

# **Pathways Behavioral Services, Inc.**

Audited Financial Statements

June 30, 2011 and 2010



## 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, 2011 and 2010, 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, 2011 and 2010, 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 21, 2011 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 financial statements 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 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Waterloo, Iowa  
November 21, 2011

**Pathways Behavioral Services, Inc.**

## Statements of Financial Position

As of June 30, 2011 and 2010

**Assets**

	2011	2010
Current Assets		
Cash and cash equivalents	\$ 928,289	\$ 880,607
Cash - restricted custodial	441	3,921
Certificates of deposit	509,139	513,139
Client receivables, net	147,122	133,740
Other receivables	239,349	430,919
Other current assets	7,693	5,016
	<u>1,832,033</u>	<u>1,967,342</u>
Total Current Assets		
Certificates of Deposit	249,547	76,504
Contract Receivable	55,007	-
Beneficial Interest in Assets Held by Community Foundation	26,686	22,743
Property and Equipment, Net	<u>2,200,290</u>	<u>2,303,779</u>
Total Assets	<u>\$ 4,363,563</u>	<u>\$ 4,370,368</u>

**Liabilities and Net Assets**

Current Liabilities		
Accounts payable	\$ 26,873	\$ 23,305
Custodial payable - due residents	46	3,921
Other liabilities	318,593	380,839
	<u>345,512</u>	<u>408,065</u>
Total Current Liabilities		
Net Assets		
Unrestricted:		
Operations	784,768	543,279
Board designated - operating reserve	937,738	1,024,765
Net investment in property and equipment	2,200,290	2,303,779
Total Unrestricted	<u>3,922,796</u>	<u>3,871,823</u>
Temporarily restricted	95,255	90,480
	<u>4,018,051</u>	<u>3,962,303</u>
Total Net Assets		
Total Liabilities and Net Assets	<u>\$ 4,363,563</u>	<u>\$ 4,370,368</u>

**Pathways Behavioral Services, Inc.**  
 Statements of Activities  
 For the years ended June 30, 2011 and 2010

	2011	2010
Unrestricted Net Assets		
Revenue, Gains and Other Support		
Net client service revenue	\$ 1,150,238	\$ 1,046,683
Federal, state and local revenue	2,548,173	3,194,725
United Way allocations	951	4,518
Contributions	19,195	33,776
Investment return	23,558	36,787
Miscellaneous income	2,405	3,205
Net assets released from restrictions net of transfers	57,725	47,700
	<u>3,802,245</u>	<u>4,367,394</u>
Total Revenue, Gains and Other Support		
Expenses		
Salaries	2,289,001	2,450,603
Payroll taxes	186,069	200,051
Employee benefits	516,995	486,428
Rent	17,161	21,838
Utilities	41,697	38,117
Insurance	31,477	31,121
Repairs and maintenance	60,520	61,000
Telephone	32,485	32,511
Postage and shipping	8,727	9,309
Office supplies and equipment	44,071	65,521
Legal and accounting	14,653	15,148
Contract labor	168,045	203,895
Professional fees	46,046	46,985
Travel and training	39,717	64,351
Dues and subscriptions	9,090	10,779
Educational materials, printing and public information	47,129	176,921
Groceries and household supplies	30,507	22,443
Miscellaneous	17,276	16,900
Depreciation	150,285	145,140
	<u>3,750,951</u>	<u>4,099,061</u>
Total Expenses		
Loss on Disposal of Property and Equipment and Write-Down of Contract	<u>321</u>	<u>71,099</u>
Increase in Unrestricted Net Assets	<u>50,973</u>	<u>197,234</u>
Temporarily Restricted Net Assets		
United Way allocations	62,500	57,650
Net assets released from restrictions	(57,725)	(47,700)
	<u>4,775</u>	<u>9,950</u>
Increase in Temporarily Restricted Net Assets		
Increase in Net Assets	55,748	207,184
Net Assets, Beginning of Year	<u>3,962,303</u>	<u>3,755,119</u>
Net Assets, End of Year	<u><u>\$ 4,018,051</u></u>	<u><u>\$ 3,962,303</u></u>

**Pathways Behavioral Services, Inc.**  
 Statements of Cash Flows  
 For the years ended June 30, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities		
Increase in net assets	\$ 55,748	\$ 207,184
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	150,285	145,140
Loss on disposal of property and equipment	321	71,099
Changes in operating assets and liabilities:		
Receivables	123,181	(38,767)
Other current assets	(2,677)	(813)
Payables	(307)	(7,752)
Accrued expenses and other liabilities	(62,246)	9,385
Net Cash Provided by Operating Activities	<u>264,305</u>	<u>385,476</u>
Cash Flows From Investing Activities		
Proceeds from grants	-	75,120
(Increase) decrease in cash - restricted custodial	3,480	(1,366)
Increase in beneficial interest	(3,943)	(1,847)
Purchases of property and equipment	(47,117)	(210,898)
Purchases of investments	(560,099)	(136,406)
Proceeds from sale of investments	391,056	124,904
Net Cash Used in Investing Activities	<u>(216,623)</u>	<u>(150,493)</u>
Net Increase in Cash and Cash Equivalents	47,682	234,983
Cash and Cash Equivalents at Beginning of Year	<u>880,607</u>	<u>645,624</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 928,289</u></u>	<u><u>\$ 880,607</u></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 nor 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, 2011 and 2010.

##### 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.

##### CERTIFICATES OF DEPOSIT

Certificates of deposit are recorded at cost plus accrued interest, which approximates market.

##### CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents, certificates of deposit and receivables. The Organization places its cash, cash equivalents and certificates of deposit with high credit quality financial institutions. At various times throughout the year, the Organization's cash, cash equivalents and certificates of deposit 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 40% and 41% of its total revenue, gains and other support from one source for the years ended June 30, 2011 and 2010, 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 \$195,918 and \$229,865 as of June 30, 2011 and 2010, 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.

##### 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.

Income tax returns are subject to uncertain tax positions that might not be sustained upon examination by taxing authorities. Management annually makes an appropriate evaluation of any uncertain tax positions that may exist within the Organization's tax returns. As of June 30, 2011, management believes that there are no material uncertain tax positions that are required to be recorded or disclosed. With few exceptions, the Organization is no longer subject to tax examinations for fiscal years before 2008.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 21, 2011, the date which the financial statements were available for issue.

**NOTE 2 - PROPERTY AND EQUIPMENT:**

A summary of property and equipment as of June 30, 2011 and 2010 follows:

	2011	2010
Land	\$ 517,369	\$ 517,369
Buildings and improvements	2,297,281	2,279,471
Furniture and fixtures	23,802	26,981
Equipment	<u>509,486</u>	<u>529,017</u>
	3,347,938	3,352,838
Less: Accumulated depreciation	<u>1,147,648</u>	<u>1,049,059</u>
	<u>\$ 2,200,290</u>	<u>\$2,303,779</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:

	2011	2010
Future periods	\$ 73,125	\$ 68,350
Assets held by Community Foundation	<u>22,130</u>	<u>22,130</u>
	<u>\$ 95,255</u>	<u>\$ 90,480</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 \$26,686 and \$22,743 as of June 30, 2011 and 2010, respectively. 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, 2011 and 2010, the Organization had a total of \$31,075 and \$26,484, respectively, in the Fund. No amounts were distributed to the Organization from the Foundation for the years ended June 30, 2011 and 2010.

**NOTE 5 - INVESTMENT RETURN:**

A summary of the investment return and its classification in the statements of activities for the years ended June 30, 2011 and 2010, follows:

	2011	2010
Interest income	\$ 19,615	\$ 34,939
Net change in beneficial interest in assets held by Community Foundation	<u>3,943</u>	<u>1,848</u>
	<u>\$ 23,558</u>	<u>\$ 36,787</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, 2011 and 2010, the Organization charged against income \$100,261 and \$106,835, respectively, under this Plan.

**NOTE 7 - 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.

**NOTE 8 - CLASSIFICATION OF EXPENSES:**

	2011	2010
Program	\$ 3,265,011	\$ 3,691,740
Management and general	437,374	364,669
Fundraising	<u>48,566</u>	<u>42,652</u>
	<u>\$ 3,750,951</u>	<u>\$ 4,099,061</u>

**NOTE 9 - 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. In the opinion of the Organization, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

## **SUPPLEMENTAL INFORMATION**

**Pathways Behavioral Services, Inc.**  
 Schedule of Expenditures of Federal Awards  
 For the year ended June 30, 2011

<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</u>		
Passed through the Iowa Department of Public Health:		
Block Grants for Prevention and Treatment of Substance Abuse	93.959	\$ 225,394 **
Access to Recovery - Iowa	93.275	78,511
Passed through the Iowa Department of Human Services:		
Drug Free Communities Support Program Grants	93.276	76,837
Comprehensive Community Mental Health Services for Children with Block Grants for Community Mental Health Services	93.958	60,701
Adolescent Substance Abuse Outreach	93.558	21,878
Passed through the Iowa Department of Corrections:		
Byrne Formula Grant Program	16.579	51,580
Drug Court Discretionary Grant Program	16.585	60,000
Passed through Magellan Behavioral Health:		
Block Grants for Prevention and Treatment of Substance Abuse	93.959	<u>1,478,208 **</u>
		<u>\$ 2,053,109</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, 2011

	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	\$ 360,484	\$ 1,396,092	\$ 201,911	\$ 46,156	\$ 5,770	\$ 2,010,413	\$ 247,782	\$ 30,806	\$ 278,588	\$ 2,289,001
Employee benefits and payroll taxes	94,624	440,994	57,474	12,843	2,176	608,111	84,560	10,393	94,953	703,064
<b>Total Salaries and Related Expenses</b>	<b>455,108</b>	<b>1,837,086</b>	<b>259,385</b>	<b>58,999</b>	<b>7,946</b>	<b>2,618,524</b>	<b>332,342</b>	<b>41,199</b>	<b>373,541</b>	<b>2,992,065</b>
Travel and training	3,037	16,262	16,400	2,018	1,211	38,928	702	87	789	39,717
Dues and subscriptions	1,958	2,422	525	-	-	4,905	4,185	-	4,185	9,090
Rent	-	17,051	110	-	-	17,161	-	-	-	17,161
Utilities	17,312	19,819	2,093	666	-	39,890	1,807	-	1,807	41,697
Telephone	4,726	23,043	1,691	1,375	-	30,835	1,650	-	1,650	32,485
Postage and shipping	379	6,876	344	46	-	7,645	321	761	1,082	8,727
Office supplies and equipment	4,898	28,204	4,608	522	32	38,264	5,792	15	5,807	44,071
Repairs and maintenance	11,371	37,809	6,232	899	22	56,333	3,788	399	4,187	60,520
Contract labor	5,111	134,462	22,261	6,211	-	168,045	-	-	-	168,045
Professional fees	3,373	29,592	1,403	774	210	35,352	10,634	60	10,694	46,046
Insurance	8,261	12,662	2,018	497	-	23,438	8,039	-	8,039	31,477
Educational materials, printing and public information	413	3,528	20,520	-	18,308	42,769	-	4,360	4,360	47,129
Groceries and household supplies	30,507	-	-	-	-	30,507	-	-	-	30,507
Miscellaneous	3,171	8,716	1,159	269	-	13,315	2,276	1,685	3,961	17,276
Legal and accounting	-	-	-	-	-	-	14,653	-	14,653	14,653
<b>Total Expenses Before Depreciation</b>	<b>549,625</b>	<b>2,177,532</b>	<b>338,749</b>	<b>72,276</b>	<b>27,729</b>	<b>3,165,911</b>	<b>386,189</b>	<b>48,566</b>	<b>434,755</b>	<b>3,600,666</b>
Depreciation	22,000	67,000	9,800	300	-	99,100	51,185	-	51,185	150,285
<b>Total Expenses</b>	<b>\$ 571,625</b>	<b>\$ 2,244,532</b>	<b>\$ 348,549</b>	<b>\$ 72,576</b>	<b>\$ 27,729</b>	<b>\$ 3,265,011</b>	<b>\$ 437,374</b>	<b>\$ 48,566</b>	<b>\$ 485,940</b>	<b>\$ 3,750,951</b>

**Pathways Behavioral Services, Inc.**

Schedule of Functional Expenses  
For the year ended June 30, 2010

	PROGRAM SERVICES						SUPPORT SERVICES				Total Expenses
	Recovery House	Treatment	Prevention	Adolescent Treatment	DECAT	Disaster Services	Total Program Expenses	Management & General	Fundraising	Total Support Services	
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 and payroll taxes	85,849	416,794	80,058	14,795	9,478	9,942	616,916	61,944	7,619	69,563	686,479
<b>Total Salaries and Related Expenses</b>	<b>438,075</b>	<b>1,814,227</b>	<b>408,348</b>	<b>76,076</b>	<b>51,889</b>	<b>50,526</b>	<b>2,839,141</b>	<b>264,401</b>	<b>33,540</b>	<b>297,941</b>	<b>3,137,082</b>
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
<b>Total Expenses Before Depreciation</b>	<b>523,230</b>	<b>2,183,517</b>	<b>555,310</b>	<b>86,310</b>	<b>145,656</b>	<b>99,857</b>	<b>3,593,880</b>	<b>317,389</b>	<b>42,652</b>	<b>360,041</b>	<b>3,953,921</b>
Depreciation	24,000	63,760	9,800	300	-	-	97,860	47,280	-	47,280	145,140
<b>Total Expenses</b>	<b>\$ 547,230</b>	<b>\$ 2,247,277</b>	<b>\$ 565,110</b>	<b>\$ 86,610</b>	<b>\$ 145,656</b>	<b>\$ 99,857</b>	<b>\$ 3,691,740</b>	<b>\$ 364,669</b>	<b>\$ 42,652</b>	<b>\$ 407,321</b>	<b>\$ 4,099,061</b>

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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, 2011, and have issued our report thereon dated November 21, 2011. 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 the Organization'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 November 21, 2011.

This report is intended solely for the information and use of the finance committee, board of directors, management, others within the entity, 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 21, 2011

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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 Pathways Behavioral Services, Inc.'s major federal program for the year ended June 30, 2011. Pathways Behavioral Services, Inc.'s major federal program is 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 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 compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

#### 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 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, others within the entity, 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 21, 2011

**Pathways Behavioral Services, Inc.**  
Schedule of Findings and Questioned Costs  
For the year ended June 30, 2011

**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 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 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, 2011.

**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, 2010, there were no findings and questioned costs.

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November 21, 2011

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, 2011, 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 November 21, 2011, 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.  
November 21, 2011  
Page 2

1. During our audit procedures we noted that minutes of committee meetings were not always prepared. We recommend that the Organization prepare meeting minutes for all committees.

Sincerely,

**BERGAN PAULSEN & COMPANY, P.C.**



David A. Richter, CPA  
Shareholder

DAR:jf

Enclosure