# Pathway Homes, Inc. and Affiliate

## Consolidated Financial Statements
## (With Supplementary Information)
## and Independent Auditor's Report

## June 30, 2018

**Pathway Homes, Inc. and Affiliate**

Index

# Independent Auditor's Report

To the Board of Directors
Pathway Homes, Inc. and Affiliate

## Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Pathway Homes, Inc. (a nonprofit organization) and Affiliate, which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. The financial statements of the Affiliate were not audited in accordance with *Government Auditing Standards* as discussed at Note 1 in the Notes to Schedule of Expenditures of Federal Awards.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pathway Homes, Inc. and Affiliate as of June 30, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Matters*

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information on pages 35 to 37 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* ("CFR") Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2018, on our consideration of Pathway Homes, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of Pathway Homes, Inc.'s 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 Pathway Homes, Inc.'s internal control over financial reporting and compliance.

CohnReznick LLP

Bethesda, Maryland
October 23, 2018

## Pathway Homes, Inc. and Affiliate

### Consolidated Statement of Financial Position
### June 30, 2018

Assets

| | | |
|---|---|---|
| **Current assets** | | |
| Cash | | $ 996,015 |
| Restricted cash | | 176,432 |
| Accounts receivable | | 54,831 |
| Pledges receivable, net of discount of $2,052 | | 36,065 |
| Program fees receivable (note 5) | | 757,016 |
| Prepaid expenses | | 25,038 |
| Security deposits | | 38,180 |
| Long-lived assets held for sale | | 176,364 |
| Advances and other receivables - related corporations (note 23) | | 184,381 |
| Total current assets | | 2,444,322 |
| **Property and equipment** | | |
| Property and equipment (note 6, 17, and 18) | $ 15,334,561 | |
| Less: Accumulated depreciation (note 6, 17, and 18) | (2,157,919) | |
| Total noncurrent assets | | 13,176,642 |
| **Other assets** | | |
| Reserve for replacements (note 7) | 83,718 | |
| Investments (note 3 and 4) | 81,613 | |
| Pledges receivable, net of discount of $13,940 | 51,697 | |
| Total other assets | | 217,028 |
| Total assets | | $ 15,837,992 |

## Pathway Homes, Inc. and Affiliate

## Consolidated Statement of Financial Position
## June 30, 2018

Liabilities and Net Assets

| | | |
|---|---|---|
| **Current liabilities** | | |
| Accounts payable and accrued expenses (note 8) | | $ 525,789 |
| Deferred revenue | | 346,628 |
| Liability for escrow funds | | 119,870 |
| Mortgages payable, current maturities (note 9) | | 102,661 |
| Notes payable, current maturities | | 6,168 |
| Deferred rent liability, current portion | | 7,857 |
| Obligation under capital lease, current maturities (note 11) | | 7,284 |
| Total current liabilities | | 1,116,257 |
| **Long-term liabilities** | | |
| Mortgages and notes payable, net of current maturities (note 9) | $ 2,605,175 | |
| Obligation under capital lease, net of current maturities (note 11) | 3,253 | |
| Deferred rent liability, net of current portion | 209,341 | |
| Other long-term liabilities | 54,000 | |
| Total long-term liabilities | | 2,871,769 |
| Total liabilities | | 3,988,026 |
| Commitments and contingencies | | - |
| **Net assets** | | |
| Unrestricted | 1,272,691 | |
| Temporarily restricted (note 12) | 10,577,275 | |
| Total net assets | | 11,849,966 |
| Total liabilities and net assets | | $ 15,837,992 |

See Notes to Consolidated Financial Statements.

# Pathway Homes, Inc. and Affiliate

## Consolidated Statement of Activities
## Year Ended June 30, 2018

| | Unrestricted | Temporarily restricted | Total |
|---|---|---|---|
| Operating revenue and other support | | | |
| Fees and grants from governmental agencies and others (note 13 and 18) | $ 9,768,576 | $ 1,451,000 | $ 11,219,576 |
| Client fees and rents | 1,609,172 | - | 1,609,172 |
| Contributions | 178,726 | 65,666 | 244,392 |
| Management fees | 23,910 | - | 23,910 |
| Interest and dividends | 1,323 | - | 1,323 |
| Other revenue | 81,359 | - | 81,359 |
| Net assets released from restriction | | | |
| Satisfaction of program restrictions | 295,487 | (295,487) | - |
| Total operating revenue and other support | 11,958,553 | 1,221,179 | 13,179,732 |
| Operating expenses | | | |
| Program services - residential facilities | | | |
| Assisted living facility - Stevenson Place (note 15) | 1,512,683 | - | 1,512,683 |
| Assisted living facility - Prince William (note 15) | 450,146 | - | 450,146 |
| Calamo Street | 123,120 | - | 123,120 |
| Terry Drive | 49,603 | - | 49,603 |
| Subtotal - program services - residential facilities | 2,135,552 | - | 2,135,552 |
| Program services - supported residential programs | | | |
| Blake | 389 | - | 389 |
| CABHI | 100,801 | - | 100,801 |
| Central FL Foundation Combined | 81,322 | - | 81,322 |
| Central FL Foundation Matching Funds | 25,000 | - | 25,000 |
| CFF Homeless Impact Fund | 349,780 | - | 349,780 |
| Consolidated Community Funding Pool | 350,653 | - | 350,653 |
| First Baptist Orlando | 14,579 | - | 14,579 |
| Leased properties | 167,790 | - | 167,790 |
| Loudoun County | 10,236 | - | 10,236 |
| Mental Health Outpatient Services | 2,428 | - | 2,428 |
| Orlando Community Investment Fund | 37,218 | - | 37,218 |
| Pathway Homes - Florida | 415,496 | - | 415,496 |
| PW Supported Living MHSS | 106,499 | - | 106,499 |
| Shelter Plus Care (note 16) | 2,108,475 | - | 2,108,475 |
| SHP 1994 (note 19) | 38,662 | - | 38,662 |
| SHP 1995 (note 19) | 155,297 | - | 155,297 |
| SHP 2007 (note 19) | 190,872 | - | 190,872 |
| SHP 2009 (note 19) | 194,945 | - | 194,945 |
| SHP 2011 (note 19) | 373,668 | - | 373,668 |
| SHP 2014 (note 19) | 1,390,423 | - | 1,390,423 |
| SHP 2015 (note 19) | 665,367 | - | 665,367 |
| SHP McKinney Projects and SHP CRS (note 19) | 406,254 | - | 406,254 |
| Supported Living Expansion Program | 14,824 | - | 14,824 |
| Supported Living | 379,680 | - | 379,680 |
| Virginia Department of Behavioral Health and Development Services | 995,259 | - | 995,259 |
| Welcome Home Campaign | 16,205 | - | 16,205 |
| Total program services | 10,727,674 | - | 10,727,674 |
| Supporting services | | | |
| Contributions | 125,343 | - | 125,343 |
| Fundraising | 42,710 | - | 42,710 |
| Grants | 49,115 | - | 49,115 |
| Management and general | 1,083,136 | - | 1,083,136 |
| Total supporting services | 1,300,304 | - | 1,300,304 |
| Total expenses | 12,027,978 | - | 12,027,978 |
| Other item | | | |
| Unrealized gain on investments | 3,360 | - | 3,360 |
| Change in net assets (deficit) | (66,065) | 1,221,179 | 1,155,114 |
| Net assets, beginning | 1,338,756 | 9,356,096 | 10,694,852 |
| Net assets, end | $ 1,272,691 | $ 10,577,275 | $ 11,849,966 |

See Notes to Consolidated Financial Statements.

## Pathway Homes, Inc. and Affiliate

## Consolidated Statement of Cash Flows
## Year Ended June 30, 2018

| | |
|---|---|
| Cash flows from operating activities | |
| Change in net assets | $ 1,155,114 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | |
| Depreciation | 336,161 |
| Unrealized gain on investments | (3,360) |
| Loss on disposal of property and equipment | 6,661 |
| (Increase) decrease in assets | |
| Accounts receivable | (42,141) |
| Pledge receivable, net of discount | 19,201 |
| Program fees receivable | (106,436) |
| Prepaid expenses | 14,717 |
| Security deposits | 2,945 |
| Increase (decrease) in liabilities | |
| Accounts payable and accrued expenses | 20,155 |
| Deferred revenue | (343,973) |
| Deferred rent liability | 15,062 |
| Liability for escrow funds | 41,409 |
| Net cash provided by operating activities | 1,115,515 |
| Cash flows from investing activities | |
| Advances to related corporations | 600,401 |
| Repayment of advances - related corporations | (635,707) |
| Purchases of property and equipment | (1,728,531) |
| Net withdraws from reserve for replacements | 17,232 |
| Net cash used in investing activities | (1,746,605) |
| Cash flows from financing activities | |
| Principal payments on note payable | (5,879) |
| Principal payments on obligation under capital lease | (7,284) |
| Principal payments on mortgages | (88,580) |
| Proceeds from mortgages payable | 495,900 |
| Net cash provided by financing activities | 394,157 |
| Net decrease in cash | (236,933) |
| Cash, beginning of year | 1,409,380 |
| Cash, end of year | $ 1,172,447 |

## Pathway Homes, Inc. and Affiliate

## Consolidated Statement of Cash Flows
## Year Ended June 30, 2018

| | |
|---|---|
| Supplemental disclosure of cash flow information: | |
| Cash paid during the year for interest | $ 97,122 |
| Significant noncash investing and financing activities | |
| Disposal of fixed assets | $ 39,863 |
| Transfer of long-lived asset to held for sale | $ 176,364 |

See Notes to Consolidated Financial Statements.

## Note 1 - Organization

Pathway Homes, Inc. (the "Corporation") is a not-for-profit nonstock corporation formed under the laws of the Commonwealth of Virginia on April 14, 1980, for the purpose of providing long-term housing and the necessary supportive services for seriously mentally ill adults. Support for the Corporation comes primarily from fees and grants from governmental agencies.

Pathway Homes, Inc. shares certain common board of directors and management with Pathway Homes of Florida, Inc. (the "Affiliate") (together with Pathway Homes, Inc., as the "Organization").

Incorporated in 2015, Pathway Homes of Florida, Inc. is a nonprofit corporation organized to operate exclusively for developing and operating an array of permanent supportive housing programs and services for the homeless and other adults with mental illness and co-occurring disabilities. The programs and services are offered to indigent and low-income persons with disabilities to serve primarily the chronically homeless persons living on the streets and in temporary shelters in the Central Florida region. The organization contracts with local agencies to provide funding for the supportive services.

## Note 2 - Summary of significant accounting policies

### Basis of presentation

In accordance with the accounting guidance for financial statements of not-for-profit organizations, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The net assets of the Organization are unrestricted or temporarily restricted. Furthermore, information is required to segregate program service expenses from management and general and fundraising expenses.

The Organization also conforms with the accounting guidance for accounting for contributions received and contributions made. Contributions received are recorded as temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

### Principles of consolidation

Included in the Corporation's financial statements are the accounts of Pathway Homes of Florida, Inc. All intercompany balances and transactions are eliminated in consolidation.

### Restricted cash

In accordance with various program agreements, the Organization is required to hold cash restricted to certain programs in separate cash accounts.

### Accounts receivable and bad debts

Accounts receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America ("GAAP") require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method. $1,958 of bad debt expense was charged to operations for the year ended June 30, 2018.

### Pledges receivable

Contributions that are unconditional promises to give are recognized as revenue in the period the promises are made. Contributions with donor-imposed restrictions and unconditional promises to give with payments due in future periods are recorded as increases to temporarily or permanently restricted net assets and are reclassified to unrestricted net assets at the time the restriction is met. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Contributions recognized that are to be received after one year are recorded at their fair value based on the income approach whereby future amounts expected to be collected are discounted to their present value at a rate commensurate with the risk involved. This rate is based on management's assessment of current market expectations plus a reasonable risk premium. The average discount rate for 2018 was 5%. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. Contributions of assets other than cash are recorded at estimated fair value at the date of the gift.

An allowance for uncollectible contributions receivable is made based upon management's judgment, based on factors such as prior collection history, the type of contribution and other relevant factors. No allowance is recognized at June 30, 2018.

**Investments**

The Corporation follows the accounting guidance for accounting for certain investments held by not-for-profit organizations. As a result, investments in marketable securities with readily determined fair values and all investments in debt securities are reported at their fair values on the statement of financial position. Unrealized gains and losses are included in the change in net assets. Realized gains and losses are recorded upon the sale of the investments. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

**Program fees receivable**

Program fees receivable includes amounts due from billed contracts for housing programs. A substantial portion of amounts due are receivable from the Supportive Housing Programs (Note 19).

**Property and equipment**

The Organization capitalizes property and equipment additions whose cost basis is $750 or more. Property and equipment is carried at cost. Leasehold improvements are capitalized and amortized over the shorter of their useful lives or the lease term. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives by use of the straight-line method. Useful lives are as follows:

| | |
|---|---|
| Buildings and building improvements | 10 - 50 years |
| Land improvements | 10 - 20 years |
| Leasehold improvements | 2 - 20 years |
| Equipment | 3 - 15 years |
| Furniture and fixtures | 3 - 10 years |
| Vehicles | 3 - 7 years |

Maintenance and repairs are charged to expense when incurred. Upon retirement or other disposition, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the statement of activities. During the year ended June 30, 2018, the Organization disposed of fixed assets in the amount of $39,863. A loss of $6,661 was recognized as a result of the fixed asset disposal and is included in other revenue on the accompanying consolidated statement of activities.

Additionally, property and equipment acquired by the Organization for use in specific programs is restricted in use for terms of up to 40 years from inception. Defaults or material noncompliance on the part of the Organization could result in forfeiture of assets acquired with program funds.

**Impairment of long-lived assets**
The Corporation reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the year ended June 30, 2018.

**Accrued compensated leave**
Annual leave is a vested benefit and is accrued. Sick leave granted to employees is expensed when incurred. Sick leave is not a vested benefit; therefore, no liability for unused sick leave has been recorded

**Deferred rent liability**
Deferred rent liability is recorded and amortized to the extent the total minimum rent payments allocated to the current period on a straight-line basis exceed or are less than the cash payments required.

**Revenue and expenses**
The Organization's consolidated financial statements are prepared using the accrual method of accounting. In accordance with this method of accounting, revenue is recognized in the period in which it is earned and expenses are recognized in the period in which they are incurred. All revenue and expenses which are applicable to future periods have been presented as deferred or prepaid on the accompanying consolidated statement of financial position.

**Grant revenue and expenses**
Grant revenue is recorded as earned according to the provisions of the grant. The provisions of the grant determine the timing of revenue recognition. Grant expenses are recognized when incurred for a grant-related obligation.

**Temporarily restricted contributions**
Temporarily restricted contributions are recognized as revenue when received or pledged and are reclassified from temporarily restricted net assets to unrestricted net assets when the Organization has incurred program expenditures in compliance with the specific restrictions of the donors or when the stipulated time has elapsed.

**In-kind contributions/expenses**
Donated property, equipment and services are recorded at fair market value at the date of donation. Donated services are recognized in the consolidated financial statements at their fair value if the following criteria are met:

- The services require specialized skills and the services are provided by individuals possessing those skills, and the services would typically need to be purchased if not donated, or

- The services enhance or create an asset.

Although the Organization utilizes the services of outside volunteers, the fair value of these services is not recognized in the accompanying consolidated financial statements since they do not meet the criteria for recognition under generally accepted accounting principles.

**Advertising**
The Organization's policy is to expense advertising costs when incurred.

**Income taxes**
Both Pathway Homes, Inc. and Pathway Homes of Florida, Inc. have received determination letters from the Internal Revenue Service ("IRS") to be treated as tax-exempt entities pursuant to Section 501(c)(3) of the Internal Revenue Code (the "Code"). The Organization is subject to income taxes on revenue generated from other sources unrelated to its exempt purpose. Due to its tax-exempt status, the Organization is not subject to income taxes and did not have any unrelated business income during the year ended June 30, 2018. Accordingly, no provision or benefit for income taxes has been recorded in the accompanying consolidated financial statements. The Organization is required to file and does file tax returns with the IRS and state agencies.

For the year ended June 30, 2018, Pathway Homes, Inc. did not identify any uncertain tax positions that qualify for either recognition or disclosure on the consolidated financial statements. Income tax returns filed by the Corporation are subject to examination by IRS for a period of three years. While no income tax returns are currently being examined by IRS, for Pathway Homes, Inc, tax years since 2015 remain open.

For the year ended June 30, 2018, Pathway Homes of Florida, Inc. received a notification from IRS that its tax-exempt status was revoked. Management had accordingly resubmitted its tax returns and other documentation to reinstate the tax-exempt status for Pathway Homes of Florida, Inc., which is currently under IRS review. Management believes that any potential penalty for 2014-2016 tax years will be relieved by IRS.

**Use of estimates**
The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Functional expenses**
Some expenses by function have been allocated among program and supporting services classifications on the basis of an analysis made by the management of the Organization. The

Organization follows not-for-profit accounting procedures generally accepted in the United States of America ("GAAP"), in which joint costs of informational materials that include a fundraising appeal may be allocated. Management has not allocated any of these costs to program services.

## Note 3 - Investments

The Corporation has purchased and holds investments in its portfolio as of June 30, 2018. The following schedule summarizes the investments' classification as short-term or long-term:

| | Short-term | Long-term | Total |
|---|---|---|---|
| Mutual funds | $ - | $ 81,613 | $ 81,613 |
| Total | $ - | $ 81,613 | $ 81,613 |

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2018:

| | |
|---|---|
| Unrestricted | |
| Interest and dividends | $ 1,323 |
| Unrealized gain | 3,360 |
| Net return on investments | $ 4,683 |

## Note 4 - Fair value measurements

The accounting standard for fair value measurement and disclosures defines fair value, establishes a framework for measuring fair value, and provides expanded disclosure about fair value measurements. The accounting standard was applied to the Corporation's financial assets and liabilities and to certain non-financial asset and liabilities. Fair value is defined by the accounting standard for fair value measurement and disclosures 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 liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels. The following summarizes the three levels of inputs and hierarchy of fair value the Corporation uses when measuring fair value:

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access;

Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as interest rates and yield curves that are observable at commonly quoted intervals; and

Level 3 inputs are unobservable inputs for the asset or liability that are typically based on an entity's own assumptions as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the fair value measurement will fall within the lowest level input that is significant to the fair value measurement in its entirety.

Mutual funds of $81,613 are classified within Level 1 of the fair value hierarchy. No other assets or liabilities are measured at fair value as of June 30, 2018. The following table presents the financial assets that the Corporation measured at fair value on a recurring basis as of June 30, 2018:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Mutual funds | $ 81,613 | $ - | $ - | $ 81,613 |

## Note 5 - Program fees receivable

As of June 30, 2018, program fees were receivable from the following entities:

| | |
|---|---|
| Virginia Department of Behavioral Health & Developmental Services - DBHDS Permanent Supportive Housing | $ 176,643 |
| U.S. Department of Housing and Urban Development - Shelter Plus Care | 153,213 |
| U.S. Department of Housing and Urban Development - Supportive Housing Programs | 105,661 |
| Christian Relief Services, Inc. - Supportive Housing Programs | 92,221 |
| Orange County, Florida - Homeless Services Network | 50,718 |
| City of Orlando - Florida Program | 43,412 |
| Berkshire Hathaway Specialty Insurance Company | 34,288 |
| Prince William - Assisted Living Facility - Mental Health Residential Services | 27,585 |
| Bridge Housing - Homeless Services Network | 26,249 |
| Potomac Health Foundation - grant award | 12,500 |
| Assisted Living Facility | 11,898 |
| County of Loudoun - Mental Health Skills Building Services | 5,084 |
| U.S. Department of Housing and Urban Development - HUD Projects management fee | 8,910 |
| Medicaid fees | 1,365 |
| Other entities - miscellaneous program fees receivable | 7,269 |
| | $ 757,016 |

## Note 6 - Property and equipment

As of June 30, 2018, property and equipment consist of the following:

| | |
|---|---|
| Land and land improvements | $ 3,796,935 |
| Buildings and building improvements | 10,898,694 |
| Equipment | 208,173 |
| Furniture and fixtures | 112,926 |
| Vehicles | 278,055 |
| Leasehold improvements | 39,778 |
| | 15,334,561 |
| Less: Accumulated depreciation | (2,157,919) |
| | $ 13,176,642 |

Depreciation expense for the year ended June 30, 2018 was $336,161.

## Note 7 - Reserves for replacements

In conjunction with the mortgage loans provided by the Virginia Housing Development Authority ("VHDA") to the Corporation (Note 9), Pathway Homes, Inc., as mortgagor, has established five reserve for replacement escrow accounts with VHDA. The Corporation is required to make monthly deposits into these funds. Disbursements from these funds may be made, with VHDA's approval, for replacement, maintenance, or repair of capital items at the aforementioned residences. As of June 30, 2018, the balance of the VHDA reserves was $83,718.

## Note 8 - Accounts payable and accrued expenses

Accounts payable and accrued expenses as of June 30, 2018 were comprised of the following components:

| | Pathway Homes, Inc. | Pathway Homes of Florida, Inc. | Total |
|---|---|---|---|
| Accounts payable | $ 195,830 | $ 210 | $ 196,040 |
| Accrued interest payable | 8,084 | - | 8,084 |
| Accrued salaries and payroll taxes | 174,051 | - | 174,051 |
| Accrued compensation leave | 147,614 | - | 147,614 |
| | $ 525,579 | $ 210 | $ 525,789 |

## Note 9 - Long-term debt

### Mortgages payable - VHDA

The Corporation acquired several project residences with the proceeds of mortgages from VHDA. The following is a summary of these obligations as of June 30, 2018:

| | Pathway Homes, Inc. | | | | | | |
|---|---|---|---|---|---|---|---|
| Lender | VHDA | VHDA | VHDA | VHDA | VHDA | VHDA | VHDA |
| Project | Supportive Housing | Calamo Street | Hirst Drive | Terry Drive | Little Hunting Creek, Russell and San Leandro Roads | Lonestar Road | Mangalore Drive |
| Original amount | $ 306,019 | $ 264,000 | $ 780,000 | $ 480,000 | $ 316,512 | $ 123,000 | $ 149,000 |
| Interest rate | 8.30% | 5.00% | 5.05% | 5.05% | 5.25% | 5.25% | 1.00% |
| Required payment | $ 2,309 | $ 1,417 | $ 4,221 | $ 2,591 | $ 1,748 | $ 679 | $ 479 |
| | Principal and interest | Principal and interest | Principal and interest | Principal and interest | Principal and interest | Principal and interest | Principal and interest |
| Installment due | Monthly | Monthly | Monthly | Monthly | Monthly | Monthly | Monthly |
| Secured property | Real property | Real property | Real property | Real property | Real property | Real property | Real Property |
| Maturity date | 02/01/22 | 01/01/30 | 04/01/38 | 11/01/38 | 02/01/40 | 06/01/40 | 06/01/46 |
| Balance at June 30, 2018 | $ 87,350 | $ 149,303 | $ 632,341 | $ 395,698 | $ 271,090 | $ 106,212 | $ 140,396 |
| Interest expense for 2018 | $ 8,006 | $ 7,684 | $ 32,356 | $ 20,235 | $ 14,391 | $ 5,637 | $ 1,424 |
| Accrued interest at June 30, 2018 | $ 604 | $ 622 | $ 2,661 | $ 1,665 | $ 1,186 | $ 465 | $ 117 |

## Mortgages payable - VHDA (continued)

| | Pathway Homes, Inc. | | | | | | | Total |
|---|---|---|---|---|---|---|---|---|
| Lender | VHDA | VHDA | VHDA | VHDA | VHDA | VHDA | VHDA | |
| Project | Americana Drive #101 | Greenwood Drive | Wakefield Drive | Buckman Road #15 | Buckman Road #56 | Americana Drive #204 | Patriot Drive | |
| Original amount | $ 133,000 | $ 149,950 | $ 163,000 | $ 94,500 | $ 102,400 | $ 139,000 | $ 160,000 | |
| Interest rate | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | |
| Required payment | $ 428 | $ 482 | $ 524 | $ 304 | $ 329 | $ 447 | $ 515 | |
| | Principal and interest | Principal and interest | Principal and interest | Principal and interest | Principal and interest | Principal and interest | Principal and interest | |
| Installment due | Monthly | Monthly | Monthly | Monthly | Monthly | Monthly | Monthly | |
| Secured property | Real property | Real property | Real property | Real property | Real property | Real property | Real property | |
| Maturity date | 05/01/46 | 12/01/46 | 01/01/47 | 12/01/47 | 12/01/47 | 02/01/48 | 05/01/48 | |
| Balance at June 30, 2018 | $ 124,997 | $ 143,472 | $ 156,352 | $ 93,146 | $ 100,933 | $ 137,673 | $ 159,619 | $ 2,698,582 |
| Interest expense for 2018 | $ 1,268 | $ 1,455 | $ 1,585 | $ 613 | $ 664 | $ 603 | $ 391 | $ 96,312 |
| Accrued interest at June 30, 2018 | $ 104 | $ 120 | $ 130 | $ 78 | $ 84 | $ 115 | $ 133 | $ 8,084 |

The following is a summary of future principal payments required under all mortgages for the years ending June 30:

| | | |
|---|---|---|
| 2019 | $ | 102,661 |
| 2020 | | 107,398 |
| 2021 | | 112,429 |
| 2022 | | 108,443 |
| 2023 | | 93,866 |
| Thereafter | | 2,173,785 |
| | $ | 2,698,582 |

Accrued interest payable for all mortgages is included in accounts payable and accrued expenses on the accompanying statement of financial position.

**Note payable - Ally Bank vehicle loan**
On October 21, 2015, the Corporation received a $29,999 automobile loan from Ally Bank. The loan bears interest on the outstanding principal at a rate of 4.79%. Monthly installments of principal and interest of $564 are payable through the maturity date of November 5, 2020. During the year ended June 30, 2018, interest expense of $869 was incurred and paid. As of June 30, 2018, principal of $15,422 remains payable, of which $6,168 is due in 2019 and is included in notes payable, current maturities on the accompanying consolidated statement of financial position.

The following is a summary of future principal payments required under Ally Bank vehicle loan for the years ending June 30:

| | | |
|---|---|---|
| 2019 | $ | 6,168 |
| 2020 | | 6,469 |
| 2021 | | 2,785 |
| | $ | 15,422 |

## Note 10 - Line of credit

On March 28, 2016, the Corporation acquired a $250,000 line of credit with Capital One Bank. Interest, at a rate of 3.5% accrues on the outstanding unpaid principal and is due monthly. During the year ended June 30, 2018, no interest expense was incurred and paid during the year. The line of credit is secured by business assets. As of June 30, 2018, the balance on the line of credit was $0.

## Note 11 - Lease commitments

Effective October 5, 2006, the Corporation entered into a 10-year lease agreement to lease 8,026 square feet of office space. This lease called for monthly payments of $14,380 with increases of 3.00% per annum each year of the renewed lease and a proportional share of increases in building operating costs. As of September 1, 2007, the Corporation amended the lease to acquire an additional 1,538 square feet of office space. The additional space called for monthly payments of $3,140. On November 1, 2014, the Corporation entered into a 10-year and 7-month lease agreement to lease 9,564 square feet of office space, which amended and restated the original lease. The amended and restated lease calls for monthly payments of $19,128 with basic rent adjustments defined by the agreement. For the year ended June 30, 2018, $256,202 of rent expense was incurred and is included in management and general on the accompanying consolidated statement of activities. As of June 30, 2018, deferred rent was $217,198, of which $7,857 is related to current obligations and is included in deferred rent liability, current portion, on the accompanying consolidated statement of financial position.

In connection with the lease above, the Corporation received a tenant improvement allowance from the landlord, in the amount of $67,692, which was recorded as a deferred liability and is amortized over the term of the lease. During the year ended June 30, 2018, $6,597 was amortized, and as of June 30, 2018, the deferred revenue related to the tenant improvement allowance is $60,782 and is included in deferred revenue on the consolidated statement of financial position.

Additionally, the Corporation leases a number of apartment units from various lessors for use by clients participating in its Shelter Plus Care and Supportive Housing Programs. All such leases are for a term of one year, at inception. As of June 30, 2018, 248 such leases were in force.

Effective June 1, 2015, the Corporation entered into a three-year lease agreement to lease 2,400 square feet of office space on behalf of the affiliate. The lease agreement requires monthly basic rent of $3,000 with adjustments defined by the agreement. The lease agreement ended May 31, 2018. Effective May 1, 2018, the Corporation entered into a one-year lease agreement with Luis Eduardo Lavieri to lease office space at $2,000 per month plus a share of utilities. During the year ended June 30, 2018, the Corporation incurred rent expense in the amount of $50,589 for the program.

The following is a summary of the minimum lease payments required under all noncancelable lease agreements, including those for apartment units, for the years ending June 30:

| | | |
|---|---|---|
| 2019 | $ | 2,807,309 |
| 2020 | | 372,837 |
| 2021 | | 263,488 |
| 2022 | | 271,363 |
| 2023 | | 279,492 |
| Thereafter | | 1,204,681 |
| Total | $ | 5,199,170 |

The Corporation has entered into an equipment lease agreement for copy machines, classified as capital lease, with a lease term through January 2020. Depreciation of the asset under the capital lease is included in depreciation expense.

The copy machines acquired under the capital lease are included in property and equipment as follows:

| | | |
|---|---|---|
| Equipment - Copy machines | $ | 36,420 |
| Less: Accumulated depreciation | | (25,883) |
| | $ | 10,537 |

The following is a summary of the future minimum payments required under the capital lease agreement as of June 30:

| | | |
|---|---|---|
| 2019 | $ | 7,284 |
| 2020 | | 3,253 |
| Present value of future minimum lease payments as of June 30, 2018 | $ | 10,537 |

As of June 30, 2018, the present value of the net minimum lease payments is $10,537. No interest expense was incurred during the year ended June 30, 2018.

**Note 12 – Temporarily restricted net assets**

Temporarily restricted net assets at June 30, 2018 are $10,577,275, which consists of contributions and other revenue restricted for specific programs. During the year ended June 30, 2018, temporarily restricted net assets of $295,487 were released from restriction when donor-stipulated purpose restrictions were met or when time restrictions were met.

Temporarily restricted net assets are available for the following purposes:

| | | |
|---|---|---|
| Purpose restriced net assets | | |
| Purchase of new homes - CDBG & Home Improvement | $ | 4,365,499 |
| Purchase of new homes - FCRHA | | 4,398,237 |
| Permanent Supportive Housing Program Grant | | 500,000 |
| DHCD - Permanent Supportive Housing State Grant | | 342,000 |
| HUD | | 230,000 |
| Dental Fund | | 151,484 |
| Philip L Graham | | 100,000 |
| SHP 2007 & SHP 2009 | | 55,162 |
| Assisted Living Facility - Stevenson Place | | 53,229 |
| Holiday Wish List | | 61,286 |
| Potomac Foundation | | 43,446 |
| SHP 2011 | | 40,000 |
| Morris & Gwendolyn Cafritz | | 28,129 |
| Other purposes | | 31,724 |
| Homer and Sue Purdy Donation for Brockham Drive | | 21,350 |
| Northern Virginia Health Foundation | | 21,250 |
| Karen Free Art Program | | 21,068 |
| Computer Training Center | | 7,829 |
| SunTrust Foundation | | 6,214 |
| Philanthropic Fund for Creative Housing Solutions to End Homelessness | | 6,117 |
| Catholic Diocese - Consumer Advisory Council | | 5,490 |
| Subtotal purpose restricted net assets | | 10,489,514 |
| Time restricted net assets | | 87,761 |
| Pledges | | 87,761 |
| Total temporarily restricted net assets | $ | 10,577,275 |

As of June 30, 2018, the Corporation has no permanently restricted net assets.

## Note 13 - Fees and grants from governmental agencies and others

Revenue was recognized from governmental agencies to fund the following programs for the year ended June 30, 2018 as follows:

| | |
|---|---|
| Fairfax-Falls Church Community Services Board | |
| Residential facilities | |
| Assisted living facility – Stevenson Place | $ 1,035,849 |
| Assisted living facility – Prince William | 90,288 |
| Calamo Street | 112,383 |
| Terry Drive | 116,022 |
| | 1,354,542 |
| Supported residential programs | |
| Christian Relief Services | 112,268 |
| Huntington Avenue | 20,628 |
| Mary Baldwin Drive | 20,628 |
| McKinney Projects | 50,336 |
| Pioneer Drive/Sheldon Drive | 20,628 |
| Public-Private Apartments | 13,752 |
| Shelter Plus Care | 318,172 |
| | 556,412 |
| Administration | 124,803 |
| Total Fairfax-Falls Church Community Services Board | 2,035,757 |
| U.S. Department of Housing and Urban Development | |
| HUD Housing Funds-McKinney Projects | 173,880 |
| HUD Housing Funds-SHP 2007 | 165,025 |
| HUD Housing Funds-SHP 2009 | 168,408 |
| HUD Housing Funds-SHP 2011 | 326,069 |
| HUD Housing Funds-SHP 2014 | 1,199,704 |
| HUD Housing Funds-SHP 2015 | 576,836 |
| HUD Housing Funds-SHP/CRS 95 | 106,605 |
| Section 8 Rental Assistance | 242,775 |
| Total U.S. Department of Housing and Urban Development | 2,959,302 |

| | |
|---|---|
| Virginia Department of Social Services | |
| Assisted Living Facilities | 237,416 |
| | |
| Virginia Department of Behavioral Health & Developmental Services | |
| DBHDS Permanent Supportive Housing | 990,896 |
| | |
| Fairfax County Department of Housing and Community Development | |
| Fairfax County Redevelopment & Housing Authority (FCRHA) | |
| Ivymount Ct | 155,000 |
| Donnybrook Ct | 155,000 |
| Kingsbridge Dr | 163,000 |
| Briarwood Ct | 148,500 |
| Northgate Sq | 169,000 |
| Lee Hwy | 152,500 |
| Willston Pl | 155,000 |
| | |
| Total Fairfax County Redevelopment & Housing Authority (FCRHA) | 1,098,000 |
| | |
| Fairfax County Department of Housing and Community Development | |
| Shelter Plus Care | 1,950,486 |
| | |
| Prince William County Office of Housing and Community Development | |
| Russell Road | 90,275 |
| | |
| Wyndale Court | 2,626 |
| | |
| Arlington County Office of the Purchasing Agent | |
| Russell Road | 30,092 |
| | |
| Loudoun County | |
| Russell Road | 30,092 |
| | |
| MHSS | 5,085 |
| | |
| Homeless Services Network of Central Florida, Inc. | |
| Florida Project | 938,294 |
| | |
| Fairfax County Department of Purchasing and Consolidated Community Funding Pool | 341,509 |

| | |
|---|---|
| Medicaid Fees | 152,334 |
| Potomac Foundation | 130,000 |
| Philip L Graham | 100,000 |
| Morris & Gwendolyn Cafritz Foundation | 65,000 |
| Northern VA Health Foundation | 25,000 |
| Pathway Homes of Florida - Program Revenue | 15,000 |
| Catholic Diocese of Arlington | 10,000 |
| Suntrust Foundation | 10,000 |
| Other | 2,412 |
| | $ 11,219,576 |

## Note 14 - Program services

The Organization has two categories in which program services are grouped. It is as follows:

| Category | Program |
|---|---|
| Residential Facilities | Assisted living facility – Stevenson Place |
| | Assisted living facility – Prince William |
| | Calamo Street |
| | Terry Drive |
| Supported Residential Programs | CABHI |
| | Central FL Foundation Combined |
| | Central FL Foundation Matching Funds |
| | Central FL Foundation Homeless Impact Fund |
| | Consolidated Community Funding Pool |
| | First Baptist Orlando |
| | Huntington Avenue |
| | Leased Properties |
| | Loudoun County |
| | Mary Baldwin |
| | Orlando Community Investment Fund |
| | Pathway Homes-Florida |
| | PHI 1991 |
| | Pioneer Drive/Sheldon Drive |
| | PW Supported Living MHSS |
| | Shelter Plus Care |
| | SHP 1995 |
| | SHP 2007 |
| | SHP 2009 |
| | SHP 2011 |
| | SHP 2014 |
| | SHP 2015 |
| | SPC CSB Support |
| | Supported Living |
| | Virginia Department of Behavioral Health and Development Services |
| | Welcome Home Campaign |

## Note 15 - Assisted Living Facility

During the year ended June 30, 2005, the Corporation entered a five-year contract with the County of Fairfax, Virginia (the "County") to operate the County's Assisted Living Facility ("ALF"). The ALF is a long-term, residential facility serving 37 individuals meeting selection criteria which include diagnosis of serious mental illness and residency requirements.

Under this agreement, the Corporation is required to provide services including, but not limited to, staffing and professional management services, clinical services, health monitoring of residents, food, housekeeping and custodial services. In addition, the Corporation is required to perform financial budgeting and accounting tasks and is responsible for billing required to obtain auxiliary grant funding for residents. The Corporation entered into a renewal contract on March 1, 2010, which expired on June 30, 2012. The contract had an option for three one-year renewals.

Effective July 1, 2015, the Corporation renewed its contract through June 30, 2019. During the year ended June 30, 2018, the Corporation recognized revenue in the amount of $1,160,651 with respect to this contract, which included $1,035,849 of program revenue and $124,802 of revenue related to administration. Additionally, during the year ended June 30, 2018, the Corporation recognized auxiliary grant revenue of $237,416 and client fee revenue of $435,283 related to the ALF Program, of which $11,898 is included in the program fees receivable on the accompanying consolidated statement of financial position as of June 30, 2018.

## Note 16 - Shelter Plus Care Programs

During the year ended June 30, 1995, the Corporation was the recipient of a grant from the County of Fairfax, Virginia, Department of Housing and Community Development ("FCDHCD") to provide housing services to homeless, mentally ill adults. This grant was made available to FCDHCD by HUD under the terms of HUD's Shelter Plus Care Program. In past years FCDHCD awarded the Corporation additional Shelter Plus Care grants. As older contracts expired, HUD issued new combined contracts, and the Corporation now operates three such programs. During the year ended June 30, 2018, the Corporation recorded revenue in the amount of $1,787,036 relating to these grant agreements.

## Note 17 - Silver Lining properties

In prior years, the Corporation was awarded funds in the amount of $1,714,978 by the Fairfax County Redevelopment and Housing Authority through the Federal Neighborhood Stabilization Program under the Silver Lining Plus Foreclosure Purchase Program. These funds have assisted in the acquisition and eligible rehabilitation costs to obtain seven foreclosed, three-bedroom homes within the designated targeted areas in Fairfax County. These homes provide affordable rental housing to very low-income households. Awards were made in the form of deferred, no-interest, equity-share, second-trust loans. Repayment is not required so long as the project remains available for very low-income persons for 30 years. Repayment of equity share may be required after 30 years, if the project becomes not available after 30 years, before the earlier to occur of (i) 80 years after the 30 years; or (ii) 21 years after the date of death of the last of the descendants of Joseph P. Kennedy, the former ambassador to Great Britain. In the event of noncompliance within the first 30 years, at the option of the grantor, the entire principal and interest (prime rate as of the date of noncompliance plus 400 basis points) shall be payable on demand. In the event of noncompliance after 30 years, the grantor will be entitled to the sum of the grantor's equity share only with respect to individual property. These awards have been recorded as temporarily restricted revenue in the statement of activities in the period received and will remain in temporarily restricted net assets until the time restriction has elapsed.

The Corporation has leased five of the properties to the Fairfax-Falls Church Community Services Board ("CSB") in Fairfax County under a fixed long-term leasing agreement which expires on November 14, 2019. The lease agreement requires total monthly rental payments for the five properties of $8,432.

The future minimum receipts for these leases for the years ending June 30, are as follows:

| | San Leandro | Russell Road | Little Hunting Creek | Lone Star | Mount Vernon | Total |
|---|---|---|---|---|---|---|
| 2019 | $ 21,000 | $ 19,920 | $ 22,464 | $ 17,400 | $ 20,400 | $ 101,184 |
| 2020 | 7,875 | 7,470 | 8,424 | 6,525 | 7,650 | 37,944 |
| Total | $ 28,875 | $ 27,390 | $ 30,888 | $ 23,925 | $ 28,050 | $ 139,128 |

## Note 18 - Acquisition and rehabilitation of real properties

### Acquisition

During the year ended June 30, 2012, the Corporation was awarded funds in the total amount of $2,657,890 by the Fairfax County Redevelopment and Housing Authority through the Federal Home Investment Partnerships Program and Federal Community Development Block Grant and other local government funding. These funds have assisted in the acquisition costs to obtain three family homes and 10 condominium units within the designated targeted areas in Fairfax County. These homes provide affordable rental housing to persons with income level ranging from very low to moderate.

During the year ended June 30, 2013, the Corporation was awarded funds in the total amount of $847,515 by the Fairfax County Redevelopment and Housing Authority through the Federal Home Investment Partnership Program and Federal Community Development Block Grant. These funds have assisted in the acquisition costs to obtain two family and one condominium unit within the designated targeted areas in Fairfax County. These homes provide affordable housing to persons with income ranging from very low to moderate.

During the year ended June 30, 2014, the Corporation was awarded funds in the total amount of $300,000 by the Fairfax County Redevelopment and Housing Authority through the Federal Home Investment Partnerships Program. These funds have assisted in the acquisition costs to obtain two family homes within the designated targeted areas in Fairfax County. These homes provide affordable rental housing to persons with very low-income level.

Awards were made in the form of deferred, no-interest, equity-share, second-trust loans. Repayment is not required so long as the project remains available for very low-income persons for 30 years. Repayment of equity share may be required after 30 years, if the project becomes not available after 30 years, before the earlier to occur of (i) 80 years after the 30 years; or (ii) 21 years after the date of death of the last of the descendants of Joseph P. Kennedy, the former ambassador to Great Britain. In the event of noncompliance within the first 30 years, at the option of the grantor, the entire principal and interest (prime rate as of the date of noncompliance plus 400 basis points) shall be payable on demand. In the event of noncompliance after 30 years, the grantor will be entitled to the sum of the grantor's equity share only with respect to individual property. These awards have been recorded as temporarily restricted revenue in the statement of activities in the period received and will remain in temporarily restricted net assets until the time restriction has elapsed.

During the year ended June 30, 2014, the Corporation was awarded funds in the total amount $500,000 by the Virginia Department of Housing and Community Development ("VADHCD"). These funds have assisted in the acquisition costs to obtain four one-bedroom condominium units in Fairfax County. These homes provide affordable rental housing to persons who are homeless or at risk of homelessness, and to persons who have serious and persistent mental illness.

During the year ended June 30, 2015, the Corporation was awarded funds in the total amount of $394,900 by the Prince William County Office of Housing and Community Development through the Federal Home Investment Partnerships Program and Federal Community Development Block Grant. These funds have assisted in the acquisition costs to obtain two family homes within the designated targeted areas in Prince William County. These homes provide affordable rental housing to persons with income level ranging from low to moderate.

Pathway Homes, Inc. was awarded $54,215 by the Prince William County Office of Housing and Community Development through the Federal Home Investment Partnerships Program and Federal Community Development Block Grant and the amount was passed through to Pathway Recovery for the acquisition of a property located at Wyndale Court, Woodbridge, VA 22192.

The Corporation entered into an agreement with Homer A. Purdy on June 23, 2015, to transfer the condominium unit at Brockham Drive, Alexandria, VA 22309 and other certain assets as defined by the agreement, to the Corporation, free and clear of all liens, claims, encumbrances, and interests, as contributions. On the transfer date, the fair values of the property, building, and land, was $125,800 and was included in contribution income on the accompanying statement of activities.

During the year ended June 30, 2016, the Organization was awarded funds in the total amount of $560,691 by the Fairfax County Department of Housing and Community Development through the Federal Home Investment Partnerships Program. These funds have assisted in the acquisition of four one-bedroom condominium units in Fairfax County. These homes provide affordable rental housing to persons who are homeless or at risk of homelessness and to persons who have serious and persistent mental illness.

The Corporation was awarded $600,000 from the Virginia Housing Trust Fund to acquire four one-bedroom condominium units in Fairfax County with a Virginia Housing Trust Fund Loan Commitment over a two-year period, expiring March 30, 2018. Interest on the outstanding Mortgage Loan is one percent for thirty years. As of June 30, 2018, the Virginia Housing Trust Fund committed $594,550 for the purchase of four one-bedroom condominium units to provide affordable rental housing to persons who are homeless or at risk of homelessness and to persons who have serious and persistent mental illness.

During the year ended June 30, 2017, the Organization was awarded funds in the total amount of $1,766,765 by the Fairfax County Department of Housing and Community Development through the Federal Home Investment Partnerships Program and Community Development Block Grant. These funds are used in the acquisition of eleven one-bedroom condominium units in Fairfax County. These homes provide affordable rental housing to persons who are homeless or at risk of homelessness and to persons who have serious and persistent mental illness. As of June 30, 2018, Fairfax County Department of Housing and Community Development committed $1,765,783 for purchase of eleven one-bedroom condominium units to provide affordable rental housing to persons who are homeless or at risk of homelessness and to persons who have serious and persistent mental illness.

During the year ended June 30, 2018, the Organization was awarded funds in the total amount of $605,127 by the Fairfax County Department of Housing and Community Development through the Community Development Block Grant. These funds are used in the acquisition of six one-bedroom condominium units in Fairfax County. These homes provide affordable housing to persons with special needs related to serious mental illness. As of June 30, 2018, Fairfax County Department of Housing and Community Development committed $307,500 for purchase of 2 one-bedroom condominium units to provide affordable rental housing to persons who have serious mental illness.

### Rehabilitation

During the year ended June 30, 2012, the Corporation was awarded funds in the total amount of $237,101 by the Fairfax County Redevelopment and Housing Authority through the Federal Community Development Block - Recovery Grant and other local government funding. These funds have assisted in the rehabilitation costs for eight homes within the designated targeted areas in Fairfax County. These homes provide affordable rental housing to low and moderate income persons. During the year ended June 30, 2018, no funds were awarded and expended under this grant.

The awards were made in the form of deferred, no-interest, equity-share, second-trust loans. Repayment is not required so long as the project remains available for low and moderate income persons for 30 years. Repayment of equity share may be required after 30 years, if the project becomes not available after 30 years, before the earlier to occur of (i) 80 years after the 30 years; or (ii) 21 years after the date of death of the last of the descendants of Joseph P. Kennedy, the former ambassador to Great Britain. In the event of noncompliance within the first 30 years, the lender is entitled to the greater (i) the original loan proceeds to individual property, plus (ii) the sum by which lender's equity share defined by the deed of trust, with respect to individual property. In the event of noncompliance after 30 years, the lender will be entitled to the sum of the lender's equity share only with respect to individual property. These awards have been recorded as temporarily restricted revenue in the statement of activities in the period received and will remain in temporarily restricted net assets until the time restriction has elapsed.

The Corporation has leased four of the acquired family homes to the CSB under fixed long-term leasing agreements which expire on April 15, 2022. The lease agreements require total monthly rental payments for the four properties of $4,000.

On August 15, 2013, the Corporation executed a lease for one of the acquired family homes with the CSB under a fixed long-term leasing agreement which expires on September 14, 2022. The lease agreement requires monthly rental payments for the property of $1,500, beginning September 1, 2013.

The future minimum receipts for these leases for the years ending June 30 are as follows:

| | Emerald Heights | Wheatwheel | Kalorama | Alsop Court | Casablanca Court | Total |
|---|---|---|---|---|---|---|
| 2019 | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 | $ 18,000 | $ 66,000 |
| 2020 | 12,000 | 12,000 | 12,000 | 12,000 | 18,000 | 66,000 |
| 2021 | 12,000 | 12,000 | 12,000 | 12,000 | 18,000 | 66,000 |
| 2022 | 9,500 | 9,500 | 9,500 | 9,500 | 18,000 | 56,000 |
| 2023 | - | - | - | - | 3,750 | 3,750 |
| Total | $ 45,500 | $ 45,500 | $ 45,500 | $ 45,500 | $ 75,750 | $ 257,750 |

## Note 19 - Supportive Housing Programs

### McKinney projects

During the year ended June 30, 1992, the Corporation was the recipient of grants from the VADHCD to provide permanent housing at eight locations for mentally ill, homeless adults. These grants were made available to VADHCD by HUD under the terms of the Stewart B. McKinney Act (Public Law 100-77).

Effective August 1, 1997, the Corporation became the direct recipient of HUD funds with respect to the Supportive Housing Program.

In addition, during the year ended June 30, 1992, the Corporation received mortgage loans in the amount of $306,109 (Note 9) and $221,058 from the Virginia Housing Development Authority and the Virginia Housing Partnership Revolving Fund, respectively, which were used in conjunction with the aforementioned permanent housing funds to acquire eight residential housing units. The Corporation operates four of these units independently, providing full support services. The remaining four units owned by the Corporation are operated by the Fairfax-Falls Church Community Services Board through the Mount Vernon Center for Community Mental Health.

For the year ended June 30, 2018, the Corporation recorded revenue totaling $173,880. The Corporation renewed its contract, and the current contract agreement expires on December 31, 2018.

**Escrowed fund - Christian Relief Services ("CRS")**

The Corporation, acting as fiscal agent on behalf of Christian Relief Services, Inc. ("CRS"), maintains a bank account in the name of CRS over which it exercises unilateral signature control. CRS provides the funds deposited into this account from grants received by CRS, from HUD, as a participant in the Supportive Housing Program (McKinney programs). From these funds the Corporation pays expenses for operating and supporting services relating to seven CRS-owned properties. As of June 30, 2018, the balance of this escrow fund was $56,329. This balance is included as a component of restricted cash, with a corresponding liability presented as liability for escrow funds at June 30, 2018 on the accompanying consolidated statement of financial position. (Refer to Note 27 – Subsequent events).

**SHP 2007, SHP 2009, SHP 2011, SHP 2014 and SHP 2015**

In December 2008, the Corporation entered into a two-year grant agreement with HUD under the Supportive Housing Program 2007 ("SHP 2007") for $307,314. Subsequent renewals of this grant are for one-year terms. The grant expires November 30, 2018. The Corporation recorded $165,025 for the year ended June 30, 2018.

On September 18, 2010, the Corporation entered into a two-year grant agreement with HUD under the Supportive Housing Program 2009 ("SHP 2009") for $306,772. Subsequent renewals of this grant are for one-year terms. The grant expires October 31, 2018. The Corporation recorded $168,408 for the year ended June 30, 2018.

On July 19, 2012, the Corporation entered into a one-year grant agreement with HUD under the Supportive Housing Program 2011 ("SHP 2011") for $314,906. Subsequent renewals of this grant are for one-year terms. The grant expires August 31, 2019. The Corporation recorded $326,069 for the year ended June 30, 2018.

On April 16, 2015, the Corporation entered into a one-year grant agreement with HUD under the Supportive Housing Program 2014 ("SHP 2014") for $1,199,664. Subsequent renewals of this grant are for one-year terms. The grant expires July 31, 2019. The Corporation recorded $1,199,704 for the year ended June 30, 2018.

On July 14, 2016, the Corporation entered into a one-year grant agreement with HUD under the Supportive Housing Program 2015 ("SHP 2015") for $509,085. Subsequent renewals of this grant are for one-year terms. The grant expires October 31, 2018. The Corporation recorded $576,836 for the year ended June 30, 2018.

These grants provide homeless assistance. The grants provide funding to cover leasing costs, supportive services, operating costs and administration fees.

**Note 20 - Operating lease income**

The Corporation leases mortgaged properties to tenants under non-cancelable operating leases with 10-year terms. In addition to the properties described in Notes 17 and 18, the Corporation has leased Hirst Drive to the CSB under a fixed long-term leasing agreement which expires on July 31, 2018. The lease agreement requires total monthly rental payments for Hirst Drive of $5,000.

The future minimum receipts under the Hirst Drive lease for the year ending June 30, 2019 are as follows:

| | Hirst Drive |
|---|---|
| 2019 | $ 5,000 |
| Total | $ 5,000 |

**Note 21 - Retirement plan**

The Corporation provides a tax-sheltered annuity plan to its employees. The plan is voluntary and requires contributions by the employee. The Corporation contributes an amount equal to 5% of each employee's salary provided the employee has worked one year and contributes a minimum of 3% of their salary. Additionally, the Corporation sponsors a 457(b) plan for its key executive. For the year ended June 30, 2018, the Corporation did not recognize contributions on behalf of its employees to these plans.

**Note 22 - Fundraising**

The Corporation conducts fundraising campaigns throughout the year. Direct mail appeals are utilized to solicit donations, $65,666 of which are for temporarily restricted purposes. During the year ended June 30, 2018, $295,487 was released from restrictions.

During the year ended June 30, 2018, an aggregate amount of $178,726 was raised for unrestricted purposes.

**Note 23 - Related party transactions**

The Corporation is related to Pathways Living, Inc., Pathway Options, Inc., and Pathway Visions, Inc. (“HUD Projects”) through common officers and Boards of Directors. The Corporation provides management services to the HUD Projects for a fee, approved by HUD, based on a percentage of annual rent and housing assistance supplement income, net of vacancy losses, for each project. Effective July 25, 2014, the management agreement was revised and approved by HUD for HUD Projects each to pay 5% of monthly rental collections, as defined above, to the Corporation for these management services.

The Corporation may also pay payroll and other expenditures on behalf of Pathway Recovery, Inc., but those costs are not reimbursed.

The Corporation pays expenditures on behalf of related corporations for their operating expenses which are subsequently reimbursed to the Corporation. For the year ended June 30, 2018, total advances were $600,401. As of June 30, 2018, $133,743 remained receivable and is included in advances and other receivables - related corporations on the accompanying consolidated statement of financial position. These advances are noninterest-bearing.

In connection with CRS programs (Note 19), the Corporation pays expenditures on behalf of CRS for payroll-related expenses which are subsequently reimbursed to the Corporation. As of June 30, 2018, $43,712 remained receivable and is included in advances and other receivables - related corporations on the accompanying consolidated statement of financial position. These advances are noninterest-bearing.

## Note 24 - Housing assistance payment contract agreements

On July 9, 2012, the Corporation entered into a Housing Assistance Payment contract with Fairfax County Department of Housing. The initial term of the contract is for 10 years and covers 10 units. Fourteen units were added to the existing contract later on in 2016. The contract expires July 9, 2022. At June 30, 2018, all 24 contracts were in effect. For the year ended June 30, 2018, housing assistance payments received under the contract totaled $233,511.

## Note 25 - Tenant assistance payments

During the year ended June 30, 2015, the Corporation entered into a lease agreement with a tenant that has a Housing Assistance Payments Voucher from PHA, Fairfax County Department of Housing. The amount received during the year ended June 30, 2018 under this arrangement totaled $9,264.

## Note 26 - Concentration of credit risk

The Organization maintains its cash balances in several accounts with various institutions. The institutions are members of either the Federal Deposit Insurance Corporation ("FDIC") or Securities Investor Protection Corporation ("SIPC"). The accounts insured by FDIC are insured up to an aggregate amount of $250,000 for each entity. During the year ended June 30, 2018, the cash balances may exceed the FDIC and SIPC insurance limits, respectively; however, the Organization has not experienced any losses with respect to its bank balances in excess of government-provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances at June 30, 2018.

## Note 27 - Subsequent events

Events that occur after the statements of financial position date but before the consolidated financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of financial position date are recognized in the accompanying consolidated financial statements. Subsequent events which provide evidence about conditions that existed after the statement of financial position date require disclosure in the accompanying notes. Management evaluated the activity of the Corporation through October 23, 2018 (the date the consolidated financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements except for the following:

Subsequent to year-end, Corporation entered into a real estate purchase agreement with Julio Cespedes whereby Corporation will sell its Calamo Street building located at 7031 Calamo Street Springfield, VA to Julio Cespedes for the purchase price of $585,000. The sale of the property closed on July 2, 2018.

On July 10, 2018, the Corporation received notification from U.S Department of Housing and Urban Development (HUD) that the Corporation would no longer be the acting fiscal agent on behalf of Christian Relief Services, Inc. under the Supportive Housing Program 1995 and instead would become the sole grantee under the Supportive Housing Program 1995 for $316,013. The grants performance period would be retroactively stated as of February 1, 2018 through January 1, 2019.

**Supplementary Information**

## Pathway Homes, Inc. and Affiliate

## Supplementary Information

## Consolidating Statement of Financial Position
## June 30, 2018

| | Pathway Homes, Inc. | Pathway Homes of Florida, Inc. | Elimination | Total |
|---|---|---|---|---|
| Assets | | | | |
| Current assets | | | | |
| Cash | $ 996,015 | $ - | $ - | $ 996,015 |
| Restricted cash | 132,046 | 44,386 | - | 176,432 |
| Accounts receivable | 54,831 | - | - | 54,831 |
| Pledges receivable, net of discount of $2,052 | 36,065 | - | - | 36,065 |
| Program fees receivable (note 5) | 636,552 | 120,464 | - | 757,016 |
| Prepaid expenses | 24,998 | 40 | - | 25,038 |
| Security deposits | 36,180 | 2,000 | - | 38,180 |
| Long-lived assets held for sale | 176,364 | - | - | 176,364 |
| Advances and other receivables - related corporations (note 23) | 215,065 | - | (30,684) | 184,381 |
| Total current assets | 2,308,116 | 166,890 | (30,684) | 2,444,322 |
| Property and equipment | | | | |
| Property and equipment (note 6, 17 and 18) | 15,303,957 | 30,604 | - | 15,334,561 |
| Less: Accumulated depreciation (note 6, 17 and 18) | (2,153,183) | (4,736) | - | (2,157,919) |
| Total noncurrent assets | 13,150,774 | 25,868 | - | 13,176,642 |
| Other assets | | | | |
| Reserve for replacements (note 7) | 83,718 | - | - | 83,718 |
| Investments (note 3 and 9) | 81,613 | - | - | 81,613 |
| Pledges receivable, net of discount of $13,940 | 51,697 | - | - | 51,697 |
| Total other assets | 217,028 | - | - | 217,028 |
| Total assets | $ 15,675,918 | $ 192,758 | $ (30,684) | $ 15,837,992 |

## Pathway Homes, Inc. and Affiliate

## Supplementary Information

## Consolidating Statement of Financial Position
## June 30, 2018

| Liabilities and Net Assets | Pathway Homes, Inc. | Pathway Homes of Florida, Inc. | Elimination | Total |
|---|---|---|---|---|
| Current liabilities | | | | |
| Accounts payable and accrued expenses (note 8) | $ 525,579 | $ 30,894 | $ (30,684) | $ 525,789 |
| Deferred revenue | 241,179 | 105,449 | - | 346,628 |
| Liability for escrow funds | 119,870 | - | - | 119,870 |
| Mortgages payable, current maturities (note 9) | 102,661 | - | - | 102,661 |
| Notes payable, current maturities | 6,168 | - | - | 6,168 |
| Deferred rent liability, current portion | 7,857 | - | - | 7,857 |
| Obligation under capital lease, current maturities (note 11) | 7,284 | - | - | 7,284 |
| Total current liabilities | 1,010,598 | 136,343 | (30,684) | 1,116,257 |
| Long-term liabilities | | | | |
| Mortgages and notes payable, net of current maturities (note 9) | 2,605,175 | - | - | 2,605,175 |
| Obligation under capital lease, net of current maturities (note 11) | 3,253 | - | - | 3,253 |
| Deferred rent liability, net of current portion | 209,341 | - | - | 209,341 |
| Other long-term liabilities | 54,000 | - | - | 54,000 |
| Total long-term liabilities | 2,871,769 | - | - | 2,871,769 |
| Total liabilities | 3,882,367 | 136,343 | (30,684) | 3,988,026 |
| Commitments and contingencies | - | - | - | - |
| Net assets | | | | |
| Unrestricted | 1,216,276 | 56,415 | - | 1,272,691 |
| Temporarily restricted (note 12) | 10,577,275 | | - | 10,577,275 |
| Total net assets | 11,793,551 | 56,415 | - | 11,849,966 |
| Total liabilities and net assets | $ 15,675,918 | $ 192,758 | $ (30,684) | $ 15,837,992 |

See Independent Auditor's Report.

## Pathway Homes, Inc. and Affiliate

## Supplementary Information

## Consolidating Statement of Activities
## Year Ended June 30, 2018

| | Pathway Homes, Inc. | Pathway Homes of Florida, Inc. | Total |
|---|---|---|---|
| Operating revenue and other support | | | |
| Fees and grants from governmental agencies and others (note 13 and 18) | $ 10,266,282 | $ 953,294 | $ 11,219,576 |
| Client fees and rents | 1,609,172 | - | 1,609,172 |
| Contributions | 244,392 | - | 244,392 |
| Management fees | 23,910 | - | 23,910 |
| Interest and dividends | 1,323 | - | 1,323 |
| Other revenue | 81,359 | - | 81,359 |
| Total operating revenue and other support | 12,226,438 | 953,294 | 13,179,732 |
| Operating expenses | | | |
| Program services - residential facilities | | | |
| Assisted living facility - Stevenson Place (note 15) | 1,512,683 | - | 1,512,683 |
| Assisted living facility - Prince William (note 15) | 450,146 | - | 450,146 |
| Calamo Street | 123,120 | - | 123,120 |
| Terry Drive | 49,603 | - | 49,603 |
| Subtotal - Program services - residential facilities | 2,135,552 | - | 2,135,552 |
| Program services - supported residential programs | | | |
| Blake | 389 | - | 389 |
| CABHI | 100,801 | - | 100,801 |
| Central FL Foundation Combined | - | 81,322 | 81,322 |
| Central FL Foundation Matching Funds | - | 25,000 | 25,000 |
| CFF Homeless Impact Fund | 11,159 | 338,621 | 349,780 |
| Consolidated Community Funding Pool | 350,653 | | 350,653 |
| First Baptist Orlando | - | 14,579 | 14,579 |
| Leased Properties | 167,790 | - | 167,790 |
| Loudoun County | 10,236 | - | 10,236 |
| Mary Baldwin | 2,428 | - | 2,428 |
| Orlando Community Investment Fund | - | 37,218 | 37,218 |
| Pathway Homes - Florida | - | 415,496 | 415,496 |
| PW Supported Living MHSS | 106,499 | - | 106,499 |
| Shelter Plus Care (note 16) | 2,108,475 | - | 2,108,475 |
| SHP 1994 (note 19) | 38,662 | - | 38,662 |
| SHP 1995 (note 19) | 155,297 | - | 155,297 |
| SHP 2007 (note 19) | 190,872 | - | 190,872 |
| SHP 2009 (note 19) | 194,945 | - | 194,945 |
| SHP 2011 (note 19) | 373,668 | - | 373,668 |
| SHP 2014 (note 19) | 1,390,423 | - | 1,390,423 |
| SHP 2015 (note 19) | 665,367 | - | 665,367 |
| SHP McKinney Projects and SHP CRS (note 19) | 406,254 | - | 406,254 |
| SPC CSB Support | 14,824 | - | 14,824 |
| Supported Living | 379,680 | - | 379,680 |
| Virginia Department of Behavioral Health and Development Services | 995,259 | | 995,259 |
| Welcome Home Campaign | - | 16,205 | 16,205 |
| Total program services | 9,799,233 | 928,441 | 10,727,674 |
| Supporting services | | | |
| Contributions | 125,343 | - | 125,343 |
| Fundraising | 42,710 | - | 42,710 |
| Grants | 49,115 | - | 49,115 |
| Management and general | 1,078,764 | 4,372 | 1,083,136 |
| Total supporting services | 1,295,932 | 4,372 | 1,300,304 |
| Total expenses | 11,095,165 | 932,813 | 12,027,978 |
| Other item | | | |
| Unrealized gain on investments | 3,360 | - | 3,360 |
| Change in net assets (deficit) | $ 1,134,633 | $ 20,481 | $ 1,155,114 |

See Independent Auditor's Report.

## Pathway Homes, Inc. and Affiliate

## Schedule of Expenditures of Federal Awards
## Year Ended June 30, 2018

| Federal grantor/ pass-through grantor/program or cluster title | Federal CFDA number | Pass-through entity identifying number | Federal expenditures |
|---|---|---|---|
| U.S. Department of Housing and Urban Development direct programs: | | | |
| Housing Voucher Cluster | | | |
| Section 8 Housing Choice Vouchers | 14.871 | N/A | $ 242,775 |
| Total Housing Voucher Cluster | | | 242,775 |
| Supportive Housing Programs | 14.235 | N/A | 2,872,037 |
| Supportive Housing Programs - CRS | 14.235 | N/A | 7,940 |
| Subtotal U.S. Department of Housing and Urban Development direct programs | | | 3,122,752 |
| U.S. Department of Housing and Urban Development pass-through programs: | | | |
| CDBG - Entitlement Grants Cluster | | | |
| Prince William County | | | |
| Community Development Block Grant/ Entitlement Grant | 14.218 | N/A | 341,509 |
| Fairfax County Redevelopment and Housing Authority | | | |
| Community Development Block Grant/Entitlement Grant | 14.218 | N/A | 521,811 |
| Total Community Development Block Grant - Entitlement Grants Cluster | | | 863,320 |
| Fairfax County Department of Housing and Community Development | | | |
| Shelter Plus Care | 14.238 | VA0101L3G011609<br>VA0101L3G011710<br>VA0100L3G011508<br>VA0100L3G011609<br>VA0145L3G011608<br>VA0145L3G011709 | 1,787,036 |
| Home Investment Partnership Program pass-through programs from: | | | |
| Fairfax County | 14.239 | N/A | 576,689 |
| Subtotal U.S. Department of Housing and Urban Development pass-through programs | | | 3,227,045 |
| Total U.S. Department of Housing and Urban Development | | | 6,349,797 |
| Total | | | $ 6,349,797 |

See Accompanying Notes to Schedule of Expenditures of Federal Awards.

# Notes to Schedule of Expenditures of Federal Awards
## Year Ended June 30, 2018

### Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of Pathway Homes, Inc., under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of Pathway Homes, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Pathway Homes, Inc. The financial statements of the Affiliate included in the consolidated financial statements were not audited in accordance with *Government Auditing Standards* as they are not subject to requirements under Uniform Guidance.

### Note 2 - Summary of significant accounting policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles contained in OMB Circular A-122, "Cost Principles for Non-Profit Organizations" or the cost principles contained in the Uniform Guidance. Pathway Homes, Inc. has selected not to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

# Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Pathway Homes, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Pathway Homes, Inc., which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 23, 2018. The financial statements of the Affiliate included in the consolidated financial statements were not audited in accordance with *Government Auditing Standards* as they are not subject to requirements under Uniform Guidance.

## Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Pathway Homes, Inc.'s internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pathway Homes, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Pathway Homes, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pathway Homes, Inc.'s consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CohnReznick LLP

Bethesda, Maryland
October 23, 2018

## Independent Auditor's Report on Compliance for the Major Federal Programs and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors
Pathway Homes, Inc.

### Report on Compliance for the Major Federal Programs

We have audited Pathway Homes, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Pathway Homes, Inc.'s major federal programs for the year ended June 30, 2018. Pathway Homes, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### *Management's Responsibility*

Management is responsible for compliance federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for Pathway Homes, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pathway Homes, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal programs. However, our audit does not provide a legal determination of Pathway Homes, Inc.'s compliance.

#### *Opinion on the Major Federal Programs*

In our opinion, Pathway Homes, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2018.

### Report on Internal Control over Compliance

Management of Pathway Homes, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Pathway Homes, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on the major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal programs and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pathway Homes, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of our testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

CohnReznick LLP

Bethesda, Maryland
October 23, 2018

**Pathway Homes, Inc. and Affiliate**

**Schedule of Findings and Questioned Costs**
**June 30, 2017**

## A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on whether the consolidated financial statements of Pathway Homes, Inc. and Affiliate were prepared in accordance with generally accepted accounting principles.

2. No material weaknesses related to the audit of the consolidated financial statements were reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. No significant deficiencies were reported.

3. No instances of noncompliance material to the consolidated financial statements of Pathway Homes, Inc. and Affiliate, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

4. No material weaknesses in internal control over the major federal award programs were disclosed during the audit and reported in the Independent Auditor's Report on Compliance for the Major Federal Programs and on Internal Control over Compliance Required by the Uniform Guidance. No significant deficiencies were reported.

5. The auditor's report on compliance for the major federal award programs for Pathway Homes, Inc. expresses an unmodified opinion on the major federal programs.

6. There are no audit findings required to be reported in accordance with 2 CFR Section 200.516(a) in this Schedule.

7. The programs tested as major programs were:

| CFDA Number | Name of Federal Program |
|---|---|
| 14.218 | Community Development Block Grant (CDBG) |
| 14.235 | Supportive Housing Program (SHP) |

8. The threshold for distinguishing Type A and B programs was $750,000.

9. Pathway Homes, Inc. qualified as a low-risk auditee.

## B. Findings - Financial Statements Audit

None

## C. Findings and Questioned Costs - Major Federal Award Programs Audit

None