

SAMARITAN RECOVERY COMMUNITY, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORTS**

FOR THE YEAR END JUNE 30, 2008

SAMARITAN RECOVERY COMMUNITY, INC.

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BELLENFANT + MILES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Samaritan Recovery Community, Inc.
Nashville, Tennessee

We have audited the accompanying statement of financial position of Samaritan Recovery Community, Inc., as of June 30, 2008, and the related statement of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 financial position of Samaritan Recovery Community, Inc., as of June 30, 2008, and the changes in its net assets and its cash flows 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 14, 2009 on our consideration of Samaritan Recovery Community, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 audit was conducted for the purpose of forming an opinion on the basic financial statements of Samaritan Recovery Community, Inc. taken as a whole. The accompanying schedule of expenditures of grant awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.

January 14, 2009

Bellenfant & Miles, P.C.

SAMARITAN RECOVERY COMMUNITY, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2008

ASSETS

Current Assets:

Cash	\$ 461,707
Certificates of deposit	657,343
Grants receivable	100
Accounts receivable	93,821
Interest receivable	12,943
Prepaid expenses and other	15,255
	<hr/>
Total Current Assets	1,241,169

Furniture and Equipment:

Property and equipment, at cost, net of accumulated depreciation	1,548,956
	<hr/>

Other Assets:

Utility deposits	1,600
Restricted deposits	2,675
Intangible assets, net	31,057
	<hr/>
Total Other Assets	35,332

Total Assets	<u><u>\$ 2,825,457</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 707
Accrued expenses	93,236
	<hr/>
Total Current Liabilities	93,943

Net Assets

Unrestricted	2,731,514
Temporarily Restricted	-
	<hr/>
Total Net Assets	2,731,514
	<hr/>
Total Liabilities and Net Assets	<u><u>\$ 2,825,457</u></u>

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

SAMARITAN RECOVERY COMMUNITY, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue:			
Government grants	\$ -	\$ 874,290	\$ 874,290
Government contracts	-	544,208	544,208
United Way	162,569	-	162,569
Program service fees	511,540	-	511,540
Managed care providers	81,718	-	81,718
Contributions	12,056	-	12,056
Special events	1,025	-	1,025
Sales to public	881	-	881
Investment income	36,552	-	36,552
Other	89,156	-	89,156
Net assets released from restrictions:			
Satisfaction of grant/contract restrictions	1,418,498	(1,418,498)	-
Total Support and Revenue	<u>2,313,995</u>	<u>-</u>	<u>2,313,995</u>
Expenses:			
Program services:			
Intensive Residential	541,704	-	541,704
Transitional Living	506,000	-	506,000
MIDAS	191,827	-	191,827
Supportive Housing	204,747	-	204,747
Wade Prince and assoc.	432,746	-	432,746
Management and general	216,208	-	216,208
Shelby Court	85,627	-	85,627
Total expenses	<u>2,178,859</u>	<u>-</u>	<u>2,178,859</u>
Change in net assets	135,136	-	135,136
Net assets - beginning of year	<u>2,596,378</u>	<u>-</u>	<u>2,596,378</u>
Net assets - end of year	<u>\$2,731,514</u>	<u>\$ -</u>	<u>\$ 2,731,514</u>

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

Program Services

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

SAMARITAN RECOVERY COMMUNITY, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 135,136
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	84,047
Amortization	15,528
(Increase) decrease in:	
Grants receivable	(100)
Accounts receivable	(81,121)
Interest receivable	13,225
Prepaid expenses and other current assets	(35)
Decrease in restricted deposit	1,225
Increase (decrease) in:	
Accounts payable	(22,304)
Accrued expenses	5,102
Net Cash Provided by Operating Activities	<u>150,703</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of certificate of deposit	(30,400)
Purchases of property and equipment	<u>(11,138)</u>
Net Cash Used by Investing Activities	<u>(41,538)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Net Cash Used by Investing Activities	<u>-</u>
Net Decrease in Cash	109,165
Cash - Beginning of Year	<u>352,542</u>
Cash - End of Year	<u><u>\$ 461,707</u></u>

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

SAMARITAN RECOVERY COMMUNITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose:

Samaritan Recovery Community, Inc., a non-profit organization, is involved in the treatment of chemical dependency (alcohol and drug addition). All programs are conducted on-premises except for supportive housing and the out-patient program.

Basis of Accounting:

A significant part of the Samaritan Recovery Community Inc.'s support is derived from government grants and contracts. Contributions by grantors for specific purposes are reported as support in the period a liability is incurred for expenditures in compliance with specific grant requirements. Such amounts received but not yet recognized are reported as deferred revenue. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Basis of Presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Accounting Financial Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations.. Accordingly, net assets of the Agency, and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Agency and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Agency currently has no temporarily restricted net assets.

SAMARITAN RECOVERY COMMUNITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that may be maintained permanently by the Agency. Generally donors of these assets permit the Agency to use all or part of the income earned for general or specific purposes. The Agency currently has no permanently restricted net assets.

Functional Allocation of Expenses:

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents:

For purposes of the statement of cash flows, the Agency considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Property and Equipment:

The Agency follows the practice of capitalizing, at cost, all expenditures for property and equipment in excess of \$500. Property and equipment is recorded at cost at the date of purchase. Donated property and equipment are recorded at their fair value at the date of the donation. Certain property and equipment have been purchased in part or in full with grant funds, and to that extent, The State of Tennessee retains a reversionary interest in these assets in the event of their disposition. Depreciation is calculated by the straight-line method over the useful lives of the respective assets as follows:

Land improvements	5 years
Buildings	6 - 31.5 years
Vehicles	5 years
Furniture and equipment	5 - 10 years

SAMARITAN RECOVERY COMMUNITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

2. FEDERAL INCOME TAX STATUS

The Agency has been determined by the Internal Revenue Service to be exempt from federal income tax under section 501 (c)(3) of the Internal Revenue Code and is classified as other than a private foundation. Accordingly, the financial statements do not reflect a provision for income taxes.

3. FUNDING AND CONCENTRATION

The Agency receives a major portion of the funds that it uses to conduct its programs from State grants and contracts and from the United Way. A major reduction of funds from one of the grants or contracts, should this occur, would have a material effect on the programs and the financial position of the Agency.

4. PROPERTY AND EQUIPMENT

Land and improvements	\$ 497,480
Buildings	1,980,303
Vehicles	75,809
Furniture and equipment	274,814
	<u>2,828,406</u>
Less: Accumulated depreciation	(1,279,450)
	<u>\$ 1,548,956</u>
Depreciation for the year	<u>\$ 84,047</u>

5. MANAGEMENT AGREEMENT

The Agency entered into a management agreement with Xebec Management, Inc. on December 1, 2005 for the management of the Agency. The management fee is computed based on a percentage of monthly net revenues. The management fee for the year was \$274,655.

6. EMPLOYEE COSTS

Included in the management agreement is an employee leasing agreement for all of the employees of the Agency. The Agency reimburses the management company the actual cost of the of the payroll plus a minor service fee. The costs of salaries, payroll taxes and other benefits are shown in the financials as though they were paid directly by the agency.

The leasing arrangement includes a 401 (k) plan for all eligible Agency employees. Employees may contribute up to 15% of their compensation and the Agency will contribute one dollar for every dollar of employee contributions up to 5% of the employee's salary. Employer contributions vest periodically based on length of participation in the plan. The total expense for the year under this plan was \$20,427.

SAMARITAN RECOVERY COMMUNITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

7. CONCENTRATION OF CREDIT RISK

The Agency maintains accounts at four commercial banks. At June 30, 2008, the excess over the Federal Deposit Insurance Corporation amount of \$100,000 was \$812,877. Management considers the risk to be minimal.

8. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Organization in estimating its fair value disclosures for financial instruments:

Cash, cash equivalents, certificates of deposit, receivables, prepaids, payables and accruals:
The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

9. COMMITMENTS

The Agency leases a building that is used in its Wade Prince & Associates program on a month to month basis for \$800 per month.

The Agency leases another building that is used in its Wade Prince & Associates program on a two year lease for \$2,526 per month. This lease began on April 1, 2008 and will expire on March 31, 2010. The rent will increase to \$2,585 per month on April 1, 2009.

The Agency leases three buildings that are used in its Supportive Housing program on a month to month basis for \$7,594 per month.

The Agency entered into a 60 month lease for office equipment. The lease began on June 6, 2005 and will expire on May 6, 2010. The lease has a fixed payment of \$398 per month.

The Agency entered into a 63 month lease for office equipment. The lease began on October 6, 2004 and will expire on December 6, 2009. The lease has a fixed payment of \$148 per month.

The total rent paid on the building leases for the year ended June 30, 2008 amounted to \$132,584.

The total rent paid on the office equipment leases for the year ended June 30, 2008 amounted to \$6,552.

Future minimum rental payments required are as follows:

Year ended June 30,	Amount
2009	\$ 22,701
2010	6,916
Total	<u>\$ 29,617</u>

SAMARITAN RECOVERY COMMUNITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

10. INTANGIBLE ASSETS

The intangible assets include a non-compete agreement and customer list that were originally included in the total assets capitalized as part of the purchase of the Wade Prince and Associates program. During the year the Agency reclassified the net value of \$46,585 and is amortizing it over the remaining life of three years. The amortization for the year ended June 30, 2008 was \$15,528.

11. SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Agency and is presented on the 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*. Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SAMARITAN RECOVERY COMMUNITY, INC.
SCHEDULE OF EXPENDITURES OF GRANT AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Grantor Agency	Program Name	CFDA Number	Grant Period	Contract Number	Grant Receivable 6/30/07	Receipts	Expenditures	Grant Receivable 6/30/08
U.S. Department of Health and Human Services Pass Through:								
Tennessee Department of Mental Health and Developmental Disabilities	Alcohol and Drug Abuse Services Block Grant	93.959	7/1/2007 - 6/30/2008	Z-08023599-00*^	\$ -	\$ 874,190	\$ 874,290	\$ 100
Total Federal Awards					\$ -	874,190	874,290	100

* Federal pass through funds.

^ Major program.



BELLENFANT + MILES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

**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**

To the Board of Directors of
Samaritan Recovery Community, Inc.
Nashville, Tennessee

We have audited the financial statements of Samaritan Recovery Community, Inc. as of and for the year ended June 30, 2008, and have issued our report thereon dated January 14, 2009. 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 Samaritan Recovery Community, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Samaritan Recovery Community, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Samaritan Recovery Community, Inc.'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. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies

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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting. The significant deficiency is described in the accompanying schedule of findings and questioned costs as item 08-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Samaritan Recovery Community, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Samaritan Recovery Community, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Samaritan Recovery Community, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization and federal awarding agencies and pass-through entities, and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Bellenfant & Miles, P.C.

January 14, 2009