

PATHWAYS, INC.
FINANCIAL REPORT
DECEMBER 31, 2019

PATHWAYS, INC.

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
Pathways, Inc.
Birmingham, Alabama**

We have audited the accompanying financial statements of Pathways, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 entity'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 entity'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 Pathways, Inc. as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Mauldin & Jenkins, LLC".

Birmingham, Alabama
March 19, 2021

PATHWAYS, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2019 AND 2018

<u>Assets</u>	<u>2019</u>	<u>2018</u>
Current assets		
Cash	\$ 147,856	\$ 43,055
Certificates of deposit	132,170	131,785
Grant funds receivable	141,243	115,884
Prepaid expense	4,135	-
Total current assets	<u>425,404</u>	<u>290,724</u>
 Property and equipment, net	 <u>410,022</u>	 <u>465,934</u>
 Total assets	 <u><u>\$ 835,426</u></u>	 <u><u>\$ 756,658</u></u>
 <u>Liabilities and Net Assets</u>		
Current liabilities		
Accounts payable	\$ 24,361	\$ 670
Accrued expenses	13,127	37,991
Line of credit	-	19,717
Due to HUD	145,038	145,038
Total current liabilities	<u>182,526</u>	<u>203,416</u>
 Net assets		
Without donor restrictions	579,865	511,242
With donor restrictions	73,035	42,000
Total net assets	<u>652,900</u>	<u>553,242</u>
 Total liabilities and net assets	 <u><u>\$ 835,426</u></u>	 <u><u>\$ 756,658</u></u>

See Notes to Financial Statements.

PATHWAYS, INC.

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Grants and contracts	\$ 324,466	\$ 177,926	\$ 502,392
United Way allocation	339,645	-	339,645
Contributions	36,678	10,577	47,255
Rental income	21,537	-	21,537
Special events	26,364	-	26,364
Noncash contributions	4,683	-	4,683
Interest earned	402	-	402
Net assets released from restriction	157,468	(157,468)	-
Total support and revenue	911,243	31,035	942,278
Functional Expenses			
Program services	639,290	-	639,290
Management and general	116,961	-	116,961
Fundraising and development	86,369	-	86,369
Total functional expenses	842,620	-	842,620
Change in Net Assets	68,623	31,035	99,658
Net Assets			
Beginning of year	511,242	42,000	553,242
Net Assets			
End of year	\$ 579,865	\$ 73,035	\$ 652,900

See Notes to Financial Statements.

PATHWAYS, INC.

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Grants and contracts	\$ 312,480	\$ -	\$ 312,480
United Way allocation	337,646	-	337,646
Contributions	71,954	86,469	158,423
Rental income	17,429	-	17,429
Special events	21,780	-	21,780
Noncash contributions	2,081	-	2,081
Interest earned	395	-	395
Net assets released from restriction	52,469	(52,469)	-
Total support and revenue	<u>816,234</u>	<u>34,000</u>	<u>850,234</u>
Functional Expenses			
Program services	620,190	-	620,190
Management and general	132,186	-	132,186
Fundraising and development	58,571	-	58,571
Total functional expenses	<u>810,947</u>	<u>-</u>	<u>810,947</u>
Change in Net Assets	5,287	34,000	39,287
Net Assets			
Beginning of year	<u>505,955</u>	<u>8,000</u>	<u>513,955</u>
Net Assets			
End of year	<u>\$ 511,242</u>	<u>\$ 42,000</u>	<u>\$ 553,242</u>

See Notes to Financial Statements.

PATHWAYS, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2019

	Program Services	Management and General	Fundraising and Development	Total Expenses
Bank and credit card fees	\$ 3,948	\$ 987	\$ -	\$ 4,935
Benefits	12,949	3,000	2,635	18,584
Conferences, conventions and training	-	1,570	-	1,570
Depreciation	81,352	14,356	-	95,708
Dues and subscriptions	2,674	668	-	3,342
Equipment and supplies	7,022	781	-	7,803
Financial assistance	3,728	-	-	3,728
Food	26,019	-	-	26,019
Fundraising	-	-	21,575	21,575
In-kind	2,837	709	1,136	4,682
Insurance	28,222	7,015	642	35,879
Interest	142	36	-	178
Miscellaneous	122	30	-	152
Office supplies	3,203	1,068	1,068	5,339
Payroll taxes	21,898	5,087	4,472	31,457
Professional services	88,085	8,865	-	96,950
Program expense	3,581	-	-	3,581
Repairs and maintenance	49,457	7,163	2,503	59,123
Salary	250,116	58,100	51,084	359,300
Utilities	53,935	7,526	1,254	62,715
	\$ 639,290	\$ 116,961	\$ 86,369	\$ 842,620
Total expenses				

See Notes to Financial Statements.

PATHWAYS, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2018

	Program Services	Management and General	Fundraising and Development	Total Expenses
Bank and credit card fees	\$ 2,996	\$ 798	\$ -	\$ 3,794
Benefits	34,584	8,412	3,739	46,735
Conferences, conventions and training	-	815	-	815
Depreciation	81,014	14,297	-	95,311
Dues and subscriptions	3,306	867	-	4,173
Equipment and supplies	5,553	617	-	6,170
Food	30,799	-	-	30,799
Fundraising	-	-	1,731	1,731
Insurance	19,035	4,759	-	23,794
Interest	777	777	-	1,554
Marketing	1,526	-	4,577	6,103
Miscellaneous	285	731	-	1,016
Office supplies	730	243	243	1,216
Payroll taxes	23,449	5,685	2,527	31,661
Postage	345	59	121	525
Printing	1,810	440	610	2,860
Professional services	36,447	12,149	12,149	60,745
Program expense	5,132	-	-	5,132
Repairs and maintenance	29,599	3,289	-	32,888
Salary	293,966	71,462	31,761	397,189
Utilities	48,837	6,786	1,113	56,736
	<u>620,190</u>	<u>132,186</u>	<u>58,571</u>	<u>810,947</u>
Total expenses	<u>\$ 620,190</u>	<u>\$ 132,186</u>	<u>\$ 58,571</u>	<u>\$ 810,947</u>

See Notes to Financial Statements.

PATHWAYS, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 99,658	\$ 39,287
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	95,708	95,311
Increase in grants and other receivables	(25,359)	(4,204)
Increase in prepaid expense	(4,135)	-
Increase in accounts payable	23,691	670
Decrease in accrued liabilities	(24,864)	(5,030)
	<u>164,699</u>	<u>126,034</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(39,796)	(24,468)
Proceeds from certificates of deposit - reinvested	(385)	(395)
	<u>(40,181)</u>	<u>(24,863)</u>
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds borrowed against (repayment on) line of credit	(19,717)	(69,623)
	<u>(19,717)</u>	<u>(69,623)</u>
Net cash used in financing activities		
Net increase in cash	104,801	31,548
Cash at beginning of year	43,055	11,507
Cash at end of year	<u>\$ 147,856</u>	<u>\$ 43,055</u>
Interest paid	\$ 178	\$ 1,554

See Notes to Financial Statements.

PATHWAYS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

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, Emergency Shelter, Employment Readiness, and Supportive Housing.

Basis of Presentation

The Organization presents its financial statements in accordance with the Financial Accounting Standards Board’s Accounting Standards Codification (ASC) 958, Financial Statements for Not-For-Profit Organizations. Under ASC 958, the Organization is required to report information regarding its financial position and activities according to two categories of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets with donor restrictions are subject to donor-imposed restrictions that may be either by the actions of the Organization or the passage of time. Reclassifications of beginning restricted balances may change due to superseded pledge agreements signed subsequent to year end or clarification with donors. These changes are reflected as transfers on the statement of activities. The Organization had \$73,035 and \$40,000 of net assets with donor restrictions as of December 31, 2019 and 2018, respectively.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and, accordingly, reflect all significant receivables, payables, and other liabilities, if any.

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly.

Recently Issued and Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which provides guidance for revenue recognition. This ASU’s core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects consideration to which the organization expects to be entitled in exchange for those goods or services.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which establishes standards for characterizing grants and similar contracts with resource providers as either exchange transactions or contributions. The Organization adopted the new guidance in ASU No. 2014-09 and ASU No. 2018-08 as of January 1, 2019. There was no impact to the Organization’s revenue recognition policies.

In November 2016, FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The Company adopted the provisions of this new standard during the year ended December 31, 2019. The update requires that the statement of cash flows explains the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or cash equivalents. The adjustment did not have an effect on total assets or retained earnings for the year ended December 31, 2018.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

The Organization recognizes contributions when cash, securities or other assets; an unconditional promise to give; or notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position.

Promises to give to the Organization in the form of cash or other assets to be received in the future are recorded as contribution revenue (with donor restrictions). If management expects the cash from the receivable to be received more than one year in the future, the contribution revenue and related asset is discounted for the time value of money.

All contributions are considered to be available for general programs of the Organization unless specifically restricted by the donor. Amounts received that are restricted for future periods, or are restricted by the donor for specific purposes, are reported as with donor restriction.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets are reclassified to net assets without donor restriction and reported in the statement of activities as net assets released from restrictions.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

The Organization includes cash and cash equivalents (defined as financial instruments having an original maturity of three months or less when purchased) in cash flows for each year. The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

Certificate of Deposit

In 2019, the Organization held a certificate of deposit (CD) that automatically renewed in September 2018 with a maturity term of 36 months with quarterly interest deposits and is presented at fair value. In 2020, the CD was converted into a money market account. The bank agreed to waive all penalty fees associated with this conversion.

Property and Equipment

Property and equipment is 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. Lives range from 5 years for furniture, fixtures and autos, 7 years for equipment, 15 years for leaseholds and 27.5 years for buildings.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

Employees are entitled to paid vacation, sick days, and personal days, depending on job classification, length of service, and other factors. Unused sick days are permitted to be rolled forward at the rate of five days per full calendar year up to a maximum of sixty days. Total liability for all compensated absences at December 31, 2019 and 2018 is \$3,399 and \$20,367, respectively, and is included with accrued expenses on the accompanying Statement of Financial Position.

Contributions

All contributions are considered to be available for general programs of the Organization unless specifically restricted by the donor. Amounts received that are restricted for future periods, or are restricted by the donor for specific purposes, are reported as net assets with donor restrictions.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as contributions with donor restrictions and released from restriction in the statement of activities.

Income Taxes

The Organization is exempt from Federal and State income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes has been made in the accompanying financial statements.

Management of the Organization considers the likelihood of a change by taxing authorities in its exempt organization returns and discloses potential significant changes that management believes are more likely than not to occur upon examination by tax authorities. Management has not identified any uncertain tax positions in filed returns that require disclosure in the accompanying financial statements.

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 recognition criteria were not met. Materials, certain facilities, and other assets received as donations are recorded at fair values at the date of receipt and are reflected as contributions and expenses in the accompanying financial statements. The Organization received \$4,683 and \$2,081 in donated goods for the years ended December 31, 2019 and 2018, respectively.

Functional Expense Allocation

The costs of providing various programs and other activities and the administration of the Organization have been summarized on a functional basis in the Statement of Activities. Expenses are charged directly to program, general and administrative, and fundraising categories based on specific identification, and certain indirect expenses have been allocated based on level of effort.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. LIQUIDITY AND AVAILABILITY

The Organization's working capital and cash flows have variations during the year. The Organization manages liquidity during the year by utilizing the following strategies: operating with a balanced budget which assumes collection of sufficient revenue via contributions and grants to cover operating expenditures not covered by donor-restricted resources, regular analysis of actual operating results versus budget.

The following table reflects the Organization's total financial assets as of December 31, 2019, and the amounts of those financial assets which could be made available within 12 months to meet operating expenditures:

	December 31,	
	2019	2018
Financial assets:		
Cash and cash equivalents	\$ 147,856	\$ 43,055
Certificate of deposit	132,170	131,785
Receivables	141,283	115,884
Less: Time restrictions on certificate of deposit	-	(131,785)
Less: Purpose restrictions included in receivables	(65,000)	(42,000)
Less: Purpose restrictions included in cash	(8,035)	-
	\$ 348,274	\$ 116,939

NOTE 3. GRANT FUND RECEIVABLES

Grant fund receivables consist of the following:

	December 31,	
	2019	2018
City of Birmingham (ESG and CDBG)	\$ 62,427	\$ 36,949
Housing and Urban Development	12,721	10,920
Local foundation grants	65,000	42,015
Jefferson County (ESG)	1,095	-
FEMA	-	26,000
	\$ 141,243	\$ 115,884

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31,	
	2019	2018
Land	\$ 155,020	\$ 155,020
Furniture, fixtures, and equipment	59,219	54,859
Buildings and improvements	2,009,220	1,973,784
Vehicles	14,041	14,041
Accumulated depreciation	(1,827,478)	(1,731,770)
	\$ 410,022	\$ 465,934

Repairs and maintenance of property and equipment are charged to operations and major improvements are capitalized. Depreciation expense for the years ended December 31, 2019 and 2018 was \$95,708 and \$95,311, respectively.

NOTES TO FINANCIAL STATEMENTS

NOTE 5. LINE OF CREDIT

The Organization has available a \$77,000 revolving line of credit demand note, dated November 20, 2019, that renews annually, with an interest rate of 7.75%. Under terms of the note, the interest rate is variable based on the index, not to be less than 3.75%. The Organization is required to pay all accrued and unpaid interest monthly. In 2019, a change in the line of credit was approved by the board of directors. The line of credit was no longer secured by the certificate of deposit. The new terms state the real estate owned by Pathways would be used as collateral on the line of credit. The maturity date is November 20, 2039. The total amount of funds outstanding at December 31, 2019 and 2018 is \$- and \$19,717, respectively.

NOTE 6. DUE TO HUD

In a previous year, the Organization was involved in claims involving disallowed costs under contracts and grants with the Department of Housing and Urban Development (HUD); some unallowable costs were improperly claimed. Management estimated the amount due to HUD and accrued the liability in the financial statements at December 31, 2014. Discussions were held between management and the local HUD office and the original liability estimated was reduced to reflect the actual unallowable balance due to HUD at December 31, 2019 and 2018 in the amount of \$145,038. Per correspondence in 2020, HUD has agreed to accept a payment of \$24,117 as payment of the debt pending an on-site monitoring visit.

NOTE 7. GRANT AWARDS

Pathways was awarded \$502,392 and \$312,480 in grant funding during 2019 and 2018, respectively. The Organization has one grant that represents 15% and 17% of total revenues in 2019 and 2018, respectively.

NOTE 8. RETIREMENT PLAN

The Organization has a defined contribution plan under Section 403(b) of the Internal Revenue Code. Eligible employees may contribute a portion of their salaries on a tax deferred bases up to prescribed limits. Employee contributions are not required; however, voluntary contributions are allowed. The Organization matches up to 3% of the voluntary contributions once an employee is eligible to participate. Under the plan, employees are eligible who are at least twenty-one years old and have completed one year of service.

Employees gradually vest over a period of seven years of service. The matching contributions to the plan totaled \$- and \$510 for the years ending December 31, 2019 and 2018, respectively.

NOTE 9. NET ASSETS WITH DONOR RESTRICTIONS AND RELEASES FROM RESTRICTION

The Organization had \$73,035 and \$42,000 in net assets with donor restrictions for the years ending December 31, 2019 and 2018, respectively. Net assets with donor restrictions are gifts whose use by the Organization has been limited by donors to a specific purpose or time. Net assets are released from donor restriction by spending the funds on a specific purpose/program satisfying the restricted purpose specified by the donor or by the passage of time. Net assets released from restriction for the years ended December 31, 2019 and 2018 totaled \$157,468 and \$52,469, respectively. The donor restricted amounts were held \$65,000 in grant fund receivables and \$8,035 in cash at December 31, 2019 and \$42,000 in grant fund receivables at December 31, 2018.

NOTES TO FINANCIAL STATEMENTS

NOTE 9. NET ASSETS WITH DONOR RESTRICTIONS AND RELEASES FROM RESTRICTION (Continued)

Net assets with donor restrictions were available for the following purposes:

	December 31,	
	2019	2018
Subject to expenditure for a specified purpose:		
Childcare	\$ 58,035	\$ -
Day Center flooring	-	2,000
Stepping Stones program	-	40,000
Subject to time restriction:		
General Operations	15,000	-
	\$ 73,035	\$ 42,000

NOTE 10. SUBSEQUENT EVENTS

ASC 855-10, Subsequent Events, requires disclosure of events that occur after fiscal year-end but before financial statement issuance. Management has evaluated events occurring through March 19, 2021, the date the financial statements were available to be issued.