash Flows
Year Ended December 31, 2010

<i>Cash flows from operating activities:</i>	
Change in net assets	\$ (147,824)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:	
Depreciation	98,783
Change in grants receivable	51,479
Change in prepaid expenses	(720)
Change in net due to/from United Way	65,608
Change in accounts receivable	(2,619)
Change in accounts payable	<u>(14,307)</u>
<i>Net cash provided (used) by operating activities</i>	50,400
 <i>Cash flows from investing activities:</i>	
Purchases of property and equipment	(13,735)
Net proceeds, purchases, and reinvestment of interest in CD's	<u>1,574</u>
<i>Net cash provided (used) by investing activities</i>	<u>(12,161)</u>
 <i>Cash flows from financing activities:</i>	
Net proceeds (payments) on line of credit	<u>60,000</u>
<i>Net cash provided (used) by financing activities</i>	<u>60,000</u>
<i>Net increase (decrease) in cash</i>	98,239
<i>Cash at beginning of year</i>	<u>30,517</u>
<i>Cash at end of year</i>	<u><u>\$ 128,756</u></u>

See accompanying notes to financial statements

PATHWAYS, INC.
Notes to Financial Statements
December 31, 2010

(1) Summary of significant accounting policies

(a) Organization and purpose

Pathways, Inc. (the Organization) was incorporated under the laws of the State of Alabama. The Organization was established to provide shelter, food, and clothing for women and children on an emergency and/or transitional basis, and to provide the supportive services necessary to help families return to permanent housing. These services are provided through the following programs: Day Center, Transitional Shelter, Transitional Apartments and Houses, Employment Readiness, and Permanent Housing.

(b) Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets represent revenues and expenses related to the operation and management of the Organization's primary programs and supporting services. If funds are raised and set aside by the Board for future use, these are considered unrestricted.

Temporarily restricted net assets represent resources available for use, but expendable only for the purposes or time period specifically stated by the donor. Temporarily restricted contributions that are expended for their restricted purpose in the same period as received may be recorded as unrestricted.

Permanently restricted net assets are assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Government grants are accounted for as unrestricted, exchange transactions. Income from these and other exchange transactions is deferred and recognized over the periods to which the revenue is related.

PATHWAYS, INC.
Notes to Financial Statements
(Continued)

(1) **Summary of significant accounting policies** *(continued)*

(c) Basis of accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

(d) Cash

For purposes of the Statement of Cash Flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash.

(e) Investments

Marketable investments, as applicable, are presented in the financial statements at fair value. Other investments are stated at cost at the date of acquisition or appraised value at the date of donation.

(f) Donated materials

Some donated materials have not been recognized in the financial statements because there is no objective basis available to measure the value of such services.

(g) Property and equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. The Organization follows the practice of capitalizing, at cost, all expenditures for fixed assets over \$1,500. Depreciation is based on the straight line method over the estimated useful lives of the assets acquired.

PATHWAYS, INC.
Notes to Financial Statements
(Continued)

(1) **Summary of significant accounting policies** *(continued)*

(h) Income taxes

The Organization is a tax exempt entity under section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is reflected in the accompanying financial statements. The Organization's Department of the Treasury information returns are subject to examination, generally for three years after the filing date.

(i) Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

(j) Donated goods and services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Volunteers also provide services that are not recognized as contributions in the financial statements since the recognition criteria were not met. Materials, certain facilities, and other assets received as donations are recorded at their fair values at the date of receipt and are reflected as contributions and expenses in the accompanying financial statements.

(k) Compensated absences

Employees are entitled to paid vacations, sick days, and personal days off, depending on job classification, length of service, and other factors. It is impractical to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. It is the Organization's policy to recognize the cost of compensated absence when actually paid.

PATHWAYS, INC.
Notes to Financial Statements
(Continued)

(1) Summary of significant accounting policies *(continued)*

(l) Expense allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(m) Promises to give

Unconditional promises to give are recognized as revenues or gains in the period received and concurrently as assets, decrease of liabilities, or expenses, depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

(n) Advertising

Advertising and promotional costs are charged to expense as incurred.

(2) Cash

Cash consists of \$128,756 at December 31, 2010 deposited primarily in an operating checking account, as well as guest and other accounts. None of this money consists of federal funds.

(3) Investments

Investments consist of \$128,249 in certificates of deposit.

(4) Due from/to United Way of Central Alabama, Inc.

Due from/to United Way represents the cumulative excess/deficit of Organization funds deposited with United Way of Central Alabama, Inc. over/under the cumulative amount of Organization expenditures.

PATHWAYS, INC.
Notes to Financial Statements
(Continued)

(5) Grant funds receivable

Grant funds receivable at December 31, 2010 consist of the following:

City of Birmingham (ESG and CDBG)	\$ 19,629
Housing and Urban Development (YWCA)	21,697
Housing and Urban Development (direct)	<u>23,980</u>
	<u>\$ 65,306</u>

(6) Property and Equipment

Property and equipment consists of the following at December 31, 2010:

Land	\$ 178,520
Furniture, fixtures, and equipment	316,247
Buildings and improvements	2,692,550
Organization vehicles	<u>29,493</u>
	3,216,810
Less accumulated depreciation	<u>(1,453,806)</u>
	<u>\$ 1,763,004</u>

(7) Accrued expenses

Accrued expenses are primarily related to payroll deductions.

PATHWAYS, INC.
Notes to Financial Statements
(Continued)

(8) Line of credit

The Organization has available a \$100,000 revolving line of credit demand note, with an interest rate at 2.4%. Under terms of the note, the Organization is required to pay all accrued and unpaid interest monthly. If no demand is made prior to that time, the full principal balance is due August 28, 2011. The total amount of funds available for withdrawal at December 31, 2010 is \$40,000.

(9) Grant support from Governmental Agencies

The Organization relies upon grant funding for most operations. For the year ended December 31, 2010, the Organization received federal grant support as follows:

U.S. Dept. of Housing and Urban Development Emergency Shelter and Community Development Block Grant passed through the City of Birmingham	\$ 224,487
U.S. Dept. of Housing and Urban Development Emergency Shelter Grants passed through Jefferson County	12,346
U.S. Dept. of Housing and Urban Development Community Development Block Grant - direct	280,515
U.S. Dept. of Housing and Urban Development Community Development Block Grant passed through YWCA	162,705
Federal Emergency Management Act, National Board Program – direct	76,604
U. S. Health and Human Services Child Abuse and Neglect Grant passed through the State of Alabama	<u>11,000</u>
	<u>\$ 767,657</u>

PATHWAYS, INC.
Notes to Financial Statements
(Continued)

(10) Contingency

The Organization has acquired certain property and equipment with federal funds, the aggregate cost of which is not determinable. Title to such property and equipment remains with the grantor agency. As a result, the Organization could be required to return such property and equipment under certain conditions, including discontinuance of the grant.

(11) Pension Plan

The Organization has a defined contribution plan under Section 403(b) of the Internal Revenue Code. Under the plan the Organization contributes, as a percent of salary, to the accounts of all employees who are at least twenty-one years old and have completed one year of service. Employees gradually vest over a period of seven years' service. Pension expense amounted to \$9,094 for the year ended December 31, 2010 and is included in employee benefits in the financial statements.

(12) Supplementary cash flow information

During the year ended December 31, 2010, the Organization paid interest of \$421.

(13) Fundraising support

Special events for the year ended December 31, 2010 is comprised of:

Revenue	\$ 36,534
Direct costs	<u>10,895</u>
	<u>\$ 25,639</u>

(14) Evaluation of subsequent events

The Organization evaluated subsequent events through the date of the auditors' report (which is also the date the financial statements were available to be issued) and concluded that no events or transactions occurred during that period which require recognition or disclosure.

PATHWAYS, INC.
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2010

Federal grantor / Pass-Through Grantor / Program Title	CFDA Number	Pass-through number	Federal Expenditures
<i>U.S. Department of Housing and Urban Development</i>			
Direct Programs:			
Community Development Block Grant	14.218	N/A	\$ 132,846
Community Development Block Grant	14.218	N/A	147,670
Passed through the City of Birmingham:			
Emergency Shelter Grant (City)	14.231	HUD ESG PY 36	37,671
Emergency Shelter Grant (City)	14.231	HUD ESG PY 35	71,913
Community Development Block Grant	14.231	CDBG PY 36	57,294
Community Development Block Grant	14.231	CDBG PY 35	57,608
Passed through Jefferson County:			
Emergency Shelter Grant	14.231	FESG-09-03T-05-PAT	12,346
Passed through the YWCA:			
Community Development Block Grant	14.218	AL0023B4C000801	162,705
<i>Subtotal - Department of Housing and Urban Development</i>			<u>680,053</u>
<i>Federal Emergency Management Act</i>			
Direct Programs:			
Emergency Food and Shelter	97.024	N/A	<u>76,604</u>
<i>Subtotal - Federal Emergency Management Act</i>			76,604
<i>Department of Health and Human Services</i>			
Passed through the State of Alabama:			
Child Abuse and Neglect Services	93.669	N/A	<u>11,000</u>
<i>Subtotal - Department of Health & Human Services</i>			<u>11,000</u>
<i>Total federal expenditures</i>			<u><u>\$ 767,657</u></u>

See accompanying notes to schedule of expenditures of federal awards

Pathways, Inc.
Notes to Schedule of Expenditures of Federal Awards
December 31, 2010

(1) Summary of Significant Accounting Policies

(a) Basis of accounting

The schedule of expenditures of federal awards of Pathways, Inc. has been prepared on the accrual basis of accounting. This basis is consistent with that of the general purpose financial statements.

TIM CLARK & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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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
Pathways, Inc.

We have audited the financial statements of Pathways, Inc. (a nonprofit organization) as of and for the year ended December 31, 2010, and have issued our report thereon dated May 25, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pathways, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiency "2010—1" described in the accompanying schedule of findings

and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

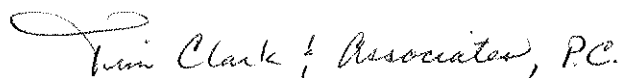
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pathways, 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*.

Pathways, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Pathways, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



May 25, 2011

Tim Clark & Associates, P.C.
Birmingham, Alabama

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Pathways, Inc.

Compliance

We have audited the compliance of Pathways, Inc. (a nonprofit organization) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2010. Pathways, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Pathways, Inc.'s management. Our responsibility is to express an opinion on Pathways, Inc.'s compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pathways, 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. Our audit does not provide a legal determination on Pathways, Inc.'s compliance with those requirements.

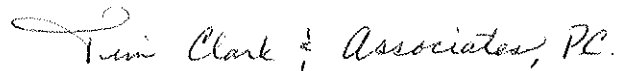
In our opinion, Pathways, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

The management of Pathways, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Pathways, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



May 25, 2011

Tim Clark & Associates, P.C.
Birmingham, Alabama

PATHWAYS, INC.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2010

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

2010-1 *Condition*: Size of Organization precludes desired segregation of duties with regard to cash receipts and disbursements.
Criteria: Ideally, all functions related to financial transactions involving cash and the related recording of transactions should be segregated. Also, additional controls related to books of account, reporting, and originating documents would be required.
Effect: The size of the Organization precludes the ideal segregation of duties, and therefore there is opportunity for error or fraud to occur and not be identified during the normal course of employees performing their duties.
Recommendation: We understand that the size of the Organization precludes an ideal broad set of controls. In addition, the Organization will find itself limited in its options when cost/benefit considerations are contemplated. However, we believe it is our professional responsibility to make management and the Board aware of these items.
Perhaps management and the Board could periodically review the design and implementation of procedures with a view toward evaluating the effectiveness of the design as well as the scope of implementation and performance. This could lead to eliminating, adding, or changing the design and implementation of procedures.

Any noncompliance material to financial statements noted? No

PATHWAYS, INC.
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2010

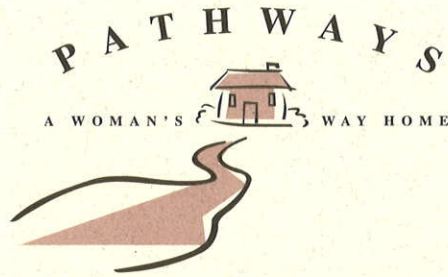
Federal Awards

Internal control over major programs:	
Any material weakness identified?	No
Any reportable condition identified not considered to be material weakness?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	No

Identification of major programs:

<u>CFDA numbers</u>	<u>Name of Federal Program or Cluster</u>
14.218	Housing and Urban Development Community Development Block Grant Supportive Housing Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	Yes



CORRECTIVE ACTION PLAN

May 25, 2011

United States Department of Housing and Urban Development

Pathways, Inc. respectfully submits the following corrective action plan for the year ended December 31, 2010.

Name and address of the independent public accounting firm:

Tim Clark & Associates, P.C.
2 Riverchase Office Plaza
Suite 200
Birmingham, Alabama 35244

Audit period: Year ended December 31, 2010

The findings from the December 31, 2010 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Findings—financial statement audit

2010—1 Cash receipts and disbursements

Recommendation: Periodic review of the design, implementation, and performance of control procedures with a view toward evaluating the effectiveness of the design of controls as well as the scope of implementation and performance of control procedures in the normal course of employees performing their duties.

Action taken: We understand and concur with the observation that we are unable to design and implement controls that will serve to segregate all functions related to the receipt and disbursement of cash. Due to the size and nature of our operations, we would not be able to afford to hire enough people to segregate all the functions related to cash. So even though we understand the problem and desire to have such controls, our situation is such that it would not be cost-effective to hire enough people and undertake measures to completely remedy this situation. However, we periodically review the design and implementation of control procedures with a view toward evaluating the effectiveness of

the design of controls as well as the scope of implementation and performance of control procedures in the normal course of employees performing their duties. Based on these reviews we will consider the need to eliminate, change the design, monitor implementation and performance of control procedures.