PATHWAY LIVING CENTER, INC.
Clinton, Iowa

FINANCIAL STATEMENTS
June 30, 2013 and 2012

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PATHWAY LIVING CENTER, INC.

OFFICIALS

Board of Directors

June 30, 2013

Name	Title	Term Expires
Diane Grantz	President	2015
Dan Waters	Vice-President	2015
Dr. Stephen Decker	Secretary	2014
Jeff Atkinson	Treasurer	2015
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, 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

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Pathway Living Center, Inc., which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 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 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 Pathway Living Center, Inc. as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2013, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pathway Living Center, Inc.'s internal control over financial reporting and compliance.

Winkel, Parker & Foster, CPA PC

Clinton, Iowa
October 30, 2013

PATHWAY LIVING CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012

	2013	2012
ASSETS		
Cash and cash equivalents	$ 196,620	$ 387,013
Accounts receivable	367,755	265,883
Prepaid expenses	13,546	15,853
Land, buildings, equipment, vehicles, and furniture and fixtures at cost less accumulated depreciation of $494,417 in 2013 and $484,311 in 2012	380,486	390,336
TOTAL ASSETS	$ 958,407	$ 1,059,085
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 6,620	$ 11,183
Accrued payroll and compensated absences	101,185	110,624
Accrued payroll taxes and deductions	12,172	19,062
Total liabilities	119,977	140,869
NET ASSETS		
Unrestricted	838,430	918,216
TOTAL LIABILITIES AND NET ASSETS	$ 958,407	$ 1,059,085

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

PATHWAY LIVING CENTER, INC.
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2013 and 2012

	2013	2012
REVENUES, GAINS, AND OTHER SUPPORT		
Other governmental revenue	$ 162,561	$ 182,721
Medicaid	1,191,018	1,159,591
Individuals	105,041	114,160
Rent	40,008	39,739
Grant revenue	47,386	45,599
Interest	1,288	3,131
Other	11,335	13,524
Total revenues, gains, and other support	1,558,637	1,558,465
EXPENSES		
Program services		
Community based	1,540,750	1,570,559
Homeless housing	28,900	30,239
Total program services	1,569,650	1,600,798
General and administrative	68,773	73,027
Total expenses	1,638,423	1,673,825
CHANGE IN NET ASSETS	(79,786)	(115,360)
NET ASSETS, BEGINNING OF YEAR	918,216	1,033,576
NET ASSETS, END OF YEAR	$ 838,430	$ 918,216

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

PATHWAY LIVING CENTER, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2013 and 2012

	2013			
	Community Based	Homeless Housing	General and Administrative	Total
Staff salaries	$ 1,072,756	$ 45	$ 57,469	$ 1,130,270
Employee benefits	130,734	-	7,004	137,738
Payroll taxes	80,265	-	4,300	84,565
Staff development and training	69,284	-	-	69,284
Travel	14,974	-	-	14,974
Vehicle maintenance	17,457	-	-	17,457
Programming	3,923	-	-	3,923
Food	6,706	-	-	6,706
Consumer allowances	1,673	-	-	1,673
Furnishings	829	70	-	899
Household supplies	3,885	48	-	3,933
Janitorial supplies	691	-	-	691
Medical supplies	504	-	-	504
Office supplies	6,976	-	-	6,976
Printing	608	-	-	608
Postage	2,600	27	-	2,627
Telephone	5,545	-	-	5,545
Pagers	225	-	-	225
Networking	3,200	-	-	3,200
Utilities	25,723	6,535	-	32,258
Management fees	-	4,801	-	4,801
Building and grounds	17,390	5,116	-	22,506
Insurance	31,599	1,451	-	33,050
Bad debt expense	539	-	-	539
Professional fees	9,318	-	-	9,318
Depreciation	32,170	10,575	-	42,745
Dues and subscriptions	35	178	-	213
Miscellaneous	1,141	54	-	1,195
TOTAL EXPENSES	$ 1,540,750	$ 28,900	$ 68,773	$ 1,638,423

PATHWAY LIVING CENTER, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2013 and 2012

	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

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

PATHWAY LIVING CENTER, INC.
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (79,786)	$ (115,360)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	42,745	39,900
Loss on disposal of assets	315	306
Bad debts	539	2,238
Effects of changes in operating assets and liabilities:		
Accounts receivable	(102,411)	(5,431)
Prepaid expenses	2,307	(5,945)
Accounts payable	(4,563)	3,789
Accrued payroll and compensated absences	(9,439)	6,591
Accrued payroll taxes and deductions	(6,890)	4,986
Net cash used in operating activities	(157,183)	(68,926)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment, vehicles, and furniture and fixtures	(33,210)	(23,385)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(190,393)	(92,311)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	387,013	479,324
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 196,620	$ 387,013

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, 2013 and 2012.

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, 2013 and 2012.

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 30, 2013, the date the financial statements were issued.

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

At June 30, 2013 and 2012, the composition of land, buildings, equipment, vehicles, and furniture and fixtures was as follows:

	2013	2012
Land	$ 13,425	$ 13,425
Buildings	689,007	685,872
Equipment	93,632	88,503
Vehicles	54,676	64,679
Furniture and fixtures	24,163	22,168
Total cost	874,903	874,647
Less accumulated depreciation	(494,417)	(484,311)
Total land, buildings, equipment, vehicles, and furniture and fixtures	$ 380,486	$ 390,336

Depreciation expense was $42,745 and $39,900 for the years ended June 30, 2013 and 2012, 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 1.5% 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, 2013 and 2012 was $0. The employer non-elective contribution for the years ended June 30, 2013 and 2012 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, 2013 and 2012, Pathway Living Center, Inc. paid the related party a total of $1,307 and $1,437, respectively, for repairs and improvements. Included in the accounts payable balances at June 30, 2013 and 2012 is $69 and $72, 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 2009.

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, in accordance with the 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, the financial statements of Pathway Living Center, Inc., which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pathway Living Center, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pathway Living Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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. A *significant deficiency* is a deficiency, or a 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.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies, described in the accompanying Schedule of Findings and Responses as items 13-01 and 13-02.

Compliance and Other Matters

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

Pathway Living Center, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Pathway Living Center, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Winkel, Parker & Foster, CPA PC

Clinton, Iowa
October 30, 2013

PATHWAY LIVING CENTER, INC.
SCHEDULE OF FINDINGS AND RESPONSES
Years Ended June 30, 2013 and 2012

Part I - Findings Related to the Financial Statements:

Significant Deficiencies

13-01 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.

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

13-02 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.