



AND AFFILIATE

**CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

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June 30, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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.

AAFCPA, Inc.

Westborough, Massachusetts
November 11, 2020

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Consolidating Statements of Financial Position
June 30, 2020 and 2019

Assets	2020						2019					
	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	\$ 731,060	\$ 402,831	\$ 1,133,891	\$ 24,249	\$ -	\$ 1,158,140	\$ 481,796	\$ 399,563	\$ 881,359	\$ 20,161	\$ -	\$ 901,520
Contracts and grants receivable	483,624	-	483,624	-	-	483,624	439,261	-	439,261	-	-	439,261
Parent fees and other receivables, net	-	-	-	-	-	-	16,500	-	16,500	2,075	(2,075)	16,500
Current portion of contributions receivable, net	-	53,900	53,900	-	-	53,900	-	19,500	19,500	-	-	19,500
Prepaid expenses	50,836	-	50,836	3,267	-	54,103	46,755	-	46,755	3,049	-	49,804
Total current assets	<u>1,265,520</u>	<u>456,731</u>	<u>1,722,251</u>	<u>27,516</u>	<u>-</u>	<u>1,749,767</u>	<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>
Other Assets:												
Contributions receivable, net	-	60,600	60,600	-	-	60,600	-	1,500	1,500	-	-	1,500
Investments	467,728	-	467,728	-	-	467,728	456,817	-	456,817	-	-	456,817
Property and equipment, net	4,523,837	-	4,523,837	-	-	4,523,837	4,693,737	-	4,693,737	-	-	4,693,737
Total other assets	<u>4,991,565</u>	<u>60,600</u>	<u>5,052,165</u>	<u>-</u>	<u>-</u>	<u>5,052,165</u>	<u>5,150,554</u>	<u>1,500</u>	<u>5,152,054</u>	<u>-</u>	<u>-</u>	<u>5,152,054</u>
Total assets	<u>\$ 6,257,085</u>	<u>\$ 517,331</u>	<u>\$ 6,774,416</u>	<u>\$ 27,516</u>	<u>\$ -</u>	<u>\$ 6,801,932</u>	<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>
Liabilities and Net Assets												
Current Liabilities:												
Current portion of long-term debt	\$ 34,006	\$ -	\$ 34,006	\$ -	\$ -	\$ 34,006	\$ 32,015	\$ -	\$ 32,015	\$ -	\$ -	\$ 32,015
Accounts payable and other	78,844	-	78,844	-	-	78,844	59,954	-	59,954	3,215	(2,075)	61,094
Accrued expenses	239,343	-	239,343	7,199	-	246,542	217,005	-	217,005	6,964	-	223,969
Total current liabilities	<u>352,193</u>	<u>-</u>	<u>352,193</u>	<u>7,199</u>	<u>-</u>	<u>359,392</u>	<u>308,974</u>	<u>-</u>	<u>308,974</u>	<u>10,179</u>	<u>(2,075)</u>	<u>317,078</u>
Other Liabilities:												
Long-term debt, net of current portion	967,905	-	967,905	-	-	967,905	1,001,222	-	1,001,222	-	-	1,001,222
Contingent debt	126,000	-	126,000	-	-	126,000	-	-	-	-	-	-
Total liabilities	<u>1,446,098</u>	<u>-</u>	<u>1,446,098</u>	<u>7,199</u>	<u>-</u>	<u>1,453,297</u>	<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>
Net Assets:												
Without donor restrictions:												
Operating	939,366	-	939,366	20,317	-	959,683	820,052	-	820,052	15,106	-	835,158
Property and equipment	3,521,926	-	3,521,926	-	-	3,521,926	3,660,500	-	3,660,500	-	-	3,660,500
Board designated	349,695	-	349,695	-	-	349,695	344,118	-	344,118	-	-	344,118
Total without donor restrictions	<u>4,810,987</u>	<u>-</u>	<u>4,810,987</u>	<u>20,317</u>	<u>-</u>	<u>4,831,304</u>	<u>4,824,670</u>	<u>-</u>	<u>4,824,670</u>	<u>15,106</u>	<u>-</u>	<u>4,839,776</u>
With donor restrictions	-	517,331	517,331	-	-	517,331	-	420,563	420,563	-	-	420,563
Total net assets	<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>	<u>4,824,670</u>	<u>420,563</u>	<u>5,245,233</u>	<u>15,106</u>	<u>-</u>	<u>5,260,339</u>
Total liabilities and net assets	<u>\$ 6,257,085</u>	<u>\$ 517,331</u>	<u>\$ 6,774,416</u>	<u>\$ 27,516</u>	<u>\$ -</u>	<u>\$ 6,801,932</u>	<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>

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, 2020

(With Summarized Comparative Totals for the Year Ended June 30, 2019)

	2020						2019			
	Pathways for Children, Inc.						29 Emerson Avenue Condominium Association	Eliminations	Total	Total
	Without Donor Restrictions			With Donor Restrictions	Total					
Operating	Property and Equipment	Board Designated	Without Donor Restrictions	With Donor Restrictions	Total					
Operating Revenues:										
Government contracts and grants	\$ 6,533,892	\$ -	\$ -	\$ 6,533,892	\$ -	\$ 6,533,892	\$ -	\$ -	\$ 6,533,892	\$ 6,830,450
Contributions	732,235	-	-	732,235	327,461	1,059,696	-	-	1,059,696	864,969
Donated goods and services	380,696	-	-	380,696	-	380,696	-	-	380,696	371,069
Fundraising events	138,088	-	-	138,088	108,792	246,880	-	-	246,880	279,615
Parent and other fees	103,285	-	-	103,285	-	103,285	-	-	103,285	202,296
Miscellaneous	10,554	-	-	10,554	-	10,554	-	-	10,554	23,377
Condominium fees	-	-	-	-	-	-	56,648	(48,468)	8,180	9,619
Net assets released from time restrictions	19,500	-	-	19,500	(19,500)	-	-	-	-	-
Net assets released from purpose restrictions	319,985	-	-	319,985	(319,985)	-	-	-	-	-
Total operating revenues	8,238,235	-	-	8,238,235	96,768	8,335,003	56,648	(48,468)	8,343,183	8,581,395
Operating Expenses:										
Program services:										
Head Start	4,242,663	119,753	-	4,362,416	-	4,362,416	-	-	4,362,416	4,391,837
Full Day Head Start	544,865	37,163	-	582,028	-	582,028	-	-	582,028	1,083,580
Early Head Start	488,057	13,320	-	501,377	-	501,377	-	-	501,377	473,181
School Age Care	530,548	48,940	-	579,488	-	579,488	-	-	579,488	598,926
Family Child Care	-	-	-	-	-	-	-	-	-	18,709
Family Enrichment Program	161,928	4,015	-	165,943	-	165,943	-	-	165,943	165,379
Coordinated Family and Community Engagement	72,989	4,707	-	77,696	-	77,696	-	-	77,696	76,921
Professional Development Programs	123,537	-	-	123,537	-	123,537	-	-	123,537	-
Total program services	6,164,587	227,898	-	6,392,485	-	6,392,485	-	-	6,392,485	6,808,533
Supporting services:										
Administration	1,297,264	16,891	-	1,314,155	-	1,314,155	51,437	(48,468)	1,317,124	1,369,194
Development	597,208	2,354	-	599,562	-	599,562	-	-	599,562	517,873
Total supporting services	1,894,472	19,245	-	1,913,717	-	1,913,717	51,437	(48,468)	1,916,686	1,887,067
Total operating expenses	8,059,059	247,143	-	8,306,202	-	8,306,202	51,437	(48,468)	8,309,171	8,695,600
Changes in net assets from operations	179,176	(247,143)	-	(67,967)	96,768	28,801	5,211	-	34,012	(114,205)
Non-Operating Activities:										
Capital grant	-	48,707	-	48,707	-	48,707	-	-	48,707	-
Investment return, net of fees	-	-	5,577	5,577	-	5,577	-	-	5,577	11,651
Bequest	-	-	-	-	-	-	-	-	-	35,000
Loss on disposal of property and equipment	-	-	-	-	-	-	-	-	-	(57,471)
Total non-operating activities	-	48,707	5,577	54,284	-	54,284	-	-	54,284	(10,820)
Changes in net assets	179,176	(198,436)	5,577	(13,683)	96,768	83,085	5,211	-	88,296	(125,025)
Net Assets, beginning of year	820,052	3,660,500	344,118	4,824,670	420,563	5,245,233	15,106	-	5,260,339	5,385,364
Transfer for principal payments of debt	(31,326)	31,326	-	-	-	-	-	-	-	-
Transfer for property and equipment additions	(28,536)	28,536	-	-	-	-	-	-	-	-
Net Assets, end of year	\$ 939,366	\$ 3,521,926	\$ 349,695	\$ 4,810,987	\$ 517,331	\$ 5,328,318	\$ 20,317	\$ -	\$ 5,348,635	\$ 5,260,339

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, 2019

	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	\$ 6,830,450	\$ -	\$ -	\$ 6,830,450	\$ -	\$ 6,830,450	\$ -	\$ -	\$ 6,830,450
Contributions	653,939	-	-	653,939	211,030	864,969	-	-	864,969
Donated goods and services	371,069	-	-	371,069	-	371,069	-	-	371,069
Fundraising events	193,521	-	-	193,521	86,094	279,615	-	-	279,615
Parent and other fees	202,296	-	-	202,296	-	202,296	-	-	202,296
Miscellaneous	23,377	-	-	23,377	-	23,377	-	-	23,377
Condominium fees	-	-	-	-	-	-	57,197	(47,578)	9,619
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>8,581,395</u>
Operating Expenses:									
Program services:									
Head Start	4,286,195	105,642	-	4,391,837	-	4,391,837	-	-	4,391,837
Full Day Head Start	1,012,492	71,088	-	1,083,580	-	1,083,580	-	-	1,083,580
Early Head Start	457,012	16,169	-	473,181	-	473,181	-	-	473,181
School Age Care	543,534	55,392	-	598,926	-	598,926	-	-	598,926
Family Child Care	18,709	-	-	18,709	-	18,709	-	-	18,709
Family Enrichment Program	160,399	4,980	-	165,379	-	165,379	-	-	165,379
Coordinated Family and Community Engagement	71,137	5,784	-	76,921	-	76,921	-	-	76,921
Total program services	<u>6,549,478</u>	<u>259,055</u>	<u>-</u>	<u>6,808,533</u>	<u>-</u>	<u>6,808,533</u>	<u>-</u>	<u>-</u>	<u>6,808,533</u>
Supporting services:									
Administration	1,360,367	-	-	1,360,367	-	1,360,367	56,405	(47,578)	1,369,194
Development	515,017	2,856	-	517,873	-	517,873	-	-	517,873
Total supporting services	<u>1,875,384</u>	<u>2,856</u>	<u>-</u>	<u>1,878,240</u>	<u>-</u>	<u>1,878,240</u>	<u>56,405</u>	<u>(47,578)</u>	<u>1,887,067</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>8,695,600</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>(114,205)</u>
Non-Operating Activities:									
Investment return, net of fees	-	-	11,651	11,651	-	11,651	-	-	11,651
Bequest	-	-	35,000	35,000	-	35,000	-	-	35,000
Loss on disposal of property and equipment	-	(57,471)	-	(57,471)	-	(57,471)	-	-	(57,471)
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>(10,820)</u>
Changes in net assets	96,125	(319,382)	46,651	(176,606)	50,789	(125,817)	792	-	(125,025)
Net Assets, beginning of year	826,874	3,876,935	297,467	5,001,276	369,774	5,371,050	14,314	-	5,385,364
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>\$ 5,260,339</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, 2020 and 2019

	2020				2019			
	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	\$ 83,085	\$ 5,211	\$ -	\$ 88,296	\$ (125,817)	\$ 792	\$ -	\$ (125,025)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:								
Depreciation	247,143	-	-	247,143	261,911	-	-	261,911
Bad debts	5,201	-	-	5,201	7,969	-	-	7,969
Capital grant	(48,707)	-	-	(48,707)	-	-	-	-
Investment return, net of fees	(5,577)	-	-	(5,577)	(11,651)	-	-	(11,651)
Loss on disposal of property and equipment	-	-	-	-	57,471	-	-	57,471
Changes in operating assets and liabilities:								
Contracts and grants receivable	(44,363)	-	-	(44,363)	227,797	-	-	227,797
Parent fees and other receivables	11,299	2,075	(2,075)	11,299	(17,794)	(2,075)	2,075	(17,794)
Contributions receivable	(93,500)	-	-	(93,500)	108,133	-	-	108,133
Prepaid expenses	(4,081)	(218)	-	(4,299)	8,692	(115)	-	8,577
Accounts payable and other	18,890	(3,215)	2,075	17,750	(6,711)	2,890	(2,075)	(5,896)
Accrued expenses	22,338	235	-	22,573	(124,633)	558	-	(124,075)
Net cash provided by operating activities	<u>191,728</u>	<u>4,088</u>	<u>-</u>	<u>195,816</u>	<u>385,367</u>	<u>2,050</u>	<u>-</u>	<u>387,417</u>
Cash Flows from Investing Activities:								
Acquisition of property and equipment	(77,243)	-	-	(77,243)	(17,385)	-	-	(17,385)
Purchase of investments	(5,334)	-	-	(5,334)	(40,189)	-	-	(40,189)
Proceeds from sale of property and equipment	-	-	-	-	4,000	-	-	4,000
Net cash used in investing activities	<u>(82,577)</u>	<u>-</u>	<u>-</u>	<u>(82,577)</u>	<u>(53,574)</u>	<u>-</u>	<u>-</u>	<u>(53,574)</u>
Cash Flows from Financing Activities:								
Principal payments on long-term debt	(31,326)	-	-	(31,326)	(39,411)	-	-	(39,411)
Proceeds from contingent debt	126,000	-	-	126,000	-	-	-	-
Principal payments on capital lease obligation	-	-	-	-	(50,151)	-	-	(50,151)
Capital grant	48,707	-	-	48,707	-	-	-	-
Net cash provided by (used in) financing activities	<u>143,381</u>	<u>-</u>	<u>-</u>	<u>143,381</u>	<u>(89,562)</u>	<u>-</u>	<u>-</u>	<u>(89,562)</u>
Net Change in Operating Cash and Cash Equivalents	<u>252,532</u>	<u>4,088</u>	<u>-</u>	<u>256,620</u>	<u>242,231</u>	<u>2,050</u>	<u>-</u>	<u>244,281</u>
Operating Cash and Cash Equivalents:								
Beginning 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>
End of year	<u>\$ 1,133,891</u>	<u>\$ 24,249</u>	<u>\$ -</u>	<u>\$ 1,158,140</u>	<u>\$ 881,359</u>	<u>\$ 20,161</u>	<u>\$ -</u>	<u>\$ 901,520</u>
Supplemental Disclosure of Cash Flow Information:								
Cash paid for interest	<u>\$ 58,407</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,407</u>	<u>\$ 51,508</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,508</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, 2020

(With Summarized Comparative Totals for the Year Ended June 30, 2019)

	2020												2019				
	Pathways for Children, Inc.																
	Program Services							Supporting Services					29 Emerson Avenue Condominium Association		Eliminations	Total	Total
	Head Start	Full Day Head Start	Early Head Start	School Age Care	Family Enrichment Program	Coordinated Family and Community Engagement	Professional Development Programs	Total Program Services	Adminis-tration	Development	Total Supporting Services	Total					
Personnel and Related Costs:																	
Salaries and wages	\$ 2,437,526	\$ 370,415	\$ 341,437	\$ 347,567	\$ 106,934	\$ 47,815	\$ 9,800	\$ 3,661,494	\$ 665,357	\$ 384,080	\$ 1,049,437	\$ 4,710,931	\$ -	\$ -	\$ 4,710,931	\$ 4,906,490	
Payroll taxes and fringe benefits	692,424	106,660	96,076	97,863	30,098	13,494	977	1,037,592	189,595	107,647	297,242	1,334,834	-	-	1,334,834	1,376,585	
Total personnel and related costs	3,129,950	477,075	437,513	445,430	137,032	61,309	10,777	4,699,086	854,952	491,727	1,346,679	6,045,765	-	-	6,045,765	6,283,075	
Occupancy:																	
Other occupancy	120,507	14,729	4,627	24,771	2,272	2,664	10,722	180,292	79,125	1,333	80,458	260,750	51,437	-	312,187	383,526	
Donated rent	237,000	-	-	-	-	-	-	237,000	-	-	-	237,000	-	-	237,000	177,750	
Depreciation	71,932	23,849	5,629	27,187	3,473	4,072	-	136,142	14,612	2,036	16,648	152,790	-	-	152,790	154,565	
Interest	58,407	-	-	-	-	-	-	58,407	-	-	-	58,407	-	-	58,407	51,508	
Rent	2,400	-	-	-	-	-	-	2,400	48,468	-	48,468	50,868	-	(48,468)	2,400	3,418	
Total occupancy	490,246	38,578	10,256	51,958	5,745	6,736	10,722	614,241	142,205	3,369	145,574	759,815	51,437	(48,468)	762,784	770,767	
Other:																	
Contracted services	96,666	8,465	5,138	9,054	4,854	-	-	124,177	126,699	22,065	148,764	272,941	-	-	272,941	237,923	
Supplies	146,954	2,381	9,321	18,203	13,987	8,448	41,834	241,128	18,102	3,842	21,944	263,072	-	-	263,072	258,583	
Other operating costs	54,312	4,971	1,784	5,627	2,833	356	60,204	130,087	55,627	77,235	132,862	262,949	-	-	262,949	232,131	
Food	151,733	27,799	17,405	14,622	-	-	-	211,559	-	-	-	211,559	-	-	211,559	336,598	
Donated goods and services	143,696	-	-	-	-	-	-	143,696	-	-	-	143,696	-	-	143,696	193,319	
Depreciation	47,821	13,314	7,691	21,753	542	635	-	91,756	2,279	318	2,597	94,353	-	-	94,353	107,346	
Vehicle and related	61,440	6,302	4,794	8,327	-	-	-	80,863	-	-	-	80,863	-	-	80,863	81,133	
Professional fees	-	-	-	-	-	-	-	-	67,805	-	67,805	67,805	-	-	67,805	74,391	
Insurance	9,108	2,896	2,273	3,875	-	-	-	18,152	37,015	-	37,015	55,167	-	-	55,167	52,078	
Training	30,490	247	5,202	639	950	212	-	37,740	9,471	1,006	10,477	48,217	-	-	48,217	52,239	
Provider reimbursements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	16,017	
Total other	742,220	66,375	53,608	82,100	23,166	9,651	102,038	1,079,158	316,998	104,466	421,464	1,500,622	-	-	1,500,622	1,641,758	
Total expenses	\$ 4,362,416	\$ 582,028	\$ 501,377	\$ 579,488	\$ 165,943	\$ 77,696	\$ 123,537	\$ 6,392,485	\$ 1,314,155	\$ 599,562	\$ 1,913,717	\$ 8,306,202	\$ 51,437	\$ (48,468)	\$ 8,309,171	\$ 8,695,600	

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Consolidating Statement of Functional Expenses
For the Year Ended June 30, 2019

	Pathways for Children, Inc.							Supporting Services				29 Emerson Avenue Condominium Association	Eliminations	Total	
	Program Services							Adminis- tration	Development	Total Supporting Services	Total				
	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			
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
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
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
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
Donated rent	177,750	-	-	-	-	-	-	177,750	-	-	-	177,750	-	-	177,750
Depreciation	66,444	37,764	8,273	30,636	-	4,188	4,860	152,165	-	2,400	2,400	154,565	-	-	154,565
Interest	49,270	-	-	-	-	-	-	49,270	2,238	-	2,238	51,508	-	-	51,508
Rent	3,418	-	-	-	-	-	-	3,418	47,578	-	47,578	50,996	-	(47,578)	3,418
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
Other:															
Contracted services	98,388	1,662	334	3,141	-	1,999	-	105,524	115,241	17,158	132,399	237,923	-	-	237,923
Supplies	197,682	5,694	10,176	13,989	-	13,021	5,916	246,478	3,989	8,116	12,105	258,583	-	-	258,583
Other operating costs	52,523	8,206	1,410	4,693	-	1,670	531	69,033	54,408	108,690	163,098	232,131	-	-	232,131
Food	228,322	65,189	25,040	18,047	-	-	-	336,598	-	-	-	336,598	-	-	336,598
Donated goods and services	192,518	-	801	-	-	-	-	193,319	-	-	-	193,319	-	-	193,319
Depreciation	39,198	33,324	7,896	24,756	-	792	924	106,890	-	456	456	107,346	-	-	107,346
Vehicle and related	41,976	13,378	8,600	17,179	-	-	-	81,133	-	-	-	81,133	-	-	81,133
Professional fees	-	-	-	-	-	-	-	-	74,391	-	74,391	74,391	-	-	74,391
Insurance	16,744	-	-	-	-	-	-	16,744	35,334	-	35,334	52,078	-	-	52,078
Training	40,414	473	2,745	1,139	-	682	234	45,687	5,805	747	6,552	52,239	-	-	52,239
Provider reimbursements	-	-	-	-	16,017	-	-	16,017	-	-	-	16,017	-	-	16,017
Total other	907,765	127,926	57,002	82,944	16,017	18,164	7,605	1,217,423	289,168	135,167	424,335	1,641,758	-	-	1,641,758
Total expenses	\$ 4,391,837	\$ 1,083,580	\$ 473,181	\$ 598,926	\$ 18,709	\$ 165,379	\$ 76,921	\$ 6,808,533	\$ 1,360,367	\$ 517,873	\$ 1,878,240	\$ 8,686,773	\$ 56,405	\$ (47,578)	\$ 8,695,600

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2020 and 2019

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 2020, Pathways expanded into Professional Development, becoming a partner with North Shore Community College in offering courses under the Career Pathways in Early Childhood Education grant.

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

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).

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards

On July 1, 2019, Pathways adopted FASB's Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), with respect to its revenue recognition policies. The core principle of the new accounting guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of this standard did not have a significant impact on Pathways' consolidating financial statements as Pathways' primary source of revenue is from grants and contributions, which includes Pathways' government contracts. These contracts, which are reflected as government contracts and grants revenue in the accompanying consolidating statements of activities and changes in net assets, are not subject to this accounting standard.

On July 1, 2019, Pathways also adopted FASB's ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, using the modified prospective method. This ASU assists organizations in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. Under the modified prospective method, this ASU only applies to agreements not completed or entered into (revenue or expense that has not yet been recognized) as of July 1, 2019. Based on Pathways' evaluation of its grants and contributions, the timing and amount of revenue recognized previously is consistent with revenue recognition under the new standard. Under this ASU, all contract revenue, grants and contributions included in the accompanying consolidating statements of activities and changes in net assets have been classified and recorded in accordance with Topic 958.

Revenue Recognition

Contract Revenue, Grants and Contributions

In accordance with Topic 958, 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.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Parent and Other Fees

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

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.

Other Revenue

Interest, condominium fees, and other revenue are recorded as earned.

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, a capital grant, and a loss on disposal of property and equipment.

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).

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets Classifications (Continued)

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).

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 cash are considered for the 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 as of June 30, 2019. There was no allowance deemed necessary as of June 30, 2020.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions Receivable and Allowance for Doubtful Contributions

Contributions receivable at June 30, 2020 and 2019, 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 2020 or 2019.

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, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2020 and 2019. Pathways' tax returns are subject to examination by Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through November 11, 2020, which is the date the consolidated financial statements were available to be issued. See Note 9 for disclosure of a subsequent event. There were no other events that met the criteria for recognition or disclosure in the accompanying consolidated 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:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,158,140	\$ 901,520
Contracts, grants and other receivables, net of allowance for doubtful accounts	483,624	455,761
Contributions receivable	<u>53,900</u>	<u>19,500</u>
Total financial assets	1,695,664	1,376,781
Contractual or donor-imposed restrictions:		
Donor contributions restricted to specific purposes	(402,831)	(399,563)
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>\$ 1,192,833</u>	<u>\$ 877,218</u>

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2020 and 2019

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 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 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 RECEIVABLE

Contributions receivable are due as follows at June 30:

	<u>2020</u>	<u>2019</u>
Due within one year	\$ 55,750	\$ 19,500
Due in two to three years	<u>64,750</u>	<u>5,000</u>
	120,500	24,500
Less - allowance for doubtful contributions receivable	(4,000)	(3,350)
Less - discount	<u>(2,000)</u>	<u>(150)</u>
Total contributions receivable, net of allowance and discount	114,500	21,000
Less - current portion	<u>(53,900)</u>	<u>(19,500)</u>
	<u>\$ 60,600</u>	<u>\$ 1,500</u>

Long-term contributions receivable have been discounted to present value using a 3% discount factor at June 30, 2020 and 2019.

Approximately 66% and 100% of Pathways' gross contributions receivable were from four and three donors at June 30, 2020 and 2019, respectively.

Pathways has received notification of intentions to give of \$192,000 and \$80,000 from donor advised funds that have not been received as of June 30, 2020 and 2019, 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, 2020 and 2019

5. INVESTMENTS (Continued)

Investments consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Certificate of deposit	\$ <u>218,033</u>	\$ <u>212,699</u>
Endowment investments:		
Money market fund	<u>8,584</u>	<u>9,200</u>
Mutual funds:		
Equity	97,197	75,629
Fixed income	88,426	86,870
International	24,336	40,109
Alternative	15,635	15,308
Real estate	<u>15,517</u>	<u>17,002</u>
Total mutual funds	<u>241,111</u>	<u>234,198</u>
Total endowment investments, at fair value	<u>249,695</u>	<u>244,118</u>
Total investments	<u>\$ 467,728</u>	<u>\$ 456,817</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 \$8,381 and \$7,356 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATENotes to Consolidating Financial Statements
June 30, 2020 and 2019**6. ENDOWMENT (Continued)****Spending Policy (Continued)**

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

	<u>2020</u>	<u>2019</u>
Endowment net assets, beginning of year	\$ 244,118	\$ 197,467
Investment return, net of fees	5,577	11,651
Additions	<u>-</u>	<u>35,000</u>
Endowment net assets, end of year	<u>\$ 249,695</u>	<u>\$ 244,118</u>

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Land	\$ 837,162	\$ 837,162
Buildings	5,102,445	5,102,445
Building improvements	515,962	498,077
Equipment	694,465	683,814
Vehicles	<u>565,941</u>	<u>517,234</u>
	7,715,975	7,638,732
Less - accumulated depreciation	<u>3,192,138</u>	<u>2,944,995</u>
Net property and equipment	<u>\$ 4,523,837</u>	<u>\$ 4,693,737</u>

Portions of property and equipment are pledged to secure long-term debt (see Note 8). Pathways had \$1,736,777 and \$1,688,071 of property and equipment which were purchased with funds from U.S. Government agencies at June 30, 2020 and 2019, respectively. These government agencies retain a reversionary interest in these assets.

8. LONG-TERM DEBT

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

	<u>2020</u>	<u>2019</u>
5.5% note payable to a bank, due in monthly principal and interest installments of \$7,478, based on a twenty-year amortization schedule. The note matures in December 2038. The note is secured by a mortgage on a building.	\$ 1,014,682	\$ 1,046,698
Less - current portion	34,006	32,015
Less - unamortized debt issuance costs	<u>12,771</u>	<u>13,461</u>
	<u>\$ 967,905</u>	<u>\$ 1,001,222</u>

The note payable agreement contains various covenants with which Pathways must comply. Pathways was in compliance with these covenants at June 30, 2020 and 2019.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
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8. LONG-TERM DEBT (Continued)

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>
2021	\$ 34,006	\$ 690
2022	\$ 35,951	\$ 690
2023	\$ 38,008	\$ 690
2024	\$ 40,046	\$ 690
2025	\$ 42,474	\$ 690
Thereafter	\$ 824,197	\$ 9,321

9. CONTINGENT DEBT

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 will be used to pay certain payroll costs, including benefits as well as rent and utilities during the covered period as defined in the CARES Act. A portion of these funds may be forgiven, as defined in the agreement, at the end of the covered period and the remainder of the funds will be due over a two-year period with interest at 1%. Any repayment will be deferred for a period of ten months from the end of the covered period, when the note, plus interest, will be due in equal monthly payments through the maturity date as defined by the bank. There are no covenants with which to comply and the note is not secured by any collateral as of June 30, 2020.

There was no accrued interest recorded on the note payable as of June 30, 2020, as it would be immaterial to the overall consolidating financial statements.

As of November 11, 2020, Pathways submitted the application for forgiveness, but had not been legally released from the obligation. Pathways anticipates the note payable will be fully forgiven and, therefore, the balance has been classified as long-term in the accompanying consolidating statement of financial position as of June 30, 2020.

10. LINE OF CREDIT

On June 30, 2020 and 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 the *Wall Street Journal's* prime rate, plus 0.50%, with a floor of 5.50%. There was no outstanding balance on this line of credit as of June 30, 2020 and 2019. Pathways must comply with certain covenants as specified in the agreements. Pathways was in compliance with these covenants as of June 30, 2020 and 2019.

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Notes to Consolidating Financial Statements
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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>2020</u>	<u>2019</u>
Funds functioning as endowment (see Notes 5 and 6)	\$ 249,695	\$ 244,118
Strategic initiatives	<u>100,000</u>	<u>100,000</u>
	<u>\$ 349,695</u>	<u>\$ 344,118</u>

12. NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2020</u>	<u>2019</u>
Purpose restricted:		
School age care	\$ 110,792	\$ 11,500
Emergency response	87,918	-
Family enrichment program	77,421	128,192
Other educational programs	77,093	78,260
Social services	40,857	86,094
Institutional advancement	<u>8,750</u>	<u>95,517</u>
Total purpose restricted	402,831	399,563
Time restricted - contributions receivable	<u>114,500</u>	<u>21,000</u>
	<u>\$ 517,331</u>	<u>\$ 420,563</u>

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>2020</u>	<u>2019</u>
Purpose restricted:		
Family enrichment program	\$ 105,771	\$ 35,787
Institutional advancement	95,517	14,753
Other educational programs	61,960	87,662
Social services	45,237	-
School age care	<u>11,500</u>	<u>-</u>
Total purpose restricted	319,985	138,202
Time restricted - payments of contributions receivable	<u>19,500</u>	<u>108,133</u>
	<u>\$ 339,485</u>	<u>\$ 246,335</u>

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
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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>2020</u>	<u>2019</u>
Rent	\$ 237,000	\$ 177,750
Contracted services	143,696	154,909
Supplies	<u>-</u>	<u>38,410</u>
	<u>\$ 380,696</u>	<u>\$ 371,069</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, 2020 and 2019, management estimates the value of these services provided to Head Start and other programs to be approximately \$47,000 and \$49,000, 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 \$50,511 and \$53,091 for fiscal years 2020 and 2019, 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 financial position of Pathways as of June 30, 2020 and 2019, 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>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
U.S. Department of Health and Human Services (HHS)	52%	51%	63%	56%
Massachusetts Department of Early Education and Care (EEC)	20	22	27	28
Department of Elementary and Secondary Education	<u>2</u>	<u>4</u>	<u>-</u>	<u>11</u>
	<u>74%</u>	<u>77%</u>	<u>90%</u>	<u>95%</u>

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
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16. CONDITIONAL GRANTS

At June 30, 2020, Pathways had been awarded government contracts totaling \$5,473,339 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, 2020 and 2019, 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.

17. CONTINGENCIES

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.

In March 2020, the COVID-19 Coronavirus (COVID-19) pandemic emerged in the United States triggering widespread government mandated and voluntary business closures, which in turn have led to substantial interruptions in financial markets, employment and the economy as a whole. Though the potential financial effects cannot be reasonably estimated at this time, these circumstances may have adverse effects on Pathways, its operations and future consolidating financial statements.

Management of Pathways is monitoring these events closely to assess the financial impact of the situation and determine appropriate courses of action. As of the date of this report, Pathways is unable to accurately predict how COVID-19 will affect the results of its operations because the disease's severity and the duration of the outbreak are uncertain.

Management has applied for and was awarded a loan from the Small Business Administration under the Paycheck Protection Program (see Note 9).

18. 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.

19. RECLASSIFICATION

Certain amounts in the fiscal year 2019 consolidating financial statements have been reclassified to conform with the 2020 presentation.