

Pathways Behavioral Services, Inc.

Audited Financial Statements

June 30, 2009 and 2008



Pathways Behavioral Services, Inc.
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INDEPENDENT AUDITORS' REPORT

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

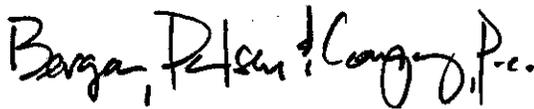
We have audited the accompanying statements of financial position of Pathways Behavioral Services, Inc. (a nonprofit organization) as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's 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, 2009 and 2008, 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 23, 2009, 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 23, 2009

Pathways Behavioral Services, Inc.

Statements of Financial Position

As of June 30, 2009 and 2008

Assets

	2009	2008
Current Assets		
Cash and cash equivalents	\$ 645,624	\$ 452,061
Cash - restricted custodial	2,555	197
Short-term investments	578,141	430,397
Client receivables, net	151,525	214,798
Other receivables	444,775	330,732
Other current assets	4,203	3,517
Total Current Assets	<u>1,826,823</u>	<u>1,431,702</u>
Beneficial Interest in Assets Held by Community Foundation	20,896	15,932
Property and Equipment, Net	<u>2,238,712</u>	<u>2,298,311</u>
Total Assets	<u>\$ 4,086,431</u>	<u>\$ 3,745,945</u>

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$ 32,423	\$ 30,883
Custodial payable - due residents	2,555	-
Other liabilities	296,334	223,339
Total Current Liabilities	<u>331,312</u>	<u>254,222</u>
Net Assets		
Unrestricted:		
Operations	382,668	550,531
Board designated - operating reserve	1,053,209	584,678
Net investment in property and equipment	2,238,712	2,298,311
Total Unrestricted	<u>3,674,589</u>	<u>3,433,520</u>
Temporarily restricted	80,530	58,203
Total Net Assets	<u>3,755,119</u>	<u>3,491,723</u>
Total Liabilities and Net Assets	<u>\$ 4,086,431</u>	<u>\$ 3,745,945</u>

Pathways Behavioral Services, Inc.
Statements of Activities
For the years ended June 30, 2009 and 2008

	2009	2008
Unrestricted Net Assets		
Revenue, Gains and Other Support		
Net client service revenue	\$ 339,705	\$ 327,412
Other service revenue	4,006,640	3,171,196
United Way allocations	29,417	38,777
Contributions	13,772	17,957
Investment return	27,999	34,756
Miscellaneous income	4,338	13,682
Net assets released from restrictions net of transfers	<u>36,073</u>	<u>14,720</u>
Total Revenue, Gains and Other Support	<u>4,457,944</u>	<u>3,618,500</u>
Expenses		
Salaries	2,515,911	2,145,228
Payroll taxes	200,009	167,716
Employee benefits	450,312	429,185
Rent	24,501	20,169
Utilities	39,981	43,999
Insurance	38,207	33,054
Repairs and maintenance	59,398	34,934
Telephone	34,060	27,750
Postage and shipping	11,315	9,802
Office supplies and equipment	72,383	53,812
Legal and accounting	12,388	14,731
Contract labor	257,579	169,280
Professional fees	49,662	39,758
Travel and training	137,375	50,764
Dues and subscriptions	13,524	10,447
Educational materials, printing and public information	83,503	69,654
Groceries and household supplies	32,518	24,392
Miscellaneous	47,811	21,023
Depreciation	<u>132,397</u>	<u>142,370</u>
Total Expenses	<u>4,212,834</u>	<u>3,508,068</u>
Loss on Disposal of Property and Equipment	<u>4,041</u>	<u>-</u>
Increase in Unrestricted Net Assets	<u>241,069</u>	<u>110,432</u>
Temporarily Restricted Net Assets		
United Way allocations	58,400	22,150
Transfer assets to Community Foundation	7,000	8,630
Net assets released from restrictions	<u>(43,073)</u>	<u>(23,350)</u>
Increase in Temporarily Restricted Net Assets	<u>22,327</u>	<u>7,430</u>
Increase in Net Assets	263,396	117,862
Net Assets, Beginning of Year	<u>3,491,723</u>	<u>3,373,861</u>
Net Assets, End of Year	<u>\$ 3,755,119</u>	<u>\$ 3,491,723</u>

Pathways Behavioral Services, Inc.
Statements of Cash Flows
For the years ended June 30, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities		
Increase in net assets	\$ 263,396	\$ 117,862
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	132,397	142,370
Loss on disposal of property and equipment	4,041	-
Changes in Operating Assets and Liabilities:		
Receivables	(50,769)	(1,953)
Other current assets	(686)	6,309
Payables	4,095	(10,765)
Accrued expenses and other liabilities	72,995	10,926
	<u>425,469</u>	<u>264,749</u>
Cash Flows from Investing Activities		
(Increase) decrease in cash - restricted custodial	(2,358)	5,464
Increase in temporary cash investments	(147,744)	(182,076)
Increase in beneficial interest	(4,964)	(7,898)
Purchases of property and equipment	(76,839)	(130,133)
	<u>(231,905)</u>	<u>(314,643)</u>
Net Cash Provided by Operating Activities	<u>425,469</u>	<u>264,749</u>
Net Cash Used in Investing Activities	<u>(231,905)</u>	<u>(314,643)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	193,564	(49,894)
Cash and Cash Equivalents at Beginning of Year	<u>452,061</u>	<u>501,955</u>
Cash and Cash Equivalents at End of Year	<u>\$ 645,625</u>	<u>\$ 452,061</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 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, 2009 and 2008.

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

Cash equivalents are recorded at cost plus accrued interest, which approximates market, and have original maturities of three months or less at the date of purchase.

SHORT-TERM INVESTMENTS

Short-term investments are recorded at cost plus accrued interest, which approximates market, and consist of certificates of deposit.

CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments and receivables. The Organization places its cash, cash equivalents and short-term investments with high credit quality financial institutions. At various times throughout the year, the Organization's cash, cash equivalents and short-term 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 35% and 39% of its total revenue, gains and other support from one source for the years ended June 30, 2009 and 2008, 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 \$274,401 and \$356,793 as of June 30, 2009 and 2008, respectively.

Pathways Behavioral Services, Inc.
Notes to the Financial Statements

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

CLIENT RECEIVABLES (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.

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

INCOME TAXES (Cont'd.)

On July 1, 2008, the Organization adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The adoption of FIN 48 did not have an impact on the Organization's 2009 statement of position or statement of activities. The Organization does not believe its financial statements include any uncertain tax positions.

NOTE 2 - PROPERTY AND EQUIPMENT:

A summary of property and equipment as of June 30, 2009 and 2008 follows:

	2009	2008
Land	\$ 479,072	\$ 479,072
Buildings and improvements	2,137,277	2,107,338
Furniture and fixtures	26,981	33,722
Equipment	<u>501,050</u>	<u>525,930</u>
	3,144,380	3,146,062
Less: Accumulated depreciation	<u>905,668</u>	<u>847,751</u>
	<u>\$ 2,238,712</u>	<u>\$2,298,311</u>

NOTE 3 - TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes:

	2009	2008
Future periods	\$ 58,400	\$ 22,150
Assets held by Community Foundation	22,130	15,130
Grants	<u>-</u>	<u>20,923</u>
	<u>\$ 80,530</u>	<u>\$ 58,203</u>

Pathways Behavioral Services, Inc.
Notes to the Financial Statements

NOTE 4 - 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 \$20,896 and \$15,932 as of June 30, 2009 and 2008, respectively. The Organization transferred \$7,000 to the designated agency endowment fund (the Fund) during fiscal year 2009. 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, 2009 and 2008, the Organization had a total of \$24,333 and \$19,873, respectively, in the Fund. No amounts were distributed to the Organization from the Foundation for the years ended June 30, 2009 and 2008.

NOTE 5 - INVESTMENT RETURN:

A summary of the investment return and its classification in the statements of activities for the years ended June 30, 2009 and 2008, follows:

	2009	2008
Interest income	\$ 30,035	\$ 35,488
Net change in beneficial interest in assets held by Community Foundation	<u>(2,036)</u>	<u>(732)</u>
	<u>\$ 27,999</u>	<u>\$ 34,756</u>

NOTE 6 - OTHER SERVICE REVENUE:

A summary of other service revenue included in the statements of activities for the years ended June 30, 2009 and 2008, follows:

	2009	2008
Federal, state and local Insurance companies	\$ 3,226,664	\$ 2,479,891
Medicaid	202,079	218,048
Medicare	551,319	427,889
	<u>26,578</u>	<u>45,368</u>
	<u>\$ 4,006,640</u>	<u>\$ 3,171,196</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 7 - 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, 2009 and 2008, the Organization charged against income \$101,473 and \$93,790, respectively, under this Plan.

NOTE 8 - 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:	
2010	\$ 25,894
2011	14,834
2012	<u>8,652</u>
Total Minimum Payments Required	<u>\$ 49,380</u>

Rent expense for all operating leases was \$24,501 and \$20,169 for the years ended June 30, 2009 and 2008, respectively.

NOTE 9 - 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 10 - CLASSIFICATION OF EXPENSES:

	2009	2008
Program	\$ 3,827,090	\$ 3,101,899
Management and general	326,645	365,804
Fundraising	<u>59,099</u>	<u>40,365</u>
	<u>\$ 4,212,834</u>	<u>\$ 3,508,068</u>

NOTE 11 - 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 12 - SUBSEQUENT EVENTS:

Management has evaluated subsequent events through November 23, 2009, the date which the financial statements were available for issue.

SUPPLEMENTAL INFORMATION

Pathways Behavioral Services, Inc.
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2009

<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	\$ 209,017 **
Access to Recovery - Iowa	93.275	113,795
Passed through the Iowa Department of Human Services:		
Juvenile Accountability Incentive Block Grants	16.523	5,502
Juvenile Justice and Delinquency Prevention Allocation to States	16.540	5,305
Enforcing Underage Drinking Laws Program	16.727	10,738
Drug Free Communities Support Program Grants	93.276	75,109
Comprehensive Community Mental Health Services for Children with Block Grants for Community Mental Health Services	93.958	39,827
Crisis Counseling Services	97.032	511,926
Passed through the Iowa Department of Corrections:		
Byrne Formula Grant Program	16.579	85,214
Drug Court Discretionary Grant Program	16.585	58,000
Passed through Magellan Behavioral Health:		
Block Grants for Prevention and Treatment of Substance Abuse	93.959	<u>1,478,211 **</u>
		<u>\$ 2,592,644</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, 2009

	PROGRAM SERVICES					SUPPORT SERVICES				Total Expenses
	Recovery House	Treatment	Prevention	Adolescent Treatment	DECAT	Total Program Expenses	Management & General	Fundraising	Total Support Services	
Salaries and wages	\$ 336,379	\$ 1,338,535	\$ 538,804	\$ 66,822	\$ 25,009	\$ 2,305,549	\$ 191,353	\$ 19,009	\$ 210,362	\$ 2,515,911
Employee benefits & payroll taxes	83,622	384,027	104,583	20,907	6,261	599,400	44,708	6,213	50,921	650,321
Total Salaries and Related Expenses	420,001	1,722,562	643,387	87,729	31,270	2,904,949	236,061	25,222	261,283	3,166,232
Travel and training	3,797	24,623	84,354	4,479	18,867	136,120	1,051	204	1,255	137,375
Dues and subscriptions	2,383	5,310	968	-	40	8,701	4,823	-	4,823	13,524
Rent	155	18,911	5,435	-	-	24,501	-	-	-	24,501
Utilities	17,094	17,915	2,312	911	111	38,343	1,638	-	1,638	39,981
Telephone	4,905	20,400	6,835	685	74	32,899	1,161	-	1,161	34,060
Postage and shipping	412	7,914	1,659	84	-	10,069	632	614	1,246	11,315
Office supplies and equipment	8,041	41,663	15,248	1,285	286	66,523	5,222	638	5,860	72,383
Repairs and maintenance	13,767	26,272	11,758	1,465	241	53,503	5,456	439	5,895	59,398
Contract labor	6,046	131,799	114,097	4,911	-	256,853	76	650	726	257,579
Professional fees	3,991	30,695	2,172	1,353	29	38,240	11,422	-	11,422	49,662
Insurance	8,259	12,514	5,028	592	37	26,430	11,777	-	11,777	38,207
Educational materials, printing and public information	1,253	4,310	47,980	408	26,732	80,683	350	2,470	2,820	83,503
Groceries and household supplies	32,514	4	-	-	-	32,518	-	-	-	32,518
Miscellaneous	3,953	10,749	3,002	-	-	17,704	1,245	28,862	30,107	47,811
Legal and accounting	-	-	-	-	-	-	12,388	-	12,388	12,388
Total Expenses Before Depreciation	526,571	2,075,641	944,235	103,902	77,687	3,728,036	293,302	59,099	352,401	4,080,437
Depreciation	23,000	65,512	9,392	1,150	-	99,054	33,343	-	33,343	132,397
Total Expenses	\$ 549,571	\$ 2,141,153	\$ 953,627	\$ 105,052	\$ 77,687	\$ 3,827,090	\$ 326,645	\$ 59,099	\$ 385,744	\$ 4,212,834

Pathways Behavioral Services, Inc.
Schedule of Functional Expenses
For the year ended June 30, 2008

	PROGRAM SERVICES					SUPPORT SERVICES				Total Expenses
	Recovery House	Treatment	Prevention	Adolescent Treatment	DECAT	Total Program Expenses	Management & General	Fundraising	Total Support Services	
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	6,559	1,146	11	10	8,055	973	774	1,747	9,802
Office supplies and equipment	5,085	36,481	4,030	764	429	46,789	4,623	2,400	7,023	53,812
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

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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, 2009, and have issued our report thereon dated November 23, 2009. 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.

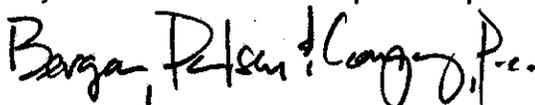
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies 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 23, 2009.

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 23, 2009

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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 each of its major federal programs for the year ended June 30, 2009. Pathways Behavioral Services, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs 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 each of its major federal programs for the year ended June 30, 2009.

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 23, 2009

Pathways Behavioral Services, Inc.
Schedule of Findings and Questioned Costs
For the year ended June 30, 2009

Part I: Summary of Independent Auditors' Results

1. The auditors' 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. were disclosed during the audit.
4. The audit did not disclose any significant deficiencies in internal control over major federal award programs.
5. The auditors' report on compliance for the major federal award programs for Pathways Behavioral Services, Inc. expresses an unqualified opinion on all major federal programs.
6. The audit did not disclose any audit findings relative to the major federal award programs which are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The two major programs were CFDA Number 93.959 - Comprehensive Treatment and Prevention and CFDA Number 97.032 - Crisis Counseling Services.
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

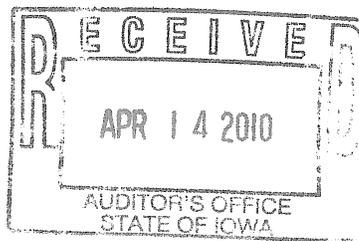
There were no findings related to the financial statements as of June 30, 2009.

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, 2008, there were no findings and questioned costs.



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November 23, 2009

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, 2009, 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 23, 2009, 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.

David A. Richter, CPA
Shareholder

DAR:jf

Enclosure

Pathways Behavioral Services, Inc.
Management Comments
June 30, 2009

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.
3. We recommend that the finance committee compare the Executive Director's and Business Manager's annual W-2 to the salaries approved and documented in their personnel files.
4. We recommend that an aging by patient be reviewed monthly in order to provide more timely follow up on outstanding patient accounts and to control the amount of write-offs.
5. We recommend that the documentation used to determine the indirect cost percentages for allocation of general and administrative expenses be kept on file in the event the costs or allocations are questioned upon audit.
6. We recommend the wage comparisons used to determine the Executive Director's and Business Manager's wages be kept in their personnel files.