

SAMARITAN RECOVERY COMMUNITY, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORTS**

FOR THE YEAR ENDED JUNE 30, 2009

SAMARITAN RECOVERY COMMUNITY, INC.

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BELLENFANT + MILES, PLLC
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, 2009, 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, 2009, 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 September 21, 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.

September 21, 2009

Bellenfant & Miles, PLLC

SAMARITAN RECOVERY COMMUNITY, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009

ASSETS

Current Assets:

Cash	\$ 504,944
Certificates of deposit	657,343
Grants receivable	28,380
Accounts receivable	39,537
Interest receivable	30,654
Prepaid expenses and other	<u>9,507</u>
Total Current Assets	<u>1,270,365</u>

Property and Equipment:

Property and equipment, at cost, net of accumulated depreciation	<u>1,524,155</u>
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Other Assets:

Utility deposits	1,600
Restricted deposits	3,675
Intangible assets, net	<u>15,528</u>
Total Other Assets	<u>20,803</u>

Total Assets	<u><u>\$ 2,815,323</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 19,032
Accrued expenses	<u>96,725</u>
Total Current Liabilities	<u>115,757</u>

Net Assets

Unrestricted	2,699,566
Temporarily Restricted	<u>-</u>
Total Net Assets	<u>2,699,566</u>
Total Liabilities and Net Assets	<u><u>\$ 2,815,323</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, 2009

	Unrestricted	Temporarily Restricted	Total
Support and Revenue:			
Government grants	\$ 874,170	\$ -	\$ 874,170
Government contracts	443,717	-	443,717
United Way	119,843	-	119,843
Program service fees	377,053	-	377,053
Managed care providers	120,050	-	120,050
Contributions	11,919	-	11,919
Rents	85,766	-	85,766
Special events	945	-	945
Sales to public	486	-	486
Investment income	27,250	-	27,250
Gain on sale of property and equipment	3,360	-	3,360
Other	2,578	-	2,578
	<hr/>	<hr/>	<hr/>
Total Support and Revenue	2,067,137	-	2,067,137
Expenses:			
Program services:			
Intensive Residential	574,240	-	574,240
Transitional Living	501,422	-	501,422
MIDAS	209,341	-	209,341
Supportive Housing	210,914	-	210,914
Wade Prince and assoc.	294,176	-	294,176
Management and general	229,645	-	229,645
Shelby Court	79,347	-	79,347
	<hr/>	<hr/>	<hr/>
Total expenses	2,099,085	-	2,099,085
Change in net assets	(31,948)	-	(31,948)
Net assets - beginning of year	2,731,514	-	2,731,514
Net assets - end of year	<u>\$2,699,566</u>	<u>\$ -</u>	<u>\$ 2,699,566</u>

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

SAMARITAN RECOVERY COMMUNITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2009

	Program Services					Support Services				
	Intensive Residential	Transitional Living	MIDAS	Supportive Housing	Wade Prince & Assoc.	Total Treatment Programs	Management and General	Shelby Court	Total Support	Total All Funds
Salaries	\$ 273,715	\$ 215,298	\$ 133,957	\$ 66,302	\$ 145,424	\$ 834,696	\$ 44,990	\$ 14,729	\$ 59,719	\$ 894,415
Employee benefits	45,574	32,894	22,238	11,645	23,885	136,236	7,827	926	8,753	144,989
Payroll taxes	24,482	18,958	11,760	5,628	12,714	73,542	3,643	1,573	5,216	78,758
	343,771	267,150	167,955	83,575	182,023	1,044,474	56,460	17,228	73,688	1,118,162
Professional fees	98,757	96,843	39,999	1,425	41,554	278,578	70,413	6,916	77,329	355,907
Supplies and general	59,765	60,613	-	512	3,123	124,013	1,225	529	1,754	125,767
Telephone	2,935	3,108	-	4,462	6,058	16,563	1,440	-	1,440	18,003
Postage and shipping	422	422	-	-	308	1,152	-	254	254	1,406
Occupancy	48,685	49,532	1,387	116,075	52,755	268,434	16,681	41,707	58,388	326,822
Equipment rental and maintenance	9,639	9,819	-	-	617	20,075	-	-	-	20,075
Printing and publications	667	667	-	1,647	203	3,184	-	-	-	3,184
Travel	4,043	4,043	-	117	1,319	9,522	-	60	60	9,582
Conferences and meetings	2,317	2,317	-	111	614	5,359	-	-	-	5,359
Membership dues	3,020	3,020	-	2,949	1,588	10,577	-	-	-	10,577
Miscellaneous	219	3,888	-	-	-	4,107	-	1,959	1,959	6,066
Depreciation	-	-	-	41	4,014	4,055	67,897	10,694	78,591	82,646
Amortization	-	-	-	-	-	-	15,529	-	15,529	15,529
Total Expenses	\$ 574,240	\$ 501,422	\$ 209,341	\$ 210,914	\$ 294,176	\$ 1,790,093	\$ 229,645	\$ 79,347	\$ 308,992	\$ 2,099,085

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, 2009

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (31,948)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	82,646
Amortization	15,529
Gain on sale of property and equipment	(3,360)
(Increase) decrease in:	
Grants receivable	(28,280)
Accounts receivable	54,284
Interest receivable	(17,711)
Prepaid expenses and other current assets	5,748
Increase in restricted deposit	(1,000)
Increase (decrease) in:	
Accounts payable	18,325
Accrued expenses	3,489
Net Cash Provided by Operating Activities	<u>97,722</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from the sale of property and equipment	3,360
Purchases of property and equipment	<u>(57,845)</u>
Net Cash Used by Investing Activities	<u>(54,485)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Net Cash Used by Investing Activities	<u>-</u>
Net Increase in Cash	43,237
Cash - Beginning of Year	<u>461,707</u>
Cash - End of Year	<u><u>\$ 504,944</u></u>

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

SAMARITAN RECOVERY COMMUNITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose:

Samaritan Recovery Community, Inc. (the Organization), 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 Organization, 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 Organization 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 Organization currently has no temporarily restricted

SAMARITAN RECOVERY COMMUNITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

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 Organization. Generally donors of these assets permit the Organization to use all or part of the income earned for general or specific purposes. The Organization currently has no permanently restricted net

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 Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Property and Equipment:

The Organization 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

Accounts receivable and allowance for doubtful accounts:

It is the policy of the Organization to record accounts receivable when the amount becomes known. Management considers all receivables as of June 30, 2009 to be fully collectible; accordingly, no allowance for doubtful accounts is required.

SAMARITAN RECOVERY COMMUNITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

2. FEDERAL INCOME TAX STATUS

The Organization 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 Organization 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 Organization.

4. PROPERTY AND EQUIPMENT

Land and improvements	\$ 497,480
Buildings	2,031,251
Vehicles	75,809
Furniture and equipment	<u>274,682</u>
	2,879,222
Less: Accumulated depreciation	<u>(1,355,067)</u>
	<u>\$ 1,524,155</u>
Depreciation for the year	<u>\$ 82,646</u>

5. MANAGEMENT AGREEMENT

The Organization entered into a management agreement with Xebec Management, Inc. on December 1, 2005 for the management of the Organization. The management fee is computed based on a percentage of monthly net revenues. The management fee for the year was \$246,093.

6. EMPLOYEE COSTS

Included in the management agreement is an employee leasing agreement for all of the employees of the Organization. The Organization 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 Organization.

The leasing arrangement includes a 401 (k) plan for all eligible Organization employees. Employees may contribute up to 15% of their compensation and the Organization 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 \$19,065.

SAMARITAN RECOVERY COMMUNITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

7. CONCENTRATION OF CREDIT RISK

The Organization maintains accounts at four commercial banks. At June 30, 2009, the excess over the Federal Deposit Insurance Corporation amount of \$250,000 was \$405,581. 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 Organization leases a building that is used in its Wade Prince & Associates program on a month to month basis for \$800 per month.

The Organization 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 increased to \$2,585 per month on April 1, 2009.

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

The Organization has 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 Organization has 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, 2009 amounted to \$136,528.

The total rent paid on the office equipment leases for the year ended June 30, 2009 amounted to \$6,552.

Future minimum rental payments required are as follows:

Year ended June 30,	Amount
<u>2010</u>	<u>\$ 28,529</u>
Total	<u><u>\$ 28,529</u></u>

SAMARITAN RECOVERY COMMUNITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

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 ended June 30, 2008 the Organization 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, 2009 was \$15,529.

11. CONCENTRATION

The Organization receives support from the Tennessee Department of Mental Health and Developmental Disabilities under one grant agreement and two contracts. This represents approximately 63.6% of the Organization's total support and revenue.

12. SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Organization 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.

13. SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 21, 2009 which is the date the financial statements were available to be issued.

SAMARITAN RECOVERY COMMUNITY, INC.
SCHEDULE OF EXPENDITURES OF GRANT AWARDS AND GOVERNMENT CONTRACTS
FOR THE YEAR ENDED JUNE 30, 2009

<u>Agency</u>	<u>Program Name</u>	<u>CFDA Number</u>	<u>Grant Period</u>	<u>Contract Number</u>	<u>Grant Receivable 6/30/08</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Grant Receivable 6/30/09</u>
<u>Federal Awards:</u>								
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*^	\$ 100	\$ 100	\$ -	\$ -
Tennessee Department of Mental Health and Developmental Disabilities	Alcohol and Drug Abuse Services Block Grant	93.959	7/1/2008 - 6/30/2009	Z-09-213836-00*^	-	845,790	874,170	28,380
Total Federal Awards					<u>\$ 100</u>	<u>\$ 845,890</u>	<u>\$ 874,170</u>	<u>\$ 28,380</u>
<u>Government Contracts:</u>								
Tennessee Department of Mental Health and Developmental Disabilities	Alcohol and Drug Addiction Treatment				\$ 60,010	\$ 410,570	\$ 377,895	\$ 27,335
Tennessee Department of Mental Health and Developmental Disabilities	Access to Recovery				5,000	61,495	63,495	7,000
Other miscellaneous contracts					-	2,327	2,327	-
Total Government contracts					<u>\$ 65,010</u>	<u>\$ 474,392</u>	<u>\$ 443,717</u>	<u>\$ 34,335</u>

^ Major program.

*Federal pass-through funds.



BELLENFANT + MILES, PLLC

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, 2009, and have issued our report thereon dated September 21, 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 09-01.

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 & Niles, PLLC

September 21, 2009



BELLENFANT + MILES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Samaritan Recovery Community, Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Samaritan Recovery Community, Inc.'s major federal 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 programs is the responsibility of Samaritan Recovery Community, Inc.'s management. Our responsibility is to express an opinion on Samaritan Recovery Community, Inc.'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; and OMB Circular A133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Samaritan Recovery Community, Inc.'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 of Samaritan Recovery Community, Inc.'s compliance with those requirements.

In our opinion, Samaritan Recovery Community, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Samaritan Recovery Community, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Samaritan Recovery Community, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to

determine our auditing procedures for the purpose of expressing our 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 Samaritan Recovery Community Inc.'s internal control over compliance.

A *control deficiency* in an entity's 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 program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purposes 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. 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 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, PLLC

September 21, 2009

SAMARITAN RECOVERY COMMUNITY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

PART I - SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Samaritan Recovery Community, Inc.
2. One significant deficiency disclosed during the audit of the financial statements is reported in the Auditors' Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards. The condition is not reported as a material weakness
3. No instances of noncompliance material to the financial statements of Samaritan Recovery Community, Inc., which would be required to be reported in accordance with *Governmental Auditing Standards*, were disclosed during the audit.
4. No control deficiencies in internal control over the major federal award program are reported in the Auditors' Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133
5. The auditors' report on compliance for the major federal award programs for Samaritan Recovery Community, Inc. expresses an unqualified opinion on all major federal programs.
6. No audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule
7. The program tested as a major program was the Alcohol and Drug Abuse Services Block Grant (CFDA No. 93.959)
8. The threshold for distinguishing Type A and Type B programs was \$300,000.
9. Samaritan Recovery Community, Inc. was determined to not be a low-risk auditee.

SAMARITAN RECOVERY COMMUNITY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -CONTINUED
FOR THE YEAR ENDED JUNE 30, 2009

PART II – FINDINGS AND QUESTIONED COST REPORTED IN ACCORDANCE WITH
GENERALLY ACCEPTED GOVERNMENT AUDITING PROCEDURES

Finding - 09-1 - PURCHASING PROCEDURES

There is no documentation of the controls over the purchasing and cash disbursements procedures.

Recommendation

Consideration should be given to developing procedures that would document the approval for the purchase of supplies and other disbursements. This could be done using a check request or purchase order that is signed by the person requesting the purchase and a supervisor or administrator who approves the purchase. Additionally, consideration should be given to developing procedures that would document the review and approval process for all disbursements. This can be done by the person who reviews and approves the disbursement initialing and dating the invoice.

Management Response

Management concurs with the finding and began documenting the approval of the invoices for payment by initialing the invoice after the previous audit. The items found in this audit occurred before this policy was implemented.

PART III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

1. There were no findings or questioned costs for federal awards.

SAMARITAN RECOVERY COMMUNITY, INC.

SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2009

Finding 09-01 was a repeat finding.