

PATHWAYS TO HOUSING PA, INC.
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**PATHWAYS TO HOUSING PA, INC.
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YEAR ENDED JUNE 30, 2018**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Pathways to Housing PA, Inc.
Philadelphia, Pennsylvania

We have audited the accompanying financial statements of Pathways to Housing PA, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, 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.

Auditors' 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. 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 auditors' 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.

Board of Directors
Pathways to Housing PA, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pathways to Housing PA, Inc. as of June 30, 2018, 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.

Report on Summarized Comparative Information

We have previously audited Pathways to Housing PA, Inc.'s 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 21, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
November 27, 2018

PATHWAYS TO HOUSING PA, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

ASSETS	2018	2017
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,518,700	\$ 1,064,538
Accounts Receivable:		
Government, Net	1,242,267	1,202,666
Other, Net	166,078	162,025
Inventory	172,820	154,506
Client Cash - Restricted	232,506	175,685
Prepaid Expenses	367,019	370,012
Total Current Assets	3,699,390	3,129,432
PROPERTY AND EQUIPMENT		
Furniture, Fixtures, and Equipment	271,190	232,581
Leasehold Improvements	29,044	29,044
Total	300,234	261,625
Less: Accumulated Depreciation	182,216	135,264
Total Property and Equipment	118,018	126,361
 Total Assets	 \$ 3,817,408	 \$ 3,255,793
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 131,617	\$ 88,293
Accrued Expenses	194,731	236,071
Accrued Payroll and Payroll Taxes	320,491	274,840
Deferred Revenue	495,933	463,464
Due to Clients	232,506	175,685
Total Liabilities	1,375,278	1,238,353
NET ASSETS		
Unrestricted	2,271,953	1,895,377
Temporarily Restricted	170,177	122,063
Total Net Assets	2,442,130	2,017,440
 Total Liabilities and Net Assets	 \$ 3,817,408	 \$ 3,255,793

See accompanying Notes to Financial Statements.

PATHWAYS TO HOUSING PA, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

	2018			2017
	Unrestricted	Temporarily Restricted	Total	Total
SUPPORT AND REVENUE				
Community Behavioral Health	\$ 5,240,621	\$ -	\$ 5,240,621	\$ 4,360,763
U.S. Department of Housing and Urban Development	2,986,355	-	2,986,355	2,213,935
City of Philadelphia Department of Behavioral Health	1,828,858	-	1,828,858	1,624,634
Other Contracts	1,053,231	-	1,053,231	635,383
Client Income	512,790	-	512,790	440,007
Foundation Grants	6,740	247,500	254,240	153,489
Contributions	414,161	-	414,161	351,346
Other Income	152,692	-	152,692	104,705
Net Assets Released from Restrictions	199,386	(199,386)	-	-
Total Support and Revenue	<u>12,394,834</u>	<u>48,114</u>	<u>12,442,948</u>	<u>9,884,262</u>
EXPENSES				
Program	10,322,483	-	10,322,483	8,316,196
Management and General	1,554,134	-	1,554,134	1,267,295
Fundraising	141,641	-	141,641	98,929
Total Expenses	<u>12,018,258</u>	<u>-</u>	<u>12,018,258</u>	<u>9,682,420</u>
CHANGE IN NET ASSETS	376,576	48,114	424,690	201,842
Net Assets - Beginning of Year	<u>1,895,377</u>	<u>122,063</u>	<u>2,017,440</u>	<u>1,815,598</u>
NET ASSETS - END OF YEAR	<u><u>\$ 2,271,953</u></u>	<u><u>\$ 170,177</u></u>	<u><u>\$ 2,442,130</u></u>	<u><u>\$ 2,017,440</u></u>

See accompanying Notes to Financial Statements.

PATHWAYS TO HOUSING PA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

	2018					2017	
	Housing First	Furniture Bank	Total Program	Management and General	Fundraising	Total	Total
Payroll and Payroll Related Expenses	\$ 4,048,851	\$ 194,389	\$ 4,243,240	\$ 1,279,485	\$ 77,220	\$ 5,599,945	\$ 4,682,095
Bad Debt	58,049	-	58,049	-	-	58,049	-
Client Gross Rent Expense	3,118,170	-	3,118,170	-	-	3,118,170	2,441,644
Client Housing Expenses	769,151	-	769,151	-	-	769,151	609,033
Clinical Expenses	12,459	-	12,459	-	-	12,459	23,718
Conferences and Meetings	35,255	3,409	38,664	29,809	2,924	71,397	41,996
Contract Service Payments and Professional Fees	682,365	130	682,495	69,089	42,654	794,238	512,200
Depreciation	39,439	-	39,439	7,043	470	46,952	41,363
Furniture Bank Program Expense	-	386,651	386,651	-	-	386,651	334,422
Insurance	101,022	5,000	106,022	15,278	1,019	122,319	122,750
Miscellaneous	500	-	500	14,425	2,500	17,425	4,893
Occupancy Costs	247,352	72,729	320,081	60,532	3,811	384,424	365,354
Office Expenses	228,175	10,230	238,405	78,473	11,043	327,921	285,863
Other Client Expenses	297,147	-	297,147	-	-	297,147	193,874
Vehicle Costs	5,047	6,963	12,010	-	-	12,010	23,215
Total Expenses	<u>\$ 9,642,982</u>	<u>\$ 679,501</u>	<u>\$ 10,322,483</u>	<u>\$ 1,554,134</u>	<u>\$ 141,641</u>	<u>\$ 12,018,258</u>	<u>\$ 9,682,420</u>

See accompanying Notes to Financial Statements.

PATHWAYS TO HOUSING PA, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 424,690	\$ 201,842
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	46,952	41,363
Bad Debt	58,049	(9,855)
(Increase) Decrease in:		
Prepaid Expenses	2,993	(107,472)
Accounts Receivable	(101,703)	32,229
Inventory	(18,314)	(27,416)
Client Cash - Restricted	(56,821)	11,234
Increase (Decrease) in:		
Accounts Payable	43,324	(53,149)
Accrued Expenses	(41,340)	95,526
Accrued Payroll and Payroll Taxes	45,651	73,318
Due to Clients	56,821	(11,234)
Deferred Revenue	32,469	370,953
Net Cash Provided by Operating Activities	<u>492,771</u>	<u>617,339</u>
CASH FLOWS USED BY INVESTING ACTIVITIES		
Purchase of Property and Equipment	(38,609)	(28,860)
CASH FLOWS USED BY FINANCING ACTIVITIES		
Payments on Capital Lease Obligations	<u>-</u>	<u>(1,746)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	454,162	586,733
Cash and Cash Equivalents - Beginning of Year	<u>1,064,538</u>	<u>477,805</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,518,700</u>	<u>\$ 1,064,538</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	<u>\$ -</u>	<u>\$ 141</u>

See accompanying Notes to Financial Statements.

PATHWAYS TO HOUSING PA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Pathways to Housing PA, Inc. (Pathways) is a nonprofit corporation formed under the laws of the Commonwealth of Pennsylvania. Pathways operates with the belief that housing is a basic human right for all people. Pathways provides housing and non-fidelity Assertive Community Treatment Services to people who are chronically homeless and have behavioral health and multiple other disabilities. Pathways' prioritized highly vulnerable clients are referred by the City of Philadelphia; therefore, the organization operates under the Medical Assistance guidelines for admission criteria. The Housing First Model has proved to be successful in housing people that have not been able to maintain housing with other agencies. In addition to housing placement, Pathways' clients are provided with support services such as case management, mental health counseling, addiction treatment services, medical services, vocational training, household and money management assistance, life skills training, and advocacy services. In December 2014, Pathways opened the Philadelphia Furniture Bank providing furnishings to those in need, primarily individuals and families moving out of homelessness, who are referred to Pathways by member agencies.

Pathways is primarily funded through contracts with governmental agencies such as the United States Department of Housing and Urban Development, City of Philadelphia Department of Behavioral Health and Intellectual Disability Services, City of Philadelphia Office of Homeless Services, and Community Behavioral Health (the City's medical assistance payer for behavioral health services).

Basis of Presentation

The financial statements of Pathways have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Prior Year Summarized Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles in the United States of America. Accordingly, such information should be read in conjunction with Pathways' financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Cash and Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents. Cash and cash equivalents include demand deposit accounts.

Client Cash-Restricted/Due to Clients

Pathways, as part of Social Security's Representative Payment Program, provides financial management for the Social Security payments made to beneficiaries who are incapable of managing their payments. Restricted cash represents these funds that are held on behalf of Pathways clients. Pathways manages these resources to help create a stable living environment and ensure that the basic needs of food, shelter, clothing, and medical care are met.

PATHWAYS TO HOUSING PA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Doubtful Accounts

The allowance for doubtful accounts is maintained to recognize potential losses in Pathways accounts receivable. Management continually monitors accounts receivables for collectability issues. An allowance for doubtful accounts is based upon management's judgment and is established based on review of the types of individual accounts, collection history, and other pertinent factors. In addition, an allowance is provided for other accounts when a significant pattern of uncollectibility has occurred. When all collection efforts have been exhausted, the accounts are written off. At June 30, 2018, the amount of the overall allowance for accounts receivable was \$103,491.

Inventory

The Inventory for the Philadelphia Furniture Bank consists of slightly used furniture received from for-profit entities, nonprofit organizations, and individuals. The inventory value is based on estimates from various donation value guides. This furniture is provided to those in need, primarily individuals and families moving out of homelessness, who are referred to Pathways by member agencies. Ending inventory as of June 30, 2018 amounted to \$172,820.

In-kind contributions of furniture amounted to \$312,020 for the year ended June 30, 2018, which is included as part of contributions on the statement of activities.

Property and Equipment

Property and equipment are purchased and stated at cost. Donated property is recorded at fair value. Depreciation is provided on the straight-line method over the estimated useful lives of the related assets as follows:

Furniture, Fixtures, and Equipment	3 to 8 Years
Leasehold Improvements	Term of Lease

Pathways capitalizes property and equipment acquisitions with a cost exceeding \$2,500. The cost of maintenance and repairs is charged to expense as incurred whereas significant renewals and betterments are capitalized.

Net Assets

Pathways classifies resources for accounting and reporting purposes into separate net asset classes based on the absence or existence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories. A description of the asset categories is as follows:

Unrestricted Net Assets – Net assets not subject to donor-imposed restrictions or stipulations as to purpose or use. Unrestricted net assets include operating funds. The Board of Directors has the ability to designate unrestricted net assets for specified purposes.

PATHWAYS TO HOUSING PA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (Continued)

Temporarily Restricted Net Assets – Net assets that are subject to donor-imposed restrictions or stipulations that can be fulfilled by actions of Pathways pursuant to those stipulations or that expire by the passage of time. It is Pathways policy to record temporarily restricted contributions recognized and expended in the same accounting period in the unrestricted net asset class activity.

Permanently Restricted Net Assets – Net assets that are subject to donor-imposed restrictions or stipulations that require the principal to be invested in perpetuity and the income to be used to support Pathways objectives in accordance with the wishes of the donor. Pathways does not have any permanently restricted net assets at June 30, 2018.

Revenue Recognition

Contract Revenue – Contract revenue from governmental agencies is recognized at the time the service is rendered and is based upon allowable costs. Pathways considers all government awards to be exchange transactions in which each party receives and sacrifices commensurate value. Accordingly, government awards do not affect temporarily restricted or permanently restricted net assets, and funds received in advance are deferred revenue, and funds disbursed and not reimbursed represent receivables.

Fee for Service – Fee for service revenue is recognized at the time the service is rendered and is based upon the billing rate and the allowable number of service units provided to the clients. Rates are established by the governmental agency and are subject to change. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered.

Client Income – Client Income represents each client's contribution to their housing rental expenses and represents 30% of their annual income net of allowable adjustments. Client income is recorded when earned to the extent that the related expenses have been incurred.

Contributions and Foundation Grants – Pathways records as revenue, unconditional promises to give, in the period the promise to give is received. All contributions are considered available for unrestricted use unless specifically restricted by the donors' request or restricted by time.

Functional Allocation of Expenses

Expenses are charged to various programs and supporting services when specifically identified. If not specifically identified, expenses are allocated in proportion to direct expenses, as estimated by management.

Income Tax Status

Pathways is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Pathways informational tax returns are subject to review and examination by federal, state, or local authorities. Pathways is not aware of any activities that would jeopardize its tax-exempt status.

PATHWAYS TO HOUSING PA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management's Judgments and Accounting 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 certain reported amounts and disclosures. The most significant management estimates and assumptions relate to determination of the allowance for doubtful accounts, the functional expense allocation, and the useful lives of fixed assets. Actual results could differ from those estimates.

Subsequent Events

In preparing these financial statements, the Pathways has evaluated events and transactions for potential recognition or disclosures through November 27, 2018, the date the financial statements were available to be issued.

NOTE 2 CONCENTRATION OF CREDIT RISK

Cash and cash equivalents potentially subject Pathways to a concentration credit risk. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At times, cash in bank deposit accounts may exceed FDIC insurable limits.

NOTE 3 ACCOUNTS RECEIVABLE – GOVERNMENT

As of June 30, 2018, accounts receivable – government are comprised of the following:

	<u>Amount</u>
City of Philadelphia Department of Behavioral Health	\$ 285,395
City of Philadelphia Office of Homeless Services	373,844
U.S. Department of Housing and Urban Development	94,877
City of Philadelphia Department of Behavioral Health Office of Addiction Services	63,000
ActionWellness	33,830
NIH - Washington University in St. Louis	24,443
Substance Abuse and Mental Health Services Administration	100,884
City of Philadelphia Department of Behavioral Health Community Behavioral Health	<u>298,826</u>
Total Accounts Receivable - Government	1,275,099
Less: Allowance for Doubtful Accounts	<u>(32,832)</u>
Total Accounts Receivable - Government, Net	<u><u>\$ 1,242,267</u></u>

PATHWAYS TO HOUSING PA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 LINE OF CREDIT

Pathways has a revolving line of credit of \$500,000 with a commercial bank. The line is collateralized by the business assets of Pathways and bears interest at the bank's prime rate. As of June 30, 2018, there is no outstanding balance on this line.

In October 2018, Pathways entered into an amended line of credit agreement which increased the aforementioned available credit to \$1,000,000. All other terms of the previous line of credit remain the same.

In October 2018, Pathways entered into an additional line of credit agreement with a commercial bank with an available line of \$162,000. The line bears interest at the bank's prime rate less 0.40%, and is collateralized by the business assets of Pathways.

NOTE 5 NET ASSETS

As of June 30, 2018, temporarily restricted net assets are restricted as to purpose and available for the following:

	Amount
Furniture Bank Supported Employment and Operations	\$ 22,500
Integrated Care	10,000
Opioid Programming	59,150
Strategic Plan	8,475
Time - General Support	37,500
Veterans	32,552
Total	\$ 170,177

NOTE 6 EMPLOYEE BENEFIT PLAN

Pathways maintains a 401k Plan covering all eligible employees who have completed three months of service. Employees may contribute a percentage of their gross wages to the plan. Pathways makes a "nonelective" contribution of 3% of gross salary for all eligible employees regardless if they contribute or not. Total contributions for the year ended June 30, 2018 were \$118,564.

NOTE 7 OPERATING LEASE COMMITMENTS

Residential Apartments

Pathways leases approximately 335 residential apartments throughout the City of Philadelphia that serve as the housing units for the clients of the program. The various one-year leases have expiration dates throughout fiscal year 2019. Residential rental expense for the year ended June 30, 2018 totaled \$3,118,170.

**PATHWAYS TO HOUSING PA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 OPERATING LEASE COMMITMENTS (CONTINUED)

Office Facilities

Pathways conducts its operations from facilities that are leased under a ten-year operating lease with an expiration date in 2022. There are two five-year renewal options under the contract that allow the Organization to lease the facility until 2032. Rental and occupancy expense for the year ended June 30, 2018 totaled \$311,695.

Furniture Bank Program

In October 2014, Pathways entered into a five-year operating lease for space to house their Philadelphia Furniture Bank program. The Philadelphia Furniture Bank program facilitates the collection and distribution of gently used donated furniture to individuals and families moving out of homelessness. Rental and occupancy expense for the year ended June 30, 2018 totaled \$72,729.

Aggregate minimum annual rental payments under residential apartments, office facilities, and furniture bank leases at June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 2,236,283
2020	365,477
2021	291,152
2022	234,768
2023	23,542
Total	<u>\$ 3,151,222</u>

NOTE 8 CONCENTRATION OF REVENUES

Pathways operating revenue is primarily generated through contracts with federal, state and city governmental agencies. For the year ended June 30, 2018, this amount represented approximately 89% of total revenues. The total receivable from contracts with federal, state and city governmental agencies as of June 30, 2018 was approximately 88% of total accounts receivable.

NOTE 9 CONTRACTUAL ADJUSTMENTS

The contracts under which Pathways conducts its programs contain provisions defining costs, which are allowable and reimbursable within the program. Program billings are subject to audit by various governmental funding sources. Audits of these billings may result in adjustments for disallowances. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined to date.



Investment advisory services are offered through CliftonLarsonAllen
Wealth Advisors, LLC, an SEC-registered investment advisor.