PATHWAY LIVING CENTER, INC.
Clinton, Iowa

FINANCIAL STATEMENTS
June 30, 2006 and 2005

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PATHWAY LIVING CENTER, INC.

OFFICIALS

Board of Directors

June 30, 2006

Name	Title	Term Expires
Doug Rempfer	President	2008
Michelle Waltz	Vice-President	2008
Dr. Stephen Decker	Secretary	2008
Jennifer Gutierrez	Treasurer	2006
LaRee Mangler	Member	2006
Dan Waters	Member	2006
Rev. Michael Brewer	Member	2007
Rich Matzen	Member	2007
Pam Kremer	Member	2007
Judy Wallace	Member	2008
Melissa Peterson	Executive Director	Indefinite

Board of Directors

June 30, 2005

Name	Title	Term Expires
Doug Rempfer	President	2005
Michelle Waltz	Vice-President	2005
Dr. Steven Decker	Secretary	2005
Jennifer Gutierrez	Treasurer	2006
Rev. Michael Brewer	Member	2005
Rich Matzen	Member	2005
Pam Kremer	Member	2006
LaRee Mangler	Member	2006
Judy Wallace	Member	2006
Dan Waters	Member	2006
Melissa Peterson	Executive Director	Indefinite

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

To the Board of Directors
Pathway Living Center, Inc.
Clinton, Iowa

We have audited the accompanying statements of financial position of Pathway Living Center, Inc. as of and for the years ended June 30, 2006 and 2005, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Pathway Living Center, Inc.'s management. 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 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pathway Living Center, Inc. as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2006, on our consideration of Pathway Living Center, Inc.'s 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Clifton Gunderson LLP

Clinton, Iowa
November 8, 2006

Offices in 15 states and Washington, DC

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PATHWAY LIVING CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2006 and 2005

	2006	2005
ASSETS		
Cash and cash equivalents	$ 297,165	$ 301,449
Accounts receivable	334,610	253,194
Prepaid expenses	9,699	8,552
Land, buildings, equipment, vehicles, and furniture and fixtures at cost less accumulated depreciation of $270,635 in 2006 and $255,005 in 2005	426,873	416,215
TOTAL ASSETS	$ 1,068,347	$ 979,410
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 54,160	$ 4,607
Accrued payroll and compensated absences	79,497	61,460
Accrued payroll taxes and deductions	11,549	7,608
Property tax payable	1,938	1,704
Mortgages payable	22,157	25,157
Total liabilities	169,301	100,536
NET ASSETS		
Unrestricted	899,046	878,874
TOTAL LIABILITIES AND NET ASSETS	$ 1,068,347	$ 979,410

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

PATHWAY LIVING CENTER, INC.
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2006 and 2005

	2006	2005
REVENUES, GAINS, AND OTHER SUPPORT		
Other governmental revenue	$ 184,499	$ 196,491
Medicaid	1,074,862	1,019,266
Individuals	104,504	70,808
Rent	42,128	40,715
Grant revenue	52,490	118,686
Interest	3,946	2,811
Other	9,949	8,167
Total revenues, gains, and other support	1,472,378	1,456,944
EXPENSES		
Program services		
Community based	1,356,154	1,257,240
Homeless housing	33,373	34,392
Total program services	1,389,527	1,291,632
General and administrative	62,679	57,738
Total expenses	1,452,206	1,349,370
CHANGE IN NET ASSETS	20,172	107,574
NET ASSETS, BEGINNING OF YEAR	878,874	771,300
NET ASSETS, END OF YEAR	$ 899,046	$ 878,874

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

PATHWAY LIVING CENTER, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2006 and 2005

	2006			
	Community Based	**Homeless Housing**	**General and Administrative**	**Total**
Staff salaries	$ 939,144	$ 2,377	$ 51,284	$ 992,805
Employee benefits	135,592	-	7,404	142,996
Payroll taxes	73,083	-	3,991	77,074
Staff development and training	11,540	-	-	11,540
Travel	16,524	284	-	16,808
Community assistance	-	250	-	250
Vehicle maintenance	16,616	-	-	16,616
Programming	3,403	-	-	3,403
Food	16,651	-	-	16,651
Consumer allowances	7,080	-	-	7,080
Furnishings	7,082	71	-	7,153
Household supplies	3,763	26	-	3,789
Janitorial supplies	1,064	5	-	1,069
Medical supplies	358	-	-	358
Office supplies	6,878	-	-	6,878
Printing	1,439	-	-	1,439
Postage	1,304	19	-	1,323
Telephone	7,847	-	-	7,847
Pagers	222	-	-	222
Networking	1,284	-	-	1,284
Utilities	19,597	5,360	-	24,957
Management fees	-	4,419	-	4,419
Building and grounds	19,743	6,513	-	26,256
Insurance	30,817	1,763	-	32,580
Bad debt expense	181	-	-	181
Professional fees	6,725	-	-	6,725
Depreciation	25,685	8,483	-	34,168
Interest expense	71	1,608	-	1,679
Dues and subscriptions	1,145	-	-	1,145
Property taxes	-	2,172	-	2,172
Miscellaneous	1,316	23	-	1,339
TOTAL EXPENSES	$ 1,356,154	$ 33,373	$ 62,679	$ 1,452,206

PATHWAY LIVING CENTER, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2006 and 2005

	2005			
	Community Based	**Homeless Housing**	**General and Administrative**	**Total**
Staff salaries	$ 867,706	$ 3,425	$ 46,815	$ 917,946
Employee benefits	137,599	-	7,424	145,023
Payroll taxes	64,857	-	3,499	68,356
Staff development and training	12,221	-	-	12,221
Travel	13,773	175	-	13,948
Community assistance	-	34	-	34
Vehicle maintenance	10,344	-	-	10,344
Programming	2,821	-	-	2,821
Food	10,688	-	-	10,688
Consumer allowances	9,958	-	-	9,958
Furnishings	3,919	343	-	4,262
Household supplies	3,477	43	-	3,520
Janitorial supplies	775	18	-	793
Medical supplies	182	-	-	182
Office supplies	8,392	-	-	8,392
Printing	1,570	-	-	1,570
Postage	1,367	33	-	1,400
Telephone	7,286	-	-	7,286
Pagers	222	-	-	222
Networking	1,770	-	-	1,770
Utilities	16,326	5,038	-	21,364
Management fees	-	3,644	-	3,644
Building and grounds	20,405	7,426	-	27,831
Insurance	22,805	2,260	-	25,065
Bad debt expense	5,415	-	-	5,415
Professional fees	6,585	-	-	6,585
Depreciation	23,979	8,184	-	32,163
Interest expense	347	1,804	-	2,151
Dues and subscriptions	1,164	25	-	1,189
Property taxes	-	1,894	-	1,894
Miscellaneous	1,287	46	-	1,333
TOTAL EXPENSES	$ 1,257,240	$ 34,392	$ 57,738	$ 1,349,370

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

PATHWAY LIVING CENTER, INC.
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 20,172	$ 107,574
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	34,168	32,163
Bad debts	181	5,415
Effects of changes in operating assets and liabilities:		
Accounts receivable	(81,597)	95,884
Prepaid expenses	(1,147)	(2,288)
Accounts payable	49,553	(4,083)
Accrued payroll and compensated absences	18,037	1,133
Accrued payroll taxes and deductions	3,941	296
Property tax payable	234	-
Net cash provided by operating activities	43,542	236,094
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment, vehicles, and furniture and fixtures	(44,826)	(30,823)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgages payable	(3,000)	(10,416)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,284)	194,855
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	301,449	106,594
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 297,165	$ 301,449

Cash paid for interest was $1,679 in 2006 and $2,151 in 2005.

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

PATHWAY LIVING CENTER, INC.
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
June 30, 2006 and 2005

Pathway Living Center, Inc. was established as a nonprofit organization to provide a recovering environment to persons who otherwise lack support in daily living, suffer social isolation and/or experience financial hardships. Pathway Living Center, Inc., advocates for the needs of individuals with chronic mental illness. It is a consumer-oriented program that promotes individual empowerment to make choices based on personal needs. The prevailing service delivery goals are to give the consumers choices in determining where to live, work, learn and recreate in the community of their choice and assist consumers in accessing resources to meet their specific needs.

USES 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, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

BASIS OF PRESENTATION

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

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, Pathway Living Center, Inc. considers all cash on deposit at banks, including savings and money market accounts, to be cash equivalents.

PATHWAY LIVING CENTER, INC.
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
June 30, 2006 and 2005

ACCOUNTS RECEIVABLE

Accounts receivable are recorded when invoices are issued and are presented in the balance sheet net of the allowance for doubtful accounts. Accounts receivable are written off when they are determined to be uncollectible. Pathway Living Center, Inc. believes no allowance for doubtful accounts is necessary at June 30, 2006 and 2005.

LAND, BUILDINGS, EQUIPMENT, VEHICLES, AND FURNITURE AND FIXTURES

Land is stated at cost. Buildings, equipment, vehicles, and furniture and fixtures are stated at cost less accumulated depreciation. The cost of buildings, equipment, vehicles, and furniture and fixtures is being depreciated over their estimated useful lives, using the straight-line method. Rates of depreciation vary from seven to forty years on buildings, five to ten years on equipment, five years on vehicles, and five to seven years on furniture and fixtures.

COMPENSATED ABSENCES

Pathway Living Center, Inc. employees accumulate a limited amount of earned but unused vacation and sick benefits payable to employees. Amounts representing the cost of compensated absences are recorded as liabilities and have been computed based on rates of pay in effect at June 30, 2006 and 2005.

INCOME TAX STATUS

Pathway Living Center, Inc. is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Association qualifies for the charitable contribution deduction under Section 179(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

This information is an integral part of the accompanying financial statements.

NOTE 1 - LAND, BUILDINGS, EQUIPMENT, VEHICLES, AND FURNITURE AND FIXTURES

At June 30, 2006 and 2005, the composition of land, buildings, equipment, vehicles, and furniture and fixtures was as follows:

	2006	2005
Land	$ 13,425	$ 13,425
Buildings	536,738	520,954
Equipment	66,967	64,087
Vehicles	55,367	56,407
Furniture and fixtures	25,011	16,347
Total cost	697,508	671,220
Less accumulated depreciation	(270,635)	(255,005)
Total land, buildings, equipment, vehicles, and furniture and fixtures	$ 426,873	$ 416,215

Depreciation expense was $34,168 and $32,163 for the years ended June 30, 2006 and 2005, respectively.

NOTE 2 - MORTGAGES PAYABLE

Mortgages payable at June 30, 2006 and 2005 consisted of the following:

	2006	2005
Loan agreement with Gateway State Bank dated April 26, 2002 in the amount of $33,395. The interest rate in effect is 6.750%. Interest is payable monthly. Principal is due on demand, however, if not demanded, 35 monthly payments of $384 each, beginning June 1, 2002 and continuing through and including May 1, 2005 on which date all outstanding principal and accrued but unpaid interest shall be due and payable in full. This loan was extended to May 1, 2008, under the same payments and interest rate. Secured by real estate, with a book value of $98,248 and $101,068 for the years ended June 30, 2006 and 2005, respectively.	$ 22,157	$ 25,157
Less portion due in one year	22,157	25,157
Long-term mortgages payable	$ -	$ -

NOTE 3 - RETIREMENT PLAN

On September 1, 1998, Pathway Living Center, Inc. adopted the Pathway Living Center, Inc. 401(k) Plan. Employee contributions are discretionary and are limited to the percentage and dollar limits prescribed by law. The maximum amount the employer will match, if any, is on the first 1.5% of compensation deposited as elective contributions.

The employer matching contribution to the Plan for the years ended June 30, 2006 and 2005 was $39,260 and $38,768, respectively.

NOTE 4 - CONCENTRATION OF CREDIT RISK

Pathway Living Center, Inc. has deposits at a financial institution which exceed federal depository insurance limits. Management believes that the credit risk related to these deposits is minimal.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's 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 Directors
Pathway Living Center, Inc.
Clinton, Iowa

We have audited the financial statements of Pathway Living Center, Inc. as of and for the year ended June 30, 2006 and have issued our report thereon dated November 8, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pathway Living Center, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Pathway Living Center, Inc.'s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and responses as item 2006-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly would not necessarily disclose all reportable conditions that are also considered to be a material weakness. However, we consider item 2006-1 to be a material weakness.

We noted certain matters that we reported to management of Pathway Living Center, Inc. in a separate letter dated November 8, 2006.

Offices in 15 states and Washington, DC

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pathway Living Center, Inc.'s financial statements are free of 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.*

Comments involving statutory and other legal matters about Pathway Living Center, Inc.'s operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Pathway Living Center, Inc. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. Comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statues.

This report, a public record by law, is intended solely for the information and use of Pathway Living Center, Inc. and other parties to whom the Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Pathway Living Center, Inc. during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Clifton Gunderson LLP

Clinton, Iowa
November 8, 2006

PATHWAY LIVING CENTER, INC.
SCHEDULE OF FINDINGS AND RESPONSES
Years Ended June 30, 2006 and 2005

Section I - Financial Statement Findings:

Instances of Non-compliance

No matters were noted.

Reportable Conditions

2006-1 Segregation of Duties - Two people have the primary responsibility for most of the accounting and financial duties. As a result, all of those aspects of internal control which rely upon an adequate segregation of duties are, for all practical purposes, missing. We recognize that Pathway Living Center, Inc. is not large enough to make the employment of additional persons for the purpose of segregating duties practicable from a financial standpoint, but we are required, under our professional responsibilities, to call the situation to your attention.

Recommendation - When this condition exists, management's close supervision and review of accounting information is the best means of preventing or detecting errors and irregularities.

Response - Management will continue to maintain close supervision and review accounting information, but an adequate segregation of duties problem will remain due to the limited number of staff.

Conclusion - Response accepted.

Section II - Other Findings Related to Required Statutory Reporting:

None