



AND AFFILIATE

**CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Contents
June 30, 2022 and 2021

	<u>Pages</u>
Independent Auditor's Report	1 - 1A
Consolidating Financial Statements:	
Consolidating Statements of Financial Position	2
Consolidating Statements of Activities and Changes in Net Assets	3 - 4
Consolidating Statements of Cash Flows	5
Consolidating Statements of Functional Expenses	6 - 7
Notes to Consolidating Financial Statements	8 - 21



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Independent Auditor's Report

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

Opinion

We have audited the consolidating financial statements of Pathways for Children, Inc. (a Massachusetts nonprofit corporation) and 29 Emerson Avenue Condominium Association (a Massachusetts association) (collectively, Pathways), which comprise the consolidating statements of financial position as of June 30, 2022 and 2021, 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.

In our opinion, the accompanying consolidating financial statements present fairly, in all material respects, the consolidating financial position of Pathways for Children, Inc. and 29 Emerson Avenue Condominium Association as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidating Financial Statements section of our report. We are required to be independent of Pathways and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidating financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidating financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Pathways' ability to continue as a going concern within one year after the date that the consolidating financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidating financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidating financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidating financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidating financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Pathways' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidating financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Pathways' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

AAFCPA, Inc.

Westborough, Massachusetts
November 9, 2022

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Consolidating Statements of Financial Position
June 30, 2022 and 2021

Assets	2022					2021				
	Pathways for Children, Inc.			29 Emerson Avenue Condominium Association	Total	Pathways for Children, Inc.			29 Emerson Avenue Condominium Association	Total
	Without Donor Restrictions	With Donor Restrictions	Total			Without Donor Restrictions	With Donor Restrictions	Total		
Current Assets:										
Cash and cash equivalents	\$ 1,873,036	\$ 344,678	\$ 2,217,714	\$ 27,307	\$ 2,245,021	\$ 1,005,632	\$ 277,360	\$ 1,282,992	\$ 24,611	\$ 1,307,603
Contracts and grants receivable	455,086	-	455,086	-	455,086	496,187	-	496,187	-	496,187
Parent fees and other receivables	7,940	-	7,940	-	7,940	14,648	-	14,648	-	14,648
Current portion of contributions receivable, net	-	10,925	10,925	-	10,925	-	62,497	62,497	-	62,497
Prepaid expenses	158,830	-	158,830	3,980	162,810	140,506	-	140,506	3,667	144,173
Total current assets	<u>2,494,892</u>	<u>355,603</u>	<u>2,850,495</u>	<u>31,287</u>	<u>2,881,782</u>	<u>1,656,973</u>	<u>339,857</u>	<u>1,996,830</u>	<u>28,278</u>	<u>2,025,108</u>
Other Assets:										
Contributions receivable, net	-	5,825	5,825	-	5,825	-	11,753	11,753	-	11,753
Investments	539,018	-	539,018	-	539,018	526,476	-	526,476	-	526,476
Property and equipment, net	4,579,224	-	4,579,224	-	4,579,224	4,350,210	-	4,350,210	-	4,350,210
Total other assets	<u>5,118,242</u>	<u>5,825</u>	<u>5,124,067</u>	<u>-</u>	<u>5,124,067</u>	<u>4,876,686</u>	<u>11,753</u>	<u>4,888,439</u>	<u>-</u>	<u>4,888,439</u>
Total assets	<u>\$ 7,613,134</u>	<u>\$ 361,428</u>	<u>\$ 7,974,562</u>	<u>\$ 31,287</u>	<u>\$ 8,005,849</u>	<u>\$ 6,533,659</u>	<u>\$ 351,610</u>	<u>\$ 6,885,269</u>	<u>\$ 28,278</u>	<u>\$ 6,913,547</u>
Liabilities and Net Assets										
Current Liabilities:										
Current portion of long-term debt	\$ 22,773	\$ -	\$ 22,773	\$ -	\$ 22,773	\$ 35,951	\$ -	\$ 35,951	\$ -	\$ 35,951
Accounts payable and other	144,938	-	144,938	-	144,938	155,613	-	155,613	-	155,613
Accrued expenses	221,279	-	221,279	10,900	232,179	225,512	-	225,512	7,288	232,800
Total current liabilities	<u>388,990</u>	<u>-</u>	<u>388,990</u>	<u>10,900</u>	<u>399,890</u>	<u>417,076</u>	<u>-</u>	<u>417,076</u>	<u>7,288</u>	<u>424,364</u>
Other Liabilities:										
Long-term debt, net	564,168	-	564,168	-	564,168	932,644	-	932,644	-	932,644
Total liabilities	<u>953,158</u>	<u>-</u>	<u>953,158</u>	<u>10,900</u>	<u>964,058</u>	<u>1,349,720</u>	<u>-</u>	<u>1,349,720</u>	<u>7,288</u>	<u>1,357,008</u>
Net Assets:										
Without donor restrictions:										
Operating	2,250,648	-	2,250,648	20,387	2,271,035	1,395,599	-	1,395,599	20,990	1,416,589
Property and equipment	3,992,283	-	3,992,283	-	3,992,283	3,381,615	-	3,381,615	-	3,381,615
Board designated	417,045	-	417,045	-	417,045	406,725	-	406,725	-	406,725
Total without donor restrictions	<u>6,659,976</u>	<u>-</u>	<u>6,659,976</u>	<u>20,387</u>	<u>6,680,363</u>	<u>5,183,939</u>	<u>-</u>	<u>5,183,939</u>	<u>20,990</u>	<u>5,204,929</u>
With donor restrictions:										
Total net assets	<u>-</u>	<u>361,428</u>	<u>361,428</u>	<u>-</u>	<u>361,428</u>	<u>-</u>	<u>351,610</u>	<u>351,610</u>	<u>-</u>	<u>351,610</u>
Total liabilities and net assets	<u>\$ 7,613,134</u>	<u>\$ 361,428</u>	<u>\$ 7,974,562</u>	<u>\$ 31,287</u>	<u>\$ 8,005,849</u>	<u>\$ 6,533,659</u>	<u>\$ 351,610</u>	<u>\$ 6,885,269</u>	<u>\$ 28,278</u>	<u>\$ 6,913,547</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, 2022
 (With Summarized Comparative Totals for the Year Ended June 30, 2021)

	2022						2021		
	Pathways for Children, Inc.								
	Without Donor Restrictions			With Donor Restrictions		29 Emerson Avenue Condominium Association			
Operating	Property and Equipment	Board Designated	Total Without Donor Restrictions	Restrictions	Total	Eliminations	Total	Total	
Operating Revenues:									
Government contracts and grants	\$ 7,551,931	\$ -	\$ -	\$ 7,551,931	\$ -	\$ 7,551,931	\$ -	\$ 7,551,931	\$ 6,415,243
Contributions	843,413	-	-	843,413	192,589	1,036,002	-	1,036,002	1,167,222
Donated goods and services	369,235	-	-	369,235	-	369,235	-	369,235	375,443
Fundraising events	260,221	-	-	260,221	-	260,221	-	260,221	54,350
Miscellaneous	72,971	-	-	72,971	-	72,971	-	72,971	49,974
Condominium fees	-	-	-	-	-	-	72,752	(54,563)	18,189
Parent and other fees	14,326	-	-	14,326	-	14,326	-	14,326	17,157
Net assets released from time restrictions	57,500	-	-	57,500	(57,500)	-	-	-	-
Net assets released from purpose restrictions	125,271	-	-	125,271	(125,271)	-	-	-	-
Total operating revenues	9,294,868	-	-	9,294,868	9,818	9,304,686	72,752	(54,563)	8,093,876
Operating Expenses:									
Program services:									
Head Start	4,701,984	127,542	-	4,829,526	-	4,829,526	-	4,829,526	4,251,910
Full Day Head Start	398,500	18,731	-	417,231	-	417,231	-	417,231	522,523
Early Head Start	400,613	12,193	-	412,806	-	412,806	-	412,806	474,254
School Age Care	544,432	44,687	-	589,119	-	589,119	-	589,119	773,371
Family Centered Programs	329,516	7,286	-	336,802	-	336,802	-	336,802	245,886
Professional Development Programs	78,011	-	-	78,011	-	78,011	-	78,011	120,695
Total program services	6,453,056	210,439	-	6,663,495	-	6,663,495	-	6,663,495	6,388,639
Supporting services:									
Administration	1,163,676	19,027	-	1,182,703	-	1,182,703	73,355	(54,563)	1,229,370
Development	508,365	2,671	-	511,036	-	511,036	-	-	449,703
Total supporting services	1,672,041	21,698	-	1,693,739	-	1,693,739	73,355	(54,563)	1,679,073
Total operating expenses	8,125,097	232,137	-	8,357,234	-	8,357,234	73,355	(54,563)	8,067,712
Changes in net assets from operations	1,169,771	(232,137)	-	937,634	9,818	947,452	(603)	-	26,164
Non-Operating Activities:									
Capital grants	-	528,083	-	528,083	-	528,083	-	-	-
Bequest	-	-	50,000	50,000	-	50,000	-	-	-
Debt forgiveness	-	-	-	-	-	-	-	-	126,000
Investment return, net of fees	-	-	(39,680)	(39,680)	-	(39,680)	-	-	55,740
Total non-operating activities	-	528,083	10,320	538,403	-	538,403	-	-	181,740
Changes in net assets	1,169,771	295,946	10,320	1,476,037	9,818	1,485,855	(603)	-	207,904
Net Assets, beginning of year	1,395,599	3,381,615	406,725	5,183,939	351,610	5,535,549	20,990	-	5,348,635
Transfer for principal payments of debt	(32,344)	32,344	-	-	-	-	-	-	-
Transfer for property and equipment additions	(282,378)	282,378	-	-	-	-	-	-	-
Net Assets, end of year	\$ 2,250,648	\$ 3,992,283	\$ 417,045	\$ 6,659,976	\$ 361,428	\$ 7,021,404	\$ 20,387	\$ -	\$ 5,556,539

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, 2021

	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	\$ 6,365,243	\$ -	\$ -	\$ 6,365,243	\$ 50,000	\$ 6,415,243	\$ -	\$ -	\$ 6,415,243
Contributions	1,057,407	-	-	1,057,407	109,815	1,167,222	-	-	1,167,222
Donated goods and services	375,443	-	-	375,443	-	375,443	-	-	375,443
Fundraising events	54,350	-	-	54,350	-	54,350	-	-	54,350
Miscellaneous	49,974	-	-	49,974	-	49,974	-	-	49,974
Condominium fees	-	-	-	-	-	-	57,948	(43,461)	14,487
Parent and other fees	17,157	-	-	17,157	-	17,157	-	-	17,157
Net assets released from time restrictions	54,250	-	-	54,250	(54,250)	-	-	-	-
Net assets released from purpose restrictions	271,286	-	-	271,286	(271,286)	-	-	-	-
Total operating revenues	<u>8,245,110</u>	<u>-</u>	<u>-</u>	<u>8,245,110</u>	<u>(165,721)</u>	<u>8,079,389</u>	<u>57,948</u>	<u>(43,461)</u>	<u>8,093,876</u>
Operating Expenses:									
Program services:									
Head Start	4,128,017	123,893	-	4,251,910	-	4,251,910	-	-	4,251,910
Full Day Head Start	500,407	22,116	-	522,523	-	522,523	-	-	522,523
Early Head Start	462,247	12,007	-	474,254	-	474,254	-	-	474,254
School Age Care	727,677	45,694	-	773,371	-	773,371	-	-	773,371
Family Centered Programs	239,917	5,969	-	245,886	-	245,886	-	-	245,886
Professional Development Programs	120,695	-	-	120,695	-	120,695	-	-	120,695
Total program services	<u>6,178,960</u>	<u>209,679</u>	<u>-</u>	<u>6,388,639</u>	<u>-</u>	<u>6,388,639</u>	<u>-</u>	<u>-</u>	<u>6,388,639</u>
Supporting services:									
Administration	1,192,449	23,107	-	1,215,556	-	1,215,556	57,275	(43,461)	1,229,370
Development	447,632	2,071	-	449,703	-	449,703	-	-	449,703
Total supporting services	<u>1,640,081</u>	<u>25,178</u>	<u>-</u>	<u>1,665,259</u>	<u>-</u>	<u>1,665,259</u>	<u>57,275</u>	<u>(43,461)</u>	<u>1,679,073</u>
Total operating expenses	<u>7,819,041</u>	<u>234,857</u>	<u>-</u>	<u>8,053,898</u>	<u>-</u>	<u>8,053,898</u>	<u>57,275</u>	<u>(43,461)</u>	<u>8,067,712</u>
Changes in net assets from operations	<u>426,069</u>	<u>(234,857)</u>	<u>-</u>	<u>191,212</u>	<u>(165,721)</u>	<u>25,491</u>	<u>673</u>	<u>-</u>	<u>26,164</u>
Non-Operating Activities:									
Debt forgiveness	126,000	-	-	126,000	-	126,000	-	-	126,000
Investment return, net of fees	-	-	55,740	55,740	-	55,740	-	-	55,740
Total non-operating activities	<u>126,000</u>	<u>-</u>	<u>55,740</u>	<u>181,740</u>	<u>-</u>	<u>181,740</u>	<u>-</u>	<u>-</u>	<u>181,740</u>
Changes in net assets	<u>552,069</u>	<u>(234,857)</u>	<u>55,740</u>	<u>372,952</u>	<u>(165,721)</u>	<u>207,231</u>	<u>673</u>	<u>-</u>	<u>207,904</u>
Net Assets, beginning of year	<u>938,076</u>	<u>3,521,926</u>	<u>350,985</u>	<u>4,810,987</u>	<u>517,331</u>	<u>5,328,318</u>	<u>20,317</u>	<u>-</u>	<u>5,348,635</u>
Transfer for principal payments of debt	(34,006)	34,006	-	-	-	-	-	-	-
Transfer for property and equipment additions	(60,540)	60,540	-	-	-	-	-	-	-
Net Assets, end of year	<u>\$ 1,395,599</u>	<u>\$ 3,381,615</u>	<u>\$ 406,725</u>	<u>\$ 5,183,939</u>	<u>\$ 351,610</u>	<u>\$ 5,535,549</u>	<u>\$ 20,990</u>	<u>\$ -</u>	<u>\$ 5,556,539</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, 2022 and 2021

	2022			2021		
	Pathways for Children, Inc.	29 Emerson Avenue Condominium Association	Total	Pathways for Children, Inc.	29 Emerson Avenue Condominium Association	Total
Cash Flows from Operating Activities:						
Changes in net assets	\$ 1,485,855	\$ (603)	\$ 1,485,252	\$ 207,231	\$ 673	\$ 207,904
Adjustments to reconcile changes in net assets to net cash provided by operating activities:						
Depreciation	231,447	-	231,447	234,167	-	234,167
Amortization of debt issuance costs	690	-	690	690	-	690
Capital grants	(528,083)	-	(528,083)	-	-	-
Investment return, net of fees	39,680	-	39,680	(55,740)	-	(55,740)
Debt forgiveness	-	-	-	(126,000)	-	(126,000)
Changes in operating assets and liabilities:						
Contracts and grants receivable	41,101	-	41,101	(12,563)	-	(12,563)
Parent fees and other receivables	6,708	-	6,708	(14,648)	-	(14,648)
Contributions receivable	57,500	-	57,500	40,250	-	40,250
Prepaid expenses	(18,324)	(313)	(18,637)	(89,670)	(400)	(90,070)
Accounts payable and other	(84,859)	-	(84,859)	76,769	-	76,769
Accrued expenses	(4,233)	3,612	(621)	(13,831)	89	(13,742)
Net cash provided by operating activities	<u>1,227,482</u>	<u>2,696</u>	<u>1,230,178</u>	<u>246,655</u>	<u>362</u>	<u>247,017</u>
Cash Flows from Investing Activities:						
Acquisition of property and equipment	(386,277)	-	(386,277)	(60,540)	-	(60,540)
Purchase of investments	(52,222)	-	(52,222)	(3,008)	-	(3,008)
Net cash used in investing activities	<u>(438,499)</u>	<u>-</u>	<u>(438,499)</u>	<u>(63,548)</u>	<u>-</u>	<u>(63,548)</u>
Cash Flows from Financing Activities:						
Principal payments on long-term debt	(382,344)	-	(382,344)	(34,006)	-	(34,006)
Capital grants	528,083	-	528,083	-	-	-
Net cash provided by (used in) financing activities	<u>145,739</u>	<u>-</u>	<u>145,739</u>	<u>(34,006)</u>	<u>-</u>	<u>(34,006)</u>
Net Change in Operating Cash and Cash Equivalents	934,722	2,696	937,418	149,101	362	149,463
Operating Cash and Cash Equivalents:						
Beginning of year	<u>1,282,992</u>	<u>24,611</u>	<u>1,307,603</u>	<u>1,133,891</u>	<u>24,249</u>	<u>1,158,140</u>
End of year	<u>\$ 2,217,714</u>	<u>\$ 27,307</u>	<u>\$ 2,245,021</u>	<u>\$ 1,282,992</u>	<u>\$ 24,611</u>	<u>\$ 1,307,603</u>
Supplemental Disclosure of Cash Flow Information:						
Cash paid for interest	<u>\$ 49,536</u>	<u>\$ -</u>	<u>\$ 49,536</u>	<u>\$ 56,416</u>	<u>\$ -</u>	<u>\$ 56,416</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, 2022

(With Summarized Comparative Totals for the Year Ended June 30, 2021)

	2022											2021				
	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 Centered Programs	Professional Development Programs	Total Program Services	Adminis-tration	Development	Total Supporting Services	Total						
Personnel and Related Costs:																
Salaries and wages	\$ 2,599,327	\$ 280,747	\$ 279,987	\$ 315,963	\$ 208,236	\$ 23,018	\$ 3,707,278	\$ 594,527	\$ 290,157	\$ 884,684	\$ 4,591,962	\$ -	\$ -	\$ 4,591,962	\$ 4,577,330	
Payroll taxes and fringe benefits	743,021	64,505	75,920	89,558	48,448	2,209	1,023,661	145,257	78,437	223,694	1,247,355	-	-	1,247,355	1,210,900	
Total personnel and related costs	3,342,348	345,252	355,907	405,521	256,684	25,227	4,730,939	739,784	368,594	1,108,378	5,839,317	-	-	5,839,317	5,788,230	
Occupancy:																
Other occupancy	329,385	43,052	12,914	54,550	13,381	-	453,282	27,655	4,907	32,562	485,844	71,355	-	557,199	408,465	
Donated rent	237,000	-	-	-	-	-	237,000	-	-	-	237,000	-	-	237,000	237,000	
Depreciation	82,015	13,599	6,921	28,899	7,286	-	138,720	15,057	2,671	17,728	156,448	-	-	156,448	155,190	
Interest	49,536	-	-	-	-	-	49,536	-	-	-	49,536	-	-	49,536	56,416	
Rent	2,400	-	-	-	-	-	2,400	54,564	-	54,564	56,964	-	(54,563)	2,401	2,400	
Total occupancy	700,336	56,651	19,835	83,449	20,667	-	880,938	97,276	7,578	104,854	985,792	71,355	(54,563)	1,002,584	859,471	
Other:																
Contracted services	113,352	131	5,457	11,806	10,345	40,153	181,244	136,000	30,844	166,844	348,088	-	-	348,088	321,152	
Supplies	147,848	689	4,531	14,385	44,143	11,089	222,685	2,477	3,535	6,012	228,697	-	-	228,697	225,524	
Other operating costs	49,977	705	794	1,708	2,435	1,542	57,161	72,758	98,327	171,085	228,246	-	-	228,246	244,011	
Food	161,947	8,372	12,031	36,829	-	-	219,179	-	-	-	219,179	-	-	219,179	152,544	
Donated goods and services	132,235	-	-	-	-	-	132,235	-	-	-	132,235	-	-	132,235	138,443	
Vehicle and related	76,130	299	1,989	6,440	-	-	84,858	-	-	-	84,858	-	-	84,858	73,097	
Training	59,466	-	4,925	7,476	2,528	-	74,395	743	2,158	2,901	77,296	-	-	77,296	67,959	
Professional fees	360	-	-	-	-	-	360	73,734	-	73,734	74,094	2,000	-	76,094	60,522	
Depreciation	45,527	5,132	5,272	15,788	-	-	71,719	3,280	-	3,280	74,999	-	-	74,999	78,977	
Insurance	-	-	2,065	5,717	-	-	7,782	56,651	-	56,651	64,433	-	-	64,433	57,782	
Total other	786,842	15,328	37,064	100,149	59,451	52,784	1,051,618	345,643	134,864	480,507	1,532,125	2,000	-	1,534,125	1,420,011	
Total expenses	\$ 4,829,526	\$ 417,231	\$ 412,806	\$ 589,119	\$ 336,802	\$ 78,011	\$ 6,663,495	\$ 1,182,703	\$ 511,036	\$ 1,693,739	\$ 8,357,234	\$ 73,355	\$ (54,563)	\$ 8,376,026	\$ 8,067,712	

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Consolidating Statement of Functional Expenses
For the Year Ended June 30, 2021

	Pathways for Children, Inc.													
	Program Services						Supporting Services				29 Emerson Avenue Condominium Association	Eliminations	Total	
	Head Start	Full Day Head Start	Early Head Start	School Age Care	Family Centered Programs	Professional Development Programs	Total Program Services	Adminis-tration	Development	Total Supporting Services				Total
Personnel and Related Costs:														
Salaries and wages	\$ 2,333,794	\$ 349,046	\$ 319,985	\$ 463,873	\$ 155,574	\$ 27,973	\$ 3,650,245	\$ 654,733	\$ 272,352	\$ 927,085	\$ 4,577,330	\$ -	\$ -	\$ 4,577,330
Payroll taxes and fringe benefits	627,867	91,003	83,540	119,721	41,158	2,949	966,238	172,200	72,462	244,662	1,210,900	-	-	1,210,900
Total personnel and related costs	2,961,661	440,049	403,525	583,594	196,732	30,922	4,616,483	826,933	344,814	1,171,747	5,788,230	-	-	5,788,230
Occupancy:														
Other occupancy	232,265	26,134	12,394	47,623	9,613	-	328,029	21,776	3,335	25,111	353,140	55,325	-	408,465
Donated rent	237,000	-	-	-	-	-	237,000	-	-	-	237,000	-	-	237,000
Depreciation	81,613	16,080	6,944	28,992	5,969	-	139,598	13,521	2,071	15,592	155,190	-	-	155,190
Interest	56,416	-	-	-	-	-	56,416	-	-	-	56,416	-	-	56,416
Rent	2,400	-	-	-	-	-	2,400	43,461	-	43,461	45,861	-	(43,461)	2,400
Total occupancy	609,694	42,214	19,338	76,615	15,582	-	763,443	78,758	5,406	84,164	847,607	55,325	(43,461)	859,471
Other:														
Contracted services	110,017	4,775	4,388	8,641	6,436	62,884	197,141	97,869	26,142	124,011	321,152	-	-	321,152
Supplies	118,600	2,407	7,863	31,662	21,875	24,697	207,104	11,917	6,503	18,420	225,524	-	-	225,524
Other operating costs	50,179	11,652	10,623	21,172	3,896	2,192	99,714	78,197	66,100	144,297	244,011	-	-	244,011
Food	100,610	11,677	16,249	24,008	-	-	152,544	-	-	-	152,544	-	-	152,544
Donated goods and services	138,443	-	-	-	-	-	138,443	-	-	-	138,443	-	-	138,443
Vehicle and related	64,810	839	2,218	5,230	-	-	73,097	-	-	-	73,097	-	-	73,097
Training	46,174	-	2,714	1,897	1,365	-	52,150	15,071	738	15,809	67,959	-	-	67,959
Professional fees	-	-	-	-	-	-	-	58,572	-	58,572	58,572	1,950	-	60,522
Depreciation	42,280	6,036	5,063	16,702	-	-	70,081	8,896	-	8,896	78,977	-	-	78,977
Insurance	9,442	2,874	2,273	3,850	-	-	18,439	39,343	-	39,343	57,782	-	-	57,782
Total other	680,555	40,260	51,391	113,162	33,572	89,773	1,008,713	309,865	99,483	409,348	1,418,061	1,950	-	1,420,011
Total expenses	\$ 4,251,910	\$ 522,523	\$ 474,254	\$ 773,371	\$ 245,886	\$ 120,695	\$ 6,388,639	\$ 1,215,556	\$ 449,703	\$ 1,665,259	\$ 8,053,898	\$ 57,275	\$ (43,461)	\$ 8,067,712

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2022 and 2021

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 nurture children and support families impacted by economic and social inequity through programs that educate, enrich, empower and motivate. Pathways' programs and culture are built around four core values: respect, trust, collaboration and opportunity. Since 1967, Pathways has grown from a small Head Start program serving Cape Ann children to its current status as a leading provider of holistic family support, with services ranging from comprehensive early education and care to parent training and support groups. With centers located in Gloucester, Beverly and Salem, Massachusetts, Pathways served more than 2,500 Essex County children and their family members in fiscal year 2022.

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 ages 5 to 13 that implements the Positive Youth Development model; 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 recent years, Pathways expanded into Professional Development: first as a partner with North Shore Community College in offering courses under the Career Pathways in Early Childhood Education grant, and subsequently as the organizational partner for the Youth at Risk Conference, the region's only annual all-day conference for professionals who work with at-risk youth. In fiscal year 2021, Pathways launched Dolly Parton's Imagination Library (DPIL) in seven communities, providing quality, age-appropriate books at no cost each month to children under the age of 5 enrolled in the program. The launch of DPIL was a significant expansion into full community engagement, as there are no income qualifications.

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' Gloucester 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

Recently Adopted Accounting Pronouncement

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 is intended to increase the transparency of contributed nonfinancial assets (in-kind goods and services) for not-for-profit entities through enhancements to presentation and disclosure. The amendments in this ASU will not change the recognition and measurement requirements of in-kind goods and services.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2022 and 2021

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncement (Continued)

In fiscal year 2022, the Agency adopted ASU 2020-07. The adoption of this ASU did not impact the Agency's net asset classes, results of operations, or cash flows for the year ended June 30, 2022. This ASU has been applied retrospectively to all periods presented.

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.

Revenue Recognition

Contract Revenue, Grants and Contributions

In accordance with Topic 958, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, Pathways must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists (see Note 16). Indicators of a barrier include a measurable performance-related barrier or another measurable barrier, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement. Topic 958 prescribes that Pathways should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as conditional grant advance liabilities until such conditions are met.

Grants and contributions from government agencies (contract revenue), foundations, individuals, and corporations are recorded as revenue and net assets without donor restrictions upon receipt or when unconditionally committed by the donor. Cost reimbursement contracts are considered conditional until eligible costs are incurred. Donor restricted grants and contributions that are donations with time or purpose restrictions are recognized as revenues and net assets with donor restrictions when received or when unconditionally committed by the donor. Grants and contributions with donor restrictions are reclassified to net assets without donor restrictions as services are performed and costs are incurred, or pro-rata over the period covered by the grant or contributions as time restrictions lapse. Donor restricted grants received and satisfied in the same period are included in net assets without donor restrictions.

Parent and Other Fees

Parent and other fees are recognized as services are provided. The performance obligations of delivering childcare services are simultaneously received and consumed by the recipients; therefore, the revenue is recognized as child care services are provided.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2022 and 2021

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Fundraising Events

Fundraising events income in the accompanying consolidating statements of activities and changes in net assets includes income from Pathways' annual special events and is recognized at the time of the events. Special event income consists of both contributions and sales. The contribution portion of the special event income is recognized as revenue when unconditionally committed or received in accordance with Topic 958. Contribution revenue from special events includes sponsorships which are considered contributions given the nominal value of the accompanying rights and privileges. The sales portion of the special event income is derived from ticket sales from this event, including tickets allocated with sponsorships. The transaction price for ticket sales is determined annually in accordance with Topic 606, *Revenue from Contracts with Customers*.

Other Revenue

Interest and dividends are recognized when earned. Interest income on cash is included in operating revenues, while interest and dividends earned on investments is included in investment return, net of fees in non-operating activities in the accompanying consolidating statements of activities and changes in net assets. Gains and losses are recognized as incurred upon sale or maturities of investments or based on fair value changes during the period. Gains and losses are included in investment return, net of fees in the accompanying consolidating statements of activities and changes in net assets.

Condominium fees and other revenue are recorded as earned.

Bequests

Pathways 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.

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, 2022 and 2021

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 cash for the consolidating statements of cash flows.

Investments

Pathways records its investments in mutual funds, money market accounts and certificates of deposit at fair value. Investments are classified as long-term in the accompanying consolidating statements of financial position as it is Pathways' intent to hold these investments for long-term purposes.

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. Allowance for doubtful accounts for contributions receivable was \$500 and \$1,500 for June 30, 2022 and 2021, respectively.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2022 and 2021

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions Receivable and Allowance for Doubtful Contributions

Contributions receivable at June 30, 2022 and 2021, 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 \$20,000 or more and a useful life of one year or more are capitalized. The capitalization threshold was increased in fiscal year 2022 from \$5,000 to \$20,000 with Board of Director approval. 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 - 15 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 2022 or 2021.

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. Vehicle and related 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, 2022 and 2021

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, capital grants, and debt forgiveness.

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, 2022 and 2021. Pathways' tax returns are subject to examination by Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through November 9, 2022, 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 in the accompanying consolidating financial statements.

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 at June 30:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 2,245,021	\$ 1,307,603
Contracts, grants and other receivables	463,026	510,835
Contributions receivable, net	<u>10,925</u>	<u>62,497</u>
Total financial assets	2,718,972	1,880,935
Contractual or donor-imposed restrictions:		
Donor contributions restricted to specific purposes	(344,678)	(277,360)
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>\$ 2,274,294</u>	<u>\$ 1,503,575</u>

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2022 and 2021

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (Continued)

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 includes cash and certificates of deposit, on hand to meet sixty days of normal operating expenses, which are, on average, approximately \$1,240,000. 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 that 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).

4. CONTRIBUTIONS RECEIVABLES

Contributions receivables are due as follows at June 30:

	<u>2022</u>	<u>2021</u>
Due within one year	\$ 11,250	\$ 63,750
Due in two to three years	<u>6,250</u>	<u>12,500</u>
	17,500	76,250
Less - allowance for doubtful contributions receivable	(500)	(1,500)
Less - discount	<u>(250)</u>	<u>(500)</u>
Total contributions receivable, net of allowance and discount	16,750	74,250
Less - current portion	<u>(10,925)</u>	<u>(62,497)</u>
	<u>\$ 5,825</u>	<u>\$ 11,753</u>

Long-term contributions receivable have been discounted to present value using a 3% discount factor at June 30, 2022 and 2021. Approximately 57% and 59% of Pathways' gross contributions receivable were from one donor at June 30, 2022, and four donors at June 30, 2021.

Pathways has received notification of intentions to give of \$115,000 and \$183,500 from donor advised funds that have not been received as of June 30, 2022 and 2021, respectively. Accordingly, these commitments are not reflected in the accompanying 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, 2022 and 2021

5. INVESTMENTS (Continued)

Investments consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Certificate of deposit	\$ <u>221,973</u>	\$ <u>219,751</u>
Endowment investments:		
Money market fund	<u>61,791</u>	<u>12,445</u>
Mutual funds:		
Equity	120,394	137,505
Fixed income	94,860	106,565
International	23,740	32,749
Alternative	<u>16,260</u>	<u>17,461</u>
Total mutual funds	<u>255,254</u>	<u>294,280</u>
Total endowment investments, at fair value	<u>317,045</u>	<u>306,725</u>
Total investments	\$ <u>539,018</u>	\$ <u>526,476</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 \$10,657 and \$9,217 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2022 and 2021

6. ENDOWMENT (Continued)

Spending Policy (Continued)

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

	<u>2022</u>	<u>2021</u>
Endowment net assets, beginning of year	\$ 306,725	\$ 250,985
Bequest	50,000	-
Investment return, net of fees	<u>(39,680)</u>	<u>55,740</u>
Endowment net assets, end of year	<u>\$ 317,045</u>	<u>\$ 306,725</u>

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Land	\$ 837,162	\$ 837,162
Buildings	5,102,445	5,102,445
Building improvements	620,512	555,302
Vehicles	610,948	565,941
Equipment	554,074	678,653
Construction in Progress	<u>298,178</u>	<u>15,800</u>
	8,023,319	7,755,303
Less - accumulated depreciation	<u>3,444,095</u>	<u>3,405,093</u>
Net property and equipment	<u>\$ 4,579,224</u>	<u>\$ 4,350,210</u>

Portions of property and equipment are pledged to secure long-term debt (see Note 8). Pathways had \$1,830,204 and \$1,743,818 of property and equipment which were purchased with funds from U.S. Government agencies at June 30, 2022 and 2021, respectively. Net book value on these assets was \$1,368,424 and \$1,248,450 as of June 30, 2022 and 2021, respectively. These government agencies retain a reversionary interest in these assets.

Pathways for Children was approved for a grant through the Early Education and Out of School Time (EOST) Capital Fund, administered by Community Economic Development Assistance Corporations (CEDAC) for up to \$250,000 for window replacement at 29 Emerson Ave. Gloucester, MA. The windows replaced were for the Early Head Start, School Aged Care, and Administration areas. When the general contractor and architect assessed the project, they found additional work that needed to be completed in order to replace the windows. EOST would not cover any additional work not approved in the grant; therefore, Pathways funded the additional expenses of \$90,000 in 2022. Construction in progress is made up of these amounts and the estimated total cost of the window replacement plus additional costs is \$340,000 with a completion date of August 2022.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2022 and 2021

8. LONG-TERM DEBT

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

	<u>2022</u>	<u>2021</u>
5.5% note payable to a bank, due in monthly principal and interest installments of \$4,630, based on a twenty-year amortization schedule. The monthly installment was reduced from \$7,478 after a principal payment of \$350,000 in March 2022. The note matures in December 2038. The note is secured by a mortgage on a building.	\$ 598,332	\$ 980,676
Less - current portion	22,773	35,951
Less - unamortized debt issuance costs	<u>11,391</u>	<u>12,081</u>
	<u>\$ 564,168</u>	<u>\$ 932,644</u>

The note payable agreement contains various covenants with which Pathways must comply. Pathways was in compliance with these covenants at June 30, 2022 and 2021.

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>
2023	\$ 22,773	\$ 690
2024	\$ 23,989	\$ 690
2025	\$ 25,449	\$ 690
2026	\$ 26,944	\$ 690
2027	\$ 28,443	\$ 690
Thereafter	\$ 470,734	\$ 7,941

9. CONTINGENT DEBT

During fiscal year 2020, Pathways applied for and was awarded a forgivable loan of \$126,000 from the Paycheck Protection Program (PPP) established by the Coronavirus Aid, Relief and Economic Security Act (CARES Act) through a bank. The funds were used to pay certain payroll costs, including benefits, as well as rent and utilities during the covered period as defined in the CARES Act. The PPP loan proceeds were accounted for as long-term debt under ASC Topic 470. The loan was deemed contingent upon forgiveness by the lending bank and Small Business Administration (SBA).

In February 2021, Pathways received a formal notice of forgiveness for the funding from the lending bank and the SBA, at which point the principal balance, including all accrued interest, were forgiven in full. Upon receiving the formal notice of forgiveness, Pathways recognized \$126,000 of revenue, which is shown as debt forgiveness in the accompanying fiscal year 2021 consolidating statement of activities and changes in net assets.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2022 and 2021

10. LINE OF CREDIT

On June 30, 2022 and 2021, 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 the *Wall Street Journal's* prime rate, (4.75% and 3.25% as of June 30, 2022 and 2021, respectively) plus 0.50%, with a floor of 5.50%. There was no outstanding balance on this line of credit as of June 30, 2022 and 2021. Pathways must comply with certain covenants as specified in the agreements. Pathways was in compliance with these covenants as of June 30, 2022 and 2021.

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>2022</u>	<u>2021</u>
Funds functioning as endowment (see Notes 5 and 6)	\$ 317,045	\$ 306,725
Strategic initiatives	<u>100,000</u>	<u>100,000</u>
	<u>\$ 417,045</u>	<u>\$ 406,725</u>

12. NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2022</u>	<u>2021</u>
Purpose restricted:		
Other educational programs	\$ 200,886	\$ 122,041
School age care	113,792	108,792
Family enrichment program	<u>30,000</u>	<u>46,527</u>
Total purpose restricted	344,678	277,360
Time restricted - contributions receivable	<u>16,750</u>	<u>74,250</u>
	<u>\$ 361,428</u>	<u>\$ 351,610</u>

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2022 and 2021

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>2022</u>	<u>2021</u>
Purpose restricted:		
Other educational programs	\$ 78,744	\$ 65,867
Family enrichment program	46,527	65,894
Pandemic response	-	87,918
Social services	-	40,857
Institutional advancement	-	8,750
School age care	-	<u>2,000</u>
Total purpose restricted	125,271	271,286
Time restricted - payments of contributions receivable	<u>57,500</u>	<u>54,250</u>
	<u>\$ 182,771</u>	<u>\$ 325,536</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 and are as follows for the fiscal years ended June 30:

	<u>2022</u>	<u>2021</u>
Rent	\$ 237,000	\$ 237,000
Contracted services	132,235	135,443
Supplies	<u>-</u>	<u>3,000</u>
	<u>\$ 369,235</u>	<u>\$ 375,443</u>

The Organization also receives the use of donated facilities for its program operations and supporting services. The Organization recognizes in-kind contribution revenue and a corresponding expense in an amount approximating the estimated fair value at the time of the donation. Fair value is estimated using the price per square foot of an appraised amount obtained every three years. The total amount recognized for donated facilities is \$237,000 for each of the years ended June 30, 2022 and 2021.

Contracted services consist of vendor services. The vendor services are valued at the estimated cost of services as provided by the vendor or using similar contracts from like vendors. Supplies are valued at fair market value at the time of receipt.

Pathways receives services of volunteers primarily for its Head Start program. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Pathways. Services valued at \$29,000 and \$18,000 have not been recognized in the accompanying statements of activities for the years ended June 30, 2022 and 2021, respectively, as they do not meet the requirements for recognition.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2022 and 2021

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 \$49,975 and \$55,513 for fiscal years 2022 and 2021, respectively, and are included in payroll taxes and fringe benefits in the accompanying consolidating statements of functional expenses.

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 consolidating financial position of Pathways as of June 30, 2022 and 2021, or on the changes in their 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>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
U.S. Department of Health and Human Services (HHS)	54%	54%	67%	61%
Massachusetts Department of Early Education and Care (EEC)	<u>24</u>	<u>20</u>	<u>19</u>	<u>16</u>
	<u>78%</u>	<u>74%</u>	<u>86%</u>	<u>77%</u>

16. CONDITIONAL GRANTS

At June 30, 2022 and 2021, Pathways had been awarded government contracts totaling \$5,629,316 and \$5,766,135, respectively, that contained funder-imposed conditions that represent a barrier that must be overcome, as well as a right of return of assets or release from obligations. Pathways recognizes related revenue from these government contracts when funder-imposed conditions are substantially met (see Note 2). The funder-imposed conditions for this contract revenue include the requirement for Pathways to incur qualifying expenses and provide qualifying services.

Also, in fiscal year 2018, Pathways received a \$300,000 grant to be paid over ten years at the discretion of the grantor. For the years ended June 30, 2022 and 2021, Pathways recognized \$30,000 of revenue annually, which is 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. As of June 30, 2022 and 2021, \$150,000 and \$180,000 related to this grant is conditional. Additionally, Pathways received a Challenge Gift which stipulates if Pathways raises \$50,000 for the School Age Program, the donor will match the \$50,000. As of June 30, 2022, Pathways had not raised the funds; and therefore, funds were not received or recorded in the accompanying consolidating financial statements.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2022 and 2021

17. CONTINGENCIES

Legal

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.

18. RECLASSIFICATIONS

Certain amounts in the fiscal year 2021 consolidating financial statements have been reclassified to conform with the fiscal year 2022 presentation.