

PATHWAYS TO HOUSING PA, INC.

FINANCIAL STATEMENTS

**YEARS ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2013)**

PATHWAYS TO HOUSING PA, INC.
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements Pathways to Housing PA, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, 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, 2014, 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 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 10, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, 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
December 11, 2014

PATHWAYS TO HOUSING PA, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2013)

ASSETS	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 840,079	\$ 436,670
Cash - Restricted for Clients	138,657	146,052
Total Cash and Cash Equivalents	<u>978,736</u>	<u>582,722</u>
Accounts Receivable:		
Government	1,042,984	832,949
Other, Net	105,190	155,822
Prepaid Expenses	262,294	9,666
Total Current Assets	<u>2,389,204</u>	<u>1,581,159</u>
PROPERTY AND EQUIPMENT		
Furniture, Fixtures, and Equipment	130,049	55,485
Leasehold Improvements	21,094	11,440
Total	<u>151,143</u>	<u>66,925</u>
Less: Accumulated Depreciation	23,942	12,819
Total Property and Equipment	<u>127,201</u>	<u>54,106</u>
Total Assets	<u><u>\$ 2,516,405</u></u>	<u><u>\$ 1,635,265</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 99,784	\$ 190,911
Accrued Expenses	157,829	71,855
Accrued Payroll and Payroll Taxes	304,390	203,365
Due to Pathways to Housing New York	-	50,000
Deferred Revenue	20,655	-
Due to Clients	138,657	146,052
Capital Lease Obligations, Current Portion	1,635	1,353
Total Current Liabilities	<u>722,950</u>	<u>663,536</u>
LONG-TERM LIABILITIES		
Capital Lease Obligations, Net of Current Portion	3,719	5,355
Total Liabilities	<u>726,669</u>	<u>668,891</u>
NET ASSETS		
Unrestricted and Undesignated	1,708,236	926,374
Temporarily Restricted	81,500	40,000
Total Net Assets	<u>1,789,736</u>	<u>966,374</u>
Total Liabilities and Net Assets	<u><u>\$ 2,516,405</u></u>	<u><u>\$ 1,635,265</u></u>

PATHWAYS TO HOUSING PA, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2013)

	2014			2013
	Unrestricted	Temporarily Restricted	Total	Total
SUPPORT AND REVENUE				
City of Philadelphia Community Behavioral Health	\$ 3,389,969	\$ -	\$ 3,389,969	\$ 3,430,572
U.S. Department of Housing and Urban Development	1,358,281	-	1,358,281	1,325,935
Department of Veterans' Affairs	1,364,315	-	1,364,315	520,791
City of Philadelphia Department of Behavioral Health	1,396,930	-	1,396,930	1,395,676
ActionAIDS	198,475	-	198,475	258,495
Client Income	520,698	-	520,698	527,891
Foundation Grants	-	70,000	70,000	52,500
Contributions	10,665	-	10,665	10,964
Other Income	73,314	-	73,314	61,714
Net Assets Released from Restrictions	28,500	(28,500)	-	-
Total Support and Revenue	<u>8,341,147</u>	<u>41,500</u>	<u>8,382,647</u>	<u>7,584,538</u>
EXPENSES				
Program	6,369,159	-	6,369,159	6,121,100
Management and General	1,046,272	-	1,046,272	826,655
Fundraising	143,855	-	143,855	123,448
Total Expenses	<u>7,559,285</u>	<u>-</u>	<u>7,559,285</u>	<u>7,071,203</u>
CHANGE IN NET ASSETS	781,862	41,500	823,362	513,335
Net Assets - Beginning of Year	<u>926,374</u>	<u>40,000</u>	<u>966,374</u>	<u>453,039</u>
NET ASSETS - END OF YEAR	<u><u>\$ 1,708,236</u></u>	<u><u>\$ 81,500</u></u>	<u><u>\$ 1,789,736</u></u>	<u><u>\$ 966,374</u></u>

PATHWAYS TO HOUSING PA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2013)

Expenses	2014			2013	
	Program	Management and General	Fundraising	Total	Total
Payroll and Payroll Related Costs	\$ 2,873,769	\$ 736,864	\$ 73,686	\$ 3,684,319	\$ 3,033,313
Affiliate Fees	55,736	55,736	47,774	159,246	156,225
Bad Debt	47,813	-	-	47,813	345,475
Client Gross Rent Expense	1,809,202	-	-	1,809,202	1,790,741
Client Housing Expenses	502,484	-	-	502,484	414,347
Clinical Expenses	20,434	-	-	20,434	13,702
Conferences and Meetings	61,511	7,776	1,414	70,701	63,697
Contract Service Payments and Professional Fees	352,843	163,697	1,579	518,119	522,188
Depreciation	9,677	1,224	222	11,123	8,561
Insurance	47,214	5,311	966	53,491	51,054
Miscellaneous	683	9,197	16	9,896	7,064
Occupancy Costs	152,426	19,272	3,504	175,202	189,430
Office Expenses	276,717	47,195	14,694	338,606	298,385
Other Client Expenses	155,997	-	-	155,997	175,703
Vehicle Costs	2,653	-	-	2,653	1,318
Total Expenses	<u>\$ 6,369,159</u>	<u>\$ 1,046,272</u>	<u>\$ 143,855</u>	<u>\$ 7,559,285</u>	<u>\$ 7,071,203</u>

PATHWAYS TO HOUSING PA, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2013)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 823,362	\$ 513,335
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	11,123	8,561
Bad Debt	47,813	345,475
(Increase) Decrease in:		
Prepaid Expenses	(252,628)	112,474
Accounts Receivable	(207,216)	(845,555)
Related Party Receivable	-	160,285
Increase (Decrease) in:		
Accounts Payable	(91,127)	102,296
Accrued Expenses	85,974	21,249
Accrued Payroll and Payroll Related Expenses	101,025	22,139
Related Party Payable	(50,000)	(59,027)
Due to Clients	(7,395)	2,365
Deferred Revenue	20,655	(232,036)
Net Cash Provided by Operating Activities	481,586	151,561
 CASH FLOWS USED BY INVESTING ACTIVITIES		
Purchase of Property and Equipment	(84,218)	(7,217)
 CASH FLOWS USED BY FINANCING ACTIVITIES		
Payments on Capital Lease Obligations	(1,354)	(844)
 NET INCREASE IN CASH AND CASH EQUIVALENTS	396,014	143,500
Cash and Cash Equivalents - Beginning of Year	582,722	439,222
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 978,736	\$ 582,722
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	\$ 4,868	\$ 277

PATHWAYS TO HOUSING PA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Pathways to Housing PA, Inc. ("Pathways") is a not-for-profit corporation formed under the laws of the Commonwealth of Pennsylvania. Pathways operates with the belief that housing is a basic right for all people. Pathways provides housing and non-fidelity Assertive Community Treatment Services to people who are chronically homeless and have psychiatric and other disabilities. Pathways 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, connection to addictions services, medical services, vocational training, household and money management assistance, "activities of daily living" training and advocacy services.

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 DisAbilities, the Office of Addictions Services, Community Behavioral Health the City's medical assistance payer for behavioral health services and the Department of Veterans' Affairs.

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, 2013, 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.

Restricted Cash

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 our 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, 2014

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, 2014, the amount of the allowance for accounts receivable, other was \$141,862.

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	3-8 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 has the ability to designate unrestricted net assets for specified purposes.

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, 2014.

PATHWAYS TO HOUSING PA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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

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, and local authorities. Pathways is not aware of any activities that would jeopardize its tax-exempt status. The tax returns for the fiscal years 2013 and 2012 are open to examination by federal and state authorities. The fiscal year ended June 30, 2012 was the initial year of independent tax filing for Pathways.

PATHWAYS TO HOUSING PA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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.

Financial Statement Reclassifications

Certain amounts in the prior period presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported change in net position.

Subsequent Events

Pathways evaluated its June 30, 2014 financial statements for subsequent events through December 11, 2014, the date the financial statements were available to be issued and were 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, 2014, accounts receivable - government are comprised of the following:

City of Philadelphia Department of Behavioral Health	\$	134,329
City of Philadelphia Office of Supportive Housing		62,860
U.S. Department of Housing and Urban Development		239,310
City of Philadelphia Department of Behavioral Health Office of Addiction Services		12,600
Action Aids, Inc.		32,224
Department of Veterans Affairs		275,268
City of Philadelphia Department of Behavioral Health Community Behavioral Health		286,393
Total Account Receivable - Government	\$	<u><u>1,042,984</u></u>

PATHWAYS TO HOUSING PA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 4 AFFILIATES TRANSACTIONS

Pathways to Housing, Inc. Affiliation Program

Pathways participates in a network partnership that includes membership in the Pathways to Housing, Inc. affiliation program. The annual affiliation fee is assessed at a rate of 3 percent of Pathways' approved revenue budget, excluding client accounts and pass-through dollars. For the year ended June 30, 2014, the affiliate fee was \$159,246.

NOTE 5 NET ASSETS

As of June 30, 2014, temporarily restricted net assets are restricted as to purpose and available for the following:

Barra Foundation - Strategic Planning	\$	26,500
Barra Foundation - Time Restricted		25,000
HAFI Foundation- Client Furniture		<u>30,000</u>
	\$	<u>81,500</u>

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 "non-elective" contribution of 3% of gross salary for all eligible employees regardless if they contribute or not. Pathways contribution to the plan for the year ended June 30, 2014 totaled \$78,258.

NOTE 7 OPERATING LEASE COMMITMENTS

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, 2014 totaled \$165,118.

Residential Apartments

Pathways leases approximately 202 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 2015. Residential rental expense for the year ended June 30, 2014 totaled \$1,809,117.

PATHWAYS TO HOUSING PA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 OPERATING LEASE COMMITMENTS (CONTINUED)

Furniture Bank Program (Subsequent Event)

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 will facilitate the collection and distribution of gently used donated furniture to individuals and families moving out of homelessness.

Aggregate minimum annual rental payments under the office, apartments and furniture bank leases at June 30, 2014 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 1,228,330
2016	263,683
2017	265,168
2018	269,415
2019	273,861
Thereafter	<u>642,536</u>
Total	<u>\$ 2,942,993</u>

NOTE 8 CAPITAL LEASE

Pathways copier lease is recorded as a capital lease with an expiration date of March 2017. The economic substance of the lease is that Pathways is financing the acquisition of the asset through the lease, and, accordingly, it is recorded in the Organization's assets and liabilities. The lease includes an end of lease purchase option that shall be the fair market value of the equipment. The copier equipment has a total cost of \$7,995 and accumulated depreciation of \$3,998 at June 30, 2014. This capitalized lease is included in property and equipment.

Minimum future lease payments under the capital lease at June 30, 2014 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 2,516
2016	2,516
2017	<u>1,887</u>
Total Minimum Lease Payments	6,919
Less: Amount Representing Interest	<u>1,565</u>
Total	<u>\$ 5,354</u>

PATHWAYS TO HOUSING PA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 9 CONCENTRATION OF CREDIT RISK

Pathways operating revenue is primarily generated through contracts with Federal and local governmental agencies. For the year ended June 30, 2014, this amount represented approximately 92% and 91% of total revenues, respectively. The total receivable from contracts with Federal and local governmental agencies as of June 30, 2014 was approximately 81% of total accounts receivable.

NOTE 10 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.