

Pathways to Housing DC

Audited Financial Statements
June 30, 2015 and 2014



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Pathways to Housing DC

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June 30, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

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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, 2015 and 2014, and the related statements of activities and change in net assets, cash flows, and functional expenses 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 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 Organization'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 Organization'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, 2015 and 2014, 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 December 3, 2015 on our consideration of Pathways to Housing DC's internal control over financial reporting and 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 reporting and compliance.

Malvin, Diggins + Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Baltimore, Maryland
December 3, 2015

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Pathways to Housing DC
Statements of Financial Position
June 30, 2015 and 2014

ASSETS	2015	2014
Cash	\$ 149,007	\$ 90,319
Accounts receivable, net of allowance for doubtful accounts of \$84,802 in 2015 and \$114,943 in 2014	781,312	865,222
Contributions receivable	238,390	12,500
Restricted cash - client funds	352,054	365,648
Deposits	15,231	31,547
Note receivable	-	4,351
Furniture, equipment and improvements - net	56,215	19,950
Total assets	1,592,209	1,389,537
LIABILITIES AND NET ASSETS		
Accounts payable	146,994	196,598
Accrued payroll	306,158	251,478
Client funds	352,054	365,648
Grant advances	181,701	110,296
Notes payable	202,391	217,331
Total liabilities	1,189,298	1,141,351
Net assets:		
Unrestricted -		
Available for general activities	146,942	248,186
Temporarily restricted - program activities	255,969	-
Total net assets	402,911	248,186
Total liabilities and net assets	\$ 1,592,209	\$ 1,389,537

Pathways to Housing DCStatements of Activities and Change in Net Assets
Years Ended June 30, 2015 and 2014

	Year Ended June 30, 2015			Year Ended June 30, 2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and other support:						
Public support -						
Contributions	\$ 468,317	\$ 255,969	\$ 724,286	\$ 279,709	\$ -	\$ 279,709
Grants and contracts	3,716,487	-	3,716,487	3,679,281	-	3,679,281
Fee for service - Medicaid/local (net of bad debt expense of \$4,351 in 2015 and \$23,302 in 2014)	3,584,620	-	3,584,620	3,722,765	-	3,722,765
Rent subsidies (LRSP)	1,736,091	-	1,736,091	1,670,595	-	1,670,595
Forgiveness of debt, interest and other	118,937	-	118,937	5,879	-	5,879
Total revenues, gains, and other support	9,624,452	255,969	9,880,421	9,358,229	-	9,358,229
Expenses:						
Program services	8,336,636	-	8,336,636	7,983,109	-	7,983,109
Supporting services -						
Management and general	1,131,583	-	1,131,583	904,285	-	904,285
Fund raising	257,477	-	257,477	220,206	-	220,206
Total expenses	9,725,696	-	9,725,696	9,107,600	-	9,107,600
Change in net assets	(101,244)	255,969	154,725	250,629	-	250,629
Net assets - beginning of year	248,186	-	248,186	(2,443)	-	(2,443)
Net assets - end of year	\$ 146,942	\$ 255,969	\$ 402,911	\$ 248,186	\$ -	\$ 248,186

See the independent auditors' report and accompanying notes.

Pathways to Housing DC
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 154,725	\$ 250,629
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	22,766	35,176
Bad debt expense	4,351	23,302
Forgiveness of debt	(82,482)	-
Decrease of allowance for doubtful accounts	(25,000)	-
(Increase) decrease in:		
Accounts receivable	191,392	(225,048)
Contributions receivable	(225,890)	489
Restricted cash - client funds	13,594	(61,121)
Deposits	16,316	(21,316)
Increase (decrease) in:		
Accounts payable	(49,604)	35,701
Accrued payroll	54,680	12,096
Client funds	(13,594)	61,121
Grant advances	71,405	(67,474)
Net cash provided by operating activities	<u>132,659</u>	<u>43,555</u>
Cash flows from investing activities -		
Capital expenditures	<u>(39,031)</u>	<u>(6,000)</u>
Net cash used in investing activities	<u>(39,031)</u>	<u>(6,000)</u>
Cash flows from financing activities -		
Payments on notes payable	<u>(34,940)</u>	<u>(82,161)</u>
Net cash used in financing activities	<u>(34,940)</u>	<u>(82,161)</u>
Net increase (decrease) in cash	58,688	(44,606)
Cash - beginning of year	<u>90,319</u>	<u>134,925</u>
Cash - end of year	<u><u>\$ 149,007</u></u>	<u><u>\$ 90,319</u></u>

See the independent auditors' report and accompanying notes.

Pathways to Housing DC

Statements of Functional Expenses

Years Ended June 30, 2015 and 2014

	Year Ended June 30, 2015				Year Ended June 30, 2014			
	Program Services	Supporting Services Management and General	Fund Raising	Total	Program Services	Supporting Services Management and General	Fund Raising	Total
Payroll and payroll related	\$ 4,825,223	\$ 781,187	\$ 157,090	\$ 5,763,500	\$ 4,477,191	\$ 663,069	\$ 146,658	\$ 5,286,918
Specific assistance	2,682,352	-	-	2,682,352	2,565,967	-	-	2,565,967
Professional fees	115,598	152,797	-	268,395	192,188	71,586	-	263,774
Office expense and other	272,390	140,097	85,942	498,429	185,879	91,263	53,054	330,196
Occupancy	330,144	41,927	11,260	383,331	329,533	47,381	13,682	390,596
Local transportation	91,810	12,547	2,566	106,923	104,586	12,322	2,709	119,617
Affiliation fees	-	-	-	-	97,995	14,232	3,129	115,356
Depreciation	19,119	3,028	619	22,766	29,770	4,432	974	35,176
	<u>\$ 8,336,636</u>	<u>\$ 1,131,583</u>	<u>\$ 257,477</u>	<u>\$ 9,725,696</u>	<u>\$ 7,983,109</u>	<u>\$ 904,285</u>	<u>\$ 220,206</u>	<u>\$ 9,107,600</u>

See the independent auditors' report and accompanying notes.

Pathways to Housing DC

Notes to Financial Statements

June 30, 2015 and 2014

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, 2015 and 2014

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 (1) 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.

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.

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 SSA.

Pathways to Housing DC

Notes to Financial Statements

June 30, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 – CONCENTRATION

Pathways DC received approximately 36% and 40% of its income in the form of Medicaid payments for the years ended June 30, 2015 and 2014, respectively. Medicaid also accounted for approximately 21% and 18% of the accounts receivable as of June 30, 2015 and 2014, 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.

NOTE 4 – COMMITMENTS

Pathways DC leases its office facility under the terms of an operating lease expiring in May 2020. The lease provides for monthly rentals of approximately \$22,000. Rent expense was approximately \$311,200 and \$278,700 for the years ended June 30, 2015 and 2014, respectively.

Pathways to Housing DC

Notes to Financial Statements

June 30, 2015 and 2014

NOTE 4 – COMMITMENTS(continued)

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

2016	\$	268,700
2017		276,800
2018		285,086
2019		293,700
2020	\$	276,900

NOTE 5 – RECLASSIFICATION

Certain amounts pertaining to 2014 were reclassified to agree with current year presentation.

NOTE 6 – RELATED PARTY TRANSACTIONS

Pathways DC no longer pays annual affiliation fees to Pathways National. As of June 30, 2015 and 2014, Pathways DC owed Pathways National \$0 and \$82,500 in affiliation fees. All loans to Pathways NY were paid in full as of June 30, 2014.

	<u>2015</u>	<u>2014</u>
Note payable – Pathways NY	<u>\$ -</u>	<u>\$ 19,000</u>
Contributions/contributions receivable - Pathways NY	<u>-</u>	<u>6,738</u>
Accounts payable – Pathways National	<u>-</u>	<u>114,957</u>
Affiliation fees – Pathways National	<u>\$ -</u>	<u>\$ 72,419</u>

NOTE 7 – NOTE RECEIVABLE

Note receivable consisted of a non-interest bearing note with an original amount of \$55,460 to be repaid by monthly payments of \$500 beginning March 2011. The balance of the note receivable in the amount of \$4,351 was written off during the year ended June 30, 2015.

Pathways to Housing DC

Notes to Financial Statements

June 30, 2015 and 2014

NOTE 8 – SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest was approximately \$11,800 and \$8,200 for the years ended June 30, 2015 and 2014, respectively.

Non-cash 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 converted the \$200,000 line of credit to a five (5) year loan payable during the year ended June 30, 2015.

NOTE 9 – FURNITURE, EQUIPMENT AND IMPROVEMENTS

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

	<u>2015</u>	<u>2014</u>
Furniture and equipment	\$ 33,184	\$ 33,184
Automobiles	110,307	110,307
Leasehold improvements	65,031	6,000
Software	90,101	90,101
	<u>298,623</u>	<u>239,592</u>
Less accumulated depreciation	<u>242,408</u>	<u>219,642</u>
	<u>\$ 56,215</u>	<u>\$ 19,950</u>

NOTE 10 – 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.

Pathways DC is a defendant in a lawsuit where a client has sued for failure to pay the client's rent. Pathways DC feels the suit is unwarranted and it intends to vigorously defend itself. An evaluation of the likelihood of an unfavorable outcome and estimate of the amount or range of potential loss cannot be made at this time.

Pathways to Housing DC

Notes to Financial Statements

June 30, 2015 and 2014

NOTE 10 – CONTINGENCIES (continued)

Pathways DC has an open civil lawsuit involving a former staff member. The claim is covered under the Directors and Officers liability insurance policy. Mediation was completed on November 18, 2015. The parties have reached a settlement in principle and anticipate the lawsuit being dismissed before year end.

NOTE 11 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of unconditional promises to give of approximately \$238,400 and \$12,500 at June 30, 2015 and 2014, respectively, and are due as follows as of June 30,:

	<u>2015</u>	<u>2014</u>
Less than one year	\$ 84,469	\$ 12,500
One to five years	175,982	-
Total unconditional promises to give	260,451	12,500
Less 4% discount to net present value	22,061	-
Net unconditional promises to give	<u>\$ 238,390</u>	<u>\$ 12,500</u>

NOTE 12 – NOTES PAYABLE

	<u>2015</u>	<u>2014</u>
Note payable – interest rate of 5%, payments of \$3,860 are due beginning April 30, 2014 with a balloon payment due March 2, 2015.	\$ -	\$ 217,331
Note payable – Landlord – interest rate of 5% payments of \$608 are due through August 2017.	14,444	-
Note payable – bank, interest rate of 3%, payments of \$3,606 are due through February 2020.	187,947	-
	<u>\$ 202,391</u>	<u>\$ 217,331</u>

See the independent auditors' report.

Pathways to Housing DC

Notes to Financial Statements

June 30, 2015 and 2014

NOTE 12 – NOTES PAYABLE (continued)

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

2016	\$	44,892
2017		46,397
2018		41,186
2019		41,761
2020	\$	28,155

NOTE 13 – 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 14 – SUBSEQUENT EVENTS

Pathways DC has evaluated subsequent events through the date the financial statements were available to be issued on December 3, 2015, and determined there are no material transactions to disclose.