Financial Statements and
Independent Auditor's Report

Developmental Pathways, Incorporated

June 30, 2015

TABLE OF CONTENTS

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, 2015, 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 we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

5023 W. 120th Ave., #165, Broomfield, CO 80020

Calvin Logan	Jan Thomas	Pauline Davis
Phone 303 532 1000	Phone 303 569 6030	Phone 719 640-1188
Fax 303 532 1080	Fax 303 569 6031	Fax 719 937 4271

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, 2015 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's 2014 financial statements, and our report dated March 26, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter

As discussed in Note J to the financial statements, Developmental Pathways, Incorporated sold and contributed fixed assets with a net book value of approximately $2 million to a related party and incurred approximately 34% of its expenses to related parties. Our opinion is not modified with respect to this matter.

Logan, Thomas & Johnson, LLC

Broomfield, Colorado
December 9, 2015

Financial Statements

Developmental Pathways, Incorporated
STATEMENT OF FINANCIAL POSITION
June 30, 2015
(With summarized financial information as of June 30, 2014)

	2015	2014
ASSETS		
Current assets		
Cash and cash equivalents	$ 8,878,210	$ 8,235,086
Accounts receivable		
Fees and grants from governmental agencies, net of allowance for uncollectible receivables of $5,703	3,245,424	1,973,686
Other receivables, net of allowance for uncollectible receivables of $19,286	181,293	178,393
Related party receivables	1,609,887	1,233,924
Current portion of notes receivable - related party	50,771	-
Prepaid expenses and other	158,553	95,058
Total current assets	14,124,138	11,716,147
Certificates of deposit	-	9,524,514
Investments	8,641,265	-
Notes receivable - related party	2,049,515	100,286
Other receivables - related party	-	96,810
Interest in net assets of SUN	935,862	927,839
Land, buildings and equipment, net	5,374,428	8,262,944
Total assets	$ 31,125,208	$ 30,628,540
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	$ 1,788,409	$ 1,865,239
Related party payables	178,864	150,038
Current portion of long-term debt		
Loan payable	-	113,510
Capital lease obligation	-	27,347
Deferred revenue	3,108,774	3,613,918
Total current liabilities	5,076,047	5,770,052
Long-term debt, net of current portion		
Loan payable	-	1,246,532
Capital lease obligation	-	96,810
Total liabilities	5,076,047	7,113,394
Net assets		
Unrestricted		
Net investment in land, buildings and equipment	5,374,428	6,902,902
Board designated	1,500,000	-
Undesignated	18,238,871	15,684,405
Total unrestricted net assets	25,113,299	22,587,307
Temporarily restricted	73,454	65,431
Permanently restricted	862,408	862,408
Total net assets	26,049,161	23,515,146
Total liabilities and net assets	$ 31,125,208	$ 30,628,540

The accompanying notes are an integral part of this statement.

Developmental Pathways, Incorporated
STATEMENT OF ACTIVITIES
Year ended June 30, 2015
(With summarized financial information for the year ended June 30, 2014)

	Unrestricted	Temporarily restricted	Permanently restricted	Total unrestricted 2015	Total unrestricted 2014
Revenues and support					
Fees and grants from governmental agencies					
Fees for services					
State of Colorado					
State General Fund	$ 8,848,864	$ -	$ -	$ 8,848,864	$ 6,850,147
Medicaid	6,879,735	-	-	6,879,735	6,378,944
Counties	11,673,634	-	-	11,673,634	11,522,883
Grants and other					
Part C	1,413,237	-	-	1,413,237	1,980,558
Other	113,813	-	-	113,813	25,387
Total fees and grants from governmental agencies	28,929,283	-	-	28,929,283	26,757,919
Public support - contributions	176,257	-	-	176,257	885,704
In-kind contributions	-	-	-	-	10,000
Other revenue	4,287,672	8,023	-	4,295,695	3,288,032
Total revenues and support	33,393,212	8,023	-	33,401,235	30,941,655
Expenses					
Program services					
Early intervention	8,675,838	-	-	8,675,838	8,466,789
Family support	1,800,284	-	-	1,800,284	1,435,513
Community outreach	883,405	-	-	883,405	1,055,360
Outsourced services	3,054,272	-	-	3,054,272	3,674,446
Case management	4,877,139	-	-	4,877,139	3,608,141
Developmental disabilities	7,534,660	-	-	7,534,660	7,191,301
Total program services	26,825,598	-	-	26,825,598	25,431,550
Supporting services					
Management and general	4,041,622	-	-	4,041,622	3,227,099
Total expenses	30,867,220	-	-	30,867,220	28,658,649
Excess of revenues and support over expenses	2,525,992	8,023	-	2,534,015	2,283,006
Other changes in net assets					
Equity contribution to related entities	-	-	-	-	(2,645,000)
Distributions to related entity	-	-	-	-	(50,000)
CHANGE IN NET ASSETS	2,525,992	8,023	-	2,534,015	(411,994)
Net assets, beginning of year	22,587,307	65,431	862,408	23,515,146	23,927,140
Net assets, end of year	$ 25,113,299	$ 73,454	$ 862,408	$ 26,049,161	$ 23,515,146

The accompanying notes are an integral part of this statement.

Developmental Pathways, Incorporated
STATEMENT OF CASH FLOWS
Year ended June 30, 2015
(With summarized financial information for the year ended June 30, 2014)

	2015	2014
Cash flows from operating activities		
Change in net assets	$ 2,534,015	$ (411,994)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	920,975	722,655
(Gain) loss on disposal of land, buildings and equipment	(1,086,372)	51,235
Unrealized loss on investments	32,485	-
In-kind contribution of land, buildings and equipment	1,095,799	(10,000)
Increase in interest in net assets of SUN	(8,023)	(927,839)
Gifts restricted for long term investments	-	(862,408)
Change in assets and liabilities		
(Increase) decrease in accounts and related party receivables	(1,662,241)	1,073,379
(Increase) decrease in prepaid expenses and other	(63,495)	229,859
Increase (decrease) in accounts payable and accrued liabilities and related party payables	305,548	(1,222,130)
Increase (decrease) in deferred revenue	(505,144)	788,706
Net cash provided by (used in) operating activities	1,563,547	(568,537)
Cash flows from investing activities		
Purchase of land, buildings and equipment	(627,628)	(1,066,475)
Proceeds on sale of land, buildings and equipment	585,742	308,850
Payment from accounts payable for fixed assets	(353,552)	-
Proceeds from maturities of certificates of deposit	9,524,514	-
Purchase of investments	(8,673,750)	-
Purchase of certificates of deposit	-	(30,910)
Net cash provided by (used in) investing activities	455,326	(788,535)
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowment	-	862,408
Payments on capital lease obligations	(15,707)	-
Payments on notes payable	(1,360,042)	(108,687)
Net cash provided by (used in) financing activities	(1,375,749)	753,721
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	643,124	(603,351)
Cash and cash equivalents, beginning of year	8,235,086	8,838,437
Cash and cash equivalents, end of year	$ 8,878,210	$ 8,235,086
Supplemental data		
Cash paid for interest	$ 31,666	$ 57,891
Noncash investing and financing activities		
In-kind contribution of equipment from donor	-	10,000
In-kind contribution of equipment to related party	1,095,799	-
Financing of capital leases subleased to related party	-	124,157
Fixed asset additions included in accounts payable at year end	-	353,552
Land, buildings and equipment sold for note receivable	2,000,000	-
Subleased capital leases assigned to related party	108,450	-

The accompanying notes are an integral part of this statement.

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.

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 Individualized Plan (IP), and the evaluation of results identified in the IP.

Developmental Disabilities distributes county mill levy funds and other resources 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 December 9, 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.

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

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

6. *Cash and Cash Equivalents (Continued)*

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. All certificates of deposit were redeemed during the year ended June 30, 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. *Investments*

Pathways records its investments at fair value in the statement of financial position. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

10. *Land, Buildings and Equipment*

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

	Years
Buildings and improvements	3–25
Administrative equipment	3–10
Transportation equipment	3–5

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

11. *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.

12. *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.

13. *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, 2015. 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, 2012.

14. *Fair Value Measurements*

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or

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

14. *Fair Value Measurements (Continued)*

liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy has been established under generally accepted accounting principles, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and mutual funds that are traded in an active exchange market.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. This category generally includes certain U.S. Government agency debt securities and corporate-debt securities. Pathways' Level 2 securities are primarily valued using quoted market prices for similar instruments and nonbinding market prices that are corroborated by observable market data.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. The disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed. Management recognizes transfers between fair value hierarchy levels at the time of fair value measurement.

15. *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 accounting principles generally accepted in the United States

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

15. *Prior Year Summarized Information (Continued)*

of America. Accordingly, such information should be read in conjunction with Developmental Pathways, Incorporated's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

NOTE B – INVESTMENTS

The following table presents Pathways' investments and the fair value hierarchy for those assets measured at fair value as of June 30, 2015:

	Fair value	Level 1	Level 2	Level 3
Mutual funds				
Domestic	$ 7,460,400	$ 7,460,400	$ -	$ -
International	217,222	217,222	-	-
Hedge funds	963,643	-	-	963,643
	$ 8,641,265	$ 7,677,622	$ -	$ 963,643

Investment return for the year ended June 30, 2015, consists of unrealized loss on investments of $32,485. The reconciliation of Level 3 assets consists of the following components:

Balance, July 1, 2014	$ -
Purchase	950,000
Unrealized gain on investments	13,643
Balance, June 30, 2015	$ 963,643

NOTE C – LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following at June 30, 2015:

Buildings and improvements	$ 4,197,281
Administrative equipment	2,791,332
Transportation equipment	592,248
	7,580,861
Less accumulated depreciation	3,267,594
	4,313,267
Construction in progress	55,252
Land	1,005,909
	$ 5,374,428

Depreciation expense was $920,975 for the year ended June 30, 2015.

NOTE D – DEFERRED REVENUE

At June 30, 2015, Pathways had deferred revenue of $3,108,774 of which $173,345 is from the State of Colorado and $2,935,429 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 E – LONG-TERM DEBT

Pathways entered into a variable note payable dated May 2004. The monthly installment amount was $13,881 and the interest rate was 4%. The note was collateralized by the main office facility. The note payable was paid off in January 2015. Interest expense for the year ended June 30, 2015 was $31,666.

NOTE F – NET ASSETS

Board Designated

Over the past several years, Developmental Pathways, through the Community Outreach Department, has been evaluating unmet needs in the community it serves. During the fiscal year ended June 30, 2015, the management and board of directors has selected several high need areas to focus on in order to provide resources to the largest number of people in the most efficient manner.

Several of these programs have been started and will extend into future years. A decision was made during the current fiscal year to further study needs and the most efficient way to deliver services before fully implementing these ideas. During the fiscal year ended June 30, 2015, Developmental Pathways generated approximately $2.5 million of revenues over expenses. The Board of Directors has designated $1.5 million of net assets to be used for the following projects in future years at June 30, 2015:

Capacity building	$ 300,000
Respite	300,000
Transportation	300,000
Wellness	300,000
3+ initiative	300,000
	$ 1,500,000

Temporarily Restricted

Temporarily restricted net assets of $73,454 are restricted for medical and dental expenses for developmentally disabled individuals.

NOTE F – NET ASSETS (CONTINUED)

Permanently Restricted

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

NOTE G – 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

The endowment fund was composed of the following net assets by type as of June 30, 2015:

Temporarily restricted	$ 73,454
Permanently restricted	862,408
	$ 935,862

NOTE G – ENDOWMENT (CONTINUED)

Changes in endowment net assets for the year ended June 30, 2015 were:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 65,431	$ 862,408	$ 927,839
Investment income, net	14,990	-	14,990
Net depreciation (realized and unrealized)	(6,967)	-	(6,967)
Endowment net assets, end of year	$ 73,454	$ 862,408	$ 935,862

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, 2015, 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.

NOTE H – 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, 2015 was $128,220.

NOTE I – 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 2019 and are classified as operating leases. In 2011, Pathways entered into two subleases for one of its facilities and both of them expired in December 2014. Neither of these subleases was renewed after they expired in December 2014. Pathways received $41,047 in rental income from the subleases for the year ended June 30, 2015, which is recorded as a reduction of rent expense. For the year ended June 30, 2015, rental expense under operating leases was $178,260.

Future minimum rental payments for these noncancelable operating leases at June 30, 2015 are:

Year ending June 30,	
2016	$ 101,915
2017	101,915
2018	28,583
2019	1,457
	$ 233,870

Capital Lease Obligation

Pathways leased vehicles under capital lease arrangements. Pathways subleased these vehicles to related entities and the related entities have capitalized the vehicles on their books as of June 30, 2015. Pathways assigned the leases to the related entities during the year ended June 30, 2015, thereby relieving Pathways of any obligation under the lease arrangements.

NOTE J – 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 $3,237,224 and $173,345, respectively, as of June 30, 2015. Pathways has a payable at June 30, 2015, to the State of Colorado in the amount of $89,603 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, 2015, the CHDA had developed five apartment complexes with

NOTE J – RELATED PARTY TRANSACTIONS (CONTINUED)

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, 2015.

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. Transactions between the related corporations include sales of services and contributions from one related corporation to another, as well as one related corporation receiving funds from or paying funds to outside entities on behalf of another related corporation. Transactions that Pathways makes on behalf of another related corporation are not recorded as revenue or expense on Pathways' financial statements, but are added to the related party receivable or payable. Transactions that other related corporations make on behalf of Pathways are recognized as revenue or expense in Pathways' financial statements, and are added to the related party receivable or payable. Generally, intercompany receivables and payables are settled monthly.

During the fiscal year, Pathways rented two commercial buildings and residential group homes to COC which were used to provide services and supports to their clients. On June 30, 2015, Pathways donated the two commercial buildings to COC and sold the residential group homes to COC at the estimated fair market values which were $2,400,000 and $2,000,000, respectively. A note was established for the sale of the residential group homes at an annual interest rate of 2.28% and with a maturity date of July 1, 2045. Pathways recognized a contribution expense and a gain on sale of fixed assets to COC of $1,095,799 and $1,093,674, respectively, for the difference between the fair market value and the net book value of the assets.

The following are the related party transactions recorded as of and for the year ended June 30, 2015:

	DPHCI	DPHCII	DPHCIII	COC	NMSC	SUN
Accounts receivable	$ 98,901	$376,574	$ 712,194	$ 422,218	$ -	$ -
Notes receivable	100,286	-	-	2,000,000	-	-
Accounts payable	-	-	-	-	128,384	50,480
Transactions related to intercompany sales of services and contributions						
Contributions received	-	-	-	-	-	99,211
Other revenue	18,586	28,123	21,817	-	-	-

NOTE J – RELATED PARTY TRANSACTIONS (CONTINUED)

	DPHCI	DPHCII	DPHCIII	COC	NMSC	SUN
Occupancy and vehicle revenue	$ -	$ -	$ -	$1,216,394	$ 700,277	$ -
Contribution expense	-	-	-	7,534,660	-	78,640
Management service expense	-	-	-	-	2,329,159	-
Internal service expense	-	-	-	375,774	-	-
Fund raising expense	-	-	-	-	-	102,274
Pathways' payments on behalf of others	9,400	17,495	9,400	1,518,823	786,587	-
Pathways' receipts on behalf of others	-	-	-	-	381,365	-
Others' payments on behalf of Pathways	-	-	-	58,371	140,360	-