

PATHFINDER SERVICES, INC.

AUDIT REPORT

JUNE 30, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Pathfinder Services, Inc.
Huntington, Indiana

We have audited the accompanying financial statements of Pathfinder Services, Inc. (a nonprofit organization), 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 Pathfinder Services, 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 Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2013, on our consideration of Pathfinder Services, 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 connection with Pathfinder Service, Inc.'s internal control over financial reporting and compliance.



David Culp & Co. LLP
Certified Public Accountants

Huntington, Indiana
September 5, 2013

PATHFINDER SERVICES, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2013 AND 2012

ASSETS

	<u>2013</u>	<u>2012</u>
<u>Current Assets:</u>		
Cash in bank - Notes 1 and 3	\$ 498,412	\$ 655,995
Temporary cash investments, at cost - Notes 3 and 4	<u>19,473</u>	<u>19,464</u>
Total cash and cash equivalents	517,885	675,459
Accounts receivable - Note 1	742,083	864,400
Interest receivable	10,215	9,999
Notes receivable - Miscellaneous	9,739	13,698
Inventory - Note 1	183,146	174,712
Inventory - Homes - Notes 1 and 5	427,215	262,705
Prepaid insurance	13,846	20,174
Other prepaid expenses	<u>98,556</u>	<u>105,771</u>
Total current assets	<u>2,002,685</u>	<u>2,126,918</u>
<u>Limited Use Investments</u> - Notes 1, 3, 4, 6, 7, 8, 9 and 10:		
By board for self-insurance fund	907,495	858,403
By board for future operating needs	5,039,301	4,675,055
By bond covenants for debt repayment	80,796	80,796
Funds for Neighborworks	<u>169,250</u>	<u>114,250</u>
Total limited use assets	<u>6,196,842</u>	<u>5,728,504</u>
<u>Fixed Assets</u> - Notes 1 and 8:		
Buildings	8,416,867	8,142,010
Vehicles	707,576	769,814
Equipment	<u>2,391,640</u>	<u>2,346,151</u>
	11,516,083	11,257,975
<u>Less:</u> Accumulated depreciation	<u>7,007,208</u>	<u>6,866,958</u>
	4,508,875	4,391,017
Land	<u>526,114</u>	<u>524,964</u>
Total fixed assets	<u>5,034,989</u>	<u>4,915,981</u>
<u>Other Assets:</u>		
Notes receivable - Home loans - Note 5	36,501	55,053
Unamortized loan fees - Note 1	31,700	36,620
Investment in Granite Housing Connection, LLC - Note 11	<u>2,881</u>	<u>2,881</u>
Total other assets	<u>71,082</u>	<u>94,554</u>
Total assets	<u>\$13,305,598</u>	<u>\$12,865,957</u>

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

LIABILITIES AND NET ASSETS

	<u>2013</u>	<u>2012</u>
<u>Current Liabilities:</u>		
Current maturity of long-term debt - Note 8	\$ 244,404	\$ 143,198
Estimated insurance benefits payable - Note 9	450,000	450,000
Accounts payable	283,118	387,393
Provider assessment payable	2,241	2,506
Payroll taxes accrued and withheld	56,579	126,235
Deferred revenue	86,312	136,249
Accrued wages	416,722	397,056
Accrued vacation pay	286,716	298,120
Accrued bonuses	62,236	40,000
Accrued expenses	177,169	186,415
	<u>2,065,497</u>	<u>2,167,172</u>
Total current liabilities		
	<u>2,065,497</u>	<u>2,167,172</u>
<u>Long-Term Debt:</u>		
Line of credit - Note 7	283,257	400,000
Notes payable - Note 8	1,498,041	1,641,595
<u>Less:</u> Amount due within one year, in- cluded in current liabilities	<u>244,404</u>	<u>143,198</u>
Total long-term debt - Note 8	<u>1,536,894</u>	<u>1,898,397</u>
Total liabilities	<u>3,602,391</u>	<u>4,065,569</u>
<u>Net Assets:</u>		
Unrestricted -		
Equity in property and equipment	3,334,487	2,955,182
Designated by board for -		
Self-insurance reserve	451,075	407,120
Future operating needs	4,948,166	4,583,278
Undesignated	913,586	800,561
Retained deficit - Amramp - Note 2	<u>(113,357)</u>	<u>(90,003)</u>
Total unrestricted net assets	9,533,957	8,656,138
Permanently restricted -		
Funds held for Neighborworks - Note 9	<u>169,250</u>	<u>144,250</u>
Total net assets	<u>9,703,207</u>	<u>8,800,388</u>
Total liabilities and net assets	<u>\$13,305,598</u>	<u>\$12,865,957</u>

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

PATHFINDER SERVICES, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Support and revenue -</u>			
Public support - Received directly - Local	\$ 252,026	\$ -	\$ 252,026
Fees and grants - Government agencies -			
Residential services	8,049,170	-	8,049,170
Adult support services	4,671,352	-	4,671,352
Grants	1,354,999	25,000	1,379,999
Other revenue -			
Children's services	534,733	-	534,733
Commercial contracts	1,171,450	-	1,171,450
Investment income	90,029	-	90,029
Special events - Net of expenses of \$21,375	38,041	-	38,041
Miscellaneous	55,232	-	55,232
Gain on sale of residential homes - Note 5	10,819	-	10,819
Gain on disposal of fixed assets	717	-	717
Realized gain on investments	104,382	-	104,382
Unrealized gain on investments	262,221	-	262,221
Total support and revenue before net assets released from restrictions	16,595,171	25,000	16,620,171
<u>Net assets released from restrictions</u>	-	-	-
Total support and revenue	16,595,171	25,000	16,620,171
<u>Expenses -</u>			
Outsource Manufacturing	777,627	-	777,627
Community Connections	928,051	-	928,051
Resource Connection	392,417	-	392,417
Community Supports	10,372,455	-	10,372,455
Kids Kampus	1,224,398	-	1,224,398
Administrative	2,022,404	-	2,022,404
Total expenses	15,717,352	-	15,717,352
<u>Change in net assets - Note 1</u>	877,819	25,000	902,819
<u>Net Assets:</u>			
Beginning of year	8,656,138	144,250	8,800,388
End of year	\$ 9,533,957	\$ 169,250	\$ 9,703,207

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

PATHFINDER SERVICES, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Support and revenue -</u>			
Public support - Received directly - Local	\$ 265,589	\$ -	\$ 265,589
Fees and grants - Government agencies -			
Residential services	8,035,214	-	8,035,214
Adult support services	4,923,027	-	4,923,027
Grants	1,392,805	-	1,392,805
Other revenue -			
Children's services	552,897	-	552,897
Commercial contracts	1,021,757	-	1,021,757
Investment income	142,315	-	142,315
Special events - Net of expenses of \$27,682	26,370	-	26,370
Miscellaneous	63,791	-	63,791
Gain on investment in South Pointe	9,962	-	9,962
Gain on sale of residential homes - Note 5	30,957	-	30,957
Gain on disposal of fixed assets	54,014	-	54,014
Realized gain on investments	82,964	-	82,964
Unrealized (loss) on investments	(343,679)	-	(343,679)
Total support and revenue before net assets released from restrictions	16,257,983	-	16,257,983
<u>Net assets released from restrictions</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>16,257,983</u>	<u>-</u>	<u>16,257,983</u>
<u>Expenses -</u>			
Outsource Manufacturing	715,217	-	715,217
Community Connections	885,104	-	885,104
Resource Connection	415,437	-	415,437
Community Supports	10,712,086	-	10,712,086
Kids Kampus	1,358,916	-	1,358,916
Administrative	2,083,593	-	2,083,593
Total expenses	<u>16,170,353</u>	<u>-</u>	<u>16,170,353</u>
<u>Change in net assets - Note 1</u>	<u>87,630</u>	<u>-</u>	<u>87,630</u>
<u>Net Assets:</u>			
Beginning of year	<u>8,568,508</u>	<u>144,250</u>	<u>8,712,758</u>
End of year	<u>\$ 8,656,138</u>	<u>\$ 144,250</u>	<u>\$ 8,800,388</u>

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

PATHFINDER SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2013

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012

	<u>Outsource Manu- facturing</u>	<u>Community Connections</u>	<u>Resource Connection</u>
Wages and payroll taxes	\$ 203,184	\$ 472,873	\$ 294,386
Employee benefits - Note 12	34,266	100,256	41,560
Outside services	23,183	163,838	2,498
Supplies	14,756	13,520	1,910
Occupancy costs	70,010	143,384	25,426
Equipment	11,620	22,280	9,008
Travel	18,359	13,522	16,002
Other - Note 13	402,249	(1,622)	1,627
Total expenses	<u>\$ 777,627</u>	<u>\$ 928,051</u>	<u>\$ 392,417</u>
Percent of total expenses	<u>5%</u>	<u>6%</u>	<u>2%</u>
2012 total expenses	<u>\$ 715,217</u>	<u>\$ 885,104</u>	<u>\$ 415,437</u>
2012 percent of total expenses	<u>4%</u>	<u>6%</u>	<u>3%</u>

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

<u>Community Supports</u>	<u>Kids Kampus</u>	<u>Adminis- trative</u>	<u>2013</u>	<u>2012</u>
\$ 6,949,303	\$ 735,955	\$1,134,036	\$ 9,789,737	\$10,116,624
1,219,565	154,450	197,063	1,747,160	1,916,500
250,866	108,460	146,546	695,391	669,739
443,349	34,033	35,809	543,377	550,064
470,909	139,529	111,726	960,984	981,143
99,520	33,112	154,468	330,008	343,648
408,276	9,028	60,652	525,839	597,270
530,667	9,831	182,104	1,124,856	995,365
<u>\$10,372,455</u>	<u>\$ 1,224,398</u>	<u>\$2,022,404</u>	<u>\$15,717,352</u>	
<u>66%</u>	<u>8%</u>	<u>13%</u>	<u>100%</u>	
 <u>\$10,712,086</u>	 <u>\$ 1,358,916</u>	 <u>\$2,083,593</u>		 <u>\$16,170,353</u>
 <u>66%</u>	 <u>8%</u>	 <u>13%</u>		 <u>100%</u>

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

PATHFINDER SERVICES, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>Cash flows from operating activities:</u>		
Change in net assets	\$ 902,819	\$ 87,630
Adjustments to reconcile change in net assets to net cash provided by operating activities -		
Depreciation	510,034	497,172
Amortization	4,920	4,920
(Decrease) in notes receivable reserve	-	(21)
Unrealized loss (gain) on securities	(262,221)	343,679
Loss on investment in South Pointe	-	40,556
(Gain) on sale of investments	(104,382)	(82,964)
(Gain) on disposal of fixed assets	(717)	(54,014)
(Increase) Decrease in -		
Accounts and notes receivable	126,060	(120,277)
Inventory	(172,944)	(257,744)
Other current assets	13,543	3,344
Increase (Decrease) in -		
Payables	(104,275)	139,118
Other current liabilities	(98,606)	48,073
Net cash provided by operating activities	<u>814,231</u>	<u>649,472</u>
<u>Cash flows from investing activities:</u>		
Collection of notes receivable	18,552	7,707
Purchase of investments	(1,425,596)	(2,556,804)
Proceeds from sale of investments	1,323,861	2,543,740
Purchase of fixed assets	(637,387)	(774,913)
Proceeds from disposal of fixed assets	9,062	87,468
Net cash (used in) investing activities	<u>(711,508)</u>	<u>(692,802)</u>
<u>Cash flows from financing activities:</u>		
Payments on long-term debt	(143,554)	(136,486)
Net (payments) borrowings on line of credit	(116,743)	218,008
Net cash provided by (used in) financing activities	<u>(260,297)</u>	<u>81,522</u>
<u>Net increase (decrease) in cash and cash equivalents</u>	<u>(157,574)</u>	<u>38,192</u>
<u>Cash and cash equivalents, beginning of year</u>	<u>675,459</u>	<u>637,267</u>
<u>Cash and cash equivalents, end of year</u>	<u>\$ 517,885</u>	<u>\$ 675,459</u>

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

PATHFINDER SERVICES, INC.

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>Supplemental disclosures of cash flow</u>		
<u>information:</u>		
Cash paid during the year for -		
Interest	<u>\$ 31,398</u>	<u>\$ 29,531</u>

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

PATHFINDER SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 1: Organization and summary of significant accounting policies -

Organization - Pathfinder Services, Inc. (the Organization) is a non-profit corporation. The vision of the Organization is a community in which all people are valued and accepted and have control over their own destinies. The mission of the Organization is to strengthen communities primarily by enabling people experiencing developmental or economic challenges to achieve independence, inclusion, and stability. Additionally, the Organization looks for opportunities to grow and support programs and services that contribute to the community at large. Pathfinder Services, Inc. uses a strategy of business diversification to ensure a financially healthy organization.

Pathfinder Services, Inc. is comprised of six divisions under the organizational umbrella including Pathfinder Kids Kampus, Pathfinder Resource Connection, Pathfinder Community Connections, Pathfinder OutSource Manufacturing, Pathfinder Community Supports, and Pathfinder Amramp. Pathfinder Kids Kampus offers programs including Child Care for children six weeks to twelve years of age, Early Intervention therapy services, Early Head Start services, and Preschool. Pathfinder Resource Connection offers Benefit Counseling, Individualized Job Placement Assistance, Career Planning, and Job Coaching. Pathfinder Community Connections offers Home Buyer Counseling/Education, Credit Repair, Financial Literacy, Foreclosure Prevention, Acquisition and Rehabilitation of Affordable Housing, Transitional Housing for Homeless Families, Facilitation of Forgivable Down Payment Assistance Loans/Home Ownership, and Free Tax Preparation for qualified families. Pathfinder OutSource Manufacturing offers Kit Assembly, Mailings, Warehousing, and Binder Manufacturing. Pathfinder Community Supports offers Group Home Living, Supported Independent Living, Enhanced Day Service Programs, Teen Programs, and Respite Care. Pathfinder Amramp offers Low Cost Modular Ramps people can rent or buy and Free Home Evaluations.

The Organization received funding from various federal, state and local government agencies, and the Organization receives support from donations.

Pathfinder Services, Inc. serves primarily Northeast Indiana through our six divisions with offices in Huntington, Wabash, Plymouth, Fort Wayne and Columbia City, Indiana.

PATHFINDER SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

Note 1: Organization and summary of significant accounting policies
(Continued) -

Basis of accounting - The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when liabilities are incurred.

Basis of presentation - The financial statements have been prepared in accordance with FASC 958-205-05. The FASC requires, among other things, that the financial statements report the changes in, and totals of each net asset class based on the existence of donor restrictions, as applicable. Net assets are classified as unrestricted, temporarily restricted or permanently restricted and are detailed as follows:

Unrestricted - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. Donor-imposed stipulations are reported as unrestricted net assets if the stipulations expire in the reporting period in which the revenue is recognized.

Temporarily restricted - Net assets whose use by the Organization is subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by passage of time. The Organization did not have any temporarily restricted net assets at June 30, 2013 or 2012.

Permanently restricted - Net assets whose use by the Organization is subject to donor-imposed restrictions. The Organization's permanently restricted net assets relate to a perpetual loan fund pursuant to a grant. The grantor has specified that while loans may be made from the assets granted, the fund is to be accounted for as permanently restricted.

PATHFINDER SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

Note 1: Organization and summary of significant accounting policies
(Continued) -

Contributions - Under FASC 958-605-15, all contributions are considered to be available for the general programs of the Organization unless specifically restricted by the donor. Gifts of cash and other assets are reported as permanently restricted support if they are received with donor stipulations that limit their use. By definition, permanently restricted support must be maintained in perpetuity. Restrictions do not expire and no assets are reclassified in the Statements of Activities.

Cash and cash equivalents - For purposes of the statement of cash flows, Pathfinder Services, Inc. considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Allowance for doubtful accounts - The Organization grants credit to commercial customers located in Indiana. The Organization uses the reserve method for bad debts. The reserve for doubtful accounts was \$48,000 at June 30, 2013 and 2012.

Inventory - Inventory consists of manufacturing products, mostly of raw materials and portable ramps and accessories. Quantities are determined by physical count and are stated at cost, which is not in excess of market, on a first-in, first-out basis.

Inventory of homes under construction is determined on the completed-contract method. A contract is considered complete when the home is sold. Costs include all direct material and labor costs and those indirect costs related to contract performance.

Investments - Investments are stated at fair market value in the Statement of Financial Position. Realized and unrealized gains and losses are reflected in the Statement of Activities. The Organization invests in a variety of mutual funds, bonds and stocks. These investments are exposed to interest rate, market, credit and other risks depending on the nature of the specific investment. Accordingly, it is at least reasonably possible that these factors will result in changes in the value of the Organization's investments, which could materially affect amounts reported in the financial statements. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis.

PATHFINDER SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

Note 1: Organization and summary of significant accounting policies
(Continued) -

Fixed assets - Fixed assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts.

Maintenance and repairs are charged against income as incurred. Improvements which increase the useful life or productive capacity of the assets are capitalized.

The Organization recognizes gain or loss on fixed assets at the time of retirement or sale prior to the end of the estimated useful life of the asset. Cost and accumulated depreciation are removed from the asset and reserve accounts at retirement or sale.

Depreciation - Depreciation charged against income for the years ended June 30, 2013 and 2012 was \$510,034 and \$497,172, respectively.

The Organization depreciates fixed assets over their estimated useful lives using the straight-line method. Estimated useful lives for computing depreciation were as follows:

<u>Assets</u>	<u>Years</u>
Building	20-50
Land improvements	3-20
Vehicles	5-10
Equipment	3-10

Unamortized loan fees - Fees for the IHFA loan are being amortized over a 23 year period, which is the length of the loan. Amortization charged against income for the years ended June 30, 2013 and 2012 was \$4,920.

Functional allocation of expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

PATHFINDER SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

Note 1: Organization and summary of significant accounting policies
(Continued) -

Federal income taxes - The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and did not conduct unrelated business activities. Therefore, the Organization has made no provision for federal income taxes in the accompanying financial statements. In addition, the Organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

The Organization has adopted the accounting standard on accounting for uncertainty in income taxes. This standard addresses the determination of whether tax benefits claimed, or expected to be claimed, on a tax return should be recorded in the financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits that could be recognized in the financial statements from such positions would be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes, and accounting in interim periods. At June 30, 2013 and 2012, there were no unrecognized tax benefits identified or recorded as liabilities. The Organization files Form 990 and the related state of Indiana return, and remains subject to examination by the Internal Revenue Service for the most recent three years.

Reclassifications - The classifications of expenses in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Note 2: Pathfinder Amramp LLC - On November 16, 2009, the Organization entered into a franchise agreement with AMRAMP, LLC to sell and rent portable ramps and related products and accessories for persons who use wheelchairs, lift systems, roll-in wheelchair show-ers, home modification items for grab bars and poles, and such other goods and services that enhance the quality of life of physically disabled or challenged persons.

PATHFINDER SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

Note 2: Pathfinder Amramp LLC (Continued) -

All intercompany balances and significant transactions have been eliminated. The financial statements include the following financial information of Pathfinder Amramp LLC as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
<u>Assets -</u>		
Current assets	\$110,928	\$ 82,817
Fixed assets, net	<u>9,561</u>	<u>14,251</u>
Total assets	<u>\$120,489</u>	<u>\$ 97,068</u>
<u>Liabilities and stockholder's equity -</u>		
Total liabilities	\$ 21,215	\$ 9,776
Stockholder's equity	<u>99,274</u>	<u>87,292</u>
Total liabilities and stockholder's equity	<u>\$120,489</u>	<u>\$ 97,068</u>
<u>Total revenues</u>	<u>\$162,601</u>	<u>\$128,526</u>
<u>Net income (loss)</u>	<u>\$ 11,983</u>	<u>\$ (27,263)</u>

Note 3: Concentration of credit risk - The Organization maintains its cash accounts and temporary cash investments in several local commercial banks. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. A summary of the total insured and uninsured cash balances follows:

Total cash held in local banks	\$1,190,028
Portion insured by FDIC	<u>732,355</u>
Uninsured cash balances	<u>\$ 457,673</u>

Note 4: Temporary cash investments - Temporary cash investments at June 30, 2013 and 2012 represent investments in money market funds and certificates of deposit. The market value of these investments approximates cost.

Note 5: Residential homes - Construction and financing - The Organization receives grant money to develop and construct homes for low and moderate income families. There were three homes sold in 2013. There were two homes sold in 2012.

PATHFINDER SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

Note 5: Residential homes - Construction and financing (Continued) -

At the end of June 30, 2013 and 2012, the Organization had \$427,215 and \$262,705, respectively in construction and land costs for lots waiting for construction. The Organization receives money, but does not recognize income until the homes are sold and closed. The Organization can draw down money at their discretion as needed to finance the cost of the homes being built.

Additionally, the Organization borrowed \$30,000 from the Neighborworks permanently restricted funds to make necessary improvements for the year ended June 30, 2012. This borrowing is a component of accounts receivable in the statement of financial position at June 30, 2012. This balance was paid back during the year ended June 30, 2013, bringing the permanently restricted net asset cash balance to \$169,250.

In connection with the homes, the Organization receives grant money to help low and moderate income families purchase the homes. The Organization is designated as a comprehensive community development entity by IHCDA and is granted permission to loan grant monies to these families at 0% interest for 15 years. As of June 30, 2013 and 2012 respectively, the amount of notes receivable related to these homes was \$36,501 and \$55,053, net of a provision for uncollectible notes receivable of \$32,000 for both years.

Note 6: Low income housing - Pathfinder Services, Inc. has been awarded several grants from the Indiana Housing Community Development Authority for home ownership counseling, administration and down payment assistance for low and very low income families. The down payment assistance for each qualified home buyer is a deferred loan which reverts to a grant after five years of owner occupancy. If the house is sold before the end of the five year period, a prorated amount must be repaid to the Organization. The Organization must then return this prorated amount to the Indiana Housing Community Development Authority. The deferred loans are secured by a promissory note, lien and third mortgage on the property in favor of the Organization.

Note 7: Line of credit agreements - The Organization has an unsecured line of credit agreement with a bank which provides that it may borrow up to \$1,200,000 at the bank's prime rate of interest, 4% at June 30, 2013. At June 30, 2013 and 2012, there were no borrowings against the line of credit. The line of credit expires on October 31, 2013, and is renewable annually by mutual agreement of the parties.

PATHFINDER SERVICES, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)JUNE 30, 2013 AND 2012Note 7: Line of credit agreements (Continued) -

The Organization has a secured line of credit agreement with an investment broker which provides that it may borrow up to 65% of the market value of qualified investments. At June 30, 2013 and 2012, the Organization had the following:

	<u>2013</u>	<u>2012</u>
Approximate value available to borrow	\$2,417,888	\$2,420,079
Rate dependent on loan	3%	3%
Actual amount borrowed	\$ 283,257	\$ 400,000

There is no expiration for the loan as long as the investments, which serve as collateral, exist.

Note 8: Notes payable - The Organization had the following notes payable at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Note payable to Indiana Health Facility Financing Authority. On November 21, 1996, the Organization refinanced a bond indenture of \$2,660,000 with the Indiana Health Facility Financing Authority. The maturity date of the indenture is November 1, 2019. The debt is backed by an Irrevocable Letter of Credit from Wells Fargo Bank in the amount of \$1,099,863 to support the principal and 50 days interest. The Letter of Credit is secured by first mortgages on certain real estate and a first lien on all the Organization's accounts, equipment and general intangibles, except for all Early Head Start assets. Interest on the bond is payable monthly at rates determined weekly by the remarketing agent. At June 30, 2013, the interest rate was .16%. In addition, the Organization pays to the bank on a monthly basis 1/12 of the annual principal redemption.	\$1,085,000	\$1,205,000
Note payable to IAB Financial, payable \$2,107 per month including interest at 4.99% until April 15, 2021. Secured by real estate.	<u>157,663</u>	<u>173,234</u>
Subtotal	<u>1,242,663</u>	<u>1,378,234</u>

PATHFINDER SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

Note 8: Notes payable (Continued) -

	<u>2013</u>	<u>2012</u>
Subtotal	\$1,242,663	\$1,378,234
Note payable to IAB Financial, payable \$1,533 per month including interest at 4.99% until August 31, 2026. Secured by real estate.	155,378	163,361
Note payable to Wells Fargo Bank. The outstanding principal balance of the loan is due November 12, 2013. The interest rate is payable at a rate of 2% and is payable quarterly, unsecured.	<u>100,000</u>	<u>100,000</u>
	1,498,041	1,641,595
<u>Less: Current portion</u>	<u>244,404</u>	<u>143,198</u>
Total notes payable	<u>\$1,253,637</u>	<u>\$1,498,397</u>

The aggregate amount of all long-term debt maturities for the first five years following the year ended June 30, 2013 are as follows:

Year ending June 30:

2014	\$244,404
2015	\$145,886
2016	\$147,440
2017	\$149,126
2018	\$150,895
2019 and after	\$660,290

Note 9: Limited use investments -

Neighborworks Capital Funds - This permanently restricted fund was established by terms of a grant. The funds are used to make loans that will build or improve assets for the Organization and the community in which the Organization operates.

The following funds represent assets whose use has been limited by direction of the board of directors. Following is an analysis of the various restrictions and the underlying assets:

Self-insurance fund - This fund was established by the board of directors to administer self-insurance for medical, dental, and vision insurance. This fund pays all eligible medical, dental, and vision claims and reinsurance premiums.

PATHFINDER SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

Note 9: Limited use investments (Continued) -

Reinsurance premiums provide the Organization with a stop loss of \$50,000 per covered employee per year. At June 30, 2013, there were 200 employees covered under the plan. During the years ended June 30, 2013 and 2012, the Organization paid \$1,359,842 and \$1,474,675 into this fund. Funds held as reserves for future claims were \$450,000 at both June 30, 2013 and 2012.

Future operating needs - This fund was established by the board of directors to provide a reserve for future operating needs of the Organization including asset acquisitions.

Debt repayment - As more fully described previously in Note 8, the board of directors was required to establish this reserve as a condition of the loan agreement with the Indiana Health Facility Financing Authority.

The underlying assets of the reserve funds are comprised of the following investments; temporary cash investments, which represent investments in money market funds and certificates of deposit; and investments:

	<u>2013</u>		<u>2012</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash in bank	\$ 299,234	\$ 299,234	\$ 346,191	\$ 346,191
Temporary cash investments -				
Note 4	2,347,150	2,379,368	2,072,857	2,045,806
U.S. Government Securities	634,113	635,740	504,380	516,056
Corporate bonds	485,844	496,976	527,824	555,071
Common stock	<u>2,040,152</u>	<u>2,385,524</u>	<u>2,149,124</u>	<u>2,265,380</u>
Total	<u>\$5,806,493</u>	<u>\$6,196,842</u>	<u>\$5,600,376</u>	<u>\$5,728,504</u>
Unrealized gain		<u>\$ 390,349</u>		<u>\$ 128,128</u>

Note 10: Fair value measurements - FASC 820 defines fair value as the price that would be received by the Organization for an asset or paid by the Organization to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date in the Organization's principal or most advantageous market for the asset or liability. The effect of a change in valuation technique or its application on a fair value estimate is accounted for prospectively as a change in accounting estimate. When evaluat-

PATHFINDER SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

Note 10: Fair value measurements (Continued) -

ing indications of fair value resulting from the use of multiple valuation techniques, the Organization is to select the point within the resulting range of reasonable estimates of fair value that is most representative of fair value under current market conditions. FASC 820 establishes a fair value hierarchy which requires the Organization to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy places the highest priority on unadjusted quoted market prices in active markets for identical assets or liabilities (level 1 measurements) and gives the lowest priority to unobservable inputs (level 3 measurements). The three levels of inputs within the fair value hierarchy are defined as follows:

Level 1 Inputs: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Organization has the ability to access as of the measurement date.

Level 2 Inputs: Significant other observable inputs other than level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Inputs: Significant unobservable inputs that reflect the Organization's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The following descriptions of the valuation methods and assumptions used by the Organization to estimate the fair values of investments apply to investments held directly by the Organization. There have been no changes in methodologies used at June 30, 2013 and 2012.

Money Market Funds, U.S. Government Securities, Corporate Bonds and Common Stock: The fair values of investments are determined by obtaining quoted prices on nationally recognized securities exchanges (level 1 inputs).

Certificates of Deposit: The Organization values certificates of deposits at fair value based upon similar investments with the same terms (level 2 inputs).

PATHFINDER SERVICES, INC.

NOTES TO COMPARATIVE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

Note 10: Fair value measurements (Continued) -

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2013 and 2012:

	<u>June 30, 2013</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash in bank	\$ 299,234	\$ -	\$ -	\$ 299,234
Certificates of Deposit	-	168,939	-	168,939
Money Market Funds	2,210,429	-	-	2,210,429
U.S. Government Securities	635,740	-	-	635,740
Corporate Bonds	496,976	-	-	496,976
Common Stock	2,385,524	-	-	2,385,524
	<u>\$6,027,903</u>	<u>\$168,939</u>	<u>\$ -</u>	<u>\$6,196,842</u>
	<u>June 30, 2012</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash in bank	\$ 346,191	\$ -	\$ -	\$ 346,191
Certificates of Deposit	-	174,487	-	174,487
Money Market Funds	1,871,319	-	-	1,871,319
U.S. Government Securities	516,056	-	-	516,056
Corporate Bonds	555,071	-	-	555,071
Common Stock	2,265,380	-	-	2,265,380
	<u>\$5,554,017</u>	<u>\$174,487</u>	<u>\$ -</u>	<u>\$5,728,504</u>

Note 11: Investment in and Granite Housing Connection, LLC - The Organization entered into an investment in an LLC for the purpose of community development through the construction and sale of single family affordable housing to low and moderate income families. The Organization uses the equity method to account for the investment. The investment is valued at fair market value. The Organization dissolved an investment in South Pointe LLC (similar LLC) on January 1, 2012.

PATHFINDER SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

Note 12: Employee benefit plan - On July 1, 1994, the Organization adopted a tax deferred annuity plan, under Internal Revenue Code Section 403(b). All full-time employees are eligible to contribute a portion of their eligible compensation to the plan in accordance with plan provisions. For employees meeting certain eligibility requirements, the plan allows the employer to make discretionary contributions to the plan. Employer contributions to the plan for the years ended June 30, 2013 and 2012 were \$140,997 and \$158,790, respectively.

Note 13: Advertising expense - The Organization uses advertising to promote its programs among the clients it serves. The production costs of advertising are expensed as incurred. During the years ended June 30, 2013 and 2012, advertising costs totaled \$52,845 and \$62,029 respectively.

Note 14: Transitional housing acquisition and remodeling grant - During the fiscal year ended June 30, 2013, the Organization received a transitional housing grant awarded by the Department of Housing and Urban Development (HUD). Under the terms of the HUD grant, the Organization is obligated to provide 25% of the costs of operation of the transitional housing program during grant period. The grant began in October 2011 and runs for a twelve month period.

Note 15: Operating lease commitments - The Organization leases vans, equipment and buildings under noncancellable operating leases with terms of one to five years. Rental expense for the years ended June 30, 2013 and 2012 was \$289,207 and \$307,241, respectively. The following is a schedule by years of future minimum rentals under the leases at June 30, 2013:

Year ending June 30:

2014	\$103,939
2015	63,921
2016	14,945
2017	7,728
2018	<u>692</u>
Total	<u>\$191,225</u>

Note 16: Economic dependency - As in prior years, the Organization receives the majority of its revenue from federal and state grants. The loss or reduction of this revenue would have a material impact on the Organization. While management believes that the Organization's services will continue to be required indefinitely, public funding is subject to economic and political influence.

PATHFINDER SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

Note 17: Subsequent events - The Organization evaluated all events or transactions that occurred after June 30, 2013 up through September 5, 2013, which is the date the financial statements were available to be issued. During this period, management has determined that the Organization did not have any material recognizable or disclosable subsequent events.

PATHFINDER SERVICES, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2013

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- through Grantor's Number</u>	<u>Program Amount</u>	<u>Expendi- tures</u>
<u>Other Federal Assistance -</u>				
U.S. Department of Agriculture -				
Passed through Indiana Department of Education Child and Adult Care Food Program	10.558	135 0010	N/A	<u>\$ 67,504</u>
U.S. Department of Housing and Urban Development -				
Direct Program:				
Supportive Housing Program	14.235	N/A	\$288,956	140,984
Passed through Neighbor- Works				
Housing Counseling Assistance	14.169	N/A	\$ 16,131	16,131
Passed through Local Initiatives Support Corporation				
Section 4 Capacity Building for Commu- nity Development and	14.252	PA41206-0024	\$ 19,000	6,299
Affordable Housing	14.252	PA41206-0025	\$ 20,000	<u>15,006</u>
Total U.S. Department of Housing and Urban Development				<u>178,420</u>

See accompanying notes to schedule of expenditures of federal awards.

PATHFINDER SERVICES, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- through Grantor's Number</u>	<u>Program Amount</u>	<u>Expendi- tures</u>
<u>Other Federal Assistance -</u>				
U.S. Department of Health and Human Services -				
Direct Program:				
Early Head Start	93.600	N/A	\$1,355,578	\$ 618,674
Passed through Indiana Housing Community Development Authority Office of Refugee Resettlement Indi- vidual Development Account	93.602	RIDA 010-001B	\$ 14,500	<u>5,000</u>
Total U.S. Depart- ment of Health and Human Services				<u>623,674</u>
U.S. Department of Treasury -				
Direct Program:				
VITA Matching Grant Program	21.009	N/A	\$ 15,000	15,000
Passed through Neigh- borworks Housing	21.000	N/A	\$ 206,600	206,600
Passed through Indiana Housing Community Development Authority				
Mortgage Foreclosure	21.000	IFPN-12-027	\$ 110,181	44,205
Hardest Hit Fund	21.000	SF-011-025HHF	\$ 481,432	<u>91,506</u>
Total U.S. Depart- ment of Treasury				<u>357,311</u>
Total Federal Awards				<u>\$1,226,909</u>

See accompanying notes to schedule of expenditures of federal awards.

PATHFINDER SERVICES, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2013

Note 1: Basis of presentation - The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Pathfinder Services, Inc. under programs of the federal government for the year ended June 30, 2013. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Pathfinder Services, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Pathfinder Services, Inc.

Note 2: Summary of significant accounting policies -

Accrual basis - Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through identifying numbers - Pass-through entity identifying numbers are presented where available.

Note 3: Subrecipients - Of the federal expenditures presented in the Schedule, Pathfinder Services, Inc. did not provide federal awards to subrecipients.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Pathfinder Services, Inc.
Huntington, Indiana

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 Pathfinder Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 5, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pathfinder Services, 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 Pathfinder Services, 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 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. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pathfinder Services, 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, non-compliance 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*.

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.



David Culp & Co. LLP
Certified Public Accountants

Huntington, Indiana
September 5, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
Pathfinder Services, Inc.
Huntington, Indiana

Report on Compliance for Each Major Federal Program

We have audited Pathfinder Services, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133, Compliance Supplement* that could have a direct and material effect on each of Pathfinder Services, Inc.'s major federal programs for the year ended June 30, 2013. Pathfinder Services, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Pathfinder Services, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pathfinder Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Pathfinder Services, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Pathfinder Services, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Pathfinder Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Pathfinder Services, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pathfinder Services, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



David Culp & Co. LLP
Certified Public Accountants

Huntington, Indiana
September 5, 2013

PATHFINDER SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2013

A. SUMMARY OF AUDITOR'S RESULTS -

1. The auditor's report expresses an unqualified opinion on the financial statements of Pathfinder Services, Inc.
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of Pathfinder Services, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the 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*.
5. The auditor's report on compliance for the major federal award programs for Pathfinder Services, Inc. expresses an unqualified opinion on all major federal programs.
6. There were no audit findings or questioned costs for Federal Awards for the year ended June 30, 2013 for Pathfinder Services, Inc.
7. The program tested as major programs is as follows:

U.S. Department of Health and Human Services -

Early Head Start 93.600 -

Expenditures for fiscal year ended

June 30, 2013

\$618,674

PATHFINDER SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

A. SUMMARY OF AUDITOR'S RESULTS (CONTINUED) -

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Pathfinder Services, Inc. qualified as a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None