

Pathways Behavioral Services, Inc.

Financial Statements

June 30, 2013 and 2012



Pathways Behavioral Services, Inc.

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Pathways Behavioral Services, Inc., which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, 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.

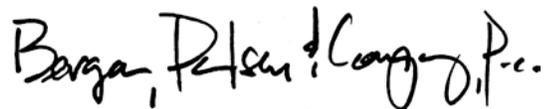
Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2014, 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* in considering Pathways Behavioral Services, Inc.'s internal control over financial reporting and compliance.



Waterloo, Iowa
February 19, 2014

Pathways Behavioral Services, Inc.

Statements of Financial Position

As of June 30, 2013 and 2012

Assets

	2013	2012
Current Assets		
Cash and cash equivalents	\$ 880,334	\$ 971,155
Cash - restricted custodial	-	215
Certificates of deposit	839,008	874,378
Client receivables, net	207,135	124,266
Other receivables	371,241	282,149
Other current assets	10,582	6,172
Total Current Assets	<u>2,308,300</u>	<u>2,258,335</u>
Certificates of Deposit	146,060	-
Contract Receivable	49,395	51,914
Beneficial Interest in Assets Held by Community Foundation	29,209	26,843
Property and Equipment, Net	<u>1,995,517</u>	<u>2,086,331</u>
Total Assets	<u>\$ 4,528,481</u>	<u>\$ 4,423,423</u>

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$ 44,436	\$ 31,558
Custodial payable - due residents	107	130
Other liabilities	226,875	263,059
Total Current Liabilities	<u>271,418</u>	<u>294,747</u>
Net Assets		
Unrestricted:		
Operations	731,612	576,427
Board designated - operating reserve	1,409,530	1,346,388
Net investment in property and equipment	1,995,517	2,086,331
Total Unrestricted	<u>4,136,659</u>	<u>4,009,146</u>
Temporarily restricted	120,404	119,530
Total Net Assets	<u>4,257,063</u>	<u>4,128,676</u>
Total Liabilities and Net Assets	<u>\$ 4,528,481</u>	<u>\$ 4,423,423</u>

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

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Pathways Behavioral Services, Inc.
 Statements of Activities
 For the years ended June 30, 2013 and 2012

	2013	2012
Unrestricted Net Assets		
Revenue, Gains and Other Support		
Client service revenue (net of contractual allowances and discounts)	\$ 2,137,281	\$ 1,938,684
Provision for bad debts	331,350	307,304
Net client service revenue	<u>1,805,931</u>	<u>1,631,380</u>
Federal, state and local revenue	2,423,875	2,385,052
United Way allocations	2,045	5,262
Contributions	10,350	10,261
Investment return	20,276	20,089
Miscellaneous income	7,620	11,296
Net assets released from restrictions net of transfers	<u>86,375</u>	<u>62,500</u>
Total Revenue, Gains and Other Support	<u>4,356,472</u>	<u>4,125,840</u>
Expenses		
Program expenses	3,729,495	3,546,550
Management and general	456,321	445,206
Fundraising	<u>43,213</u>	<u>47,409</u>
Total Expenses	<u>4,229,029</u>	<u>4,039,165</u>
Gain on Disposal of Property and Equipment	<u>70</u>	<u>75</u>
Increase in Unrestricted Net Assets	<u>127,513</u>	<u>86,750</u>
Temporarily Restricted Net Assets		
United Way allocations	87,249	86,375
Net assets released from restrictions	<u>(86,375)</u>	<u>(62,500)</u>
Increase in Temporarily Restricted Net Assets	<u>874</u>	<u>23,875</u>
Increase in Net Assets	128,387	110,625
Net Assets, Beginning of Year	<u>4,128,676</u>	<u>4,018,051</u>
Net Assets, End of Year	<u><u>\$ 4,257,063</u></u>	<u><u>\$ 4,128,676</u></u>

Pathways Behavioral Services, Inc.
Statement of Functional Expenses
For the year ended June 30, 2013

	PROGRAM SERVICES						SUPPORT SERVICES			Total Expenses	
	Recovery House	Treatment	Prevention	Adolescent Treatment	DECAT	Gambling	Total Program Expenses	Management & General	Fundraising		Total Support Services
Salaries and wages	\$ 379,801	\$ 1,469,797	\$ 209,213	\$ 33,169	\$ 20,945	\$ 95,826	\$ 2,208,751	\$ 254,403	\$ 26,952	\$ 281,355	\$ 2,490,106
Employee benefits and payroll taxes	100,990	457,923	67,689	8,469	4,609	25,130	664,810	84,561	9,697	94,258	759,068
Total Salaries and Related Expenses	480,791	1,927,720	276,902	41,638	25,554	120,956	2,873,561	338,964	36,649	375,613	3,249,174
Rent	-	19,328	60	-	-	35	19,423	-	-	-	19,423
Utilities	18,021	18,995	1,898	264	369	528	40,075	1,792	-	1,792	41,867
Insurance	9,311	18,536	2,209	416	339	833	31,644	8,899	-	8,899	40,543
Repairs and maintenance	15,282	30,380	5,596	301	486	1,248	53,293	2,154	92	2,246	55,539
Telephone	4,667	26,510	1,323	826	523	908	34,757	1,612	-	1,612	36,369
Postage and shipping	360	6,170	266	-	-	204	7,000	391	1,005	1,396	8,396
Office supplies and equipment	3,126	27,970	2,485	1,404	87	775	35,847	1,893	383	2,276	38,123
Legal and accounting	-	-	-	-	-	-	-	28,728	-	28,728	28,728
Contract labor	4,411	147,331	104,536	-	-	-	256,278	2,000	896	2,896	259,174
Professional fees	3,528	31,030	1,075	463	421	1,598	38,115	10,889	-	10,889	49,004
Travel and training	1,739	17,712	9,792	773	2,446	3,341	35,803	1,759	29	1,788	37,591
Dues and subscriptions	2,304	5,306	519	260	-	-	8,389	10,708	-	10,708	19,097
Educational materials, printing and public information	771	6,878	84,880	95	0	17,289	109,913	-	2,874	2,874	112,787
Groceries and household supplies	30,373	-	-	-	-	-	30,373	-	-	-	30,373
Miscellaneous	6,964	48,027	735	80	38	-	55,844	1,902	1,285	3,187	59,031
Total Expenses Before Depreciation	581,648	2,331,893	492,276	46,520	30,263	147,715	3,630,315	411,691	43,213	454,904	4,085,219
Depreciation	21,980	66,500	9,800	300	-	600	99,180	44,630	-	44,630	143,810
Total Expenses	\$ 603,628	\$ 2,398,393	\$ 502,076	\$ 46,820	\$ 30,263	\$ 148,315	\$ 3,729,495	\$ 456,321	\$ 43,213	\$ 499,534	\$ 4,229,029

Pathways Behavioral Services, Inc.
Statement 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	\$ 1,385,237	\$ 196,101	\$ 40,135	\$ 25,576	\$ 92,532	\$ 2,112,048	\$ 257,732	\$ 27,698	\$ 285,430	\$ 2,397,478
Employee benefits and payroll taxes	104,148	437,892	62,084	12,996	6,861	17,159	641,140	82,177	9,298	91,475	732,615
Total Salaries and Related Expenses	476,615	1,823,129	258,185	53,131	32,437	109,691	2,753,188	339,909	36,996	376,905	3,130,093
Rent	-	17,197	150	-	-	10	17,357	-	-	-	17,357
Utilities	17,242	18,266	1,692	233	393	395	38,221	1,587	-	1,587	39,808
Insurance	7,772	15,538	2,076	360	242	580	26,568	6,186	-	6,186	32,754
Repairs and maintenance	15,624	35,926	4,767	3,189	526	620	60,652	7,231	101	7,332	67,984
Telephone	4,098	24,438	1,094	797	744	414	31,585	1,513	-	1,513	33,098
Postage and shipping	471	7,624	406	-	54	119	8,674	338	1,009	1,347	10,021
Office supplies and equipment	3,455	26,685	4,564	1,159	345	2,001	38,209	2,839	27	2,866	41,075
Legal and accounting	-	-	-	-	-	-	-	15,498	-	15,498	15,498
Contract labor	5,477	148,533	68,260	25	35,899	400	258,594	-	428	428	259,022
Professional fees	4,077	32,323	1,438	532	510	2,064	40,944	13,167	-	13,167	54,111
Travel and training	2,569	17,184	10,038	1,297	4,043	4,804	39,935	2,151	-	2,151	42,086
Dues and subscriptions	2,125	2,851	548	278	200	505	6,507	4,700	-	4,700	11,207
Educational materials, printing and public information	140	4,724	68,618	-	32	15,314	88,828	-	7,563	7,563	96,391
Groceries and household supplies	28,307	-	-	-	-	-	28,307	-	-	-	28,307
Miscellaneous	2,668	5,486	1,056	166	41	76	9,493	1,829	1,285	3,114	12,607
Total Expenses Before Depreciation	570,640	2,179,904	422,892	61,167	75,466	136,993	3,447,062	396,948	47,409	444,357	3,891,419
Depreciation	22,000	65,246	10,687	300	-	1,255	99,488	48,258	-	48,258	147,746
Total Expenses	\$ 592,640	\$ 2,245,150	\$ 433,579	\$ 61,467	\$ 75,466	\$ 138,248	\$ 3,546,550	\$ 445,206	\$ 47,409	\$ 492,615	\$ 4,039,165

Pathways Behavioral Services, Inc.
 Statements of Cash Flows
 For the years ended June 30, 2013 and 2012

	2013	2012
Cash Flows From Operating Activities		
Increase in net assets	\$ 128,387	\$ 110,625
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	143,810	147,746
Gain on disposal of property and equipment	(70)	(75)
Changes in operating assets and liabilities:		
Receivables	(169,442)	(16,851)
Other current assets	(4,410)	1,521
Payables	12,855	4,769
Accrued expenses and other liabilities	(36,184)	(55,534)
Total Adjustments	(53,441)	81,576
Net Cash Provided by Operating Activities	74,946	192,201
Cash Flows From Investing Activities		
Decrease in cash - restricted custodial	215	226
Increase in beneficial interest	(2,366)	(157)
Purchases of property and equipment	(52,996)	(33,787)
Proceeds from sale of property and equipment	70	75
Purchases of investments	(215,293)	(246,277)
Proceeds from sale of investments	104,603	130,585
Net Cash Used in Investing Activities	(165,767)	(149,335)
Net Change in Cash and Cash Equivalents	(90,821)	42,866
Cash and Cash Equivalents at Beginning of Year	971,155	928,289
Cash and Cash Equivalents at End of Year	\$ 880,334	\$ 971,155

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 possible behavioral health treatment and prevention services and other related services to individuals, families and communities to improve the 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, 2013 and 2012.

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, cash equivalents, and certificates of deposit are federally insured up to \$250,000.

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

The Organization received 35% and 37% of its total revenue, gains and other support from one source for the years ended June 30, 2013 and 2012, 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 are reduced by an allowance for doubtful accounts. In evaluating the collectability of client receivables, the Organization analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to clients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay clients (which includes both clients without insurance and clients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many clients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates or negotiated discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

NET CLIENT SERVICE REVENUE

Net client service revenue is reported at the estimated net realizable amounts from clients, third-party payors, and others for services rendered. The Organization recognizes client service revenue associated with services provided to clients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured clients, the Organization recognizes revenue on the basis of its standard rates for services provided, adjusted to a sliding fee scale based upon the clients' income. On the basis of historical experience, a significant portion of the Organization's uninsured clients will be unable or unwilling to pay for the services provided. Thus, the Organization records a significant provision for bad debts related to uninsured clients in the period the services are provided.

Pathways Behavioral Services, Inc.

Notes to the Financial Statements

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

(Cont'd.):

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.

BOARD DESIGNATED RESERVE

The operating reserve, which has been designated by the board of directors, 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, 2013, 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 2010.

EXPENSE ALLOCATION

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Pathways Behavioral Services, Inc.

Notes to the Financial Statements

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

(Cont'd.):

ADOPTION OF ACCOUNTING STANDARD

In 2013, the Organization adopted FASB Accounting Standards Update ASU 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, which requires certain health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those health care entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. The new standard also requires disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. There was no material impact on the Organization's changes in net assets or financial condition upon adoption of the new standard.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 19, 2014, the date which the financial statements were available for issue.

NOTE 2 – NET CLIENT SERVICES REVENUE:

The Organization receives payment for services rendered from federal and state agencies, private insurance carriers, employers, managed care programs, and clients. The Organization recognizes that revenue and receivables from government agencies are significant to the operations but do not believe there are significant credit risks associated with these government agencies.

Client service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	2013	2012
Third-party payors	\$ 1,537,688	\$ 1,332,706
Self-pay	<u>599,593</u>	<u>605,978</u>
Client services revenue (net of contractual allowances and discounts)	<u>\$ 2,137,281</u>	<u>\$ 1,938,684</u>

Pathways Behavioral Services, Inc.

Notes to the Financial Statements

NOTE 2 - NET CLIENT SERVICES REVENUE (Cont'd.):

The Organization's allowance for doubtful accounts for self-pay clients remained constant at 85 percent of self-pay accounts receivable at June 30, 2013 and 2012. In addition, for the years ended June 30, 2013 and 2012, the Organization's self-pay write-offs were \$234,134 and \$247,314, respectively. The Organization's allowance for doubtful accounts for third party insurance payors remained constant at 50 percent of third party accounts at June 30, 2013 and 2012. When amounts are not collected from third party insurance payors, the balance is then crossed over to the client as a self-pay balance, with it being only 15% collectible as noted above. For the years ended June 30, 2013 and 2012, the Organization's third-party write-offs were \$97,216 and \$59,990, respectively.

NOTE 3 - PROPERTY AND EQUIPMENT:

A summary of property and equipment as of June 30, 2013 and 2012, follows:

	2013	2012
Land	\$ 516,624	\$ 516,624
Buildings and improvements	2,327,363	2,316,841
Furniture and fixtures	19,421	19,421
Equipment	<u>495,339</u>	<u>461,799</u>
	3,358,747	3,314,685
Less: Accumulated depreciation	<u>1,363,230</u>	<u>1,228,354</u>
	<u>\$ 1,995,517</u>	<u>\$ 2,086,331</u>

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes:

	2013	2012
Future periods	\$ 97,874	\$ 97,000
Assets held by Community Foundation	<u>22,530</u>	<u>22,530</u>
	<u>\$ 120,404</u>	<u>\$ 119,530</u>

Pathways Behavioral Services, Inc.

Notes to the Financial Statements

NOTE 5 - DESIGNATED AGENCY ENDOWMENT FUND:

The Organization has a designated agency endowment fund (the Fund) held by the Community Foundation of Waterloo and Northeast Iowa (the Foundation) in the amount of \$29,209 and \$26,843 as of June 30, 2013 and 2012, 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, 2013 and 2012, the Organization had a total of \$34,174 and \$31,193, respectively, in the Fund. No amounts were distributed to the Organization from the Foundation for the years ended June 30, 2013 and 2012.

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, 2013 and 2012, the Organization charged against income \$103,486 and \$109,829, respectively, under this Plan.

NOTE 7 – 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.

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

Year Ending June 30:	
2014	\$ 20,355
2015	20,595
2016	11,716
2017	<u>6,834</u>
Total Minimum Payments Required	<u>\$ 59,500</u>

Rent expense for all operating leases was \$19,423 and \$17,357 for the years ended June 30, 2013 and 2012, respectively.

Pathways Behavioral Services, Inc.

Notes to the Financial Statements

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.

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.

NOTE 10 – RECLASSIFICATIONS:

Certain reclassifications have been made to the 2012 financial statements, as previously reported, in order to conform them to the current year's presentation

SUPPLEMENTAL INFORMATION

Pathways Behavioral Services, Inc.
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Health and Human Services</u>			
Passed through the Iowa Department of Public Health: Block Grants for Prevention and Treatment of Substance Abuse	93.243	588 3 CP05	\$ 73,543
Screening, Brief Intervention & Referral Treatment	93.243	588 3 SA07	42,466
			<u>116,009</u>
Passed through the Iowa Department of Public Health: Access to Recovery - Iowa	93.275	588 1 AC10	<u>135,339</u>
Passed through Operation Threshold Maternal Infant, Early Childhood Home Visitation	93.505	N/A	<u>2,153</u>
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	11-078	<u>29,138</u>
Passed through the Iowa Department of Public Health: Block Grants for Prevention and Treatment of Substance Abuse	93.959	588 3 CP05	202,606
Passed through Magellan Behavioral Health: Block Grants for Prevention and Treatment of Substance Abuse	93.959	MIS: 005028-000	466,511
			<u>669,117</u>
Total Federal Expenditures			<u>\$ 951,756</u>

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, 2013. 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.

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**INDEPENDENT AUDITOR'S 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 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, the financial statements of Pathways Behavioral Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated February 19, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pathways Behavioral Services, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Pathways Behavioral Services, Inc.'s internal control.

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 a 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less

severe than a material weakness, yet important enough to merit attention by those charged with governance.

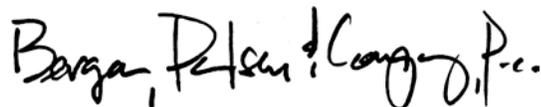
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pathways Behavioral Services, Inc.'s financial statements are free from 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Waterloo, Iowa
February 19, 2014

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR 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.

Report on Compliance for Each Major Federal Program

We have audited Pathways Behavioral Services, Inc.'s compliance with the types of compliance requirements described in *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, 2013. Pathways Behavioral Services, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Pathways Behavioral Services, Inc.'s major federal program based on our audit of the types of compliance requirements referred to above. 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 on compliance for the Organization's major federal program. However, our audit does not provide a legal determination of Pathways Behavioral Services, Inc.'s compliance.

Opinion on Major Federal Program

In our opinion, Pathways Behavioral Services, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control over Compliance

Management of Pathways Behavioral Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Pathways Behavioral Services, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a

material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Bergan Paulsen & Company, P.C.

Waterloo, Iowa
February 19, 2014

Pathways Behavioral Services, Inc.
Schedule of Findings and Questioned Costs
For the year ended June 30, 2013

Part II: Findings Related to the Financial Statements

There were no findings related to the financial statements as of June 30, 2013.

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, 2012, there were no findings and questioned costs.