



AND AFFILIATE

**CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

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June 30, 2019 and 2018

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50 Washington Street
Westborough, MA 01581
508.366.9100
aafcpcpa.com

Independent Auditor's Report

To the Board of Directors of
Pathways for Children, Inc. and Affiliate:

Report on the Consolidating Financial Statements

We have audited the accompanying consolidating financial statements of Pathways for Children, Inc. (a Massachusetts nonprofit corporation) and 29 Emerson Avenue Condominium Association (a Massachusetts association), which comprise the consolidating statements of financial position as of June 30, 2019 and 2018, and the related consolidating statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the consolidating financial statements.

Management's Responsibility for the Consolidating Financial Statements

Management is responsible for the preparation and fair presentation of these consolidating 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 consolidating 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 consolidating financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidating financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidating 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 consolidating 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 consolidating 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 consolidating financial statements referred to on page one present fairly, in all material respects, the consolidating financial position of Pathways for Children, Inc. and Affiliate as of June 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Alexander, Crossen, Fenning & Co., P.C.

Westborough, Massachusetts
November 6, 2019

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Consolidating Statements of Financial Position
June 30, 2019 and 2018

Assets	2019						2018					
	Pathways for Children, Inc.			29 Emerson Avenue Condominium Association	Eliminations	Total	Pathways for Children, Inc.			29 Emerson Avenue Condominium Association	Eliminations	Total
	Without Donor Restrictions	With Donor Restrictions	Total				Without Donor Restrictions	With Donor Restrictions	Total			
Current Assets:												
Cash and cash equivalents	\$ 481,796	\$ 399,563	\$ 881,359	\$ 20,161	\$ -	\$ 901,520	\$ 398,487	\$ 240,641	\$ 639,128	\$ 18,111	\$ -	\$ 657,239
Contracts and grants receivable	439,261	-	439,261	-	-	439,261	667,058	-	667,058	-	-	667,058
Parent fees and other receivables, net	16,500	-	16,500	2,075	(2,075)	16,500	6,675	-	6,675	-	-	6,675
Current portion of contributions receivable, net	-	19,500	19,500	-	-	19,500	-	129,133	129,133	-	-	129,133
Prepaid expenses	46,755	-	46,755	3,049	-	49,804	55,447	-	55,447	2,934	-	58,381
Total current assets	<u>984,312</u>	<u>419,063</u>	<u>1,403,375</u>	<u>25,285</u>	<u>(2,075)</u>	<u>1,426,585</u>	<u>1,127,667</u>	<u>369,774</u>	<u>1,497,441</u>	<u>21,045</u>	<u>-</u>	<u>1,518,486</u>
Other Assets:												
Contributions receivable, net	-	1,500	1,500	-	-	1,500	-	-	-	-	-	-
Investments	456,817	-	456,817	-	-	456,817	404,977	-	404,977	-	-	404,977
Property and equipment, net	4,693,737	-	4,693,737	-	-	4,693,737	4,999,734	-	4,999,734	-	-	4,999,734
Total other assets	<u>5,150,554</u>	<u>1,500</u>	<u>5,152,054</u>	<u>-</u>	<u>-</u>	<u>5,152,054</u>	<u>5,404,711</u>	<u>-</u>	<u>5,404,711</u>	<u>-</u>	<u>-</u>	<u>5,404,711</u>
Total assets	<u>\$ 6,134,866</u>	<u>\$ 420,563</u>	<u>\$ 6,555,429</u>	<u>\$ 25,285</u>	<u>\$ (2,075)</u>	<u>\$ 6,578,639</u>	<u>\$ 6,532,378</u>	<u>\$ 369,774</u>	<u>\$ 6,902,152</u>	<u>\$ 21,045</u>	<u>\$ -</u>	<u>\$ 6,923,197</u>
Liabilities and Net Assets												
Current Liabilities:												
Current portion of long-term debt	\$ 32,015	\$ -	\$ 32,015	\$ -	\$ -	\$ 32,015	\$ 44,184	\$ -	\$ 44,184	\$ -	\$ -	\$ 44,184
Current portion of capital lease obligation	-	-	-	-	-	-	15,165	-	15,165	-	-	15,165
Accounts payable and other	59,954	-	59,954	3,215	(2,075)	61,094	66,665	-	66,665	325	-	66,990
Accrued expenses	217,005	-	217,005	6,964	-	223,969	341,638	-	341,638	6,406	-	348,044
Total current liabilities	<u>308,974</u>	<u>-</u>	<u>308,974</u>	<u>10,179</u>	<u>(2,075)</u>	<u>317,078</u>	<u>467,652</u>	<u>-</u>	<u>467,652</u>	<u>6,731</u>	<u>-</u>	<u>474,383</u>
Long-Term Debt, net of current portion	1,001,222	-	1,001,222	-	-	1,001,222	1,028,464	-	1,028,464	-	-	1,028,464
Capital Lease Obligation, net of current portion	-	-	-	-	-	-	34,986	-	34,986	-	-	34,986
Total liabilities	<u>1,310,196</u>	<u>-</u>	<u>1,310,196</u>	<u>10,179</u>	<u>(2,075)</u>	<u>1,318,300</u>	<u>1,531,102</u>	<u>-</u>	<u>1,531,102</u>	<u>6,731</u>	<u>-</u>	<u>1,537,833</u>
Net Assets:												
Without donor restrictions:												
Operating	820,052	-	820,052	15,106	-	835,158	826,874	-	826,874	14,314	-	841,188
Property and equipment	3,660,500	-	3,660,500	-	-	3,660,500	3,876,935	-	3,876,935	-	-	3,876,935
Board designated	344,118	-	344,118	-	-	344,118	297,467	-	297,467	-	-	297,467
Total without donor restrictions	<u>4,824,670</u>	<u>-</u>	<u>4,824,670</u>	<u>15,106</u>	<u>-</u>	<u>4,839,776</u>	<u>5,001,276</u>	<u>-</u>	<u>5,001,276</u>	<u>14,314</u>	<u>-</u>	<u>5,015,590</u>
With donor restrictions:												
Total net assets	<u>-</u>	<u>420,563</u>	<u>420,563</u>	<u>-</u>	<u>-</u>	<u>420,563</u>	<u>-</u>	<u>369,774</u>	<u>369,774</u>	<u>-</u>	<u>-</u>	<u>369,774</u>
Total liabilities and net assets	<u>\$ 6,134,866</u>	<u>\$ 420,563</u>	<u>\$ 6,555,429</u>	<u>\$ 25,285</u>	<u>\$ (2,075)</u>	<u>\$ 6,578,639</u>	<u>\$ 6,532,378</u>	<u>\$ 369,774</u>	<u>\$ 6,902,152</u>	<u>\$ 21,045</u>	<u>\$ -</u>	<u>\$ 6,923,197</u>

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Consolidating Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2019

(With Summarized Comparative Totals for the Year Ended June 30, 2018)

	2019						2018		
	Pathways for Children, Inc.								
	Without Donor Restrictions			With Donor Restrictions		29 Emerson Avenue Condominium Association			Total
	Operating	Property and Equipment	Board Designated	Total Without Donor Restrictions	Restrictions	Total	Eliminations	Total	Total
Operating Revenues:									
Government contracts and grants	\$ 6,830,450	\$ -	\$ -	\$ 6,830,450	\$ -	\$ 6,830,450	\$ -	\$ 6,830,450	\$ 7,130,165
Contributions	653,939	-	-	653,939	211,030	864,969	-	864,969	1,034,800
Donated goods and services	371,069	-	-	371,069	-	371,069	-	371,069	501,863
Fundraising events	193,521	-	-	193,521	86,094	279,615	-	279,615	191,291
Parent and other fees	202,296	-	-	202,296	-	202,296	-	202,296	251,582
Miscellaneous	23,377	-	-	23,377	-	23,377	-	23,377	5,511
Condo fees	-	-	-	-	-	-	57,197	(47,578)	11,716
Net assets released from time restrictions	108,133	-	-	108,133	(108,133)	-	-	-	-
Net assets released from purpose restrictions	138,202	-	-	138,202	(138,202)	-	-	-	-
Total operating revenues	<u>8,520,987</u>	<u>-</u>	<u>-</u>	<u>8,520,987</u>	<u>50,789</u>	<u>8,571,776</u>	<u>57,197</u>	<u>(47,578)</u>	<u>9,126,928</u>
Operating Expenses:									
Program services:									
Head Start	4,286,195	105,642	-	4,391,837	-	4,391,837	-	4,391,837	4,384,552
Full Day Head Start	1,012,146	71,088	-	1,083,234	-	1,083,234	-	1,083,234	1,072,989
Early Head Start	457,012	16,169	-	473,181	-	473,181	-	473,181	477,993
School Age Care	543,265	55,392	-	598,657	-	598,657	-	598,657	555,267
Family Child Care	18,709	-	-	18,709	-	18,709	-	18,709	441,830
Family Enrichment Program	160,399	4,980	-	165,379	-	165,379	-	165,379	148,783
Coordinated Family and Community Engagement	71,137	5,784	-	76,921	-	76,921	-	76,921	71,743
Total program services	<u>6,548,863</u>	<u>259,055</u>	<u>-</u>	<u>6,807,918</u>	<u>-</u>	<u>6,807,918</u>	<u>-</u>	<u>6,807,918</u>	<u>7,153,157</u>
Supporting services:									
Administration	1,364,831	-	-	1,364,831	-	1,364,831	56,405	(47,578)	1,322,891
Development	511,168	2,856	-	514,024	-	514,024	-	-	436,828
Total supporting services	<u>1,875,999</u>	<u>2,856</u>	<u>-</u>	<u>1,878,855</u>	<u>-</u>	<u>1,878,855</u>	<u>56,405</u>	<u>(47,578)</u>	<u>1,759,719</u>
Total operating expenses	<u>8,424,862</u>	<u>261,911</u>	<u>-</u>	<u>8,686,773</u>	<u>-</u>	<u>8,686,773</u>	<u>56,405</u>	<u>(47,578)</u>	<u>8,912,876</u>
Changes in net assets from operations	<u>96,125</u>	<u>(261,911)</u>	<u>-</u>	<u>(165,786)</u>	<u>50,789</u>	<u>(114,997)</u>	<u>792</u>	<u>-</u>	<u>214,052</u>
Non-Operating Activities:									
Bequest	-	-	35,000	35,000	-	35,000	-	-	-
Investment return, net of fees	-	-	11,651	11,651	-	11,651	-	-	10,512
Capital grant	-	-	-	-	-	-	-	-	58,440
Loss on disposal of property and equipment	-	(57,471)	-	(57,471)	-	(57,471)	-	-	(29,600)
Total non-operating activities	<u>-</u>	<u>(57,471)</u>	<u>46,651</u>	<u>(10,820)</u>	<u>-</u>	<u>(10,820)</u>	<u>-</u>	<u>-</u>	<u>39,352</u>
Changes in net assets	<u>96,125</u>	<u>(319,382)</u>	<u>46,651</u>	<u>(176,606)</u>	<u>50,789</u>	<u>(125,817)</u>	<u>792</u>	<u>-</u>	<u>253,404</u>
Net Assets, beginning of year	<u>826,874</u>	<u>3,876,935</u>	<u>297,467</u>	<u>5,001,276</u>	<u>369,774</u>	<u>5,371,050</u>	<u>14,314</u>	<u>-</u>	<u>5,131,960</u>
Transfer for principal payments of debt	(89,562)	89,562	-	-	-	-	-	-	-
Transfer for property and equipment additions	(13,385)	13,385	-	-	-	-	-	-	-
Net Assets, end of year	<u>\$ 820,052</u>	<u>\$ 3,660,500</u>	<u>\$ 344,118</u>	<u>\$ 4,824,670</u>	<u>\$ 420,563</u>	<u>\$ 5,245,233</u>	<u>\$ 15,106</u>	<u>\$ -</u>	<u>\$ 5,385,364</u>

The accompanying notes are an integral part of these consolidating statements.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Consolidating Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2018

	Pathways for Children, Inc.						29 Emerson Avenue Condominium Association	Eliminations	Total
	Without Donor Restrictions			With Donor Restrictions	Total	Total			
	Operating	Property and Equipment	Board Designated						
Operating Revenues:									
Government contracts and grants	\$ 7,130,165	\$ -	\$ -	\$ 7,130,165	\$ -	\$ 7,130,165	\$ -	\$ -	\$ 7,130,165
Contributions	831,531	-	-	831,531	203,269	1,034,800	-	-	1,034,800
Donated goods and services	501,863	-	-	501,863	-	501,863	-	-	501,863
Fundraising events	97,312	-	-	97,312	93,979	191,291	-	-	191,291
Parent and other fees	251,582	-	-	251,582	-	251,582	-	-	251,582
Miscellaneous	5,511	-	-	5,511	-	5,511	-	-	5,511
Condo fees	-	-	-	-	-	-	47,237	(35,521)	11,716
Net assets released from time restrictions	76,989	-	-	76,989	(76,989)	-	-	-	-
Net assets released from purpose restrictions	112,301	-	-	112,301	(112,301)	-	-	-	-
Total operating revenues	<u>9,007,254</u>	<u>-</u>	<u>-</u>	<u>9,007,254</u>	<u>107,958</u>	<u>9,115,212</u>	<u>47,237</u>	<u>(35,521)</u>	<u>9,126,928</u>
Operating Expenses:									
Program services:									
Head Start	4,277,777	106,775	-	4,384,552	-	4,384,552	-	-	4,384,552
Full Day Head Start	997,652	75,337	-	1,072,989	-	1,072,989	-	-	1,072,989
Early Head Start	462,129	15,864	-	477,993	-	477,993	-	-	477,993
School Age Care	501,724	53,543	-	555,267	-	555,267	-	-	555,267
Family Child Care	432,413	9,417	-	441,830	-	441,830	-	-	441,830
Family Enrichment Program	144,193	4,590	-	148,783	-	148,783	-	-	148,783
Coordinated Family and Community Engagement	68,694	3,049	-	71,743	-	71,743	-	-	71,743
Total program services	<u>6,884,582</u>	<u>268,575</u>	<u>-</u>	<u>7,153,157</u>	<u>-</u>	<u>7,153,157</u>	<u>-</u>	<u>-</u>	<u>7,153,157</u>
Supporting services:									
Administration	1,305,058	4,582	-	1,309,640	-	1,309,640	48,772	(35,521)	1,322,891
Development	434,313	2,515	-	436,828	-	436,828	-	-	436,828
Total supporting services	<u>1,739,371</u>	<u>7,097</u>	<u>-</u>	<u>1,746,468</u>	<u>-</u>	<u>1,746,468</u>	<u>48,772</u>	<u>(35,521)</u>	<u>1,759,719</u>
Total operating expenses	<u>8,623,953</u>	<u>275,672</u>	<u>-</u>	<u>8,899,625</u>	<u>-</u>	<u>8,899,625</u>	<u>48,772</u>	<u>(35,521)</u>	<u>8,912,876</u>
Changes in net assets from operations	<u>383,301</u>	<u>(275,672)</u>	<u>-</u>	<u>107,629</u>	<u>107,958</u>	<u>215,587</u>	<u>(1,535)</u>	<u>-</u>	<u>214,052</u>
Non-Operating Activities:									
Investment return, net of fees	-	-	10,512	10,512	-	10,512	-	-	10,512
Capital grant	-	58,440	-	58,440	-	58,440	-	-	58,440
Loss on disposal of property and equipment	-	(29,600)	-	(29,600)	-	(29,600)	-	-	(29,600)
Net assets released from capital restrictions	-	156,904	-	156,904	(156,904)	-	-	-	-
Total non-operating activities	<u>-</u>	<u>185,744</u>	<u>10,512</u>	<u>196,256</u>	<u>(156,904)</u>	<u>39,352</u>	<u>-</u>	<u>-</u>	<u>39,352</u>
Changes in net assets	383,301	(89,928)	10,512	303,885	(48,946)	254,939	(1,535)	-	253,404
Net Assets, beginning of year	563,390	3,842,074	291,927	4,697,391	418,720	5,116,111	15,849	-	5,131,960
Transfer for principal payments of debt	(63,025)	63,025	-	-	-	-	-	-	-
Transfer for property and equipment additions	(61,764)	61,764	-	-	-	-	-	-	-
Other net asset transfers	4,972	-	(4,972)	-	-	-	-	-	-
Net Assets, end of year	<u>\$ 826,874</u>	<u>\$ 3,876,935</u>	<u>\$ 297,467</u>	<u>\$ 5,001,276</u>	<u>\$ 369,774</u>	<u>\$ 5,371,050</u>	<u>\$ 14,314</u>	<u>\$ -</u>	<u>\$ 5,385,364</u>

The accompanying notes are an integral part of these consolidating statements.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Consolidating Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

	2019				2018			
	Pathways for Children, Inc.	29 Emerson Avenue Condominium Association	Eliminations	Total	Pathways for Children, Inc.	29 Emerson Avenue Condominium Association	Eliminations	Total
Cash Flows from Operating Activities:								
Changes in net assets	\$ (125,817)	\$ 792	\$ -	\$ (125,025)	\$ 254,939	\$ (1,535)	\$ -	\$ 253,404
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:								
Depreciation	261,911	-	-	261,911	275,672	-	-	275,672
Bad debts	7,969	-	-	7,969	8,679	-	-	8,679
Capital grant	-	-	-	-	(58,440)	-	-	(58,440)
Investment return, net of fees	(11,651)	-	-	(11,651)	(10,512)	-	-	(10,512)
Loss on disposal of property and equipment	57,471	-	-	57,471	29,600	-	-	29,600
Changes in operating assets and liabilities:								
Contracts and grants receivable	227,797	-	-	227,797	(275,165)	-	-	(275,165)
Parent fees and other receivables	(17,794)	(2,075)	2,075	(17,794)	18,134	-	(25,000)	(6,866)
Contributions receivable	108,133	-	-	108,133	9,856	-	-	9,856
Prepaid expenses	8,692	(115)	-	8,577	(20,974)	(196)	-	(21,170)
Accounts payable and other	(6,711)	2,890	(2,075)	(5,896)	(21,693)	(29,985)	25,000	(26,678)
Accrued expenses	(124,633)	558	-	(124,075)	15,918	6,406	-	22,324
Net cash provided by (used in) operating activities	<u>385,367</u>	<u>2,050</u>	<u>-</u>	<u>387,417</u>	<u>226,014</u>	<u>(25,310)</u>	<u>-</u>	<u>200,704</u>
Cash Flows from Investing Activities								
Acquisition of property and equipment	(17,385)	-	-	(17,385)	(277,108)	-	-	(277,108)
Purchase of investments	(40,189)	-	-	(40,189)	(207,510)	-	-	(207,510)
Proceeds from sale of property and equipment	4,000	-	-	4,000	-	-	-	-
Net cash used in investing activities	<u>(53,574)</u>	<u>-</u>	<u>-</u>	<u>(53,574)</u>	<u>(484,618)</u>	<u>-</u>	<u>-</u>	<u>(484,618)</u>
Cash Flows from Financing Activities:								
Principal payments on long-term debt	(39,411)	-	-	(39,411)	(58,378)	-	-	(58,378)
Principal payments on capital lease obligation	(50,151)	-	-	(50,151)	(14,647)	-	-	(14,647)
Capital grant	-	-	-	-	58,440	-	-	58,440
Release of cash held for property and equipment	-	-	-	-	156,904	-	-	156,904
Net cash provided by (used in) financing activities	<u>(89,562)</u>	<u>-</u>	<u>-</u>	<u>(89,562)</u>	<u>142,319</u>	<u>-</u>	<u>-</u>	<u>142,319</u>
Net Change in Operating Cash and Cash Equivalents	242,231	2,050	-	244,281	(116,285)	(25,310)	-	(141,595)
Operating Cash and Cash Equivalents:								
Beginning of Year	<u>639,128</u>	<u>18,111</u>	<u>-</u>	<u>657,239</u>	<u>755,413</u>	<u>43,421</u>	<u>-</u>	<u>798,834</u>
End of Year	<u>\$ 881,359</u>	<u>\$ 20,161</u>	<u>\$ -</u>	<u>\$ 901,520</u>	<u>\$ 639,128</u>	<u>\$ 18,111</u>	<u>\$ -</u>	<u>\$ 657,239</u>
Supplemental Disclosure of Cash Flow Information:								
Cash paid for interest	<u>\$ 51,508</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,508</u>	<u>\$ 40,496</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,496</u>

The accompanying notes are an integral part of these consolidating statements.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Consolidating Statement of Functional Expenses

For the Year Ended June 30, 2019

(With Summarized Comparative Totals for the Year Ended June 30, 2018)

	2019												2018			
	Pathways for Children, Inc.												29 Emerson Avenue Condominium Association	Eliminations	Total	Total
	Program Services							Supporting Services								
Head Start	Full Day Head Start	Early Head Start	School Age Care	Family Child Care	Family Enrichment Program	Coordinated Family and Community Engagement	Total Program Services	Adminis-tration	Development	Total Supporting Services	Total					
Personnel and Related Costs:																
Salaries and wages	\$ 2,380,120	\$ 658,958	\$ 313,775	\$ 354,866	\$ 2,092	\$ 109,480	\$ 47,575	\$ 3,866,866	\$ 743,606	\$ 296,018	\$ 1,039,624	\$ 4,906,490	\$ -	\$ -	\$ 4,906,490	\$ 4,868,756
Payroll taxes and fringe benefits	672,735	182,205	87,889	98,346	600	30,407	13,199	1,085,381	208,757	82,447	291,204	1,376,585	-	-	1,376,585	1,337,641
Total personnel and related costs	3,052,855	841,163	401,664	453,212	2,692	139,887	60,774	4,952,247	952,363	378,465	1,330,828	6,283,075	-	-	6,283,075	6,206,397
Occupancy:																
Other occupancy	134,335	76,727	6,242	32,134	-	3,140	3,682	256,260	69,020	1,841	70,861	327,121	56,405	-	383,526	364,130
Donated rent	177,750	-	-	-	-	-	-	177,750	-	-	-	177,750	-	-	177,750	78,355
Depreciation	66,444	37,764	8,273	30,636	-	4,188	4,860	152,165	-	2,400	2,400	154,565	-	-	154,565	159,547
Interest	49,270	-	-	-	-	-	-	49,270	2,238	-	2,238	51,508	-	-	51,508	40,496
Rent	3,418	-	-	-	-	-	-	3,418	47,578	-	47,578	50,996	-	(47,578)	3,418	13,750
Total occupancy	431,217	114,491	14,515	62,770	-	7,328	8,542	638,863	118,836	4,241	123,077	761,940	56,405	(47,578)	770,767	656,278
Other:																
Food	228,322	65,189	25,040	18,047	-	-	-	336,598	-	-	-	336,598	-	-	336,598	354,988
Supplies	197,682	5,694	10,423	15,143	-	13,021	5,916	247,879	3,989	15,979	19,968	267,847	-	-	267,847	186,486
Other operating costs	52,523	7,860	1,410	4,424	-	1,670	531	68,418	58,872	104,841	163,713	232,131	-	-	232,131	196,772
Contracted services	98,388	1,662	87	1,987	-	1,999	-	104,123	115,241	9,295	124,536	228,659	-	-	228,659	219,375
Donated goods and services	192,518	-	801	-	-	-	-	193,319	-	-	-	193,319	-	-	193,319	423,508
Depreciation	39,198	33,324	7,896	24,756	-	792	924	106,890	-	456	456	107,346	-	-	107,346	116,125
Vehicle and related	41,976	13,378	8,600	17,179	-	-	-	81,133	-	-	-	81,133	-	-	81,133	58,525
Professional fees	-	-	-	-	-	-	-	-	74,391	-	74,391	74,391	-	-	74,391	78,352
Training	40,414	473	2,745	1,139	-	682	234	45,687	5,805	747	6,552	52,239	-	-	52,239	52,453
Insurance	16,744	-	-	-	-	-	-	16,744	35,334	-	35,334	52,078	-	-	52,078	57,480
Provider reimbursements	-	-	-	-	16,017	-	-	16,017	-	-	-	16,017	-	-	16,017	306,137
Total other	907,765	127,580	57,002	82,675	16,017	18,164	7,605	1,216,808	293,632	131,318	424,950	1,641,758	-	-	1,641,758	2,050,201
Total expenses	\$ 4,391,837	\$ 1,083,234	\$ 473,181	\$ 598,657	\$ 18,709	\$ 165,379	\$ 76,921	\$ 6,807,918	\$ 1,364,831	\$ 514,024	\$ 1,878,855	\$ 8,686,773	\$ 56,405	\$ (47,578)	\$ 8,695,600	\$ 8,912,876

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Consolidating Statement of Functional Expenses
For the Year Ended June 30, 2018

	Pathways for Children, Inc.												29 Emerson Avenue Condominium Association	Eliminations	Total
	Program Services							Supporting Services							
	Head Start	Full Day Head Start	Early Head Start	School Age Care	Family Child Care	Family Enrichment Program	Coordinated Family and Community Engagement	Total Program Services	Adminis-tration	Development	Total Supporting Services	Total			
Personnel and Related Costs:															
Salaries and wages	\$ 2,410,206	\$ 613,992	\$ 314,165	\$ 318,878	\$ 83,160	\$ 100,701	\$ 46,535	\$ 3,887,637	\$ 714,727	\$ 266,392	\$ 981,119	\$ 4,868,756	\$ -	\$ -	\$ 4,868,756
Payroll taxes and fringe benefits	654,934	169,303	85,331	88,690	23,375	28,017	12,809	1,062,459	202,615	72,567	275,182	1,337,641	-	-	1,337,641
Total personnel and related costs	<u>3,065,140</u>	<u>783,295</u>	<u>399,496</u>	<u>407,568</u>	<u>106,535</u>	<u>128,718</u>	<u>59,344</u>	<u>4,950,096</u>	<u>917,342</u>	<u>338,959</u>	<u>1,256,301</u>	<u>6,206,397</u>	<u>-</u>	<u>-</u>	<u>6,206,397</u>
Occupancy:															
Other occupancy	119,333	77,532	6,293	26,440	3,666	3,485	2,325	239,074	74,385	1,899	76,284	315,358	48,772	-	364,130
Donated rent	78,355	-	-	-	-	-	-	78,355	-	-	-	78,355	-	-	78,355
Depreciation	65,366	36,511	8,712	30,892	5,091	3,924	2,608	153,104	4,297	2,146	6,443	159,547	-	-	159,547
Interest	38,474	-	-	-	-	-	-	38,474	2,022	-	2,022	40,496	-	-	40,496
Rent	13,750	-	-	-	-	-	-	13,750	35,521	-	35,521	49,271	-	(35,521)	13,750
Total occupancy	<u>315,278</u>	<u>114,043</u>	<u>15,005</u>	<u>57,332</u>	<u>8,757</u>	<u>7,409</u>	<u>4,933</u>	<u>522,757</u>	<u>116,225</u>	<u>4,045</u>	<u>120,270</u>	<u>643,027</u>	<u>48,772</u>	<u>(35,521)</u>	<u>656,278</u>
Other:															
Food	230,024	82,703	24,294	17,967	-	-	-	354,988	-	-	-	354,988	-	-	354,988
Supplies	86,357	24,552	9,699	23,687	106	8,694	6,281	159,376	13,216	13,894	27,110	186,486	-	-	186,486
Other operating costs	50,379	10,678	1,322	2,336	2,585	1,131	557	68,988	57,411	70,373	127,784	196,772	-	-	196,772
Contracted services	79,988	5,046	1,880	1,545	5,812	245	-	94,516	117,664	7,195	124,859	219,375	-	-	219,375
Donated goods and services	412,356	-	11,152	-	-	-	-	423,508	-	-	-	423,508	-	-	423,508
Depreciation	41,409	38,826	7,152	22,651	4,326	666	441	115,471	285	369	654	116,125	-	-	116,125
Vehicle and related	34,190	6,044	3,279	10,785	4,227	-	-	58,525	-	-	-	58,525	-	-	58,525
Professional fees	10,020	-	-	-	-	-	-	10,020	68,332	-	68,332	78,352	-	-	78,352
Training	37,231	-	1,713	1,097	140	1,920	187	42,288	8,172	1,993	10,165	52,453	-	-	52,453
Insurance	22,180	7,802	3,001	10,299	3,205	-	-	46,487	10,993	-	10,993	57,480	-	-	57,480
Provider reimbursements	-	-	-	-	306,137	-	-	306,137	-	-	-	306,137	-	-	306,137
Total other	<u>1,004,134</u>	<u>175,651</u>	<u>63,492</u>	<u>90,367</u>	<u>326,538</u>	<u>12,656</u>	<u>7,466</u>	<u>1,680,304</u>	<u>276,073</u>	<u>93,824</u>	<u>369,897</u>	<u>2,050,201</u>	<u>-</u>	<u>-</u>	<u>2,050,201</u>
Total expenses	<u>\$ 4,384,552</u>	<u>\$ 1,072,989</u>	<u>\$ 477,993</u>	<u>\$ 555,267</u>	<u>\$ 441,830</u>	<u>\$ 148,783</u>	<u>\$ 71,743</u>	<u>\$ 7,153,157</u>	<u>\$ 1,309,640</u>	<u>\$ 436,828</u>	<u>\$ 1,746,468</u>	<u>\$ 8,899,625</u>	<u>\$ 48,772</u>	<u>\$ (35,521)</u>	<u>\$ 8,912,876</u>

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2019 and 2018

1. OPERATIONS AND NONPROFIT STATUS

Pathways for Children, Inc. and Affiliate (collectively, Pathways) is dedicated to meeting the educational, social, and emotional needs of children and families on Massachusetts' North Shore. Pathways' mission is to serve the best interests of children and their families-whether disadvantaged by circumstance or in search of opportunity-by delivering the empowering gift of quality educational, social development and support services that strengthen the family unit and the community. Pathways' core values are: (1) Inspiring Children; (2) Guiding Adolescents; (3) Supporting Parents; (4) Strengthening Families; and (5) Enriching Communities. Since 1967, Pathways has grown from a small Head Start program serving Cape Ann children to its current status as a leading provider of comprehensive early education and care services to nearly 500 children from birth to age 13 and their families in fourteen North Shore communities in centers in Gloucester, Beverly and Salem, Massachusetts.

Pathways conducts the following reinforcing programs: Head Start, Early Head Start and full day child care, serving economically and otherwise challenged children from 6 weeks until they enter Kindergarten; School Age Care, a center-based, year-round after-school, vacation and summer enrichment program for children aged 5 to 13; Family Enrichment Program, which provides comprehensive wrap-around services to families to help support and strengthen the family unit through individualized mentoring, support groups, and parent education programs; and Coordinated Family and Community Engagement Program, which includes various community outreach programs to support parents as their child's first teacher. In fiscal year 2018 and through July 2018, Pathways also offered Family Child Care, serving children from birth to age 13 with full-day year-round home care in licensed sub-contracted homes.

Pathways is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). Pathways is also exempt from state income taxes. Donors may deduct contributions made to Pathways within the IRC regulations.

Pathways has a 75% ownership interest in 29 Emerson Avenue Condominium Association (a Massachusetts association) (the Association). The Association manages and regulates the common areas of Pathways' facility, a portion of which is owned by Element Care, Inc. (a Massachusetts nonprofit corporation). The consolidating financial statements include the accounts of Pathways and the Association. All significant intercompany accounts and transactions have been eliminated. The non-controlling interest in the Association is immaterial, and has not been presented in the consolidating financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Pathways prepares its consolidating financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. Generally Accepted Accounting Principles (U.S. GAAP) in these notes are to the FASB Accounting Standards Codification (ASC).

Estimates

The preparation of consolidating financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidating financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Government contracts and grants are recorded as revenue over the period covered by the contract or grant as services are provided and costs are incurred. Parent and other fees are recognized as services are provided. Contributions without donor restrictions and grants are recorded when unconditionally committed or received.

Pathways reports gifts of cash and other assets as net assets with donor restrictions, if they are received with donor stipulations that limit the use of the donated assets. When a donor stipulated time restriction ends or purpose restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidating statements of activities and changes in net assets as net assets released from restrictions. Contributions with donor restrictions received and satisfied in the same period are included in net assets without donor restrictions. All other income is recognized when earned.

Fundraising events in the accompanying consolidating statements of activities and changes in net assets include Pathways' annual special events. Special events revenue is recognized at the time of the event.

Bequests

Pathways is and may be named principal beneficiary of various trusts and wills. The amounts to be received, if any, cannot be determined and, therefore, are reflected in Pathways' consolidating financial statements when the amounts are received or become known.

Consolidating Statements of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating revenues and operating expenses in the accompanying consolidating statements of activities and changes in net assets. Non-operating activities consist primarily of investment activity, bequest, capital grant, and property and equipment activities.

Net Assets Classifications

Net Assets without donor restrictions are those net resources that bear no external restrictions and are generally available for use by Pathways. Pathways has grouped its net assets without donor restrictions into the following categories:

- **Operating** - represents amounts which bear no external restrictions and are currently available for use in Pathways' operations.
- **Property and equipment** - consist of the net book value of Pathways' property and equipment, net of related debt.
- **Board designated** - represents amounts restricted by the Board of Directors for future purposes and for which expenditures require the approval of the Board of Directors (see Note 11).

Net assets with donor restrictions consist of contributions and grants that are designated by donors for specific purposes or for a specified period. These contributions are recorded as net assets with donor restrictions until they are expended for their designated purposes or the time restrictions have lapsed (see Note 12).

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Pathways maintains its cash balances in checking and money market accounts. These funds are considered to be cash and cash equivalents for purposes of the consolidating statements of cash flows. Only operating cash and cash equivalents are considered for the accompanying consolidating statements of cash flows.

Fair Value Measurements

Pathways follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that Pathways would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

Pathways uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of Pathways. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.
- Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. All of Pathways' qualifying assets and liabilities are valued using Level 1 inputs.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is recorded based on management's analysis of specific accounts and their estimate of amounts that may be uncollectible, if any. The allowance for doubtful accounts on parent fees and other receivables was \$1,000 and \$6,000 as of June 30, 2019 and 2018, respectively.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions Receivable and Allowance for Doubtful Contributions

Contributions receivable at June 30, 2019 and 2018, consist of contributions committed to Pathways for operating purposes. Contributions receivable are recorded at their net present value when unconditionally committed (see Note 4). The allowance for doubtful contributions is based on management's best estimate of the amount of uncollectible contributions. The allowance is based on past collection experience together with a review of the current status of the existing contributions receivable. Account balances are charged off against the allowance when it is probable the contribution will not be recovered.

Property and Equipment and Depreciation

Property and equipment are recorded at cost (see Note 7), if purchased, or at fair value at the time of donation. Property and equipment having a cost of \$5,000 or more and a useful life of at least three years are capitalized. Renewals and betterments are capitalized, while repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line half year convention method over the following estimated useful lives:

Buildings	10 - 40 years
Building improvements	10 - 30 years
Equipment	3 - 10 years
Vehicles	5 - 10 years

Land is not depreciated.

Pathways accounts for the carrying value of its property and equipment in accordance with ASC Topic, *Property, Plant, and Equipment*. Under this standard, an impairment loss is recognized when the carrying amount of long-lived assets exceed its fair value. There were no impairment losses recorded in fiscal year 2019 or 2018.

Unamortized Debt Issuance Costs

Unamortized debt issuance costs are amortized over the period the related obligation is outstanding using the straight-line method, which approximates the effective interest method.

Expense Allocation

Expenses related directly to a program are distributed to that program, while other expenses are allocated based on upon management's estimate of the percentage attributable to each function.

Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are personnel and related costs, which are allocated on the basis of estimates of time and effort; occupancy costs and depreciation, which are allocated on a square footage basis; and administrative costs such as insurance and other operating costs, which are allocated based on direct labor hours per program or function. Transportation and food costs are allocated to programs based on the number of children receiving those services.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Pathways accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the consolidating financial statements regarding a tax position taken or expected to be taken in a tax return. Pathways has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the consolidating financial statements at June 30, 2019 and 2018. Pathways' tax returns are subject to examination by Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through November 6, 2019, which is the date the consolidating financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure.

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Pathways' financial assets available within one year from the consolidating statements of financial position date for general operating expenses are as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 901,520	\$ 657,239
Contracts, grants and other receivables, net of allowance for doubtful accounts	455,761	673,733
Contributions receivable, net of allowance	<u>19,500</u>	<u>129,133</u>
Total financial assets	1,376,781	1,460,105
Contractual or donor-imposed restrictions:		
Donor contributions restricted to specific purposes	(399,563)	(240,641)
Board designations (see Note 11):		
Strategic initiatives	<u>(100,000)</u>	<u>(100,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 877,218</u>	<u>\$ 1,119,464</u>

Pathways is supported in part by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, Pathways must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of Pathways' liquidity management, Pathways has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Pathways has a goal to maintain financial assets, which include cash and certificates of deposit, on hand to meet sixty days of normal operating expenses, which are, on average, approximately \$1,400,000. Pathways invests cash in excess of daily requirements in money market funds which are included in cash and cash equivalents and in a thirty-month certificate of deposit which can be liquidated with a partial forfeit of interest earned which is included in investments (see Note 5). In the event of an unanticipated liquidity need, Pathways' Board of Directors could authorize its use of Board designated net assets, including a portion of its investment portfolio or in such an event, Pathways could draw upon its \$500,000 line of credit (see Note 10).

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2019 and 2018

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable are due as follows at June 30:

	<u>2019</u>	<u>2018</u>
Due within one year	\$ 19,500	\$ 131,633
Due in two to three years	<u>5,000</u>	<u>12,500</u>
	24,500	144,133
Less - allowance for doubtful contributions receivable	(3,350)	(14,500)
Less - discount	<u>(150)</u>	<u>(500)</u>
Total contributions receivable, net of allowance and discount	21,000	129,133
Less - current portion	<u>(19,500)</u>	<u>(129,133)</u>
	<u>\$ 1,500</u>	<u>\$ -</u>

Long-term contributions receivable have been discounted to present value using a 3% discount factor at June 30, 2019 and 2018.

Approximately 100% and 79% of Pathways' gross contributions receivable were from three and five donors at June 30, 2019 and 2018, respectively.

Pathways has received notification of intentions to give of \$80,000 and \$170,000 from donor advised funds that have not been received as of June 30, 2019 and 2018, respectively. Accordingly, these commitments are not reflected in the accompanying consolidating financial statements. Also, in fiscal year 2018, Pathways received a \$300,000 grant to be paid over ten years at the discretion of the grantor. As of June 30, 2019 and 2018, \$60,000 and \$30,000, respectively, had been received, which are included in contributions in the accompanying consolidating statements of activities and changes in net assets. Due to the conditional nature of future payments, only the amount received to date has been recorded in the consolidating financial statements.

5. INVESTMENTS

Investments include funds held by Pathways for long-term purposes and are generally not used for operations. Accordingly, these investments have been classified as non-current assets in the accompanying consolidating statements of financial position regardless of maturity or liquidity. Pathways values its thirty-month certificate of deposit, which is fully insured, at cost plus accrued interest. Investments are not insured and are subject to market fluctuations.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2019 and 2018

5. INVESTMENTS (Continued)

Investments consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Certificate of deposit	\$ <u>212,699</u>	\$ <u>207,510</u>
Endowment investments:		
Money market fund	<u>9,200</u>	<u>9,870</u>
Mutual funds:		
Fixed income	86,870	75,269
Equity	75,629	72,995
International	40,109	30,781
Real estate	17,002	8,552
Alternative	<u>15,308</u>	<u>-</u>
Total mutual funds	<u>234,198</u>	<u>187,597</u>
Total endowment investments, at fair value	<u>244,118</u>	<u>197,467</u>
Total investments	<u>\$ 456,817</u>	<u>\$ 404,977</u>

6. ENDOWMENT

Pathways' endowment consists of Board designated funds functioning as endowment (see Note 2).

Return Objectives and Risk Parameters

Pathways has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. The primary investment objective of the management of the endowment fund is to maintain and grow the fund's value by generating annual returns that meet or exceed the spending rate, after inflation, management fees, and administrative costs. Consistent with this goal, the Board of Directors has stated that the endowment fund be managed with an intention to maximize total returns consistent with prudent levels of risk and reduce portfolio risk through asset allocation and diversification.

Spending Policy

Under Pathways' current long-term investment spending policy, 4% of the average of the fair value of qualifying long-term investments applied to a three-year moving average are available for appropriation. This amounted to \$7,356 and \$6,953 for the years ended June 30, 2019 and 2018, respectively. As there were no actual withdrawals from the long-term investments, these appropriations have not been reflected as being taken for the years ended June 30, 2019 and 2018.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2019 and 2018

6. ENDOWMENT (Continued)

Changes in endowment net assets are as follows at June 30:

	<u>2019</u>	<u>2018</u>
Endowment net assets, beginning of year	\$ 197,467	\$ 186,955
Additions	35,000	-
Investment return, net of fees	<u>11,651</u>	<u>10,512</u>
Endowment net assets, end of year	<u>\$ 244,118</u>	<u>\$ 197,467</u>

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Land	\$ 837,162	\$ 837,162
Buildings	5,102,445	5,102,445
Building improvements	498,077	493,404
Equipment	683,814	716,660
Vehicles	<u>517,234</u>	<u>738,210</u>
	7,638,732	7,887,881
Less - accumulated depreciation	<u>2,944,995</u>	<u>2,888,147</u>
Net property and equipment	<u>\$ 4,693,737</u>	<u>\$ 4,999,734</u>

Portions of property and equipment are pledged to secure long-term debt (see Note 9). Pathways had \$1,688,071 and \$1,854,171 of property and equipment which were purchased with funds from U.S. Government agencies at June 30, 2019 and 2018, respectively. These government agencies retain a reversionary interest in these assets.

8. CAPITAL LEASE

During fiscal year 2017, Pathways transferred ownership of certain equipment to a financing institution. As part of this transaction, the financing institution leased the equipment back to Pathways and paid Pathways \$76,261, which was being repaid under a capital lease obligation with aggregate monthly payments of approximately \$1,390 through August 2021. This agreement bore interest at 3.63%. During fiscal year 2019, Pathways paid the remaining balance of the capital lease in full.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
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9. LONG-TERM DEBT

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

	<u>2019</u>	<u>2018</u>
5.5% note payable to a bank, due in monthly principal and interest installments of \$7,477, based on a twenty-year amortization schedule. The note matures in December 2038. The note is secured by a mortgage on a building.	\$ 1,046,698	\$ -
3.5% note payable to a bank, due in monthly principal and interest installments of \$4,913, based on a twenty-five year amortization schedule. The note matured and was paid in full in September 2018. The note was secured and cross-collateralized by a mortgage on two buildings.	-	851,919
3.5% note payable to a bank, due in monthly principal and interest installments of \$1,228, based on a twenty-five year amortization schedule. The note matured and was paid in full in September 2018. The note was secured and cross-collateralized by a mortgage on two buildings.	-	212,979
2.9% note payable to a bank, due in monthly principal and interest installments of \$1,130, through January 2019. This note was paid in full during fiscal year 2019. The note was secured by a vehicle.	-	7,750
	<u>1,046,698</u>	<u>1,072,648</u>
Less - current portion	32,015	44,184
Less - unamortized debt issuance costs	<u>13,461</u>	<u>-</u>
	<u>\$ 1,001,222</u>	<u>\$ 1,028,464</u>

Certain note payable agreements contain various covenants with which Pathways must comply. Pathways was in compliance with these covenants at June 30, 2019, and received a waiver on these covenants at June 30, 2018.

Maturities of long-term debt over the next five fiscal years are:

<u>Fiscal Year</u>	<u>Principal Payments</u>	<u>Amortization of Debt Issuance Costs</u>
2020	\$ 32,015	\$ 690
2021	\$ 34,006	\$ 690
2022	\$ 35,951	\$ 690
2023	\$ 38,008	\$ 690
2024	\$ 40,046	\$ 690
Thereafter	\$ 866,672	\$ 10,011

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
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10. LINES OF CREDIT

At June 30, 2019, Pathways has available a \$500,000 line of credit with a bank, which has a ten year/on demand term and is subject to annual review. Interest on outstanding borrowings is at *Wall Street Journal's* prime rate, plus 0.50%, with a floor of 5.50%. At June 30, 2018, Pathways had available a line of credit with interest on outstanding borrowings at the thirty-day London Interbank Offered Rate (LIBOR) (1.98% at June 30, 2018), plus 2.25%. The line of credit expired during fiscal year 2019. There were no outstanding balances on the respective lines as of June 30, 2019 and 2018. Pathways must comply with certain covenants as specified in the agreements. Pathways was in compliance with the respective covenants as of June 30, 2019 and 2018.

11. BOARD DESIGNATED FUNDS

Pathways' Governing Board has designated a portion of its resources without donor restrictions for endowment and other purposes. These funds are invested with an intention to maximize total returns consistent with prudent levels of risk but remain available and may be spent at the discretion of the Board. The following amounts were designated for specific purposes by the Board at June 30:

	<u>2019</u>	<u>2018</u>
Funds functioning as endowment (see Notes 5 and 6)	\$ 244,118	\$ 197,467
Strategic initiatives	<u>100,000</u>	<u>100,000</u>
	<u>\$ 344,118</u>	<u>\$ 297,467</u>

12. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions (see Note 2) consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Purpose restricted:		
Family Enrichment Program	\$ 128,192	\$ 112,979
Institutional advancement	95,517	40,000
Various educational programs	89,760	87,662
Social services	<u>86,094</u>	<u>-</u>
Total purpose restricted	399,563	240,641
Time restricted - contributions receivable	<u>21,000</u>	<u>129,133</u>
	<u>\$ 420,563</u>	<u>\$ 369,774</u>

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2019 and 2018

12. NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Purpose restricted:		
Various educational programs	\$ 87,662	\$ 98,301
Family Enrichment Program	35,787	14,000
Institutional advancement	<u>14,753</u>	<u>-</u>
Total purpose restricted	138,202	112,301
Capital projects	-	156,904
Time restricted - payments of contributions receivable	<u>108,133</u>	<u>76,989</u>
	<u>\$ 246,335</u>	<u>\$ 346,194</u>

13. DONATED GOODS AND SERVICES

Pathways receives goods and services from various organizations for use in its programs. These goods and services are reflected in the accompanying consolidating financial statements at fair value determined by Pathways and are as follows for the fiscal years ended June 30:

	<u>2019</u>	<u>2018</u>
Rent	\$ 177,750	\$ 78,355
Contracted services	154,909	372,721
Supplies	<u>38,410</u>	<u>50,787</u>
	<u>\$ 371,069</u>	<u>\$ 501,863</u>

Pathways receives services of volunteers primarily for its Head Start program. The value of these services is not reflected in the accompanying consolidating financial statements, since these donated services do not meet the recognition criteria under U.S. GAAP. For the years ended June 30, 2019 and 2018, management estimates the value of these services provided to Head Start and other programs to be approximately \$49,000 and \$126,000, respectively.

14. DEFINED CONTRIBUTION RETIREMENT PLAN

Pathways maintains a defined contribution retirement plan under section 401(k) of the IRC (the Plan). Under the Plan, all employees who are eighteen and over and had completed at least two months of service are eligible. The Plan allows Pathways to make a discretionary match during the year. All matches are fully vested after two years. Employer contributions under the Plan were \$53,091 and \$47,766 for fiscal years 2019 and 2018, respectively, and are included in payroll taxes and fringe benefits in the accompanying consolidating statements of functional expenses.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2019 and 2018

15. CONCENTRATIONS

Funding

Pathways receives a significant portion of its funding from the Federal government and the Commonwealth of Massachusetts under cost reimbursement and unit-rate contracts. Payments to Pathways are subject to audit by the appropriate government agency. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of Pathways as of June 30, 2019 and 2018, or on the changes in its net assets for the years then ended.

Funding agencies exceeding 10% of Pathways operating revenues and/or contracts and grants receivable are as follows as of and for the years ended June 30:

<u>Funding Agency</u>	<u>Percentage of Operating Revenues</u>		<u>Percentage of Contracts and Grants Receivables</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
U.S. Department of Health and Human Services (HHS)	51%	46%	56%	65%
Massachusetts Department of Early Education and Care (EEC)	22	23	28	20
Department of Elementary and Secondary Education	<u>4</u>	<u>4</u>	<u>11</u>	<u>9</u>
	<u>77%</u>	<u>73%</u>	<u>95%</u>	<u>94%</u>

Credit Risk

Pathways maintains its cash balances in a Massachusetts savings bank. The Massachusetts Depositors Insurance Fund (DIF) insures all deposit balances in full. Pathways believes it is not exposed to any significant credit risk on its cash and cash equivalents.

16. CONTINGENCY

From time-to-time, Pathways may be involved in various claims and lawsuits, both for and against Pathways, arising in the normal course of business. Management believes that any financial responsibility that may be incurred in settlements of such claims and lawsuits would not be material to Pathways' financial position.

17. RELATED PARTY TRANSACTION

The President and Chief Executive Officer (CEO) of Pathways is a non-voting member of the Board of Directors. This individual was compensated only for her role as the President and CEO.