PATHWAY LIVING CENTER, INC.
Clinton, Iowa

FINANCIAL STATEMENTS
June 30, 2008 and 2007

TABLE OF CONTENTS

PATHWAY LIVING CENTER, INC.

OFFICIALS

Board of Directors

June 30, 2008

Name	Title	Term Expires
Diane Grantz	President	2009
Doug Rempfer	Vice-President	2008
Dr. Stephen Decker	Secretary	2008
Jeff Atkinson	Treasurer	2009
Judy Wallace	Member	2008
Carol Behr	Member	2009
Rev. Michael Brewer	Member	2009
Pam Kremer	Member	2009
Rich Matzen	Member	2009
Dan Waters	Member	2009
Melissa Peterson	Executive Director	Indefinite

Board of Directors

June 30, 2007

Name	Title	Term Expires
Doug Rempfer	President	2008
Pam Kremer	Vice-President	2007
Dr. Stephen Decker	Secretary	2008
Jeff Atkinson	Treasurer	2009
Rev. Michael Brewer	Member	2007
Pam Kremer	Member	2007
Rich Matzen	Member	2007
Judy Wallace	Member	2008
Diane Grantz	Member	2009
Dan Waters	Member	2009
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, 2008 and 2007, 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, 2008 and 2007, 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 December 30, 2008, 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
December 30, 2008

PATHWAY LIVING CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2008 and 2007

	2008	2007
ASSETS		
Cash and cash equivalents	$ 326,531	$ 475,900
Accounts receivable	461,714	207,106
Prepaid expenses	10,575	9,764
Land, buildings, equipment, vehicles, and furniture and fixtures at cost less accumulated depreciation of $340,738 in 2008 and $311,975 in 2007	408,590	419,510
TOTAL ASSETS	$ 1,207,410	$ 1,112,280
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 46,368	$ 26,783
Accrued payroll and compensated absences	82,923	81,817
Accrued payroll taxes and deductions	15,235	12,183
Property tax payable	1,495	2,360
Mortgages payable	-	5,500
Total liabilities	146,021	128,643
NET ASSETS		
Unrestricted	1,061,389	983,637
TOTAL LIABILITIES AND NET ASSETS	$ 1,207,410	$ 1,112,280

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

PATHWAY LIVING CENTER, INC.
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2008 and 2007

	2008	2007
REVENUES, GAINS, AND OTHER SUPPORT		
Other governmental revenue	$ 213,986	$ 223,942
Medicaid	1,074,834	1,133,020
Individuals	97,768	107,684
Rent	42,256	41,520
Grant revenue	64,000	62,000
Interest	6,969	3,806
Other	26,227	12,884
Total revenues, gains, and other support	1,526,040	1,584,856
EXPENSES		
Program services		
Community based	1,330,149	1,397,761
Homeless housing	50,478	36,832
Total program services	1,380,627	1,434,593
General and administrative	67,661	65,672
Total expenses	1,448,288	1,500,265
CHANGE IN NET ASSETS	77,752	84,591
NET ASSETS, BEGINNING OF YEAR	983,637	899,046
NET ASSETS, END OF YEAR	$ 1,061,389	$ 983,637

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

PATHWAY LIVING CENTER, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2008 and 2007

	2008			
	Community Based	Homeless Housing	General and Administrative	Total
Staff salaries	$ 918,884	$ 9,830	$ 54,862	$ 983,576
Employee benefits	138,866	-	8,291	147,157
Payroll taxes	75,505	-	4,508	80,013
Staff development and training	4,201	-	-	4,201
Travel	14,478	496	-	14,974
Vehicle maintenance	18,889	-	-	18,889
Programming	3,094	-	-	3,094
Food	13,834	-	-	13,834
Consumer allowances	3,822	-	-	3,822
Furnishings	665	80	-	745
Household supplies	3,368	64	-	3,432
Janitorial supplies	756	7	-	763
Medical supplies	223	-	-	223
Office supplies	5,270	-	-	5,270
Printing	823	-	-	823
Postage	1,125	-	-	1,125
Telephone	4,890	-	-	4,890
Pagers	222	-	-	222
Networking	775	-	-	775
Utilities	21,932	6,881	-	28,813
Management fees	-	5,085	-	5,085
Building and grounds	22,001	13,218	-	35,219
Insurance	33,135	1,557	-	34,692
Bad debt expense	2,484	-	-	2,484
Professional fees	7,535	-	-	7,535
Depreciation	31,852	11,810	-	43,662
Interest expense	-	222	-	222
Dues and subscriptions	860	-	-	860
Property taxes	-	1,150	-	1,150
Miscellaneous	660	78	-	738
TOTAL EXPENSES	$ 1,330,149	$ 50,478	$ 67,661	$ 1,448,288

PATHWAY LIVING CENTER, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2008 and 2007

	2007			
	Community Based	Homeless Housing	General and Administrative	Total
Staff salaries	$ 943,799	$ 2,953	$ 52,466	$ 999,218
Employee benefits	161,961	-	9,003	170,964
Payroll taxes	75,602	-	4,203	79,805
Staff development and training	7,703	-	-	7,703
Travel	13,913	430	-	14,343
Vehicle maintenance	17,946	-	-	17,946
Programming	2,923	-	-	2,923
Food	17,797	-	-	17,797
Consumer allowances	4,875	-	-	4,875
Furnishings	988	48	-	1,036
Household supplies	3,933	81	-	4,014
Janitorial supplies	853	45	-	898
Medical supplies	217	-	-	217
Office supplies	9,346	-	-	9,346
Printing	1,502	-	-	1,502
Postage	1,487	-	-	1,487
Telephone	7,985	-	-	7,985
Pagers	222	-	-	222
Networking	1,049	-	-	1,049
Utilities	21,143	6,939	-	28,082
Management fees	-	4,982	-	4,982
Building and grounds	26,937	6,273	-	33,210
Insurance	34,830	1,352	-	36,182
Professional fees	6,830	-	-	6,830
Depreciation	31,370	10,583	-	41,953
Interest expense	41	950	-	991
Dues and subscriptions	1,130	-	-	1,130
Property taxes	-	2,172	-	2,172
Miscellaneous	1,379	24	-	1,403
TOTAL EXPENSES	$ 1,397,761	$ 36,832	$ 65,672	$ 1,500,265

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

PATHWAY LIVING CENTER, INC.
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 77,752	$ 84,591
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	43,662	41,953
Bad debts	2,484	-
Effects of changes in operating assets and liabilities:		
Accounts receivable	(257,092)	127,504
Prepaid expenses	(811)	(65)
Accounts payable	19,585	(27,377)
Accrued payroll and compensated absences	1,106	2,320
Accrued payroll taxes and deductions	3,052	634
Property tax payable	(865)	422
Net cash provided by (used in) operating activities	(111,127)	229,982
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment, vehicles, and furniture and fixtures	(32,742)	(34,590)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgages payable	(5,500)	(16,657)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(149,369)	178,735
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	475,900	297,165
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 326,531	$ 475,900

Cash paid for interest was $222 in 2008 and $991 in 2007.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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, 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2008 and 2007.

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.

Impairment of Long Lived Assets

Pathway Living Center, Inc. reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

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, 2008 and 2007.

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).

NOTE 2 - LAND, BUILDINGS, EQUIPMENT, VEHICLES, AND FURNITURE AND FIXTURES

At June 30, 2008 and 2007, the composition of land, buildings, equipment, vehicles, and furniture and fixtures was as follows:

	2008	2007
Land	$ 13,425	$ 13,425
Buildings	570,091	558,583
Equipment	71,751	69,471
Vehicles	68,111	64,495
Furniture and fixtures	25,950	25,511
Total cost	749,328	731,485
Less accumulated depreciation	(340,738)	(311,975)
Total land, buildings, equipment, vehicles, and furniture and fixtures	$ 408,590	$ 419,510

Depreciation expense was $43,662 and $41,953 for the years ended June 30, 2008 and 2007, respectively.

NOTE 3 - MORTGAGES PAYABLE

Mortgages payable at June 30, 2008 and 2007 consisted of the following:

	2008	2007
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 $92,607 and $95,427 for the years ended June 30, 2008 and 2007, respectively.	$ -	$ 5,500
Less portion due in one year	-	5,500
Long-term mortgages payable	$ -	$ -

NOTE 4 - RETIREMENT PLAN

On September 1, 1998, Pathway Living Center, Inc. adopted the Pathway Living Center, Inc. 401(k) Plan. The Plan was amended on July 1, 2001 and is sponsored by DATAIR Employee Benefit Systems, Inc.

Under the terms of the Plan, the employer's match is allocated in proportion to the deferrals of the participant to the total of all deferrals. The maximum amount the employer will match, if any, is 6.5% of participant's compensation. Additionally, non-elective contributions shall be made at the employer's discretion and is allocated in proportion to the participant's compensation to total covered compensation. Matching amounts credited to individual participants vest at the rate of 20% each year after two years of service. Non-elective amounts credited to individual participants vest at the rate of 20% each year after two years of service and are 100% vested at death or disability. The accumulated monies are paid upon a participant's retirement or termination.

The employer matching contribution to the Plan for the years ended June 30, 2008 and 2007 was $15,000 and $38,402, respectively. The employer non-elective contribution for the years ended June 30, 2008 and 2007 was $15,000 and $-0-, respectively.

NOTE 5 - CONCENTRATION OF CREDIT RISK

Prior to October 1, 2008, Pathway Living Center, Inc. had deposits at two financial institutions that exceeded federal depository insurance limits. Currently, the FDIC limit has been raised to insure funds held at each financial institution up to $250,000. This limit will be in effect until December 31, 2009. However, during the current uncertain economic conditions that we are facing, management should review the dollar amount of funds and number of institutions in which deposits are held.

NOTE 6 - RISK MANAGEMENT

Pathway Living Center, Inc. is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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

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, 2008, which collectively comprise Pathway Living Center, Inc.'s basic financial statements and have issued our report thereon dated December 30, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 08-01 and 08-02 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

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.*

Pathway Living Center, Inc.'s responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we expressed our conclusions on the Center's responses, we did not audit Pathway Living Center Inc.'s responses and accordingly, we express no opinion on them.

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
December 30, 2008

PATHWAY LIVING CENTER, INC.
SCHEDULE OF FINDINGS AND RESPONSES
Years Ended June 30, 2008 and 2007

Part I - Findings Related to the Financial Statements:

Significant Deficiencies

08-01 Financial Statement Preparation

Criteria:
The entity engages Clifton Gunderson to assist in preparing its financial statements and accompanying disclosures. However, as independent auditors, Clifton Gunderson cannot be considered part of the entity's internal control system. To establish proper internal control over the preparation of its financial statements, including disclosures, the entity should design and implement a comprehensive review procedure to ensure that the financial statements, including disclosures, are complete and accurate.

Condition:
The entity has not implemented procedures, to the degree necessary, to perform a review and assume responsibility of the entity's financial statements and related disclosures to provide a high level of assurance that potential omissions or other errors that are less than material, but more than inconsequential, would be identified and corrected.

Effect:
Management or employees in the normal course of performing their assigned functions may not prevent or detect financial statement misstatements and disclosure omissions in a timely manner.

Cause:
The entity has relied on independent auditor's to some degree to provide assurance that the financial statements, including disclosures, are not materially misstated.

Recommendation:
Management should perform a comprehensive review of the financial statements to ensure that the financial statements, including disclosures, are complete and accurate.

Response:
Management will perform a comprehensive review of the financial statements to ensure that the financial statements, including disclosures, are complete and accurate.

Conclusion:
Response accepted.

Part I - Findings Related to the Financial Statements: (CONTINUED)

08-02 Segregation of Duties

Criteria:
Internal controls should be in place to reduce to a relatively low risk the likelihood a material misstatement to the financial statements could occur and not be detected in a timely period by employees in the normal course of performing their assigned functions. A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Condition:
Currently, 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. The Business Director has the ability to enter receipts, record deposits, make journal entries, and reconcile accounts. In addition, bank reconciliations and journal entries are not being reviewed on a monthly basis.

Effect:
As result of these conditions, there is a higher risk that errors or irregularities could occur and not be detected within a timely period.

Cause:
The entity has a limited number of personnel performing accounting functions and limited review procedures in place.

Recommendation:
The entity should be aware of the lack of segregation of duties and regularly review controls which could be put in place to mitigate the risk that misstatements could occur and not be detected. We recommend that bank reconciliations and journal entries be reviewed on a monthly basis and that the reviewer sign off as an indication of approval.

Response:
The entity recognizes that it would not be cost effective to hire additional personnel to maximize the segregation of accounting duties due to its size. However, the entity is aware of the condition and will continue to monitor and implement compensating controls.

Conclusion:
Response accepted.

PATHWAY LIVING CENTER, INC.
SCHEDULE OF FINDINGS AND RESPONSES
Years Ended June 30, 2008 and 2007

Part I - Findings Related to the Financial Statements: (CONTINUED)

Instances of Non-Compliance:

No matters were noted.