PATHWAY LIVING CENTER, INC.
Clinton, Iowa

FINANCIAL STATEMENTS
June 30, 2012 and 2011

TABLE OF CONTENTS

PATHWAY LIVING CENTER, INC.

OFFICIALS

Board of Directors

June 30, 2012

Name	Title	Term Expires
Diane Grantz	President	2012
Dan Waters	Vice-President	2012
Dr. Stephen Decker	Secretary	2014
Jeff Atkinson	Treasurer	2012
Carol Behr	Member	2013
Rev. Michael Brewer	Member	2013
Pam Kremer	Member	2013
Judy Wallace	Member	2014
Melissa Peterson	Executive Director	Indefinite

Board of Directors

June 30, 2011

Name	Title	Term Expires
Diane Grantz	President	2012
Dan Waters	Vice-President	2012
Dr. Stephen Decker	Secretary	2011
Jeff Atkinson	Treasurer	2012
Carol Behr	Member	2013
Rev. Michael Brewer	Member	2013
Pam Kremer	Member	2013
Rich Matzen	Member	2013
Judy Wallace	Member	2011
Melissa Peterson	Executive Director	Indefinite

Winkel, Parker
& Foster, CPA PC
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 June 30, 2012 and 2011, 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, 2012 and 2011, 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 October 29, 2012, 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.

Winkel, Parker & Foster, CPA PC

Clinton, Iowa
October 29, 2012

PATHWAY LIVING CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$ 387,013	$ 479,324
Accounts receivable	265,883	262,690
Prepaid expenses	15,853	9,908
Land, buildings, equipment, vehicles, and furniture and fixtures at cost less accumulated depreciation of $484,311 in 2012 and $445,426 in 2011	390,336	407,157
TOTAL ASSETS	$ 1,059,085	$ 1,159,079
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 11,183	$ 7,394
Accrued payroll and compensated absences	110,624	104,033
Accrued payroll taxes and deductions	19,062	14,076
Total liabilities	140,869	125,503
NET ASSETS		
Unrestricted	918,216	1,033,576
TOTAL LIABILITIES AND NET ASSETS	$ 1,059,085	$ 1,159,079

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

PATHWAY LIVING CENTER, INC.
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2012 and 2011

	2012	2011
REVENUES, GAINS, AND OTHER SUPPORT		
Other governmental revenue	$ 182,721	$ 208,767
Medicaid	1,159,591	1,072,641
Individuals	114,160	121,910
Rent	39,739	40,094
Grant revenue	45,599	55,485
Interest	3,131	5,070
Other	13,524	8,942
Total revenues, gains, and other support	1,558,465	1,512,909
EXPENSES		
Program services		
Community based	1,570,559	1,434,977
Homeless housing	30,239	33,505
Total program services	1,600,798	1,468,482
General and administrative	73,027	68,538
Total expenses	1,673,825	1,537,020
CHANGE IN NET ASSETS	(115,360)	(24,111)
NET ASSETS, BEGINNING OF YEAR	1,033,576	1,057,687
NET ASSETS, END OF YEAR	$ 918,216	$ 1,033,576

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

PATHWAY LIVING CENTER, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2012 and 2011

	2012			
	Community Based	Homeless Housing	General and Administrative	Total
Staff salaries	$ 1,069,999	$ 50	$ 60,119	$ 1,130,168
Employee benefits	139,394	-	7,832	147,226
Payroll taxes	90,345	-	5,076	95,421
Staff development and training	75,895	-	-	75,895
Travel	17,507	-	-	17,507
Vehicle maintenance	22,379	-	-	22,379
Programming	3,572	-	-	3,572
Food	7,916	-	-	7,916
Consumer allowances	632	-	-	632
Furnishings	1,605	80	-	1,685
Household supplies	3,823	90	-	3,913
Janitorial supplies	505	-	-	505
Medical supplies	402	-	-	402
Office supplies	7,722	-	-	7,722
Printing	1,050	-	-	1,050
Postage	2,585	35	-	2,620
Telephone	5,254	-	-	5,254
Pagers	225	-	-	225
Networking	3,519	-	-	3,519
Utilities	24,871	6,111	-	30,982
Management fees	-	4,769	-	4,769
Building and grounds	15,868	4,939	-	20,807
Insurance	35,245	1,501	-	36,746
Bad debt expense	2,238	-	-	2,238
Professional fees	9,506	-	-	9,506
Depreciation	28,265	11,635	-	39,900
Dues and subscriptions	25	125	-	150
Miscellaneous	212	904	-	1,116
TOTAL EXPENSES	$ 1,570,559	$ 30,239	$ 73,027	$ 1,673,825

PATHWAY LIVING CENTER, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2012 and 2011

	2011			
	Community Based	Homeless Housing	General and Administrative	Total
Staff salaries	$ 1,009,732	$ 1,439	$ 56,875	$ 1,068,046
Employee benefits	124,456	-	7,010	131,466
Payroll taxes	82,604	-	4,653	87,257
Staff development and training	14,887	-	-	14,887
Travel	17,377	164	-	17,541
Vehicle maintenance	22,753	-	-	22,753
Programming	3,515	-	-	3,515
Food	8,612	-	-	8,612
Consumer allowances	45	-	-	45
Furnishings	959	(26)	-	933
Household supplies	3,934	30	-	3,964
Janitorial supplies	1,028	-	-	1,028
Medical supplies	288	-	-	288
Office supplies	8,086	-	-	8,086
Printing	826	-	-	826
Postage	1,709	26	-	1,735
Telephone	5,228	-	-	5,228
Pagers	225	-	-	225
Networking	1,105	-	-	1,105
Utilities	24,009	6,246	-	30,255
Management fees	-	4,745	-	4,745
Building and grounds	23,015	6,501	-	29,516
Insurance	30,360	1,191	-	31,551
Bad debt expense	1,970	-	-	1,970
Professional fees	15,510	-	-	15,510
Depreciation	32,574	12,962	-	45,536
Dues and subscriptions	25	178	-	203
Miscellaneous	145	49	-	194
TOTAL EXPENSES	$ 1,434,977	$ 33,505	$ 68,538	$ 1,537,020

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

PATHWAY LIVING CENTER, INC.
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (115,360)	$ (24,111)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	39,900	45,536
Loss on disposal of assets	306	-
Bad debts	2,238	1,970
Effects of changes in operating assets and liabilities:		
Accounts receivable	(5,431)	167,205
Prepaid expenses	(5,945)	3,548
Accounts payable	3,789	(1,794)
Accrued payroll and compensated absences	6,591	1,676
Accrued payroll taxes and deductions	4,986	(1,058)
Net cash provided by (used in) operating activities	(68,926)	192,972
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment, vehicles, and furniture and fixtures	(23,385)	(9,190)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(92,311)	183,782
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	479,324	295,542
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 387,013	$ 479,324

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, 2012 and 2011.

Land, Buildings, Equipment, Vehicles, and Furniture and Fixtures

All capital purchases over $300 are capitalized. 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, 2012 and 2011.

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 Center 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).

Subsequent Events

Management has evaluated subsequent events through October 29, 2012, the date the financial statements were issued.

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

At June 30, 2012 and 2011, the composition of land, buildings, equipment, vehicles, and furniture and fixtures was as follows:

	2012	2011
Land	$ 13,425	$ 13,425
Buildings	685,872	665,472
Equipment	88,503	86,839
Vehicles	64,679	64,679
Furniture and fixtures	22,168	22,168
Total cost	874,647	852,583
Less accumulated depreciation	(484,311)	(445,426)
Total land, buildings, equipment, vehicles, and furniture and fixtures	$ 390,336	$ 407,157

Depreciation expense was $39,900 and $45,536 for the years ended June 30, 2012 and 2011, respectively.

NOTE 3 - 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, 2012 and 2011 was $0. The employer non-elective contribution for the years ended June 30, 2012 and 2011 was $0.

NOTE 4 - 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.

NOTE 5 - RELATED PARTY

Pathway Living Center, Inc. uses the services of Peterson Plumbing, a business that is owned and operated by a relative of the Executive Director. During the fiscal years ended June 30, 2012 and 2011, Pathway Living Center, Inc. paid the related party a total of $1,437 and $3,639, respectively, for repairs and improvements. Included in the accounts payable balances at June 30, 2012 and 2011 is $72 and $285, respectively, due to Peterson Plumbing for services provided.

NOTE 6 - INCOME TAXES

Pathway Living Center, Inc. files income tax returns in the U.S. federal jurisdiction.

The Center is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2008.

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, 2012, and have issued our report thereon dated October 29, 2012. 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 Pathway Living Center, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses as items 12-01 and 12-02 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

This report is intended solely for the information and use of management of Pathway Living Center, Inc., others within the entity, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Winkel, Parker & Foster, CPA PC

Clinton, Iowa
October 29, 2012

PATHWAY LIVING CENTER, INC.
SCHEDULE OF FINDINGS AND RESPONSES
Years Ended June 30, 2012 and 2011

Part I - Findings Related to the Financial Statements:

Significant Deficiencies

12-01 Financial Statement Preparation

Criteria:
The Center engages Winkel, Parker & Foster, CPA PC to assist in preparing its financial statements and accompanying disclosures. However, as independent auditors, Winkel, Parker & Foster, CPA PC cannot be considered part of the Center's internal control system. Internal controls should be in place to reduce to a relatively low risk the likelihood a material misstatement to the financial statements, including disclosures, could occur and not be detected and corrected. Additionally, the Center is responsible for the design and implementation of a comprehensive review procedure to ensure that the financial statements, including disclosures, are complete and accurate.

Condition:
The Center has not implemented procedures, to the degree necessary, to perform a review of the Center'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 and correct financial statement misstatements and disclosure omissions in a timely manner.

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

Recommendation:
To establish proper internal control over the preparation of its financial statements, including disclosures, the Center should design and implement a comprehensive review procedure 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.

PATHWAY LIVING CENTER, INC.
SCHEDULE OF FINDINGS AND RESPONSES
Years Ended June 30, 2012 and 2011

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

12-02 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.

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

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

Recommendation:
The Center 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 and corrected.

Response:
The Center 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 Center is aware of the condition and will continue to monitor and implement compensating controls.

Conclusion:
Response accepted.

Instances of Non-Compliance:

No matters were noted.