

FAMILY PATHWAYS
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

**FAMILY PATHWAYS
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YEARS ENDED JUNE 30, 2017 AND 2016**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Family Pathways
North Branch, Minnesota

We have audited the accompanying financial statements of Family Pathways, which comprise the statements of financial position as of June 30, 2017 and 2016, the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 auditor considers 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.

Board of Directors
Family Pathways

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Family Pathways as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
February 2, 2018

**FAMILY PATHWAYS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016**

ASSETS	2017	2016
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 184,600	\$ 450,997
Accounts Receivable	168,034	96,231
Pledges Receivable	-	146,500
Inventories	514,296	1,142,994
Prepaid Expenses	62,510	97,057
Total Current Assets	929,440	1,933,779
 PROPERTY AND EQUIPMENT		
Land	1,465,219	1,478,969
Building and Improvements	9,082,870	7,650,274
Equipment, Fixtures, and Vehicles	438,749	424,372
Construction in Progress	-	40,455
Total Property and Equipment	10,986,838	9,594,070
Less: Accumulated Depreciation	(2,138,342)	(1,975,911)
Net Property and Equipment	8,848,496	7,618,159
 OTHER ASSETS		
Security Deposits	8,139	12,525
Cash Held for Restricted Purposes	50,000	50,000
Total Other Assets	58,139	62,525
Total Assets	\$ 9,836,075	\$ 9,614,463

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 54,538	\$ 82,465
Accrued Salaries and Vacation	207,957	207,337
Accrued Payroll Taxes	21,339	4,746
Accrued Interest	14,800	10,133
Other Accrued Expenses	34,295	32,461
Current Portion of Long-Term Debt	<u>302,719</u>	<u>377,653</u>
Total Current Liabilities	635,648	714,795
LONG-TERM DEBT		
Long-Term Debt	5,778,999	4,717,869
Swap Liability	-	26,884
Total Long-Term Debt	<u>5,778,999</u>	<u>4,744,753</u>
OTHER LIABILITIES		
Tenant Security Deposits	<u>2,362</u>	<u>1,934</u>
Total Liabilities	6,417,009	5,461,482
NET ASSETS		
Unrestricted	3,268,817	3,749,481
Temporarily Restricted	100,249	353,500
Permanently Restricted	<u>50,000</u>	<u>50,000</u>
Total Net Assets	<u>3,419,066</u>	<u>4,152,981</u>
Total Liabilities and Net Assets	<u>\$ 9,836,075</u>	<u>\$ 9,614,463</u>

FAMILY PATHWAYS
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE AND SUPPORT				
Revenue:				
Thrift Store Sales	\$ 4,676,657	\$ -	\$ -	\$ 4,676,657
Recycling Revenue	112,884	-	-	112,884
Service Revenue	106,586	-	-	106,586
Rental Income	58,379	-	-	58,379
Rental Expenses	(74,878)	-	-	(74,878)
Interest Income	128	-	-	128
Change in Value of Swap	26,884	-	-	26,884
Loss on Refinancing of Long-Term Debt	-	-	-	-
Gain on Sale of Fixed Asset	91,735	-	-	91,735
Other Income	25,976	-	-	25,976
Total Revenue	<u>5,024,351</u>	<u>-</u>	<u>-</u>	<u>5,024,351</u>
Support:				
Grants	1,005,374	-	-	1,005,374
Contributions - Monetary	531,072	385,352	-	916,424
Contributions - Food	1,606,958	-	-	1,606,958
Special Events (Net of Direct Benefit Expenses of \$66,625 and \$39,452 for 2017 and 2016)	76,555	-	-	76,555
Releases from Restriction	638,603	(638,603)	-	-
Total Support	<u>3,858,562</u>	<u>(253,251)</u>	<u>-</u>	<u>3,605,311</u>
Total Revenue and Support	8,882,913	(253,251)	-	8,629,662
EXPENSES				
Program Services:				
Thrift Store Expenses	3,522,512	-	-	3,522,512
Basic Life Services	3,347,470	-	-	3,347,470
Refuge Network	932,229	-	-	932,229
Senior Services	455,828	-	-	455,828
Youth Services	297,587	-	-	297,587
Total Program Services	<u>8,555,626</u>	<u>-</u>	<u>-</u>	<u>8,555,626</u>
Support Services:				
General and Administrative	566,293	-	-	566,293
Fundraising	241,658	-	-	241,658
Total Support Services	<u>807,951</u>	<u>-</u>	<u>-</u>	<u>807,951</u>
Total Expenses	<u>9,363,577</u>	<u>-</u>	<u>-</u>	<u>9,363,577</u>
CHANGE IN NET ASSETS	(480,664)	(253,251)	-	(733,915)
Net Assets - Beginning of Year	<u>3,749,481</u>	<u>353,500</u>	<u>50,000</u>	<u>4,152,981</u>
NET ASSETS - END OF YEAR	<u><u>\$ 3,268,817</u></u>	<u><u>\$ 100,249</u></u>	<u><u>\$ 50,000</u></u>	<u><u>\$ 3,419,066</u></u>

See accompanying Notes to Financial Statements.

2016

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 4,788,557	\$ -	\$ -	\$ 4,788,557
126,559	-	-	126,559
68,476	-	-	68,476
68,438	-	-	68,438
(58,732)	-	-	(58,732)
229	-	-	229
(18,570)	-	-	(18,570)
(19,656)	-	-	(19,656)
-	-	-	-
1,786	-	-	1,786
<u>4,957,087</u>	<u>-</u>	<u>-</u>	<u>4,957,087</u>
724,793	-	-	724,793
1,028,944	353,500	-	1,382,444
1,604,240	-	-	1,604,240
81,073	-	-	81,073
25,000	(25,000)	-	-
<u>3,464,050</u>	<u>328,500</u>	<u>-</u>	<u>3,792,550</u>
8,421,137	328,500	-	8,749,637
3,336,179	-	-	3,336,179
2,837,120	-	-	2,837,120
822,855	-	-	822,855
396,351	-	-	396,351
407,172	-	-	407,172
<u>7,799,677</u>	<u>-</u>	<u>-</u>	<u>7,799,677</u>
539,912	-	-	539,912
262,206	-	-	262,206
<u>802,118</u>	<u>-</u>	<u>-</u>	<u>802,118</u>
<u>8,601,795</u>	<u>-</u>	<u>-</u>	<u>8,601,795</u>
(180,658)	328,500	-	147,842
<u>3,930,139</u>	<u>25,000</u>	<u>50,000</u>	<u>4,005,139</u>
<u>\$ 3,749,481</u>	<u>\$ 353,500</u>	<u>\$ 50,000</u>	<u>\$ 4,152,981</u>

**FAMILY PATHWAYS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017**

	Program Services					Support Services				Total Functional Expenses
	Thrift Store Expenses	Basic Life Services	Refuge Network	Senior Services	Youth Services	Total Program Services	General and Administrative	Fund Raising	Total Support Services	
Salaries	\$ 1,818,578	\$ 452,045	\$ 646,145	\$ 311,807	\$ 164,944	\$ 3,393,519	\$ 280,741	\$ 142,651	\$ 423,392	\$ 3,816,911
Payroll Taxes	140,642	34,914	50,926	23,801	13,088	263,371	22,033	11,309	33,342	296,713
Employee Benefits	193,221	33,933	46,300	18,048	13,172	304,674	31,094	11,184	42,278	346,952
Food Distributed - Purchased	250	915,607	-	1,239	186	917,282	-	-	-	917,282
Food Distributed - Donated	438	1,604,023	-	2,171	326	1,606,958	-	-	-	1,606,958
Insurance	113,644	37,843	30,946	9,686	18,265	210,384	11,170	3,547	14,717	225,101
Interest Expense	98,396	39,187	7,602	3,552	12,593	161,330	5,805	-	5,805	167,135
Maintenance/Repairs	80,438	9,550	13,264	4,230	4,519	112,001	9,375	-	9,375	121,376
Marketing/Public Awareness	105,895	2,778	1,797	2,223	55	112,748	425	60,468	60,893	173,641
Mileage	11,846	26,219	21,413	26,156	4,073	89,707	193	3,627	3,820	93,527
Office	6,874	991	450	-	1,291	9,606	21,583	741	22,324	31,930
Postage	190	225	255	524	66	1,260	10,246	30,411	40,657	41,917
Processing Fees	86,458	1,186	-	-	-	87,644	6,748	6,925	13,673	101,317
Professional Services	29,600	12,507	20,913	12,014	5,694	80,728	90,303	15,830	106,133	186,861
Program Supplies	62,051	5,188	28,057	8,352	9,480	113,128	11,562	7,652	19,214	132,342
Rent	142,965	2,681	-	-	-	145,646	-	8,609	8,609	154,255
Small Equipment	16,283	13,223	18,720	4,253	3,354	55,833	5,103	633	5,736	61,569
Staff Development	1,729	332	3,659	2,004	871	8,595	1,319	2,235	3,554	12,149
Storage/Transport	149,776	-	-	-	-	149,776	-	-	-	149,776
Telephone/Communications/IT	27,653	13,889	21,840	9,648	4,446	77,476	13,718	243	13,961	91,437
Trash	82,018	4,986	867	324	2,151	90,346	11,371	-	11,371	101,717
Utilities	150,054	43,107	12,068	6,845	14,498	226,572	9,713	100	9,813	236,385
Volunteer Expense	3,069	5,705	343	1,834	533	-	5,283	2,118	-	-
Total Expenses Before Depreciation	3,322,068	3,260,119	925,565	448,711	273,605	8,230,068	547,785	308,283	856,068	9,086,136
Depreciation and Amortization	200,444	87,351	6,664	7,117	23,982	325,558	18,508	-	18,508	344,066
Less: Special Events Expenses	-	-	-	-	-	-	-	(66,625)	(66,625)	(66,625)
Total Expenses	\$ 3,522,512	\$ 3,347,470	\$ 932,229	\$ 455,828	\$ 297,587	\$ 8,555,626	\$ 566,293	\$ 241,658	\$ 807,951	\$ 9,363,577

See accompanying Notes to Financial Statements.

**FAMILY PATHWAYS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016**

	Program Services					Support Services			Total Functional Expenses	
	Thrift Store Expenses	Basic Life Services	Refuge Network	Senior Services	Youth Services	Total Program Services	General and Administrative	Fund Raising		Total Support Services
Salaries	\$ 1,784,434	\$ 425,731	\$ 541,830	\$ 264,520	\$ 240,494	\$ 3,257,009	\$ 314,089	\$ 150,272	\$ 464,361	\$ 3,721,370
Payroll Taxes	133,185	31,588	41,264	18,892	18,473	243,402	23,999	11,955	35,954	279,356
Employee Benefits	148,997	42,208	28,644	20,110	23,283	263,242	31,726	7,183	38,909	302,151
Food Distributed - Purchased	2	476,401	-	-	19	476,422	-	-	-	476,422
Food Distributed - Donated	7	1,604,168	-	-	66	1,604,241	-	-	-	1,604,240
Insurance	102,805	38,547	32,669	9,439	15,693	199,153	12,126	4,122	16,248	215,401
Interest Expense	101,973	18,677	5,040	3,520	16,030	145,240	4,039	-	4,039	149,279
Maintenance/Repairs	51,641	11,073	9,062	1,096	3,092	75,964	10,615	-	10,615	86,579
Marketing/Public Awareness	87,082	513	3,740	5,611	454	97,400	2,602	70,643	73,245	170,645
Mileage	17,037	22,977	14,549	21,682	12,131	88,376	194	2,339	2,533	90,909
Office	10,106	3,383	4,422	809	53	18,773	20,397	2,289	22,686	41,459
Postage	405	379	158	409	74	1,425	7,742	12,353	20,095	21,520
Processing Fees	80,037	-	9	-	-	80,046	219	6,137	6,356	86,402
Professional Services	30,054	11,754	43,133	12,047	5,843	102,831	64,165	10,241	74,406	177,237
Program Supplies	48,355	3,627	17,868	8,596	18,720	97,166	844	17,272	18,116	115,282
Rent	127,440	15,600	-	-	-	143,040	-	5,098	5,098	148,138
Small Equipment	19,183	12,526	26,995	5,433	2,720	66,857	7,016	944	7,960	74,817
Staff Development	4,575	1,579	3,245	925	2,026	12,350	1,331	623	1,954	14,304
Storage/Transport	140,846	-	-	-	-	140,846	-	-	-	140,846
Telephone/Communications/IT	26,899	12,152	22,040	7,687	5,672	74,450	12,629	85	12,714	87,164
Trash	89,209	4,528	1,277	314	1,574	96,902	425	-	425	97,327
Utilities	132,512	35,127	12,627	5,092	15,522	200,880	9,132	-	9,132	210,012
Volunteer Expense	1,416	5,431	585	941	991	9,364	502	102	604	9,968
Total Expenses Before Depreciation	3,138,200	2,777,969	809,157	387,123	382,930	7,495,379	523,792	301,658	825,450	8,320,829
Depreciation and Amortization	197,979	59,151	13,698	9,228	24,242	304,298	16,120	-	16,120	320,418
Less: Special Events Expenses	-	-	-	-	-	-	-	(39,452)	(39,452)	(39,452)
Total Expenses	\$ 3,336,179	\$ 2,837,120	\$ 822,855	\$ 396,351	\$ 407,172	\$ 7,799,677	\$ 539,912	\$ 262,206	\$ 802,118	\$ 8,601,795

See accompanying Notes to Financial Statements.

**FAMILY PATHWAYS
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (733,915)	\$ 147,842
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	371,747	329,290
Gain on Sale of Property and Equipment	(91,735)	-
Loss on Certificates of Deposit	-	36,165
Change in Value of Swap	(26,884)	18,570
Increase (Decrease) in Operating Assets:		
Accounts Receivable	(71,803)	(260)
Pledges Receivable	146,500	(121,500)
Inventories	628,698	(60,677)
Prepaid Expenses	34,547	(62,141)
Security Deposits	4,386	-
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(27,927)	(46,251)
Accrued Salaries and Vacation	620	36,656
Accrued Payroll Taxes	16,593	(29,725)
Accrued Interest	4,667	3,614
Other Accrued Expenses	1,834	12,928
Tenant Security Deposits	428	-
Net Cash Provided by Operating Activities	257,756	264,511
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Property and Equipment	175,000	-
Purchase of Property and Equipment	(184,694)	(326,853)
Net Cash Used by Investing Activities	(9,694)	(326,853)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt	(527,439)	(297,987)
Payments on Long-Term Debt Issuance Costs	-	(113,936)
Proceeds from Long-Term Debt	12,980	338,213
Net Cash Used by Financing Activities	(514,459)	(73,710)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(266,397)	(136,052)
Cash and Cash Equivalents - Beginning of Year	450,997	587,049
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 184,600	\$ 450,997
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid	\$ 167,091	\$ 162,854
NONCASH INVESTING AND FINANCING ACTIVITIES		
Property Purchased with Note Payable	\$ 1,488,991	\$ 265,455

See accompanying Notes to Financial Statements.

**FAMILY PATHWAYS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 NATURE OF THE ORGANIZATION

Family Pathways (the Organization) is a Minnesota nonprofit corporation whose mission is to work with communities to develop supportive, caring relationships to help people meet their basic needs. The four human service departments (Basic Life, Youth, Senior, and the Refuge Network) provide programs and services to approximately 184,000 residents of Chisago, Pine, Isanti, Kanabec, and Mille Lacs Counties of East Central Minnesota (Region 7E) in addition to the school districts of Forest Lake and Foley, Minnesota and Frederic and St. Croix Falls, Wisconsin. They have been assisting low-income individuals and their families find unique ways of achieving long-term sustainability since incorporation in 1978.

Basic Life Services – The Organization had 10 food shelves at June 30, 2017 in Cambridge, Chisago Lakes, Forest Lake, Hinckley, Mora, North Branch, Onamia, and Sandstone, Minnesota, and Frederic and St. Croix Falls, Wisconsin, and a mobile food shelf. The food shelves collect and distribute food and personal items to individuals and families experiencing crisis situations. The trained coordinators work with people to assess immediate needs and develop plans for long-range self-sufficiency while providing professional advocacy and resource referral services.

Youth Services – Youth Services provides multiple programs and technology centers for the area's underserved youth populations. The Circle of Friends (COF) is a peer-mentoring program, designed for special needs children to be included in mainstream activities. Kids First offers school-age youth and adult mentoring relationships on a 1:1 basis. The Youth Enrichment & Technology Centers provide computer labs and homework tutors to assist students with their academic success.

Senior Services – Senior Services assists older adults to remain living independently in their own homes. They conduct in-home assessments, coordinate volunteer visits, and supply respite services to alleviate the strains placed upon caregivers. The volunteers are available to aid clients with routine necessities, such as grocery shopping assistance and transportation to medical appointments. The programs include social respite (adult day centers) for early to mid-stage memory loss clients, and caregiver support groups.

Thrift Stores – The stores strengthen communities by providing livable wages for staff and valuable training for volunteers, while generating ongoing revenues that support Family Pathways programs and services. The stores build ecological awareness in the community by encouraging recycling efforts and promoting the reuse of clothing and household goods.

Refuge Network – The Refuge Network provides support services for people who are currently involved or have been involved in an abusive relationship. The Refuge Network believes that no one deserves to be abused and therefore seeks to bring an end to domestic violence.

**FAMILY PATHWAYS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization's significant accounting policies are summarized below to assist the reader in reviewing the financial statements presented in this report.

Basis of Presentation

Income and expenses are recorded on the accrual basis of accounting whereby revenue and support are recognized when earned and expenses are recognized when incurred.

Net Assets

The Organization reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets – Net assets which are neither permanently nor temporarily restricted by donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets of the Organization resulting from contributions whose use is limited by donor-imposed stipulations that either expire by the passage of time, or can be fulfilled and removed by action pursuant to those stipulations. The Organization had \$100,249 and \$353,500 in temporarily restricted net assets at June 30, 2017 and 2016, respectively.

Permanently Restricted Net Assets – Net assets of the Organization resulting from contributions whose use is limited by donor-imposed stipulations that the funds be maintained permanently by the Organization, generally with the related income to use in the Organization's activities. The Organization had \$50,000 in permanently restricted net assets at both June 30, 2017 and 2016.

Net assets that have no donor-stipulated restrictions, as well as contributions for which donors have stipulated restrictions but which are met within the same reporting period, are reported as unrestricted support.

Cash and Cash Equivalents

The Organization includes all highly liquid debt instruments purchased with an initial maturity of three months or less as cash equivalents. The balances may, at times, exceed federally insured limits. The Organization has not experienced any loss on these accounts and believes it is not exposed to any significant credit risk.

Accounts Receivable

Accounts receivable consist of amounts due for program services rendered and grants awarded but not yet received. All amounts are expected to be collected within one year. No interest is accrued on accounts receivable. No allowance for uncollectible amounts is considered necessary.

Pledges Receivable

Pledges receivable that are expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at present value of the amounts to be collected. No allowance for uncollectible amounts is considered necessary.

**FAMILY PATHWAYS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

The Organization estimates the year-end thrift store inventories based on the average of the last three months' sales.

Food pantry inventory at year-end has been recorded at a combination of both published food bank rates and cost purchases based on yearly activity of both donated and purchased food. The Organization evaluates this for obsolescence monthly as that is the approximate timing for the inventory to turn over.

Property and Equipment

The Organization capitalizes all asset additions over \$3,000. Purchased property and equipment is recorded at cost. Contributed property and equipment is recorded at fair market value at the date of donation. Depreciation and amortization are computed on the straight-line method over the estimated useful life of the respective asset. Total depreciation was \$360,083 and \$320,475 for the years ended June 30, 2017 and 2016, respectively.

Estimated economic useful lives are as follows:

Building and Improvements	10 – 40 Years
Equipment and Fixtures	5 – 7 Years

Loan Costs

Loan costs consist of issuance costs related to tax-exempt bonds and notes payable. These costs are being amortized on the straight-line method over the term of the bond or note. These costs are presented net with the related long-term debt (Note 3). The Organization adopted a recently issued accounting standard that required this treatment and this change has been retrospectively applied to prior periods presented as if this policy had always been used. The adoption of this standard had no effect on previously reported net assets.

Amortization expense was \$11,664 and \$8,815 for the years ended June 30, 2017 and 2016, respectively. Details are as follows:

	2017	2016
Loan Costs	\$ 261,476	\$ 261,476
Less: Accumulated Amortization	(61,638)	(49,974)
Net	\$ 199,838	\$ 211,502

Revenue Recognition

Grants are recorded when awarded by the grantor and are considered to be available for unrestricted use unless specifically restricted by the donor. Government grants are earned when services are provided by the Organization. Contributions are recorded as revenue when received.

Donated materials sold in thrift stores are recorded as store sales when items are sold, as this value is determined to be equivalent to the fair value at the date of donation.

**FAMILY PATHWAYS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Donated food is recorded when received at \$1.73 per pound and expensed at \$1.73 per pound when distributed for the year ended June 30, 2017. Donated food was recorded at \$1.67 per pound and expensed at \$1.67 per pound for the year ended June 30, 2016.

Donated property and equipment are reported as unrestricted support unless explicit donor stipulations specify how donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how those long-lived assets must be maintained, the Organization reports expirations or donor restrictions when the donated or acquired long-lived assets are placed in service.

Expense Allocation

The costs of providing various programs have been summarized on a functional basis. Expenses which are not directly identifiable by program or supporting services are allocated based on estimates by management.

Income Taxes

The Organization is tax-exempt under Section 501(c)(3) of the Internal Revenue Code, and is not considered a private foundation. The Organization is subject to income tax on any unrelated business, including net rental income.

The Organization has evaluated for uncertain tax positions, and management has determined there are no uncertain tax positions as of June 30, 2017 and 2016.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were \$134,284 and \$147,341 for the years ended June 30, 2017 and 2016, respectively.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from these estimates.

Reclassifications

Certain amounts presented in the June 30, 2016 financial statements have been reclassified to conform to the June 30, 2017 presentation. The reclassifications have no effect on reported amounts of total net assets or changes in net assets.

Subsequent Events

Subsequent events have been evaluated by the Organization through February 2, 2018, which is the date the financial statements were available to be issued.

**FAMILY PATHWAYS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 3 LONG-TERM DEBT

Tax-Exempt Bond – MidWest One Bank

On December 29, 2015, the Organization entered into a tax-exempt bond issued by the City of North Branch, Minnesota for the purchase of property and the refinance and consolidation of other property debts. The bond consists of three revenue notes: \$1,869,789 2015A revenue note used to finance property and construction of a new thrift store on that property in North Branch, Minnesota; \$216,600 2015B revenue note to refinance that portion of the St. Croix Falls Mall building that is leased out; and \$1,587,979 2015C revenue note used to refinance and consolidate mortgages on properties in North Branch (regional office), Nessel (shelter), and the remaining portion of the St. Croix Falls Mall.

The 2015A revenue note matures on December 29, 2035 and has principal payments of \$10,745 starting in January 2017 and continuing for the life of the note, or until paid off. The Organization is drawing against the 2015A revenue note as needed. Interest on the 2015A revenue note begins at 2.97% but is adjusted every 60th month based on a formula including the then current five-year U.S. Treasury Constant Maturity rate. The 2015B revenue note matures on September 29, 2018 and has fixed principal and interest payments of \$6,968 over the life of the note. Interest on the 2015B revenue note is fixed at 4.20%. The 2015C revenue note matures on December 29, 2035 and has principal payments of \$9,815 starting in October 2018 and continuing for the life of the note. Interest on the 2015C revenue note begins at 2.97% but is adjusted every 60th month based on a formula including the then current five-year U.S. Treasury Constant Maturity rate.

Tax-Exempt Bond – Wells Fargo

A 17-year tax-exempt bond issued by the Minnesota Agricultural and Economic Development Board was entered into on June 1, 2012. The bond was issued to finance the purchase of property and refinance other property debts. The Organization has obtained a fixed payment interest rate swap agreement. The bond and related interest rate swap agreement require monthly payments of interest and principal. Principal payments are \$10,500 and increase annually by \$500 per month. Interest is being paid at 2.24% per month. The swap agreement has a termination date of July 1, 2022. The bond is secured by property located in Cambridge (food shelf, offices), Forest Lake, Rush City, Hinckley, North Branch, Onamia, Pine City, and Princeton.

Tax-Exempt Bond – Woodlands National Bank

A 20-year tax-exempt bond issued by the City of Cambridge, Minnesota, was entered into on June 16, 2006. The bond was issued to finance the purchase of property and refinance other property debts. The bond specifies 240 monthly payments of \$7,492 including interest at 1.79%. The bond is secured by property located in Cambridge (thrift store), Isanti, Mora, and Wyoming.

Special Assessments

In 2008, special assessments for the City of Cambridge were placed into service, with a total assessment of \$32,287, which is payable in semi-annual payments of \$2,085 at 4.94% over 10 years. Assessments are secured by related real estate.

**FAMILY PATHWAYS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 3 LONG-TERM DEBT (CONTINUED)

Note Payable – Stearns Bank

A three-year note payable financed through a bank was entered into on April 21, 2017. The note was issued to finance the purchase of a vehicle. The note specifies monthly payments of \$392, including interest at 5.49%. The note is secured by the related vehicle.

Note Payable – Vehicle

A five-year note payable financed through a bank was entered into on June 27, 2012. The note was issued to finance the purchase of a vehicle. The note specifies monthly payments of \$734, including interest at 5.25%. The note is secured by the related vehicle.

As of June 30, long-term debt consists of:

	<u>2017</u>	<u>2016</u>
Tax-Exempt Bond - Wells Fargo	\$ 2,085,500	\$ 2,404,500
Tax-Exempt Bond - Woodlands	745,903	822,489
Special Assessments	3,178	5,263
Note Payable - Stearns Bank	12,291	-
Note Payable - Vehicle	-	6,467
Tax-Exempt Bond 2015A - MidWest One	1,752,999	296,170
Tax-Exempt Bond 2015B - MidWest One	95,016	185,335
Tax-Exempt Bond 2015C - MidWest One	1,586,669	1,586,800
Total Long-Term Debt	<u>6,281,556</u>	<u>5,307,024</u>
Less: Loan Costs (Note 1)	(199,838)	(211,502)
Less: Current Portion of Long-Term Debt	<u>(302,719)</u>	<u>(377,653)</u>
Net Long-Term Debt	<u>\$ 5,778,999</u>	<u>\$ 4,717,869</u>

As of June 30, 2017, principal maturities of long-term debt are as follows:

<u>Year Ending June 30.</u>	<u>Amount</u>
2018	\$ 398,113
2019	425,292
2020	449,375
2021	448,173
2022	464,653
Thereafter	4,095,950
Total	<u>\$ 6,281,556</u>

**FAMILY PATHWAYS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 4 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Time Restrictions	\$ -	\$ 146,500
Black Dog Shelter Renovations	-	50,000
Domestic Violence Programs	-	65,000
Food Shelves Capital Improvements	35,346	92,000
Refuge Network	64,903	-
Total Temporarily Restricted Net Assets	<u>\$ 100,249</u>	<u>\$ 353,500</u>

NOTE 5 PERMANENTLY RESTRICTED NET ASSETS

The Organization has received \$50,000 from donors that are permanently restricted, to be kept in perpetuity for the advancement of the Organization's mission, vision, and values. The earnings may be used for program operations.

The board of directors has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary.

The funds are being held at a bank until the board develops and approves resolutions regarding an investment policy and the minimum fund levels required before earnings may be distributed. These amounts are held for permanently restricted purposes and therefore, they are not considered current assets.

NOTE 6 PENSION PLAN

The Organization offers a 401(k) plan for its employees. Eligible employees are allowed to make salary reduction contributions and the Organization matches those contributions up to 2% of compensation effective January 1, 2016. Prior to this date, the Organization matched contributions up to 4% of compensation. The Organization contributed \$55,784 and \$66,089 for the years ended June 30, 2017 and 2016, respectively.

NOTE 7 RENTAL INCOME

The mall in St. Croix Falls, Wisconsin has two tenants with continuing leases. Future rental income from those leases is as follows for the year ending June 30:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 1,284

**FAMILY PATHWAYS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 8 LEASED FACILITIES AND EQUIPMENT

The Organization has three space leases and numerous copier leases at various locations that expire at various times through 2020. Rental expense was \$175,120 and \$198,869 for the years ended June 30, 2017 and 2016, respectively. The future rental commitments are as follows for the years ending June 30:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 164,760
2019	108,654
2020	32,780
Total	<u>\$ 306,194</u>