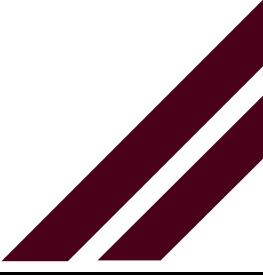




Financial Statements and  
Independent Auditor's Report

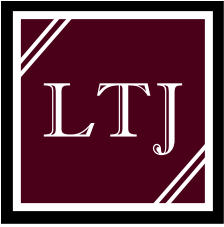
**Developmental Pathways, Incorporated**

June 30, 2014



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# Logan, Thomas & Johnson, LLC

Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Developmental Pathways, Incorporated

We have audited the accompanying financial statements of Developmental Pathways, Incorporated (Pathways), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities 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.

### **Auditor's 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 as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. 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 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.

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

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## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Developmental Pathways, Incorporated 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 Developmental Pathways, Incorporated and Affiliates' 2013 consolidated financial statements, and our report dated October 31, 2013, expressed an unmodified opinion on those audited consolidated financial statements and that the supplementary information was fairly stated in all material respects in relation to the consolidated financial statements as a whole. 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 supplementary information from which it has been derived.

*Logan, Thomas + Johnson, LLC*

Broomfield, Colorado  
March 26, 2015

## *Financial Statements*

Developmental Pathways, Incorporated  
STATEMENT OF FINANCIAL POSITION  
June 30, 2014  
(With summarized financial information as of June 30, 2013)

	2014	2013
ASSETS		
Current assets		
Cash and cash equivalents	\$ 8,235,086	\$ 8,838,437
Accounts receivable		
Fees and grants from governmental agencies, net of allowance for uncollectible receivables of \$20,529	1,973,686	2,442,219
Other receivables	178,393	152,856
Related party receivables	1,233,924	1,836,960
Prepaid expenses and other	95,058	324,917
Total current assets	11,716,147	13,595,389
Certificates of deposit	9,524,514	9,493,604
Notes receivable - related party	100,286	100,286
Other receivables - related party	96,810	-
Interest in net assets of SUN	927,839	-
Land, buildings and equipment, net	8,262,944	7,915,657
Total assets	\$ 30,628,540	\$ 31,104,936
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,865,239	\$ 2,883,855
Related party payable	150,038	-
Current portion of long-term debt		
Loan payable	113,510	108,682
Capital lease obligation	27,347	-
Deferred revenue	3,613,918	2,825,212
Total current liabilities	5,770,052	5,817,749
Long-term debt, net of current portion		
Loan payable	1,246,532	1,360,047
Capital lease obligation	96,810	-
Total liabilities	7,113,394	7,177,796
Net assets		
Unrestricted		
Net investment in land, buildings and equipment	6,902,902	6,446,928
Undesignated	15,684,405	17,480,212
Total unrestricted net assets	22,587,307	23,927,140
Temporarily restricted	65,431	-
Permanently restricted	862,408	-
Total net assets	23,515,146	23,927,140
Total liabilities and net assets	\$ 30,628,540	\$ 31,104,936

The accompanying notes are an integral part of this statement.

Developmental Pathways, Incorporated  
STATEMENT OF ACTIVITIES  
Year ended June 30, 2014  
(With summarized financial information for the year ended June 30, 2013)

	Unrestricted	Temporarily restricted	Permanently restricted	Total unrestricted	
				2014	2013
Revenues and support					
Fees and grants from governmental agencies					
Fees for services					
State of Colorado					
State General Fund	\$ 6,850,147	\$ -	\$ -	\$ 6,850,147	\$ 5,314,674
Medicaid	6,378,944	-	-	6,378,944	16,742,220
Counties	11,522,883	-	-	11,522,883	11,278,445
Grants and other					
Part C	1,980,558	-	-	1,980,558	1,714,130
Department of Housing and Urban Development					
Supportive Housing					
Homeless Program	-	-	-	-	21,764
Other	25,387	-	-	25,387	26,145
Total fees and grants from governmental agencies	26,757,919	-	-	26,757,919	35,097,378
Public support - contributions	1,450	21,846	862,408	885,704	203,280
In-kind contributions	10,000	-	-	10,000	1,289,584
Residential room and board	-	-	-	-	541,387
Other revenue	3,222,601	65,431	-	3,288,032	2,219,335
Net asset released from restrictions					
Satisfaction of program restrictions	21,846	(21,846)	-	-	-
Total revenues and support	30,013,816	65,431	862,408	30,941,655	39,350,964
Expenses					
Program services					
Early intervention	8,466,789	-	-	8,466,789	7,059,418
Family support	1,435,513	-	-	1,435,513	1,534,287
Community outreach	1,055,360	-	-	1,055,360	1,037,198
Outsourced services	3,674,446	-	-	3,674,446	9,622,927
Case management	3,608,141	-	-	3,608,141	2,910,919
Developmental disabilities	7,191,301	-	-	7,191,301	2,981,950
Residential	-	-	-	-	7,253,151
Total program services	25,431,550	-	-	25,431,550	32,399,850
Supporting services					
Management and general	3,227,099	-	-	3,227,099	4,563,386
Fundraising	-	-	-	-	122,709
Total supporting services	3,227,099	-	-	3,227,099	4,686,095
Total expenses	28,658,649	-	-	28,658,649	37,085,945
Excess of revenues and support over expenses	1,355,167	65,431	862,408	2,283,006	2,265,019
Other changes in net assets					
Equity contribution to related entities	(2,645,000)	-	-	(2,645,000)	-
Distributions to related entity	(50,000)	-	-	(50,000)	-
CHANGE IN NET ASSETS	(1,339,833)	65,431	862,408	(411,994)	2,265,019
Net assets, beginning of year	23,927,140	-	-	23,927,140	21,662,121
Net assets, end of year	\$ 22,587,307	\$ 65,431	\$ 862,408	\$ 23,515,146	\$ 23,927,140

The accompanying notes are an integral part of this statement.

Developmental Pathways, Incorporated  
STATEMENT OF CASH FLOWS  
Year ended June 30, 2014  
(With summarized financial information for the year ended June 30, 2013)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets	\$ (411,994)	\$ 2,265,019
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	722,655	492,587
(Gain) loss on disposal of land, buildings and equipment	51,235	(182,222)
In-kind contribution of equipment	(10,000)	(1,289,584)
Increase in interest in net assets of SUN	(927,839)	-
Gifts restricted for long term investments	(862,408)	-
Change in assets and liabilities		
Decrease in accounts and related party receivable	1,073,379	1,018,655
(Increase) decrease in prepaid expenses and other	229,859	(34,461)
Decrease in accounts payable and accrued liabilities	(1,222,130)	(482,551)
Increase in deferred revenue	788,706	1,465,507
Net cash provided by (used in) operating activities	<u>(568,537)</u>	<u>3,252,950</u>
Cash flows from investing activities		
Purchase of land, buildings and equipment	(1,066,475)	(540,842)
Proceeds on sale of land, buildings and equipment	308,850	232,126
Purchase of certificates of deposit	(30,910)	(2,479,363)
Net cash used in investing activities	<u>(788,535)</u>	<u>(2,788,079)</u>
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowment	862,408	-
Payments on notes payable	(108,687)	(112,525)
Net cash provided by (used in) financing activities	<u>753,721</u>	<u>(112,525)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(603,351)	352,346
Cash and cash equivalents, beginning of year	<u>8,838,437</u>	<u>8,486,091</u>
Cash and cash equivalents, end of year	<u>\$ 8,235,086</u>	<u>\$ 8,838,437</u>
Supplemental data		
Cash paid for interest	\$ 57,891	\$ 72,742
Noncash investing and financing activities		
In-kind contribution of equipment	10,000	1,289,584
Financing of capital leases subleased to related party	124,157	-
Fixed asset additions included in accounts payable at year end	353,552	-

The accompanying notes are an integral part of this statement.



Developmental Pathways, Incorporated  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This description of Developmental Pathways, Incorporated's (Pathways) nature of activities and summary of significant accounting policies is presented to assist in understanding Pathways' financial statements.

1. *Summary of Business Activities*

Developmental Pathways, Incorporated, a Colorado nonprofit corporation, was incorporated under the laws of the State of Colorado in 1964 for the purpose of providing a community center board to coordinate programs through interagency cooperation and local agencies to provide services to persons with developmental disabilities in Arapahoe County, Douglas County and that part of Adams County which is in the City of Aurora.

Pathways' revenue comes primarily from the State of Colorado for services provided and from mill levy revenue from Douglas and Arapahoe Counties.

2. *Description of Services Provided*

The major program services or supports and functional activities directly provided or purchased by Pathways are:

**Program Services or Supports**

Early Intervention is for children from birth through age two which offer infants and toddlers and their families services and supports to enhance child development in the areas of cognition, speech, communication, physical, motor, vision, hearing, social-emotional development, and self help skills; parent-child or family interaction; and early identification, screening and assessment services.

Family Support provides an array of supportive services to the person with a developmental disability and his/her family when the person remains within the family home, thereby preventing or delaying the need for out-of-home placement, which is unwanted by the person or the family.

Community Outreach was developed July 2012 to address the unmet needs of individuals waiting for services by providing funding and connections to the community resources they need. Funding for this program is through county mill levy funds, grants and donations.

Outsourced Services provides residential, day program, transportation, dental, vision, behavioral, therapy services, individualized living services, personal assistance, household modification, specialized medical equipment and other services to individuals with developmental disabilities. These services are provided by approved service providers and public vendors. Pathways acts as a billing agent for these providers.

Developmental Pathways, Incorporated  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

2. *Description of Services Provided (Continued)*

**Program Services or Supports (Continued)**

Case Management is the determination of eligibility for services and supports, service and support coordination, and the monitoring of all services and supports delivered pursuant to the IP, and the evaluation of results identified in the IP.

Developmental Disabilities distributes county mill levy funds to organizations providing services and supports to individuals with developmental disabilities.

**Supporting Services**

Management and General includes those activities necessary for planning, coordination and overall direction of Pathways, financial administration, general board activities and other related activities indispensable to Pathways' corporate existence.

3. *Basis of Accounting*

Financial statements of Pathways have been prepared on the accrual basis, whereby revenues are recorded when services are provided and expenses are recognized when incurred.

4. *Use of Estimates*

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, support and expenses during the reporting period. Actual results could differ from those estimates.

5. *Subsequent Events*

Pathways has evaluated events and transactions occurring subsequent to the end of the fiscal year for potential recognition or disclosure through March 26, 2015, the date on which the financial statements were issued. Pathways did not identify any events or transactions that would have a material impact on the financial statements, except as identified in Notes D and H.

Developmental Pathways, Incorporated  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

6. *Cash and Cash Equivalents*

For purposes of the statement of cash flows, Pathways considers cash to be cash on hand and cash on deposit, subject to immediate withdrawal, and considers cash equivalents to be certificates of deposit with an original maturity of three months or less. Pathways maintains some of its cash balances in financial institutions which, at times, may exceed federally insured limits. Pathways has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

7. *Certificates of Deposit*

Pathways records certificates of deposit at each respective certificate's principal and accrued interest amounts. Certificates of deposit consist of fifty-one individual certificates, with interest rates between .17% and .47% and maturity dates between May 2015 and October 2015.

8. *Accounts Receivable*

The majority of Pathways' accounts receivable are due from the State of Colorado. Accounts receivable are due according to contractual terms and are stated at the amounts management expects to collect from outstanding balances. Pathways determines its allowance for uncollectible receivables by considering a number of factors, including the length of time accounts receivable are past due and Pathways' previous collection history. Pathways writes off accounts receivable to bad debt expense after reasonable collection efforts have been made. Payments subsequently received on such receivables, if any, are recorded as other revenue.

9. *Land, Buildings and Equipment*

Land, buildings and equipment are reported at cost for purchased assets and at estimated fair value, at date of receipt, for donated property. Any asset purchased for more than \$5,000 that has a life expectancy of more than one year is capitalized. Depreciation is provided on the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	3–25
Administrative equipment	3–10
Transportation equipment	3–5

10. *In-kind Contributions*

Contributions of property, materials and personal services are known as in-kind contributions and are recorded at fair value at the date of receipt. The amount recorded for these donations (other than contributions of land, buildings and equipment) is also included as program costs to properly reflect the total cost of the particular program.

Developmental Pathways, Incorporated  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

11. *Accounting for Contributions*

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods, or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Unconditional promises to give, which do not state a due date, are presumed to be time-restricted by the donor until received and are reported as temporarily restricted net assets.

A donor restriction expires when a stipulated time restriction ends, when an unconditional promise with an implied time restriction is collected, or when a purpose restriction is accomplished. Upon expiration, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. Restricted contributions received in the same year in which the restrictions are met are reported as unrestricted revenues rather than temporarily restricted. Permanently restricted net assets include the principal amount of contributions accepted with the stipulation from the donor that the principal be maintained in perpetuity, and only the income from investment thereof be expended for either general purposes or a purpose specified by the donor.

12. *Income Taxes*

Pathways is operated as a nonprofit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Pathways recognizes tax liabilities when, despite Pathways' belief that its tax return positions are supportable, Pathways believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. Pathways has concluded there is no tax liability or benefit required to be recorded as of June 30, 2014. Pathways is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any tax periods. Pathways believes it is no longer subject to income tax examinations for the years prior to the year ended June 30, 2011.

13. *Prior Year Summarized Information and Reclassification*

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Developmental Pathways, Incorporated and Affiliates' consolidated financial statements and supplementary information for the year ended June 30, 2013, from which the summarized information was derived. Certain financial information as of and for the year ended June 30, 2013 has been reclassified to conform with the presentation for the current year.

Developmental Pathways, Incorporated  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

NOTE B – LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following at June 30, 2014:

Buildings and improvements	\$ 8,113,505
Administrative equipment	2,916,522
Transportation equipment	<u>476,874</u>
	11,506,901
Less accumulated depreciation	<u>5,533,131</u>
	5,973,770
Construction in progress	564,557
Land	<u>1,724,617</u>
	\$ <u><u>8,262,944</u></u>

Depreciation expense was \$722,655 for the year ended June 30, 2014.

NOTE C – DEFERRED REVENUE

At June 30, 2014, Pathways had deferred revenue of \$3,613,918 of which \$633,785 is from the State of Colorado and \$2,980,133 is related to unearned revenue received from Arapahoe and Douglas Counties. Pathways entered into agreements for services, which are based on a calendar year, with the counties. Revenue is recognized when services are performed per the agreements.

NOTE D – LONG-TERM DEBT

Long-term debt consists of the following at June 30, 2014:

Variable note payable dated May 2004. On May 30, 2013, the monthly installment amount changed from \$15,581 to \$13,881 and the interest rate changed from 4.75% to 4%. The note is collateralized by the main office facility. Starting June 2018, the monthly installments will be \$14,191 and the interest rate will be based on the Wells Fargo Base Rate plus 1.50%.	\$ 1,360,042
Less current portion	<u>113,510</u>
	\$ <u><u>1,246,532</u></u>

Interest expense for the year ended June 30, 2014 was \$57,891.

The long-term debt was paid off in January 2015.

Developmental Pathways, Incorporated  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

NOTE E – NET ASSETS

Temporarily Restricted

Temporarily restricted net assets of \$65,431 are restricted for medical and dental expenses for developmentally disabled individuals.

Permanently Restricted

Permanently restricted net assets of \$862,408 consist of endowment funds in which the investments are held in perpetuity.

NOTE F – ENDOWMENT

Pathways' endowment consists of one donor-restricted fund (the Fund). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The endowment's investments are held by SUN Foundation, a related party, and Pathways has recorded the endowment as interest in net assets on its statement of financial position.

Pathways has interpreted the State of Colorado Prudent Management of Institutional Funds Act (SPMIFA or the Act) to allow an institution to appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent the donor expressed in the applicable gift instrument. In addition, absent explicit donor stipulations to the contrary, to the extent prudent, appropriations for the expenditure are allowed even if the fair value of the donor-restricted endowment fund falls below the fair value of the original gift as of the gift date. However, Pathways classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the restricted endowment funds are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Pathways in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, Pathways considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of Pathways and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of Pathways
7. Investment policies of Pathways

Developmental Pathways, Incorporated  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

NOTE F – ENDOWMENT (CONTINUED)

The endowment fund was composed of the following net assets by type as of June 30, 2014

Temporarily restricted	\$ 65,431
Permanently restricted	<u>862,408</u>
	<u>\$ 927,839</u>

Changes in endowment net assets for the year ended June 30, 2014 were:

	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ -
Contributions	-	862,408	862,408
Investment income, net	11,352	-	11,352
Net appreciation (realized and unrealized)	<u>54,079</u>	<u>-</u>	<u>54,079</u>
Endowment net assets, end of year	<u>\$ 65,431</u>	<u>\$ 862,408</u>	<u>\$ 927,839</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level Pathways is otherwise expected to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. Under management’s interpretation of SPMIFA, the Act allows management to appropriate for expenditure from individual donor-restricted endowments that are in a deficit situation to the extent it is prudent as defined by SPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated. As of June 30, 2014, there were no deficiencies.

To satisfy its long-term rate of return objectives, Pathways relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized).

Pathways targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Pathways has a policy of expending the endowment for the health and well-being, broadly defined, for individuals with developmental disabilities and delays. Use of funds will be determined by management. To the extent prudent, it is expected that spending from the Funds would be managed with a long-term perspective to maintain the long-term purchasing power of the Funds to meet the longer term needs of Pathways; but that such long-term perspective would not prevent the Funds from continuing to spend a prudent amount from the Funds despite a Fund’s balance falling below targeted levels. This is consistent with Pathways’ objective to maintain the purchasing power of donor restricted assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Developmental Pathways, Incorporated  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2014

NOTE G – PENSION PLAN

Developmental Pathways, Inc. 401(k) Plan is available for all employees, age 18 and over, who have completed 12 months of service. Under the Plan, employees can contribute up to the maximum amount allowed by law, and Pathways will match up to 4% of all employee contributions. The contribution for the year ended June 30, 2014 was \$117,605.

NOTE H – LEASES

Operating Leases

Pathways conducts a portion of its operations in leased facilities and subleases part of a facility. It also leases office and transportation equipment. The leases expire at various dates through fiscal year 2018 and are classified as operating leases. In 2011, Pathways entered into two subleases for one of its facilities and both of them expire in December 2014. Neither of these subleases were renewed after they expired in December 2014. Pathways received \$53,400 in rental income for the year ended June 30, 2014 which is recorded as a reduction of rent expense. For the year ended June 30, 2014, rental expense under operating leases was \$345,846.

Future minimum rental payments for these noncancelable operating leases reduced by rents to be received from an existing facilities sublease at June 30, 2014 are:

	Gross Rent	Sublease Rent	Net Rent
Year ending June 30,			
2015	\$ 209,150	\$ (106,823)	\$ 102,327
2016	146,049	(61,662)	84,387
2017	138,291	(53,904)	84,387
2018	<u>33,661</u>	<u>(12,564)</u>	<u>21,097</u>
	<u>\$ 527,151</u>	<u>\$ (234,953)</u>	<u>\$ 292,198</u>

Capital Lease Obligation

Pathways leases vehicles under a capital lease arrangement. Pathways has subleased these vehicles to related entities and the related entities have capitalized the vehicles on their books as of June 30, 2014. Pathways has a receivable recorded in the amount of \$124,157 for the future sublease payments which is recorded in related party receivables.



Developmental Pathways, Incorporated  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

NOTE H – LEASES (CONTINUED)

The following is a schedule, by years, of future minimum lease payments under these capital leases together with the present value of the net minimum lease payments as of June 30, 2014:

Year ending June 30,	Gross Lease Obligation	Sublease Obligation	Net Lease Obligation
2015	\$ 31,815	\$ 31,815	\$ -
2016	31,815	31,815	-
2017	31,815	31,815	-
2018	31,815	31,815	-
2019	<u>7,955</u>	<u>7,955</u>	<u>-</u>
	135,215	135,215	-
Less amount representing interest	<u>11,058</u>	<u>11,058</u>	<u>-</u>
	124,157	124,157	-
Less current portion	<u>27,347</u>	<u>27,347</u>	<u>-</u>
	\$ <u>96,810</u>	\$ <u>96,810</u>	\$ <u>-</u>

NOTE I – RELATED PARTY TRANSACTIONS

Pathways receives a substantial amount of revenue from the State of Colorado. The amount of receivables and deferred revenue Pathways has from the State of Colorado is \$1,969,393 and \$633,785, respectively, as of June 30, 2014. Pathways has a payable at June 30, 2014, to the State of Colorado in the amount of \$7,156 which is recorded in accounts payable and accrued liabilities. These transactions are considered to be transactions with a related party by virtue of significant management influence exercised by the State of Colorado through contract provisions.

Pathways is affiliated with another non-profit organization, Community Housing Development Association, Inc. (CHDA). Three area non-profit organizations with similar missions constitute the CHDA and no single member controls the board of directors. The purpose of CHDA is to develop and own affordable housing in Arapahoe and Douglas Counties, with a small number of units set aside for special needs housing, including individuals served by Pathways, and the two other non-profit organizations. As of June 30, 2014, the CHDA had developed five apartment complexes with approximately 200 total units through partnership arrangements with outside investors (limited partners). The CHDA is the general partner in each of these partnerships. CHDA shares some common management with Pathways, but there are no overlapping operations or commitments to fund operations by either party, and there were no transactions between the entities during the year ended June 30, 2014.

Developmental Pathways, Incorporated  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

NOTE I – RELATED PARTY TRANSACTIONS (CONTINUED)

Receivables and Payables

Pathways is affiliated with six other nonprofit corporations, Developmental Pathways Housing Corporation I (DPHCI), a Colorado nonprofit corporation; Developmental Pathways Housing Corporation II (DPHCII), a Colorado nonprofit corporation; Developmental Pathways Housing Corporation III (DPHCIII), a Colorado nonprofit corporation; Continuum of Colorado, Inc. (COC), a Colorado nonprofit corporation; Nonprofit Management Services of Colorado (NMSC), a Colorado nonprofit corporation; and SUN Foundation (SUN), a Colorado nonprofit corporation.

As of June 30, 2014, Pathways has receivables from DPHCI, DPHCII, DPHCIII and COC in the amount of \$92,186, \$362,563, \$688,660 and \$187,325, respectively, which are recorded as related party receivables. As of June 30, 2014, Pathways has a capital lease liability related to vehicles that Pathways has subleased to COC and NMSC, as noted in Note H above. Included in the receivable amount from COC above is \$100,707 related to the capital lease sublease.

Pathways has a note receivable from DPHCI in the amount of \$100,286 which was entered into on March 1, 1998, bears interest at 0%, is payable March 1, 2038 and is uncollateralized, as of June 30, 2014.

Pathways has a payable to SUN and NMSC in the amount of \$38,698 and \$111,340, respectively, which are recorded as related party payables as of June 30, 2014. The payable to NMSC is a net payable which the current and long term capital lease sublease receivable amount of \$23,450 is netted against the payable.

Revenues and Expenses

For the year ended June 30, 2014, Pathways has received management fee service revenue of \$97,979 from DPHCI, DPHCII, and DPHCIII, in the amounts of \$35,944, \$36,813, and \$25,222, respectively. Pathways has received \$744,238 of revenue for rent from COC and NMSC in the amounts of \$671,896 and \$72,342, respectively, for the year ended June 30, 2014. Pathways has received contributions from SUN in the amount of \$300, for the year ended June 30, 2014. For the year ended June 30, 2014, Pathways has received revenue of \$664,555 and \$551,246 from COC and NMSC, respectively, for allocated occupancy and vehicle costs.

For the year ended June 30, 2014, Pathways has expended \$2,112,924 for management fee services from NMSC. Pathways has expended \$442,495 for internal services from COC and NMSC in the amount of \$442,137 and \$358, respectively, for the year ended June 30, 2014. Pathways has made contributions in the amount of \$2,695,000 to COC, NMSC and SUN in the amount of \$1,500,000, \$900,000 and \$295,000, respectively, for the year ended June 30, 2014. For the year ended June 30, 2014, Pathways has expended \$7,191,301 in the development disabilities program to COC.