

SAMARITAN RECOVERY COMMUNITY, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Comptroller of the Treasury
State of Tennessee, and
To the Board of Directors
Samaritan Recovery Community, Inc.
Nashville, Tennessee

I have audited the accompanying statement of financial position of Samaritan Recovery Community, Inc. (a Tennessee Corporation – Not For Profit) as of June 30, 2007 and the related statements of activities and changes in net assets, functional expenses and statement of cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

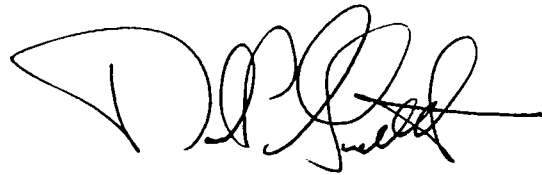
In my opinion, the financial statements referred to above present fairly in all material respects, the financial position of Samaritan Recovery Community, Inc. as of June 30, 2007, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated November 8, 2007, on my consideration of Samaritan Recovery Community, Inc.'s internal control over financial reporting and on my 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 my 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

Independent Auditor's Report
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in accordance with *Government Auditing Standards* and important for assessing the results of my audit.

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal and state 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 my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read 'D. P. Guenther', with a stylized, sweeping flourish at the end.

November 8, 2007

DAVID P. GUENTHER

SAMARITAN RECOVERY COMMUNITY, INC.
(A TENNESSEE CORPORATION - NOT FOR PROFIT)
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2007

ASSETS

	<u>UNRESTRICTED FUNDS</u>		
	<u>GENERAL</u>	<u>LAND AND BUILDING</u>	<u>TOTAL ALL FUNDS</u>
Current assets:			
Cash on hand and in banks	\$ 356,442	\$ -	\$ 356,442
Certificates of deposit	626,943	-	626,943
Accounts receivable, no allowance necessary	6,652	-	6,652
Interest receivable	26,168	-	26,168
Grant funds receivable	6,048	-	6,048
Prepaid expenses	15,220	-	15,220
Total current assets	<u>\$ 1,037,473</u>	<u>\$ -</u>	<u>\$ 1,037,473</u>
Fixed assets:			
Land	\$ -	\$ 497,480	497,480
Buildings	-	1,971,001	1,971,001
Vehicles	-	75,809	75,809
Equipment & furniture	-	319,563	319,563
	<u>\$ -</u>	<u>\$ 2,863,853</u>	<u>\$ 2,863,853</u>
Less: Accumulated depreciation	-	1,195,403	1,195,403
Total fixed assets	<u>\$ -</u>	<u>\$ 1,668,450</u>	<u>\$ 1,668,450</u>
Other assets:			
Utility deposits	\$ 1,600	\$ -	\$ 1,600
Total other assets	<u>\$ 1,600</u>	<u>\$ -</u>	<u>\$ 1,600</u>
Total assets	<u>\$ 1,039,073</u>	<u>\$ 1,668,450</u>	<u>\$ 2,707,523</u>

The accompanying notes to financial statements are an integral part of this statement.

LIABILITIES AND NET ASSETS

	<u>UNRESTRICTED FUNDS</u>		
	<u>GENERAL</u>	<u>LAND AND BUILDING</u>	<u>TOTAL ALL FUNDS</u>
Current liabilities:			
Accounts payable	\$ 23,011	\$ -	\$ 23,011
Accrued expenses	88,134	-	88,134
Total current liabilities	<u>\$ 111,145</u>	<u>\$ -</u>	<u>\$ 111,145</u>
Unrestricted net assets:	<u>927,928</u>	<u>1,668,450</u>	<u>2,596,378</u>
Total liabilities and net assets	<u>\$ 1,039,073</u>	<u>\$ 1,668,450</u>	<u>\$ 2,707,523</u>

SAMARITAN RECOVERY COMMUNITY, INC.
 (A TENNESSEE CORPORATION - NOT FOR PROFIT)
 STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2007

Public support and revenue:

Public support:

Contributions	\$ 4,839
Special events	1,080
United Way	162,383
Government grants	1,467,006
Total public support	<u>\$ 1,635,308</u>

Revenue:

Program service fees	\$ 460,511
Managed care providers	13,332
Sales to public	1,222
Investment income	38,079
Miscellaneous revenues	90,206
Total revenues	<u>\$ 603,350</u>
Total public support and revenue	<u>\$ 2,238,658</u>

Expenses:

Intensive Residential	\$ 582,981
Transitional Living	578,543
Management & General	133,280
Midas	203,371
Supportive Housing	211,438
Wade Prince & Assoc	461,708
Building	70,885
Shelby Court	88,982
Total expenses	<u>\$ 2,331,188</u>

Decrease in unrestricted net assets \$ (92,530)

Net assets at beginning of year 2,688,908

Net assets at end of year \$ 2,596,378

The accompanying notes to financial statements are an integral part of this statement.

SAMARITAN RECOVERY COMMUNITY, INC.
(A TENNESSEE CORPORATION-NOT FOR PROFIT)
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007

	INTENSIVE RESIDENTIAL	TRANSITIONAL LIVING	MIDAS	SUPPORTIVE HOUSING	WADE PRINCE & ASSOC	TOTAL TREATMENT PROGRAMS
Compensation expense:						
Salaries	\$ 274,356	\$ 263,494	\$ 132,036	\$ 75,955	\$ 216,074	\$ 961,915
Employee benefits	51,295	50,162	23,132	12,027	28,205	164,821
Payroll taxes	22,262	21,934	10,851	5,775	16,104	76,926
Total compensation expense	<u>\$ 347,913</u>	<u>\$ 335,590</u>	<u>\$ 166,019</u>	<u>\$ 93,757</u>	<u>\$ 260,383</u>	<u>\$ 1,203,662</u>
Other expenses:						
Professional fees	\$ 83,805	\$ 83,339	\$ 35,942	\$ 1,754	\$ 114,853	\$ 319,693
Supplies and general	68,536	68,344	-	631	6,911	144,422
Telephone	3,083	2,884	-	4,157	5,508	15,632
Postage and shipping	585	585	-	-	1,066	2,236
Occupancy expense	50,312	48,581	1,410	106,071	48,808	255,182
Equipment rental & maintenance	9,904	9,905	-	65	900	20,774
Printing & publications	870	870	-	575	1,112	3,427
Travel	3,663	3,664	-	250	1,116	8,693
Conferences and meetings	4,388	4,388	-	255	1,393	10,424
Membership dues	9,228	8,853	-	2,818	-	20,899
Miscellaneous	694	11,540	-	-	231	12,465
Depreciation	-	-	-	1,105	19,427	20,532
Total other expenses	<u>\$ 235,068</u>	<u>\$ 242,953</u>	<u>\$ 37,352</u>	<u>\$ 117,681</u>	<u>\$ 201,325</u>	<u>\$ 834,379</u>
Total expenses	<u>\$ 582,981</u>	<u>\$ 578,543</u>	<u>\$ 203,371</u>	<u>\$ 211,438</u>	<u>\$ 461,708</u>	<u>\$ 2,038,041</u>

The accompanying notes to financial statements are an integral part of this statement.

MANAGEMENT & GENERAL	LAND AND BUILDING	SHELBY COURT	TOTAL FUNCTIONAL EXPENSES
\$ 36,961	\$ -	\$ 17,470	\$ 1,016,346
8,140	-	1,673	174,634
2,848	-	2,237	82,011
<u>\$ 47,949</u>	<u>\$ -</u>	<u>\$ 21,380</u>	<u>\$ 1,272,991</u>

\$ 68,019	\$ -	\$ 8,093	\$ 395,805
1,435	-	160	146,017
1,388	-	-	17,020
-	-	154	2,390
14,489	-	47,626	317,297
-	-	-	20,774
-	-	-	3,427
-	-	903	9,596
-	-	-	10,424
-	-	-	20,899
-	-	-	12,465
-	70,885	10,666	102,083
<u>\$ 85,331</u>	<u>\$ 70,885</u>	<u>\$ 67,602</u>	<u>\$ 1,058,197</u>

<u>\$ 133,280</u>	<u>\$ 70,885</u>	<u>\$ 88,982</u>	<u>\$ 2,331,188</u>
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SAMARITAN RECOVERY COMMUNITY, INC.
 (A TENNESSEE CORPORATION - NOT FOR PROFIT)
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2007

Cash flows from operating activities:	
Change in net assets	\$ (92,530)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	102,083
Increase in accounts receivable	(1,314)
Increase in interest receivable	(14,632)
Decrease in grant funds receivable	10,297
Decrease in prepaid expenses	98
Decrease in accounts payable	(16,389)
Increase in accrued liabilities	<u>90</u>
Net cash used by operating activities	\$ <u>(12,297)</u>
Cash flows from investing activities:	
Maturity of certificates of deposit	\$ 15,000
Purchase of property and equipment	<u>(358,312)</u>
Net cash used by investing activities	\$ <u>(343,312)</u>
Net decrease in cash	\$ (355,609)
Cash, beginning of year	<u>712,051</u>
Cash, end of year	<u><u>\$ 356,442</u></u>

The accompanying notes to financial statements are an integral part of this statement.

SAMARITAN RECOVERY COMMUNITY, INC.
(A TENNESSEE CORPORATION – NOT FOR PROFIT)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

(1) ACCOUNTING POLICIES:

Basis of Presentation – Financial statement presentation follows the AICPA Audit and Accounting Guide, *Not-for-Profit Organizations* and the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 116, “Accounting for Contributions Received and Contributions Made.” Under SFAS No. 116, the Agency is required to report contributions received as restricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Financial statement presentation also follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, “Financial Statements of Not-for-Profit Organizations.” Under SFAS No. 117, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Temporarily restricted net assets are for support of specified operating activities. At present, the Agency has no permanently or temporarily restricted net assets.

Land and Building Fund - Land, building, and equipment are stated at cost. Depreciation of fixed assets is calculated by the straight-line method over the estimated useful lives of the assets. Donated fixed assets are recorded at their fair market value at the date of donation. Certain fixed assets 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.

Estimates – The preparation of financial statements in conformity with the generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of these financial instruments.

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(2) ORGANIZATION & GENERAL

Samaritan Recovery Community, Inc. is involved in the treatment of chemical dependency (alcohol and drug addiction). All programs are conducted on-premises except for supportive housing. In March 1991, the Agency changed its name from Samaritans, Inc. to Samaritan Recovery Community, Inc.

(3) TAX STATUS:

The agency is a nonprofit voluntary health organization, exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. Contributions to the Agency qualify for the 50 percent charitable contributions limitation.

(4) ACCOUNTS RECEIVABLE:

Accounts receivable are partially comprised of amounts due from Managed Care Organizations collectively known as TennCare for patient services. The total amount billed to these organizations during the year amounted to \$30,480 of which \$13,332 was either collected during the year or included in accounts receivable as of June 30, 2007. The balance of \$17,148 was written off as a contractual adjustment.

(5) EMPLOYEE COSTS:

Effective January 1, 1994, the Agency entered into an employee leasing arrangement with an unrelated third party, whereby all existing employees became employees of the third party, with the Agency reimbursing at actual cost plus a minor service fee. The costs of salaries, payroll taxes and other benefits are shown in the accompanying financial statements in the same manner in which they were shown previously.

As part of the leasing arrangement, a 401 (k) plan has been established for all eligible employees. Employees may contribute up to 15% of their compensation, and the agency will contribute 100 cents for every dollar of employee contributions for amounts up to 5 percent of salary. Employer contributions vest periodically based upon length of participation in the plan. Total expense for the year under this plan was \$21,691.

(6) SIGNIFICANT FUNDING SOURCES:

Samaritan Recovery Community, Inc. receives a major portion of its funds from State and Federal grants and contracts from United Way for the conduct of its programs. A major reduction of funds from one of the grantor agencies, should this

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occur, would have a material effect on the programs and the financial position of the Agency.

(7) CONCENTRATION OF CREDIT RISK:

Substantially all of the Agency's cash is deposited in accounts in four financial institutions. Funds amounting to \$115,669, \$226,943 and \$342,536 represent the amount on deposit in the institutions, which exceeds that which is covered by FDIC insurance. The Agency would potentially be at risk for the loss of these funds should any financial institution become insolvent. Management considers this risk to be minimal.

(9) LEASES:

The agency leases 3 buildings used in its Supportive Housing program on a month-to-month basis. Total rental expense for the year under these leases amounted to \$85,095.

The Agency also leases space in 2 other locations for use in the Wade Prince & Associates program. One location is leased on a month-to-month basis. Total rental expense for the year for this location audited to \$9,600. The other location is leased under an agreement expiring in March, 2008. Total rental expense for the year audited to \$36,818. The future rental commitment for the year ended June 30, 2008 is \$21,998.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

To the Comptroller of the Treasury
State of Tennessee, and
To the Board of Directors
Samaritan Recovery Community, Inc.
Nashville, Tennessee

I have audited the financial statements of Samaritan Recovery Community, Inc. as of and for the year ended June 30, 2007, and have issued my report thereon dated November 8, 2007. I conducted my 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 my audit, I considered Samaritan Recovery Community, Inc.'s internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my 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, I do not express an opinion of the effectiveness of the Organization'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 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.

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.

My consideration of 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 internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Samaritan Recovery Community, Inc.'s financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Comptroller of the Treasury, State of Tennessee, the Board of Directors, 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.

A handwritten signature in black ink, appearing to read 'D. P. Guenther', with a long horizontal flourish extending to the right.

November 8, 2007

DAVID P. GUENTHER