



Pathways to Housing DC

Financial Statements
June 30, 2016 and 2015



Malvin, Riggins & Company, P.C.
Certified Public Accountants
2809 Boston Street, Suite 107
Baltimore, Maryland 21224-4815
(410) 675-2727

Pathways to Housing DC

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INDEPENDENT AUDITORS' REPORT

**Board of Directors
 Pathways to Housing DC
 Washington, DC**

Report on the Financial Statements

We have audited the accompanying financial statements of Pathways to Housing DC, which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and change in net assets, functional expenses and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Auditors' Responsibility, continued

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pathways to Housing DC, as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by "Government Auditing Standards"

In accordance with "Government Auditing Standards," we have also issued our report dated October 24, 2016 on our consideration of Pathways to Housing DC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" in considering Pathways to Housing DC's internal control over financial reporting and compliance.

Malvin, Diggins + Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Baltimore, Maryland
October 24, 2016

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Pathways to Housing DC

Statements of Financial Position

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 151,536	\$ 118,142
Accounts receivable, net of allowance for doubtful accounts of \$80,042 in 2016 and \$84,802 in 2015	931,317	781,312
Contributions receivable	291,241	238,390
Investments at fair value	20,686	30,865
Restricted cash - client funds	331,047	352,054
Deposits	12,231	15,231
Furniture, equipment and improvements - net	42,270	56,215
 Total assets	 <u>1,780,328</u>	 <u>1,592,209</u>
LIABILITIES AND NET ASSETS		
Accounts payable	408,613	146,994
Accrued payroll	348,057	306,158
Client funds	331,047	352,054
Grant advances	258,062	181,701
Notes payable	157,840	202,391
 Total liabilities	 <u>1,503,619</u>	 <u>1,189,298</u>
Net assets:		
Unrestricted -		
Available for general activities	6,302	146,942
Temporarily restricted - time	270,407	255,969
 Total net assets	 <u>276,709</u>	 <u>402,911</u>
 Total liabilities and net assets	 <u>\$ 1,780,328</u>	 <u>\$ 1,592,209</u>

See the independent auditors' report and accompanying notes.

Pathways to Housing DC

Statements of Activities and Change in Net Assets
Years Ended June 30, 2016 and 2015

	Year Ended June 30, 2016			Year Ended June 30, 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and other support:						
Public support -						
Contributions	\$ 486,154	\$ 65,816	\$ 551,970	\$ 468,317	\$ 255,969	\$ 724,286
Grants and contracts	3,019,093	-	3,019,093	2,816,439	-	2,816,439
Fee for service - Medicaid/local (net of reduction in allowance of \$0 in 2016 and \$25,000 in 2015)	3,604,338	-	3,604,338	3,584,620	-	3,584,620
Rent subsidies:						
LSRP	1,738,322	-	1,738,322	1,736,091	-	1,736,091
HUD	888,867	-	888,867	900,048	-	900,048
	2,627,189	-	2,627,189	2,636,139	-	2,636,139
Unrealized gains (losses)	(10,179)	-	(10,179)	3,924	-	3,924
Forgiveness of debt and other	4,559	-	4,559	115,013	-	115,013
	9,731,154	65,816	9,796,970	9,624,452	255,969	9,880,421
Net assets released from restrictions by satisfaction of program restrictions	51,378	(51,378)	-	-	-	-
Total revenues, gains, and other support	9,782,532	14,438	9,796,970	9,624,452	255,969	9,880,421
Expenses:						
Program services	8,563,880	-	8,563,880	8,336,636	-	8,336,636
Supporting services -						
Management and general	1,122,208	-	1,122,208	1,131,583	-	1,131,583
Fund raising	237,084	-	237,084	257,477	-	257,477
Total expenses	9,923,172	-	9,923,172	9,725,696	-	9,725,696
Change in net assets	(140,640)	14,438	(126,202)	(101,244)	255,969	154,725
Net assets - beginning of year	146,942	255,969	402,911	248,186	-	248,186
Net assets - end of year	\$ 6,302	\$ 270,407	\$ 276,709	\$ 146,942	\$ 255,969	\$ 402,911

See the independent auditors' report and accompanying notes.

Pathways to Housing DC
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (126,202)	\$ 154,725
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	13,945	22,766
Unrealized (gains) losses	10,179	(3,924)
Donated stock	-	(26,941)
Bad debt expense	-	4,351
Forgiveness of debt	-	(82,482)
Decrease of allowance for doubtful accounts	-	(25,000)
(Increase) decrease in:		
Accounts receivable	(150,005)	191,392
Contributions receivable	(52,851)	(225,890)
Restricted cash - client funds	21,007	13,594
Deposits	3,000	16,316
Increase (decrease) in:		
Accounts payable	261,619	(49,604)
Accrued payroll	41,899	54,680
Client funds	(21,007)	(13,594)
Grant advances	76,361	71,405
Net cash provided by operating activities	<u>77,945</u>	<u>101,794</u>
Cash flows from investing activities -		
Capital expenditures	<u>-</u>	<u>(39,031)</u>
Net cash used in investing activities	<u>-</u>	<u>(39,031)</u>
Cash flows from financing activities -		
Payments on notes payable	<u>(44,551)</u>	<u>(34,940)</u>
Net cash used in financing activities	<u>(44,551)</u>	<u>(34,940)</u>
Net increase in cash	33,394	27,823
Cash - beginning of year	<u>118,142</u>	<u>90,319</u>
Cash - end of year	<u>\$ 151,536</u>	<u>\$ 118,142</u>

See the independent auditors' report and accompanying notes.

Pathways to Housing DC
Statements of Functional Expenses
Years Ended June 30, 2016 and 2015

	Year Ended June 30, 2016				Year Ended June 30, 2015			
	Program Services	Supporting Services Management and General	Fund Raising	Total	Program Services	Supporting Services Management and General	Fund Raising	Total
Payroll and payroll related	\$ 5,025,280	\$ 833,118	\$ 148,847	\$ 6,007,245	\$ 4,825,223	\$ 781,187	\$ 157,090	\$ 5,763,500
Specific assistance to individuals	2,683,501	-	-	2,683,501	2,682,352	-	-	2,682,352
Professional fees	186,273	102,472	-	288,745	115,598	152,797	-	268,395
Office expense and other	200,156	119,368	70,133	389,657	272,390	140,097	85,942	498,429
Occupancy	368,634	53,077	15,553	437,264	330,144	41,927	11,260	383,331
Local transportation	88,358	12,252	2,205	102,815	91,810	12,547	2,566	106,923
Depreciation	11,678	1,921	346	13,945	19,119	3,028	619	22,766
	<u>\$ 8,563,880</u>	<u>\$ 1,122,208</u>	<u>\$ 237,084</u>	<u>\$ 9,923,172</u>	<u>\$ 8,336,636</u>	<u>\$ 1,131,583</u>	<u>\$ 257,477</u>	<u>\$ 9,725,696</u>

Pathways to Housing DC

Notes to Financial Statements

June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Pathways to Housing DC (Pathways DC), a non-profit organization formed in 2004, offers permanent housing and support services to more than 2,000 individuals who are homeless or at risk for homelessness in Washington, DC. Pathways DC's research and a decade's worth of experience demonstrates that their Housing First model, removed from judgment and pre-conditions, is the most effective approach in ending chronic homelessness for individuals with serious mental illnesses, co-occurring substance abuse disorders and/or other medical challenges. All of Pathways DC's programs and services are designed with the belief that housing is a basic human right for all people and that consumers should choose the type and sequence of services to be delivered. Pathways DC employs a staff of nurses, doctors, psychiatrists, and social workers to support clients and connect them to transformative resources and services so that they can achieve self-actualization on their recovery journeys.

Contributions and Revenue

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

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

Contributed Services and Materials

Pathways DC recognizes contributed services that create or enhance non-financial assets or that require specialized skills are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included as expenses or additions to property and equipment.

Pathways to Housing DC

Notes to Financial Statements

June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Promises to Give/Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. When material, the discounts on those amounts are computed using rates applicable to the facts and circumstances applicable to each of the promises to give. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Cash and Cash Equivalents

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

Client Trust Accounts

Pathways DC acts as the approved Representative Payee (Rep Payee) for Social Security benefits for many program participants. The purpose of offering this service is to assist individuals with histories of serious mental illnesses and/or addictions, manage their money. This service is completely voluntary. If a client chooses to participate in the Rep Payee program, they must sign a Rep Payee form, which is maintained in the medical chart. Staff submit the Rep Payee form to the Social Security Administration (SSA) for approval. Once approved, Pathways DC then receives monthly benefits for clients on a schedule determined by the SSA.

Funds are received from SSA either electronically (preferred) or via “paper check”. They are deposited into a bank account that is separate and distinct from the Pathways DC Operating Account. Funds are requested by clinical staff via check request upon completion of a monthly budget in partnership with each client. Monies can also be disbursed on an emergency basis, based on need determined by clinical staff. All funds are used for the care of clients as outlined by the SSA Rep Payee policy. Upon termination from the program, all funds are returned to the client. If the client is deceased, incarcerated, or is hospitalized long-term, funds are returned directly to the Social Security Administration.

Pathways to Housing DC

Notes to Financial Statements

June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

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

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a reduction to accounts receivable.

NOTE 2 - CONCENTRATIONS

Pathways DC received approximately 37% and 36% of its income in the form of Medicaid payments for the years ended June 30, 2016 and 2015, respectively. Medicaid also accounted for approximately 57% and 39% of the accounts receivable as of June 30, 2016 and 2015, respectively.

NOTE 3 - INCOME TAXES

Pathways DC is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (Code) and comparable State law, and contributions to it are tax deductible within the limitations prescribed by the Code. Pathways DC has been classified as a publicly-supported organization which is not a private foundation under Section 509(a) of the Code.

The Internal Revenue Service has not examined (audited) any income tax returns of Pathways DC thus the previous three (3) years are subject to examination. Pathways DC has not taken any questionable tax positions with respect to unrelated business income tax or anything that would jeopardize its 501 (c)(3) status.

Pathways to Housing DC

Notes to Financial Statements

June 30, 2016 and 2015

NOTE 4 - COMMITMENTS

Pathways DC leases its office facilities under the terms of an operating lease expiring in May 2020. The leases provide for monthly rentals of approximately \$22,000. Rent expense was approximately \$282,500 and \$288,300 for the years ended June 30, 2016 and 2015, respectively.

Future minimum rentals are as follows for the years ended June 30,:

2017	\$ 276,800
2018	285,100
2019	293,600
2020	\$ 276,900

Pathways DC leases its office equipment under the terms of several operating leases expiring at various times through May 2020. The leases provide for monthly rentals of approximately \$1,400. Rent expense was approximately \$23,600 and \$22,900 for the years ended June 30, 2016 and 2015, respectively.

Future minimum rentals are as follows for the years ended June 30,:

2017	\$ 16,650
2018	16,650
2019	16,650
2020	\$ 9,200

NOTE 5 - SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest was approximately \$6,000 and \$11,800 for the years ended June 30, 2016 and 2015, respectively.

Noncash investing and financing activities:

Pathways DC financed \$20,000 of leasehold improvements with a loan from the landlord during the year ended June 30, 2015.

Pathways DC repaid \$200,000 of the line of credit with a 5 (five) year loan payable during the year ended June 30, 2015.

Pathways to Housing DC

Notes to Financial Statements

June 30, 2016 and 2015

NOTE 6 - USE OF ESTIMATES IN FINANCIAL STATEMENTS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 7 - FURNITURE, EQUIPMENT AND IMPROVEMENTS

Furniture, equipment and improvements consisted of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Furniture and equipment	\$ 33,184	\$ 33,184
Automobiles	110,307	110,307
Leasehold improvements	65,031	65,031
Software	90,101	90,101
	<u>298,623</u>	<u>298,623</u>
Less accumulated	256,353	242,408
	<u><u>\$ 42,270</u></u>	<u><u>\$ 56,215</u></u>

NOTE 8 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of unconditional promises to give of approximately \$291,200 and \$238,400 at June 30, 2016 and 2015, respectively and are due as follows:

	<u>2016</u>	<u>2015</u>
Less than one year	\$ 105,403	\$ 84,469
One to five years	<u>195,607</u>	<u>175,982</u>
Total unconditional promises to give	301,010	260,451
Less 2% discount to net present value	<u>9,769</u>	<u>22,061</u>
Net unconditional promises to give	<u><u>\$ 291,241</u></u>	<u><u>\$ 238,390</u></u>

See the independent auditors' report.

Pathways to Housing DC

Notes to Financial Statements

June 30, 2016 and 2015

NOTE 9 - CONTINGENCIES

Pathways DC is subject to an audit by its funding sources. Accordingly, all costs charged to Federal and State programs are subject to verification.

NOTE 10 - NOTES PAYABLE

	<u>2016</u>	<u>2015</u>
Note payable - Landlord - interest rate of 5%, payments of \$608 are due through August 2017.	\$ 7,778	\$ 14,444
Note payable - bank, interest rate of 3%, payments of \$3,606 are due through February 2020. Secured by Organization assets.	<u>150,062</u>	<u>187,947</u>
	<u>\$ 157,840</u>	<u>\$ 202,391</u>

Future principal payments are as follows for the years ended June 30,:

2017	\$ 46,383
2018	41,212
2019	41,738
2020	\$ 28,507

NOTE 11 - INVESTMENTS

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 30,865	\$ -
Donated stock	-	26,941
(Loss)/income	<u>(10,179)</u>	<u>3,924</u>
Ending Balance	<u>\$ 20,686</u>	<u>\$ 30,865</u>

Pathways to Housing DC

Notes to Financial Statements

June 30, 2016 and 2015

NOTE 12 - FAIR VALUE MEASUREMENTS

The accounting codification establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the assets. The hierarchy requires the use of observable market data when available. The levels of the hierarchy are defined as follows:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets and liabilities traded in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets and liabilities and market-corroborated inputs.

If the assets and liabilities have a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the assets and liabilities.

Level 3 - Inputs to the valuation methodology are unobservable for the assets and liabilities and are significant to the fair value measurement.

The assets' and liabilities' fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Pathways to Housing DC

Notes to Financial Statements

June 30, 2016 and 2015

NOTE 12 - FAIR VALUE MEASUREMENTS (continued)

Fair value of investments consisted of the following at June 30,:

		Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets Inputs (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2016</u>	<u>Fair Value</u>			
Fidelity Select Biotechnology	<u>\$ 20,686</u>	<u>\$ 20,686</u>	<u>\$ -</u>	<u>\$ -</u>
<u>June 30, 2015</u>				
Fidelity Select Biotechnology	<u>\$ 30,865</u>	<u>\$ 30,865</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 13 - SUBSEQUENT EVENTS

Pathways DC has evaluated subsequent events through the date the financial statements were available to be issued on October 24, 2016, and determined there are no material transactions to disclose.