Pathways for children

Since 1967

AND AFFILIATE

CONSOLIDATING FINANCIAL STATEMENTS IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* AND UNIFORM GUIDANCE
JUNE 30, 2023 AND 2022

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Contents
June 30, 2023 and 2022

AAFCPAs
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Unmodified Opinion on Financial Statements Accompanied by Supplementary Information - Not-For-Profit Entity

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidating financial statements of Pathways for Children, Inc. (a Massachusetts nonprofit corporation) and 29 Emerson Avenue Condominium Association (a Massachusetts association) (Affiliate) (collectively, Pathways) which comprise the consolidating statements of financial position as of June 30, 2023 and 2022, and the related consolidating statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the consolidating financial statements.

In our opinion, the accompanying consolidating financial statements present fairly, in all material respects, the consolidating financial position of Pathways for Children, Inc. and 29 Emerson Avenue Condominium Association as of June 30, 2023 and 2022, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter - Change in Accounting Principle

As disclosed in Notes 2 and 9 to the consolidating financial statements, effective July 1, 2022, Pathways adopted Financial Accounting Standards Board's (FASB) Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, using the optional transition method, which does not require prior periods to be recast. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidating financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidating financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidating financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidating financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Pathways' internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidating financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, which raise substantial doubt about Pathways' ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidating financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended June 30, 2023, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidating financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidating financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidating financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidating financial statements or to the consolidating financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidating financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2023, on our consideration of Pathways' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Pathways' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pathways' internal control over financial reporting and compliance.

AAFCPAs, Inc.

Westborough, Massachusetts
November 8, 2023

Consolidating Statements of Financial Position
June 30, 2023 and 2022

	2023					2022				
	Pathways for Children, Inc.					Pathways for Children, Inc.				
Assets	Without Donor Restrictions	With Donor Restrictions	Total	29 Emerson Avenue Condominium Association	Total	Without Donor Restrictions	With Donor Restrictions	Total	29 Emerson Avenue Condominium Association	Total
Current Assets:										
Cash and cash equivalents	$ 1,659,448	$ 326,895	$ 1,986,343	$ 40,114	$ 2,026,457	$ 1,873,036	$ 344,678	$ 2,217,714	$ 27,307	$ 2,245,021
Contracts and grants receivable	597,713	-	597,713	-	597,713	440,206	-	440,206	-	440,206
Parent voucher and other fees receivable	75,370	-	75,370	-	75,370	22,820	-	22,820	-	22,820
Current portion of contributions receivable, net	-	5,500	5,500	-	5,500	-	10,925	10,925	-	10,925
Prepaid expenses	69,044	-	69,044	4,392	73,436	158,830	-	158,830	3,980	162,810
Total current assets	2,401,575	332,395	2,733,970	44,506	2,778,476	2,494,892	355,603	2,850,495	31,287	2,881,782
Other Assets:										
Contributions receivable, net	-	-	-	-	-	-	5,825	5,825	-	5,825
Investments	1,265,699	-	1,265,699	-	1,265,699	539,018	-	539,018	-	539,018
Right-of-Use, operating lease asset	148,649	-	148,649	-	148,649	-	-	-	-	-
Property and equipment, net	4,591,409	-	4,591,409	-	4,591,409	4,579,224	-	4,579,224	-	4,579,224
Total other assets	6,005,757	-	6,005,757	-	6,005,757	5,118,242	5,825	5,124,067	-	5,124,067
Total assets	$ 8,407,332	$ 332,395	$ 8,739,727	$ 44,506	$ 8,784,233	$ 7,613,134	$ 361,428	$ 7,974,562	$ 31,287	$ 8,005,849
Liabilities and Net Assets										
Current Liabilities:										
Current portion of long-term debt	$ 23,989	$ -	$ 23,989	$ -	$ 23,989	$ 22,773	$ -	$ 22,773	$ -	$ 22,773
Current portion of operating lease liability	59,235	-	59,235	-	59,235	-	-	-	-	-
Current portion of conditional advances	50,000	-	50,000	-	50,000	-	-	-	-	-
Accounts payable and other	78,746	-	78,746	-	78,746	144,938	-	144,938	-	144,938
Accrued expenses	307,485	-	307,485	10,375	317,860	221,279	-	221,279	10,900	232,179
Total current liabilities	519,455	-	519,455	10,375	529,830	388,990	-	388,990	10,900	399,890
Other Liabilities:										
Long-term debt, net	540,869	-	540,869	-	540,869	564,168	-	564,168	-	564,168
Operating lease liability, net of current portion	90,644	-	90,644	-	90,644	-	-	-	-	-
Conditional advances, net of current portion	258,270	-	258,270	-	258,270	-	-	-	-	-
Total liabilities	1,409,238	-	1,409,238	10,375	1,419,613	953,158	-	953,158	10,900	964,058
Net Assets:										
Without donor restrictions:										
Operating	2,525,910	-	2,525,910	34,131	2,560,041	2,250,648	-	2,250,648	20,387	2,271,035
Property and equipment	4,025,321	-	4,025,321	-	4,025,321	3,992,283	-	3,992,283	-	3,992,283
Board designated	446,863	-	446,863	-	446,863	417,045	-	417,045	-	417,045
Total without donor restrictions	6,998,094	-	6,998,094	34,131	7,032,225	6,659,976	-	6,659,976	20,387	6,680,363
With donor restrictions	-	332,395	332,395	-	332,395	-	361,428	361,428	-	361,428
Total net assets	6,998,094	332,395	7,330,489	34,131	7,364,620	6,659,976	361,428	7,021,404	20,387	7,041,791
Total liabilities and net assets	$ 8,407,332	$ 332,395	$ 8,739,727	$ 44,506	$ 8,784,233	$ 7,613,134	$ 361,428	$ 7,974,562	$ 31,287	$ 8,005,849

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, 2023
(With Summarized Comparative Totals for the Year Ended June 30, 2022)

	2023									2022
	Pathways for Children, Inc.									
	Without Donor Restrictions									
	Operating	Property and Equipment	Board Designated	Total Without Donor Restrictions	With Donor Restrictions	Total	29 Emerson Avenue Condominium Association	Eliminations	Total	Total
Operating Revenues:										
Government contracts and grants	$ 8,020,279	$ -	$ -	$ 8,020,279	$ -	$ 8,020,279	$ -	$ -	$ 8,020,279	$ 7,376,223
Contributions	923,813	-	-	923,813	151,423	1,075,236	-	-	1,075,236	1,036,002
Donated goods and services	376,365	-	-	376,365	-	376,365	-	-	376,365	369,235
Parent, voucher and other fees	286,484	-	-	286,484	-	286,484	-	-	286,484	190,034
Fundraising events	255,830	-	-	255,830	-	255,830	-	-	255,830	260,221
Miscellaneous	137,063	-	-	137,063	-	137,063	-	-	137,063	72,971
Condominium fees	-	-	-	-	-	-	85,103	(63,828)	21,275	18,189
Net assets released from time restrictions	11,250	-	-	11,250	(11,250)	-	-	-	-	-
Net assets released from purpose restrictions	169,206	-	-	169,206	(169,206)	-	-	-	-	-
Total operating revenues	10,180,290	-	-	10,180,290	(29,033)	10,151,257	85,103	(63,828)	10,172,532	9,322,875
Operating Expenses:										
Program services:										
Head Start	5,162,896	155,023	-	5,317,919	-	5,317,919	-	-	5,317,919	4,829,526
Full Day Head Start	461,747	16,707	-	478,454	-	478,454	-	-	478,454	417,231
Early Head Start	439,219	17,005	-	456,224	-	456,224	-	-	456,224	412,806
School Age Care	740,591	20,383	-	760,974	-	760,974	-	-	760,974	589,119
Family Centered Programs	752,416	2,805	-	755,221	-	755,221	-	-	755,221	336,802
Professional Development Programs	97,127	-	-	97,127	-	97,127	-	-	97,127	78,011
Total program services	7,653,996	211,923	-	7,865,919	-	7,865,919	-	-	7,865,919	6,663,495
Supporting services:										
Administration	1,518,419	35,951	-	1,554,370	-	1,554,370	71,359	(63,828)	1,561,901	1,201,495
Development	574,320	6,632	-	580,952	-	580,952	-	-	580,952	511,036
Total supporting services	2,092,739	42,583	-	2,135,322	-	2,135,322	71,359	(63,828)	2,142,853	1,712,531
Total operating expenses	9,746,735	254,506	-	10,001,241	-	10,001,241	71,359	(63,828)	10,008,772	8,376,026
Changes in net assets from operations	433,555	(254,506)	-	179,049	(29,033)	150,016	13,744	-	163,760	946,849
Non-Operating Activities:										
Capital grants	-	127,961	-	127,961	-	127,961	-	-	127,961	528,083
Investment return, net of fees	1,290	-	29,818	31,108	-	31,108	-	-	31,108	(39,680)
Bequest	-	-	-	-	-	-	-	-	-	50,000
Total non-operating activities	1,290	127,961	29,818	159,069	-	159,069	-	-	159,069	538,403
Changes in net assets	434,845	(126,545)	29,818	338,118	(29,033)	309,085	13,744	-	322,829	1,485,252
Net Assets, beginning of year	2,250,648	3,992,283	417,045	6,659,976	361,428	7,021,404	20,387	-	7,041,791	5,556,539
Transfer for principal payments of debt	(22,773)	22,773	-	-	-	-	-	-	-	-
Transfer for property and equipment additions	(138,040)	138,040	-	-	-	-	-	-	-	-
Transfer for leases	1,230	(1,230)	-	-	-	-	-	-	-	-
Net Assets, end of year	$ 2,525,910	$ 4,025,321	$ 446,863	$ 6,998,094	$ 332,395	$ 7,330,489	$ 34,131	$ -	$ 7,364,620	$ 7,041,791

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

Consolidating Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2022

	Pathways for Children, Inc.						29 Emerson Avenue Condominium Association	Eliminations	Total
	Without Donor Restrictions								
	Operating	Property and Equipment	Board Designated	Total Without Donor Restrictions	With Donor Restrictions	Total			
Operating Revenues:									
Government contracts and grants	$ 7,376,223	$ -	$ -	$ 7,376,223	$ -	$ 7,376,223	$ -	$ -	$ 7,376,223
Contributions	843,413	-	-	843,413	192,589	1,036,002	-	-	1,036,002
Donated goods and services	369,235	-	-	369,235	-	369,235	-	-	369,235
Parent, voucher and other fees	190,034	-	-	190,034	-	190,034	-	-	190,034
Fundraising events	260,221	-	-	260,221	-	260,221	-	-	260,221
Miscellaneous	72,971	-	-	72,971	-	72,971	-	-	72,971
Condominium fees	-	-	-	-	-	-	72,752	(54,563)	18,189
Net assets released from time restrictions	57,500	-	-	57,500	(57,500)	-	-	-	-
Net assets released from purpose restrictions	125,271	-	-	125,271	(125,271)	-	-	-	-
Total operating revenues	9,294,868	-	-	9,294,868	9,818	9,304,686	72,752	(54,563)	9,322,875
Operating Expenses:									
Program services:									
Head Start	4,701,984	127,542	-	4,829,526	-	4,829,526	-	-	4,829,526
Full Day Head Start	398,500	18,731	-	417,231	-	417,231	-	-	417,231
Early Head Start	400,613	12,193	-	412,806	-	412,806	-	-	412,806
School Age Care	544,432	44,687	-	589,119	-	589,119	-	-	589,119
Family Centered Programs	329,516	7,286	-	336,802	-	336,802	-	-	336,802
Professional Development Programs	78,011	-	-	78,011	-	78,011	-	-	78,011
Total program services	6,453,056	210,439	-	6,663,495	-	6,663,495	-	-	6,663,495
Supporting services:									
Administration	1,163,676	19,027	-	1,182,703	-	1,182,703	73,355	(54,563)	1,201,495
Development	508,365	2,671	-	511,036	-	511,036	-	-	511,036
Total supporting services	1,672,041	21,698	-	1,693,739	-	1,693,739	73,355	(54,563)	1,712,531
Total operating expenses	8,125,097	232,137	-	8,357,234	-	8,357,234	73,355	(54,563)	8,376,026
Changes in net assets from operations	1,169,771	(232,137)	-	937,634	9,818	947,452	(603)	-	946,849
Non-Operating Activities:									
Capital grants	-	528,083	-	528,083	-	528,083	-	-	528,083
Investment return, net of fees	-	-	(39,680)	(39,680)	-	(39,680)	-	-	(39,680)
Bequest	-	-	50,000	50,000	-	50,000	-	-	50,000
Total non-operating activities	-	528,083	10,320	538,403	-	538,403	-	-	538,403
Changes in net assets	1,169,771	295,946	10,320	1,476,037	9,818	1,485,855	(603)	-	1,485,252
Net Assets, beginning of year	1,395,599	3,381,615	406,725	5,183,939	351,610	5,535,549	20,990	-	5,556,539
Transfer for principal payments of debt	(32,344)	32,344	-	-	-	-	-	-	-
Transfer for property and equipment additions	(282,378)	282,378	-	-	-	-	-	-	-
Net Assets, end of year	$ 2,250,648	$ 3,992,283	$ 417,045	$ 6,659,976	$ 361,428	$ 7,021,404	$ 20,387	$ -	$ 7,041,791

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

Consolidating Statements of Cash Flows
For the Years Ended June 30, 2023 and 2022

	2023			2022		
	Pathways for Children, Inc.	29 Emerson Avenue Condominium Association	Total	Pathways for Children, Inc.	29 Emerson Avenue Condominium Association	Total
Cash Flows from Operating Activities:						
Changes in net assets	$ 309,085	$ 13,744	$ 322,829	$ 1,485,855	$ (603)	$ 1,485,252
Adjustments to reconcile changes in net assets to net cash provided by operating activities:						
Depreciation	253,816	-	253,816	231,447	-	231,447
Non-cash lease expense	1,230	-	1,230	-	-	-
Amortization of debt issuance costs	690	-	690	690	-	690
Capital grants	(127,961)	-	(127,961)	(528,083)	-	(528,083)
Investment return, net of fees	(31,108)	-	(31,108)	39,680	-	39,680
Changes in operating assets and liabilities:						
Contracts and grants receivable	(157,507)	-	(157,507)	41,101	-	41,101
Parent, voucher and other fees receivable	(52,550)	-	(52,550)	6,708	-	6,708
Contributions receivable	11,250	-	11,250	57,500	-	57,500
Prepaid expenses	89,786	(412)	89,374	(18,324)	(313)	(18,637)
Accounts payable and other	(66,192)	-	(66,192)	(84,859)	-	(84,859)
Conditional advances	308,270	-	308,270	-	-	-
Accrued expenses	86,206	(525)	85,681	(4,233)	3,612	(621)
Net cash provided by operating activities	625,015	12,807	637,822	1,227,482	2,696	1,230,178
Cash Flows from Investing Activities:						
Acquisition of property and equipment	(266,001)	-	(266,001)	(386,277)	-	(386,277)
Purchase of investments	(695,573)	-	(695,573)	(52,222)	-	(52,222)
Net cash used in investing activities	(961,574)	-	(961,574)	(438,499)	-	(438,499)
Cash Flows from Financing Activities:						
Principal payments on long-term debt	(22,773)	-	(22,773)	(382,344)	-	(382,344)
Capital grants	127,961	-	127,961	528,083	-	528,083
Net cash provided by financing activities	105,188	-	105,188	145,739	-	145,739
Net Change in Operating Cash and Cash Equivalents	(231,371)	12,807	(218,564)	934,722	2,696	937,418
Operating Cash and Cash Equivalents:						
Beginning of year	2,217,714	27,307	2,245,021	1,282,992	24,611	1,307,603
End of year	$ 1,986,343	$ 40,114	$ 2,026,457	$ 2,217,714	$ 27,307	$ 2,245,021
Supplemental Disclosure of Cash Flow Information:						
Cash paid for interest	$ 33,482	$ -	$ 33,482	$ 49,536	$ -	$ 49,536

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, 2023
(With Summarized Comparative Totals for the Year Ended June 30, 2022)

	2023														2022
	Pathways for Children, Inc.														
	Program Services							Supporting Services							
	Head Start	Full Day Head Start	Early Head Start	School Age Care	Family Centered Programs	Professional Development Programs	Total Program Services	Adminis- tration	Development	Total Supporting Services	Total	29 Emerson Avenue Condominium Association	Eliminations	Total	Total
Personnel and Related Costs:															
Salaries and wages	$ 3,039,552	$ 328,900	$ 301,330	$ 400,740	$ 326,702	$ 28,622	$ 4,425,846	$ 823,777	$ 364,443	$ 1,188,220	$ 5,614,066	$ -	$ -	$ 5,614,066	$ 4,591,962
Payroll taxes and fringe benefits	820,655	85,212	79,801	102,269	86,034	3,523	1,177,494	220,931	96,101	317,032	1,494,526	-	-	1,494,526	1,247,355
Total personnel and related costs	3,860,207	414,112	381,131	503,009	412,736	32,145	5,603,340	1,044,708	460,544	1,505,252	7,108,592	-	-	7,108,592	5,839,317
Occupancy:															
Other occupancy	236,811	28,479	17,131	62,889	37,464	1,121	383,895	31,531	5,594	37,125	421,020	69,309	-	490,329	579,766
Donated rent	252,800	-	-	-	-	-	252,800	-	-	-	252,800	-	-	252,800	237,000
Depreciation	87,763	16,707	14,029	9,183	2,805	-	130,487	29,461	6,632	36,093	166,580	-	-	166,580	156,448
Interest	33,482	-	-	-	-	-	33,482	-	-	-	33,482	-	-	33,482	49,536
Rent	5,766	-	-	-	25,408	-	31,174	63,828	-	63,828	95,002	-	(63,828)	31,174	2,401
Total occupancy	616,622	45,186	31,160	72,072	65,677	1,121	831,838	124,820	12,226	137,046	968,884	69,309	(63,828)	974,365	1,025,151
Other:															
Contracted services	135,328	-	4,537	55,388	90,573	48,910	334,736	78,103	21,405	99,508	434,244	-	-	434,244	348,088
Other operating costs	104,474	1,114	5,060	10,670	98,305	3,581	223,204	126,016	77,682	203,698	426,902	-	-	426,902	205,679
Food	271,867	6,851	17,672	32,342	-	-	328,732	-	-	-	328,732	-	-	328,732	219,179
Supplies	61,403	10,518	8,524	43,301	86,143	11,370	221,259	8,348	8,391	16,739	237,998	-	-	237,998	228,697
Donated goods and services	123,565	-	-	-	-	-	123,565	-	-	-	123,565	-	-	123,565	132,235
Depreciation	67,260	-	2,976	11,200	-	-	81,436	5,800	-	5,800	87,236	-	-	87,236	74,999
Vehicle and related	57,487	673	1,004	21,544	-	-	80,708	-	-	-	80,708	-	-	80,708	84,858
Professional fees	420	-	-	-	-	-	420	69,259	-	69,259	69,679	2,050	-	71,729	76,094
Insurance	-	-	2,087	7,644	-	-	9,731	60,206	-	60,206	69,937	-	-	69,937	64,433
Training	19,286	-	2,073	3,804	1,787	-	26,950	37,110	704	37,814	64,764	-	-	64,764	77,296
Total other	841,090	19,156	43,933	185,893	276,808	63,861	1,430,741	384,842	108,182	493,024	1,923,765	2,050	-	1,925,815	1,511,558
Total expenses	$ 5,317,919	$ 478,454	$ 456,224	$ 760,974	$ 755,221	$ 97,127	$ 7,865,919	$ 1,554,370	$ 580,952	$ 2,135,322	$ 10,001,241	$ 71,359	$ (63,828)	$ 10,008,772	$ 8,376,026

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Consolidating Statement of Functional Expenses
For the Year Ended June 30, 2022

	Pathways for Children, Inc.													
	Program Services							Supporting Services						
	Head Start	Full Day Head Start	Early Head Start	School Age Care	Family Centered Programs	Professional Development Programs	Total Program Services	Adminis-tration	Development	Total Supporting Services	Total	29 Emerson Avenue Condominium Association	Eliminations	Total
Personnel and Related Costs:														
Salaries and wages	$ 2,599,327	$ 280,747	$ 279,987	$ 315,963	$ 208,236	$ 23,018	$ 3,707,278	$ 594,527	$ 290,157	$ 884,684	$ 4,591,962	$ -	$ -	$ 4,591,962
Payroll taxes and fringe benefits	743,021	64,505	75,920	89,558	48,448	2,209	1,023,661	145,257	78,437	223,694	1,247,355	-	-	1,247,355
Total personnel and related costs	3,342,348	345,252	355,907	405,521	256,684	25,227	4,730,939	739,784	368,594	1,108,378	5,839,317	-	-	5,839,317
Occupancy:														
Other occupancy	351,952	43,052	12,914	54,550	13,381	-	475,849	27,655	4,907	32,562	508,411	71,355	-	579,766
Donated rent	237,000	-	-	-	-	-	237,000	-	-	-	237,000	-	-	237,000
Depreciation	82,015	13,599	6,921	28,899	7,286	-	138,720	15,057	2,671	17,728	156,448	-	-	156,448
Interest	49,536	-	-	-	-	-	49,536	-	-	-	49,536	-	-	49,536
Rent	2,400	-	-	-	-	-	2,400	54,564	-	54,564	56,964	-	(54,563)	2,401
Total occupancy	722,903	56,651	19,835	83,449	20,667	-	903,505	97,276	7,578	104,854	1,008,359	71,355	(54,563)	1,025,151
Other:														
Contracted services	113,352	131	5,457	11,806	10,345	40,153	181,244	136,000	30,844	166,844	348,088	-	-	348,088
Other operating costs	27,410	705	794	1,708	2,435	1,542	34,594	72,758	98,327	171,085	205,679	-	-	205,679
Food	161,947	8,372	12,031	36,829	-	-	219,179	-	-	-	219,179	-	-	219,179
Supplies	147,848	689	4,531	14,385	44,143	11,089	222,685	2,477	3,535	6,012	228,697	-	-	228,697
Donated goods and services	132,235	-	-	-	-	-	132,235	-	-	-	132,235	-	-	132,235
Depreciation	45,527	5,132	5,272	15,788	-	-	71,719	3,280	-	3,280	74,999	-	-	74,999
Vehicle and related	76,130	299	1,989	6,440	-	-	84,858	-	-	-	84,858	-	-	84,858
Professional fees	360	-	-	-	-	-	360	73,734	-	73,734	74,094	2,000	-	76,094
Insurance	-	-	2,065	5,717	-	-	7,782	56,651	-	56,651	64,433	-	-	64,433
Training	59,466	-	4,925	7,476	2,528	-	74,395	743	2,158	2,901	77,296	-	-	77,296
Total other	764,275	15,328	37,064	100,149	59,451	52,784	1,029,051	345,643	134,864	480,507	1,509,558	2,000	-	1,511,558
Total expenses	$ 4,829,526	$ 417,231	$ 412,806	$ 589,119	$ 336,802	$ 78,011	$ 6,663,495	$ 1,182,703	$ 511,036	$ 1,693,739	$ 8,357,234	$ 73,355	$ (54,563)	$ 8,376,026

1. OPERATIONS AND NONPROFIT STATUS

Pathways for Children, Inc. and Affiliate (collectively, Pathways) is dedicated to meeting the educational, social, and emotional needs of children and families on Massachusetts' North Shore. Pathways' mission is to nurture children and support families impacted by economic and social inequity through programs that educate, enrich, empower and motivate. Pathways' programs and culture are built around four core values: respect, trust, collaboration and opportunity. Since 1967, Pathways has grown from a small Head Start program serving Cape Ann children to its current status as a leading provider of holistic family support, with services ranging from comprehensive early education and care to parent training and support groups. With centers located in Gloucester, Beverly and Salem, Massachusetts, Pathways served more than 2,500 Essex County children and their family members in fiscal year 2023.

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 five to thirteen 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. In fiscal year 2023, Pathways was awarded the Family Resource Center contract for the North Shore through the Department of Children and Families. Pathways opened the center, located in Shetland Park, Salem, Massachusetts on February 1, 2023. The Family Resource Center Salem is part of a statewide network of community-based providers offering parenting programs, support groups, information and referral, and education for families whose children range in age from birth to eighteen.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Recently Adopted Accounting Pronouncement

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The update requires a lessee to recognize, on the consolidating statement of financial position, a liability to make lease payments and a right-of-use (ROU) asset representing a right to use the underlying asset for the lease term. Additionally, this guidance expanded related disclosure requirements. On July 1, 2022, Pathways adopted the new standard and elected the optional transition method, as allowed by ASU 2018-11, *Lease (Topic 842): Targeted Improvements*, to apply the new standard as of the effective date. Therefore, Pathways has not applied the new standard to the fiscal year 2022 consolidating financial statements.

Pathways elected to apply the following practical expedients and policy elections at adoption:

Practical expedient package	Pathways has elected for any expired or existing lease to skip reassessment of the following: • Whether a contract is, or contain a lease; • the lease classification; and • the original treatment of the initial direct costs.
Hindsight practical expedient	Pathways has not elected the hindsight practical expedient, which permits the use of hindsight when determining lease term and impairment of operating lease assets.
Separation of lease and non-lease components	Pathways has elected to establish an accounting policy to account for lease and non-lease components as a single component for real estate class of assets.
Short-term policy	Pathways has elected to establish a short-term lease exception policy, permitting Pathways to not apply the recognition requirements of the new standard to short-term leases (i.e., lease with terms of twelve months or less).

Estimates

The preparation of consolidating financial statements in accordance with generally accepted accounting principles in the United States (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

Pathways' primary sources of revenue are from Federal and state government contracts. Amounts received under these contracts have been recorded in accordance with FASB's ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. These contracts are considered nonreciprocal transactions because the general public receives the benefit as the result of the assets transferred. These conditional contributions are recognized as services are provided or costs are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Contract Revenue, Grants and Contributions (Continued)

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 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.

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*.

Parent, Voucher and Other Fees

Pathways' generally measures revenue from exchange transactions based on the amount of consideration Pathways' expects to be entitled for the transfer of goods or services to a customer, then recognizes this revenue when or as Pathways' satisfies its performance obligations under a contract, except in transactions where U.S. GAAP provides other applicable guidance. Pathways' evaluates its revenue recognition based on the five-step model under Topic 606: (1) Identify the contract with the customer; (2) Identify the performance obligations in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to separate performance obligations; and (5) Recognize revenue when (or as) each performance obligation is satisfied.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Parent, Voucher and Other Fees (Continued)

In accordance with Topic 606, parent, voucher and other fees are recognized as services are provided. The performance obligations of delivering childcare services are simultaneously received and consumed by the recipients; therefore, the revenue is recognized as childcare services are provided. Total parent, voucher and other fees receivable as of June 30, 2021, was $23,132.

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 and lease-related assets and liabilities, net of related debt.
- **Board designated** - represents amounts functioning as endowment, as well as a piece restricted for the Board Designated Strategic Advancement Initiatives Funds (SAIF) which expenditures require the approval of the Board of Directors (see Notes 6 and 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

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

Fair Value Measurements

Pathways follows the accounting and disclosure standards pertaining to Accounting Standards Codification (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.

Parent Fees and Other Receivables and 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 recorded as of June 30, 2023 and 2022, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions Receivable and Allowance for Doubtful Contributions

Contributions receivable at June 30, 2023 and 2022, 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. Allowance for doubtful accounts for contributions receivable was $750 and $500 for June 30, 2023 and 2022, respectively.

Property and Equipment and Depreciation

Property and equipment are recorded at cost (see Note 7), if purchased, or at fair value at the time of donation. Property and equipment having a cost of $20,000 or more and a useful life of one year or more are capitalized. The capitalization threshold was increased in fiscal year 2022 from $5,000 to $20,000 with Board of Director approval. Renewals and betterments are capitalized, while repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line half year convention method over the following estimated useful lives:

Buildings	10 - 40 years
Building improvements	10 - 30 years
Equipment	3 - 15 years
Vehicles	5 - 10 years

Land is not depreciated.

Pathways accounts for the carrying value of its property and equipment in accordance with ASC Topic, *Property, Plant, and Equipment*. Under this standard, an impairment loss is recognized when the carrying amount of long-lived assets exceeds its fair value. There were no impairment losses recorded in fiscal years 2023 or 2022.

Right-of-Use Asset and Lease Liability

Pathways determines if an arrangement is a lease or contains a lease at inception of a contract. A contract is determined to be a lease or contain a lease if the contract conveys the right to control the use of identified property, plant, or equipment (an identified asset) in exchange for consideration. Pathways determines such assets are leased because Pathways has the right to obtain substantially all of the economic benefits from and the right to direct the use of the identified asset. Assets in which the supplier or lessor has the practical ability and right to substitute alternative assets for the identified asset and would benefit economically from the exercise of its right to substitute the asset are not considered to be or contain a lease because Pathways determines it does not have the right to control and direct the use of the identified asset. Pathways' lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In evaluating its contracts, Pathways separately identifies lease and non-lease components, such as common area, real estate taxes and other maintenance costs, in calculating the ROU assets and lease liabilities for its leased space. Pathways has elected the practical expedient to not separate lease and non-lease components and classifies the contract as a lease if consideration in the contract allocated to the lease component is greater than the consideration allocated to the non-lease component.

Leases result in the recognition of ROU assets and lease liabilities on the consolidating statements of financial position. ROU asset represent the right to use an underlying asset for the lease term, and lease liability represents the obligation to make lease payments arising from the lease, measured on a discounted basis. Pathways determines lease classification as operating or finance at the lease commencement date.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Right-of-Use Asset and Lease Liability (Continued)

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. Pathways uses the implicit rate when readily determinable. As most of the leases do not provide an implicit rate, Pathways uses the risk-free rate over the applicable lease term.

The lease term may include options to extend or to terminate the lease that Pathways is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

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 a bequest.

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, 2023 and 2022. Pathways' tax returns are subject to examination by Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through November 8, 2023, 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:

	2023	2022
Cash and cash equivalents	$ 2,026,457	$ 2,245,021
Contracts, grants and other receivables	673,083	463,026
Contributions receivable, net	5,500	10,925
Total financial assets	2,705,040	2,718,972
Contractual or donor-imposed restrictions:		
Donor contributions restricted to specific purposes	(326,895)	(344,678)
Board designations (see Note 11):		
Strategic initiatives	(100,000)	(100,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 2,278,145	$ 2,274,294

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

4. CONTRIBUTIONS RECEIVABLES

Contributions receivables are due as follows at June 30:

	2023	2022
Due within one year	$ 6,250	$ 11,250
Due in two to three years	-	6,250
	6,250	17,500
Less - allowance for doubtful contributions receivable	(750)	(500)
Less - discount	-	(250)
Total contributions receivable, net of allowance and discount	5,500	16,750
Less - current portion	(5,500)	(10,925)
	$ -	$ 5,825

4. CONTRIBUTIONS RECEIVABLES (Continued)

Long-term contributions receivable have been discounted to present value using a 3% discount factor at June 30, 2022. Approximately 100% and 57% of Pathways' gross contributions receivable were from two and one donors at June 30, 2023 and 2022, respectively.

Pathways has received notification of intentions to give of $86,500 and $115,000 from donor advised funds that have not been received as of June 30, 2023 and 2022, 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 certificates of deposit, which are 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:

	2023	2022
Certificates of deposit	$ 918,836	$ 221,973
Endowment investments:		
Money market fund	12,589	61,791
Mutual funds:		
Equity	157,487	120,394
Fixed income	132,875	94,860
International	30,630	23,740
Alternative	13,282	16,260
Total mutual funds	334,274	255,254
Total endowment investments, at fair value	346,863	317,045
Total investments	$ 1,265,699	$ 539,018

6. ENDOWMENT

Pathways' endowment consists of Board-designated Strategic Advancement Initiatives Funds (SAIF) (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.

6. ENDOWMENT (Continued)

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 $11,612 and $10,657 for the years ended June 30, 2023 and 2022, 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, 2023 and 2022.

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

	2023	2022
Endowment net assets, beginning of year	$ 317,045	$ 306,725
Bequest	-	50,000
Investment return, net of fees	29,818	(39,680)
Endowment net assets, end of year	$ 346,863	$ 317,045

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2023	2022
Land	$ 837,162	$ 837,162
Buildings	5,102,445	5,102,445
Building improvements	1,041,267	620,512
Vehicles	478,623	610,948
Equipment	504,621	554,074
Construction in Progress	19,333	298,178
	7,983,451	8,023,319
Less - accumulated depreciation	3,392,042	3,444,095
Net property and equipment	$ 4,591,409	$ 4,579,224

Portions of property and equipment are pledged to secure long-term debt (see Note 8). Pathways had $1,858,328 and $1,830,204 of property and equipment which were purchased with funds from U.S. Government agencies at June 30, 2023 and 2022, respectively. Net book value on these assets was $1,488,407 and $1,368,424 as of June 30, 2023 and 2022, 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:

	2023	2022
5.5% note payable to a bank, due in monthly principal and interest installments of $4,630, based on a twenty-year amortization schedule. The monthly installment was reduced from $7,478 after a principal payment of $350,000 was made in March 2022. The note matures in December 2038. The note is secured by a mortgage on a building.	$ 575,559	$ 598,332
Less - current portion	23,989	22,773
Less - unamortized debt issuance costs	10,701	11,391
	$ 540,869	$ 564,168

The note payable agreement contains various covenants with which Pathways must comply. Pathways was in compliance with these covenants at June 30, 2023 and 2022.

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

Fiscal Year	Principal Payments	Amortization of Debt Issuance Costs
2024	$ 23,989	$ 690
2025	$ 25,449	$ 690
2026	$ 26,944	$ 690
2027	$ 28,443	$ 690
2028	$ 30,002	$ 690
Thereafter	$ 440,732	$ 7,251

9. LEASES

Pathways entered into a lease agreement for its Family Resource Center space, commencing on February 1, 2023, and expiring on January 31, 2026. Rent is payable in monthly installments of $4,836, increasing 5% annually. The monthly lease payments increase annually each February as defined in the lease agreement. Pathways must maintain certain insurance coverage and pay its proportionate share of common area maintenance costs and real estate taxes. Pathways has the option to renew this lease for an additional three years, which Pathways did not intend to execute at lease inception.

In accordance with ASC *Topic 842, Leases*, Pathways records lease expense for its operating leases on a straight-line basis over the terms of the lease regardless of actual cash payments. Pathways utilizes a risk-free rate of 3.75% for the purposes of calculating the present value of lease payments.

9. LEASES (Continued)

The following summarizes the line items in the consolidating statement of financial position as of June 30, 2023, which include amounts for operating leases:

ROU, operating lease asset	$ 148,649
Operating lease liabilities:	
Current portion of operating lease liability	$ 59,235
Operating lease liability, net of current portion	90,644
Total operating lease liability	$ 149,879

Future undiscounted cash flows under the lease agreement are as follows as of June 30, 2023:

2024	$ 59,235
2025	62,000
2026	37,522
Total future undiscounted lease payments	158,757
Less - present value discount	8,878
Less - current portion	59,235
Operating lease liability, net of current portion	$ 90,644

The following summarizes the line items in the accompanying consolidating statement of activities and changes in net assets and consolidating statement of functional expenses which include the components of lease expense for the year ended June 30, 2023:

Operating lease cost (included in rent expense)	$ 25,408
Variable lease cost (included in other occupancy)	582
Total lease costs	$ 25,990

The following summarizes cash flow information related to leases for the year ended June 30, 2023:

Cash paid for amounts included in the measurement of operating lease liability	$ 24,178
Non-cash operating lease assets and liabilities obtained in exchange for new lease	$ 173,094

Lease Commitments

As of June 30, 2023, there were no material leases that have been executed but have not yet commenced.

10. LINE OF CREDIT

On June 30, 2023 and 2022, 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, (8.25% and 4.75% as of June 30, 2023 and 2022, respectively) plus 0.50%, with a floor of 5.50%. There was no outstanding balance on this line of credit as of June 30, 2023 and 2022. Pathways must comply with certain covenants as specified in the agreements. Pathways was in compliance with these covenants as of June 30, 2023 and 2022.

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 the 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:

	2023	2022
SAIF (see Notes 5 and 6)	$ 346,863	$ 317,045
Strategic initiatives	100,000	100,000
	$ 446,863	$ 417,045

12. NET ASSETS WITH DONOR RESTRICTIONS

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

	2023	2022
Purpose restricted:		
Other educational programs	$ 188,103	$ 200,886
School age care	108,792	113,792
Family enrichment program	30,000	30,000
Total purpose restricted	326,895	344,678
Time restricted - contributions receivable	5,500	16,750
	$ 332,395	$ 361,428

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:

	2023	2022
Purpose restricted:		
Other educational programs	$ 134,206	$ 78,744
Family enrichment program	30,000	46,527
School age care	5,000	-
Total purpose restricted	169,206	125,271
Time restricted - payments of contributions receivable	11,250	57,500
	$ 180,456	$ 182,771

13. DONATED GOODS AND SERVICES

Pathways receives the use of donated facilities for its program operations and supporting services. Pathways recognizes in-kind contribution revenue and a corresponding expense in an amount approximating the estimated fair value at the time of the donation. Fair value is estimated using the price per square foot of an appraised amount obtained every three years. The total amount recognized for donated facilities is $252,800 and $237,000 for the years ended June 30, 2023 and 2022, respectively.

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

Pathways receives services of volunteers primarily for its Head Start program. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Pathways. Services valued at $25,377 and $29,000 have not been recognized in the accompanying consolidating statements of activities and changes in net assets for the years ended June 30, 2023 and 2022, respectively, as they do not meet the requirements for recognition.

Pathways received the following donated goods and services which are reflected in the accompanying consolidating financial statements and are as follows for the fiscal years ended June 30:

	2023	2022
Rent	$ 252,800	$ 237,000
Contracted services	123,565	132,235
	$ 376,365	$ 369,235

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 have 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 $70,457 and $49,975 for fiscal years 2023 and 2022, 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, 2023 and 2022, or on the changes in their net assets for the years then ended.

15. CONCENTRATIONS (Continued)

Funding (Continued)

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:

	Percentage of Operating Revenues		Percentage of Contracts and Grants Receivables	
Funding Agency	**2023**	**2022**	**2023**	**2022**
U.S. Department of Health and Human Services (HHS)	49%	54%	39%	67%
Massachusetts Department of Early Education and Care (EEC)	26%	24%	16%	19%
Department of Children and Families (DCF)	-	-	24%	-
	75%	78%	79%	86%

16. CONDITIONAL GRANTS

At June 30, 2023 and 2022, Pathways had been awarded government contracts totaling $5,487,929 and $5,629,316, 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. As of June 30, 2023, $250,000 has been received and is included in conditional advances in the accompanying consolidating statement of financial position.

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, 2023 and 2022, Pathways recognized $30,000 of revenue annually, which is included in contributions in the accompanying consolidating statements of activities and changes in net assets. Due to the conditional nature of future payments, only the amount received to date has been recorded in the consolidating financial statements. As of June 30, 2023 and 2022, $120,000 and $150,000, respectively, related to this grant is conditional.

Pathways was approved for a grant through the Early Education and Out of School Time (EEOST) Capital Fund, administered by Community Economic Development Assistance Corporations (CEDAC) for up to $250,000 for window replacement at 29 Emerson Ave., Gloucester, Massachusetts. The windows replaced were for the Early Head Start, School Aged Care, and Administration areas. The project was completed in August 2022 totaling $366,501 and was capitalized in fiscal year 2023. The entire $250,000 is included in conditional advances in the accompanying consolidating statement of financial position as of June 30, 2023. In accordance with the terms of the EEOST agreement, Pathways must continue to operate as a school age childcare program for a minimum of five years from the date of the agreement. Accordingly, Pathways will recognize 20% of the grant annually on the anniversary of the completion of the project in accordance with the grant agreement.

16. CONDITIONAL GRANTS (Continued)

During fiscal year 2023, Pathways received a grant from a foundation totaling $58,270 for the renovation of the Beverly location kitchen. In accordance with the grant agreement, Pathways is required to return a prorated share of the grant if the Beverly location is sold over the next ten years. Therefore, Pathways will recognize 10% of the grant annually on the anniversary of the competition of the kitchen renovation, which was completed on August 31, 2023. The entire $58,270 is included in conditional advances in the accompanying consolidating statement of financial position as of June 30, 2023.

17. CONTINGENCIES

Legal

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

18. RECLASSIFICATION

Certain amounts in the 2022 consolidating financial statements have been reclassified to conform with the 2023 presentation.

PATHWAYS FOR CHILDREN, INC. AND AFFILIATE

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Assistance Listing (AL) Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Direct Program:			
Head Start Cluster:			
Head Start	93.600	N/A	$ 5,033,811
Passed-through Commonwealth of Massachusetts, Department of Early Education and Care:			
CCDF Cluster:			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	2023FLEXPOOLINCOMEEL 2023PRIORPORSUPPMA01 300010PATHWAYSCH19IE 3100PATHWAYSFORCPPSP	121,901
Child Care and Development Block Grant	93.575	2023FLEXPOOLINCOMEEL 2023PRIORPORSUPPMA01 300010PATHWAYSCH19IE 3100PATHWAYSFORCPPSP	223,305
Total CCDF Cluster			345,206
Temporary Assistance for Needy Families	93.558	2023FLEXPOOLINCOMEEL 2023PRIORPORSUPPMA01 300010PATHWAYSCH19IE 3100PATHWAYSFORCPPSP	312,808
Total U.S. Department of Health and Human Services			5,691,825
U.S. Department of Agriculture:			
Passed-through Commonwealth of Massachusetts Department of Elementary and Secondary Education:			
Child and Adult Care Food Program	10.558	SCDOE23758D70532117A SCDOE23758T70532117A	10,424
Child Nutrition Cluster:			
National School Lunch Program	10.555	SCDOE23758D70532112B SCDOE23758E70532112B SCDOE23758W70532112B	259,734
Total U.S. Department of Agriculture			270,158
U.S Department of Housing and Urban Development			
Passed-through City of Gloucester Community Development Block Grants/Entitlement Grants	14.218	23064	25,000
Total Expenditures of Federal Awards			$ 5,986,983

Note 1. **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal assistance activity of Pathways and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.*

Pathways' consolidating financial statements include the operations of the 29 Emerson Avenue Condominium Association (the Association) which is not included in the accompanying Schedule of Expenditures of Federal Awards. The Association was organized for the exclusive purpose to manage and regulate the common areas of Pathways' facility and collect rental income. The Association is not subject to the Uniform Guidance.

Note 2. **Indirect Cost Rate**

Pathways has elected not to use the 10% de minimis cost rate for its Federal programs.

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**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
With *Government Auditing Standards***

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidating financial statements of Pathways for Children, Inc. and 29 Emerson Avenue Condominium Association (the Affiliate) (collectively, Pathways), which comprise the consolidating statement of financial position as of June 30, 2023, and the related consolidating statements of activities and changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the consolidating financial statements, and have issued our report thereon dated November 8, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidating financial statements, we considered Pathways' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidating financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pathways' internal control. Accordingly, we do not express an opinion on the effectiveness of Pathways' internal control.

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

AAFCPAs, Inc.

Westborough, Massachusetts
November 8, 2023

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Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Pathways for Children, Inc.'s and 29 Emerson Avenue Condominium Association's (Affiliate) (collectively, Pathways) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Pathways' major Federal program for the year ended June 30, 2023. Pathways' major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Pathways complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Pathways and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major Federal program. Our audit does not provide a legal determination of Pathways' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Pathways' Federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to on page 28 occurred, whether due to fraud or error, and express an opinion on Pathways' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to on page 28 is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Pathways' compliance with the requirements of the major Federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Pathways' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of Pathways' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Pathways' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Report on Internal Control Over Compliance (Continued)

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

AAFCPAs, Inc.

Westborough, Massachusetts
November 8, 2023

1. SUMMARY OF AUDITOR'S RESULTS

Consolidating Financial Statements

Type of auditor's report issued on whether the consolidating financial statements audited were prepared in accordance with U.S. GAAP: Unmodified

Is a "going concern" emphasis-of-matter paragraph included in the auditor's report?	____ Yes	X No

Internal control over financial reporting:

• Material weakness(es) identified?	____ Yes	X No
• Significant deficiency(ies) identified?	____ Yes	X None reported
Noncompliance material to consolidating financial statements noted?	____ Yes	X No

Federal Awards

Internal control over major Federal program:

• Material weakness(es) identified?	____ Yes	X No
• Significant deficiency(ies) identified?	____ Yes	X None reported

Type of auditor's report issued on compliance for the major Federal program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	____ Yes	X No

Identification of major Federal program:

Name of Federal Program or Cluster	Assistance Listing Number
Head Start (Head Start Cluster)	93.600

Dollar threshold used to distinguish between Type A and Type B programs was $750,000.

Auditee qualified as low-risk auditee?	X Yes	____ No

2. CONSOLIDATING FINANCIAL STATEMENT FINDINGS

None

3. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None