ZION RECOVERY SERVICES, INC.

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2011 AND 2010

ZION RECOVERY SERVICES, INC.

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ZION RECOVERY SERVICES, INC.
Officials
June 30, 2011

Board of Directors:	Address
Jim Richardson, Chairperson	Shenandoah, Iowa
Steve Ratcliff, Vice-Chairperson	Red Oak, Iowa
Mark Wedemeyer, Secretary-Treasurer	Atlantic, Iowa
Matt Wedemeyer	Greenfield, Iowa
Brad Golightly	Adel, Iowa
Cara Morgan	Sidney, Iowa

Program Administrator:	
Laurie Cooley	Anita, Iowa

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Zion Recovery Services, Inc.
Atlantic, Iowa

We have audited the accompanying balance sheets of Zion Recovery Services, Inc. as of June 30, 2011 and 2010, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Zion Recovery Services, Inc. as of June 30, 2011 and 2010, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 29, 2011 on our consideration of Zion Recovery Services, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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 important for assessing the results of our audit.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information (shown on page 10) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gronewold, Bell, Kyhnn & Co. P.C.

Atlantic, Iowa
August 29, 2011

ZION RECOVERY SERVICES, INC.
Balance Sheets
June 30,

ASSETS

	2011	2010
Current Assets:		
Cash and cash equivalents	$ 145,296	$ 190,359
Certificates of deposit	317,011	263,347
Accounts receivable, less allowance for doubtful accounts ($50,000 in 2011 and $51,000 in 2010)	87,220	37,600
Grant receivables	8,022	30,872
Inventory	823	933
Prepaid expense	26,368	24,807
Total current assets	584,740	547,918
Property and Equipment, Net	16,294	19,916
Total assets	$ 601,034	$ 567,834

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	$ 10,297	$ 5,209
Accrued employee compensation	33,793	24,809
Payroll taxes withheld and accrued	1,573	7,134
Total current liabilities	45,663	37,152
Net Assets:		
Unrestricted	555,371	530,682
Total liabilities and net assets	$ 601,034	$ 567,834

The accompanying notes are an integral part of these statements.

ZION RECOVERY SERVICES, INC.
Statements of Activities and Changes in Net Assets
Year ended June 30,

	2011	2010
Support and Revenue:		
Support:		
Iowa Department of Public Health - Comprehensive Treatment: Iowa Managed Substance Abuse Care Plan - Non-Medicaid	$ 846,078	$ 904,736
Donations	6,701	2,581
Total support	852,779	907,317
Revenue:		
Client fees, net	170,907	108,858
Medicaid fees	226,940	160,004
Access to recovery revenue	15,154	90,715
Interest income	3,826	7,310
Other revenues	56,476	72,961
Total revenue	473,303	439,848
Total Support and Revenue	1,326,082	1,347,165
Expenses:		
Salaries and wages	717,397	745,757
Employee benefits	233,494	223,246
Advertising and promotion	8,928	14,799
Provision for depreciation	6,735	5,982
Food costs	41,259	27,888
Insurance	12,756	11,339
Miscellaneous	9,901	12,499
Professional services	16,472	18,167
Rent	105,215	95,310
Repairs and maintenance	26,315	23,339
Supplies and other expense	60,195	65,075
Telephone	20,080	25,896
Training costs	15,627	14,527
Travel	20,240	22,689
Utilities	6,779	7,389
Total expenses	1,301,393	1,313,902
Increase in Unrestricted Net Assets	24,689	33,263
Net Assets at Beginning of Year	530,682	497,419
Net Assets at End of Year	$ 555,371	$ 530,682

The accompanying notes are an integral part of these statements.

ZION RECOVERY SERVICES, INC.
Statements of Cash Flows
Year ended June 30,

	2011	2010
Cash flows from operating activities:		
Cash received from clients, third-party payors, and court system	$ 418,059	$ 434,796
Cash paid to suppliers and employees	(1,280,897)	(1,320,713)
Contract funding received	870,726	880,088
Donations received	--	600
Interest received	3,826	7,310
Net cash provided by operating activities	11,714	2,081
Cash flows from investing activities:		
Capital expenditures	(3,113)	(2,077)
Purchase of certificates of deposit	(53,664)	(7,091)
Net cash used in investing activities	(56,777)	(9,168)
Net decrease in cash and cash equivalents	(45,063)	(7,087)
Cash and cash equivalents at beginning of year	190,359	197,446
Cash and cash equivalents at end of year	$ 145,296	$ 190,359
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	$ 24,689	$ 33,263
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for depreciation	6,735	5,982
Changes in assets and liabilities		
Accounts receivable	(26,770)	(22,390)
Inventory	110	(708)
Prepaid expense	(1,561)	718
Accounts payable	5,088	(8,696)
Accrued employee compensation	8,984	(502)
Payroll taxes withheld and accrued	(5,561)	(5,586)
Total adjustments	(12,975)	(31,182)
Net cash provided by operating activities	$ 11,714	$ 2,081

The Agency also incurred the following non-cash transactions in addition to the transactions reflected in the reconciliation of change in net assets to net cash provided by operating activities:

	2011	2010
Iowa Food Bank donations	$ 6,701	$ 1,981

The accompanying notes are an integral part of these statements.

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2011 and 2010

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Activities

Zion Recovery Services, Inc. was created in 1973 as a non-profit corporation under the provisions of the Iowa Non-Profit Corporation Act, Chapter 504A of the Code of Iowa. The Agency is a not for profit corporation and is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The purpose of the Agency is to provide for the care, maintenance, education and treatment of the substance abuser. The Agency presently serves the six-county area of Adair, Cass, Dallas, Fremont, Montgomery and Page Counties and maintains a residential facility for intermediate care in Clarinda, Iowa. The Board of Directors is made up of a representative from the County Board of Supervisors of each of the six counties in the service area. Each member serves an annual term.

2. Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liability is incurred. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

3. 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Inventory

The Agency values the food donations received and food inventory at its estimated wholesale cost to show a realistic cost of providing meals to the patients of the residential treatment center.

5. Property and Equipment

Property and equipment is stated at cost. Property and equipment donated for Agency operations are recorded at fair value. The Agency computes depreciation using the straight-line method. Useful lives of equipment range from three to seven years. The useful lives of leasehold improvements range from five to fifteen years.

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Unrestricted Revenues and Support

   a. Client fees are recorded net of adjustments for uncollectible accounts. The adjustments for uncollectible accounts are $141,822 for 2011 and $154,814 for 2010.

   b. The managed care contract revenues are recorded monthly as the payments are received. The contract requirements include minimum units of service that must be provided to earn the contract revenue. The Agency may be required to pay back a portion of the contract revenue if the minimum units of service are not met.

7. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Agency considers all highly liquid debt instruments purchased with a maturity of three months or less and food stamps received for payment of client services to be cash equivalents.

NOTE B - MANAGED CARE CONTRACT

The Agency's substance abuse treatment and rehabilitation services are being reimbursed under a managed care contract administered by Magellan Behavioral Health, Inc. The Agency received approximately 64% of its total support and revenue through this contract for the year ended June 30, 2011 (67% for 2010). The Agency's managed care contract for its current six county service area has been renewed for fiscal year ending June 30, 2012.

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment is stated at acquisition cost. The cost by major category and accumulated depreciation at June 30 are as follows:

	2011	2010
Leasehold Improvements	$ 3,818	$ 3,818
Equipment	68,380	65,267
	72,198	69,085
Less Accumulated Depreciation	55,904	49,169
	$ 16,294	$ 19,916

NOTE D - FUNCTIONAL EXPENSES

Following is a summary of expenses classified by function:

	2011	2010
Outpatient and Residential Services	$ 1,006,330	$ 1,044,144
Management and General	295,063	269,758
	$ 1,301,393	$ 1,313,902

NOTE E - CONCENTRATION OF CREDIT RISK

The Agency grants credit without collateral to its clients, most of whom are residents of the six county service area. The mix of receivables from patients and third-party payors at June 30, 2011 and 2010, was as follows:

	2011	2010
Medicaid	21%	1%
Client accounts	79	99
	100%	100%

NOTE F - PENSION AND RETIREMENT BENEFITS

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.50% (5.38% effective July 1, 2011) of their annual covered salary and the Agency is required to contribute 6.95% (8.07% effective July 1, 2011) of annual covered payroll. Contribution requirements are established by State statute. The Agency's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009 were approximately $49,200, $49,300, and $39,600, respectively, equal to the required contributions for each year.

NOTE G - CONTINGENCIES

Risk Management

The Agency is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Zion Recovery Services, Inc. is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Off-Balance Sheet Risk

The Agency maintains its deposits at several banks in the area. At various times throughout the year and at year end, the deposits in one of the banks exceeded the FDIC insured deposits limit for one entity (by approximately $42,200 for the bank in total at year end). Management of the Agency has received no indication of any potential viability problems with this bank by the date of this report.

Subsequent Events

The Agency has evaluated all subsequent events through August 29, 2011, the date the financial statements were available to be issued.

* * *

SUPPLEMENTARY INFORMATION

ZION RECOVERY SERVICES, INC.
Schedule of Expenditures by Activity
Year ended June 30,

	2011				2010
	ATR & DUI Services	Outpatient Services	Residential Services	Total	Total
Salaries and wages	$ 4,836	$ 505,252	$ 207,309	$ 717,397	$ 745,757
Employee benefits	803	166,221	66,470	233,494	223,246
Advertising and promotion	--	6,128	2,800	8,928	14,799
Provision for depreciation	--	6,735	--	6,735	5,982
Food costs	--	--	41,259	41,259	27,888
Insurance	--	8,273	4,483	12,756	11,339
Miscellaneous	990	8,443	468	9,901	12,499
Professional services	--	11,773	4,699	16,472	18,167
Rent	--	90,815	14,400	105,215	95,310
Repairs and maintenance	--	20,430	5,885	26,315	23,339
Supplies and other expense	12,260	37,627	10,308	60,195	65,075
Telephone	--	13,402	6,678	20,080	25,896
Training costs	--	12,232	3,395	15,627	14,527
Travel	428	15,629	4,183	20,240	22,689
Utilities	--	6,779	--	6,779	7,389
	$ 19,317	$ 909,739	$ 372,337	$1,301,393	$1,313,902

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Directors
Zion Recovery Services, Inc.
Atlantic, Iowa

We have audited the financial statements of Zion Recovery Services, Inc. as of and for the year ended June 30, 2011, and have issued our report thereon dated August 29, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Zion Recovery Services, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Zion Recovery Services, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Agency's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Directors
Zion Recovery Services, Inc.

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 11-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Zion Recovery Services, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under Government Auditing Standards.

Zion Recovery Services, Inc.'s response to the finding identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Agency's response, we did not audit the Agency's response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Zion Recovery Services, Inc. and other parties to whom the Agency may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Gamewold, Bey, Kyhnn & Co. P.C.

Atlantic, Iowa
August 29, 2011

ZION RECOVERY SERVICES, INC.
Schedule of Findings
Year ended June 30, 2011

PART I - REPORTABLE CONDITIONS

11-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Agency. This deficiency is common among most small organizations.

Recommendation: We recognize that it may not be economically feasible for the Agency to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Agency to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *