

Pathways Behavioral Services, Inc.

Financial Statements

June 30, 2015 and 2014



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, 2015 and 2014, 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

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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 in the first paragraph present fairly, in all material respects, the financial position of Pathways Behavioral Services, Inc. as of June 30, 2015 and 2014, 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 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. 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 November 13, 2015, 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.

BerganKDV, Ltd.

Waterloo, Iowa
November 13, 2015

Pathways Behavioral Services, Inc.
Statements of Financial Position
As of June 30, 2015 and 2014

Assets

	2015	2014
Current Assets		
Cash and cash equivalents	\$ 1,401,699	\$ 1,262,880
Certificates of deposit	1,240,871	694,236
Client receivables, net	289,415	213,718
Other receivables	530,737	417,026
Other current assets	8,752	5,882
Total Current Assets	3,471,474	2,593,742
Certificates of Deposit	362,616	239,914
Beneficial Interest in Assets Held by Community Foundation	34,337	33,789
Property and Equipment, Net	1,966,764	2,008,101
Investment in Integrated Behavioral Health Network, Inc.	105,000	105,000
Total Assets	\$ 5,940,191	\$ 4,980,546

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$ 91,023	\$ 79,585
Other liabilities	307,496	254,834
Total Current Liabilities	398,519	334,419
Net Assets		
Unrestricted:		
Operations	930,135	755,008
Board designated - operating reserve	2,409,124	1,649,643
Investment in Integrated Behavioral Health Network, Inc.	105,000	105,000
Net investment in property and equipment	1,966,764	2,008,101
Total Unrestricted	5,411,023	4,517,752
Temporarily restricted	130,649	128,375
Total Net Assets	5,541,672	4,646,127
Total Liabilities and Net Assets	\$ 5,940,191	\$ 4,980,546

Pathways Behavioral Services, Inc.
 Statements of Activities
 For the years ended June 30, 2015 and 2014

	2015	2014
Unrestricted Net Assets		
Revenue, Gains and Other Support		
Client service revenue (net of contractual allowances and discounts)	\$ 4,020,737	\$ 2,917,199
Provision for bad debts	482,244	387,621
Net client service revenue	<u>3,538,493</u>	<u>2,529,578</u>
Federal, state and local revenue	2,980,707	2,666,031
United Way allocations	2,482	3,242
Contributions	6,177	21,304
Investment return	25,086	20,159
Miscellaneous income	28,602	2,535
Net assets released from restrictions net of transfers	<u>93,621</u>	<u>87,174</u>
Total Revenue, Gains and Other Support	<u>6,675,168</u>	<u>5,330,023</u>
Expenses		
Program expenses	5,244,778	4,464,454
Management and general	503,067	442,998
Fundraising	<u>34,052</u>	<u>41,478</u>
Total Expenses	<u>5,781,897</u>	<u>4,948,930</u>
Increase in Unrestricted Net Assets	<u>893,271</u>	<u>381,093</u>
Temporarily Restricted Net Assets		
Community Foundation contributions	200	200
United Way allocations	95,695	94,945
Net assets released from restrictions	<u>(93,621)</u>	<u>(87,174)</u>
Increase in Temporarily Restricted Net Assets	<u>2,274</u>	<u>7,971</u>
Increase in Net Assets	895,545	389,064
Net Assets, Beginning of Year	<u>4,646,127</u>	<u>4,257,063</u>
Net Assets, End of Year	<u><u>\$ 5,541,672</u></u>	<u><u>\$ 4,646,127</u></u>

Pathways Behavioral Services, Inc.
Statement of Functional Expenses
For the year ended June 30, 2015

	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	\$ 403,223	\$ 1,970,853	\$ 262,396	\$ 34,435	\$ 32,005	\$ 90,568	\$ 2,793,480	\$ 309,194	\$ 19,125	\$ 328,319	\$ 3,121,799
Employee benefits and payroll taxes	113,954	606,779	75,554	18,372	8,629	24,415	847,703	73,488	7,297	80,785	928,488
Total Salaries and Related Expenses	517,177	2,577,632	337,950	52,807	40,634	114,983	3,641,183	382,682	26,422	409,104	4,050,287
Rent	-	20,825	300	-	-	60	21,185	-	-	-	21,185
Utilities	19,383	21,757	1,187	274	415	549	43,565	1,656	-	1,656	45,221
Insurance	8,809	32,861	2,799	373	554	866	46,262	11,058	-	11,058	57,320
Repairs and maintenance	24,412	36,726	6,396	245	522	2,317	70,618	6,269	13	6,282	76,900
Telephone	5,430	45,458	1,841	691	484	591	54,495	1,898	-	1,898	56,393
Postage and shipping	498	7,324	308	-	-	177	8,307	261	227	488	8,795
Office supplies and equipment	3,349	35,424	5,671	957	824	1,341	47,566	4,151	1,395	5,546	53,112
Legal and accounting	-	2,160	-	-	-	-	2,160	18,129	-	18,129	20,289
Contract labor	4,017	845,890	55,898	-	-	-	905,805	-	-	-	905,805
Professional fees	3,549	38,282	1,457	558	575	1,815	46,236	27,517	-	27,517	73,753
Travel and training	4,230	53,243	19,748	947	2,479	3,842	84,489	328	-	328	84,817
Dues and subscriptions	2,350	6,369	652	-	-	275	9,646	10,593	-	10,593	20,239
Educational materials, printing and public information	110	6,187	72,719	-	-	23,357	102,373	-	4,710	4,710	107,083
Groceries and household supplies	35,598	-	-	-	-	-	35,598	-	-	-	35,598
Miscellaneous	4,287	5,876	1,016	25	120	15	11,339	3,525	1,285	4,810	16,149
Total Expenses Before Depreciation	633,199	3,736,014	507,942	56,877	46,607	150,188	5,130,827	468,067	34,052	502,119	5,632,946
Depreciation	22,000	81,851	9,800	300	-	-	113,951	35,000	-	35,000	148,951
Total Expenses	\$ 655,199	\$ 3,817,865	\$ 517,742	\$ 57,177	\$ 46,607	\$ 150,188	\$ 5,244,778	\$ 503,067	\$ 34,052	\$ 537,119	\$ 5,781,897

Pathways Behavioral Services, Inc.
Statement of Functional Expenses
For the year ended June 30, 2014

	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	\$ 403,476	\$ 1,697,021	\$ 208,821	\$ 32,581	\$ 32,111	\$ 102,918	\$ 2,476,928	\$ 255,027	\$ 24,275	\$ 279,302	\$ 2,756,230
Employee benefits and payroll taxes	117,738	500,903	71,643	9,634	8,056	23,255	731,229	81,583	8,520	90,103	821,332
Total Salaries and Related Expenses	521,214	2,197,924	280,464	42,215	40,167	126,173	3,208,157	336,610	32,795	369,405	3,577,562
Rent	-	19,591	20	-	-	-	19,611	-	-	-	19,611
Utilities	18,261	20,983	2,005	288	414	575	42,526	1,878	-	1,878	44,404
Insurance	8,809	34,745	1,978	373	304	746	46,955	6,766	-	6,766	53,721
Repairs and maintenance	18,590	37,935	8,516	456	582	2,125	68,204	4,267	102	4,369	72,573
Telephone	5,536	37,884	1,725	720	495	732	47,092	2,065	-	2,065	49,157
Postage and shipping	343	6,161	258	-	-	166	6,928	282	384	666	7,594
Office supplies and equipment	4,339	45,301	5,392	304	103	580	56,019	4,818	275	5,093	61,112
Legal and accounting	-	848	-	-	-	-	848	17,007	-	17,007	17,855
Contract labor	4,952	468,870	100,025	-	-	-	573,847	49	500	549	574,396
Professional fees	3,537	34,128	1,072	655	525	1,813	41,730	19,325	-	19,325	61,055
Travel and training	3,471	27,535	9,984	760	2,904	4,258	48,912	1,964	7	1,971	50,883
Dues and subscriptions	2,151	9,862	1,056	-	200	430	13,699	3,896	-	3,896	17,595
Educational materials, printing and public information	117	8,942	115,862	-	-	10,413	135,334	-	7,415	7,415	142,749
Groceries and household supplies	33,391	-	-	-	-	-	33,391	-	-	-	33,391
Miscellaneous	12,459	9,277	799	41	25	-	22,601	2,213	-	2,213	24,814
Total Expenses Before Depreciation	637,170	2,959,986	529,156	45,812	45,719	148,011	4,365,854	401,140	41,478	442,618	4,808,472
Depreciation	22,000	66,500	9,800	300	-	-	98,600	41,858	-	41,858	140,458
Total Expenses	\$ 659,170	\$ 3,026,486	\$ 538,956	\$ 46,112	\$ 45,719	\$ 148,011	\$ 4,464,454	\$ 442,998	\$ 41,478	\$ 484,476	\$ 4,948,930

Pathways Behavioral Services, Inc.
Statements of Cash Flows
For the years ended June 30, 2015 and 2014

	2015	2014
Cash Flows From Operating Activities		
Increase in net assets	\$ 895,545	\$ 389,064
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	148,951	140,458
Gain on disposal of property and equipment	(1,003)	(194)
Write-off of contract receivable	-	33,875
Changes in operating assets and liabilities:		
Receivables	(189,408)	(36,848)
Other current assets	(2,870)	4,700
Payables	11,438	35,042
Accrued expenses and other liabilities	52,662	27,959
Total Adjustments	<u>19,770</u>	<u>204,992</u>
Net Cash Provided by Operating Activities	<u>915,315</u>	<u>594,056</u>
Cash Flows From Investing Activities		
Increase in beneficial interest	(548)	(4,580)
Purchases of property and equipment	(107,614)	(153,088)
Proceeds from sale of property and equipment	1,003	240
Purchase of other investment	-	(105,000)
Purchases of certificates of deposit	(1,005,860)	(371,011)
Proceeds from sale of certificates of deposit	<u>336,523</u>	<u>421,929</u>
Net Cash Used in Investing Activities	<u>(776,496)</u>	<u>(211,510)</u>
Net Increase in Cash and Cash Equivalents	138,819	382,546
Cash and Cash Equivalents at Beginning of Year	<u>1,262,880</u>	<u>880,334</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 1,401,699</u></u>	<u><u>\$ 1,262,880</u></u>

Pathways Behavioral Services, Inc.
Notes to 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.

BASIS OF PRESENTATION

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. A description of the three net asset categories follows.

Unrestricted include all net assets which are neither temporarily nor permanently restricted.

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

Permanently restricted 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, 2015 and 2014.

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.

Pathways Behavioral Services, Inc.
Notes to Financial Statements

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

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 44% and 47% of its total revenue, gains and other support from two sources for the years ended June 30, 2015 and 2014, respectively.

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.

Pathways Behavioral Services, Inc.

Notes to Financial Statements

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

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.

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 \$1,500, unless general contract conditions call for a lower amount.

INVESTMENT IN INTEGRATED BEHAVIORAL HEALTH NETWORK, INC.

The Organization's 13% investment in Integrated Behavioral Health Network, Inc. is accounted for under the cost method.

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.

Pathways Behavioral Services, Inc.
Notes to Financial Statements

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

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.

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.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 13, 2015, the date which the financial statements were available for issue.

NOTE 2 – NET CLIENT SERVICE 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 for the years ended June 30, 2015 and 2014, from these major payor sources, is as follows:

	2015	2014
Third-party payors	\$ 3,359,937	\$ 2,318,511
Self-pay	<u>660,800</u>	<u>598,688</u>
Client services revenue (net of contractual allowances and discounts)	<u>\$ 4,020,737</u>	<u>\$ 2,917,199</u>

Pathways Behavioral Services, Inc.
Notes to 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, 2015 and 2014. In addition, for the years ended June 30, 2015 and 2014, the Organization’s self-pay write-offs were \$359,395 and \$278,377, 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, 2015 and 2014. 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, 2015 and 2014, the Organization’s third-party write-offs were \$122,849 and \$109,244, respectively.

NOTE 3 - PROPERTY AND EQUIPMENT:

A summary of property and equipment as of June 30, 2015 and 2014, follows:

	2015	2014
Land	\$ 515,629	\$ 515,629
Buildings and improvements	2,507,210	2,451,700
Equipment	<u>560,533</u>	<u>528,053</u>
	3,583,372	3,495,382
Less: Accumulated depreciation	<u>1,616,608</u>	<u>1,487,281</u>
	<u>\$ 1,966,764</u>	<u>\$ 2,008,101</u>

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes:

	2015	2014
Future periods	\$ 107,719	\$ 105,645
Assets held by Community Foundation	<u>22,930</u>	<u>22,730</u>
	<u>\$ 130,649</u>	<u>\$ 128,375</u>

Pathways Behavioral Services, Inc.

Notes to Financial Statements

NOTE 5 - DESIGNATED AGENCY ENDOWMENT FUND:

The Organization has a designated agency endowment fund (the Fund) held by the Community Foundation of Northeast Iowa (the Foundation). The Organization's beneficial interest in the Fund was of \$34,337 and \$33,789 as of June 30, 2015 and 2014, 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, 2015 and 2014, the Organization had a total of \$39,835 and \$39,231, respectively, in the Fund. No amounts were distributed to the Organization from the Foundation for the years ended June 30, 2015 and 2014.

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, 2015 and 2014, the Organization charged against income \$111,329 and \$112,010, 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:	
2016	\$ 22,990
2017	<u>11,956</u>
Total Minimum Payments Required	<u>\$ 34,946</u>

Rent expense for all operating leases was \$21,185 and \$19,611 for the years ended June 30, 2015 and 2014, respectively.

Pathways Behavioral Services, Inc.
Notes to 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.

SUPPLEMENTAL INFORMATION

Pathways Behavioral Services, Inc.
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2015

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal 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:			
Strategic Prevention Framework State Incentive Grant	93.243	588 5 CP05	\$ 57,396
Iowa Recovery Health Information Technology	93.243	588 5 SA36	7,326
Iowa Partnership for Success	93.243	588 5 IP38	31,330
Total for CFDA # 93.243			96,052
Passed through the Iowa Department of Public Health:			
Access to Recovery	93.275	588 5 AC10	71,265
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	42,035
Passed through the Iowa Department of Public Health:			
Substance Abuse Prevention and Treatment Block Grant Program:	93.959	588 5 CP05	202,606
Passed through Magellan Behavioral Health:			
Substance Abuse Prevention and Treatment Block Grant Program:	93.959	005028-000	495,112
Total for CFDA # 93.959			697,718
Total Federal Expenditures			\$ 907,070

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, 2015. 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.

**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, 2015, 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 November 13, 2015.

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.

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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.

BerganKDV, Ltd.

Waterloo, Iowa
November 13, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL 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 the U.S. Office of Management and Budget (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, 2015. 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 program.

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.

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We believe that our audit provides a reasonable basis for our opinion on compliance for the 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, 2015.

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 as a basis for designing 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.

BerganKDV, Ltd.

Waterloo, Iowa
November 13, 2015

Pathways Behavioral Services, Inc.
Schedule of Findings and Questioned Costs
For the year ended June 30, 2015

Part II: Findings Related to the Financial Statements

There were no findings related to the financial statements as of June 30, 2015.

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, 2014, there were no findings and questioned costs.