

Pathfinders Milwaukee, Inc.

Milwaukee, Wisconsin

Financial Statements

Years Ended December 31, 2017 and 2016



WIPFLI^{LLP}
CPAs and Consultants

Pathfinders Milwaukee, Inc.

Years Ended December 31, 2017 and 2016

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Independent Auditor's Report

Board of Directors
Pathfinders Milwaukee, Inc.
Milwaukee, Wisconsin

We have audited the accompanying financial statements of Pathfinders Milwaukee, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities 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; 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.

Auditor's 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. 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 auditor's 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pathfinders Milwaukee, Inc. as of December 31, 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.

A handwritten signature in black ink that reads "Wipfli LLP".

Wipfli LLP
Milwaukee, Wisconsin

June 7, 2018

Pathfinders Milwaukee, Inc.

Statements of Financial Position

December 31, 2017 and 2016

Assets	2017	2016
Current assets:		
Cash and cash equivalents	\$ 712,356	\$ 318,808
Grants receivable	496,764	458,382
Pledges receivable	20,878	37,684
Prepaid expenses	1,010	1,010
Total current assets	1,231,008	815,884
Property and equipment:		
Land	26,700	26,700
Building and improvements	337,729	337,729
Furniture and equipment	289,286	289,286
Total property and equipment	653,715	653,715
Less - Accumulated depreciation	542,613	509,177
Property and equipment - Net	111,102	144,538
Other assets:		
Property held for sale	-	190,609
Unemployment reserve	36,647	36,629
Deposit	10,417	10,417
Total other assets	47,064	237,655
TOTAL ASSETS	\$ 1,389,174	\$ 1,198,077

Pathfinders Milwaukee, Inc.

Statements of Financial Position (Continued)

December 31, 2017 and 2016

Liabilities and Net Assets	2017	2016
Current liabilities:		
Line of credit	\$ 104,201	\$ 204,201
Current portion of capital lease obligation	9,610	15,799
Current portion of note payable	-	23,720
Amounts payable under fiscal agent responsibilities	202,084	-
Accounts payable	29,247	19,882
Accrued payroll and payroll taxes	127,822	114,749
Accrued vacation	55,125	45,622
Deferred revenue	129,129	162,951
Total current liabilities	657,218	586,924
Long-term liabilities:		
Obligation under capital lease agreement, less current portion	-	9,610
Note payable, less current portion	-	145,760
Total long-term liabilities	-	155,370
Total liabilities	657,218	742,294
Net assets:		
Unrestricted	392,023	113,120
Temporarily restricted	339,933	342,663
Total net assets	731,956	455,783
TOTAL LIABILITIES AND NET ASSETS	\$ 1,389,174	\$ 1,198,077

See accompanying notes to financial statements.

Pathfinders Milwaukee, Inc.

Statements of Activities

Years Ended December 31, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
Contributions	\$ 585,931	\$ 45,360	\$ 631,291	\$ 457,327	\$ -	\$ 457,327
Program service fees	15,607	-	15,607	141,405	-	141,405
Grants and contracts	2,711,924	294,573	3,006,497	2,313,754	342,663	2,656,417
Special events	58,471	-	58,471	99,848	-	99,848
Miscellaneous revenues	36,419	-	36,419	56,298	-	56,298
Gain on sale of property held for sale	4,391	-	4,391	44,147	-	44,147
Impairment loss on property held for sale	-	-	-	(105,000)	-	(105,000)
Net assets released from restrictions	342,663	(342,663)	-	352,107	(352,107)	-
Total support and revenue	3,755,406	(2,730)	3,752,676	3,359,886	(9,444)	3,350,442
Expenses:						
Program expenses	2,672,605	-	2,672,605	2,790,580	-	2,790,580
Fund-raising	334,104	-	334,104	254,326	-	254,326
Management and general	469,794	-	469,794	516,552	-	516,552
Total expenses	3,476,503	-	3,476,503	3,561,458	-	3,561,458
Change in net assets	278,903	(2,730)	276,173	(201,572)	(9,444)	(211,016)
Net assets at beginning of year	113,120	342,663	455,783	314,692	352,107	666,799
Net assets at end of year	\$ 392,023	\$ 339,933	\$ 731,956	\$ 113,120	\$ 342,663	\$ 455,783

See accompanying notes to financial statements.

Pathfinders Milwaukee, Inc.

Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	2017	2016
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Change in net assets	\$ 276,173	\$ (211,016)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation	33,436	33,414
Gain on sale of property held for sale	(4,391)	(44,147)
Impairment loss on property held for sale	-	105,000
Changes in operating assets and liabilities:		
Receivables	(21,576)	(16,297)
Prepaid expenses	-	11,274
Amounts payable under fiscal agent responsibilities	202,084	-
Accounts payable	9,365	(12,940)
Accrued expenses	22,576	9,286
Deferred revenue	(33,822)	31,752
Net cash provided by (used in) operating activities	483,845	(93,674)
Cash flows from investing activities:		
Reinvested income on restricted investments	(18)	(28)
Proceeds from the sale of property	195,000	124,166
Net cash provided by investing activities	194,982	124,138
Cash flows from financing activities:		
Principal payments under capital lease obligation	\$ (15,799)	\$ (14,986)
Principal payments on notes payable	(169,480)	(94,024)
Payments on line of credit - Net	(100,000)	-
Net cash used in financing activities	(285,279)	(109,010)
Net increase (decrease) in cash and cash equivalents	393,548	(78,546)
Cash and cash equivalents at beginning of year	318,808	397,354
Cash and cash equivalents at end of year	\$ 712,356	\$ 318,808
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 12,417	\$ 12,546

See accompanying notes to financial statements.

Pathfinders Milwaukee, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Organization Activity

Pathfinders Milwaukee, Inc. (“Pathfinders”) is a nonprofit organization which provides counseling, supportive services, and prevention and education programs along with a shelter and related services for runaway and homeless youth as part of its programs. Pathfinders also operates Southeastern Education Center which provides educational alternatives for troubled adolescents in a structured educational format.

Southeastern Youth and Family Services, Inc. (“Southeastern”) is a nonprofit organization whose mission is to assist children, at-risk adolescents and their families by strengthening life skills through counseling, residential child care, and educational service. Southeastern formerly operated group homes located in Milwaukee and Waukesha Counties. The group homes provided specialized social, rehabilitative, and supportive treatment services in residential or educational environments, to adolescents and their families as a result of referrals by the court system. Operations for Southeastern were terminated in 2016 and its programs transferred to Pathfinders.

Rosalie Manor Community and Family Services, Inc. (“Rosalie Manor”), a nonprofit organization, provides supportive services during pregnancy and after delivery to enhance parent-child relationships and help the parents identify and pursue personal career goals. Services also include a fatherhood program providing parenting education and related skills development as well as a teen pregnancy prevention education program. Operations for Rosalie Manor were terminated in 2016 and its programs transferred to Pathfinders.

Financial Statements

The financial statements include the accounts of Pathfinders, Southeastern, and Rosalie Manor (collectively referred to as the “Organization”). Southeastern and Rosalie Manor are consolidated with Pathfinders since Pathfinders is the sole member of these entities. All significant inter-organizational transactions and accounts have been eliminated.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (“GAAP”).

Use of Estimates in the Preparation of Financial Statements

The preparation of the accompanying financial statements in conformity with GAAP requires management to make certain estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Pathfinders Milwaukee, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Assets

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations or where donor-imposed stipulations are met in the year of contribution.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or may not be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are transferred to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. The Organization had no permanently restricted net assets at December 31, 2017 and 2016.

Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Pledges Receivable

Unconditional pledges are recorded as receivables in the year pledged. Conditional pledges receivable are recognized only when the conditions on which they depend are substantially met. Pledges and other promises to give whose eventual uses are restricted by the donors are recorded as increases in temporarily restricted net assets. Unrestricted pledges to be collected in future periods are also recorded as an increase to temporarily restricted net assets and reclassified to unrestricted net assets when received, unless the donor's intention is to support current-period activities.

Pledges receivable expected to be collected in less than one year are reported at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows on a discounted basis applicable to the years in which the promises were received. The amortization of the discount is recognized as contribution income over the duration of the pledge.

Management individually reviews all past due pledge receivable balances and estimates the portion, if any, of the balance that will not be collected. The carrying amounts of pledges receivable are reduced by allowances that reflect management's estimate of uncollectible amounts. At December 31, 2017 and 2016, the balances are considered to be fully collectible, and accordingly, no allowance for uncollectible balances has been recorded.

Pathfinders Milwaukee, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment with an acquisition cost of \$5,000 or more are recorded at cost and capitalized. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment acquired under capital lease agreements are amortized on the straight-line basis over the estimated useful life of the underlying asset. The estimated useful lives for the major classes of property are 40 years for building and improvements and 5 years for furniture and equipment.

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted support and are excluded from the change in net assets unless explicit donor stipulations specify how the 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 long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

The Organization reviews its investment in property and equipment periodically to determine potential impairment by comparing the carrying value of the property and equipment with the estimated future undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected cash flows be less than the carrying value, the Organization would recognize an impairment loss at that time. The Organization determined that no evaluations of recoverability were necessary during the years ended December 31, 2017 and 2016.

Property Held for Sale

At December 31, 2016, the Organization owned property actively marketed for sale totaling \$190,609. The property was formerly used for Southeastern's Southeastern Education Center program. The property was valued at the lesser of historic cost, less depreciation, and fair value, determined by appraisals, less estimated selling costs. Upon classification as held for sale, the property was no longer depreciated; instead it was reviewed periodically for impairment, with the carrying value of the property adjusted for any impairment losses. In 2016, the Organization recognized an impairment loss of \$105,000 on property formerly utilized for Southeastern Education Center programs.

Southeastern Education Center was sold May 5, 2017, for net cash proceeds of \$180,440.

Unemployment Reserve

The Organization has elected reimbursement financing under provisions of the Wisconsin unemployment compensation laws. Unemployment claims are paid to the State of Wisconsin as incurred. The Organization has unemployment reserves established with an area financial institution of \$36,647 and \$36,629 at December 31, 2017 and 2016, respectively, to meet state funding requirements.

Pathfinders Milwaukee, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Deferred Revenue

Funds received but not earned as of the statement of financial position date have been classified as deferred revenue. Amounts will be recognized in future periods as qualifying expenses are incurred.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Grants and Contract Revenue

Federal, state, and local grants and contract revenue represent grants and contracts with various funding sources. In general, grant and contract revenue is recognized under the following methods:

Cost reimbursement contracts – Reimbursements are based on expenses incurred. The amount due from various funding sources is recognized in the accounting period when the expenses are incurred.

Performance contracts – Reimbursements are based on accomplishment of contract objectives without regard for expenditures. Performance revenue is recognized in the accounting period when the contracted services have been performed.

Income Taxes

Pathfinders, Southeastern, and Rosalie Manor are nonprofit organizations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Organization is also exempt from state income tax on the related income.

In order to account for any uncertain tax positions, the Organization determines whether it is more likely than not that a tax position will be sustained upon examination on the technical merits of the position, assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. The Organization has recorded no assets or liabilities related to uncertain tax positions.

Pathfinders Milwaukee, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Allocation of Expenses

Indirect program expenses are allocated to program services. Supporting service expenses, net of supporting service revenues, are allocated to program services based on full-time employee's equivalents in each program.

Subsequent Events

The Organization has evaluated subsequent events through June 7, 2018, which is the date the financial statements were available to be issued.

Note 2: Grants Receivable

Grants receivable balances include the following:

<i>As of December 31,</i>	2017	2016
State of Wisconsin:		
Department of Children and Families - Runaway Services Grant		
PATHS	\$ 21,978	\$ -
Runaway and Homeless Youth Grant	10,570	6,093
Department of Justice:		
Victims of Crime Act	69,558	67,506
Violence Against Women Act	8,039	4,538
Milwaukee County	25,490	14,753
City of Milwaukee	19,270	6,075
United Way of Greater Milwaukee and Waukesha County, Inc.	294,572	317,898
Community Advocates	33,973	30,755
Aurora Family Services	13,068	10,530
Other	246	234
Total grants receivable	\$ 496,764	\$ 458,382

Note 3: Deferred Revenue

Deferred revenue consists of funds received from the following sources but not earned:

<i>As of December 31,</i>	2017	2016
Milwaukee Public Schools	\$ 110,173	\$ 56,261
Greater Milwaukee Foundation	6,815	50,000
Helen Bader Foundation	-	50,000
Other	12,141	6,690
Total deferred revenue	\$ 129,129	\$ 162,951

Pathfinders Milwaukee, Inc.

Notes to Financial Statements

Note 4: Line of Credit

Pathfinders has a \$243,750 line of credit with an area financial institution. The line of credit bears interest at the prime rate plus 0.25% (4.75% as of December 31, 2017) and matures in October 2018. The line of credit is secured by a general business security agreement. At December 31, 2017 and 2016, total outstanding balances on the line of credit were \$104,201 and \$204,201, respectively.

Note 5: Note Payable

Note payable consisted of the following:

<i>As of December 31,</i>	2017	2016
Mortgage note payable to IFF Wisconsin, secured by real estate (Southeastern Education Center), due in monthly installments of principal and interest at 3.38% of \$2,424. The note was paid in full with the proceeds from the sale of Southeastern Education Center on May 5, 2017.	\$ -	\$ 169,480
Less: Current portion	-	(23,720)
Note payable, net of current portion	\$ -	\$ 145,760

Note 6: Temporarily Restricted Net Assets

Donor restrictions of temporarily restricted net assets are summarized as of December 31 as follows:

<i>As of December 31,</i>	2017	2016
Outreach drop-in center	\$ 95,025	\$ 86,944
Youth shelter	151,986	139,061
Q-BLOK	22,562	20,643
Prevention education program - Healthy Youth	25,000	71,250
Supportive housing - PATHS	25,000	-
Pledges receivable	20,360	24,765
Total temporarily restricted net assets	\$ 339,933	\$ 342,663

Net assets were released from restrictions by incurring expenses, satisfying the restricted purpose or by occurrence of other events specified by donors.

Pathfinders Milwaukee, Inc.

Notes to Financial Statements

Note 7: Leases

Operating Leases

Pathfinders leases office space through an operating lease which expires in December 2021. The lease requires monthly payments of \$11,501 through December 31, 2021, and increases by 2% annually for each year thereafter. Pathfinders has three one-year lease extension options at the end of the lease term.

Pathfinders leases space for its educational center through an operating lease which expires in June 2021. The lease requires monthly payments of \$6,667. Pathfinders has a five-year lease extension option. Pathfinders may terminate the lease early if Milwaukee Public Schools does not renew Pathfinders' contract for the educational center.

Rent expense for the years ended December 31, 2017 and 2016 totaled \$226,994 and \$221,496, respectively.

Capital Leases

Pathfinders leases telephone equipment under a lease which is classified as a capital lease. The lease requires monthly payments of \$1,397 until August 2018. For the years ended December 31, 2017 and 2016, amortization expense totaled \$5,906 and \$14,785, respectively, and is included in depreciation expense. Assets held under capital lease obligations are included in furniture and equipment in the statements of financial position and are as follows:

<i>As of December 31,</i>	2017	2016
Telephone equipment	\$ 29,529	\$ 88,712
Less: Accumulated amortization	(26,330)	(66,871)
Assets held under capital lease obligation, net of accumulated amortization	\$ 3,199	\$ 21,841

Minimum Lease Payments

Future minimum lease payments on the non-cancelable leases are as follows:

<i>Years Ending December 31,</i>	Operating Leases	Capital Lease
2018	\$ 218,012	\$ 9,780
2019	218,012	-
2020	218,012	-
2021	178,012	-
Total minimum lease payments	832,048	9,780
Less: Amount representing interest		(170)
Present value of minimum lease payments		\$ 9,610

Pathfinders Milwaukee, Inc.

Notes to Financial Statements

Note 8: Contingencies

The Organization is subject to legal proceedings and claims that arise in the ordinary course of business. While any proceeding or litigation has an element of uncertainty, management of the Organization believes that the outcome of any pending or threatened actions will not have a material adverse effect on the financial condition of the Organization.

Note 9: Retirement Plan

The Organization has a 403(b) Plan covering substantially all full-time employees. All employees are eligible to make contributions to the plan. Employees must have completed twenty-four months of service and work at least 20 hours a week to meet eligibility requirements to receive employer contributions. The employer will make a \$50 monthly contribution per employee and an additional matching contribution, up to \$50 of the employee's deferral per month. The employer contribution was \$32,543 and \$33,511 for the years ended December 31, 2017 and 2016, respectively.

Note 10: Concentration of Risk

Bank Deposits

The Organization maintains its cash with local financial institutions. Balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. Balances in excess of FDIC limits are uninsured. Management has not experienced any losses with the accounts and management believes the Organization is not exposed to any significant risk on cash and cash equivalents.

Government and Grants

The Organization receives grants from various government agencies whose programs rely on the availability of funding from federal or state governments. Concentrations in grant and contract revenue are as follows:

<i>Years Ended December 31,</i>	2017	2016
State of Wisconsin Department of Justice	17%	16%
Milwaukee Public Schools	25%	26%
United Way of Greater Milwaukee	21%	24%
Other funding sources	37%	34%