

PATHWAYS, INC.
FINANCIAL REPORT
DECEMBER 31, 2018

PATHWAYS, INC.

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TABLE OF CONTENTS

Page

INDEPENDENT AUDITOR’S REPORT	1
FINANCIAL STATEMENTS	
Statements of financial position.....	2
Statements of activities.....	3-4
Statements of functional expenses.....	5-6
Statements of cash flows	7
Notes to financial statements	8-13



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, 2018 and 2017, 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, 2018 and 2017, 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
October 15, 2019

PATHWAYS, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2018 AND 2017

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Current assets		
Cash	\$ 43,055	\$ 11,507
Certificates of deposit	131,785	131,390
Grant funds receivable	115,884	87,563
Other receivables	-	24,117
Total current assets	<u>290,724</u>	<u>254,577</u>
 Property and equipment, net	 <u>465,934</u>	 <u>536,777</u>
 Total assets	 <u><u>\$ 756,658</u></u>	 <u><u>\$ 791,354</u></u>
 <u>Liabilities and Net Assets</u>		
Current liabilities		
Accounts payable	\$ 670	\$ -
Accrued expenses	37,991	43,021
Line of credit	19,717	89,340
Due to HUD	145,038	145,038
Total current liabilities	<u>203,416</u>	<u>277,399</u>
 Net assets		
Without donor restrictions	511,242	505,955
With donor restrictions	42,000	8,000
Total net assets	<u>553,242</u>	<u>513,955</u>
 Total liabilities and net assets	 <u><u>\$ 756,658</u></u>	 <u><u>\$ 791,354</u></u>

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	816,234	34,000	850,234
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	810,947	-	810,947
Change in Net Assets	5,287	34,000	39,287
Net Assets			
Beginning of year	505,955	8,000	513,955
Net Assets			
End of year	\$ 511,242	\$ 42,000	\$ 553,242

See Notes to Financial Statements.

PATHWAYS, INC.

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Grants and contracts	\$ 466,028	\$ -	\$ 466,028
United Way allocation	352,079	-	352,079
Contributions	142,049	29,989	172,038
Rental income	37,719	-	37,719
Special events	6,699	-	6,699
Interest earned	393	-	393
Litigation proceeds	35,500	-	35,500
Loss on disposal of assets	(48,131)	-	(48,131)
Net assets released from restriction	21,989	(21,989)	-
Total support and revenue	1,014,325	8,000	1,022,325
Functional Expenses			
Program services	802,430	-	802,430
Management and general	174,888	-	174,888
Fundraising and development	82,292	-	82,292
Total functional expenses	1,059,610	-	1,059,610
Change in Net Assets	(45,285)	8,000	(37,285)
Net Assets			
Beginning of year	551,240	-	551,240
Net Assets			
End of year	\$ 505,955	\$ 8,000	\$ 513,955

See Notes to Financial Statements.

PATHWAYS, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total Expenses</u>
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
Total expenses	\$ 620,190	\$ 132,186	\$ 58,571	\$ 810,947

See Notes to Financial Statements.

PATHWAYS, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2017

	Program Services	Management and General	Fundraising and Development	Total Expenses
Bank and credit card fees	\$ 1,101	\$ 4,232	\$ 436	\$ 5,769
Benefits	58,699	16,771	8,386	83,856
Conferences, conventions and training	2,908	1,879	171	4,958
Depreciation	92,084	10,232	-	102,316
Dues and subscriptions	5,876	6,117	1,867	13,860
Equipment and supplies	7,634	898	449	8,981
Financial assistance	4,080	-	-	4,080
Food	22,069	-	-	22,069
Fundraising	-	-	3,172	3,172
Insurance	13,899	6,415	1,069	21,383
Interest	2,728	2,796	589	6,113
Miscellaneous	642	627	151	1,420
Office supplies	2,280	1,136	380	3,796
Payroll taxes	29,521	8,435	4,217	42,173
Postage	684	508	362	1,554
Printing	2,305	388	2,121	4,814
Professional services	42,674	885	885	44,444
Program expense	37,479	-	-	37,479
Repairs and maintenance	58,580	1,684	1,005	61,269
Salary	368,951	105,227	52,613	526,791
Utilities	48,236	6,658	4,419	59,313
	\$ 802,430	\$ 174,888	\$ 82,292	\$ 1,059,610
Total expenses	\$ 802,430	\$ 174,888	\$ 82,292	\$ 1,059,610

See Notes to Financial Statements.

PATHWAYS, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 39,287	\$ (37,285)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	95,311	102,316
Loss on disposal of assets	-	48,131
Increase in grants and other receivables	(4,204)	(76,410)
Increase in accounts payable	670	
Decrease in accrued liabilities	(5,030)	(28,563)
	126,034	8,189
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(24,468)	(14,553)
Proceeds from disposal of property and equipment	-	4,096
Purchases of certificates of deposit	(395)	(391)
	(24,863)	(10,848)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds borrowed against (repayment on) line of credit	(69,623)	1,937
	(69,623)	1,937
Net increase (decrease) in cash	31,548	(722)
Cash at beginning of year	11,507	12,229
Cash at end of year	\$ 43,055	\$ 11,507
Interest paid	1,554	6,113

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 \$40,000 and \$8,000 of net assets with donor restrictions as of December 31, 2018 and 2017, 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.

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.

NOTES TO FINANCIAL STATEMENTS

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

Certificate of Deposit

The Organization holds a certificate of deposit (CD) that automatically renewed in September 2018. The CD has a maturity term of 36 months with quarterly interest deposits and is presented at fair value. The certificate of deposit secures the balance on the Organization's line of credit.

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.

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, 2018 and 2017 is \$20,367 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.

NOTES TO FINANCIAL STATEMENTS

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

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 \$2,081 in donated goods for the year ended December 31, 2018.

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.

NOTE 2. MANAGEMENT'S PLAN OF OPERATION

Management and the board of directors have had significant concerns regarding the Organization's financial position, operations and particularly strains on cash flows for several years. As the majority of the Organization's grant money can only be received after monies are spent on allowable charges based on the particular grants agreements.

In the fall of 2017, a new interim Executive Director was appointed who had significant experience with the Organization. Management and the board then began addressing these concerns through improved operating efficiencies, including expense reductions, which included staff and various expenses that could be delayed. The Organization began to apply for grants it had received in the past but had not recently applied for in addition to new grants that were in-line with the Organization's mission and programs.

In 2018, greater improvements were made by the new full-time Executive Director with further reductions in expense and focus of strengthening the Organization's position by reducing not only the balance but also the use of the line of credit. As of December 31, 2018, the balance due on the line of credit decreased by more than \$69,000 and other liabilities decreased approximately \$4,300. Although a current liability due to HUD remains at December 31, 2018, HUD continues to grant awards and remit payments to Pathways under new grants. The current due to HUD liability is pending an internal inspection of records, which according to correspondence, could potentially reduce the amount owed by Pathways. For the year-ended December 31, 2017, the litigation with the prior accountant relating to the error in submissions to HUD was settled and the net amount of proceeds has been maintained separately pending the outcome of the internal inspection.

As of the end of the 2018, current asset exceed current liabilities by more than \$75,000 and the Organization shows a positive increase in net assets.

NOTES TO FINANCIAL STATEMENTS

NOTE 3. 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, 2018, and the amounts of those financial assets which could be made available within 12 months to meet operating expenditures:

Financial assets at 12/31/18:	
Cash and Certificates of deposit	\$ 174,840
Accounts Receivable	115,884
Less: Certificate of Deposit held as security on LOC	(131,785)
Less: Purpose restrictions included in grant receivables	(42,000)
	\$ 116,939

NOTE 4. GRANT FUND RECEIVABLES

Grant fund receivables consist of the following:

	December 31,	
	2018	2017
City of Birmingham (ESG and CDBG)	\$ 36,949	\$ 75,742
Housing and Urban Development	10,920	11,821
Local foundation grants	42,015	-
FEMA	26,000	-
	\$ 115,884	\$ 87,563

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31,	
	2018	2017
Land	\$ 155,020	\$ 155,020
Furniture, fixtures, and equipment	54,859	54,859
Buildings and improvements	1,973,784	1,949,317
Vehicles	14,041	14,041
Accumulated depreciation	(1,731,770)	(1,636,460)
	\$ 465,934	\$ 536,777

Repairs and maintenance of property and equipment are charged to operations and major improvements are capitalized. Depreciation expense for the years ended December 31, 2018 and 2017 was \$95,311 and \$102,316, respectively.

NOTES TO FINANCIAL STATEMENTS

NOTE 6. LINE OF CREDIT

The Organization has available a \$125,000 revolving line of credit demand note that renews annually, with an interest rate of 3.8%. Under terms of the note, the Organization is required to pay all accrued and unpaid interest monthly. The line of credit expired September 14, 2018. The line was renewed with a new maturity of September 14, 2021. In 2019, a change in the line of credit was approved by the board of directors. The line was lowered to \$77,000 and was no longer secured by the certificate of deposit. The new terms stated the real estate owned by Pathways would be used as collateral on the line of credit. The total amount of funds outstanding at December 31, 2018 and 2017 is \$19,717 and \$89,340, respectively. The line of credit is secured by a certificate of deposit.

NOTE 7. DUE TO HUD

In the 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, 2018 and 2017 in the amount of \$145,038. In 2019, discussions continue with HUD regarding the balance owed.

NOTE 8. GRANT AWARDS

Pathways was awarded \$312,480 and \$466,028 in grant funding during 2018 and 2017, respectively. The Organization has one grant that represents 17% and 20% of total revenues in 2018 and 2017, respectively.

NOTE 9. 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 \$510 and \$1,157 for the years ending December 31, 2018 and 2017, respectively.

NOTE 10. NET ASSETS WITH DONOR RESTRICTIONS AND RELEASES FROM RESTRICTION

The Organization had \$42,000 and \$8,000 in net assets with donor restrictions for the years ending December 31, 2018 and 2017, 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. The current year net asset restriction of \$42,000 is included in grants funds receivable. Net assets released from restriction for the years ended December 31, 2018 and 2017 totaled \$54,469 and \$21,989, respectively.

NOTES TO FINANCIAL STATEMENTS

NOTE 10. NET ASSETS WITH DONOR RESTRICTIONS AND RELEASES FROM RESTRICTION (Continued)

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

	December 31,	
	2018	2017
Subject to expenditure for a specified purpose:		
Day Center flooring	\$ 2,000	\$ 8,000
Stepping Stones program	40,000	-
	<u>\$ 42,000</u>	<u>\$ 8,000</u>

NOTE 11. LITIGATION SETTLEMENT

Pathways, Inc. accepted a settlement offer in October 2017 in the amount of \$35,500 in the lawsuit against the Organization's previous outsourced accountant with regard to improper submission of reimbursable grant funding. The Organization had been in litigation for approximately three years over this matter. The hired attorney had fees contingent upon the case outcome and therefore no legal fees were paid on this matter until 2017 when a settlement was reached. Legal fees and expenses paid directly out of settlement funds totaled \$11,383, leaving Pathways with a net \$24,117 total recovery.

Pathways, Inc. is currently in discussions with HUD regarding the liability due and a potential reduction or complete elimination of the current liability. Pathways is holding the settlement funds in a separate account until a determination is made regarding the liability due.

NOTE 12. 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 October 15, 2019, the date the financial statements were available to be issued.