

# **Pathways Behavioral Services, Inc.**

Financial Statements

June 30, 2012 and 2011



## Pathways Behavioral Services, Inc.

### Table of Contents

	Page No.
Independent Auditors' Report	1 - 2
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to the Financial Statements	6 - 12
Supplemental Information	
Schedule of Expenditures of Federal Awards	13
Schedules of Functional Expenses	14 - 15
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	16 - 17
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	18 - 20
Schedule of Findings and Questioned Costs	21

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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, 2012 and 2011, 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, 2012 and 2011, 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 19, 2012, 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 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 19, 2012

**Pathways Behavioral Services, Inc.**

## Statements of Financial Position

As of June 30, 2012 and 2011

**Assets**

	2012	2011
Current Assets		
Cash and cash equivalents	\$ 971,155	\$ 928,289
Cash - restricted custodial	215	441
Certificates of deposit	874,378	509,139
Client receivables, net	135,949	147,122
Other receivables	270,466	239,349
Other current assets	6,172	7,693
Total Current Assets	<u>2,258,335</u>	<u>1,832,033</u>
Certificates of Deposit	-	249,547
Contract Receivable	51,914	55,007
Beneficial Interest in Assets Held by Community Foundation	26,843	26,686
Property and Equipment, Net	<u>2,086,331</u>	<u>2,200,290</u>
Total Assets	<u>\$ 4,423,423</u>	<u>\$ 4,363,563</u>

**Liabilities and Net Assets**

Current Liabilities		
Accounts payable	\$ 31,558	\$ 26,873
Custodial payable - due residents	130	46
Other liabilities	263,059	318,593
Total Current Liabilities	<u>294,747</u>	<u>345,512</u>
Net Assets		
Unrestricted:		
Operations	576,427	472,190
Board designated - operating reserve	1,346,388	1,250,316
Net investment in property and equipment	2,086,331	2,200,290
Total Unrestricted	<u>4,009,146</u>	<u>3,922,796</u>
Temporarily restricted	119,530	95,255
Total Net Assets	<u>4,128,676</u>	<u>4,018,051</u>
Total Liabilities and Net Assets	<u>\$ 4,423,423</u>	<u>\$ 4,363,563</u>

**Pathways Behavioral Services, Inc.**  
**Statements of Activities**  
For the years ended June 30, 2012 and 2011

	2012	2011
Unrestricted Net Assets		
Revenue, Gains and Other Support		
Net client service revenue	\$ 1,233,253	\$ 1,150,238
Federal, state and local revenue	2,792,742	2,548,173
United Way allocations	5,262	951
Contributions	10,261	19,195
Investment return	20,089	23,558
Miscellaneous income	1,733	2,405
Net assets released from restrictions net of transfers	62,500	57,725
	<u>4,125,840</u>	<u>3,802,245</u>
Total Revenue, Gains and Other Support		
Expenses		
Salaries	2,397,479	2,289,001
Payroll taxes	194,743	186,069
Employee benefits	537,871	516,995
Rent	17,357	17,161
Utilities	39,808	41,697
Insurance	32,754	31,477
Repairs and maintenance	67,985	60,520
Telephone	33,099	32,485
Postage and shipping	10,021	8,727
Office supplies and equipment	41,074	44,071
Legal and accounting	15,498	14,653
Contract labor	259,022	168,045
Professional fees	54,112	46,046
Travel and training	42,085	39,717
Dues and subscriptions	11,207	9,090
Educational materials, printing and public information	96,392	47,129
Groceries and household supplies	28,307	30,507
Miscellaneous	12,605	17,276
Depreciation	147,746	150,285
	<u>4,039,165</u>	<u>3,750,951</u>
Total Expenses		
(Gain) Loss on Disposal of Property and Equipment	<u>(75)</u>	<u>321</u>
Increase in Unrestricted Net Assets	<u>86,750</u>	<u>50,973</u>
Temporarily Restricted Net Assets		
United Way allocations	86,375	62,500
Net assets released from restrictions	<u>(62,500)</u>	<u>(57,725)</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>23,875</u>	<u>4,775</u>
Increase in Net Assets	110,625	55,748
Net Assets, Beginning of Year	<u>4,018,051</u>	<u>3,962,303</u>
Net Assets, End of Year	<u>\$ 4,128,676</u>	<u>\$ 4,018,051</u>

**Pathways Behavioral Services, Inc.**  
 Statements of Cash Flows  
 For the years ended June 30, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities		
Increase in net assets	\$ 110,625	\$ 55,748
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	147,746	150,285
(Gain) loss on disposal of property and equipment	(75)	321
Changes in operating assets and liabilities:		
Receivables	(16,851)	123,181
Other current assets	1,521	(2,677)
Payables	4,769	(307)
Accrued expenses and other liabilities	(55,534)	(62,246)
Total Adjustments	<u>81,576</u>	<u>208,557</u>
Net Cash Provided by Operating Activities	<u>192,201</u>	<u>264,305</u>
Cash Flows From Investing Activities		
Decrease in cash - restricted custodial	226	3,480
Increase in beneficial interest	(157)	(3,943)
Purchases of property and equipment	(33,787)	(47,117)
Proceeds from sale of property and equipment	75	-
Purchases of investments	(246,277)	(560,099)
Proceeds from sale of investments	130,585	391,056
Net Cash Used in Investing Activities	<u>(149,335)</u>	<u>(216,623)</u>
Net Increase in Cash and Cash Equivalents	42,866	47,682
Cash and Cash Equivalents at Beginning of Year	<u>928,289</u>	<u>880,607</u>
Cash and Cash Equivalents at End of Year	<u>\$ 971,155</u>	<u>\$ 928,289</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, gambling 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 nine counties in northeast Iowa: Black Hawk, Bremer, Buchanan, Butler, Chickasaw, Grundy, Benton, Marshall and Tama 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.

Presently, the Organization has office locations for gambling treatment and prevention in:

- (a) Waterloo for Black Hawk 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.

**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.)

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

*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, 2012 and 2011.

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, cash equivalents, certificates of deposit and receivables. The Organization's cash is either interest bearing and federally insured up to \$250,000 or non-interest bearing and fully guaranteed by the Federal government.

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

The Organization received 37% and 40% of its total revenue, gains and other support from one source for the years ended June 30, 2012 and 2011, 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 \$172,055 and \$195,918 as of June 30, 2012 and 2011, 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, 2012, 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 2009.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 19, 2012, 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, 2012 and 2011 follows:

	2012	2011
Land	\$ 517,369	\$ 517,369
Buildings and improvements	2,316,094	2,297,281
Furniture and fixtures	19,422	23,802
Equipment	<u>461,800</u>	<u>509,486</u>
	3,314,685	3,347,938
Less: Accumulated depreciation	<u>1,228,354</u>	<u>1,147,648</u>
	<u>\$ 2,086,331</u>	<u>\$ 2,200,290</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:

	2012	2011
Future periods	\$ 97,000	\$ 73,125
Assets held by Community Foundation	<u>22,530</u>	<u>22,130</u>
	<u>\$ 119,530</u>	<u>\$ 95,255</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 \$26,843 and \$26,686 as of June 30, 2012 and 2011, 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, 2012 and 2011, the Organization had a total of \$31,193 and \$31,075, respectively, in the Fund. No amounts were distributed to the Organization from the Foundation for the years ended June 30, 2012 and 2011.

**NOTE 5 - 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, 2012 and 2011, the Organization charged against income \$109,829 and \$100,261, respectively, under this Plan.

**NOTE 6 – OPERATING LEASES:**

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

**Pathways Behavioral Services, Inc.**

Notes to the Financial Statements

**NOTE 6 – OPERATING LEASES (Cont’d.):**

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

Year Ending June 30:	
2013	\$ 20,116
2014	20,355
2015	20,595
2016	11,716
2017	<u>6,834</u>
Total Minimum Payments Required	<u>\$ 79,616</u>

Rent expense for all operating leases was \$17,357 and \$17,161 for the years ended June 30, 2012 and 2011, respectively.

**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:**

	2012	2011
Program	\$ 3,546,552	\$ 3,265,011
Management and general	445,204	437,374
Fundraising	<u>47,409</u>	<u>48,566</u>
	<u>\$ 4,039,165</u>	<u>\$ 3,750,951</u>

**Pathways Behavioral Services, Inc.**

Notes to the Financial Statements

**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, 2012

<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	\$ 207,347 **
Access to Recovery - Iowa	93.275	106,262
Block Grants for Prevention and Treatment of Substance Abuse	93.243	73,541
Maternal Infant, Early Childhood Home Visitation	93.505	4,307
Passed through the Iowa Department of Human Services:		
Comprehensive Community Mental Health Services for Children with Block Grants for Community Mental Health Services	93.958	17,563
Passed through the Iowa Department of Corrections:		
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	1,531,502 **
		\$ 2,000,522

\*\* Includes federal and state funding

Basis of Presentation

The schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Pathways Behavioral Services, Inc. under programs of the federal government for the year ended June 30, 2012. 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*. Because the Schedule presents only a selected portion of the operations of Pathways Behavioral Services, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Pathways Behavioral Services, Inc.

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

**Pathways Behavioral Services, Inc.**

Schedule of Functional Expenses  
For the year ended June 30, 2012

PROGRAM SERVICES

SUPPORT SERVICES

	Recovery House	Treatment	Prevention	Adolescent Treatment	DECAT	Gambling	Total Program Expenses	Management & General	Fundraising	Total Support Services	Total Expenses
Salaries and wages	\$ 372,467	\$ 1,350,156	\$ 186,104	\$ 95,622	\$ 15,168	\$ 92,532	\$ 2,112,049	\$ 257,732	\$ 27,698	\$ 285,430	\$ 2,397,479
Employee benefits and payroll taxes	104,148	432,617	61,072	22,482	3,661	17,159	641,139	82,177	9,298	91,475	732,614
<b>Total Salaries and Related Expenses</b>	<b>476,615</b>	<b>1,782,773</b>	<b>247,176</b>	<b>118,104</b>	<b>18,829</b>	<b>109,691</b>	<b>2,753,188</b>	<b>339,909</b>	<b>36,996</b>	<b>376,905</b>	<b>3,130,093</b>
Rent	-	16,508	150	689	-	10	17,357	-	-	-	17,357
Utilities	17,242	18,266	1,692	626	-	395	38,221	1,587	-	1,587	39,808
Insurance	7,772	15,538	2,076	602	-	580	26,568	6,186	-	6,186	32,754
Repairs and maintenance	15,624	35,047	4,630	4,580	152	620	60,653	7,231	101	7,332	67,985
Telephone	4,098	23,999	1,094	1,873	108	414	31,586	1,513	-	1,513	33,099
Postage and shipping	471	7,579	406	45	54	119	8,674	338	1,009	1,347	10,021
Office supplies and equipment	3,455	26,086	4,226	1,900	540	2,001	38,208	2,839	27	2,866	41,074
Legal and accounting	-	-	-	-	-	-	-	15,498	-	15,498	15,498
Contract labor	5,477	129,743	87,050	25	35,899	400	258,594	-	428	428	259,022
Professional fees	4,077	31,786	1,311	1,434	273	2,064	40,945	13,167	-	13,167	54,112
Travel and training	2,569	16,608	10,038	5,099	816	4,804	39,934	2,151	-	2,151	42,085
Dues and subscriptions	2,125	2,851	548	478	-	505	6,507	4,700	-	4,700	11,207
Educational materials, printing and public information	140	4,400	21,599	324	47,052	15,314	88,829	-	7,563	7,563	96,392
Groceries and household supplies	28,307	-	-	-	-	-	28,307	-	-	-	28,307
Miscellaneous	2,668	5,486	1,056	207	-	76	9,493	1,827	1,285	3,112	12,605
<b>Total Expenses Before Depreciation</b>	<b>570,640</b>	<b>2,116,670</b>	<b>383,052</b>	<b>135,986</b>	<b>103,723</b>	<b>136,993</b>	<b>3,447,064</b>	<b>396,946</b>	<b>47,409</b>	<b>444,355</b>	<b>3,891,419</b>
Depreciation	22,000	65,246	10,687	300	-	1,255	99,488	48,258	-	48,258	147,746
<b>Total Expenses</b>	<b>\$ 592,640</b>	<b>\$ 2,181,916</b>	<b>\$ 393,739</b>	<b>\$ 136,286</b>	<b>\$ 103,723</b>	<b>\$ 138,248</b>	<b>\$ 3,546,552</b>	<b>\$ 445,204</b>	<b>\$ 47,409</b>	<b>\$ 492,613</b>	<b>\$ 4,039,165</b>

**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	\$ 1,376,347	\$ 201,911	\$ 65,901	\$ 5,770	\$ 2,010,413	\$ 247,782	\$ 30,806	\$ 278,588	\$ 2,289,001
Employee benefits and payroll taxes	94,624	438,318	57,474	15,519	2,176	608,111	84,560	10,393	94,953	703,064
<b>Total Salaries and Related Expenses</b>	<b>455,108</b>	<b>1,814,665</b>	<b>259,385</b>	<b>81,420</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>
Rent	-	16,320	110	731	-	17,161	-	-	-	17,161
Utilities	17,312	19,819	2,093	666	-	39,890	1,807	-	1,807	41,697
Insurance	8,261	12,604	2,018	555	-	23,438	8,039	-	8,039	31,477
Repairs and maintenance	11,371	37,001	6,232	1,707	22	56,333	3,788	399	4,187	60,520
Telephone	4,726	22,755	1,691	1,663	-	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	28,010	4,608	716	32	38,264	5,792	15	5,807	44,071
Legal and accounting	-	-	-	-	-	-	14,653	-	14,653	14,653
Contract labor	5,111	134,462	22,261	6,211	-	168,045	-	-	-	168,045
Professional fees	3,373	29,085	1,403	1,281	210	35,352	10,634	60	10,694	46,046
Travel and training	3,037	15,340	16,400	2,940	1,211	38,928	702	87	789	39,717
Dues and subscriptions	1,958	2,278	525	144	-	4,905	4,185	-	4,185	9,090
Educational materials, printing and public information	413	3,115	20,520	413	18,308	42,769	-	4,360	4,360	47,129
Groceries and household supplies	30,507	-	-	-	-	30,507	-	-	-	30,507
Miscellaneous	3,171	8,690	1,159	295	-	13,315	2,276	1,685	3,961	17,276
<b>Total Expenses Before Depreciation</b>	<b>549,625</b>	<b>2,151,020</b>	<b>338,749</b>	<b>98,788</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>\$ 2,218,020</b>	<b>\$ 348,549</b>	<b>\$ 99,088</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>

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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, 2012, and have issued our report thereon dated November 19, 2012. 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

Management of Pathways Behavioral Services, Inc. is responsible for establishing and maintaining effective 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.

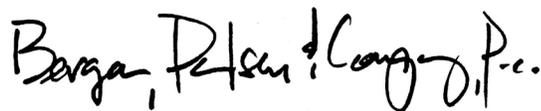
*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination 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*.

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 19, 2012

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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, 2012. 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, 2012.

#### 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 19, 2012

**Pathways Behavioral Services, Inc.**  
Schedule of Findings and Questioned Costs  
For the year ended June 30, 2012

**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, 2012.

**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, 2011, there were no findings and questioned costs.