

PATHWAYS TO HOUSING PA, INC.
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR
THE YEAR ENDED JUNE 30, 2022)



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PATHWAYS TO HOUSING PA, INC.
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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Pathways to Housing PA, Inc. (a nonprofit corporation), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pathways to Housing PA, Inc., as of June 30, 2023, 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). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of Pathways to Housing PA, Inc. and to meet our other ethical responsibilities in accordance with the 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 audit opinion.

Change in Accounting Principle

As described in Note 1 to the consolidated financial statements, in 2023, Pathways to Housing PA, Inc. has adopted Accounting Standards Update (ASU) No. 2016-02, *Leases* (ASC 842). The new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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

Auditors' Responsibilities for the Consolidated Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 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 control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated financial statements.
- Obtain an understanding of internal control 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 to Housing PA, Inc.'s internal control. 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Pathways to Housing PA, Inc.'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 control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Pathways to Housing PA, Inc.'s June 30, 2022 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated March 31, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position, consolidating statement of activities, consolidating statement of functional expenses, and consolidating statement of cash flows are presented for additional analysis and are not a required part of the consolidated basic financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.



CliftonLarsonAllen LLP

King of Prussia, Pennsylvania
January 29, 2024

PATHWAYS TO HOUSING PA, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2022)

ASSETS	2023	2022
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,948,411	\$ 1,471,598
Client Cash - Restricted	271,594	153,497
Accounts Receivable:		
Government, Net	2,368,514	4,664,810
Other, Net	206,676	486,933
Inventory	228,068	249,836
Prepaid Expenses and Other	615,675	537,448
Total Current Assets	5,638,938	7,564,122
PROPERTY AND EQUIPMENT		
Furniture, Fixtures, and Equipment	792,502	695,242
Leasehold Improvements	468,580	433,522
Software	45,831	-
Construction In Progress	292,230	243,963
Total	1,599,143	1,372,727
Less: Accumulated Depreciation	934,979	810,800
Total Property and Equipment	664,164	561,927
RIGHT OF USE ASSETS	1,980,861	-
Total Assets	\$ 8,283,963	\$ 8,126,049
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 349,070	\$ 385,777
Accrued Expenses	435,938	63,114
Accrued Payroll and Payroll Taxes	640,459	639,481
Deferred Revenue	332,242	21,959
Due to Clients	271,594	153,497
Lease Liabilities, Current Portion	406,209	-
Total Current Liabilities	2,435,512	1,263,828
LEASE LIABILITIES, NET OF CURRENT PORTION	1,611,603	-
PRE-DEVELOPMENT LOAN	230,000	180,000
Total Liabilities	4,277,115	1,443,828
NET ASSETS		
Without Donor Restrictions	3,828,283	6,312,232
With Donor Restrictions	178,565	369,989
Total Net Assets	4,006,848	6,682,221
Total Liabilities and Net Assets	\$ 8,283,963	\$ 8,126,049

See accompanying Notes to Consolidated Financial Statements.

PATHWAYS TO HOUSING PA, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2022)

	2023		2022	
	Without Donor Restrictions	With Donor Restrictions	Total	Total
SUPPORT AND REVENUE				
Community Behavioral Health	\$ 7,045,478	\$ -	\$ 7,045,478	\$ 7,942,774
U.S. Department of Housing and Urban Development	6,263,610	-	6,263,610	5,646,748
City of Philadelphia Department of Behavioral Health	1,347,833	-	1,347,833	2,610,251
Other Contracts	1,043,614	-	1,043,614	620,913
Client Income	511,579	-	511,579	615,021
Foundation Grants	496,054	131,920	627,974	676,657
Contributions	117,056	-	117,056	135,712
In-Kind Contributions	1,131,841	-	1,131,841	951,010
Other Income and Fees	933,663	-	933,663	644,473
Loss on Disposal	(78,988)	-	(78,988)	-
Net Assets Released from Restrictions	323,344	(323,344)	-	-
Total Support and Revenue	<u>19,135,084</u>	<u>(191,424)</u>	<u>18,943,660</u>	<u>19,843,559</u>
EXPENSES				
Program	18,314,916	-	18,314,916	16,707,988
Management and General	2,946,822	-	2,946,822	2,164,154
Fundraising	357,295	-	357,295	331,804
Total Expenses	<u>21,619,033</u>	<u>-</u>	<u>21,619,033</u>	<u>19,203,946</u>
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(2,483,949)	(191,424)	(2,675,373)	639,613
OTHER INCOME				
Paycheck Protection Program Loan Forgiveness	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,193,300</u>
CHANGE IN NET ASSETS	(2,483,949)	(191,424)	(2,675,373)	1,832,913
Net Assets - Beginning of Year	<u>6,312,232</u>	<u>369,989</u>	<u>6,682,221</u>	<u>4,849,308</u>
NET ASSETS - END OF YEAR	<u>\$ 3,828,283</u>	<u>\$ 178,565</u>	<u>\$ 4,006,848</u>	<u>\$ 6,682,221</u>

See accompanying Notes to Consolidated Financial Statements.

PATHWAYS TO HOUSING PA, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2022)

	2023						2022	
	Housing First	Furniture Bank	Good Haul	Total Program	Management and General	Fundraising	Total	Total
Payroll and Payroll Related Expenses	\$ 6,559,307	\$ 460,560	\$ 35,672	\$ 7,055,539	\$ 1,866,052	\$ 257,453	\$ 9,179,044	\$ 7,929,284
Bad Debt Expense	-	-	-	-	62,379	-	62,379	38,149
Client Gross Rent Expense	5,409,765	-	-	5,409,765	-	-	5,409,765	5,019,177
Client Housing Expenses	2,027,310	14,986	-	2,042,296	-	-	2,042,296	1,917,313
Clinical Expenses	-	-	-	-	-	-	-	21,121
Conferences and Meetings	76,460	1,255	1,432	79,147	47,433	2,587	129,167	112,899
Contract Service Payments and Professional Fees	434,782	-	2,100	436,882	235,913	37,021	709,816	751,889
Depreciation	109,277	-	-	109,277	12,418	2,484	124,179	217,617
Program Expenses - FB (Includes Delivery Expense)	291,457	1,154,857	-	1,446,314	-	-	1,446,314	1,154,909
In-Kind Professional Services	-	-	-	-	45,842	-	45,842	-
Insurance	255,246	9,500	-	264,746	26,940	5,387	297,073	241,163
Miscellaneous	5,420	2,005	-	7,425	473,288	1,663	482,376	20,206
Occupancy Costs	423,712	72,846	-	496,558	58,065	11,612	566,235	572,677
Office Expenses	543,907	11,204	249	555,360	118,492	39,088	712,940	643,396
Other Client Expenses	360,153	85	72	360,310	-	-	360,310	516,204
Vehicle Costs	15,297	35,153	847	51,297	-	-	51,297	47,942
Total Functional Expenses	\$ 16,512,093	\$ 1,762,451	\$ 40,372	\$ 18,314,916	\$ 2,946,822	\$ 357,295	\$ 21,619,033	\$ 19,203,946

See accompanying Notes to Consolidated Financial Statements.

PATHWAYS TO HOUSING PA, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2022)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (2,675,373)	\$ 1,832,913
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	124,179	217,617
Bad Debt	62,379	38,149
Loss on Disposal	78,988	-
Forgiveness on Paycheck Protection Program Loan	-	(1,193,300)
(Increase) Decrease in:		
Prepaid Expenses and Other	(78,227)	133,230
Accounts Receivable	2,514,174	(2,338,601)
Inventory	21,768	(76,901)
Right of Use Assets	(1,980,861)	-
Increase (Decrease) in:		
Accounts Payable	(36,707)	(32,057)
Accrued Expenses	372,824	(49,283)
Accrued Payroll and Payroll Taxes	978	147,802
Due to Clients	118,097	(16,298)
Deferred Revenue	310,283	(56,517)
Lease Liabilities	2,017,812	-
Net Cash Provided (Used) by Operating Activities	850,314	(1,393,246)
CASH FLOWS USED BY INVESTING ACTIVITIES		
Purchase of Property and Equipment	(305,404)	(341,701)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Pre-Development Loan	50,000	130,000
Net Cash Provided by Financing Activities	50,000	130,000
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	594,910	(1,604,947)
Cash, Cash Equivalents, and Restricted Cash – Beginning of Year	1,625,095	3,230,042
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH – END OF YEAR	\$ 2,220,005	\$ 1,625,095
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	\$ 190	\$ -

See accompanying Notes to Consolidated Financial Statements.

PATHWAYS TO HOUSING PA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

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 have experienced chronic homelessness 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 payor for behavioral health services).

On June 3, 2021, Pathways Housing Wellness Corporation (the Corporation) was established. The Corporation was brought into existence for the purpose of rebuilding lost homes within the Philadelphia community into moderate sized multi-family units that would fit into the landscape of the neighborhood. Pathways to Housing PA, Inc. is the sole member of Pathways Housing Wellness Corporation.

Principles of Consolidation

The consolidated financial statements of Pathways include the accounts of Pathways to Housing PA, Inc. and Pathways to Housing Wellness Corporation. All significant interorganizational transactions have been eliminated in these consolidated financial statements.

Basis of Presentation

The consolidated 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.

PATHWAYS TO HOUSING PA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prior Year Summarized Information

The consolidated 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' consolidated financial statements for the year ended June 30, 2022, 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.

Accounts Receivable and 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. 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, 2023, the amount of the overall allowance for accounts receivable was \$62,245.

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, 2023 amounted to \$228,068.

PATHWAYS TO HOUSING PA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 consolidated financial statements, net assets that have similar characteristics have been combined into similar categories. A description of the asset categories is as follows:

Without Donor Restrictions – Net assets not subject to donor-imposed restrictions or stipulations as to purpose or use. Net assets without donor restrictions include operating funds. The board of directors has the ability to designate net assets without donor restrictions for specified purposes.

With Donor Restrictions – 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.

All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Revenue Recognition

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. The performance obligation under these contracts is a delivery of specified service at the pre-determined published price. 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. Services completed and billed where the payment is not yet received are recorded as receivables. Funds received in advance of the service performed are recorded as deferred revenue in the consolidated statement of financial position.

PATHWAYS TO HOUSING PA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

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.

Grants and Contributions – Most of the grants and contributions received by Pathways are considered to be nonexchange transactions. Pathways recognizes these transactions in accordance with Accounting Standards Update (ASU) No. 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*.

Pathways reviews each transaction to evaluate whether the grants and contributions received are conditional or unconditional. Both barriers and right of return/release need to exist in order to designate a contribution as conditional. Once designated, the revenue is recognized when the conditions are met.

Unconditional grants and contributions are recorded as those with donor restrictions or without donor restrictions depending on the existence of donor-imposed restrictions, typically limiting purpose or timing of the grant or contribution. Grants and contributions that are restricted by the donor are reported as an increase in net assets without donor restriction if the restriction expires in the reporting period in which these grants and contributions are recognized.

A portion of Pathways’ revenue is derived from cost-reimbursable contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when Pathways has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as liabilities in the consolidated statement of financial position. Pathways has been awarded cost-reimbursable grants of \$2,124,201 that have not been recognized at June 30, 2023 because qualifying expenditures have not yet been incurred.

Functional Allocation of Expenses

The costs of supporting the program and other activities have been summarized on a functional basis in the consolidated statement of functional expenses. Specifically identifiable costs are assigned directly to the respective program and/ or supporting function.

The consolidated financial statements report certain costs that are attributable to one or more programs or supporting functions. These costs have been allocated by management based on reasonable allocation methods. Payroll and the associated payroll related costs are allocated based on time spent. Conference and meetings, Contract Service Payments and Professional Fees, Insurance and Office Expense are allocated based on specifically identifiable costs and head count between program, management and general and fundraising. Occupancy and depreciation costs are allocated based on head count between program, management and general and fundraising.

PATHWAYS TO HOUSING PA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status

Pathways and Pathways Housing Wellness Corporation are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. 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 and Pathways Housing Wellness Corporation follow the guidance in the income tax standard regarding the recognition and measurement of uncertain tax positions. The guidance clarifies the accounting for uncertainty in income taxes recognized in an entity's consolidated financial statements. The guidance further prescribes recognition and measurement of tax provisions taken or expected to be taken on a tax return that are not certain to be realized. The application of this standard had no impact on the consolidated financial statements.

Management's Judgments and Accounting Estimates

The preparation of consolidated 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.

Leases

Pathways leases office facilities, residential apartments, vehicles, and program locations. Pathways determines if an arrangement is a lease at inception. Operating and finance leases are included in right-of-use (ROU) assets, other current liabilities, and lease liabilities on the statement of financial position.

ROU assets represent Pathways' right to use an underlying asset for the lease term and lease liabilities represent Pathways' obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Some leases do not provide an implicit rate so Pathways uses a discount rate comparable to the U.S. Department of the Treasury, Daily Treasury Par Yield Curve Rates based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that Pathways will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Pathways has elected not to separate non-lease components from lease components and instead accounts for each separate lease component and the non-lease component as a single lease component.

PATHWAYS TO HOUSING PA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Principle

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (ASC 842)*. The new standard increases transparency and comparability among organizations by requiring the recognition of ROU assets and lease liabilities on the statement of financial position. Most prominent of the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

Pathways to Housing PA, Inc. adopted the requirements of the guidance effective July 1, 2022, and has elected to apply the transition provisions of ASC 842 at the beginning of the period of adoption.

Pathways to Housing PA, Inc. has elected to adopt the package of practical expedients available in the year of adoption. Pathways has also elected to adopt the available practical expedient to use hindsight in determining the lease term and in assessing impairment of Pathways' ROU Assets.

Subsequent Events

In preparing these consolidated financial statements, Pathways has evaluated events and transactions for potential recognition or disclosures through January 29, 2024, the date the consolidated 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, 2023, accounts receivable – government are comprised of the following:

	<u>Amount</u>
City of Philadelphia Department of Behavioral Health	\$ 204,498
Community Behavioral Health	637,826
City of Philadelphia Office of Homeless Services	589,423
U.S. Department of Housing and Urban Development	813,787
City of Philadelphia Department of Behavioral Health Office of Addiction Services	61,219
ActionWellness	35,969
Other	<u>31,255</u>
Total Accounts Receivable - Government	2,373,977
Less: Allowance for Doubtful Accounts	<u>(5,463)</u>
Total Accounts Receivable - Government, Net	<u><u>\$ 2,368,514</u></u>

PATHWAYS TO HOUSING PA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 4 DEBT

Line of Credit

Pathways has a revolving line of credit of \$1,000,000 with a commercial bank. The line is collateralized by the business assets of Pathways and bears interest at the bank's prime rate (5.25% as of June 30, 2023). There were no borrowings on this line of credit during the year ended June 30, 2023. The line expires April 30, 2024 and can be renewed on an annual basis. As of June 30, 2023, there was no outstanding balance on this line.

Pre-Development Loan

On October 20, 2021, Pathways Housing Wellness Corp entered into a loan agreement. \$180,000 of the funds were disbursed to Pathways in December 2021. Upon hitting certain milestones, \$50,000 in additional funds were disbursed during the fiscal year ended June 30, 2023. The loan is for predevelopment construction costs including architectural and consulting fees. The loan carries a 6% interest rate to be accrued and paid at the earlier of closing of construction financing or the maturity date of December 10, 2024.

For the year ended June 30, 2023, the outstanding balance on this loan was \$230,000.

Principal maturities of the pre-development loan subsequent to June 30, 2023 is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2024	\$ -
2025	230,000
Total	<u>\$ 230,000</u>

NOTE 5 NET ASSETS

As of June 30, 2023, net assets with donor restrictions are restricted as to purpose and available for the following:

	<u>Amount</u>
Furniture Bank Supported Employment and Operations	\$ 20,000
Outreach	46,645
Integrated Care Clinic	61,920
Good Haul	50,000
Total	<u>\$ 178,565</u>

Net assets released from restrictions amounted to \$323,344 and \$260,461 for the years ended June 30, 2023 and 2022, respectively.

PATHWAYS TO HOUSING PA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

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, 2023 was \$194,604.

NOTE 7 SELF INSURANCE

Pathways self-insures their Medical/Rx employee benefit plan offering through Independence Administrators and Highmark Stop Loss. There were 72 employees covered in FY23. The deductible on any individual/member claim is \$55,000. There is no maximum stop-loss protection limit for any specific or aggregate claims.

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, 2023, this amount represented approximately 77% of total support and revenue. The total receivable from contracts with federal, state and city governmental agencies as of June 30, 2023 was approximately 92% 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.

NOTE 10 LIQUIDITY

The below table reflects Pathways financial assets available for general expenditure, that is, without donor or other restriction limiting their use, within one year as of June 30, 2023:

	Amount
Cash and Cash Equivalents	\$ 1,948,411
Accounts Receivable - Government	2,368,514
Accounts Receivable - Other	206,676
Total Financial Assets at Year-End	4,523,601
Less: Net Assets with Donor Restrictions	(178,565)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	\$ 4,345,036

PATHWAYS TO HOUSING PA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 10 LIQUIDITY (CONTINUED)

As part of Pathways to Housing PA, Inc.'s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition to financial assets available to meet general expenditures over the next 12 months, Pathways operates with a Board approved budget. In the event of an unanticipated liquidity need, Pathways could draw upon its line of credit.

NOTE 11 REVENUE FROM CONTRACTS WITH CUSTOMERS

The following table shows the Pathways' revenue subject to ASC 606 disaggregated according to the timing of the transfer of goods or services:

Revenue Recognized at a Point in Time:

CBH	\$ 7,045,478
Client Rent Contributions	501,830
Client Utilities Contributions	9,749
Referral Fees	52,785
Bed Fees	146,890
Membership Fees	9,000
Training Fees	272,124
Delivery Fees	44,680
Other General Revenue	371,894
Total	<u>\$ 8,454,430</u>

The following table shows Pathways' contract assets as of the beginning and ending of year ending June 30, 2023:

	<u>Ending</u>	<u>Beginning</u>
Accounts Receivable:		
Accounts Receivable, Net - Client	\$ 6,074	\$ 5,870
Accounts Receivable- CBH	632,363	707,208
Total Accounts Receivable	<u>\$ 638,437</u>	<u>\$ 713,078</u>

There were no contract liabilities at the beginning or ending of the year ended June 30, 2023.

PATHWAYS TO HOUSING PA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 12 IN-KIND CONTRIBUTIONS

In-kind donations amounted to \$1,131,841 for the year ended June 30, 2023, and is included in the consolidated statement of activities. Pathways receives various forms of donated materials, facilities and services that are considered contributions of nonfinancial assets including donated goods, donated supplies, and donated clothing. These contributions are reported at their estimated fair value on the date of receipt and reported as expenses when utilized. Estimated fair value is based upon estimates of fair market or wholesale values that would be received from selling goods in their principal market considering their condition and utility for use at the time the goods are contributed for program use. The following is a summary of the in-kind contributions received by Pathways during the year ended June 30, 2023.

Item	Amount
Area Rugs	\$ 9,460
Art Work	5,355
Bookshelves	23,220
Desks	59,400
Dining Chairs	43,460
Dining Table	89,474
Dressers	108,563
Full/Double Box Springs	25,240
OLD Full/Double Mattresses	141,493
OLD Twin Mattresses	107,646
Lamps	36,340
Legal Services	45,842
Mirrors	17,500
Occasional Table	76,440
Pop-up Shop- Small Items	17,075
Sofas/Loveseats	226,665
Soft Chairs	67,405
Standard Frame	15,600
Standard Frame, Center Support	1,518
Twin Box Springs	105
Wardrobes	14,040
Total	<u>\$ 1,131,841</u>

NOTE 13 LITIGATION

As of the year ended June 30, 2023, Pathways to Housing PA, Inc. is involved in certain litigation proceedings. This litigation resulted in a settlement in the amount of \$415,000 after fiscal year-end. This balance has been accrued for in the consolidated financial statements as of June 30, 2023.

PATHWAYS TO HOUSING PA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 14 LEASES – ASC 842

Pathways to Housing PA, Inc. determines if an arrangement is a lease at inception. Right-of-Use (ROU) assets represent Pathways' right to use an underlying asset for the lease term and lease liabilities represent the Pathways' obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that Pathways will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

Pathways has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or ROU assets on the consolidated statement of financial position.

Pathways to Housing PA, Inc. has elected not to separate nonlease components from lease components and instead accounts for each separate lease component and the nonlease component as a single lease component.

Pathways to Housing PA, Inc. leases space and vehicles for program services and administrative support. The following table provides quantitative information concerning the Organization's leases:

Lease Costs:	
Operating Lease Costs	\$ 342,622
Finance Lease Costs	126,547
	<u>\$ 469,169</u>

Weighted-Average Remaining Lease Term - Operating Leases (In Years)	3.8 years
Weighted-Average Remaining Lease Term - Finance Leases (In Years)	3.8 years
Weighted-Average Discount Rate - Operating Leases	3.50%
Weighted-Average Discount Rate - Finance Leases	6.42%

A maturity analysis of annual undiscounted cash flows for lease liabilities as of June 30, 2023, is as follows:

<u>Years Ending June 30.</u>	<u>Finance</u>	<u>Operating</u>
2024	\$ 117,545	\$ 361,860
2025	115,487	336,370
2026	112,497	324,370
2027	91,749	272,608
2028	2,401	278,060
Thereafter	-	211,658
Total Lease Payments	<u>439,679</u>	<u>1,784,926</u>
Less: Interest	<u>50,718</u>	<u>156,075</u>
Present Value of Lease Liabilities	<u>\$ 388,961</u>	<u>\$ 1,628,851</u>

PATHWAYS TO HOUSING PA, INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2023

ASSETS	Pathways to Housing PA, Inc.	Pathways Housing Wellness Corporation	Eliminations	Total
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 1,613,955	\$ 334,456	\$ -	\$ 1,948,411
Client Cash - Restricted	271,594	-	-	271,594
Accounts Receivable:				
Government, Net	2,368,514	-	-	2,368,514
Other, Net	206,676	-	-	206,676
Due From Related Party	211,367	-	(211,367)	-
Inventory	228,068	-	-	228,068
Prepaid Expenses and Other	615,475	200	-	615,675
Total Current Assets	<u>5,515,649</u>	<u>334,656</u>	<u>(211,367)</u>	<u>5,638,938</u>
PROPERTY AND EQUIPMENT				
Furniture, Fixtures, and Equipment	792,502	-	-	792,502
Leasehold Improvements	468,580	-	-	468,580
Software	44,331	1,500	-	45,831
Construction In Progress	-	292,230	-	292,230
Total	<u>1,305,413</u>	<u>293,730</u>	<u>-</u>	<u>1,599,143</u>
Less: Accumulated Depreciation	934,979	-	-	934,979
Total Property and Equipment	<u>370,434</u>	<u>293,730</u>	<u>-</u>	<u>664,164</u>
RIGHT OF USE ASSETS	<u>1,980,861</u>	<u>-</u>	<u>-</u>	<u>1,980,861</u>
Total Assets	<u>\$ 7,866,944</u>	<u>\$ 628,386</u>	<u>\$ (211,367)</u>	<u>\$ 8,283,963</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable	\$ 332,336	\$ 16,734	\$ -	\$ 349,070
Accrued Expenses	416,295	19,643	-	435,938
Accrued Payroll and Payroll Taxes	640,459	-	-	640,459
Deferred Revenue	32,242	300,000	-	332,242
Due to Related Party	-	211,367	(211,367)	-
Due to Clients	271,594	-	-	271,594
Lease Liabilities, Current Portion	406,209	-	-	406,209
Total Current Liabilities	<u>2,099,135</u>	<u>547,744</u>	<u>(211,367)</u>	<u>2,435,512</u>
LEASE LIABILITIES	1,611,603	-	-	1,611,603
PRE-DEVELOPMENT LOAN	<u>-</u>	<u>230,000</u>	<u>-</u>	<u>230,000</u>
Total Liabilities	3,710,738	777,744	(211,367)	4,277,115
NET ASSETS				
Without Donor Restrictions	3,977,641	(149,358)	-	3,828,283
With Donor Restrictions	178,565	-	-	178,565
Total Net Assets	<u>4,156,206</u>	<u>(149,358)</u>	<u>-</u>	<u>4,006,848</u>
Total Liabilities and Net Assets	<u>\$ 7,866,944</u>	<u>\$ 628,386</u>	<u>\$ (211,367)</u>	<u>\$ 8,283,963</u>

PATHWAYS TO HOUSING PA, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023

	Pathways to Housing PA, Inc.	Pathways Housing Wellness Corporation	Eliminations	Total
SUPPORT AND REVENUE				
Community Behavioral Health	\$ 7,045,478	\$ -	\$ -	\$ 7,045,478
U.S. Department of Housing and Urban Development	6,263,610	-	-	6,263,610
City of Philadelphia Department of Behavioral Health	-	-	-	-
Other Contracts	1,347,833	-	-	1,347,833
Client Income	1,043,614	-	-	1,043,614
Foundation Grants	511,579	-	-	511,579
Contributions	627,974	-	-	627,974
In-Kind Donations	117,056	-	-	117,056
Other Income and Fees	1,131,841	-	-	1,131,841
Loss on Disposal	933,663	-	-	933,663
Loss on Disposal	-	(78,988)	-	(78,988)
Total Support and Revenue	<u>19,022,648</u>	<u>(78,988)</u>	-	<u>18,943,660</u>
EXPENSES				
Program	18,271,420	43,496	-	18,314,916
Management and General	2,919,948	26,874	-	2,946,822
Fundraising	357,295	-	-	357,295
Total Expenses	<u>21,548,663</u>	<u>70,370</u>	-	<u>21,619,033</u>
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(2,526,015)	(149,358)	-	(2,675,373)
Net Assets - Beginning of Year	<u>6,682,221</u>	-	-	<u>6,682,221</u>
NET ASSETS - END OF YEAR	<u>\$ 4,156,206</u>	<u>\$ (149,358)</u>	<u>\$ -</u>	<u>\$ 4,006,848</u>

**PATHWAYS TO HOUSING PA, INC.
CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2023**

	Pathways to Housing PA, Inc.				Pathways Housing Wellness Corporation				Total Consolidated
	Program	Management and General	Fundraising	Total	Program	Management and General	Fundraising	Total	
Payroll and Payroll Related Expenses	\$ 7,055,539	\$ 1,866,052	\$ 257,453	\$ 9,179,044	\$ -	\$ -	\$ -	\$ -	\$ 9,179,044
Bad Debt Expense	-	62,379	-	62,379	-	-	-	-	62,379
Client Gross Rent Expense	5,409,765	-	-	5,409,765	-	-	-	-	5,409,765
Client Housing Expenses	2,042,296	-	-	2,042,296	-	-	-	-	2,042,296
Clinical Expenses	-	-	-	-	-	-	-	-	-
Conferences and Meetings	79,147	47,433	2,587	129,167	-	-	-	-	129,167
Contract Service Payments and Professional Fees	393,386	235,913	37,021	666,320	43,496	-	-	43,496	709,816
Depreciation	109,277	12,418	2,484	124,179	-	-	-	-	124,179
Program Expenses - FB (Includes Delivery Exp)	1,446,314	-	-	1,446,314	-	-	-	-	1,446,314
In-Kind Professional Services	-	45,842	-	45,842	-	-	-	-	45,842
Insurance	264,746	26,940	5,387	297,073	-	-	-	-	297,073
Miscellaneous	7,425	446,414	1,663	455,502	-	26,874	-	26,874	482,376
Occupancy Costs	496,558	58,065	11,612	566,235	-	-	-	-	566,235
Office Expenses	555,360	118,492	39,088	712,940	-	-	-	-	712,940
Other Client Expenses	360,310	-	-	360,310	-	-	-	-	360,310
Vehicle Costs	51,297	-	-	51,297	-	-	-	-	51,297
Total Expenses	\$ 18,271,420	\$ 2,919,948	\$ 357,295	\$ 21,548,663	\$ 43,496	\$ 26,874	\$ -	\$ 70,370	\$ 21,619,033

PATHWAYS TO HOUSING PA, INC.
CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2023

	Pathways to Housing PA, Inc.	Pathways Housing Wellness Corporation	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in Net Assets	\$ (2,526,015)	\$ (149,358)	\$ -	\$ (2,675,373)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:				
Depreciation	124,179	-	-	124,179
Bad Debt	62,379	-	-	62,379
Loss on Disposal	-	78,988	-	78,988
(Increase) Decrease in:				
Prepaid Expenses and Other	(78,027)	(200)	-	(78,227)
Accounts Receivable	2,514,174	-	-	2,514,174
Due From Related Party	175,856	-	(175,856)	-
Inventory	21,768	-	-	21,768
Right of Use Assets	(1,980,861)	-	-	(1,980,861)
Increase (Decrease) in:				
Accounts Payable	(53,441)	16,734	-	(36,707)
Accrued Expenses	353,181	19,643	-	372,824
Accrued Payroll and Payroll Taxes	978	-	-	978
Due to Related Party	-	(175,856)	175,856	-
Due to Clients	118,097	-	-	118,097
Deferred Revenue	10,283	300,000	-	310,283
Lease Liabilities	2,017,812	-	-	2,017,812
Net Cash Provided by Operating Activities	760,363	89,951	-	850,314
CASH FLOWS USED BY INVESTING ACTIVITIES				
Purchase of Property and Equipment	(176,649)	(128,755)	-	(305,404)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES				
Pre-Development Loan	-	50,000	-	50,000
Net Cash Provided by Financing Activities	-	50,000	-	50,000
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	583,714	11,196	-	594,910
Cash, Cash Equivalents, and Restricted Cash – Beginning of Year	1,301,835	323,260	-	1,625,095
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH – END OF YEAR	<u>\$ 1,885,549</u>	<u>\$ 334,456</u>	<u>\$ -</u>	<u>\$ 2,220,005</u>