

PATHWAYS TO HOUSING DC

**Financial Statements and Supplemental Schedules Together with
Reports of Independent Public Accountants**

For the Years Ended June 30, 2021 and 2020

JUNE 30, 2021 AND 2020

CONTENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON THE AUDIT OF THE FINANCIAL STATEMENTS	1
Statements of Financial Position	4
Statements of Activities and Changes in Net Assets	5
Statements of Functional Expenses	7
Statements of Cash Flows	8
Notes to the Financial Statements	9
SUPPLEMENTAL INFORMATION	
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON CONTROLS 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>	18
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROLS OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	20
Schedule of Expenditures of Federal Awards	24
Notes to Schedule of Expenditures of Federal Awards	25
Schedule of Findings and Questioned Costs	26
Schedule of Prior Year Findings and Question Costs	29
Corrective Action Plan	34



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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON THE AUDIT OF THE FINANCIAL STATEMENTS

To the Board of Directors
Pathways to Housing DC

Opinion

We have audited the accompanying financial statements of Pathways to Housing DC (Pathways DC), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pathways DC as of June 30, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Pathways DC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements of Pathways DC as of and for the year ended June 30, 2020, were audited by another auditor, who expressed an unmodified opinion on those statements on May 17, 2022.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Pathways DC's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Misstatements are considered material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards* we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal controls relevant to the audit 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 Pathways DC's internal controls. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Pathways DC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal controls related matters that we identified during the audit.



Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2023, on our consideration of Pathways DC's internal controls 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 controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Pathways DC's internal controls 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 DC's internal controls over financial reporting and compliance.

Washington, D.C.
August 11, 2023

A handwritten signature in black ink that reads "S B & Company, LLC".

PATHWAYS TO HOUSING DC

Statements of Financial Position As of June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 1,252,075	\$ 902,312
Restricted cash - client funds	691,318	712,437
Accounts receivable, net	789,380	17,772
Medicaid receivable	497,754	273,368
Contracts and grants receivable	2,024,073	1,715,508
Contributions receivable, net	194,937	354,155
Prepaid and other assets	27,068	8,548
Deposits	66,305	66,305
Furniture, equipment and improvements, net	237,250	237,177
Total Assets	\$ 5,780,160	\$ 4,287,582
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 125,127	\$ 49,192
Tenant rent allowance	32,032	43,011
Accrued payroll and vacation payable	729,658	569,384
Client funds	691,318	712,437
Grant advances	553,416	226,607
Notes payable	330,053	228,235
Line of credit	110,620	-
Paycheck protection program loan	1,591,600	1,591,600
Total Liabilities	4,163,824	3,420,466
Net Assets		
Without donor restrictions	1,394,924	416,225
With donor restrictions	221,412	450,891
Total net assets	1,616,336	867,116
Total Liabilities and Net Assets	\$ 5,780,160	\$ 4,287,582

The accompanying notes are an integral part of these financial statements.

PATHWAYS TO HOUSING DC

Statement of Activities and Changes in Net Assets For the Year Ended June 30, 2021, and with Comparative Totals for 2020

	2021			2020
	Without Donor Restriction	With Donor Restriction	Total	
Revenues and Other Support:				
Contributions	\$ 743,998	\$ 70,000	\$ 813,998	\$ 1,318,199
Federal grants and contracts	1,995,882	-	1,995,882	1,756,988
Other grants and contracts	5,489,312	-	5,489,312	4,881,739
Fee for service - Medicaid/local	2,987,542	-	2,987,542	3,017,314
Rent subsidies:				
LRSP	2,222,786	-	2,016,489	2,293,220
HUD	2,016,489	-	2,222,786	2,086,864
Other	774,418	-	774,418	19,308
Total Revenue	16,230,427	70,000	16,300,427	15,373,632
Net assets released from restriction				
Satisfaction of restriction	299,479	(299,479)	-	-
Total Revenues and Other Support	16,529,906	(229,479)	16,300,427	15,373,632
Expenses:				
Program services	12,721,061	-	12,721,061	12,911,542
Supporting services				
Management and general	2,529,138	-	2,529,138	1,912,167
Fundraising	301,008	-	301,008	348,105
Total Expenses	15,551,207	-	15,551,207	15,171,814
Changes in net assets	978,699	(229,479)	749,220	201,818
Net assets beginning of year	416,225	450,891	867,116	665,298
Net Assets End of Year	\$ 1,394,924	\$ 221,412	\$ 1,616,336	\$ 867,116

The accompanying notes are an integral part of this financial statement.

PATHWAYS TO HOUSING DC

Statement of Activities and Changes in Net Assets For the Year Ended June 30, 2020

	Without Donor Restriction	With Donor Restriction	Total
Revenues and Other Support:			
Contributions	\$ 1,081,443	\$ 236,756	\$ 1,318,199
Federal grants and contracts	1,756,988	-	1,756,988
Other grants and contracts	4,881,739	-	4,881,739
Fee for service - Medicaid/local	3,017,314	-	3,017,314
Rent subsidies:			
LRSP	2,293,220	-	2,293,220
HUD	2,086,864	-	2,086,864
Other	19,308	-	19,308
Total Revenue	<u>15,136,876</u>	<u>236,756</u>	<u>15,373,632</u>
Net assets released from restriction			
Satisfaction of restriction	173,476	(173,476)	-
Total Revenues and Other Support	<u>15,310,352</u>	<u>63,280</u>	<u>15,373,632</u>
Expenses:			
Program services	12,911,542	-	12,911,542
Supporting services			
Management and general	1,912,167	-	1,912,167
Fundraising	348,105	-	348,105
Total Expenses	<u>15,171,814</u>	<u>-</u>	<u>15,171,814</u>
Change in net assets	138,538	63,280	201,818
Net assets beginning of year	277,687	387,611	665,298
Net Assets End of Year	<u>\$ 416,225</u>	<u>\$ 450,891</u>	<u>\$ 867,116</u>

The accompanying notes are an integral part of this financial statement.

PATHWAYS TO HOUSING DC

Statements of Functional Expenses For the Years Ended June 30, 2021 and 2020

	2021			
	Program Service	Supporting Services		Total
		Management and General	Fundraising	
Payroll and payroll related	\$ 7,323,030	\$ 1,715,592	\$ 185,309	\$ 9,223,931
Specific assistance to individuals	4,412,555	-	-	4,412,555
Professional fees	139,170	360,365	85,191	584,726
Office expense and other	295,448	202,220	17,395	515,063
Occupancy	429,088	146,620	11,369	587,077
Local transportation	53,868	302	18	54,188
Bad debt	-	88,229	-	88,229
Depreciation	67,902	15,810	1,726	85,438
	<u>\$ 12,721,061</u>	<u>\$ 2,529,138</u>	<u>\$ 301,008</u>	<u>\$ 15,551,207</u>
	2020			
	Program Service	Supporting Services		Total
		Management and General	Fundraising	
Payroll and payroll related	\$ 7,246,215	\$ 1,375,378	\$ 270,845	\$ 8,892,438
Specific assistance to individuals	4,595,615	-	-	4,595,615
Professional fees	261,678	240,351	-	502,029
Office expense and other	241,735	165,540	51,911	459,186
Occupancy	417,410	65,530	20,202	503,142
Local transportation	92,787	15,349	3,050	111,186
Bad debt	-	39,465	-	39,465
Depreciation	56,102	10,554	2,097	68,753
	<u>\$ 12,911,542</u>	<u>\$ 1,912,167</u>	<u>\$ 348,105</u>	<u>\$ 15,171,814</u>

The accompanying notes are an integral part of these financial statements.

PATHWAYS TO HOUSING DC
Statements of Cash Flows

For the Years Ended June 30, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Changes in net assets	\$ 749,220	\$ 201,818
Adjustments to reconcile changes in net assets to net cash provided from operating activities:		
Depreciation expense	85,438	68,753
Amortization - tenant allowance	(10,979)	(11,895)
Realized and unrealized loss on investments	(116)	173
Bad debt expense	88,229	39,465
Change in allowance for doubtful account	(43,800)	-
Donated stock	(69,074)	(3,423)
Effect of changes in non-cash operating assets and liabilities:		
Accounts receivable	(771,608)	312,613
Medicaid receivable	(224,386)	(273,368)
Grants receivable	(308,565)	(543,696)
Contributions receivable	114,789	(14,708)
Prepays and other assets	(23,352)	-
Deposits	-	90
Accounts payable	75,935	(339,732)
Tenant rent allowance	-	54,906
Accrued payroll	160,274	47,193
Client funds	(21,119)	170,221
Grant advances	326,809	(133,413)
Net Cash from Operating Activities	127,695	(425,003)
Cash Flows from Investing Activities		
Reinvestment of dividends	(226)	(314)
Proceeds from sale of investments	74,246	30,000
Purchase of fixed assets	(85,509)	(73,309)
Net Cash From Investing Activities	(11,489)	(43,623)
Cash Flows from Financing Activities		
Payments on notes payable	(186,869)	(263,970)
Notes payable proceeds	288,687	2,041,458
Net proceeds (payments) on line of credit	110,620	(372,025)
Net Cash From Financing Activities	212,438	1,405,463
Change in Cash and Cash Equivalents	328,644	936,837
Cash and restricted cash - beginning of year	1,614,749	677,912
Cash and restricted cash, End of Year	\$ 1,943,393	\$ 1,614,749
Cash	\$ 1,252,075	\$ 902,312
Restricted cash - client funds	691,318	712,437
Total Cash and restricted cash	\$ 1,943,393	\$ 1,614,749
Supplemental Information		
Cash paid for interest	\$ 5,138	\$ 19,300

The accompanying notes are an integral part of these financial statements.

PATHWAYS TO HOUSING DC

Notes to the Financial Statements June 30, 2021 and 2020

1. ORGANIZATION

Pathways to Housing DC (Pathways DC), a non-profit organization formed in 2004 to end chronic homelessness, offers permanent housing and support services to more than 3,500 individuals who are experiencing homelessness or are at risk for homelessness in Washington, DC and Montgomery County, Maryland. Pathways DC's research and over seventeen years worth of experience demonstrates that their Housing First model, removed from judgment and pre-conditions, is the most effective approach in ending chronic homelessness for individuals with serious mental illnesses, substance use, and/or other complex health challenges. All of Pathways DC's programs and services are designed with the belief that housing is a basic human right for all people and that people should choose the type and sequence of services to be delivered. Pathways DC employs a staff of nurses, doctors, psychiatrists, social workers, peers, and addiction specialists to support and empower people on their recovery journeys.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements of Pathways DC are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue, support, and expenses during the reporting period. Accordingly, actual results could differ from those estimates and assumptions.

Cash and Cash Equivalents

Pathways DC considers all highly liquid debt instruments purchased with a maturity of three (3) months or less to be cash equivalents.

Accounts and Grants Receivable

Accounts and grant receivable represent outstanding balances from various Federal and local government agencies. Receivables are valued at management's estimate of the net realizable value. An allowance for doubtful accounts, if needed, is based on specific identification of uncollectible accounts and Pathways DC's historical collection experience and current knowledge. As of June 30, 2021, and 2020, the allowance for uncollectable accounts receivable was \$54,404 and \$96,736, respectively.

PATHWAYS TO HOUSING DC

Notes to the Financial Statements June 30, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Promises to Give/Contributions Receivable

Contributions are recognized when the donor makes an unconditional promise to give to Pathways DC. In accordance with US GAAP, promises to give to be received in a future period are discounted to their net present value at the time the revenue is recorded. The discount is computed using rates applicable to the facts and circumstances applicable to each of the promises to give. Conditional promises to give are not included as support until the conditions are substantially met. Balances that are outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to contributions receivable. The allowance for pledges was \$11,567 and \$13,035, as of June 30, 2021 and 2020, respectively.

Property and Equipment

Pathways DC capitalizes expenditures exceeding \$5,000, for property, equipment, and software having a useful life of 3 or more years. Expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed over the estimated useful lives of the asset using the straight-line method.

Client Funds

Pathways DC acts as the approved Representative Payee (Rep Payee) for Social Security benefits for many program participants. The purpose of offering this service is to assist individuals with histories of serious mental illnesses and/or addictions, manage their money. This service is completely voluntary. Once the Social Security Administration (SSA) approves client's participation, Pathways DC then receives monthly benefits for clients on a schedule determined by the SSA.

All funds are used for the care of clients as outlined by the SSA Rep Payee policy. Upon termination from the program, all funds are returned to the client. If the client is deceased, incarcerated, or is hospitalized long-term, funds are returned directly to the SSA.

Net Assets

Net assets without donor restrictions are assets and contributions that are not restricted by donors, or for which restrictions have expired.

Net assets with donor restrictions are those whose use by Pathways DC has been restricted by donors primarily for a specific time period or purpose. When a donor restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions. As of June 30, 2021 and 2020, there was \$221,412 and \$450,891, respectively, in net assets with donor restrictions for a specific time period or purpose.

PATHWAYS TO HOUSING DC

Notes to the Financial Statements June 30, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets (continued)

Net assets with donor restrictions may also consist of contributions received from donors, which are subject to restrictions of gift instruments requiring, in perpetuity, that the principal be invested and only the investment income be used. Investment income earned from such contributions is restricted to support the purpose designated. As of June 30, 2021 and 2020, there were no net assets with donor restrictions in perpetuity.

Revenue Recognition

Contributions received are recorded as donor restricted or unrestricted support, depending on the existence and/or nature of any donor designation.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in donor restricted net assets. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), donor restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. Governmental grant awards are classified as refundable advances until expended for the purpose of the grants since they are conditional promises to give.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities and changes in net assets and in the statements of functional expenses. Accordingly, certain costs have been allocated among programs and supporting services that benefit from those costs. General and administrative expenses include those expenses that are not directly identified with any other specific function but provide for the overall support and direction of Pathways DC. Fundraising costs are specific to the related activity. Shared costs are allocated to the program and supporting services based on appropriate allocation factors such as estimated time spent in those areas or square footage used. Salaries and benefits are charged to programs based on time and effort.

Income Tax

Pathways DC is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Pathways DC has also been classified as an entity that is not a private foundation within the meaning of Section 509(a)(1).

PATHWAYS TO HOUSING DC

Notes to the Financial Statements June 30, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Tax (continued)

Accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return. Pathways DC performed an evaluation of uncertain tax positions as of August 11, 2023, and determined that there were no matters that would require recognition in the accompanying financial statements, or which may have any effect on its tax-exempt status. As of August 11, 2023, the statute of limitations for fiscal years 2018 through 2021 remains open with the U.S. Federal jurisdiction and the various states and local jurisdictions in which Pathways DC files tax returns. It is Pathways DC's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standard Board (FASB) issued Accounting Standards Updated (ASU) No. 2016-02, *Leases*, which creates a singular reporting model for leases. This standard will require recording of changes to the statement of financial position to reflect balances for current leases that are not shown in the statement of financial position. This standard will be effective for periods beginning after December 15, 2021.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses*. The objective of this update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity. This standard is effective for periods beginning after December 15, 2022.

Management is evaluating the effects of these pronouncements on the financial statements and will implement these pronouncements by their effective dates.

PATHWAYS TO HOUSING DC

Notes to the Financial Statements June 30, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Liquidity and Availability of Resources

The following reflects Pathways DC's financial assets, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date.

Financial assets at year-end	2021	2020
Cash	\$ 1,252,075	\$ 902,312
Restricted cash - client funds	691,318	712,437
Accounts receivable	789,380	17,772
Medicaid receivable	497,754	273,368
Contracts and grants receivable	2,024,073	1,715,508
Contributions receivable, net of discount and allowance	194,937	354,155
	<u>5,449,537</u>	<u>3,975,552</u>
Less those unavailable for general expenditures within one year, due to		
Restricted cash - client funds	691,318	712,437
Donor restriction	104,896	450,891
Contributions receivables, after one year	50,683	172,568
	<u>846,897</u>	<u>1,335,896</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	\$ 4,602,640	\$ 2,639,656

As part of Pathways DC's liquidity management, it invests cash in excess of daily requirements in savings accounts.

Subsequent Events

Pathways DC's management evaluated the accompanying financial statements for subsequent events and transactions through August 11, 2023, the date these financial statements were available for issue, and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure.

PATHWAYS TO HOUSING DC

Notes to the Financial Statements June 30, 2021 and 2020

3. CONTRIBUTION RECEIVABLES

Contribution receivables as of June 30, 2021 and 2020, respectively, and are due as follows:

	<u>2021</u>	<u>2020</u>
Less than one year	\$ 210,225	\$ 291,358
One to five years	46,683	168,041
Greater than five years	<u>4,000</u>	<u>4,527</u>
Total	260,908	463,926
Less:		
Allowance for doubtful accounts	54,404	96,736
Discount on long-term pledges	<u>11,567</u>	<u>13,035</u>
Total unconditional promises to give	<u>\$ 194,937</u>	<u>\$ 354,155</u>

4. FURNITURE, EQUIPMENT, AND IMPROVEMENTS

Furniture, equipment and improvements consisted of the following as of June 30:

	<u>2021</u>	<u>2020</u>	<u>Useful Life</u>
Furniture and equipment	\$ 33,184	\$ 33,184	3 to 5 years
Automobiles	174,130	168,646	3 to 5 years
Leasehold improvements	226,484	226,484	Life of the lease
Software	<u>123,726</u>	<u>90,101</u>	3 to 5 years
	557,524	518,415	
Less accumulated depreciation	<u>320,274</u>	<u>281,238</u>	
	<u>\$ 237,250</u>	<u>\$ 237,177</u>	

For the years ended June 30, 2021 and 2020, depreciation expense was \$85,438 and \$68,753, respectively.

5. NOTES PAYABLE

	<u>2021</u>	<u>2020</u>
Notes payable - bank, interest rate of 6.8% and 11.3%, payments of \$302 and \$399 are due through November 2025. Secured by automobiles.	\$ 41,366	\$ 49,819
Note payable - local non profit, interest rate of 0%, balance due by October 2021. Note is unsecured.	-	178,416
Note payable - local non profit, interest rate of 0%, balance due by September 2021. Note is unsecured.	288,687	-
	<u>\$ 330,053</u>	<u>\$ 228,235</u>

PATHWAYS TO HOUSING DC

Notes to the Financial Statements June 30, 2021 and 2020

5. NOTES PAYABLE (continued)

In accordance with GAAP, Pathways DC imputed interest expense and in-kind revenue for the 0% interest debt in the amount of \$14,500 for the year ended June 30, 2021. It is included in other revenue and office expense, and other in the accompanying financial statements.

Future principal payments are as follows as of June 30 2021:

<u>For the Years Ending June 30,</u>	<u>Amount</u>
2022	\$ 298,003
2023	10,268
2024	9,287
2025	8,612
2026	3,883
Total	<u>\$ 330,053</u>

6. LINE OF CREDIT

In September 2020, Pathways DC renewed the line of credit agreement in the amount of \$500,000 with a variable interest rate of the Wall Street Journal Prime Rate (3.25%) as of June 30, 2021 and 2020, and is secured by a first priority blanket lien on all assets. The balance of the line of credit was \$110,620 as of June 30, 2021.

7. PAYCHECK PROTECTION PROGRAM

During the year ended June 30, 2020, Pathways DC received a Paycheck Protection Program (PPP) loan in the amount of \$1,591,600. The PPP loan was received from the U.S federal government under the Coronavirus Aid, Relief and Economic Security (CARES) Act passed by Congress. The terms of the loan require the proceeds to be spent on eligible expenses, which are primarily payroll related costs. Part or all of the loan may be forgiven based on meeting certain conditions as set forth in the loan agreement. Any portion of the PPP loan that is not forgiven must be repaid after a seven-month deferral period at an interest rate of 1%.

As of June 30, 2021 and 2020, Pathways DC has recorded the loan as a liability and has accrued interest on the loan. On July 8, 2021, the loan was fully forgiven.

PATHWAYS TO HOUSING DC

Notes to the Financial Statements June 30, 2021 and 2020

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are those whose use by the Pathways DC has been restricted by donors primarily for a specific time period or purpose. As of June 30, 2021 and 2020, net assets with donor restrictions consisted of the following:

	<u>2021</u>	<u>2020</u>
Time restricted	\$ 217,199	\$ 400,891
Purpose restricted	4,213	50,000
	<u>\$ 221,412</u>	<u>\$ 450,891</u>

9. COMMITMENT AND CONTINGENCIES

Operating Leases

Pathways DC leases its office facilities and one field office under the terms of operating leases expiring at various dates through June of 2023. Monthly lease payments are approximately \$24,000. Rent expenses were \$314,319 and \$271,800 for the years ended June 30, 2021 and 2020, respectively. .

As of June 30, 2021, the future minimum rentals payments are as follows:

<u>For the years ending June 30,</u>	<u>Amount</u>
2022	\$ 266,340
2023	226,220
	<u>\$ 492,560</u>

Pathways DC signed a new copier lease effective July 1, 2020 through June 30, 2023, with monthly rental payments of approximately \$2,600. Rent expense was approximately \$31,200 for the year ended June 30, 2021.

As of June 30, 2021, the future minimum rental payments are as follows:

<u>For the Years Ending June 30,</u>	<u>Amount</u>
2022	\$ 31,200
2023	31,200
	<u>\$ 62,400</u>

10. RETIREMENT PLAN

Pathways DC offers a 403(b) plan to all employees. Employees are able to withhold the maximum limited by current income tax law. Effective August 1, 2018, Pathways DC amended its 403(b) plan to include an employer matching provision of 3%. Contributions were approximately \$172,307 and \$90,300, for the years ended June 30, 2021 and 2020, respectively.

SUPPLEMENTAL INFORMATION



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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON INTERNAL
CONTROLS OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Directors
Pathways to Housing DC
Washington, DC

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 to Housing DC (Pathways DC), which comprise the statement of financial position as of June 30, 2021 and the related statements of activities and changes in net assets, cash flows and functional expenses for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Pathways DC's basic financial statements and have issued our report thereon dated August 11, 2023.

Internal Controls over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pathways to Housing DC's internal controls over financial reporting (internal controls) as a basis for designing 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 DC's internal controls. Accordingly, we do not express an opinion on the effectiveness of Pathways DC's internal controls.

A deficiency in internal controls 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 controls, 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 controls that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal controls that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal controls that we consider to be material weaknesses. We identified a deficiency in internal controls, described in the accompanying schedule of findings and questioned costs as item 2021-001 that we consider to be a significant deficiency.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pathways DC’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 financial statements. 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 DC’s Response to Finding

Pathways DC’s response to the findings identified in our audit is described in the accompanying schedule of Corrective Action Plan. Pathways DC’s response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Pathways DC’s internal controls or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pathways DC’s internal controls and compliance. Accordingly, this communication is not suitable for any other purpose.

Washington, DC
August 11, 2023

SB & Company, LLC



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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROLS OVER
COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

The Board of Directors
Pathways to Housing DC
Washington, DC

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Pathways to Housing DC's (Pathways DC) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Pathways DC's major Federal programs for the year ended June 30, 2021. Pathways DC's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Pathways DC's complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of Pathways DC and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major Federal program. Our audit does not provide a legal determination of Pathways DC's compliance with the compliance requirements referred to above.



Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal controls over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Pathways DC's Federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Pathways DC's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Pathways DC's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Pathways DC's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Pathways DC's internal controls over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal controls over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Pathways DC's internal controls over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal controls over compliance that we identified during the audit.



Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2021-002. Our opinion on each major federal program is not modified with respect to this matter. *Government Auditing Standards* requires the auditor to perform limited procedures on Pathways DC's response to the noncompliance finding identified in our audit described in the accompanying schedule of findings and questioned costs. Pathways DC's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Controls over Compliance

Our consideration of internal controls over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal controls over compliance that might be material weaknesses or significant deficiencies in internal controls over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal controls over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a deficiency in internal controls over compliance that we consider to be significant deficiencies.

A deficiency in internal controls over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal controls over compliance is a deficiency, or a combination of deficiencies, in internal controls over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* in internal controls over compliance is a deficiency, or a combination of deficiencies, in internal controls over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal controls over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal controls over compliance described in the accompanying schedule of findings and questioned costs as item 2021-002, to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal controls over compliance. Accordingly, no such opinion is expressed. *Government Auditing Standards* requires the auditor to perform limited procedures on Pathways DC's response to the internal controls over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Pathways DC's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



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The purpose of this report on internal controls over compliance is solely to describe the scope of our testing of internal controls over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Washington, DC
August 11, 2023

SBC & Company, LLC

PATHWAYS TO HOUSING D.C.

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2021

<u>Federal Grantor/Program Title</u>	<u>Pass-Through Grantor</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Assistance Listing Number</u>	<u>Federal Expenditures</u>	<u>Pass-Through Amount</u>
U.S. Department of Health and Human Services					
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	None	N/A	93.243	\$ 360,004	\$ -
Opioid STR	DC Department of Behavioral Health	IH79T10811707-01	93.788	288,026	-
Health Resources & Services Administration Provider Relief Fund	None	N/A	93.498	72,811	-
Promoting Resiliency and Recovery	DC Department of Behavioral Health	6H79FG000258-01M001	93.655	62,500	-
Total U.S. Department of Health and Human Services				<u>783,341</u>	<u>-</u>
U.S. Department of Housing and Urban Development					
Supportive Housing Program	Community Partnership for the Prevention of Homelessness	DC0101L3G001801	14.235	38,679	38,679
Supportive Housing Program	Community Partnership for the Prevention of Homelessness	DC0101L3G001902	14.235	111,202	111,202
Supportive Housing Program	Community Partnership for the Prevention of Homelessness	DC0002L3G001808	14.235	144,536	144,536
Supportive Housing Program	Community Partnership for the Prevention of Homelessness	DC0002L3G001909	14.235	282,332	282,332
Supportive Housing Program	Community Partnership for the Prevention of Homelessness	DC0086L3G001901	14.235	589,880	589,880
Supportive Housing Program	Community Partnership for the Prevention of Homelessness	DC0086L3G002002	14.235	314,612	314,612
Total Supportive Housing Program				<u>1,481,241</u>	<u>1,481,241</u>
Continuum of Care Program	None	N/A	14.267	380,727	-
Continuum of Care Program	None	N/A	14.267	166,867	-
Continuum of Care Program	None	N/A	14.267	328,191	-
Total Continuum of Care Program				<u>875,785</u>	<u>-</u>
Covid 19 Nonprofit Capacity Support Grant	DC Department of Housing and Community Development	B-20-MW-11-0001	14.218	50,000	-
Total U.S. Department of Housing and Urban Development				<u>2,407,026</u>	<u>1,481,241</u>
U.S. Department of Veterans Affairs					
VA-Assertive Community Case Management Service	None	N/A	64.033	772,004	-
Total Department of Veterans Affairs				<u>772,004</u>	<u>-</u>
US Department of Treasurer					
2020 DC HOPE Community Grant	DC Mayor's Office of Community Affairs	PO 633440	21.019	50,000	-
TOTAL FEDERAL EXPENDITURE				<u>\$ 4,012,371</u>	<u>\$ 1,481,241</u>

The accompanying notes are an integral part of this schedule.

PATHWAYS TO HOUSING DC

Notes to Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All Federal grant operations of Pathways for Housing DC (Pathways DC) are included in the scope of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Single Audit). The Single Audit was performed in accordance with the provisions of the OMB Compliance Supplement (the Compliance Supplement). Compliance testing of all requirements, as described in the Compliance Supplement, was performed for the major grant programs noted below. The programs on the schedule of expenditures of federal awards (the Schedule) represent all federal award programs with fiscal year 2021 cash or non-cash expenditure activities. For Single Audit testing, we tested to ensure coverage of at least 40% of Federally granted funds. Actual coverage is 56%. The major programs tested are listed below.

Pathways DC uses approved indirect cost rates for the Department of Veteran Affairs, HUD 27 (DC0002L3G001707), and HUD 65 (DC0044L3G001710). All other grants use the 10% de minimis indirect cost rate allowed under the Uniform Guidance for the Federal grants.

Grant Program	Federal Assistance Listing	Expenditure
Supporting Housing Program	14.235	\$ 1,481,241
VA-Assertive Community Case Management Service	64.033	772,004
		\$ 2,253,245

2. BASIS OF PRESENTATION

The accompanying Schedule includes the Federal award activity of Pathways DC presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of the cost principles contained in the Single Audit.