

Pathways Behavioral Services, Inc.

Audited Financial Statements

June 30, 2010 and 2009



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, 2010 and 2009, 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, 2010 and 2009, 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 October 29, 2010 on our consideration of Pathways Behavioral 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 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
October 29, 2010

Pathways Behavioral Services, Inc.

Statements of Financial Position

As of June 30, 2010 and 2009

Assets

	2010	2009
Current Assets		
Cash and cash equivalents	\$ 880,607	\$ 645,624
Cash - restricted custodial	3,921	2,555
Short-term investments	513,139	578,141
Client receivables, net	133,740	151,525
Other receivables	430,919	444,775
Other current assets	5,016	4,203
Total Current Assets	<u>1,967,342</u>	<u>1,826,823</u>
Investments	76,504	-
Beneficial Interest in Assets Held by Community Foundation	22,743	20,896
Property and Equipment, Net	<u>2,303,779</u>	<u>2,238,712</u>
Total Assets	<u>\$ 4,370,368</u>	<u>\$ 4,086,431</u>

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$ 23,305	\$ 32,423
Custodial payable - due residents	3,921	2,555
Other liabilities	306,032	296,334
Total Current Liabilities	<u>333,258</u>	<u>331,312</u>
Deferred Grant Revenue	<u>74,807</u>	<u>-</u>
Net Assets		
Unrestricted:		
Operations	543,279	382,668
Board designated - operating reserve	1,024,765	1,053,209
Net investment in property and equipment	2,303,779	2,238,712
Total Unrestricted	<u>3,871,823</u>	<u>3,674,589</u>
Temporarily restricted	<u>90,480</u>	<u>80,530</u>
Total Net Assets	<u>3,962,303</u>	<u>3,755,119</u>
Total Liabilities and Net Assets	<u>\$ 4,370,368</u>	<u>\$ 4,086,431</u>

Pathways Behavioral Services, Inc.
 Statements of Activities
 For the years ended June 30, 2010 and 2009

	2010	2009
Unrestricted Net Assets		
Revenue, Gains and Other Support		
Net client service revenue	\$ 1,046,683	\$ 1,119,681
Federal, state and local revenue	3,194,725	3,226,664
United Way allocations	4,518	29,417
Contributions	33,776	13,772
Investment return	36,787	27,999
Miscellaneous income	3,205	4,338
Net assets released from restrictions net of transfers	<u>47,700</u>	<u>36,073</u>
Total Revenue, Gains and Other Support	<u>4,367,394</u>	<u>4,457,944</u>
Expenses		
Salaries	2,450,603	2,515,911
Payroll taxes	200,051	200,009
Employee benefits	486,428	450,312
Rent	21,838	24,501
Utilities	38,117	39,981
Insurance	31,121	38,207
Repairs and maintenance	61,000	59,398
Telephone	32,511	34,060
Postage and shipping	9,309	11,315
Office supplies and equipment	65,521	72,383
Legal and accounting	15,148	12,388
Contract labor	203,895	257,579
Professional fees	46,985	49,662
Travel and training	64,351	137,375
Dues and subscriptions	10,779	13,524
Educational materials, printing and public information	176,921	83,503
Groceries and household supplies	22,443	32,518
Miscellaneous	16,900	47,811
Depreciation	<u>145,140</u>	<u>132,397</u>
Total Expenses	<u>4,099,061</u>	<u>4,212,834</u>
Loss on Disposal of Property and Equipment and Write-down of Contract	<u>71,099</u>	<u>4,041</u>
Increase in Unrestricted Net Assets	<u>197,234</u>	<u>241,069</u>
Temporarily Restricted Net Assets		
United Way allocations	57,650	58,400
Transfer assets to Community Foundation	-	7,000
Net assets released from restrictions	<u>(47,700)</u>	<u>(43,073)</u>
Increase in Temporarily Restricted Net Assets	<u>9,950</u>	<u>22,327</u>
Increase in Net Assets	207,184	263,396
Net Assets, Beginning of Year	<u>3,755,119</u>	<u>3,491,723</u>
Net Assets, End of Year	<u><u>\$ 3,962,303</u></u>	<u><u>\$ 3,755,119</u></u>

Pathways Behavioral Services, Inc.
 Statements of Cash Flows
 For the years ended June 30, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Increase in net assets	\$ 207,184	\$ 263,396
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	145,140	132,397
Loss on disposal of property and equipment	71,099	4,041
Amortization of deferred grant revenue	(313)	-
Changes in operating assets and liabilities:		
Receivables	(38,767)	(50,769)
Other current assets	(813)	(686)
Payables	(7,752)	4,095
Accrued expenses and other liabilities	9,698	72,995
	<u>385,476</u>	<u>425,469</u>
Net Cash Provided by Operating Activities		
Cash Flows from Investing Activities		
Proceeds from grants	75,120	-
Increase in cash - restricted custodial	(1,366)	(2,358)
Increase in beneficial interest	(1,847)	(4,964)
Purchases of property and equipment	(210,898)	(76,839)
Purchases of investments	(136,406)	(378,369)
Proceeds from sale of investments	124,904	230,625
	<u>(150,493)</u>	<u>(231,905)</u>
Net Cash Used in Investing Activities		
Net Increase in Cash and Cash Equivalents	234,983	193,564
Cash and Cash Equivalents at Beginning of Year	<u>645,624</u>	<u>452,060</u>
Cash and Cash Equivalents at End of Year	<u>\$ 880,607</u>	<u>\$ 645,624</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) Fredericksburg 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) Fredericksburg for Chickasaw County.
- (c) Allison for Butler County.

BASIS OF PRESENTATION

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. A description of the three net asset categories follows.

Unrestricted net assets include all net assets which are neither temporarily or permanently restricted.

Temporarily restricted net assets include contributions for which donor-imposed time and purpose restrictions have not been met.

Pathways Behavioral Services, Inc.

Notes to the Financial Statements

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

(Cont'd.):

BASIS OF PRESENTATION (Cont'd.)

Permanently restricted net assets include contributions whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

The Organization did not have any permanently restricted net assets as of June 30, 2010 and 2009.

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.

INVESTMENTS

Investments are recorded at cost plus accrued interest, which approximates market. Investments 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, investments and receivables. The Organization places its cash, cash equivalents and investments with high credit quality financial institutions. At various times throughout the year, the Organization's cash, cash equivalents and 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 41% and 36% of its total revenue, gains and other support from one source for the years ended June 30, 2010 and 2009, respectively.

Pathways Behavioral Services, Inc.

Notes to the Financial Statements

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

(Cont'd.):

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 \$229,865 and \$274,401 as of June 30, 2010 and 2009, respectively. 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.

DEFERRED GRANT REVENUE

During the year ended June 30, 2010, the Organization received grants for facility and equipment purchases. The deferred grant revenue is being amortized using the straight-line method over the life of the related property and equipment purchased. Accumulated amortization was \$313 as of June 30, 2010.

RESTRICTED AND UNRESTRICTED REVENUE AND SUPPORT

Contributions and grant awards that are restricted are reported as an increase in unrestricted net assets if the restrictions expire 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.

Pathways Behavioral Services, Inc.

Notes to the Financial Statements

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

(Cont'd.):

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.

The Organization adheres to the provisions of Financial Accounting Standards Board (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 Organization does not believe its financial statements include any uncertain tax positions.

The Organization files its Form 990 tax return in the U.S. federal jurisdiction. With few exceptions, the Organization is no longer subject to tax examinations for the fiscal years before June 2007.

NOTE 2 - PROPERTY AND EQUIPMENT:

A summary of property and equipment as of June 30, 2010 and 2009 follows:

	2010	2009
Land	\$ 517,369	\$ 509,969
Buildings and improvements	2,279,471	2,106,380
Furniture and fixtures	26,981	26,981
Equipment	<u>529,017</u>	<u>501,050</u>
	3,352,838	3,144,380
Less: Accumulated depreciation	<u>1,049,059</u>	<u>905,668</u>
	<u>\$ 2,303,779</u>	<u>\$2,238,712</u>

Pathways Behavioral Services, Inc.

Notes to the Financial Statements

NOTE 3 - TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes:

	2010	2009
Future periods	\$ 68,350	\$ 58,400
Assets held by Community Foundation	<u>22,130</u>	<u>22,130</u>
	<u>\$ 90,480</u>	<u>\$ 80,530</u>

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 \$22,743 and \$20,896 as of June 30, 2010 and 2009, 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, 2010 and 2009, the Organization had a total of \$26,484 and \$24,333, respectively, in the Fund. No amounts were distributed to the Organization from the Foundation for the years ended June 30, 2010 and 2009.

NOTE 5 - INVESTMENT RETURN:

A summary of the investment return and its classification in the statements of activities for the years ended June 30, 2010 and 2009, follows:

	2010	2009
Interest income	\$ 34,939	\$ 30,035
Net change in beneficial interest in assets held by Community Foundation	<u>1,848</u>	<u>(2,036)</u>
	<u>\$ 36,787</u>	<u>\$ 27,999</u>

Pathways Behavioral Services, Inc.

Notes to the Financial Statements

NOTE 6 - 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, 2010 and 2009, the Organization charged against income \$106,835 and \$101,473, respectively, under this Plan.

NOTE 7 - 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:	
2011	\$ 21,194
2012	<u>15,157</u>
Total Minimum Payments Required	<u>\$ 36,351</u>

Rent expense for all operating leases was \$21,838 and \$24,501 for the years ended June 30, 2010 and 2009, respectively.

NOTE 8 - 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 9 - CLASSIFICATION OF EXPENSES:

	2010	2009
Program	\$ 3,691,740	\$ 3,827,090
Management and general	364,669	326,645
Fundraising	<u>42,652</u>	<u>59,099</u>
	<u>\$ 4,099,061</u>	<u>\$ 4,212,834</u>

NOTE 10 - 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 11 - SUBSEQUENT EVENTS:

Management has evaluated subsequent events through October 29, 2010, 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, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal <u>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	\$ 208,571 **
Access to Recovery - Iowa	93.275	194,779
Passed through the Iowa Department of Human Services:		
Drug Free Communities Support Program Grants	93.276	81,442
Comprehensive Community Mental Health Services for Children with Block Grants for Community Mental Health Services	93.958	31,706
Crisis Counseling Services	97.032	125,907
Passed through the Iowa Department of Corrections:		
Byrne Formula Grant Program	16.579	51,474
Drug Court Discretionary Grant Program	16.585	55,100
Passed through Magellan Behavioral Health:		
Block Grants for Prevention and Treatment of Substance Abuse	93.959	1,478,212 **
Passed through the U.S. Department of Agriculture:		
ARRA - Community Facilities Grant	10.766	<u>50,120</u>
		<u>\$ 2,277,311</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, 2010

	PROGRAM SERVICES						SUPPORT SERVICES				
	Recovery House	Treatment	Prevention	Adolescent Treatment	DECAT	Disaster Services	Total Program Expenses	Management & General	Fundraising	Total Support Services	Total Expenses
Salaries and wages	\$ 352,226	\$ 1,397,433	\$ 328,290	\$ 61,281	\$ 42,411	\$ 40,584	\$ 2,222,225	\$ 202,457	\$ 25,921	\$ 228,378	\$ 2,450,603
Employee benefits & payroll taxes	85,849	416,794	80,058	14,795	9,478	9,942	616,916	61,944	7,619	69,563	686,479
Total Salaries and Related Expenses	438,075	1,814,227	408,348	76,076	51,889	50,526	2,839,141	264,401	33,540	297,941	3,137,082
Travel and training	2,473	19,854	25,427	2,453	11,697	1,387	63,291	1,060	-	1,060	64,351
Dues and subscriptions	1,866	3,237	379	295	200	-	5,977	4,780	22	4,802	10,779
Rent	-	21,083	755	-	-	-	21,838	-	-	-	21,838
Utilities	16,429	16,997	2,079	986	97	161	36,749	1,368	-	1,368	38,117
Telephone	4,793	22,005	3,094	1,420	-	28	31,340	1,171	-	1,171	32,511
Postage and shipping	482	7,014	716	84	-	208	8,504	277	528	805	9,309
Office supplies and equipment	4,020	49,667	5,617	602	108	248	60,262	5,054	205	5,259	65,521
Repairs and maintenance	13,280	29,975	6,826	1,538	13	5,314	56,946	3,917	137	4,054	61,000
Contract labor	4,539	141,738	56,779	114	-	-	203,170	-	725	725	203,895
Professional fees	3,484	29,453	1,922	1,251	90	458	36,658	10,327	-	10,327	46,985
Insurance	8,261	12,683	2,018	465	-	-	23,427	7,694	-	7,694	31,121
Educational materials, printing and public information	638	7,183	40,720	32	81,562	41,527	171,662	336	4,923	5,259	176,921
Groceries and household supplies	22,383	60	-	-	-	-	22,443	-	-	-	22,443
Miscellaneous	2,507	8,104	630	994	-	-	12,235	2,093	2,572	4,665	16,900
Legal and accounting	-	237	-	-	-	-	237	14,911	-	14,911	15,148
Total Expenses Before Depreciation	523,230	2,183,517	555,310	86,310	145,656	99,857	3,593,880	317,389	42,652	360,041	3,953,921
Depreciation	24,000	63,760	9,800	300	-	-	97,860	47,280	-	47,280	145,140
Total Expenses	\$ 547,230	\$ 2,247,277	\$ 565,110	\$ 86,610	\$ 145,656	\$ 99,857	\$ 3,691,740	\$ 364,669	\$ 42,652	\$ 407,321	\$ 4,099,061

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

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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, 2010, and have issued our report thereon dated October 29, 2010. 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 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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, 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 October 29, 2010.

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
October 29, 2010

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON 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 Pathways Behavioral 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 Pathways Behavioral Services, Inc.'s major federal programs for the year ended June 30, 2010. 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 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, 2010.

Internal Control Over Compliance

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 the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 Pathways Behavioral 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.

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 deficiencies, 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
October 29, 2010

Pathways Behavioral Services, Inc.
Schedule of Findings and Questioned Costs
For the year ended June 30, 2010

Part I: Summary of 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 program tested as a major program was: 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. qualified 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, 2010.

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, 2009, there were no findings and questioned costs.



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October 29, 2010

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. (the Organization) as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below we noted certain matters involving the internal control and operational matters that are presented for your consideration. This letter does not affect our report dated October 29, 2010, on the financial statements of Pathways Behavioral Services, Inc. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

Pathways Behavioral Services, Inc.

October 29, 2010

Page 2

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 finance committee compare the Executive Director's and Business Manager's annual W-2 to the salaries approved and documented in their personnel files.
3. To strengthen the internal controls surrounding the Organization's use of credit cards, we recommend the following:
 - Credit card charges made by the executive director should be reviewed by the board of directors or a representative committee thereof, and credit charges made by the business manager should be reviewed by the executive director.
 - The Organization should consider reducing the number of credit cards currently being utilized.

Sincerely,

BERGAN PAULSEN & COMPANY, P.C.



David A. Richter, CPA
Shareholder

DAR:jf

Enclosure