

Pathways Behavioral Services, Inc.

Audited Financial Statements

June 30, 2008 and 2007



PATHWAYS BEHAVIORAL SERVICES, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Pathways Behavioral Services, Inc.

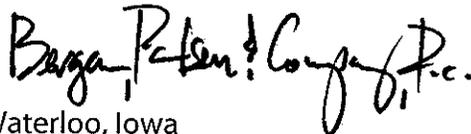
We have audited the accompanying statements of financial position of Pathways Behavioral Services, Inc. (a nonprofit organization) as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pathways Behavioral Services, Inc. as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2008, on our consideration of Pathways Behavioral Service, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Pathways Behavioral Services, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the accompanying schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Waterloo, Iowa
November 18, 2008

PATHWAYS BEHAVIORAL SERVICES, INC.

Statements of Financial Position

As of June 30, 2008 and 2007

Assets

	2008	2007
Current Assets		
Cash and cash equivalents	\$ 452,061	\$ 501,955
Cash - restricted custodial	197	5,661
Temporary cash investments	430,397	248,321
Client receivables, net	214,798	196,465
Other receivables	303,443	309,452
Other current assets	3,517	9,826
Total Current Assets	<u>1,404,413</u>	<u>1,271,680</u>
Beneficial Interest in Assets Held by Community Foundation	15,932	8,034
Campaign Receivables Restricted for Capital Expenditures	27,289	37,660
Property and Equipment, Net	<u>2,298,311</u>	<u>2,310,548</u>
Total Assets	<u>\$ 3,745,945</u>	<u>\$ 3,627,922</u>

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$ 30,883	\$ 35,987
Custodial payable - due residents		5,661
Accrued expenses	223,339	212,413
Total Current Liabilities	<u>254,222</u>	<u>254,061</u>
Net Assets		
Unrestricted:		
Operations	550,531	446,732
Board designated - operating reserve	584,678	565,808
Net investment in property and equipment	2,298,311	2,310,548
Total Unrestricted	<u>3,433,520</u>	<u>3,323,088</u>
Temporarily restricted	58,203	50,773
Total Net Assets	<u>3,491,723</u>	<u>3,373,861</u>
Total Liabilities and Net Assets	<u>\$ 3,745,945</u>	<u>\$ 3,627,922</u>

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

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PATHWAYS BEHAVIORAL SERVICES, INC.

Statements of Activities

For the years ended June 30, 2008 and 2007

	2008	2007
Unrestricted Net Assets		
Revenue, Gains and Other Support		
Net client service revenue	\$ 327,412	\$ 355,306
Other service revenue	3,171,196	3,168,606
United Way allocations	38,777	53,227
Contributions	17,957	23,017
Investment return	34,756	35,642
Miscellaneous income	13,682	12,743
Receipt of Cedar Valley Mental Health Center, Inc. net assets		884,680
Net assets released from restrictions net of transfers	14,720	9,123
	<hr/>	<hr/>
Total Revenue, Gains and Other Support	3,618,500	4,542,344
	<hr/>	<hr/>
Expenses		
Salaries	2,145,228	2,113,575
Payroll taxes	167,716	165,419
Employee benefits	429,185	392,283
Rent	20,169	18,843
Utilities	43,999	43,184
Insurance	33,054	30,614
Repairs and maintenance	34,934	33,501
Telephone	27,750	27,658
Postage and shipping	10,017	11,966
Office supplies and equipment	53,597	54,631
Legal and accounting	14,731	12,990
Contract labor	169,280	152,250
Professional fees	39,758	25,982
Travel and training	50,764	49,078
Dues and subscriptions	10,447	13,152
Educational materials, printing and public information	69,654	69,226
Groceries and household supplies	24,392	31,466
Miscellaneous	21,023	26,356
Interest		4,434
Depreciation	142,370	118,242
	<hr/>	<hr/>
Total Expenses	3,508,068	3,394,850
	<hr/>	<hr/>
Gain on Disposal of Property and Equipment		142
	<hr/>	<hr/>
Increase in Unrestricted Net Assets	110,432	1,147,636
	<hr/>	<hr/>
Temporarily Restricted Net Assets		
United Way allocations	22,150	22,150
Transfer assets to Community Foundation	8,630	
Net assets released from restrictions	(23,350)	(9,123)
	<hr/>	<hr/>
Increase in Temporarily Restricted Net Assets	7,430	13,027
	<hr/>	<hr/>
Increase in Net Assets	117,862	1,160,663
Net Assets, Beginning of Year	3,373,861	2,213,198
	<hr/>	<hr/>
Net Assets, End of Year	\$ 3,491,723	\$ 3,373,861
	<hr/>	<hr/>

PATHWAYS BEHAVIORAL SERVICES, INC.

Statements of Cash Flows

For the years ended June 30, 2008 and 2007

	2008	2007
Cash Flows from Operating Activities		
Increase in net assets	\$ 117,862	\$ 1,160,663
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	142,370	118,242
Gain on disposal of property and equipment		(142)
Receipt of Cedar Valley Mental Health Center, Inc.'s net assets		(884,680)
Changes in Operating Assets and Liabilities:		
Receivables	(12,324)	52,722
Other current assets	6,309	(986)
Payables	(10,765)	(38,315)
Refundable advance		(10,000)
Accrued expenses and other liabilities	10,926	(7,023)
Net Cash Provided by Operating Activities	<u>254,378</u>	<u>390,481</u>
Cash Flows from Investing Activities		
Increase (decrease) in cash - restricted custodial	5,464	(5,661)
Increase in temporary cash investments	(182,076)	(72,049)
Increase in beneficial interest	(7,898)	(965)
Receipt of Cedar Valley Mental Health Center, Inc.'s cash		169,500
Purchases of property and equipment	(130,133)	(150,047)
Proceeds from sales of property and equipment		160
Net Cash Used in Investing Activities	<u>(314,643)</u>	<u>(59,062)</u>
Cash Flows from Financing Activities		
Collections of restricted contributions	10,371	18,021
Principal payments under long-term borrowings		(220,848)
Net Cash Provided by (Used in) Financing Activities	<u>10,371</u>	<u>(202,827)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(49,894)	128,592
Cash and Cash Equivalents at Beginning of Year	<u>501,955</u>	<u>373,363</u>
Cash and Cash Equivalents at End of Year	<u>\$ 452,061</u>	<u>\$ 501,955</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for:

Interest	<u>\$ -</u>	<u>\$ 4,434</u>
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PATHWAYS BEHAVIORAL SERVICES, INC.
Statements of Cash Flows
For the years ended June 30, 2008 and 2007

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

During fiscal year 2007, the Organization received the net assets of Cedar Valley Mental Health Center, Inc. as follows:

Working capital, other than cash	\$ 68,010
Property and equipment	647,170
Cash received	<u>169,500</u>
Total Net Assets Received	<u>\$ 884,680</u>

PATHWAYS BEHAVIORAL SERVICES, INC.

Notes to the Financial Statements

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

NATURE OF ORGANIZATION

Pathways Behavioral Services, Inc. (the Organization) is a nonprofit corporation organized to provide comprehensive, community-based substance abuse and mental health counseling and prevention programs to citizens throughout northeast Iowa, including residential care for adult substance abusers. The Organization's mission is to provide the best quality behavioral health treatment and prevention services to individuals, families and communities to improve quality of life in northeast Iowa.

The Organization serves six counties in northeast Iowa: Black Hawk, Bremer, Buchanan, Butler, Chickasaw and Grundy counties.

Presently, the Organization has office locations for substance abuse counseling in:

- (a) Three Waterloo facilities for Black Hawk County, which includes administrative offices, a Recovery House and a Sober Living Unit.
- (b) Waverly for Bremer County.
- (c) New Hampton for Chickasaw County.
- (d) Independence for Buchanan County.
- (e) Allison for Butler County.

Presently, the Organization has office locations for mental health services in:

- (a) Waverly and Sumner for Bremer County.
- (b) New Hampton for Chickasaw County.
- (c) Allison for Butler County.

BASIS OF PRESENTATION

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There were no permanently restricted net assets as of June 30, 2008 and 2007.

PATHWAYS BEHAVIORAL SERVICES, INC.

Notes to the Financial Statements

**NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(Cont'd.):**

ACCOUNTING ESTIMATES

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

CASH EQUIVALENTS

The Organization considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

TEMPORARY CASH INVESTMENTS

Temporary cash investments consist of certificates of deposit with maturities of less than one year.

CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents, temporary cash investments and receivables. The Organization places its cash and cash equivalents and temporary cash investments with high credit quality financial institutions. At various times throughout the year, the Organization's cash and cash equivalents and temporary cash investments are in excess of the FDIC insurance limit.

Concentrations of credit risk with respect to client receivables are limited due to the Organization's large number of clients.

The Organization received 44% and 35% of its total revenue, gains and other support from one source for the years ended June 30, 2008 and 2007, respectively.

CLIENT RECEIVABLES

Client receivables arise from services provided to clients based on the Organization's rates for service and a sliding fee scale. The Organization evaluates its need for an allowance for doubtful accounts by performing a review of outstanding receivables, historical collection information, and existing economic conditions. The allowance for doubtful accounts was \$356,793 and \$246,086 as of June 30, 2008 and 2007, respectively.

PATHWAYS BEHAVIORAL SERVICES, INC.

Notes to the Financial Statements

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd.):

Normal client receivables are due 30 days after the issuance of the invoice. Receivables past due more than 90 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

NET CLIENT SERVICE REVENUE

Net client service revenue is reported at the estimated net realizable amounts from clients, third-party payers and others for services rendered.

PROPERTY AND EQUIPMENT

Property and equipment is carried at cost or fair value, if donated, with depreciation computed primarily under the straight-line method over the economic useful lives of the assets. The Organization follows the policy of capitalizing all property and equipment expenditures over \$750, unless general contract conditions call for a lower amount.

RESTRICTED AND UNRESTRICTED REVENUE AND SUPPORT

Contributions and grant awards received are recorded as unrestricted or temporarily restricted support, depending on the existence and/or nature of any restrictions. Support that is restricted is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other restricted support is reported as an increase in temporarily restricted net assets. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

BOARD DESIGNATED RESERVE

The operating reserve is intended to assure continued funding of the Organization's operations, and represents two months of operating expenses.

INCOME TAXES

The Organization is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes pursuant to Section 501(a) of the Code.

PATHWAYS BEHAVIORAL SERVICES, INC.

Notes to the Financial Statements

NOTE 2 - CAMPAIGN RECEIVABLES:

Campaign receivables as of June 30, 2008 and 2007, are as follows:

	2008	2007
Receivable in less than one year	\$ 27,289	\$ 37,660

NOTE 3 - PROPERTY AND EQUIPMENT:

A summary of property and equipment as of June 30, 2008 and 2007 follows:

	2008	2007
Land	\$ 479,072	\$ 479,072
Buildings and improvements	2,107,338	2,080,658
Furniture and fixtures	33,722	33,722
Equipment	<u>525,930</u>	<u>422,477</u>
	3,146,062	3,015,929
Less: Accumulated depreciation	<u>847,751</u>	<u>705,381</u>
	<u>\$ 2,298,311</u>	<u>\$2,310,548</u>

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes:

	2008	2007
Future periods	\$ 22,150	\$ 22,150
Assets held by Community Foundation	15,130	6,500
Grants	<u>20,923</u>	<u>22,123</u>
	<u>\$ 58,203</u>	<u>\$ 50,773</u>

PATHWAYS BEHAVIORAL SERVICES, INC.

Notes to the Financial Statements

NOTE 5 - DESIGNATED AGENCY ENDOWMENT FUND:

The Organization has a beneficial interest in assets held by the Community Foundation of Waterloo and Northeast Iowa (the Foundation) in the amount of \$15,932 and \$8,034 as of June 30, 2008 and 2007 respectively. The Organization transferred \$8,630 to the designated agency endowment fund (the Fund) during fiscal year 2008. The Organization has granted variance power to the Foundation in the event the Organization terminates or ceases to exist as a legal entity. The Fund's income is available to support the Organization's operations. As of June 30, 2008 and 2007, the Organization had a total of \$19,873 and \$12,370, respectively, in the Fund. No amounts were distributed to the Organization from the Foundation for the years ended June 30, 2008 and 2007.

NOTE 6 - INVESTMENT RETURN:

A summary of the investment return and its classification in the statements of activities for the years ended June 30, 2008 and 2007, follows:

	2008	2007
Interest income	\$ 35,488	\$ 34,677
Net change in beneficial interest in assets held by Community Foundation	<u>(732)</u>	<u>965</u>
Total investment return	<u>\$ 34,756</u>	<u>\$ 35,642</u>

NOTE 7 - OTHER SERVICE REVENUE:

A summary of other service revenue included in the statements of activities for the years ended June 30, 2008 and 2007, follows:

	2008	2007
Federal, state and local	\$ 2,479,891	\$ 2,480,280
Insurance companies	218,048	252,947
Medicaid	427,889	405,184
Medicare	<u>45,368</u>	<u>30,195</u>
	<u>\$ 3,171,196</u>	<u>\$ 3,168,606</u>

These revenues are based on capitation and fee for service rates, and direct cost reimbursement.

PATHWAYS BEHAVIORAL SERVICES, INC.

Notes to the Financial Statements

NOTE 8 - RETIREMENT PLAN:

The Organization has a 403(b) retirement plan covering substantially all full-time employees. Eligible employees may contribute a portion of their compensation to this Plan. The Organization will contribute an amount ranging from 1.5% to 7.5% of each covered employees' wages. For the years ended June 30, 2008 and 2007, the Organization charged against income \$93,730 and \$82,370, respectively, under this Plan.

NOTE 9 - OPERATING LEASES:

The Organization conducts a portion of its operations from leased facilities under noncancellable operating leases. Certain leases include renewal options at the end of the lease term.

The following is a schedule by years of future minimum lease payments required under noncancellable operating leases:

Year Ending June 30:	
2009	\$ 25,899
2010	20,314
2011	14,834
2012	<u>8,652</u>
Total Minimum Payments Required	<u>\$ 69,699</u>

Rent expense for all operating leases was \$20,169 and \$18,843 for the years ended June 30, 2008 and 2007, respectively.

NOTE 10 - DONATED MATERIALS AND SERVICES:

Donated materials are reflected as contributions in the accompanying statements at their estimated fair market value at date of receipt. No amounts have been reflected in the financial statements for donated services. The Organization pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with its operations.

PATHWAYS BEHAVIORAL SERVICES, INC.

Notes to the Financial Statements

NOTE 11 - CLASSIFICATION OF EXPENSES:

	2008	2007
Program	\$ 3,101,899	\$ 3,006,228
Management and general	365,804	363,358
Fundraising	<u>40,365</u>	<u>25,264</u>
	<u>\$ 3,508,068</u>	<u>\$ 3,394,850</u>

NOTE 12 - COMMITMENTS AND CONTINGENCIES:

Financial awards from federal and state governmental entities in the form of grants are subject to special audit. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

NOTE 13 - MERGER:

On October 24, 2005, the Board of Directors approved the merger of Cedar Valley Mental Health Center, Inc. into the operations of the Organization effective July 1, 2006. As a result of the merger, the Organization received \$884,680 in net assets, which have been included in the financial statements as of July 1, 2006, as follows:

Working capital, other than cash	\$ 68,010
Property and equipment	647,170
Cash	<u>169,500</u>
Net Assets	<u>\$ 884,680</u>

SUPPLEMENTAL INFORMATION

PATHWAYS BEHAVIORAL SERVICES, INC.
 Schedule of Expenditures of Federal Awards
 For the year ended June 30, 2008

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Health and Human Services and Federal Emergency Management Agency</u>		
Passed through the Iowa Department of Public Health:		
Block Grants for Prevention and Treatment of Substance Abuse	93.959	\$ 207,517 **
Drug Free Communities Support Program Grants	93.276	66,721
Passed through the Iowa Department of Human Services:		
Juvenile Accountability Incentive Block Grants	16.523	2,607
Juvenile Justice and Delinquency Prevention Allocation to States	16.540	4,583
Enforcing Underage Drinking Laws Program	16.727	11,623
Comprehensive Community Mental Health Services for Children with Block Grants for Community Mental Health Services	93.958	28,548
Crisis Counseling Services	97.032	17,505
Passed through the Iowa Department of Corrections:		
Byrne Formula Grant Program	16.579	80,112
Drug Court Discretionary Grant Program	16.585	47,184
Passed through Magellan Behavioral Health:		
Block Grants for Prevention and Treatment of Substance Abuse	93.959	1,394,147 **
<u>Department of Housing and Urban Development</u>		
Passed through the City of Waterloo:		
Community Development Block Grants/Entitlement Grants	14.218	<u>5,000</u>
		<u>\$ 1,865,547</u>

** Includes federal and state funding

Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of Pathways Behavioral Services, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

PATHWAYS BEHAVIORAL SERVICES, INC.

Schedule of Functional Expenses
For the year ended June 30, 2008

	PROGRAM SERVICES					SUPPORT SERVICES				
	Recovery House	Treatment	Prevention	Adolescent Treatment	DECAT	Total Program Expenses	Management & General	Fundraising	Total Support Services	Total Expenses
Salaries and wages	\$ 321,636	\$ 1,287,010	\$ 228,831	\$ 58,373	\$ 20,696	\$ 1,916,546	\$ 207,820	\$ 20,862	\$ 228,682	\$ 2,145,228
Employee benefits & payroll taxes	87,245	350,761	66,526	19,128	7,013	530,673	59,890	6,338	66,228	596,901
Total Salaries and Related Expenses	408,881	1,637,771	295,357	77,501	27,709	2,447,219	267,710	27,200	294,910	2,742,129
Travel and training	1,959	21,933	19,154	5,770	1,603	50,419	269	76	345	50,764
Dues and subscriptions	1,657	2,379	600	895		5,531	4,916		4,916	10,447
Rent		19,689	480			20,169				20,169
Utilities	17,884	20,852	2,288	837	513	42,374	1,625		1,625	43,999
Telephone	4,462	19,699	1,467	645	370	26,643	1,107		1,107	27,750
Postage and shipping	329	6,774	1,146	11	10	8,270	973	774	1,747	10,017
Office supplies and equipment	5,085	36,266	4,030	764	429	46,574	4,623	2,400	7,023	53,597
Repairs and maintenance	8,933	16,344	3,507	560	272	29,616	4,138	1,180	5,318	34,934
Contract labor	5,290	127,211	36,247	232		168,980		300	300	169,280
Professional fees	3,796	22,334	1,718	926	224	28,998	10,760		10,760	39,758
Insurance	8,422	13,213	2,466	550	198	24,849	8,205		8,205	33,054
Educational materials, printing and public information	788	6,295	50,331	310		57,724	6,982	4,948	11,930	69,654
Groceries and household supplies	24,358	34				24,392				24,392
Miscellaneous	3,135	10,319	1,082	145		14,681	2,855	3,487	6,342	21,023
Legal and accounting							14,731		14,731	14,731
Total Expenses Before Depreciation	494,979	1,961,113	419,873	89,146	31,328	2,996,439	328,894	40,365	369,259	3,365,698
Depreciation	33,000	61,460	9,800	1,200		105,460	36,910		36,910	142,370
Total Expenses	\$ 527,979	\$ 2,022,573	\$ 429,673	\$ 90,346	\$ 31,328	\$ 3,101,899	\$ 365,804	\$ 40,365	\$ 406,169	\$ 3,508,068

PATHWAYS BEHAVIORAL SERVICES, INC.

Schedule of Functional Expenses
For the year ended June 30, 2007

	PROGRAM SERVICES					SUPPORT SERVICES				
	Recovery House	Treatment	Prevention	Adolescent Treatment	DECAT	Total Program Expenses	Management & General	Fundraising	Total Support Services	Total Expenses
Salaries and wages	\$ 316,974	\$ 1,267,959	\$ 230,844	\$ 56,838	\$ 15,816	\$ 1,888,431	\$ 209,947	\$ 15,197	\$ 225,144	\$ 2,113,575
Employee benefits & payroll taxes	78,943	342,930	64,064	12,820	4,251	503,008	53,435	1,259	54,694	557,702
Total Salaries and Related Expenses	395,917	1,610,889	294,908	69,658	20,067	2,391,439	263,382	16,456	279,838	2,671,277
Travel and training	2,264	25,444	13,709	4,440	1,200	47,057	1,881	140	2,021	49,078
Dues and subscriptions	2,377	5,626	430	90		8,523	4,629		4,629	13,152
Rent	100	18,533	200		10	18,843				18,843
Utilities	17,788	20,046	2,667	642	224	41,367	1,817		1,817	43,184
Telephone	4,621	18,730	2,019	730	334	26,434	1,224		1,224	27,658
Postage and shipping	385	8,481	1,853	66	29	10,814	365	787	1,152	11,966
Office supplies and equipment	5,333	32,734	9,159	1,606	677	49,509	3,094	2,028	5,122	54,631
Repairs and maintenance	8,456	17,713	2,596	730	204	29,699	3,802		3,802	33,501
Contract labor	8,095	101,454	42,503	198		152,250				152,250
Professional fees	1,424	13,503	680	155		15,762	10,220		10,220	25,982
Insurance	7,846	12,654	2,465	484	113	23,562	7,052		7,052	30,614
Educational materials, printing and public information	611	6,546	55,966	236		63,359	4,810	1,057	5,867	69,226
Groceries and household supplies	31,466		3,045	379	133	31,466	4,101	4,796	8,897	31,466
Miscellaneous	3,242	10,660				17,459	4,434		4,434	26,356
Interest										4,434
Legal and accounting							12,990		12,990	12,990
Total Expenses Before Depreciation	489,925	1,903,013	432,200	79,414	22,991	2,927,543	323,801	25,264	349,065	3,276,608
Depreciation	21,400	49,040	7,045	1,200		78,685	39,557		39,557	118,242
Total Expenses	\$ 511,325	\$ 1,952,053	\$ 439,245	\$ 80,614	\$ 22,991	\$ 3,006,228	\$ 363,358	\$ 25,264	\$ 388,622	\$ 3,394,850

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**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 of
Pathways Behavioral Services, Inc.

We have audited the financial statements of Pathways Behavioral Services, Inc. (a nonprofit organization) as of and for the year ended June 30, 2008, and have issued our report thereon dated November 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pathways Behavioral Services, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pathways Behavioral Services, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pathways Behavioral Services, Inc.'s internal control over financial reporting.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Pathways Behavioral Services, Inc.'s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of Pathways Behavioral Services, Inc.'s financial statements that is more than inconsequential will not be prevented or detected by Pathways Behavioral Services, Inc.'s internal control.

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

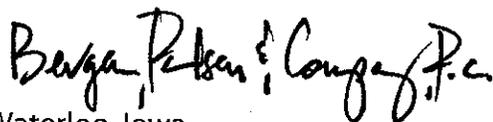
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pathways Behavioral Services, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Pathways Behavioral Services, Inc. in a separate letter dated November 15, 2008.

This report is intended solely for the information and use of the finance committee, board of directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Waterloo, Iowa
November 18, 2008

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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors of
Pathways Behavioral Services, Inc.

Compliance

We have audited the compliance of Pathways Behavioral Services, Inc. (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. Pathways Behavioral Services, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Pathways Behavioral Services, Inc.'s management. Our responsibility is to express an opinion on Pathways Behavioral Services, Inc.'s compliance based on our audit.

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 Pathways Behavioral 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. Our audit does not provide a legal determination of Pathways Behavioral Services, Inc.'s compliance with those requirements.

In our opinion, Pathways Behavioral Services, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Pathways Behavioral Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Pathways Behavioral Services, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Pathways Behavioral Services, Inc.'s internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in

internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the finance committee, board of directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bergan, Paulsen & Company, P.C.

Waterloo, Iowa
November 18, 2008

PATHWAYS BEHAVIORAL SERVICES, INC.
Schedule of Findings and Questioned Costs
For the year ended June 30, 2008

Part I: Summary of Independent Auditor's Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Pathways Behavioral Services, Inc.
2. The audit of the financial statements did not disclose any significant deficiencies regarding internal control.
3. No instances of noncompliance material to the financial statements of Pathways Behavioral Services, Inc., which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. The audit did not disclose any significant deficiencies in internal control over the major federal award program.
5. The auditor's report on compliance for the major federal award program for Pathways Behavioral Services, Inc. expresses an unqualified opinion on the major federal program.
6. The audit did not disclose any audit findings relative to the major federal award program which are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The only major program is CFDA Number 93.959 - Comprehensive Treatment and Prevention.
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. Pathways Behavioral Services, Inc. did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements

There were no findings related to the financial statements as of June 30, 2008.

Part III: Findings and Questioned Costs for Federal Awards

The audit did not disclose audit findings which are required to be reported in accordance with OMB Circular A-133.

Part IV: Status of Prior Year Findings and Questioned Costs for Federal Awards

For the year ended June 30, 2007, there were no findings and questioned costs.



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November 18, 2008

Pathways Behavioral Services, Inc.
3362 University Avenue
Waterloo, Iowa 50701

In planning and performing our audit of the financial statements of Pathways Behavioral Services, Inc. for the year ended June 30, 2008, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 18, 2008, on the financial statements of Pathways Behavioral Services, Inc.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various Organization personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

BERGAN PAULSEN & COMPANY, P.C.

A handwritten signature in black ink, appearing to read "DAR" followed by a stylized flourish.

David A. Richter, CPA
Shareholder

DAR:jf

Enclosure

PATHWAYS BEHAVIORAL SERVICES, INC.
Management Comments
June 30, 2008

1. We recommend that the Organization formally document their disaster recovery plan. This plan should include:
 - Location of, and access to, off-site storage,
 - A listing of data files that are maintained at the off-site storage,
 - Identification of a back-up location with similar or compatible equipment for emergency processing,
 - Responsibilities of various personnel in an emergency, and
 - Priority of critical applications and reporting requirements during the emergency period.

2. We recommend that the Organization review and update its Investment Policy. The policy was last updated in 2002.