

**PATHWAYS, INC.  
(A NONPROFIT ORGANIZATION)  
FINANCIAL STATEMENTS  
DECEMBER 31, 2020**



	<b>Page</b>
<b>AUDITOR'S REPORTS</b>	
Independent Auditor's Report on Financial Statements	1-2
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3-4
<b>FINANCIAL STATEMENTS</b>	
Statement of Financial Position	5
Statement of Activities	6
Statement of Functional Expenses	7
Statement of Cash Flows	8
Notes to Financial Statements	9-13



## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Pathways, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year 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 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 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, 2020, 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.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2021, on our consideration of Pathways, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Pathways, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pathways, Inc.'s internal control over financial reporting and compliance.

*Haynes Downard LLP*

Haynes Downard LLP  
Birmingham, Alabama

October 1, 2021



**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

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 Pathways, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020, 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 October 1, 2021.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Pathways, 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pathways, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Pathways, 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Pathways, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Haynes Downard LLP*

Haynes Downard LLP  
Birmingham, Alabama

October 1, 2021



**PATHWAYS, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2020**

**ASSETS**

**Current Assets**

Cash and cash equivalents	\$ 479,498
Grants receivable	<u>135,588</u>
Total current assets	615,086

**Non-Current Assets**

Property and equipment, net	<u>349,501</u>
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**Total Assets**

\$ 964,587

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accounts payable	\$ 7,372
Accrued expenses	18,486
Amount due to HUD	<u>145,038</u>

Total current liabilities 170,896

Total liabilities 170,896

**Net Assets**

Without donor restrictions	633,183
With donor restrictions	<u>160,508</u>

Total net assets 793,691

**Total Liabilities and Net Assets**

\$ 964,587



**PATHWAYS, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenues</b>			
Contributions	\$ 58,507	\$ 64,404	\$ 122,911
Contributions - United Way	332,066	-	332,066
Contributions of nonfinancial assets	22,895	-	22,895
Grants and contracts	386,392	84,604	470,996
Program service fees	13,141	-	13,141
Interest income	236	-	236
Other income	3,409	-	3,409
Releases from restrictions	61,535	(61,535)	-
	<u>878,181</u>	<u>87,473</u>	<u>965,654</u>
Total revenues and gains	878,181	87,473	965,654
<b>Expenses</b>			
Program services	580,400	-	580,400
Management and general	161,017	-	161,017
Fundraising	83,446	-	83,446
	<u>824,863</u>	<u>-</u>	<u>824,863</u>
Total expenses	824,863	-	824,863
<b>Increase in Net Assets</b>	53,318	87,473	140,791
Net assets, beginning of year	<u>579,865</u>	<u>73,035</u>	<u>652,900</u>
Net assets, end of year	<u>\$ 633,183</u>	<u>\$ 160,508</u>	<u>\$ 793,691</u>



**PATHWAYS, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Client assistance	\$ 997	\$ -	\$ -	\$ 997
Depreciation	75,972	13,407	-	89,379
Dues and subscriptions	2,618	655	-	3,273
Insurance	21,280	5,320	-	26,600
Interest expense	425	106	-	531
Marketing and fundraising	-	-	4,476	4,476
Office and supplies	1,290	430	430	2,150
Other expenses	5,505	1,376	-	6,881
Professional services	-	49,184	-	49,184
Repairs and maintenance	31,817	3,535	-	35,352
Salaries and related	296,220	67,708	59,244	423,172
Security	62,648	-	-	62,648
Supplies and services	50,187	8,816	8,816	67,819
Utilities	31,441	10,480	10,480	52,401
	<u>\$ 580,400</u>	<u>\$ 161,017</u>	<u>\$ 83,446</u>	<u>\$ 824,863</u>

See notes to financial statements.



**PATHWAYS, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

**Cash Flows from Operating Activities**

Increase in net assets	\$ 140,791
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	89,379
Changes in assets and liabilities that provided (used) cash:	
Grants receivable	5,655
Prepaid expenses	4,135
Accounts payable	(16,989)
Accrued expenses	5,359
	228,330
Net cash provided by operating activities	228,330

**Cash Flows from Investing Activities**

Purchase of property and equipment	(28,858)
Proceeds from redemption of certificate of deposit	132,170
	103,312
Net cash provided by investing activities	103,312

**Net Increase in Cash and Cash Equivalents**

	331,642
Cash and cash equivalents, beginning of year	147,856
	479,498
Cash and cash equivalents, end of year	\$ 479,498

**Supplemental Disclosure of Cash Flow Information**

Cash paid for interest	\$ 531
	531



**PATHWAYS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Organization**

Pathways, Inc. (the "Organization") is a nonprofit organization located in Birmingham, Alabama. Founded in 1983, Pathways, Inc. 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 Accounting and Financial Statement Presentation**

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). Resources are classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of fund balances into two classes of net assets: without donor restrictions and with donor restrictions. Descriptions of the two net assets categories and the types of transaction affecting each category follow:

*Net Assets Without Donor Restrictions* – are not subject to donor-imposed restrictions. This classification includes all revenues, gains, and losses not restricted by donors. The Organization reports all expenses as decreases in net assets without donor restrictions.

*Net Assets With Donor Restrictions* – Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization or the passage of time. The Organization reports expirations of donor restrictions on net assets as net assets released from restrictions between the applicable net asset classes in the statement of activities.

**Use of Estimates**

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

**Cash and Cash Equivalents**

The Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.



**PATHWAYS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Grants Receivable**

Grants receivable represent amounts due under contractual agreements with various federal, state, and local government agencies. Management considers these accounts fully collectible, and has determined no allowance was necessary at December 31, 2020.

**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 capitalizes all expenditures for fixed assets greater than \$1,500. Depreciation is based on the straight-line method over the estimated useful lives of the assets acquired, generally as follows:

<u>Description</u>	<u>Useful Life (Years)</u>
Buildings and improvements	10 - 30
Furniture and equipment	5 - 10
Vehicles	5

Property and equipment acquired by the Organization under grant programs are considered to be owned by the Organization. However, funding sources may maintain equitable interest in the property purchased with grant monies as well as the right to determine the use of any proceeds from the sale of those assets.

**Impairment of Long-Lived Assets**

The Organization recognizes impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the carrying values. No such losses were incurred for the period presented.

**Revenue Recognition**

Contributions are recognized upon receipt of an unconditional commitment from the donor, and are recorded at fair market value on the date of the contribution. Grant and program revenue is recognized as the related service is performed. Revenue from fundraising events is recognized upon completion of the related event.

Amounts received under conditional awards are recognized as refundable advances until the conditions stipulated by the donor or grantor have been met, entitling the Organization to the award.



**PATHWAYS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Contributed Services**

Contributed services received 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.

**Functional Classification of Expenses**

The Organization's primary service is providing shelter, food and care to homeless persons. Amounts reported as program expenses are in support of this primary activity. Natural expenses attributable to more than one functional expense category are allocated primarily based upon time estimates.

**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 information returns are subject to examination, generally for three years after the filing date.

**Recently Adopting Accounting Standards**

Effective January 1, 2020, the Organization adopted Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This amendment expands presentation and disclosure requirements for contributed nonfinancial assets (also referred to as gifts-in-kind). The required disclosures are presented in Note 7 to the financial statements.

**Evaluation of Subsequent Events**

The Organization evaluated subsequent events through October 1, 2021, which is the date the financial statements were available to be issued.

**NOTE 2. CONCENTRATIONS AND CREDIT RISKS**

The Organization receives a significant portion of its revenue from government grants. Reductions in government funding would negatively impact the Organization.

The Organization maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Organization has not experienced any losses on such accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents. The uninsured balance was approximately \$230,000 as of December 31, 2020.



**PATHWAYS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**NOTE 3. LIQUIDITY AND AVAILABILITY**

The Organization financial assets, reduced by amounts not available for general expenditures within one year due to contractual or donor-imposed restrictions, were as follows as of December 31, 2020:

<u>Financial assets:</u>	
Cash and cash equivalents	\$ 479,498
Grants receivable	<u>135,588</u>
Financial assets, at year end	615,086
<u>Less amounts unavailable for general expenditure</u>	
<u>within one year:</u>	
Donor restrictions for Childcare Program	(68,294)
Contractual obligation to HUD (see note 5)	(24,117)
<u>Liquidity resources:</u>	
Bank line of credit	<u>77,000</u>
Total financial assets and liquidity resources available for general expenditure within one year	<u><u>\$ 599,675</u></u>

**NOTE 4. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following as of December 31, 2020:

Land	\$ 155,020
Buildings and improvements	2,024,070
Equipment and furniture	73,227
Vehicles	<u>14,041</u>
	2,266,358
Less: accumulated depreciation	<u>(1,916,857)</u>
Property and equipment, net	<u><u>\$ 349,501</u></u>



**PATHWAYS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**NOTE 5. AMOUNT DUE TO HUD**

In 2014, the Organization was involved in claims related to disallowed costs under contracts and grants with the Department of Housing and Urban Development (HUD). Management estimated the amount due to HUD and accrued the liability in the amount of \$145,038.

In June 2021, the local HUD office agreed to accept a reduced payment in the amount of \$24,117, resulting in a gain on debt extinguishment in the amount of \$120,921 for the year ending December 31, 2021.

**NOTE 6. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are available for the following purposes at December 31, 2020:

Restricted for future periods	\$ 92,214
Restricted for Childcare Program	<u>68,294</u>
Net assets with donor restrictions	<u><u>\$ 160,508</u></u>

Net assets were released from donor restrictions, in satisfaction of the following purposes for the year ended December 31, 2020:

Satisfaction of time restrictions	\$ 58,035
Program expenditures	<u>3,500</u>
Releases from restrictions	<u><u>\$ 61,535</u></u>

**NOTE 7. CONTRIBUTIONS OF NONFINANCIAL ASSETS**

Contributed nonfinancial assets consist of clothing and household goods in the amount of \$22,895 for the year-ended December 31, 2020. The contributed nonfinancial assets were utilized in the Day Center and Emergency Shelter programs, and have been recognized at the estimated fair value that would be received for selling similar products in the United States.

**NOTE 8. LINE OF CREDIT**

The Organization has available a \$77,000 revolving line of credit agreement with a local bank. Under the terms of the agreement, interest is charged at a variable interest rate based on the index, which was 6.25% as of December 31, 2020. The note matures in November, 2039 and is secured by real estate owned by the Organization. No amount was outstanding under this agreement as of December 31, 2020.

