

GULF BEND CENTER

VICTORIA, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended August 31, 2011

ISSUED BY

**BARBARA REESE
DIRECTOR OF FINANCIAL SERVICES**

GULF BEND MENTAL HEALTH MENTAL RETARDATION CENTER
CERTIFICATE OF BOARD APPROVAL OR DISAPPROVAL
OF AUDIT REPORT

I, _____, Chairperson of the Board of Trustees of Gulf Bend Mental Health Mental Retardation Center, do hereby certify that this accompanying audit report for the year ended August 31, 2011, from Harrison, Waldrop & Uherek, LLP, Certified Public Accountants, was reviewed and _____ at a meeting of the Board of Trustees held on the _____ day of _____ 2012.

Chairperson, Board of Trustees

Date

GULF BEND CENTER
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the year ended August 31, 2011

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INTRODUCTORY SECTION

Gulf Bend Center

IMPROVING LIFE THROUGH RECOVERY.

January 23, 2012

Board of Trustees
Gulf Bend Center
Victoria, Texas

The Comprehensive Annual Financial Report of Gulf Bend Center for the fiscal year ended August 31, 2011, is hereby submitted. The report is intended for the information of the board of directors, management, federal and state awarding agencies and pass-through entities. However, the report is a matter of public record and its distribution is not limited.

Responsibility for both the accuracy of the data, and the completeness and fairness of presentation, including all disclosures, rests with Gulf Bend Center. To the best of our knowledge and belief, the enclosed data is accurate in all material respects, and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of Gulf Bend Center. All disclosures necessary to enable the reader to gain an understanding of Gulf Bend Center's financial activities have been included.

Texas Health and Safety Code, Section 534.068 requires an annual organization-wide audit, performed by independent certified public accountants, that encompasses the basic financial statements and other schedules. The firm of Harrison, Waldrop & Uherek, LLP was selected to perform the annual audit for fiscal year ended August 31, 2011. The audit was designed to be performed in accordance with generally accepted auditing standards, *Government Auditing Standards*, the State of Texas Uniform Grant and Contract Management Standards, the Single Audit Act of 1996, OMB Circular A-133, and the *Guidelines for Annual Financial and Compliance Audits of Community MHMR Centers*.

Management provides a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. Gulf Bend Center's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

Gulf Bend Center is a public entity which was established under the Texas Mental Health and Mental Retardation Act of 1965. This act provided for the creation of local boards of trustees. The Center provides mental health and mental retardation services to clients in Calhoun, DeWitt, Goliad, Jackson, Lavaca, Refugio, and Victoria counties in South Texas. Gulf Bend Center is governed by a nine-member board of trustees whose members are appointed by the Commissioner's Court of each county. Gulf Bend Center has been designated as a tax-exempt charitable organization as described in Section 501 (c) (3) of the Internal Revenue Code.

Gulf Bend Center provides program services for children and adults that include outpatient psychiatric medical services, rehabilitation and habilitation services, residential services, and supported employment services for those who experience a wide range of mental health and developmental disability problems.

Gulf Bend Center's management is responsible for establishing and maintaining an effective compliance program with an internal control structure designed to ensure that the assets of the government are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to

Gulf Bend Center

IMPROVING LIFE THROUGH RECOVERY.

provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived; and 2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal, state and local financial assistance, Gulf Bend Center is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management and the internal audit staff of the government.

In addition, Gulf Bend Center maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the appropriated budget approved by the Board of Trustees. Activities of the general fund are included in the appropriated budget. As demonstrated by the statements and schedules included in the financial section of this report, Gulf Bend Center continues meeting its responsibility for sound financial management.

Local Economy

Gulf Bend Center's main office, Gulf Bend Regional Plaza, is located in the thriving agricultural and industrial city of Victoria, Texas on the North Campus of DeTar Hospital. Approximately one-third of the Center's funding is from the state of Texas in the form of General Revenue, and the remaining funding is derived from earned income from public and private insurances, and other local sources. This ratio is expected to continue for the immediate future however, with the expansion of Medicaid Managed Care statewide and the advent of the Affordable Care Act (Healthcare Reform) Gulf Bend Center's method of finance is expected to change to reflect a greater portion of funding from third-party fee-for-service arrangements including Medicaid, Medicare, and Private Insurance.

Major employers in the Center's service area include farming and ranching businesses, petrochemical plants, hospitals and other health related businesses, banking institutions, oil and gas production and servicing companies. These industries provide significant employment and economic presence to the area. In addition, Victoria and the region has the benefit of two institutions of higher learning, the University of Houston-Victoria which has recently been approved for expansion to a four year fully accredited institution, and the Victoria College a two year institution. Both institutions graduate students each year who serve to feed the local labor force. Because it is located in a region with a varied economic base, unemployment is relatively stable at 6.5% for December 2011 as reported by the Texas Comptroller. Throughout the economic recession, the local unemployment rates have remained below the national average, 8.5% for the same period.

Long-term financial planning

Using the Center's Investment Policy as a guide, fund balance investments are monitored to ensure the best rates of return are received. This provides assurance that funds are available to the Center for early payoff of debt and to have available funds to maintain operations in case of unforeseen circumstances that might pre-empt the flow of funds from third parties, such as natural disasters or other circumstances beyond the Center's control.

Purchase of Gulf Bend Regional Plaza provides the Center with the opportunity to lease space to tenants thereby producing income to finance the ongoing operational costs of the building and to support debt service. At the close of 2011, the Gulf Bend Regional Plaza was 100% occupied.

Gulf Bend Center

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Major Initiatives

Over the course of the next three to five years healthcare as we know it today is expected to undergo dramatic changes. Congressional approval of the Affordable Care Act (ACT) set in motion a plan to redesign the way in which health services are provided, accounted for, and financed. The Act also expands dramatically the number of persons who will be insured. Gulf Bend Center is taking action steps today to prepare for the future.

Business functions are being evaluated to best assure the necessary functions are in place to support delivery of services in an expanded fee-for-service arrangement. The Center is working to negotiate arrangements with managed care organizations to deliver behavioral healthcare services to their respective patients.

Looking to the short-term future, major project initiatives underway include the further expansion of counseling services through Place4 a family counseling clinic. The Clinic offers services to a broader population of children and adults with mental health needs. The development and financing of Place4 evolved from a community needs assessment conducted by Gulf Bend Center in 2010. It was in that community needs assessment that the citizens of the communities served in the seven-county Crossroads Region called to the attention of Center management the need for a mental health counseling clinic for children and adults who do not meet the target population of those individuals diagnosed with serious mental illness. Many of these individuals were being turned away from the Center because they did not meet eligibility criteria for admission. Place4 is offered as a choice among the other counseling clinics in the community. Place4 is totally funded with local funds with initial start up costs financed from the Center's fund balance. Method of payment for people receiving services is self-pay, Medicaid, or private insurance.

During 2011 Gulf Bend Center began operating a Basic Center Program for at-risk children and youth funded by the U. S. Department of Health and Human Services, Family and Youth Services Bureau. The grant award is for a three-year period and is for the purpose of providing a community-based program that meets the immediate needs of runaway and homeless youth and their families. The program will provide youth up to age 18 with emergency shelter, food, clothing, counseling and referrals for health care for up to 21 days. Daily census capacity is expected to be 8 for a maximum length of stay of 21 days. Gulf Bend Center's Basic Center Program will seek to reunite young people with their families, whenever possible, or to locate appropriate alternative placements.

Center management will continue to work to develop community partnerships to address gaps that exist in community mental health and developmental disability services. It is evident that a greater need exists in the region for both mental health and developmental disability services for both children and adults than The Center is able to provide for due principally to a lack of funding. Resolution of this problem will require community stakeholders to work together to combine available resources to adequately address the need. Gulf Bend Center is committed to making this happen.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Gulf Bend Center for its comprehensive annual financial report (CAFR) for the fiscal year ended August 31, 2010. This was the thirteenth consecutive year that Gulf Bend Center has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

Gulf Bend Center

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The Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the GFOA's Certificate of Achievement Program's requirements and we are submitting our report to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the finance and administration department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Due credit should also be given to the Board of Trustees for their interest and support in planning and conducting the operations of Gulf Bend Center in a responsible and progressive manner.

Respectfully submitted,

Barbara Reese
Director of Financial Services

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Gulf Bend Mental Health
Mental Retardation Center
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Davison

President

Jeffrey R. Emer

Executive Director

GULF BEND CENTER

LIST OF PRINCIPAL OFFICIALS

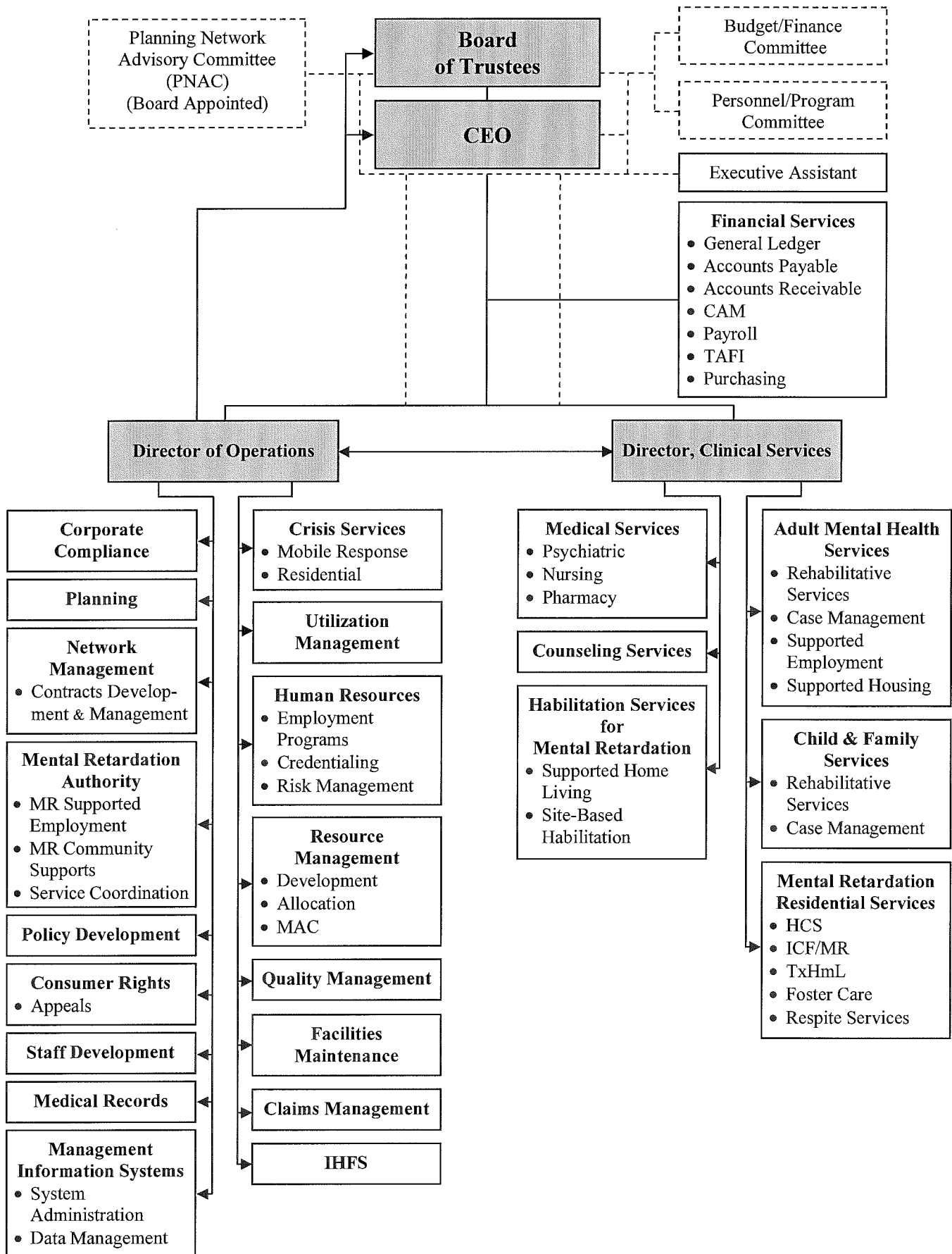
Board of Trustees

Mark Daigle	Calhoun County	Board Chair
Debra Baros	DeWitt County	Board Vice-Chair
Annette Pfeill	Calhoun County	Board Secretary
Shirley McMillan	Goliad County	Board Member
Harrison Stafford II	Jackson County	Board Member
James Vanek	Lavaca County	Board Member
Louis R. Willeke	Refugio County	Board Member
Gary Burns	Victoria County	Board Member
Steve Hipes	Victoria County	Board Member

Administrative Staff

Donald L. Polzin	Executive Director
David Way	Director of Operations
Lane Johnson	Director of Clinical Services

Gulf Bend Mental Health Mental Retardation Center Organizational Chart



FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Gulf Bend Center
Victoria, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Gulf Bend Center (the "Center") as of and for the year ended August 31, 2011, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 basic 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Center as of August 31, 2011, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund for the year 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 January 19, 2012, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Board of Trustees
Gulf Bend Center

The management's discussion and analysis on pages 3 through 13 are not a part of the basic financial statements but is supplementary information and is required by accounting principles generally accepted in the United States of America who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Center's basic financial statements. The introductory section, statistical section, and schedule of expenditures of state and federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations, and the State of Texas Single Audit Circular*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of state and federal awards 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. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Harrison Waldrop & Clark, LLP

January 19, 2012

GULF BEND CENTER

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED AUGUST 31, 2011

The management of Gulf Bend Mental Health Mental Retardation Center (the "Center") offers readers of the Center's financial statements this narrative overview and analysis of the financial activities of the Center for the fiscal year ended August 31, 2011. Management encourages readers to consider the information presented here in conjunction with additional information furnished in the letter of transmittal, which can be found on pages i through iii in the introductory section of this report.

FINANCIAL HIGHLIGHTS

- The assets of the Center exceeded its liabilities at the close of the most recent fiscal year by \$5,272,843 (net assets). Of this amount, \$3,609,744 (unrestricted net assets) may be used to meet the Center's ongoing obligations to consumers and creditors.
- The Center's total net assets increased by \$1,249,345. This increase represents the current fiscal year's change in net assets.
- As of the end of the current fiscal year, the Center's governmental funds reported combined ending fund balances of \$3,678,086, an increase of \$1,167,784 over that of the prior year. Of this entire balance, \$3,097,578 represents the unassigned fund balance of the General Fund, which is approximately 34% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Center's basic financial statements. The Center's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements: The government-wide financial statements are designed to provide readers with a broad overview of the Center's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Center's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Center is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

GULF BEND CENTER

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED AUGUST 31, 2011

The government-wide financial statements distinguish functions of the Center that are provided from federal, state and local funding sources (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

- The governmental activities of the Center include Mental Health-Adult, Mental Health-Children, and Mental Retardation.
- The Center's business-type activity includes building rental revenues and expenses.

The government-wide financial statements can be found on pages 14 and 15 of this report.

Fund Financial Statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Center, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Center can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how cash resources flow into and out of those funds, and balances remaining at year-end that are available for spending. These funds are reported using an accounting method known as modified accrual accounting, that requires the recognition of revenue when earned, only so long as the funds are collected within the period or soon enough afterwards to be used to pay liabilities of the current period.

It is useful to compare the information presented for governmental activities to the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Center maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund.

The Center adopts an annual budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 16 through 19 of this report.

GULF BEND CENTER

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED AUGUST 31, 2011

Proprietary Fund: The Center maintains two proprietary-type funds, the internal service fund and an enterprise fund. The internal service fund is an accounting device used to accumulate and allocate costs internally among the Center's various functions. The Center uses the internal service fund to account for its fleet of vehicles and to account for computer equipment. The enterprise fund is used by the Center to account for the income and expenses related to the building rental activity. The internal service fund and the enterprise fund are presented in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 21 through 23 of this report.

Notes to the Financial Statements: The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 through 36 of this report.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Center that is required by Texas Health and Human Services Commission (Department of State Health Services and Department of Aging and Disability Services), OMB Circular A-133, and the State of Texas Single Audit Circular. This supplementary information can be found on pages 37 through 64 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Center, assets exceeded liabilities by \$5,272,843 as of the end of the most recent fiscal year.

A portion of the Center's net assets (approximately 31%) reflects its investment in capital assets (e.g., land, buildings, vehicles, furniture, and equipment), less any related debt used to acquire those assets that are still outstanding. The Center had \$2,601,000 of debt outstanding on capital assets as of the end of the current fiscal year. The Center uses its capital assets to provide services to the individuals it serves; consequently, these assets are not available for future spending.

GULF BEND CENTER

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED AUGUST 31, 2011

Additionally, the remaining portion of the Center's net assets, \$3,609,744, or 69%, represents unrestricted financial resources available for future operations. The following Statement of Net Assets provides an overview of the Center's net assets as of August 31, 2011 and 2010.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>		<u>Change</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	
Current and other assets	\$ 4,269,233	\$ 3,340,977	\$ 181,152	\$ 62,076	\$ 4,450,385	\$3,403,053	31%
Capital assets (net)	<u>2,974,429</u>	<u>2,872,102</u>	<u>1,289,670</u>	<u>1,303,361</u>	<u>4,264,099</u>	<u>4,175,463</u>	2%
Total Assets	<u>7,243,662</u>	<u>6,213,079</u>	<u>1,470,822</u>	<u>1,365,437</u>	<u>8,714,484</u>	<u>7,578,516</u>	15%
Current and other liabilities	573,381	581,175	16,389	13,292	589,770	594,467	-1%
Long-term liabilities	<u>2,846,871</u>	<u>2,955,551</u>	<u>5,000</u>	<u>5,000</u>	<u>2,851,871</u>	<u>2,960,551</u>	-4%
Total Liabilities	<u>3,420,252</u>	<u>3,536,726</u>	<u>21,389</u>	<u>18,292</u>	<u>3,441,641</u>	<u>3,555,018</u>	-3%
Net Assets:							
Investment in capital assets net of related debt	378,429	138,102	1,284,670	1,298,361	1,663,099	1,436,463	16%
Unrestricted	<u>3,444,981</u>	<u>2,538,251</u>	<u>164,763</u>	<u>48,784</u>	<u>3,609,744</u>	<u>2,587,035</u>	40%
Total Net Assets	<u>\$ 3,823,410</u>	<u>\$ 2,676,353</u>	<u>\$ 1,449,433</u>	<u>\$1,347,145</u>	<u>\$ 5,272,843</u>	<u>\$4,023,498</u>	31%

After internal receivables and payables have been eliminated.

GULF BEND CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED AUGUST 31, 2011

Government-wide Activities: The Center's governmental and business-type activities increased net assets by \$1,249,345 as shown below.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>		<u>Change</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	
REVENUES							
Program revenues:							
Charges for services	\$4,507,534	\$3,966,674	\$ 238,003	\$ 170,102	\$ 4,745,537	\$ 4,136,776	15%
Operating grants	3,904,821	4,181,671	-	-	3,904,821	4,181,671	-7%
General revenues:							
Local Income	1,781,677	1,011,207	-	-	1,781,677	1,011,207	76%
Unrestricted							
Investment Earnings	<u>21,626</u>	<u>21,998</u>	<u>-</u>	<u>-</u>	<u>21,626</u>	<u>21,998</u>	-2%
Total Revenues	<u>10,215,658</u>	<u>9,181,550</u>	<u>238,003</u>	<u>170,102</u>	<u>10,453,661</u>	<u>9,351,652</u>	12%
EXPENSES							
Mental Health Adult	3,352,657	3,925,479	-	-	3,352,657	3,925,479	-15%
Mental Health Child	971,582	1,264,290	-	-	971,582	1,264,290	-23%
Mental Retardation	4,609,556	4,111,358	-	-	4,609,556	4,111,358	12%
Interest on Long-Term Debt	134,806	141,837	418	410	135,224	142,247	-5%
Rental	<u>-</u>	<u>-</u>	<u>135,297</u>	<u>126,558</u>	<u>135,297</u>	<u>126,558</u>	7%
Total Expenses	<u>9,068,601</u>	<u>9,442,964</u>	<u>135,715</u>	<u>126,968</u>	<u>9,204,316</u>	<u>9,569,932</u>	-4%
Change in net assets	1,147,057	(261,414)	102,288	43,134	1,249,345	(218,280)	672%
Net Assets - Beginning	<u>2,676,353</u>	<u>2,937,767</u>	<u>1,347,145</u>	<u>1,304,011</u>	<u>4,023,498</u>	<u>4,241,778</u>	-5%
Net Assets - Ending	<u>\$3,823,410</u>	<u>\$2,676,353</u>	<u>\$ 1,449,433</u>	<u>\$1,347,145</u>	<u>\$ 5,272,843</u>	<u>\$ 4,023,498</u>	31%

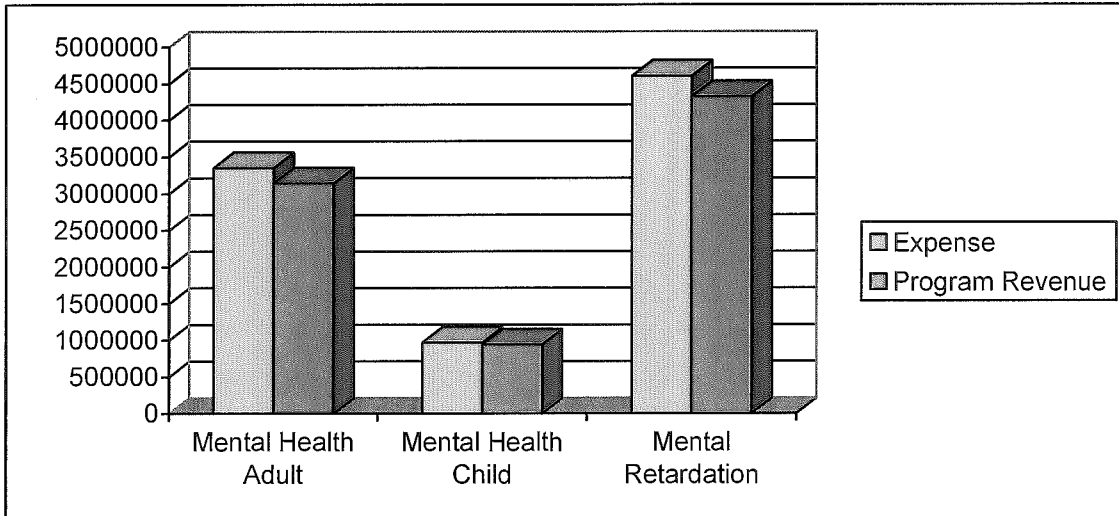
Total revenues increased approximately 12% due primarily to a large contribution recorded in local income. Total expenses had a minimal decrease of 4%.

GULF BEND CENTER

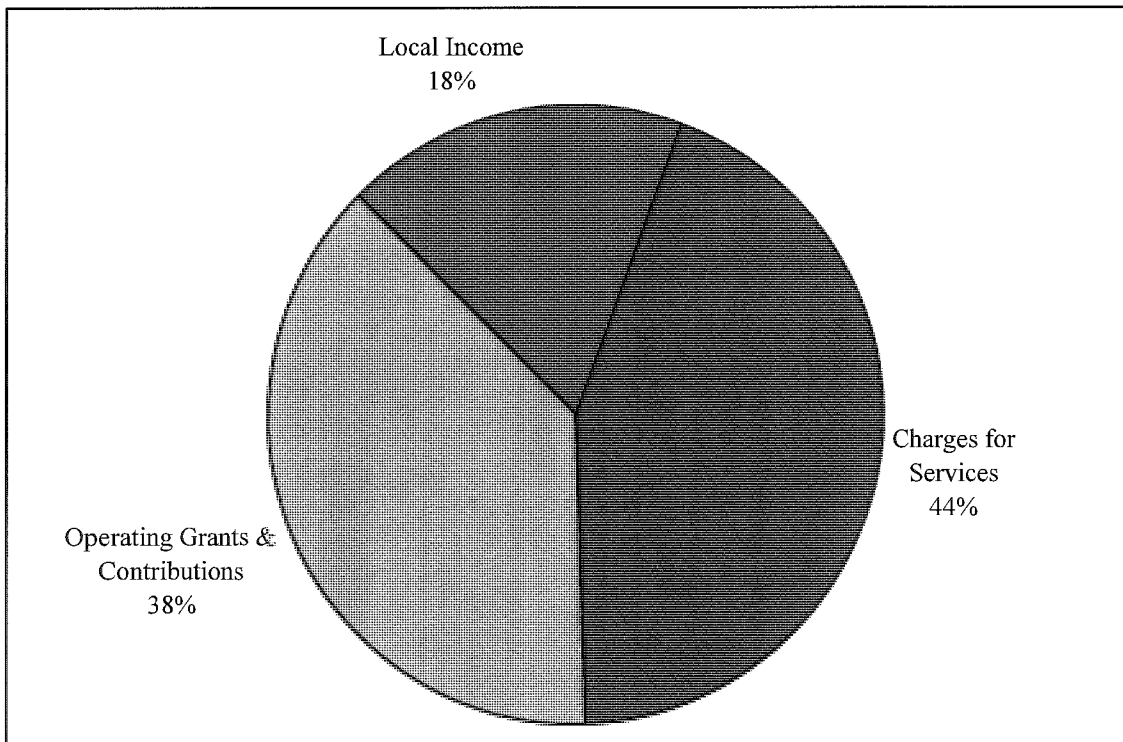
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED AUGUST 31, 2011

Expenses and Program Revenues
Governmental Activities



Revenues by Source
Governmental Activities



GULF BEND CENTER

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED AUGUST 31, 2011

FINANCIAL ANALYSIS OF THE CENTER'S FUNDS

As noted earlier, the Center uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: The focus of the Center's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Center's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending as of the end of the fiscal year.

As the Center completed the year, its governmental funds, as presented in the balance sheet on page 16, reported a combined fund balance of \$3,678,086, which is an increase of \$1,167,784 from the prior year.

The General Fund is the primary operating fund of the Center. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$3,097,578. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance as of the current year-end represents approximately 34% of total General Fund expenditures for the current fiscal year.

During the year, the General Fund local revenues increased by \$770,470 (approximately 76%) due primarily to a large contribution from a family estate.

General Fund state revenues increased by \$445,270 (approximately 12%) due primarily to an increase in the Services To At Risk (STAR) youth program.

General Fund expenditures decreased by \$331,653 (approximately 4%) due primarily to decreases in consumable supplies, building occupancy and operating costs, consultants and professional fees and capital outlay.

General Fund Budgetary Highlights: Over the course of the year, the Center did not amend its General Fund budget. Total actual revenues were above budgeted revenues by \$622,245. Total actual expenditures were \$218,164 under budgeted expenditures.

Proprietary Funds. The Center's proprietary funds provide the same type of information found in the government-wide financial statements. The net assets of the Motor Pool Fund increased only minimally (by \$15,395) from the prior year. The net assets of the enterprise fund increased \$102,288 due primarily to an increase in rental income in the leased portion of the Center's building.

GULF BEND CENTER

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED AUGUST 31, 2011

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: The Center's investment in capital assets for its governmental and business-type activities as of year-end amounts to \$4,264,100 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, vehicles, furniture, and equipment.

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Buildings and improvements	\$ 4,984,383	\$ 4,882,969	2%
Furniture and equipment	745,298	722,200	3%
Vehicles	<u>960,073</u>	<u>666,265</u>	44%
Totals at Historical Cost	6,689,754	6,271,434	7%
Less Accumulated Depreciation	<u>(2,425,654)</u>	<u>(2,095,970)</u>	16%
Net Capital Assets	<u>\$ 4,264,100</u>	<u>\$ 4,175,464</u>	2%

Additional information can be found in Note 7 Capital Assets on page 32 of this report.

Long-term Debt: As of the current year end, the Center had long-term debt outstanding of \$2,851,871. This amount is comprised of revenue bonds and compensated absences. The Center is not subject to a limit. Note 8 on page 33 provides additional information related to long-term debt. The following table summarized the Center's long-term debt outstanding at August 31, 2011 and 2010.

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Compensated Absences	\$ 250,871	\$ 221,551	13%
Revenue Bonds	<u>2,601,000</u>	<u>2,739,000</u>	-5%
Total	<u>\$ 2,851,871</u>	<u>\$ 2,960,551</u>	-4%

GULF BEND CENTER

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED AUGUST 31, 2011

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

According to a January 2012 report published by the Texas Comptroller, "The Texas economy continues to fare better than most other states. Though Texas has felt the effects of the worldwide recession the economy outpaced most all other states in 2011. Indicators are found in job growth and consumer purchases. As of November 2011, 97% of the total jobs shed by Texas employers during the recession have been recovered. This compares to the 30% job recovery at the national level. Texas outpaced all other states in the nation in population growth with an additional 4.3 million people moving to Texas during the period 2000 to 2010. The U.S. and Texas economic growth was positive with the National Gross Domestic Product up by 3% and Texas increasing its real Gross State Product by a similar 2.8%. The Crossroads Region was a major contributor to the improved Texas economy in 2011 with business growth and activity generated by the presence of Caterpillar, Inc. and the Eagle Ford Shale Play. Both are expected to influence the local economy in a major way in the years to come in terms of increased job opportunities, increased retail sales, growth in other business sectors and increased demands for housing.

Historically, the Victoria Crossroads Region has produced and maintained a stable, well-trained labor pool available at a cost that ranks below comparable U.S. markets. Entering 2011, the economic outlook for Victoria and the Crossroads Region appears to be better than that for the nation as a whole. The unemployment rate for the Region averaged 6.5% in December 2011 compared favorably to the state average of 8.5%. According to the Victoria Economic Development Corporation, the economic health of the Region is attributed to sustained economic growth in the plastics manufacturing industry, expanding petrochemical and industrial chemical plants, Caterpillar, Inc.'s decision to locate a major manufacturing facility in Victoria, a growing medical services community, high-speed fiber optic telecommunications network, higher education expansion including the downward expansion of the University of Houston-Victoria, increased enrollment experienced at Victoria College, a healthy retail trade sector, and increased oil and gas exploration, particularly the more recent discovery and exploration of the Eagle Ford Shale formation located in the western portion of the Center's service area. These factors have and will continue to make Victoria and the Crossroads Region one of the most progressive and fastest developing areas in Texas. Looking to the future, the economy of the Region is expected to continue to outpace that of Texas and the nation. In 2011, Caterpillar, Inc. embarked on its project to build a new excavator manufacturing facility in Victoria. That facility is now well underway and when completed, the new facility is expected to employ more than 500 people and will triple Caterpillar's U. S.-based excavator capacity. This is expected to influence a greater presence of a broad variety of businesses in Victoria and the Region including suppliers for the Caterpillar manufacturing facility.

Victoria College and the University of Houston-Victoria continue to graduate thousands of students each year. These students add to a well-trained labor pool of potential employees within a 75-mile radius that spans Gulf Bend Center's seven county service areas. The future of both of these institutions is bright. The downward expansion of the UH-Victoria has had a positive impact on enrollment of both institutions, and is expected to have a positive influence on future economic development in the Region.

GULF BEND CENTER

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED AUGUST 31, 2011

Victoria is home to the largest medical community in the Region. A progressive medical network provides ready access to state-of-the-art care at two full-service hospitals with more than 650 beds located on three campuses. However, in the best of economic times, recruitment and retention of specialty providers continues to be a challenge facing local healthcare providers. In addition, the Region's uninsured population (25+ %) reflects the statewide average for Texas, and exceeds that of the Nation. These factors continue to emphasize the importance of the need for local collaboration and partnerships among public and private interests in order to leverage and maximize all available resources to meet local needs. To help to overcome some of these challenges, Gulf Bend Center continues to invest in technology, including televideo conferencing, to allow for wide-area accessibility to the Region, and delivery of psychiatric medical services via connectivity to such provider organizations as the University of Texas Medical Branch in Galveston and physicians within the East Texas Behavioral Health Network. In addition, Gulf Bend Center is making investments in other technologies that help to move the Center to manage its recordkeeping system electronically.

Despite all of these positive events and economic indicators, the fact remains the Center's funded capacity to meet the Region's indicated need for children and adults with serious mental illness remains at less than 20%. Current trends and forecasts of future trends indicate the Center's method of finance will evolve to include a more diversified source of funds and payer mix with a greater emphasis on fee-for-service third-party payment. This will require the Center to expand its contractual arrangements with Managed Care Organizations (MCO's) and other third-parties and to further develop essential business functions that support the effective and efficient delivery of required services as specified in those contracts. This will include meeting all required standards to assure the maximizing of revenues and meeting of compliance standards. A future event of great importance to the delivery of health care is the Affordable Care Act that is scheduled to rollout in January 2014. This piece of federal legislation is expected to bring about significant changes in the way health care is delivered and paid for in the future.

In 2009, Gulf Bend MHMR Center relocated its facilities to the Gulf Bend Regional Plaza. This 55,000 square foot medical professional office facility is located on the DeTar Hospital Systems' North Campus at 6502 Nursery Drive in Victoria. The facility provides more than adequate space to meet the Center's current and future needs, and provides additional space that is available for lease to other public and private social services or healthcare provider organizations and businesses, thereby providing an income stream to the Center that offsets costs incurred for the operation and maintenance of the facility. The Center has contracted with a local real estate firm, Woolson Real Estate Co., to manage the overall operation and maintenance of the building. During the first year of operations, the Center was successful in expanding its tenant base and at the close of 2011 all available space had been leased. Current cash flow analysis indicates the purchase and occupation of Gulf Bend Regional Plaza has proven to be a good investment for the Center exceeding original business plan estimated cash flow expectations. With the Plaza now 100% occupied, cash flow analysis indicates the Center will begin realizing a positive cash flow starting in 2013.

GULF BEND CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED AUGUST 31, 2011

The aforementioned factors were considered in preparing the Gulf Bend Center's budget for the fiscal year ending August 31, 2012. Likewise, they will be important to budget planning for fiscal year 2013, the second year of the current state biennium.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview for all those who have an interest in the Center's financial health. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Gulf Bend Mental Health Mental Retardation Center, Financial Services Department, 6502 Nursery Drive, Suite 100, Victoria, Texas 77904.

BASIC FINANCIAL STATEMENTS

GULF BEND MENTAL HEALTH MENTAL RETARDATION CENTER**STATEMENT OF NET ASSETS**

August 31, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 97,111	\$ -	\$ 97,111
Investments	3,377,230	-	3,377,230
Accounts receivable	45,326	-	45,326
Receivables from other governments	627,664	-	627,664
Prepaid items	227,890	206	228,096
Inventory	2,618	-	2,618
Internal balances	(180,946)	180,946	-
Capitalized bond issue costs	72,340	-	72,340
Capital assets (net of accumulated depreciation)	2,974,429	1,289,670	4,264,099
Total assets	<u>7,243,662</u>	<u>1,470,822</u>	<u>8,714,484</u>
LIABILITIES			
Accounts payable	121,700	-	121,700
Accrued salaries and related payables	282,596	-	282,596
Accrued interest payable	62,047	206	62,253
Other payables	99,457	-	99,457
Unearned revenue	7,581	16,183	23,764
Non-current liabilities:			
Due within one year	170,087	-	170,087
Due in more than one year	2,676,784	5,000	2,681,784
Total liabilities	<u>3,420,252</u>	<u>21,389</u>	<u>3,441,641</u>
NET ASSETS			
Invested in capital assets, net of related debt	378,429	1,284,670	1,663,099
Unrestricted net assets	3,444,981	164,763	3,609,744
Total net assets	<u>\$ 3,823,410</u>	<u>\$ 1,449,433</u>	<u>\$ 5,272,843</u>

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

GULF BEND MENTAL HEALTH MENTAL RETARDATION CENTER

STATEMENT OF ACTIVITIES

For the year ended August 31, 2011

	Expenses			Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Function/Programs	Expenses	Administrative Allocation	Expenses After Allocation of Administrative	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government									
Governmental activities									
Mental Health Adult	\$2,876,701	\$	475,956	\$ 3,352,657	\$ 592,423	\$ 2,551,339	\$ (208,895)	\$ -	\$ (208,895)
Mental Health Child	833,653		137,929	971,582	105,312	837,791	(28,479)	-	(28,479)
Mental Retardation Administration	3,955,166		654,390	4,609,556	3,809,799	515,691	(284,066)	-	(284,066)
Interest on long-term debt	1,268,275		(1,268,275)	-	-	-	-	-	-
	134,806		-	134,806	-	-	(134,806)	-	(134,806)
Total governmental activities	9,068,601		-	9,068,601	4,507,534	3,904,821	(656,246)	-	(656,246)
Business Type Activities									
Rental	135,715.00		-	135,715.00	238,003.00	-	-	102,288	102,288
Total	\$9,204,316	\$	-	\$ 9,204,316	\$4,745,537	\$ 3,904,821	(656,246)	102,288	(553,958)
General revenues:									
Local Income							1,781,677	-	1,781,677
Investment Earnings							21,626	-	21,626
Total General Revenues							1,803,303	-	1,803,303
Change in net assets							1,147,057	102,288	1,249,345
Net assets - beginning							2,676,353	1,347,145	4,023,498
Net assets - ending							\$ 3,823,410	\$ 1,449,433	\$ 5,272,843

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

GULF BEND MENTAL HEALTH MENTAL RETARDATION CENTER

BALANCE SHEET

GOVERNMENTAL FUNDS

August 31, 2011

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 97,111
Investments	3,377,230
Accounts receivable	45,326
Receivables from other governments	627,664
Prepaid items	227,890
Inventory	2,618
Total assets	<u>\$ 4,377,839</u>
 LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts payable	\$ 121,700
Accrued salaries and related payables	285,314
Other payables	99,457
Deferred revenue	7,581
Due to other funds	185,701
Total liabilities	<u>699,753</u>
 Fund balances	
Nonspendable	
Inventory	2,618
Prepaid items	227,890
Assigned for healthcare	350,000
Unassigned	3,097,578
Total fund balances	<u>3,678,086</u>
Total liabilities and fund balances	<u>\$ 4,377,839</u>

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

GULF BEND MENTAL HEALTH MENTAL RETARDATION CENTER
*RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS
OF GOVERNMENTAL ACTIVITIES*
August 31, 2011

Total fund balances	\$ 3,678,086
<i>Amounts reported for governmental activities in the Statement of Net Assets (SNA) are different because:</i>	
Capital Assets used in Governmental activities are not reported in the funds.	2,974,429
The assets and liabilities of internal service funds are included in governmental activities in the SNA.	7,473
Bond issuance costs are capitalized and amortized in the SNA.	72,340
Payables for bond interest which are not due in the current period are not reported in the funds.	(62,047)
Long-term liabilities are not due and payable in the current period and , therefore, are not reported in the funds.	<u>(2,846,871)</u>
Net assets of governmental activities	<u>\$ 3,823,410</u>

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

GULF BEND MENTAL HEALTH MENTAL RETARDATION CENTER
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the year ended August 31, 2011

	<u>General Fund</u>
REVENUES	
Local funds	\$ 5,844,550
State programs	4,009,281
Federal programs	340,201
Interest income	<u>21,626</u>
Total revenues	<u>10,215,658</u>
EXPENDITURES	
Current	
Mental Health Adult	2,776,585
Mental Health Child	822,657
Mental Retardation	3,907,734
Administration	1,203,181
Interest on long-term debt	138,332
Principal on long-term debt	138,000
Capital outlay	<u>61,385</u>
Total expenditures	<u>9,047,874</u>
Net change in fund balances	1,167,784
Fund balances, beginning of year	<u>2,510,302</u>
Fund balances, end of year	<u>\$ 3,678,086</u>

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

GULF BEND MENTAL HEALTH MENTAL RETARDATION CENTER

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the year ended August 31, 2011

Total net change in fund balances - governmental funds	\$ 1,167,784
<i>Amounts reported for governmental activities in the Statement of Activities (SOA) are different because:</i>	
Capital outlays are not reported as expenses in the SOA.	61,385
The depreciation of capital assets used in Governmental activities is not reported in the funds.	(203,511)
The net revenue (expense) of internal service funds is reported with Governmental Activities.	15,395
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	138,000
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	(6,201)
Accrued interest is not reported as an expenses in the funds. This is the change in accrued interest from the beginning to end of year.	3,526
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	<u>(29,320)</u>
Change in net assets of governmental activities	<u>\$ 1,147,058</u>

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

GULF BEND MENTAL HEALTH MENTAL RETARDATION CENTER
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUAL
For the year ended August 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original Budget	Final Budget		Final Budget Positive (Negative)
REVENUES				
Local Funds:				
City/County contributions	\$ 141,687	\$ 141,687	\$ 141,400	\$ (287)
Client fees/insurance	677,791	677,791	273,581	(404,210)
Home and community based services	1,915,663	1,915,663	1,760,353	(155,310)
Intermediate care facilities	1,253,263	1,253,263	1,139,549	(113,714)
Medicaid rehabilitation services	1,138,380	1,138,380	1,395,358	256,978
Other income	134,486	134,486	1,134,309	999,823
Total local funds	5,261,270	5,261,270	5,844,550	583,280
State Programs:				
General revenue	2,964,757	2,964,757	3,062,955	98,198
In-home and family support	48,639	48,639	48,639	-
New generation medications	305,561	305,561	305,561	-
STAR grant	403,245	403,245	369,083	(34,162)
TCOOMMI grant	164,914	164,914	223,043	58,129
Total state programs	3,887,116	3,887,116	4,009,281	122,165
Federal Programs:				
Mental health block grant	226,608	226,608	226,608	-
TITLE XX - Social services block grant	19,550	19,550	19,550	-
TITLE XX - TANF	18,463	18,463	18,463	-
Basic Center	142,586	142,586	75,580	(67,006)
Total federal programs	407,207	407,207	340,201	(67,006)
Interest	37,820	37,820	21,626	(16,194)
Total revenues	9,593,413	9,593,413	10,215,658	622,245
EXPENDITURES				
Current:				
Personnel	4,887,417	4,887,417	4,857,269	30,148
Employee benefits	1,301,040	1,301,040	1,251,224	49,816
Professional and consultants fees	818,158	818,158	847,891	(29,733)
Training and travel	406,330	406,330	437,363	(31,033)
Consumable supplies	616,757	616,757	339,116	277,641
Building occupancy and operating costs	497,796	497,796	544,526	(46,730)
Other expenditures	407,651	407,651	432,768	(25,117)
Interest expense	146,389	146,389	138,332	8,057
Principal paid	136,000	136,000	138,000	(2,000)
Capital Outlay	48,500	48,500	61,385	(12,885)
Total expenditures	9,266,038	9,266,038	9,047,874	218,164
Net change in fund balance	327,375	327,375	1,167,784	840,409
Fund balance, beginning of year	2,510,302	2,510,302	2,510,302	-
Fund balance, end of year	\$ 2,837,677	\$ 2,837,677	\$ 3,678,086	\$ 840,409

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

GULF BEND MENTAL HEALTH MENTAL RETARDATION CENTER

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

August 31, 2011

	Business-Type Activities <u>Enterprise Fund</u>	Governmental Activities <u>Internal Service Fund</u>
ASSETS		
Current:		
Due from other funds	\$ 180,946	\$ 4,755
Prepaid items	206	17,770
Noncurrent:		
Capital assets, net	<u>1,289,670</u>	<u>386,647</u>
Total assets	<u>1,470,822</u>	<u>409,172</u>
LIABILITIES		
Current:		
Accrued interest payable	206	-
Due to others	-	15,052
Unearned revenue	16,183	-
Noncurrent:		
Bonds payable	<u>5,000</u>	<u>-</u>
Total liabilities	<u>21,389</u>	<u>15,052</u>
NET ASSETS		
Invested in capital assets, net of related debt	1,284,670	386,647
Unrestricted net assets	<u>164,763</u>	<u>7,473</u>
Total net assets	<u>\$ 1,449,433</u>	<u>\$ 394,120</u>

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

GULF BEND MENTAL HEALTH MENTAL RETARDATION CENTER
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the year ended August 31, 2011

	Business-Type Activities Enterprise Fund	Governmental Activities Internal Service Fund
OPERATING REVENUES:		
Rental revenues	\$ 237,236	\$ -
Charges for service	-	294,354
Insurance reimbursements	-	2,488
Total operating revenues	<u>237,236</u>	<u>296,842</u>
OPERATING EXPENSES:		
Depreciation	53,720	89,071
Gasoline	-	94,748
Insurance	4,469	37,649
Management fees	19,768	-
Miscellaneous	4,972	-
Repairs and maintenance	25,723	67,789
Utilities	26,651	-
Total operating expenses	<u>135,303</u>	<u>289,257</u>
OPERATING INCOME	<u>101,933</u>	<u>7,585</u>
NON-OPERATING INCOME (EXPENSE):		
Gain on disposition of asset	-	7,810
Investment income - interest	767	-
Interest expense	(412)	-
Total non-operating expenses	<u>355</u>	<u>7,810</u>
Net change in net assets	102,288	15,395
Fund balances, beginning of year	<u>1,347,145</u>	<u>378,725</u>
Fund balances, end of year	<u>\$ 1,449,433</u>	<u>\$ 394,120</u>

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

GULF BEND MENTAL HEALTH MENTAL RETARDATION CENTER
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
STATEMENT OF ACTIVITIES

	Business-Type Activities Enterprise Fund	Governmental Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from lessees	\$ 237,236	\$ -
Cash received from services provided	-	531,262
Cash payments to suppliers of good and services	(197,562)	(200,186)
Net cash provided by operating activities	<u>39,674</u>	<u>331,076</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition or construction of capital assets	(40,029)	(343,686)
Proceeds from insurance reimbursement	-	12,610
Interest paid	(412)	-
Net cash provided by capital and related financing activities	<u>(40,441)</u>	<u>(331,076)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	767	-
Net cash provided by investing activities	<u>767</u>	<u>-</u>
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ -</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income:	<u>\$ 101,933</u>	<u>\$ 7,585</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	53,720	89,071
Change in assets and liabilities:		
(Increase) decrease in due from other funds	(119,076)	227,784
(Increase) decrease in prepaid items	-	(17,770)
Increase (decrease) in due to others	-	24,406
Increase (decrease) in deferred revenue	3,097	-
Total adjustments	<u>(62,259)</u>	<u>323,491</u>
Net cash provided by operating activities	<u>\$ 39,674</u>	<u>\$ 331,076</u>

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

GULF BEND CENTER
NOTES TO FINANCIAL STATEMENTS
August 31, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Gulf Bend Center (the "Center") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

Gulf Bend Center is a public entity that was established under the provisions of the Texas Mental Health Mental Retardation Act of 1965. The Center provides community-based mental health, mental retardation, and addiction services in Victoria, DeWitt, Jackson, Calhoun, Goliad, Lavaca, and Refugio counties.

In evaluating how to define the government, for financial reporting purposes, the Center's management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Under these guidelines, the reporting entity consists of the primary government (all funds of the Center), organizations for which the primary government is financially accountable, organizations for which the primary government is not financially accountable, organizations that raise and hold economic resources for the direct benefit of the primary government, and any other organization for which the nature and significance of their relationship with the primary government is such that exclusion could cause the Center's financial statements to be misleading or incomplete. Under these guidelines there are not any entities that are considered to be component units.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by program income and intergovernmental revenues, are reported separately from the *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by any program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. City and County contributions and other items not properly included among program revenues are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible with the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Center considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Grant revenue, patient fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Center.

The proprietary fund types and fiduciary funds are accounted for on a flow of *economic resources measurement focus* and utilize the *accrual basis of accounting*. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The Center applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

D. Fund Accounting

The Center reports the following major governmental fund:

The *General Fund* is the Center's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the Center reports the following proprietary fund types:

The *Enterprise Fund* is used by the Center to account for the operations of the third-party rental of building office space.

The *Internal Service Fund* is used by the Center to charge the costs of vehicle usage to individual funds.

Proprietary funds distinguish *operating* revenue and expenses from *non-operating* items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Center's Internal Service Fund is charges for vehicle usage. Operating expenses for the Internal Service Fund includes the cost of services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Other Accounting Policies

Deposits and Investments

The Center's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The Board of Trustees authorizes the Center to invest with certain stipulations in obligations of the United States or its agencies: direct obligations of the State of Texas or its agencies; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities; obligations of states, agencies, counties, cities and other political subdivisions of any state related as to investment quality by a nationally recognized investment firm not less than A or its equivalent; certificates of deposit if issued by a state bank, national bank or savings and loan association domiciled in this state; commercial paper; mutual funds and money market mutual funds; and investment pools.

During the year ended August 31, 2011, the Center did not own any types of securities other than those permitted by statute.

Investments for the Center are reported at fair value. For investments in local government investment pools, the reported value of the pool is the same as the fair value of the pool shares.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e., the current portion of interfund loans). All other outstanding balances between the governmental activities and business-type activities would be reported in the government-wide financial statements as "internal balances."

Accounts receivable from patients and insurance carriers for services rendered are reduced by the amount of such billings deemed by management to be ultimately uncollectible. At year-end, the Center considers all such receivables to be fully collectible.

Inventories and Prepaid Items

Inventory consists of expendable supplies held for consumption and is valued at lower of cost or market determined by the first-in, first-out method of accounting. The cost of inventory is recorded as expenditures at the time individual inventory items are consumed (consumption method).

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are recorded as expenditures at the time items are consumed (consumption method).

Capital Assets

Capital assets, which include buildings and improvements, furniture and equipment, and vehicles, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Center as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

E. Other Accounting Policies – (continued)

Capital Assets – (continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	10-50
Furniture and equipment	3-10
Vehicles	5

Source of Funds

Certain funds from federal and other state sources represent fees for service reimbursements, as well as project grants. The funds that are for individual patient service reimbursements are reported as local funds as directed by the Texas Health and Human Services Commission (Department of State Health Services and Department of Aging and Disability Services).

Compensated Absences

Employees receive a number of days off work annually based upon their tenure at the Center as follows:

<u>Tenure in Months</u>	<u>Annual Rate</u>
4-24	15 days
25-60	20 days
61-120	25 days
121 +	30 days

These days off are to be used for scheduled vacation and sick leave. The maximum accumulation of paid time off is 30 days. Paid time off will not be credited in excess of the maximum accumulation at the end of the fiscal year, but will be transferred into that individual's Sick Leave Account and can only be used after other paid time off is used. Upon departure from employment with the Center, the employee will be paid for all accumulated leave in the Paid Time Off account up to a maximum of 30 days. The balance in the Sick Leave Account will not be paid.

In accordance with Governmental Accounting Standards Board Statement 16, "Accounting for Compensated Absences," the Center accrues its liability for such accumulated unpaid benefits. The estimated current portion of the liability is recorded as an expenditure and liability in the General Fund. All vacation pay is accrued when incurred in the government-wide, proprietary fund financial statements.

Indirect Costs

Certain indirect costs are included in the program expense reported for individual functions and activities.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

E. Other Accounting Policies – (continued)

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance and costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

Fund balances of Governmental Funds classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the Board through a resolution or by other formal action. Assigned fund balances are constrained by intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by the Executive Director based on Board direction.

For the classification of Governmental Fund balances, the Center considers expenditures to be made from the most restrictive first when more than one classification is available.

It is the desire of the Center to maintain adequate General Fund fund balance to provide sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The Board has adopted a financial standard to maintain an “unassigned” General Fund fund balance of 25% of the total operating expenditures.

Tax-Exempt Status

The Internal Revenue Service has issued a determination letter dated June 24, 2003, stating that the Center qualifies as an organization described in Section 501(c)(3) of the Internal Revenue Code and, accordingly, is exempt from Federal income taxes.

Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**A. Budgetary Data**

The Center's annual budget for the General Fund is prepared using the modified accrual basis of accounting and is based on estimated expenditures provided on a unit basis summarized by program category. The budget is submitted to the Board of Trustees. The budget must have the Board of Trustees' approval and that of the Texas Health and Human Services Commission ("the Commission"). All annual appropriations lapse at fiscal year end.

Contract/budget negotiations are scheduled by the Commission at which time contract performance measures and funding amounts are negotiated. The contract and/or budget are revised to incorporate any modifications agreed upon and resubmitted to the Commission. The final budget is approved by the Commission, generally before the beginning of the new fiscal year.

B. Budgetary Compliance

Budgetary control is maintained at the department level. The Board of Trustees must approve revisions at or above the department level. There were no amendments to the original budget during the current year. There were several instances of expenditures exceeding the budget amount during fiscal year 2011:

<u>General Fund</u>	<u>Variance</u>
Building rent and operating costs	\$ (46,730)
Consultants and professional fees	(29,733)
Other expenditures	(25,117)
Training and travel	(31,033)
Capital outlay	(12,885)

These over expenditures were funded by available fund balance in the General Fund.

NOTE 3: DEPOSITS AND INVESTMENTS

The Center's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the Center's agent back approved pledged securities in an amount sufficient to protect Center funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Cash Deposits:

At August 31, 2011, the Center's carrying amount for cash deposits was \$97,111 and the bank balance was \$135,349. All deposits are entirely insured or collateralized with securities held by the Center's agent in the name of the Center.

Investments:

The Center is required by Government Code Chapter 2256, the Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

NOTE 3: DEPOSITS AND INVESTMENTS – (Continued)

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that the Center adhered to the requirements of the Act. Additionally, investment practices of the Center were in accordance with local policies.

The Act determines the types of investments which are allowable for the Center. These include, with certain restrictions, (1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) securities lending program, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The Center's investments at August 31, 2011 are:

TexPool	\$ 1,596,254
Certificates of Deposit	<u>2,475,000</u>
Total investments	<u>\$ 3,377,230</u>

Interest Rate Risk

In accordance with the Center's investment policy, the Center manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase.

Credit Risk

The Center's investments in the public funds investment pool include those with the TexPool Investment Pool. The pool operates in full compliance with the Public Funds Investment Act. The TexPool Investment Pool is rated AAA-m by Standard and Poors.

Concentration of Credit Risk

The Center's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific user. At year-end, the Center was not exposed to concentration of credit risk.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Center's deposits may not be returned to it. The Center's investment policy requires that deposits at financial institutions be insured by the FDIC and/or collateralized by securities pledged to the Center by the depository. During the fiscal year and at year-end, all deposits held in the depository bank were fully collateralized and therefore the Center was not exposed to custodial credit risk.

NOTE 3: DEPOSITS AND INVESTMENTS – (Continued)

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. During the fiscal year and at year-end, all certificates of deposit were fully collateralized. The Center's remaining investments are invested in the TexPool Investment Pool and it has no custodial credit risk.

NOTE 4: RECEIVABLES FROM OTHER GOVERNMENTS AND DEFERRED REVENUE

Receivables from other governments are for reimbursement of expenditures and fees for service provided under various programs and grants. All amounts are expected to be collected within the next year. A summary of these receivables follows:

Local Funds		
Medicaid Administrative Claiming		\$ 181,896
Title XIX – Intermediate Care		
Facilities for Mentally Retarded (ICF/MR)		99,503
Title XIX – Home and Community Services (HCS)		81,839
Other		163,163
State Funds		
Texas Council on Offenders with Mental Impairments		38,427
Texas Department of Family and Protective Services		<u>62,836</u>
Total		<u>\$ 627,664</u>

The Center's governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Total</u>
	<u>Unearned</u>
General Fund	
General Revenue - MH	<u>\$ 7,581</u>

NOTE 5: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The following is a summary of interfund receivables and payables:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ -	\$ 185,701
Enterprise Fund	180,946	
Internal Service Fund	<u>4,755</u>	<u>-</u>
Total All Funds	<u>\$ 185,701</u>	<u>\$ 185,701</u>

These balances resulted from the time lag between the dates that interfund services were provided and payments between funds were made.

NOTE 6: CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2011 was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balances</u>
Governmental activities:				
Depreciable assets:				
Buildings and improvements	\$ 3,363,681	\$ 61,385	\$ -	\$ 3,425,066
Furniture, equipment & computers	722,200	26,896	3,798	745,298
Vehicles	<u>666,265</u>	<u>311,808</u>	<u>18,000</u>	<u>960,073</u>
Total capital assets being depreciated	4,752,146	400,089	21,798	5,130,437
Less accumulated depreciation	<u>1,880,044</u>	<u>292,582</u>	<u>16,618</u>	<u>2,156,008</u>
Governmental activities capital assets, net	<u>2,872,102</u>	<u>107,507</u>	<u>5,180</u>	<u>2,974,429</u>
Business-type activities:				
Depreciable assets:				
Buildings and improvements	1,519,288	40,029	-	1,559,317
Less accumulated depreciation	<u>215,926</u>	<u>53,720</u>	<u>-</u>	<u>269,646</u>
Business-type activities capital assets, net	<u>1,303,362</u>	<u>(13,691)</u>	<u>-</u>	<u>1,289,671</u>
Capital assets, net	<u>\$ 4,175,464</u>	<u>\$ 93,816</u>	<u>\$ 5,180</u>	<u>\$ 4,264,100</u>

Depreciation was charged to functions as follows:

Governmental activities:	
Mental Health Adult	\$ 125,616
Mental Health Child	18,551
Mental Retardation	83,321
Administration	<u>65,094</u>
Total governmental activities	292,582
Business-type activities:	
Rental	<u>53,720</u>
Total	<u>\$ 346,302</u>

NOTE 7: LONG-TERM OBLIGATIONS

Long-Term Obligations

During fiscal year 2008, the Center's Board of directors approved a bond issue in the amount of \$2,870,000 in Gulf Bend Mental Health Mental Retardation Center Revenue Bonds, Series 2008. The proceeds of the bond issue were utilized to purchase and renovate a building to house the Center's operations.

Current requirements for principal and interest expenditures are accounted for in the general and enterprise funds. Effective interest rates range from 5.11% to 8.25%. Interest expense for the year ended August 31, 2011 was \$138,744.

Long-Term Obligation Activity

The following is a summary of the Center's long-term obligations at year-end:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities					
Compensated Absences	\$ 221,551	\$ 51,475	\$ 22,155	\$ 250,871	\$ 25,087
Revenue Bonds	<u>2,734,000</u>	<u>-</u>	<u>138,000</u>	<u>2,596,000</u>	<u>145,000</u>
Total Governmental Activities	<u>2,955,551</u>	<u>51,475</u>	<u>160,155</u>	<u>2,846,871</u>	<u>170,087</u>
Business - Type Activities					
Revenue Bonds	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>5,000</u>	<u>-</u>
Total	<u>\$ 2,960,551</u>	<u>\$ 51,475</u>	<u>\$ 160,155</u>	<u>\$ 2,851,871</u>	<u>\$ 170,087</u>

Debt Service Requirements

Debt service requirements on bonds payable at August 31, 2011 are as follows:

<u>Year Ending</u> <u>August 31, 2011</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2012	\$ 145,000	\$ 131,116	\$ -	\$ 413	\$ 276,529
2013	153,000	123,502	-	413	276,915
2014	161,000	115,480	-	413	276,892
2015	169,000	107,048	-	413	276,461
2016	177,000	98,208	-	413	275,620
2017-2020	804,000	294,934	-	1,650	1,100,584
2021-2024	<u>987,000</u>	<u>107,784</u>	<u>5,000</u>	<u>1,444</u>	<u>1,101,228</u>
Totals	<u>\$ 2,596,000</u>	<u>\$ 978,072</u>	<u>\$ 5,000</u>	<u>\$ 5,156</u>	<u>\$ 3,584,228</u>

NOTE 8: LEASE RECEIVABLE

The Center leases office space to several unrelated parties under separate lease agreements with expiration dates ranging from May 5, 2011 to September 30, 2018. Total rental income under the leases was \$174,636 for the 2011 fiscal year. Estimated future minimum rental payments to be received from unrelated parties under the formal leases for the fiscal years ending August 31:

2012	\$ 229,040
2013	191,618
2014	142,819
2015	68,488
2016	61,316
Thereafter	<u>41,778</u>
Total	<u>\$ 735,059</u>

The cost and accumulated depreciation of property and equipment owned by the Center that is leased primarily to unrelated parties under the leases described above was \$1,559,317 and \$269,646, respectively, at August 31, 2011.

NOTE 9: COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating (non-capitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of August 31:

2012	\$ 19,812
2013	19,812
2014	<u>1,107</u>
Total	<u>\$ 40,731</u>

Rental expenditures for the year were \$ 42,944

NOTE 10: EMPLOYEES' PENSION PLAN

The Center has a retirement plan, TCRT/Gulf Bend Mental Health Mental Retardation Center Retirement Plan (the "Plan") that is a combination 401(a) money purchase plan and Code Section 457 plan and is sponsored by ISC Group Incorporated. All employees with one year of service who normally work more than 17½ hours per week or 1,000 hours a year and have attained the age of 18 are eligible to participate.

The 401(a) portion of the Plan is a defined contribution plan and accounts for the employer's contribution. The Center will match contributions up to 6% of the employees' salaries. Participants start to vest in the employer's contribution at the completion of one year of service with 100% vesting occurring after seven years. Forfeited contributions are held in a separate account and can be used to reduce future employer contributions. Amounts contributed to the 401(a) portion of the Plan are placed in a guaranteed fixed income account. Center and employee contributions for the fiscal year ended August 31, 2011 were \$182,525 and \$144,071, respectively.

The deferred compensation portion of the Plan is consistent with Internal Revenue Code Section 457(a). Vesting in the Plan is immediate. Employees may voluntarily contribute up to the maximum limits allowable under IRS Code guidelines.

NOTE 10: EMPLOYEES' PENSION PLAN - (continued)

All assets of the Plan are primarily invested in mutual funds and are held in trust at ISC Group Incorporated with the Center serving as trustee for the exclusive benefit of the Plan participants. The assets will not be diverted to any other purpose.

NOTE 11: COMMITMENTS AND CONTINGENCIES

The Center participates in a number of state and federal financial assistance programs, Medicare, and Medicaid programs. The programs are subject to financial and compliance audits by the grantors or their representatives and regulatory authorities. The purpose of the audits is to ensure compliance with conditions relating to the granting of funds and other reimbursement regulations. The Center's management believes that any liability for reimbursement, which may arise as the result of these audits, is not believed to be material to the financial position of the Center.

At year-end, the Center is not involved in any lawsuits that would have a material effect on the Center's financial position.

NOTE 12: RISK MANAGEMENT

Workers' Compensation

The Center provides workers' compensation benefits to its employees through participation in the Texas Council Risk Management Fund (the "Fund"). The Fund is a self-insurance pool created under Texas law through interlocal agreements among Texas community MHMR centers and the Funds. The Funds exists solely to provide coverage protection and risk management services for its members.

As an alternative to the standard, guaranteed cost workers' compensation coverage, the Fund offers a Minimum Contribution Plan (MCP), in which the Center participates. Under the MCP, which is considered a retrospectively rated policy, premiums are accrued based on the ultimate cost of the loss experience to date and a six-year look-back period. Center contributions to the Funds are determined based on actual workers' compensation losses for a given year, subject to minimum and maximum amounts. Minimum and maximum amounts are determined based on 60% and 110%, respectively, of the Center's Audited Standard Contribution, which is determined by the Fund based on the Center's gross employee compensation and applicable rates and loss experience modifiers.

The accompanying statement of net assets and balance sheet as of August 31, 2011, include a loss reserve liability for estimated outstanding workers' compensation claims of \$92,783, a decrease of \$35,866 from the loss reserve of \$128,649 as of August 31, 2010. The reserve was estimated based on information provided by management of the Fund, and includes policy years ended August 31, 2006 though 2011. The loss reserve does not include an estimate of claims incurred but not reported as it could not be reasonably estimated.

Health Insurance

The Center provides health insurance benefits through a self-insured health insurance plan (the "Plan"). The Plan provides health benefits (medical, hospital, surgical, and major medical) to all eligible employees. The Plan is funded by contributions from the Center and from eligible employees for dependent coverage, if elected. Contributions are based on rates established and approved by the Center. The rates are calculated by the Plan's third party administrator, Blue Cross Blue Shield of Texas (BCBS), and are based on historical claims cost data. Center and employee contributions are made monthly. The contract between the Center and BCBS is renewable on September 1st of each year. Terms of coverage and contribution rates are included in contractual provisions.

NOTE 12: RISK MANAGEMENT – (continued)

Health Insurance – (continued)

The Center is protected against catastrophic individual and aggregate loss by stop-loss insurance coverage through BCBS. The specific excess loss insurance reimburses the Center for loss amounts exceeding a specified limit per participant per year. Such limit was \$75,000 for the year ended August 31, 2011. Specific loss reimbursements for the year ended were \$152,000.

The aggregate excess loss insurance reimburses the Center for loss amounts in excess of a predetermined amount of total losses for a year, based on an “attachment point” as defined in the insurance contract. For the year ended August 31, 2011, the aggregate excess loss limit was \$586,346. Total losses for purposes of determining this reimbursement does not include loss amounts reimbursed through the specific excess loss converge. The Center did not meet the aggregate loss reimbursement limit for the year ended August 31, 2011.

Total contributions to the Plan (including stop-loss insurance premiums and administrative fees) were \$604,371 for the year ended August 31, 2011.

The accompanying statement of net assets and balance sheet as of August 31, 2011, include a loss reserve liability for estimated outstanding medical claims of \$21,794. The reserve was estimated based on actual claims paid during the 60-day period immediately following the close of the fiscal year as provided by BCBS.

Changes in the health claims liability are presented below:

	<u>Year Ended August 31</u>	
	<u>2011</u>	<u>2010</u>
Beginning of year balance	\$ 31,127	\$ 18,370
Claims incurred	480,577	549,245
Claims paid	<u>(489,910)</u>	<u>(536,488)</u>
End of year balance	<u>\$ 21,794</u>	<u>\$ 31,127</u>

STATISTICAL SECTION

This part of the Center's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Center's overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how the Center's financial performance and well-being have changed over time.

Revenue Capacity

Not applicable to the Center.

Debt Capacity

These schedules present information to help the reader assess the affordability of the Center's current levels of outstanding debt and the Center's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Center's financial activities take place and to help make comparisons over time and with other governments.

Operating Information

These schedules contain information about the Center's operations and resources to help the reader understand how the Center's financial information relates to the services the Center provides and the activities it performs.

GULF BEND CENTER
NET ASSETS BY COMPONENT
Last eight fiscal years

	Fiscal Year							
	2011	2010	2009	2008	2007	2006	2005	2004
Governmental activities								
Invested in capital assets,								
net of related debt	\$ 378,429	\$ 138,102	\$ 438,906	\$ 1,072,894	\$ 979,470	\$ 694,997	\$ 799,572	\$ 686,652
Unrestricted	3,444,981	2,538,249	2,498,861	3,138,715	2,983,125	2,411,542	1,667,869	1,753,362
Total governmental activities	3,823,410	2,676,351	2,937,767	4,211,609	3,962,595	3,106,539	2,467,441	2,440,014
Business-Type activities								
Invested in capital assets,								
net of related debt	1,284,670	1,143,453	1,142,715	-	-	-	-	-
Unrestricted	164,763	48,784	6,388	-	-	-	-	-
Total business-type activities	1,449,433	1,192,237	1,149,103	-	-	-	-	-
Net assets								
Total primary government	\$ 5,272,843	\$ 3,868,588	\$ 4,086,870	\$ 4,211,609	\$ 3,962,595	\$ 3,106,539	\$ 2,467,441	\$ 2,440,014

Note: Information for years prior to August 31, 2004 is not presented due to unavailability.

GULF BEND CENTER
CHANGES IN NET ASSETS
Last eight fiscal years

	Fiscal Year							
	2011	2010	2009	2008	2007	2006	2005	2004
Expenses, governmental activities:								
Mental Health Adult	\$ 3,352,657	\$ 3,925,479	\$ 4,459,912	\$ 4,180,330	\$ 3,372,584	\$ 3,515,474	\$ 3,731,497	\$ 3,481,389
Mental Health Child	971,582	1,264,290	836,951	1,132,615	825,361	932,335	887,116	843,205
Mental Retardation	4,609,556	4,111,358	3,794,176	3,980,936	3,816,181	3,738,981	3,976,123	3,811,900
Interest on long-term debt	134,806	141,837	136,807	45,035	-	-	-	35,389
Bond issuance costs and fee	-	-	-	2,067	-	-	-	-
Total expenses, governmental	9,068,601	9,442,964	9,227,846	9,340,983	8,014,126	8,186,790	8,594,736	8,171,883
Program revenues, governmental activities:								
Charges for services								
Mental Health Adult	592,423	490,823	759,498	870,706	905,370	430,711	553,602	210,837
Mental Health Child	105,312	268,004	330,595	325,047	250,012	156,735	177,555	103,958
Mental Retardation	3,809,799	3,207,847	3,203,348	3,302,440	3,077,678	3,696,034	3,478,216	3,984,811
Total charges for services	4,507,534	3,966,674	4,293,441	4,498,193	4,233,060	4,283,480	4,209,373	4,299,606
Operating grants and contributions	3,904,821	4,181,671	3,758,550	3,500,412	3,285,072	3,224,014	3,251,860	3,248,504
Capital grants and contributions	-	-	-	-	-	-	125,000	30,000
Total program revenues, governmental	8,412,355	8,148,345	8,051,991	7,998,605	7,518,132	7,507,494	7,586,233	7,578,110
Total net program expenses	(656,246)	(1,294,619)	(1,175,855)	(1,342,378)	(495,994)	(679,296)	(1,008,503)	(593,773)
General revenues, governmental activities:								
Local income	1,781,677	1,331,205	1,029,387	1,460,088	1,172,004	1,206,478	1,014,886	661,648
Investment earnings	21,626	21,998	43,877	131,304	180,046	111,916	51,803	27,531
Total general revenues, governmental	1,803,303	1,353,203	1,073,264	1,591,392	1,352,050	1,318,394	1,066,689	689,179
Total changes in net assets, Governmental activities	1,147,057	58,584	(102,591)	249,014	856,056	639,098	58,186	95,406
Expenses, business-type activities:								
Rental	135,303	126,558	125,023	-	-	-	-	-
Interest on long-term debt	412	410	4,599	-	-	-	-	-
Total expenses, business-type	135,715	126,968	129,622	-	-	-	-	-
Program revenues, business-type activities:								
Charges for services								
Rental	238,003	170,102	107,474	-	-	-	-	-
Total changes in net assets, Business-type activities	102,288	43,134	(22,148)	-	-	-	-	-
Changes in net assets, Primary government	\$ 1,249,345	\$ 101,718	\$ (124,739)	\$ 249,014	\$ 856,056	\$ 639,098	\$ 58,186	\$ 95,406

Note: Information for years prior to August 31, 2004 is not presented due to unavailability.

GULF BEND CENTER
FUND BALANCES, GOVERNMENTAL FUNDS
Last eight fiscal years

	Fiscal Year							
	2011	2010	2009	2008	2007	2006	2005	2004
General fund								
Nonspendable	\$ 230,508	\$ 220,375	\$ 178,003	\$ 62,447	\$ 61,512	\$ 49,353	\$ 55,860	\$ 72,159
Assigned	350,000	350,000	350,000	350,000	350,000	-	-	-
Unassigned	<u>3,097,578</u>	<u>1,939,927</u>	<u>2,025,369</u>	<u>2,800,179</u>	<u>2,733,174</u>	<u>2,494,793</u>	<u>1,819,498</u>	<u>1,624,119</u>
Total general fund	<u>\$ 3,678,086</u>	<u>\$ 2,510,302</u>	<u>\$ 2,553,372</u>	<u>\$ 3,212,626</u>	<u>\$ 3,144,686</u>	<u>\$ 2,544,146</u>	<u>\$ 1,875,358</u>	<u>\$ 1,696,278</u>

Note: Information for years prior to August 31, 2004 is not presented due to unavailability.

GULF BEND CENTER
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
Last eight fiscal years

	Fiscal Year							
	2011	2010	2009	2008	2007	2006	2005	2004
Revenues								
Local funds	\$ 5,844,550	\$ 5,196,509	\$ 5,385,950	\$ 5,956,034	\$ 5,405,064	\$ 5,482,959	\$ 5,322,950	\$ 4,901,168
State programs	4,009,281	3,564,011	3,409,822	3,235,790	3,014,372	2,966,152	2,990,817	2,989,731
Federal programs	340,201	553,939	352,946	266,868	270,700	264,859	287,353	282,557
Interest income	21,626	21,998	43,877	131,304	180,046	111,915	51,803	27,531
Total revenues	10,215,658	9,336,457	9,192,595	9,589,996	8,870,182	8,825,885	8,652,923	8,200,987
Expenditures								
Mental Health Adult	2,776,585	3,370,364	3,918,274	3,432,422	2,809,413	2,909,772	3,050,612	2,988,771
Mental Health Child	822,657	1,068,054	702,950	891,696	675,112	741,868	724,263	719,870
Mental Retardation	3,907,734	3,456,090	3,111,249	3,263,801	3,159,559	3,108,579	3,313,318	3,188,960
Administration	1,203,181	1,193,166	1,164,249	1,592,148	1,312,037	1,353,031	1,353,186	1,130,235
Capital outlay	61,385	51,563	846,674	3,123,978	313,521	43,847	179,887	27,391
Debt service principal	138,000	96,000	-	-	-	-	-	510,000
Debt service interest	138,332	144,290	108,453	-	-	-	-	27,287
Debt service administrative costs	-	-	-	-	-	-	-	8,102
Total expenditures	9,047,874	9,379,527	9,851,849	12,304,045	8,269,642	8,157,097	8,621,266	8,600,616
Excess (deficiency) of revenues over expenditures	1,167,784	(43,070)	(659,254)	(2,714,049)	600,540	668,788	31,657	(399,629)
Other financing sources (uses)								
Proceeds from bond issue	-	-	-	2,781,989	-	-	-	-
Proceeds from sale of asset	-	-	-	-	-	-	-	74,515
Transfers in	-	-	-	-	-	-	147,963	440,752
Transfers out	-	-	-	-	-	-	(540)	(440,752)
Total other financing sources (uses)	-	-	-	2,781,989	-	-	147,423	74,515
Net changes in fund balances	\$ 1,167,784	\$ (43,070)	\$ (659,254)	\$ 67,940	\$ 600,540	\$ 668,788	\$ 179,080	\$ (325,114)
Debt service as a percentage of noncapital expenditures	3.07%	2.58%	1.20%	0.00%	0.00%	0.00%	0.00%	0.41%

Note: Information for years prior to August 31, 2004 is not presented due to unavailability.

GULF BEND CENTER

SCHEDULE OF REVENUES AND EXPENDITURES BY SOURCE OF FUNDS

GENERAL FUND

For the year ended August 31, 2011

<u>Fund Source</u>	<u>Total Revenue</u>	<u>Total Mental Health Adult Expenditures</u>	<u>Total Mental Health Children Expenditures</u>	<u>Total Mental Retardation Expenditures</u>	<u>Total Center Expenditures</u>	<u>Excess Revenue Over Expenditures</u>
Objects of Expense:						
Personnel	\$ 4,120,957	\$ 1,413,582	\$ 450,284	\$ 1,822,236	\$ 3,686,102	\$ 434,855
Employee benefits	1,056,040	334,462	117,279	496,575	948,316	107,724
Consultant services	707,378	201,387	63,458	407,820	672,665	34,713
Training and travel	396,256	107,949	51,688	198,839	358,476	37,780
Debt service	166,020	86,050	22,365	43,665	152,080	13,940
Capital outlay	41,547	-	-	11,938	11,938	29,609
Non-capitalized equipment	14,174	57	15	6,613	6,685	7,489
Pharmaceutical expense	176,464	170,642	5,822	-	176,464	-
PAP expense	686,944	686,944	-	-	686,944	-
Other operating expense	2,369,038	773,322	184,649	1,249,680	2,207,651	161,387
Total Expenditures	\$ 9,734,818	\$ 3,774,395	\$ 895,560	\$ 4,237,366	\$ 8,907,321	\$ 827,497
Method of Finance:						
General revenue - MH	\$ 2,595,389	\$ 2,170,376	\$ 425,013	\$ -	\$ 2,595,389	\$ -
General revenue - MR	467,566	-	-	467,566	467,566	-
Mental health block grant	226,608	157,404	69,204	-	226,608	-
In-home & family support	48,639	-	-	48,639	48,639	-
Title XX-TANF	19,550	-	19,550	-	19,550	-
Title XX-SS Block Grant	18,463	-	18,463	-	18,463	-
New generation medications	305,561	303,951	1,610	-	305,561	-
Other state funds	390,542	278,121	-	112,421	390,542	-
Earned income	4,332,853	601,216	356,880	3,097,827	4,055,923	276,930
Required local match	293,895	247,605	4,839	41,451	293,895	-
Additional local funds	1,516,592	70,800	1	469,462	540,263	976,329
Total Expended Sources	\$ 10,215,658	\$ 3,829,473	\$ 895,560	\$ 4,237,366	\$ 8,962,399	\$ 1,253,259

Source: Gulf Bend Mental Health Mental Retardation Center

GULF BEND CENTER**RECONCILIATION OF TOTAL REVENUE TO FOURTH QUARTER****FINANCIAL REPORT - GENERAL FUND**

For the year ended August 31, 2011

	<u>MH Care Report III</u>	<u>MR Care Report III</u>	<u>Additions</u>	<u>Deletions</u>	<u>Audited Financial Statements</u>
Local Funds:					
City/County contributions	\$ 85,635	\$ 55,765	\$ -	\$ -	\$ 141,400
Client fees and insurance	92,871	180,710	-	-	273,581
Home & community based	-	1,760,353	-	-	1,760,353
Intermediate care facilities	-	1,139,549	-	-	1,139,549
Medicaid services	1,013,174	372,631	9,553	-	1,395,358
Other	7,446	32,796	1,094,067	-	1,134,309
Total Local Funds	<u>1,199,126</u>	<u>3,541,804</u>	<u>1,103,620</u>	<u>-</u>	<u>5,844,550</u>
State Programs:					
General revenue	2,595,389	467,566	-	-	3,062,955
In-home and family services	-	48,639	-	-	48,639
New generation medications	305,561	-	-	-	305,561
TCOOMMI grant	223,043	-	-	-	223,043
STAR program	-	-	369,083	-	369,083
DARS	-	110,575	-	110,575 (1)	-
Other	-	1,846	-	1,846 (1)	-
Total State Programs	<u>3,123,993</u>	<u>628,626</u>	<u>369,083</u>	<u>112,421</u>	<u>4,009,281</u>
Federal Programs:					
Mental Health Block Grant	226,608	-	-	-	226,608
Title XX - TANF	19,550	-	-	-	19,550
Title XX - SS Block Grant	18,463	-	-	-	18,463
Other	-	-	75,580	-	75,580
Total Federal Programs	<u>264,621</u>	<u>-</u>	<u>75,580</u>	<u>-</u>	<u>340,201</u>
Interest Income	<u>15,721</u>	<u>2,231</u>	<u>3,674</u>	<u>-</u>	<u>21,626</u>
Total Revenues	<u>\$ 4,603,461</u>	<u>\$ 4,172,661</u>	<u>\$ 1,551,957</u>	<u>\$ 112,421</u>	<u>\$ 10,215,658</u>

(1) Reclassify for financial reporting purposes

Source: Gulf Bend Center

GULF BEND CENTER*RECONCILIATION OF TOTAL EXPENDITURES TO FOURTH QUARTER**FINANCIAL REPORT - GENERAL FUND**For year ended August 31, 2011*

	<u>Care Report III</u>	<u>Additions</u>	<u>Deletions</u>	<u>Audited Financial Statements</u>
Objects of Expenditures:				
Personnel	\$ 4,736,785	\$ 120,484	(1) \$ -	\$ 4,857,269
Employee benefits	1,214,644	36,580	(1) -	1,251,224
Professional and consultant services	800,295	47,596	(1) -	847,891
Training and travel	426,032	11,331	(1) -	437,363
Debt Service	240,823	35,509	(1) -	276,332
Capital outlay	41,547	19,838	(1) -	61,385
Non-capitalized equipment	14,288	295	(1) -	14,583
Pharmaceutical expenses	176,464	-	-	176,464
PAP expenses	686,944	-	686,944	-
Other operating expenses	<u>1,396,996</u>	<u>-</u>	<u>271,633</u> (1)	<u>1,125,363</u>
Total expenditures	<u>\$ 9,734,818</u>	<u>\$ 271,633</u>	<u>\$ 958,577</u>	<u>\$ 9,047,874</u>

(1) Allocation of medical records and maintenance expenditures

Source: Gulf Bend Center

GULF BEND CENTER

RATIOS OF OUTSTANDING DEBT BY TYPE

Last eight fiscal years

Fiscal Year	Governmental Activities	Business-Type Activities	Total Primary Government	Percentage of Personal Income	Per Capita (2)
	Revenue Bonds (1)	Revenue Bonds (1)			
2004	-	-	-	0.0000%	\$ 27,226
2005	-	-	-	0.0000%	29,102
2006	-	-	-	0.0000%	31,568
2007	-	-	-	0.0000%	33,344
2008	-	-	-	0.0000%	37,723
2009	2,830,000	45,000	2,875,000	0.0684%	36,376
2010	2,734,000	5,000	2,739,000	(A)	(A)
2011	2,596,000	5,000	2,601,000	(A)	(A)

Note: Information for years prior to August 31, 2004 is not presented due to unavailability.
Also, the Center is not subject to a legal debt limit.

(A) Data was unavailable

Source: (1) Gulf Bend Center
(2) Bureau of Economic Analysis

GULF BEND CENTER

CAPITAL ASSETS STATISTICS BY FUNCTION/PROGRAM

Last four years

Function/Program:	August 31, 2011					
	Buildings and Improvements		Furniture and Equipment		Vehicles	
	Original Cost	Book Value	Original Cost	Book Value	Original Cost	Book Value
Mental Health Adult	\$ 1,207,425	\$ 908,824	\$ 114,925	\$ 58,804	\$ 265,229	\$ 126,287
Mental Health Child	4,635	4,155	-	-	138,223	46,299
Mental Retardation	1,377,443	611,942	6,154	2,742	489,830	165,077
Administration	2,394,880	2,191,673	624,219	131,190	66,791	17,106
Total Capital Assets	\$ 4,984,383	\$ 3,716,594	\$ 745,298	\$ 192,736	\$ 960,073	\$ 354,769

Function/Program:	August 31, 2010					
	Buildings and Improvements		Furniture and Equipment		Vehicles	
	Original Cost	Book Value	Original Cost	Book Value	Original Cost	Book Value
Mental Health Adult	\$ 1,221,886	\$ 1,029,041	\$ 121,925	\$ 88,551	\$ 148,301	\$ 35,693
Mental Health Child	528,782	480,355	-	-	99,247	25,394
Mental Retardation	1,080,930	531,323	9,952	4,328	351,926	50,789
Administration	1,747,966	1,667,928	610,853	138,857	48,279	8,296
Total Capital Assets	\$ 4,579,564	\$ 3,708,647	\$ 742,730	\$ 231,736	\$ 647,753	\$ 120,172

Function/Program:	August 31, 2009					
	Buildings and Improvements		Furniture and Equipment		Vehicles	
	Original Cost	Book Value	Original Cost	Book Value	Original Cost	Book Value
Mental Health Adult	\$ 1,218,446	\$ 1,069,274	\$ 112,776	\$ 102,545	\$ 166,018	\$ 67,317
Mental Health Child	528,782	518,206	-	-	99,247	41,379
Mental Retardation	1,356,402	704,953	6,768	1,659	351,926	93,273
Administration	1,740,084	1,697,529	588,698	144,345	48,279	16,141
Total Capital Assets	\$ 4,843,714	\$ 3,989,962	\$ 708,242	\$ 248,549	\$ 665,470	\$ 218,110

Function/Program:	August 31, 2008					
	Buildings and Improvements		Furniture and Equipment		Vehicles	
	Original Cost	Book Value	Original Cost	Book Value	Original Cost	Book Value
Mental Health Adult	\$ 975,203	\$ 894,209	\$ -	\$ -	\$ 171,380	\$ 102,862
Mental Health Child	528,782	528,782	-	-	99,247	59,852
Mental Retardation	1,395,151	757,666	1,949	1,949	376,839	111,309
Administration	1,214,054	1,193,151	609,301	163,739	48,279	25,796
Total Capital Assets	\$ 4,113,190	\$ 3,373,808	\$ 611,250	\$ 165,688	\$ 695,745	\$ 299,819

Note: The figures presented as of August 31, 2008, do not include \$108,579 of construction in progress. Also, information for years prior to August 31, 2008 is not presented due to unavailability.

Source: Gulf Bend Center

GULF BEND CENTER
SCHEDULE OF INDIRECT COSTS
For year ended August 31, 2011

	<u>Total Costs</u>	<u>Unallowable Costs</u>	<u>Total Adjusted Costs</u>	<u>Direct Costs</u>	<u>Indirect Costs</u>
Personnel	\$ 4,857,269	\$ 17,124	\$ 4,840,145	\$ 4,245,717	\$ 594,428
Employee Benefits	1,251,224	5,436	1,245,788	1,076,952	168,836
Capital Outlay	61,385	61,385	-	-	-
Debt Service	276,332	276,332	-	-	-
Other	<u>2,601,664</u>	<u>114,214</u>	<u>2,487,450</u>	<u>2,136,840</u>	<u>350,610</u>
Total Expenditures	<u>\$ 9,047,874</u>	<u>\$ 474,491</u>	<u>\$ 8,573,383</u>	<u>\$ 7,459,509</u>	<u>\$ 1,113,874</u>
Indirect Costs					<u>1,113,874</u>
Direct Costs					<u>7,459,509</u>
Indirect Cost Rate					<u>14.93%</u>

Source: Gulf Bend Center

GULF BEND CENTER**SCHEDULE OF INSURANCE IN EFFECT**

For year ended August 31, 2011

<u>Type of Insurance</u>	<u>Coverage</u>	<u>Terms/Deductible</u>	<u>Effective Period</u>
Workers' Compensation	Statutory Limit	Statutory/deductible N/A	09/1/10 - 08/31/11
General Liability	\$ 1,000,000	Combined single limit per occurrence and annual aggregate/\$1,000 deductible	09/1/10 - 08/31/11
Automobile Liability	\$ 1,000,000	Combined single limit per occurrence and annual aggregate/\$1,000 deductible	09/1/10 - 08/31/11
Professional Liability	\$ 1,000,000	Per occurrence annual aggregate/\$3,000,000 \$1,000 deductible Sexual misconduct endorsement Annual aggregate/\$300,000	09/1/10 - 08/31/11
Errors and Omissions	\$ 1,000,000	Per claim and annual aggregate/\$2,500 deductible	09/1/10 - 08/31/11
Employee Dishonesty	\$ 100,000	Blanket coverage \$2,500 deductible	10/13/93 to present and continuing
Real and Personal Property	Replacement Cost	Blanket limit each occurrence/\$5,000 deductible	09/1/10 - 08/31/11
Windstorm	\$ 380,000	Co-insurance of 80-100%	09/1/10 - 08/31/11
Auto Physical Damage	Actual Cash Value	Deductible varies by vehicle	09/1/10 - 08/31/11

Note: All insurance coverage is carried through the Texas Council Risk Management Fund with the exception of employee dishonesty insurance, which is provided by CNA SURETY.

Source: Gulf Bend Center

GULF BEND CENTER

SCHEDULE OF BOND COVERAGE

For year ended August 31, 2011

<u>Name of Provider</u>	<u>Scope of Coverage</u>	<u>Amount</u>
CNA Surety Employee Dishonesty Bond	Blanket Coverage	\$ 100,000

Source: Gulf Bend Center

GULF BEND CENTER
SCHEDULE OF LEASES IN EFFECT
For year ended August 31, 2011

<u>Lessor</u>	<u>Description/Location</u>	<u>Period</u>	<u>Terms</u>
DeLage Lease	13 copiers Contract #24994794	Sept 09 to Aug 13	\$ 1,528 / mo
DeLage Lease	2 copiers Contract #25043596	June 10 to May 14	\$ 123 / mo
Michael Moseley	Residential Facility 212 Newhaven	Sept 10 to Aug 12	\$ 1,400 / mo
Cornerstone Properties	Residential Facility 106 Savannah	Sept 10 to Jan 12	\$ 925 / mo
Edie Zientek	Residential Facility 505 King Arthur	Sept 10 to Feb 13	\$ 1,175 / mo
Cuero Retail Partnership	Office Building 1127 N. Esplanade	Feb 10 to Jan 11	\$ 1,050 / mo
John Villafranca	Residential Facility 201 Lariat	Oct 10 to Sept 12	\$ 1,300 / mo
Dennis Lockstedt	Residential Facility 208 Marilyn	Jan 11 to Dec 13	\$ 700 / mo

Source: Gulf Bend Center

GULF BEND CENTER*SCHEDULE OF PROFESSIONAL AND CONSULTING SERVICES**For year ended August 31, 2011*

<u>Name</u>	<u>City</u>	<u>Type of Service</u>	<u>Amount</u>
Angela Truax	Victoria	Foster Care	\$ 37,017
Alicia Ybarra	Victoria	Foster Care	23,373
Beverly Williams	Cuero	Foster Care	27,480
C Perez	Port Lavaca	Foster Care	13,667
CareHere	Victoria	Medical Care Clinic	69,466
Carolyn J. Price	Yoakum	Foster Care	32,273
David Way	Victoria	Corporate Compliance Consultant	19,800
Donald Gould	Yoakum	Foster Care	13,093
East Texas Behavioral Healthcare	Lufkin	Human Resource Consultant	3,799
Elvira Flores	Victoria	Foster Care	13,093
Evelyn Mozisek	Hallettsville	Foster Care	12,662
Gloria Cunningham	Victoria	Foster Care	20,021
Henry Perez	Victoria	Foster Care	27,424
Ingrid Williams	Victoria	Foster Care	13,093
Lisa Hagan	Victoria	Dietician	2,961
Mary Villafranca	Victoria	Foster Care	19,177
MHMRA Harris County	Houston	Crisis Hotline	25,920
Norma Soliz	Port Lavaca	Respite	9,044
Olimpia Saucedo	Victoria	Foster Care	14,107
Padre Behavioral Healthcare	Corpus Christi	Acute Care Hospitalization	10,450
Regina Caldwell	Victoria	Foster Care	40,292
Roloff, Hnatek, & Co, L.L.P.	Victoria	Audit	28,305
Ruby Robinson	Victoria	Foster Care	14,107
Terry Horton	Hallettsville	Foster Care	13,463
TWG Investments LTD	Victoria	Residential	172,000
UTMB	Houston	Telemedicine	22,360
W. K. Brooks	Victoria	Foster Care	14,107
Walker & Associates	Corpus Christi	Health Insurance Consultant	26,400
Woolson Real Estate	Victoria	Property Management	57,600

Source: Gulf Bend Center

GULF BEND CENTER
SCHEDULE OF LEGAL SERVICES
For year ended August 31, 2011

<u>Name</u>	<u>City</u>	<u>Type of Service</u>	<u>Amount</u>
Texas Council Risk Management Fund	Austin	Consultation	\$ 2,500
John J. Stasney, PC	Plano	Consultation	\$ 2,138

Source: Gulf Bend Center

GULF BEND CENTER
MISCELLANEOUS STATISTICS
For year ended August 31, 2011

<u>Fiscal Year</u>	<u>Unduplicated Client Served</u>	<u>Mental Health Residential Client Days</u>	<u>Mental Retardation Residential Client Days</u>
2002	2,527	4,060	25,613
2003	2,428	3,642	24,330
2004	2,670	3,394	24,732
2005	2,835	2,334	24,778
2006	2,694	1,174	23,496
2007	2,739	2,360	22,813
2008	2,977	2,578	20,843
2009	3,326	3,187	19,482
2010	3,334	2,851	18,600
2011	3,133	2,654	18,468

Source: Gulf Bend Center

GULF BEND CENTER*TEN LARGEST EMPLOYERS**Current Year and Nine Years Ago*

Employer	2011		
	Employees	Rank	Percent of Total Regional Employment
Victoria Independent School District	2,178	1	5.15%
Formosa Plastic	1,610	2	3.80%
The Inteplast Group	1,400	3	3.31%
Citizen's Medical Center	994	4	2.35%
DeTar Healthcare System	926	5	2.19%
Spherion	650	6	1.54%
H.E.B.	646	7	1.53%
Calhoun Independent School District	640	8	1.51%
Dow - Seadrift Operations	617	9	1.46%
King Fisher Marine	604	10	1.43%
	<u>10,265</u>		<u>24.27%</u>
Employer	2002		
	Employees	Rank	Percent of Total Regional Employment
Victoria Independent School District	2,259	1	5.27%
The Inteplast Group	1,725	2	4.02%
Formosa Plastic	1,500	3	3.50%
Citizen's Medical Center	1,280	4	2.98%
Koch - Invista (formerly DuPont)	1,150	5	2.68%
DOW - Seadrift Operations	1,047	6	2.44%
Alcoa	963	7	2.25%
DeTar Healthcare System	922	8	2.15%
City of Victoria	609	9	1.42%
Calhoun Independent School District	592	10	1.38%
	<u>12,047</u>		<u>28.09%</u>

Source: Victoria Economic Development Corporation

Note: Based on Victoria Metropolitan Statistical Area, which includes Victoria, Calhoun, Dewitt, Lavaca, Gonzales, Jackson, and Goliad Counties.

GULF BEND CENTER

DEMOGRAPHIC AND ECONOMIC STATUS STATISTICS

Last ten years

<u>Fiscal Year</u>	<u>Population(1)</u>	<u>Personal Income (amounts expressed in thousands) (1)</u>	<u>Per Capita Personal Income (1)</u>	<u>Unemployment Rate (2)</u>
2002	112,596	2,920,508	25,938	5.74%
2003	112,862	2,988,624	26,480	6.05%
2004	113,189	3,081,715	27,226	5.74%
2005	113,395	3,300,020	29,102	5.03%
2006	112,490	3,551,078	31,568	4.49%
2007	113,522	3,785,289	33,344	3.73%
2008	114,256	4,310,040	37,722	3.54%
2009	115,496	4,201,336	36,376	6.68%
2010	(A)	(A)	(A)	7.00%
2011	(A)	(A)	(A)	7.10%

Sources:

(1) Bureau of Economic Analysis

(2) U.S. Department of Labor, Bureau of Labor Statistics

(A) Data was unavailable

Note: The Bureau of Economic Analysis includes the areas of Victoria, Calhoun, and Goliad Counties for reporting purposes.

GULF BEND CENTER**FULL-TIME EQUIVALENT COUNTY GOVERNMENT EMPLOYEES BY PROGRAM***Last ten fiscal years*

	Full-time Equivalent Employees as of August 31,									
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Program										
Mental Health Adult	52	37	38	34	35	31	37	36	46	47
Mental Health Child & Adolescent	9	23	9	12	11	12	15	11	25	28
Mental Retardation	75	75	69	77	72	74	70	82	95	95
General and Administrative	<u>22</u>	<u>23</u>	<u>24</u>	<u>24</u>	<u>24</u>	<u>26</u>	<u>27</u>	<u>26</u>	<u>32</u>	<u>32</u>
Total	<u>158</u>	<u>158</u>	<u>140</u>	<u>147</u>	<u>142</u>	<u>143</u>	<u>150</u>	<u>156</u>	<u>197</u>	<u>201</u>

Source: Gulf Bend Center

GULF BEND CENTER
RETIREMENT PLAN DATA
As of August 31, 2011

Number of Plan Participants:

Active	154
Inactive	<u>151</u>
Total	<u>305</u>

Plan Assets and Liabilities:

	<u>Fair Value</u>
Plan assets:	
Cash	\$ -
Investments:	
Fixed Income	618,535
Equity	<u>956,520</u>
Total plan assets	<u>\$ 1,575,055</u>
Plan liabilities	None

Source: Gulf Bend Center

SINGLE AUDIT SECTION



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**INDEPENDENT AUDITORS' 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**

Board of Trustees
Gulf Bend Center
Victoria, Texas

We have audited the accompanying financial statements of the governmental activities, The business-type activities, each major fund, and the aggregate remaining fund information of Gulf Bend Center (the "Center") as of and for the year ended August 31, 2011, which collectively comprise the Center's basic financial statements and have issued our report thereon dated January 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

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

A control deficiency 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 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 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.

Board of Trustees
Gulf Bend Center
Victoria, Texas

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center'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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board trustees, management, and state and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Harrison Waldrop & Ullrich, LLP

January 19, 2012



CERTIFIED PUBLIC ACCOUNTANTS
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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

Board of Trustees
Gulf Bend Center
Victoria, Texas

Compliance

We have audited Gulf Bend Center (the "Center"), with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *State of Texas Single Audit Circular* that could have a direct and material effect on each of its major federal and state programs for the year ended August 31, 2011. The Center's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal and state programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center'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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *State of Texas Single Audit Circular*. Those standards 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 and state program occurred. An audit includes examining, on a test basis, evidence about the Center'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 on the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended August 31, 2011.

Internal Control Over Compliance

The management of the Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered the Center's internal control over compliance with requirements that could have a direct and material effect on a major federal and state program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance, 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 the Center's internal control over compliance.

Board of Trustees
Gulf Bend Center
Victoria, Texas

A deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state 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 board of trustees, management, and federal and state awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Harrison Waldrop & Uheuk, LLP

January 19, 2012

GULF BEND CENTER**SCHEDULE OF EXPENDITURES OF STATE AND FEDERAL AWARDS**

Year ended August 31, 2011

<u>Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Expenditures</u>
<u>STATE EXPENDITURES</u>			
Texas Department of State Health Services			
General Revenue - MH	N/A	FY 2011	\$ 2,170,376
General Revenue - C&A	N/A	FY 2011	425,013
New Generation Medications	N/A	FY 2011	<u>305,561</u>
Total Texas Department of State Health Services			<u>2,900,950</u>
Texas Department of Aging and Disability Services			
General Revenue - MR	N/A	FY 2011	467,566
In-Home and Family	N/A	FY 2011	<u>48,639</u>
Total Texas Department of Aging and Disability Services			<u>516,205</u>
Texas Department of Criminal Justice			
Texas Correctional Office on Offenders with Medical or Mental Impairments	N/A	FY 2011	<u>223,043</u>
Texas Department of Family and Protective Services			
Services To At Risk Youth	N/A	23734121	<u>369,083</u>
Total State Expenditures			<u>4,009,281</u>
<u>FEDERAL EXPENDITURES</u>			
U.S. Department of Health and Human Services			
Basic Center Program	93.623	90CY254001	<u>75,580</u>
Passed through Texas Department of State Health Services			
TANF Title XX Block Grant	93.558	FY 2011	19,550
Base Title XX Block Grant	93.667	FY 2011	18,463
MH Block Grant	93.958	FY 2011	<u>226,608</u>
Total Texas Department of State Health Services			<u>264,621</u>
Total Federal Expenditures			<u>340,201</u>
TOTAL STATE AND FEDERAL EXPENDITURES			<u><u>\$ 4,273,902</u></u>

See the accompanying notes to the schedule of expenditures of state and federal awards.

GULF BEND CENTER

NOTES TO SCHEDULE OF EXPENDITURES OF STATE AND FEDERAL AWARDS

For the year ended August 31, 2011

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of state awards includes the state and federal grant activity of the Center and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State of Texas Single Audit Circular*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2: RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

State and federal awards do not include monies received from Medicare and Medicaid. These monies are in local sources in the general fund.

NOTE 3: STATE AWARD GUIDELINES

The Center is required by the Texas Health and Human Services Commission to audit General Revenue as a Type A major state program.

GULF BEND CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended August 31, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted?

yes no

State and Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weakness(es)? yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of the OMB Circular A-133 or the State of Texas Single Audit Circular?

yes no

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of State or Federal Program or Cluster</i>
N/A (State Program)	General Revenue, FY 2011 Performance Contract

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? yes no

Section II - Financial Statement Findings

None noted.

Section III - Federal Award Findings and Questioned Costs

None noted.

GULF BEND CENTER

SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS

Year ended August 31, 2011

Financial Statement Findings

Finding No. 2010-1: Receivables from other governmental entities are not properly recorded in the general ledger.

Current Status: During our test work of accounts receivable, we noted multiple accounts that had to be investigated and reconciled to amounts received in the subsequent revenue recognition period. We proposed several journal entries to correct ending balances. Since the independent auditor cannot be part of their client's financial reporting process or its internal control, the Center needs to continue in its process to implement procedures and internal controls to provide reasonable assurance that receivables are reconciled and revenue is properly recognized.

State and Federal Award Findings and Questioned Costs

None noted.