



AND AFFILIATE

**CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

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June 30, 2021 and 2020

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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, 2021 and 2020, 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 above present fairly, in all material respects, the consolidating financial position of Pathways for Children, Inc. and Affiliate as of June 30, 2021 and 2020, 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.

AAFCPAs, Inc.

Westborough, Massachusetts
November 10, 2021

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Consolidating Statements of Financial Position
June 30, 2021 and 2020

Assets	2021						2020					
	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	\$ 1,005,632	\$ 277,360	\$ 1,282,992	\$ 24,611	\$ -	\$ 1,307,603	\$ 731,060	\$ 402,831	\$ 1,133,891	\$ 24,249	\$ -	\$ 1,158,140
Contracts and grants receivable	496,187	-	496,187	-	-	496,187	483,624	-	483,624	-	-	483,624
Parent fees and other receivables	14,648	-	14,648	-	-	14,648	-	-	-	-	-	-
Current portion of contributions receivable, net	-	62,497	62,497	-	-	62,497	-	53,900	53,900	-	-	53,900
Prepaid expenses	140,506	-	140,506	3,667	-	144,173	50,836	-	50,836	3,267	-	54,103
Total current assets	<u>1,656,973</u>	<u>339,857</u>	<u>1,996,830</u>	<u>28,278</u>	<u>-</u>	<u>2,025,108</u>	<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>
Other Assets:												
Contributions receivable, net	-	11,753	11,753	-	-	11,753	-	60,600	60,600	-	-	60,600
Investments	526,476	-	526,476	-	-	526,476	467,728	-	467,728	-	-	467,728
Property and equipment, net	4,350,210	-	4,350,210	-	-	4,350,210	4,523,837	-	4,523,837	-	-	4,523,837
Total other assets	<u>4,876,686</u>	<u>11,753</u>	<u>4,888,439</u>	<u>-</u>	<u>-</u>	<u>4,888,439</u>	<u>4,991,565</u>	<u>60,600</u>	<u>5,052,165</u>	<u>-</u>	<u>-</u>	<u>5,052,165</u>
Total assets	<u>\$ 6,533,659</u>	<u>\$ 351,610</u>	<u>\$ 6,885,269</u>	<u>\$ 28,278</u>	<u>\$ -</u>	<u>\$ 6,913,547</u>	<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>
Liabilities and Net Assets												
Current Liabilities:												
Current portion of long-term debt	\$ 35,951	\$ -	\$ 35,951	\$ -	\$ -	\$ 35,951	\$ 34,006	\$ -	\$ 34,006	\$ -	\$ -	\$ 34,006
Accounts payable and other	155,613	-	155,613	-	-	155,613	78,844	-	78,844	-	-	78,844
Accrued expenses	225,512	-	225,512	7,288	-	232,800	239,343	-	239,343	7,199	-	246,542
Total current liabilities	<u>417,076</u>	<u>-</u>	<u>417,076</u>	<u>7,288</u>	<u>-</u>	<u>424,364</u>	<u>352,193</u>	<u>-</u>	<u>352,193</u>	<u>7,199</u>	<u>-</u>	<u>359,392</u>
Other Liabilities:												
Long-term debt, net	932,644	-	932,644	-	-	932,644	967,905	-	967,905	-	-	967,905
Contingent debt	-	-	-	-	-	-	126,000	-	126,000	-	-	126,000
Total liabilities	<u>1,349,720</u>	<u>-</u>	<u>1,349,720</u>	<u>7,288</u>	<u>-</u>	<u>1,357,008</u>	<u>1,446,098</u>	<u>-</u>	<u>1,446,098</u>	<u>7,199</u>	<u>-</u>	<u>1,453,297</u>
Net Assets:												
Without donor restrictions:												
Operating	1,395,599	-	1,395,599	20,990	-	1,416,589	938,076	-	938,076	20,317	-	958,393
Property and equipment	3,381,615	-	3,381,615	-	-	3,381,615	3,521,926	-	3,521,926	-	-	3,521,926
Board designated	406,725	-	406,725	-	-	406,725	350,985	-	350,985	-	-	350,985
Total without donor restrictions	<u>5,183,939</u>	<u>-</u>	<u>5,183,939</u>	<u>20,990</u>	<u>-</u>	<u>5,204,929</u>	<u>4,810,987</u>	<u>-</u>	<u>4,810,987</u>	<u>20,317</u>	<u>-</u>	<u>4,831,304</u>
With donor restrictions	-	351,610	351,610	-	-	351,610	-	517,331	517,331	-	-	517,331
Total net assets	<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>	<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>
Total liabilities and net assets	<u>\$ 6,533,659</u>	<u>\$ 351,610</u>	<u>\$ 6,885,269</u>	<u>\$ 28,278</u>	<u>\$ -</u>	<u>\$ 6,913,547</u>	<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>

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Consolidating Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2021

(With Summarized Comparative Totals for the Year Ended June 30, 2020)

	2021								2020
	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	\$ 6,365,243	\$ -	\$ -	\$ 6,365,243	\$ 50,000	\$ 6,415,243	\$ -	\$ 6,415,243	\$ 6,533,892
Contributions	1,057,407	-	-	1,057,407	109,815	1,167,222	-	1,167,222	1,059,696
Donated goods and services	375,443	-	-	375,443	-	375,443	-	375,443	380,696
Fundraising events	54,350	-	-	54,350	-	54,350	-	54,350	246,880
Miscellaneous	49,974	-	-	49,974	-	49,974	-	49,974	9,264
Parent and other fees	17,157	-	-	17,157	-	17,157	-	17,157	103,285
Condominium fees	-	-	-	-	-	-	57,948	(43,461)	8,180
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>8,341,893</u>
Operating Expenses:									
Program services:									
Head Start	4,128,017	123,893	-	4,251,910	-	4,251,910	-	4,251,910	4,362,416
Full Day Head Start	500,407	22,116	-	522,523	-	522,523	-	522,523	582,028
Early Head Start	462,247	12,007	-	474,254	-	474,254	-	474,254	501,377
School Age Care	727,677	45,694	-	773,371	-	773,371	-	773,371	579,488
Family Enrichment Program	156,850	3,654	-	160,504	-	160,504	-	160,504	165,943
Coordinated Family and Community Engagement	78,522	2,315	-	80,837	-	80,837	-	80,837	77,696
Professional Development Programs	125,240	-	-	125,240	-	125,240	-	125,240	123,537
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>6,388,639</u>	<u>6,392,485</u>
Supporting services:									
Administration	1,192,449	23,107	-	1,215,556	-	1,215,556	57,275	(43,461)	1,317,124
Development	447,632	2,071	-	449,703	-	449,703	-	-	599,562
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>1,916,686</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>8,309,171</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>32,722</u>
Non-Operating Activities:									
Debt forgiveness	126,000	-	-	126,000	-	126,000	-	-	-
Investment return, net of fees	-	-	55,740	55,740	-	55,740	-	-	6,867
Capital grant	-	-	-	-	-	-	-	-	48,707
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>55,574</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>88,296</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>5,260,339</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>\$ 5,348,635</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

	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	\$ 6,533,892	\$ -	\$ -	\$ 6,533,892	\$ -	\$ 6,533,892	\$ -	\$ -	\$ 6,533,892
Contributions	732,235	-	-	732,235	327,461	1,059,696	-	-	1,059,696
Donated goods and services	380,696	-	-	380,696	-	380,696	-	-	380,696
Fundraising events	138,088	-	-	138,088	108,792	246,880	-	-	246,880
Miscellaneous	9,264	-	-	9,264	-	9,264	-	-	9,264
Parent and other fees	103,285	-	-	103,285	-	103,285	-	-	103,285
Condominium fees	-	-	-	-	-	-	56,648	(48,468)	8,180
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	8,236,945	-	-	8,236,945	96,768	8,333,713	56,648	(48,468)	8,341,893
Operating Expenses:									
Program services:									
Head Start	4,242,663	119,753	-	4,362,416	-	4,362,416	-	-	4,362,416
Full Day Head Start	544,865	37,163	-	582,028	-	582,028	-	-	582,028
Early Head Start	488,057	13,320	-	501,377	-	501,377	-	-	501,377
School Age Care	530,548	48,940	-	579,488	-	579,488	-	-	579,488
Family Enrichment Program	161,928	4,015	-	165,943	-	165,943	-	-	165,943
Coordinated Family and Community Engagement	72,989	4,707	-	77,696	-	77,696	-	-	77,696
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
Supporting services:									
Administration	1,296,574	17,581	-	1,314,155	-	1,314,155	51,437	(48,468)	1,317,124
Development	597,208	2,354	-	599,562	-	599,562	-	-	599,562
Total supporting services	1,893,782	19,935	-	1,913,717	-	1,913,717	51,437	(48,468)	1,916,686
Total operating expenses	8,058,369	247,833	-	8,306,202	-	8,306,202	51,437	(48,468)	8,309,171
Changes in net assets from operations	178,576	(247,833)	-	(69,257)	96,768	27,511	5,211	-	32,722
Non-Operating Activities:									
Investment return, net of fees	-	-	6,867	6,867	-	6,867	-	-	6,867
Capital grant	-	48,707	-	48,707	-	48,707	-	-	48,707
Total non-operating activities	-	48,707	6,867	55,574	-	55,574	-	-	55,574
Changes in net assets	178,576	(199,126)	6,867	(13,683)	96,768	83,085	5,211	-	88,296
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
Transfer for principal payments of debt	(32,016)	32,016	-	-	-	-	-	-	-
Transfer for property and equipment additions	(28,536)	28,536	-	-	-	-	-	-	-
Net Assets, end of year	\$ 938,076	\$ 3,521,926	\$ 350,985	\$ 4,810,987	\$ 517,331	\$ 5,328,318	\$ 20,317	\$ -	\$ 5,348,635

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, 2021 and 2020

	2021				2020			
	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	\$ 207,231	\$ 673	\$ -	\$ 207,904	\$ 83,085	\$ 5,211	\$ -	\$ 88,296
Adjustments to reconcile changes in net assets to net cash provided by operating activities:								
Depreciation	234,167	-	-	234,167	247,143	-	-	247,143
Amortization of debt issuance costs	690	-	-	690	690	-	-	690
Bad debts	-	-	-	-	5,201	-	-	5,201
Capital grant	-	-	-	-	(48,707)	-	-	(48,707)
Investment return, net of fees	(55,740)	-	-	(55,740)	(5,577)	-	-	(5,577)
Debt forgiveness	(126,000)	-	-	(126,000)	-	-	-	-
Changes in operating assets and liabilities:								
Contracts and grants receivable	(12,563)	-	-	(12,563)	(44,363)	-	-	(44,363)
Parent fees and other receivables	(14,648)	-	-	(14,648)	11,299	2,075	(2,075)	11,299
Contributions receivable	40,250	-	-	40,250	(93,500)	-	-	(93,500)
Prepaid expenses	(89,670)	(400)	-	(90,070)	(4,081)	(218)	-	(4,299)
Accounts payable and other	76,769	-	-	76,769	18,890	(3,215)	2,075	17,750
Accrued expenses	(13,831)	89	-	(13,742)	22,338	235	-	22,573
Net cash provided by operating activities	<u>246,655</u>	<u>362</u>	<u>-</u>	<u>247,017</u>	<u>192,418</u>	<u>4,088</u>	<u>-</u>	<u>196,506</u>
Cash Flows from Investing Activities:								
Acquisition of property and equipment	(60,540)	-	-	(60,540)	(77,243)	-	-	(77,243)
Purchase of investments	(3,008)	-	-	(3,008)	(5,334)	-	-	(5,334)
Net cash used in investing activities	<u>(63,548)</u>	<u>-</u>	<u>-</u>	<u>(63,548)</u>	<u>(82,577)</u>	<u>-</u>	<u>-</u>	<u>(82,577)</u>
Cash Flows from Financing Activities:								
Principal payments on long-term debt	(34,006)	-	-	(34,006)	(32,016)	-	-	(32,016)
Proceeds from contingent debt	-	-	-	-	126,000	-	-	126,000
Capital grant	-	-	-	-	48,707	-	-	48,707
Net cash provided by (used in) financing activities	<u>(34,006)</u>	<u>-</u>	<u>-</u>	<u>(34,006)</u>	<u>142,691</u>	<u>-</u>	<u>-</u>	<u>142,691</u>
Net Change in Operating Cash and Cash Equivalents	149,101	362	-	149,463	252,532	4,088	-	256,620
Operating Cash and Cash Equivalents:								
Beginning 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>
End of year	<u>\$ 1,282,992</u>	<u>\$ 24,611</u>	<u>\$ -</u>	<u>\$ 1,307,603</u>	<u>\$ 1,133,891</u>	<u>\$ 24,249</u>	<u>\$ -</u>	<u>\$ 1,158,140</u>
Supplemental Disclosure of Cash Flow Information:								
Cash paid for interest	<u>\$ 56,416</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56,416</u>	<u>\$ 58,407</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,407</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, 2021

(With Summarized Comparative Totals for the Year Ended June 30, 2020)

	2021												2020			
	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 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	\$ 2,333,794	\$ 349,046	\$ 319,985	\$ 463,873	\$ 104,911	\$ 50,663	\$ 27,973	\$ 3,650,245	\$ 654,733	\$ 272,352	\$ 927,085	\$ 4,577,330	\$ -	\$ -	\$ 4,577,330	\$ 4,710,931
Payroll taxes and fringe benefits	627,867	91,003	83,540	119,721	28,191	12,967	2,949	966,238	172,200	72,462	244,662	1,210,900	-	-	1,210,900	1,334,834
Total personnel and related costs	2,961,661	440,049	403,525	583,594	133,102	63,630	30,922	4,616,483	826,933	344,814	1,171,747	5,788,230	-	-	5,788,230	6,045,765
Occupancy:																
Other occupancy	232,265	26,134	12,394	47,623	5,885	3,728	-	328,029	21,776	3,335	25,111	353,140	55,325	-	408,465	312,187
Donated rent	237,000	-	-	-	-	-	-	237,000	-	-	-	237,000	-	-	237,000	237,000
Depreciation	81,613	16,080	6,944	28,992	3,654	2,315	-	139,598	13,521	2,071	15,592	155,190	-	-	155,190	152,790
Interest	56,416	-	-	-	-	-	-	56,416	-	-	-	56,416	-	-	56,416	58,407
Rent	2,400	-	-	-	-	-	-	2,400	43,461	-	43,461	45,861	-	(43,461)	2,400	2,400
Total occupancy	609,694	42,214	19,338	76,615	9,539	6,043	-	763,443	78,758	5,406	84,164	847,607	55,325	(43,461)	859,471	762,784
Other:																
Contracted services	110,017	4,775	4,388	8,641	3,601	2,835	62,884	197,141	97,869	26,142	124,011	321,152	-	-	321,152	272,941
Other operating costs	50,179	11,652	10,623	21,172	2,166	1,730	2,192	99,714	78,197	66,100	144,297	244,011	-	-	244,011	234,148
Supplies	118,600	2,407	7,863	31,662	10,804	6,526	29,242	207,104	11,917	6,503	18,420	225,524	-	-	225,524	291,873
Food	100,610	11,677	16,249	24,008	-	-	-	152,544	-	-	-	152,544	-	-	152,544	211,559
Donated goods and services	138,443	-	-	-	-	-	-	138,443	-	-	-	138,443	-	-	138,443	143,696
Depreciation	42,280	6,036	5,063	16,702	-	-	-	70,081	8,896	-	8,896	78,977	-	-	78,977	94,353
Vehicle and related	64,810	839	2,218	5,230	-	-	-	73,097	-	-	-	73,097	-	-	73,097	80,863
Training	46,174	-	2,714	1,897	1,292	73	-	52,150	15,071	738	15,809	67,959	-	-	67,959	48,217
Professional fees	-	-	-	-	-	-	-	-	58,572	-	58,572	58,572	1,950	-	60,522	67,805
Insurance	9,442	2,874	2,273	3,850	-	-	-	18,439	39,343	-	39,343	57,782	-	-	57,782	55,167
Total other	680,555	40,260	51,391	113,162	17,863	11,164	94,318	1,008,713	309,865	99,483	409,348	1,418,061	1,950	-	1,420,011	1,500,622
Total expenses	\$ 4,251,910	\$ 522,523	\$ 474,254	\$ 773,371	\$ 160,504	\$ 80,837	\$ 125,240	\$ 6,388,639	\$ 1,215,556	\$ 449,703	\$ 1,665,259	\$ 8,053,898	\$ 57,275	\$ (43,461)	\$ 8,067,712	\$ 8,309,171

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Consolidating Statement of Functional Expenses
For the Year Ended June 30, 2020

	Pathways for Children, Inc.													29 Emerson Avenue Condominium Association	Eliminations	Total
	Program Services							Supporting Services								
	Head Start	Full Day Head Start	Early Head Start	School Age Care	Family 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	
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	
Total personnel and related costs	<u>3,129,950</u>	<u>477,075</u>	<u>437,513</u>	<u>445,430</u>	<u>137,032</u>	<u>61,309</u>	<u>10,777</u>	<u>4,699,086</u>	<u>854,952</u>	<u>491,727</u>	<u>1,346,679</u>	<u>6,045,765</u>	<u>-</u>	<u>-</u>	<u>6,045,765</u>	
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	
Donated rent	237,000	-	-	-	-	-	-	237,000	-	-	-	237,000	-	-	237,000	
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	
Interest	58,407	-	-	-	-	-	-	58,407	-	-	-	58,407	-	-	58,407	
Rent	2,400	-	-	-	-	-	-	2,400	48,468	-	48,468	50,868	-	(48,468)	2,400	
Total occupancy	<u>490,246</u>	<u>38,578</u>	<u>10,256</u>	<u>51,958</u>	<u>5,745</u>	<u>6,736</u>	<u>10,722</u>	<u>614,241</u>	<u>142,205</u>	<u>3,369</u>	<u>145,574</u>	<u>759,815</u>	<u>51,437</u>	<u>(48,468)</u>	<u>762,784</u>	
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	
Other operating costs	54,312	4,971	1,784	5,627	2,833	356	31,403	101,286	55,627	77,235	132,862	234,148	-	-	234,148	
Supplies	146,954	2,381	9,321	18,203	13,987	8,448	70,635	269,929	18,102	3,842	21,944	291,873	-	-	291,873	
Food	151,733	27,799	17,405	14,622	-	-	-	211,559	-	-	-	211,559	-	-	211,559	
Donated goods and services	143,696	-	-	-	-	-	-	143,696	-	-	-	143,696	-	-	143,696	
Depreciation	47,821	13,314	7,691	21,753	542	635	-	91,756	2,279	318	2,597	94,353	-	-	94,353	
Vehicle and related	61,440	6,302	4,794	8,327	-	-	-	80,863	-	-	-	80,863	-	-	80,863	
Training	30,490	247	5,202	639	950	212	-	37,740	9,471	1,006	10,477	48,217	-	-	48,217	
Professional fees	-	-	-	-	-	-	-	-	67,805	-	67,805	67,805	-	-	67,805	
Insurance	9,108	2,896	2,273	3,875	-	-	-	18,152	37,015	-	37,015	55,167	-	-	55,167	
Total other	<u>742,220</u>	<u>66,375</u>	<u>53,608</u>	<u>82,100</u>	<u>23,166</u>	<u>9,651</u>	<u>102,038</u>	<u>1,079,158</u>	<u>316,998</u>	<u>104,466</u>	<u>421,464</u>	<u>1,500,622</u>	<u>-</u>	<u>-</u>	<u>1,500,622</u>	
Total expenses	<u>\$ 4,362,416</u>	<u>\$ 582,028</u>	<u>\$ 501,377</u>	<u>\$ 579,488</u>	<u>\$ 165,943</u>	<u>\$ 77,696</u>	<u>\$ 123,537</u>	<u>\$ 6,392,485</u>	<u>\$ 1,314,155</u>	<u>\$ 599,562</u>	<u>\$ 1,913,717</u>	<u>\$ 8,306,202</u>	<u>\$ 51,437</u>	<u>\$ (48,468)</u>	<u>\$ 8,309,171</u>	

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2021 and 2020

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 2021.

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

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, 2021 and 2020

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.

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 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, *Revenue from Contracts with Customers*.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

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).

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.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. There was no allowance deemed necessary as of June 30, 2021 and 2020.

Contributions Receivable and Allowance for Doubtful Contributions

Contributions receivable at June 30, 2021 and 2020, 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.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 - 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 2021 or 2020.

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.

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.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Pathways accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the consolidating financial statements regarding a tax position taken or expected to be taken in a tax return. Pathways has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the consolidating financial statements at June 30, 2021 and 2020. Pathways' tax returns are subject to examination by Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through November 10, 2021, 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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,307,603	\$ 1,158,140
Contracts, grants and other receivables	510,835	483,624
Contributions receivable, net	<u>62,497</u>	<u>53,900</u>
Total financial assets	1,880,935	1,695,664
Contractual or donor-imposed restrictions:		
Donor contributions restricted to specific purposes	(277,360)	(402,831)
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>\$ 1,503,575</u>	<u>\$ 1,192,833</u>

Pathways is supported in part by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, Pathways must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of Pathways' liquidity management, Pathways has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Pathways has a goal to maintain financial assets, which include cash and certificates of deposit, on hand to meet sixty days of normal operating expenses, which are, on average, approximately \$1,240,000. 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).

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2021 and 2020

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable are due as follows at June 30:

	<u>2021</u>	<u>2020</u>
Due within one year	\$ 63,750	\$ 55,750
Due in two to three years	<u>12,500</u>	<u>64,750</u>
	76,250	120,500
Less - allowance for doubtful contributions receivable	(1,500)	(4,000)
Less - discount	<u>(500)</u>	<u>(2,000)</u>
Total contributions receivable, net of allowance and discount	74,250	114,500
Less - current portion	<u>(62,497)</u>	<u>(53,900)</u>
	<u>\$ 11,753</u>	<u>\$ 60,600</u>

Long-term contributions receivable have been discounted to present value using a 3% discount factor at June 30, 2021 and 2020. Approximately 59% and 66% of Pathways' gross contributions receivable were from four donors at June 30, 2021 and 2020.

Pathways has received notification of intentions to give of \$183,500 and \$192,000 from donor advised funds that have not been received as of June 30, 2021 and 2020, 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.

Investments consist of the following at June 30:

	<u>2021</u>	<u>2020</u>
Certificate of deposit	<u>\$ 219,751</u>	<u>\$ 216,743</u>
Endowment investments:		
Money market fund	<u>12,445</u>	<u>9,874</u>
Mutual funds:		
Equity	137,505	97,197
Fixed income	106,565	88,426
International	32,749	24,336
Alternative	17,461	15,635
Real estate	-	<u>15,517</u>
Total mutual funds	<u>294,280</u>	<u>241,111</u>
Total endowment investments, at fair value	<u>306,725</u>	<u>250,985</u>
Total investments	<u>\$ 526,476</u>	<u>\$ 467,728</u>

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2021 and 2020

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 \$9,217 and \$8,381 for the years ended June 30, 2021 and 2020, 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, 2021 and 2020.

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

	<u>2021</u>	<u>2020</u>
Endowment net assets, beginning of year	\$ 250,985	\$ 244,118
Investment return, net of fees	<u>55,740</u>	<u>6,867</u>
Endowment net assets, end of year	<u>\$ 306,725</u>	<u>\$ 250,985</u>

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2021</u>	<u>2020</u>
Land	\$ 837,162	\$ 837,162
Buildings	5,102,445	5,102,445
Building improvements	555,302	515,962
Equipment	694,453	694,465
Vehicles	<u>565,941</u>	<u>565,941</u>
	7,755,303	7,715,975
Less - accumulated depreciation	<u>3,405,093</u>	<u>3,192,138</u>
Net property and equipment	<u>\$ 4,350,210</u>	<u>\$ 4,523,837</u>

Portions of property and equipment are pledged to secure long-term debt (see Note 8). Pathways had \$1,743,818 and \$1,736,777 of property and equipment which were purchased with funds from U.S. Government agencies at June 30, 2021 and 2020, respectively. These government agencies retain a reversionary interest in these assets.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2021 and 2020

8. LONG-TERM DEBT

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

	<u>2021</u>	<u>2020</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.	\$ 980,676	\$ 1,014,682
Less - current portion	35,951	34,006
Less - unamortized debt issuance costs	<u>12,081</u>	<u>12,771</u>
	<u>\$ 932,644</u>	<u>\$ 967,905</u>

The note payable agreement contains various covenants with which Pathways must comply. Pathways was in compliance with these covenants at June 30, 2021 and 2020.

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>
2022	\$ 35,951	\$ 690
2023	\$ 38,008	\$ 690
2024	\$ 40,046	\$ 690
2025	\$ 42,474	\$ 690
2026	\$ 44,904	\$ 690
Thereafter	\$ 779,293	\$ 8,631

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.

10. LINE OF CREDIT

On June 30, 2021 and 2020, 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, 2021 and 2020. Pathways must comply with certain covenants as specified in the agreements. Pathways was in compliance with these covenants as of June 30, 2021 and 2020.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2021 and 2020

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>2021</u>	<u>2020</u>
Funds functioning as endowment (see Notes 5 and 6)	\$ 306,725	\$ 250,985
Strategic initiatives	<u>100,000</u>	<u>100,000</u>
	<u>\$ 406,725</u>	<u>\$ 350,985</u>

12. NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2021</u>	<u>2020</u>
Purpose restricted:		
Other educational programs	\$ 122,041	\$ 77,093
School age care	108,792	110,792
Family enrichment program	46,527	77,421
Pandemic response	-	87,918
Social services	-	40,857
Institutional advancement	<u>-</u>	<u>8,750</u>
Total purpose restricted	277,360	402,831
Time restricted - contributions receivable	<u>74,250</u>	<u>114,500</u>
	<u>\$ 351,610</u>	<u>\$ 517,331</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>2021</u>	<u>2020</u>
Purpose restricted:		
Pandemic response	\$ 87,918	\$ -
Family enrichment program	65,894	105,771
Other educational programs	65,867	61,960
Social services	40,857	45,237
Institutional advancement	8,750	95,517
School age care	<u>2,000</u>	<u>11,500</u>
Total purpose restricted	271,286	319,985
Time restricted - payments of contributions receivable	<u>54,250</u>	<u>19,500</u>
	<u>\$ 325,536</u>	<u>\$ 339,485</u>

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2021 and 2020

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>2021</u>	<u>2020</u>
Rent	\$ 237,000	\$ 237,000
Contracted services	135,443	143,696
Supplies	<u>3,000</u>	<u>-</u>
	<u>\$ 375,443</u>	<u>\$ 380,696</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, 2021 and 2020, management estimates the value of these services provided to Head Start and other programs to be approximately \$18,000 and \$47,000, 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 \$55,513 and \$50,511 for fiscal years 2021 and 2020, 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, 2021 and 2020, 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>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
U.S. Department of Health and Human Services (HHS)	54%	52%	61%	63%
Massachusetts Department of Early Education and Care (EEC)	<u>20</u>	<u>20</u>	<u>16</u>	<u>27</u>
	<u>74%</u>	<u>72%</u>	<u>77%</u>	<u>90%</u>

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
June 30, 2021 and 2020

16. CONDITIONAL GRANTS

At June 30, 2021 and 2020, Pathways had been awarded government contracts totaling \$5,766,135 and \$5,473,339, 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, 2021 and 2020, 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

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.

Coronavirus

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.

18. RECLASSIFICATIONS

Certain amounts in the fiscal year 2020 consolidating financial statements have been reclassified to conform with the fiscal year 2021 presentation.