

PATHWAY CARING FOR CHILDREN

FINANCIAL REPORT

JUNE 30, 2018

PATHWAY CARING FOR CHILDREN  
CONTENTS

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	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS	
Statement of financial position	3-4
Statement of activities	5
Statement of cash flows	6
Statement of functional expenses	7-8
Notes to financial statements	9-16
REPORT ON COMPLIANCE AND INTERNAL CONTROL	
Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	17-18

## Independent Auditor's Report

To the Board of Trustees of  
Pathway Caring for Children

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Pathway Caring for Children (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Pathway Caring for Children as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2019, on our consideration of Pathway Caring for Children 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 Pathway Caring for Children's 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 Pathway Caring for Children's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Meloney + Novatny LLC".

Canton, Ohio  
April 8, 2019

PATHWAY CARING FOR CHILDREN  
STATEMENT OF FINANCIAL POSITION

June 30, 2018

**ASSETS**

**CURRENT ASSETS**

Cash	\$ 39,687
Accounts receivable - net of allowance	426,251
Pledges receivable - current	48,727
Prepaid expenses	56,689
Total current assets	<u>571,354</u>

**Beneficial interest in assets held by  
Stark Community Foundation**

327,841

**PROPERTY AND EQUIPMENT**

Land	40,000
Building and equipment	94,279
Family homes	421,770
Office furniture and equipment	297,479
Vehicles	71,786
Leasehold improvements	69,987
	<u>995,301</u>
Less accumulated depreciation	488,418
	<u>506,883</u>

**OTHER ASSETS**

Deposits	26,238
Unbilled revenue	3,889
	<u>30,127</u>

Total assets	\$ <u><u>1,436,205</u></u>
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The accompanying notes are an integral part of these financial statements.

PATHWAY CARING FOR CHILDREN  
STATEMENT OF FINANCIAL POSITION

June 30, 2018

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Line-of-credit	\$ 149,930
Accounts payable	66,141
Accrued payroll and related expenses	118,932
Funds held for others	176,824
Total current liabilities	<u>511,827</u>

**NET ASSETS**

Unrestricted net assets:

Designated by board for Endowed Maintenance Fund	86,397
Designated by board for Jim Bridges Memorial Fund	11,205
Designated by board for Endowment Fund	71,171
Undesignated	492,151
Total unrestricted net assets	<u>660,924</u>

Temporarily restricted	121,406
Permanently restricted	142,048
Total net assets	<u>924,378</u>

Total liabilities and net assets	\$ <u><u>1,436,205</u></u>
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The accompanying notes are an integral part of these financial statements.

PATHWAY CARING FOR CHILDREN

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>				
Support:				
Grants	\$ 21,133	\$ 29,000	\$ -	\$ 50,133
Contributions	712,950	69,638	-	782,588
Total support	734,083	98,638	-	832,721
Revenue:				
Placement agencies	2,274,973	-	-	2,274,973
Mental health	1,327,908	-	-	1,327,908
Training	75,848	-	-	75,848
Total revenue	3,678,729	-	-	3,678,729
Other Income:				
Rental income	19,551	-	-	19,551
Miscellaneous	45,316	-	-	45,316
Interest	3,603	-	-	3,603
Unrealized gain on beneficial interest in assets	10,862	10,601	-	21,463
Total other income	79,332	10,601	-	89,933
Net assets released from restrictions:				
Satisfaction of program restrictions	116,606	(116,606)	-	-
Transfer of Endowment interest	86,517	(86,517)	-	-
Total support and revenue	4,695,267	(93,884)	-	4,601,383
<b>FUNCTIONAL EXPENSES</b>				
Program services:				
Foster care network	2,170,420	-	-	2,170,420
Family services network	71,332	-	-	71,332
Mental health	1,623,102	-	-	1,623,102
Bridges	5,723	-	-	5,723
Total program services	3,870,577	-	-	3,870,577
Supporting services:				
Administrative	614,343	-	-	614,343
Development	196,065	-	-	196,065
Total supporting services	810,408	-	-	810,408
Total functional expenses	4,680,985	-	-	4,680,985
Change in net assets	14,282	(93,884)	-	(79,602)
Net assets at beginning of year, as previously reported	646,642	122,354	234,984	1,003,980
Prior period adjustment	-	92,936	(92,936)	-
Net assets at beginning of year, as restated	646,642	215,290	142,048	1,003,980
Net assets at end of year	\$ 660,924	\$ 121,406	\$ 142,048	\$ 924,378

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

# PATHWAY CARING FOR CHILDREN

## STATEMENT OF CASH FLOWS

Year Ended June 30, 2018

### CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (79,602)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	117,345
Net appreciation on beneficial interest assets	(21,463)
Decrease (increase) in:	
Accounts receivable	(50,559)
Pledges receivable	67,623
Prepaid expenses	801
Deposits	(8,370)
Unbilled revenue	6,810
Increase (decrease) in:	
Accounts payable	(3,608)
Accrued liabilities and related expenses	19,193
Funds held for others	159
Net cash provided by operating activities	<u>48,329</u>

### CASH FLOWS FROM INVESTING ACTIVITIES

Increase in interest from beneficial interest assets	(5,068)
Proceeds withdrawn from beneficial interest assets	88,524
Purchase of property and equipment	(27,109)
Net cash provided by investing activities	<u>56,347</u>

### CASH FLOWS FROM FINANCING ACTIVITIES

Payments on line-of-credit	(95,404)
Net cash (used) by financing activities	<u>(95,404)</u>

Increase in cash	9,272
Cash at beginning of year	<u>30,415</u>
Cash at end of year	\$ <u><u>39,687</u></u>

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for:	
Interest	\$ 12,058

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



PATHWAY CARING FOR CHILDREN  
STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended June 30, 2018

	Program Services				Total Program Services
	Foster Care Network	Family Services Network	Mental Health	Bridges	
Salaries	\$ 645,733	\$ 34,568	\$ 983,354	\$ 1,807	\$ 1,665,462
Payroll taxes and workers' compensation	52,867	2,781	80,827	132	136,607
Fringe benefits	78,948	4,334	127,019	-	210,301
Total personnel	777,548	41,683	1,191,200	1,939	2,012,370
Advertising and Marketing	40,333	273	2,945	-	43,551
Building expenses	2,921	85	8,573	-	11,579
Camp fees	505	-	-	-	505
Contract services	7,225	-	766	-	7,991
Dues and subscriptions	2,374	129	4,156	-	6,659
Equipment and leasing	36,903	805	39,106	-	76,814
Food - hospitality	2,420	231	1,814	-	4,465
Foster caregiver expense	1,002,813	9,032	-	-	1,011,845
Insurance	15,696	825	31,294	-	47,815
Office supplies and postage	3,573	315	5,775	-	9,663
Professional services	16,940	1,920	23,909	-	42,769
Program related activity time	3,536	-	9,595	-	13,131
Program supplies	89	100	5,862	-	6,051
Rent	83,168	4,640	129,408	-	217,216
Staff recruitment	150	-	-	-	150
Training	38,187	-	-	-	38,187
Travel and transportation	57,153	7,332	43,638	1,150	109,273
Utilities	27,091	1,040	42,060	12	70,203
Youth needs	10,014	259	5,988	2,622	18,883
Bank fees	1,835	93	3,060	-	4,988
Interest	3,479	175	5,752	-	9,406
Miscellaneous	3,552	706	7,824	-	12,082
Total expenses before depreciation	2,137,505	69,643	1,562,725	5,723	3,775,596
Depreciation	32,915	1,689	60,377	-	94,981
Total expenses	\$ 2,170,420	\$ 71,332	\$ 1,623,102	\$ 5,723	\$ 3,870,577

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

PATHWAY CARING FOR CHILDREN  
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2018

	<u>Supporting services</u>		Total Supporting Services	Total
	<u>Administrative</u>	<u>Development</u>		
Salaries	\$ 358,209	\$ 97,517	\$ 455,726	\$ 2,121,188
Payroll taxes and workers' compensation	29,399	7,917	37,316	173,923
Fringe benefits	39,828	12,276	52,104	262,405
Total payroll and related benefits	<u>427,436</u>	<u>117,710</u>	<u>545,146</u>	<u>2,557,516</u>
Advertising and marketing	683	7,263	7,946	51,497
Building expenses	1,946	264	2,210	13,789
Camp fees	-	-	-	505
Contract services	-	-	-	7,991
Dues and subscriptions	1,965	1,395	3,360	10,019
Equipment and leasing	19,276	4,142	23,418	100,232
Food - hospitality	2,590	449	3,039	7,504
Foster caregiver expense	-	-	-	1,011,845
Insurance	9,373	2,391	11,764	59,579
Office supplies and postage	2,089	1,572	3,661	13,324
Professional services	26,600	1,930	28,530	71,299
Program related activity time	-	-	-	13,131
Program supplies	-	-	-	6,051
Rent	67,848	13,663	81,511	298,727
Staff recruitment	1,230	-	1,230	1,380
Training	-	-	-	38,187
Travel and transportation	8,235	2,226	10,461	119,734
Utilities	13,686	3,713	17,399	87,602
Youth needs	30	9	39	18,922
Bank fees	4,034	897	4,931	9,919
Interest	2,097	555	2,652	12,058
Miscellaneous	7,527	33,220	40,747	52,828
Total expenses before depreciation	<u>596,645</u>	<u>191,399</u>	<u>788,044</u>	<u>4,563,639</u>
Depreciation	17,698	4,666	22,364	117,345
Total expenses	<u>\$ 614,343</u>	<u>\$ 196,065</u>	<u>\$ 810,408</u>	<u>\$ 4,680,984</u>

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

## PATHWAY CARING FOR CHILDREN

### NOTES TO FINANCIAL STATEMENTS

#### **Summary of Significant Accounting Policies**

- A. Pathway Caring for Children (the Organization) is a non-profit organization devoted to providing help to children and families through innovative foster care, adoption and mental health services.
- B. Basis of Accounting – The financial statements of Pathway Caring for Children have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.
- C. Financial Statement Presentation – As required by the "Financial Statements of Not-for-Profit Organizations" topic of the FASB ASC, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.
- D. Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- E. Beneficial Interest in Assets Held by Stark Community Foundation – The Organization carries a beneficial interest in assets held by Stark Community Foundation at fair market value. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.
- F. Contributions – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

## PATHWAY CARING FOR CHILDREN

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

#### Summary of Significant Accounting Policies (Continued)

- G. Federal Income Taxes – The Organization is a nonprofit organization, exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and none of its present or anticipated future activities are subject to taxation as unrelated business income; therefore, no provision for income taxes has been made in the accompanying financial statements.
- H. Uncertain Tax Positions – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Organization to report information regarding its exposure to various tax positions taken by the Organization. The Organization determines whether any tax positions meet their recognition threshold and measures the Organization's exposure to those tax positions. Management believes that the Organization has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Organization would be recorded in operating expenses. No interest or penalties from Federal or state tax authorities were recorded in the accompanying financial statements.
- I. Concentrations of Credit Risk – Financial instruments which potentially subject the Organization to concentrations of credit risk consist primarily of accounts receivable. Concentration of credit risk with respect to receivables is limited due to the large number of individuals, corporations and government agencies comprising the Organization's receivable base. Generally, the Organization does not require collateral or other security to support receivables.
- J. Allowance for Doubtful Accounts – The Organization uses the allowance method to account for uncollectible accounts receivable. The Organization provides for an allowance for uncollectible accounts equal to the estimated uncollectible portion of accounts receivable. Management's estimates are based on historical experience and on its evaluation of the current status of amounts receivable. At June 30, 2018, the allowance for doubtful accounts was \$258,045.
- K. Property and Equipment – Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed for financial statement purposes principally on the straight-line method over the estimated useful lives of the related assets.

Expenditures for major renewals and betterments which extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

## PATHWAY CARING FOR CHILDREN

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

#### Summary of Significant Accounting Policies (Continued)

- L. Advertising – The Organization participates in various advertising and marketing programs. All costs related to marketing and advertising the Organization's services are expensed in the period incurred. Advertising costs charged to operations were \$51,497 in 2018.
- M. Pledges Receivable – The Organization recognizes contributions as revenue in the period in which the pledge is received. The Organization considers all contributions to be unrestricted unless specifically restricted by the donor. At June 30, 2018 all pledges receivable were classified as current.
- N. Functional Expenses – The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.
- O. Subsequent Events – Management has evaluated subsequent events through April 8, 2019, which is the date the financial statements were available to be issued.

#### Note 1. Beneficial Interest in Assets Held by Stark Community Foundation

The Organization placed certain funds with the Stark Community Foundation (SCF), a community trust established to administer gifts or bequests for public charitable uses. At June 30, 2018 the Organization had three endowment funds with SCF, as follows:

The Maintenance Fund, established for the purpose of funding maintenance, repairs, renovations and additions to real property through use of the income generated from the fund.

The Jim Bridges Memorial Fund, established by the board to allow donations received in Jim's memory to be set aside for the Organization's benefit.

The Children's Endowment Fund, established in January 2015 with allocated permanently restricted net assets along with some board designated funds for the purpose of funding any expense deemed appropriate by the Organization as of June 30, 2018:

Maintenance Fund	\$ 86,397
Jim Bridges Memorial Fund	11,205
Children's Endowment Fund	<u>230,239</u>
	\$ <u>327,841</u>

## PATHWAY CARING FOR CHILDREN

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

#### **Note 1. Beneficial Interest in Assets Held by Stark Community Foundation (Continued)**

The income and appreciation are expendable to support the Organization's activities. The amount of income and appreciation expended by the Organization is subject to an annual review and approval by Organization leadership. The investments are in a pool of funds held by several financial institutions and are managed by SCF. The Organization does not control the investment of these funds.

In the event of any unforeseen contingency of a clear emergency nature, by reason of which expenditure of the principal of the fund is necessary to preserve the essential purpose of the Organization, the Organization may request, through its board of trustees, a distribution of principal. Any such request from the Organization requires the approval of at least a two-thirds majority of the Organization's board of trustees. Any distribution of principal by SCF pursuant to such request must be approved by at least two-thirds of the members of the board of trustees of SCF, which approval shall not be unreasonably withheld.

SCF has been granted variance power in the event that the Organization ceases to exist and does not designate a substitute recipient that SCF finds acceptable.

#### **Note 2. Fair Value Measurement**

The Organization uses various inputs in determining the fair value of its investments and measures these assets on a recurring basis. Financial assets recorded at fair value in the statements of financial condition are categorized by the level of objectivity associated with the inputs used to measure their fair value.

Authoritative guidance provided by the FASB defines the following levels directly related to the amount of subjectivity associated with the inputs to fair valuation of these financial assets.

- Level 1 – quoted prices in active markets for identical investments
- Level 2 – other significant observable inputs (including quoted prices for similar investments, market corroborated inputs, etc.)
- Level 3 – significant unobservable inputs (including the Organization's own assumptions in determining the fair value of investments)

# PATHWAY CARING FOR CHILDREN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### Note 2. Fair Value Measurement (Continued)

The inputs of methodology used for valuing securities are not necessarily an indication of the credit risk associated with investing in those securities. The following table provides the fair value measurements of applicable financial assets that are measured at fair value on a recurring basis according to the fair value levels defined by authoritative guidance from the Financial Accounting Standards Board as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial Assets at Fair Value:			
Beneficial interest in assets held by Stark Community Foundation	\$ <u>-</u>	\$ <u>-</u>	\$ <u>327,841</u>
Total beneficial interest	\$ <u>-</u>	\$ <u>-</u>	\$ <u>327,841</u>

The Organization has a beneficial interest in a pool of investments at Stark Community Foundation (SCF), which includes Level 3 assets. This interest may not be traded on a national security exchange and is valued based on reports provided by investment managers to SCF. The pool of investments is valued at SCF's best estimate of the fair value of the underlying assets as reviewed by the Organization. Accordingly, the Organization does not use separate quantitative information to value their investment in the SCF pool. The Organization's investment in the SCF pool is considered a Level 3 asset.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. There have been no changes in the methodologies used from 2017 to 2018. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

### Note 3. Endowment Funds

The Organization's endowment includes funds designated by the Board of Trustees to function as endowments for the purposes discussed at Note 1.

Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Organization records permanent endowment gifts per the donors' instructions at historic dollar value.

# PATHWAY CARING FOR CHILDREN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### Note 3. Endowment Funds (Continued)

The Board of Trustees of the Organization has approved an investment policy detailing the long-term goals, asset allocation, guidelines for security selection, measurable objectives, and on-going communication. The basic philosophy of the investment policy is that administration and management of the investments are to be implemented to recognize income needs for ongoing operations. Endowment funds are subject to the investment policy approved by the Board of Trustees.

Unrestricted endowment funds represent funds which have been designated by the Board for endowment purposes. The income from these funds is to be used for general operations.

Endowment funds are appropriated based on an approval process through the Board of Trustees. The Board determines an amount to withdraw quarterly from the operating endowment. The Board can withdraw any percentage of the endowment up to the percentage allowed by the SCF spending policy, currently 5%.

Changes in endowment net assets for the year ended June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, Beginning of year	\$ 241,367	\$ 92,936	\$ 142,048	\$ 476,351
Investment return:				
Investment income, net	3,061	-	-	3,061
Net appreciation (realized and unrealized)	<u>10,862</u>	<u>10,601</u>	<u>-</u>	<u>21,463</u>
Total investment return	13,923	103,537	-	24,524
Contributions	2,007	-	-	2,007
Withdrawals	<u>(88,524)</u>	<u>(86,517)</u>	<u>-</u>	<u>(175,041)</u>
	<u>(86,517)</u>	<u>(86,517)</u>	<u>-</u>	<u>(173,034)</u>
Endowment net assets, end of year	\$ <u>168,773</u>	\$ <u>17,020</u>	\$ <u>142,048</u>	\$ <u>327,841</u>



# PATHWAY CARING FOR CHILDREN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### Note 3. Endowment Funds (Continued)

Endowment net asset composition by type of fund as of June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 17,020	\$ 142,048	\$ 159,068
Board-designated endowment funds	<u>168,773</u>	<u>-</u>	<u>-</u>	<u>168,773</u>
Total funds	<u>\$ 168,773</u>	<u>\$ 17,020</u>	<u>\$ 142,048</u>	<u>\$ 327,841</u>

### Note 4. Line of Credit

The Organization had a line of credit with a bank, consisting of \$149,930 outstanding under the available line-of-credit of \$370,000 as of June 30, 2018. All borrowings bear interest at prime + 0.25% and are secured by all the Organization's assets.

### Note 5. Commitments and Contingencies

#### Operating Leases

On June 12, 2012, the Organization entered into a five year non-cancelable operating lease beginning September 1, 2012 and ending August 31, 2017, for the main office space located in Canton, Ohio. This was amended to continue an additional 36 months from September 1, 2017 to August 31, 2020.

On December 10, 2015, the Organization entered into a three year non-cancelable operating lease beginning December 1, 2015 and ending January 31, 2019, for additional office space located in Minerva, Ohio.

On June 18, 2014, the Organization entered into a five year non-cancelable operating lease beginning October 1, 2014 and ending September 30, 2019, for additional office space located in Brecksville, Ohio.

On October 16, 2015, the Organization entered into a three year non-cancelable operating lease beginning January 1, 2015 and ending October 31, 2018, for additional office space located in Carrollton, Ohio.

# PATHWAY CARING FOR CHILDREN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### Note 5. Commitments and Contingencies (Continued)

The Organization also leases copiers under non-cancelable operating leases expiring in December 2019.

The following is a schedule of future minimum rental payments required under the above operating leases as of June 30:

2019	\$ 290,325
2020	240,436
2021	34,798

Rent expense for leased facilities and equipment was \$298,727 for the year ended June 30, 2018.

### Note 6. Retirement Plan

The Organization has a salary deferral plan under Section 403(b) of the Internal Revenue Code. The plan allows eligible employees to defer a portion of their compensation. All employees are eligible to participate in the deferral. The Organization matches fifty cents (\$.50) to the dollar (\$1.00) up to a maximum of three percent (3%) of pay that the employee invests. Retirement costs under this plan for the year ended June 30, 2018, were \$14,643.

### Note 7. Restrictions on Assets

Temporarily restricted net assets are available for the following purposes and were released for the following purposes for the year then ended:

	Net Assets <u>Available</u>	Net Assets <u>Released</u>
Time restricted – Auction/Scholarships	\$ 3,978	\$ 9,517
Accumulated earnings on endowment	17,020	86,517
Program services	<u>100,408</u>	<u>107,089</u>
	\$ <u>121,406</u>	\$ <u>203,123</u>

Permanently restricted net assets consist of endowment fund investments to be held indefinitely. The endowment fund investments are held in a component trust of a pooled income fund managed by the Stark Community Foundation. The restricted portion of this trust fund was \$142,048, at June 30, 2018.

### Note 8. Prior Year Adjustment

The 2018 beginning temporarily restricted net assets were increased by \$92,936 and the beginning permanently restricted net assets were decreased by this amount to correct for the earnings on the permanently restricted donations since inception of the funds. The total net asset balance for 2018 remained unchanged.

Independent Auditors' 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*

To the Board of Trustees of  
Pathway Caring for Children

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 financial statements of Pathway Caring for Children (a non-profit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 8, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Pathway Caring for Children's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pathway Caring for Children's internal control. Accordingly, we do not express an opinion on the effectiveness of Pathway Caring for Children's 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 Organization's 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.

Independent Auditors' 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* (Continued)

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Pathway Caring for Children's 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 determination of financial statement amounts. 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 Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Meloney + Novotny LLC*

Canton, Ohio  
April 8, 2019