

PATHWAY LIVING CENTER, INC.
Clinton, Iowa

FINANCIAL STATEMENTS
June 30, 2015 and 2014

TABLE OF CONTENTS

	PAGE
OFFICIALS	1
INDEPENDENT AUDITOR’S REPORT	2
FINANCIAL STATEMENTS	
Statements of Financial Position	4
Statements of Activities	5
Statements of Functional Expenses	6
Statements of Cash Flows.....	8
Notes to Financial Statements.....	9
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	13
Schedule of Findings and Responses	15

PATHWAY LIVING CENTER, INC.

OFFICIALS

Board of Directors

June 30, 2015

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Diane Grantz	President	2015
Dan Waters	Vice-President	2015
Dr. Stephen Decker	Secretary	2015
Jeff Atkinson	Treasurer	2015
Carole Behr	Member	2016
Rev. Michael Brewer	Member	2016
Mary O'Donnell	Member	2016
Melissa Peterson	Executive Director	Indefinite

Board of Directors

June 30, 2014

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Diane Grantz	President	2015
Dan Waters	Vice-President	2015
Dr. Stephen Decker	Secretary	2014
Jeff Atkinson	Treasurer	2015
Judy Wallace	Member	2014
Carole Behr	Member	2016
Rev. Michael Brewer	Member	2016
Mary O'Donnell	Member	2016
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, 2015 and 2014, 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, 2015 and 2014, 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 November 24, 2015, 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
November 24, 2015

PATHWAY LIVING CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	\$ 88,103	\$ 175,905
Accounts receivable	362,906	401,296
Prepaid expenses	15,458	22,184
Land, buildings, equipment, vehicles, and furniture and fixtures at cost less accumulated depreciation of \$530,650 in 2015 and \$521,067 in 2014	373,034	361,867
TOTAL ASSETS	\$ 839,501	\$ 961,252
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 7,096	\$ 13,032
Accrued payroll and compensated absences	107,329	92,861
Accrued payroll taxes and deductions	11,960	12,114
Total liabilities	126,385	118,007
NET ASSETS		
Unrestricted	713,116	843,245
TOTAL LIABILITIES AND NET ASSETS	\$ 839,501	\$ 961,252

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

PATHWAY LIVING CENTER, INC.
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
REVENUES, GAINS, AND OTHER SUPPORT		
Other governmental revenue	\$ 273,621	\$ 212,674
Medicaid	953,298	1,004,487
Individuals	101,903	105,398
Rent	40,643	40,080
Grant revenue	58,320	57,861
Interest	483	786
Other	9,114	12,906
	<u>1,437,382</u>	<u>1,434,192</u>
EXPENSES		
Program services		
Community based	1,466,182	1,322,614
Homeless housing	30,336	37,817
Total program services	<u>1,496,518</u>	<u>1,360,431</u>
General and administrative	70,993	68,946
	<u>1,567,511</u>	<u>1,429,377</u>
CHANGE IN NET ASSETS	(130,129)	4,815
NET ASSETS, BEGINNING OF YEAR	<u>843,245</u>	<u>838,430</u>
NET ASSETS, END OF YEAR	<u>\$ 713,116</u>	<u>\$ 843,245</u>

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

PATHWAY LIVING CENTER, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2015 and 2014

	2015			
	Community Based	Homeless Housing	General and Administrative	Total
Staff salaries	\$ 1,022,396	\$ 21	\$ 60,350	\$ 1,082,767
Employee benefits	101,675	-	6,002	107,677
Payroll taxes	78,628	-	4,641	83,269
Other staffing services	60,233	-	-	60,233
Staff development and training	2,457	-	-	2,457
Travel	13,845	-	-	13,845
Vehicle maintenance	17,145	-	-	17,145
Programming	3,909	-	-	3,909
Food	6,145	-	-	6,145
Community assistance	-	200	-	200
Consumer allowances	5,250	-	-	5,250
Furnishings	720	10	-	730
Household supplies	3,442	32	-	3,474
Janitorial supplies	406	-	-	406
Medical supplies	292	-	-	292
Office supplies	6,573	-	-	6,573
Printing	743	-	-	743
Postage	2,439	29	-	2,468
Telephone	5,589	-	-	5,589
Pagers	274	-	-	274
Networking	1,706	-	-	1,706
Utilities	25,200	5,983	-	31,183
Management fees	-	4,810	-	4,810
Building and grounds	20,262	7,702	-	27,964
Insurance	47,333	1,789	-	49,122
Bad debt expense	-	-	-	-
Professional fees	11,039	-	-	11,039
Depreciation	27,653	9,518	-	37,171
Dues and subscriptions	35	125	-	160
Miscellaneous	793	117	-	910
TOTAL EXPENSES	\$ 1,466,182	\$ 30,336	\$ 70,993	\$ 1,567,511

PATHWAY LIVING CENTER, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2015 and 2014

	2014			
	Community Based	Homeless Housing	General and Administrative	Total
Staff salaries	\$ 945,142	\$ 23	\$ 58,537	\$ 1,003,702
Employee benefits	92,469	-	5,704	98,173
Payroll taxes	76,273	-	4,705	80,978
Other staffing services	3,838	-	-	3,838
Staff development and training	1,549	-	-	1,549
Travel	11,829	-	-	11,829
Vehicle maintenance	20,266	-	-	20,266
Programming	3,758	-	-	3,758
Food	6,376	-	-	6,376
Community assistance	-	-	-	-
Consumer allowances	2,223	-	-	2,223
Furnishings	4,094	15	-	4,109
Household supplies	3,567	36	-	3,603
Janitorial supplies	331	-	-	331
Medical supplies	383	-	-	383
Office supplies	6,299	-	-	6,299
Printing	907	-	-	907
Postage	2,452	38	-	2,490
Telephone	5,407	-	-	5,407
Pagers	225	-	-	225
Networking	2,864	-	-	2,864
Utilities	27,446	9,338	-	36,784
Management fees	-	4,810	-	4,810
Building and grounds	27,701	11,905	-	39,606
Insurance	39,016	1,588	-	40,604
Bad debt expense	3,432	-	-	3,432
Professional fees	11,803	-	-	11,803
Depreciation	22,601	9,912	-	32,513
Dues and subscriptions	35	125	-	160
Miscellaneous	328	27	-	355
TOTAL EXPENSES	\$ 1,322,614	\$ 37,817	\$ 68,946	\$ 1,429,377

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

PATHWAY LIVING CENTER, INC.
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (130,129)	\$ 4,815
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	37,171	32,513
Loss on disposal of assets	700	162
Bad debts	-	3,432
Effects of changes in operating assets and liabilities:		
Accounts receivable	38,390	(36,973)
Prepaid expenses	6,726	(8,638)
Accounts payable	(5,936)	6,412
Accrued payroll and compensated absences	14,468	(8,324)
Accrued payroll taxes and deductions	<u>(154)</u>	<u>(58)</u>
Net cash used in operating activities	<u>(38,764)</u>	<u>(6,659)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of vehicle	2,200	-
Purchase of equipment, vehicles, and furniture and fixtures	<u>(51,238)</u>	<u>(14,056)</u>
Net cash used in investing activities	<u>(49,038)</u>	<u>(14,056)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(87,802)	(20,715)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>175,905</u>	<u>196,620</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 88,103</u>	<u>\$ 175,905</u>

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

PATHWAY LIVING CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

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.

PATHWAY LIVING CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

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, 2015 and 2014.

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, 2015 and 2014.

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 November 24, 2015, the date the financial statements were available to be issued.

PATHWAY LIVING CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

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

At June 30, 2015 and 2014, the composition of land, buildings, equipment, vehicles, and furniture and fixtures was as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 13,425	\$ 13,425
Buildings	701,056	695,686
Equipment	94,911	93,186
Vehicles	65,391	54,676
Furniture and fixtures	<u>28,901</u>	<u>25,961</u>
Total cost	903,684	882,934
Less accumulated depreciation	<u>(530,650)</u>	<u>(521,067)</u>
Total land, buildings, equipment, vehicles, and furniture and fixtures	<u><u>\$ 373,034</u></u>	<u><u>\$ 361,867</u></u>

Depreciation expense was \$37,171 and \$32,513 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014 was \$0. The employer non-elective contribution for the years ended June 30, 2015 and 2014 was \$0.

PATHWAY LIVING CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

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, 2015 and 2014, Pathway Living Center, Inc. paid the related party a total of \$2,177 and \$1,777, respectively, for repairs and improvements. Included in the accounts payable balances at June 30, 2015 and 2014 is \$0 and \$124, 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 2011.

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

**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, 2015 and 2014, 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 November 24, 2015.

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 a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 15-01 that we consider to be a significant deficiency.

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 finding 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
November 24, 2015

PATHWAY LIVING CENTER, INC.
SCHEDULE OF FINDINGS AND RESPONSES
Years Ended June 30, 2015 and 2014

Part I - Findings Related to the Financial Statements:

Significant Deficiency

15-01 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.