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STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

January 20, 2010

Board of Directors
Recovery Associates, Inc.
2940 Jefferson Street
Terre Haute, IN 47802

We have reviewed the audit report prepared by McCullough and Company, Inc., Independent Public Accountants, for the period July 1, 2006 to June 30, 2007. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Recovery Associates, Inc., as of June 30, 2007, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

We call your attention to the findings in the report. The management letter contains three comments.

STATE BOARD OF ACCOUNTS

RECOVERY ASSOCIATES, INC.
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

RECOVERY ASSOCIATES, INC.
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McCULLOUGH & COMPANY, INC.

Jeff McCullough, CPA

3131 Wabash Ave.
Terre Haute, IN 47803

Tel: 812-232-3300
Fax: 812-232-1030

Independent Auditors' Report

Board of Directors
Recovery Associates, Inc.

We have audited the accompanying statement of financial position of Recovery Associates, Inc. (a not-for-profit corporation), 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 years then ended. These financial statements are the responsibility of the organizations management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide a reasonable basis for our opinion.

The financial statements of the organization for the year ended June 30, 2006, were audited by another independent accountant, whose report thereon, dated January 8, 2007, expressed an unqualified opinion on those statements. We are providing the statements for comparative purposes only and are not providing an opinion on these statements.

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

McCullough and Company, Inc.
September 8, 2008

RECOVERY ASSOCIATES, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2007 and 2006

ASSETS	2007	2006
CURRENT ASSETS		
Cash	$ 93,224	$ 100,855
Accounts receivable - Net of Allowance	47,318	39,791
Prepaid expenses	10,211	5,030
Investments	6,125	-
TOTAL CURRENT ASSETS	156,878	145,676
PROPERTY & EQUIPMENT		
Household furnishings	25,833	25,833
Office furniture and equipment	41,124	40,896
Appliances	3,856	3,856
Vehicles	32,134	13,134
Goodwill	3,000	3,000
Allowances for Depreciation and Amortization	(67,064)	(58,748)
TOTAL PROPERTY & EQUIPMENT	38,883	27,971
TOTAL ASSETS	$ 195,761	$ 173,647

LIABILITIES AND NET ASSETS	2007	2006
CURRENT LIABILITIES		
Accounts payable	$ 1,536	$ 1,245
Accrued salaries and wages	19,514	11,330
Accrued professional fees	-	-
Payroll taxes and withholdings	5,382	5,566
Notes Payable - Current Portion	3,293	-
TOTAL CURRENT LIABILITIES	29,725	18,141
LONG-TERM LIABILITIES		
Notes Payable - Van	14,910	-
TOTAL LONG-TERM LIABILITIES	14,910	-
UNRESTRICTED NET ASSETS	151,126	155,506
TOTAL LIABILITIES & NET ASSETS	$ 195,761	$ 173,647

The accompanying notes are an itegral part of the financial statements

RECOVERY ASSOCIATES, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended June 30, 2007 and 2006

UNRESTRICTED NET ASSETS:	**2007**	**2006**
Service fees	$ 272,594	$ 353,430
USPO fees	47,810	33,413
Residential fees	84,704	77,501
Outpatient and relapse services	140,511	75,546
Grants	25,000	19,253
Loss on sale of asset	-	-
Interest income	1,587	5,026
Miscellaneous	157	534
TOTAL UNRESTRICTED SUPPORT AND REVENUE	572,363	564,703
UNRESTRICTED EXPENSES		
Program services	519,802	577,285
Management and general	56,941	65,967
TOTAL UNRESTRICTED EXPENSES	576,743	643,252
DECREASE IN UNRESTRICTED NET ASSETS	(4,380)	(78,549)
UNRESTRICTED NET ASSETS BEGINNING OF THE YEAR	155,506	234,056
UNRESTRICTED NET ASSETS END OF THE YEAR	$ 151,126	$ 155,507

The accompanying notes are an itegral part of the financial statements

RECOVERY ASSOCIATES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2007

	Program Services	Management & General	Total Expenses
Salaries	$ 309,013	$ 42,138	$ 351,151
Payroll taxes	26,598	3,627	30,225
Health insurance	19,980	2,725	22,705
Professional fees	-	7,160	7,160
Travel expenses	609	-	609
Office supplies	3,328	175	3,503
Cable	435	-	435
Depreciation and Amortization	8,316	-	8,316
Repairs	1,140	-	1,140
Telephone	6,326	1,116	7,442
Education and training	1,430	-	1,430
Insurance	13,079	-	13,079
Interest Expense	362	-	362
Food	18,449	-	18,449
Contracted services	3,536	-	3,536
Recreational therapy	166	-	166
Health and safety	3,396	-	3,396
Miscellaneous	2,940	-	2,940
Client assistance	600	-	600
Bad Debt Expense - Client Services	35,067	-	35,067
Internet fees	1,680	-	1,680
Storage	900	-	900
Vehicle expenses	4,470	-	4,470
Rent	46,855	-	46,855
Equipment rental	5,244	-	5,244
Postage	890	-	890
Advertising	4,993	-	4,993
TOTAL EXPENSES	$ 519,802	$ 56,941	$ 576,743

The accompanying notes are an itegral part of the financial statements

RECOVERY ASSOCIATES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2006

	Program Services	Management & General	Total Expenses
Salaries	$ 353,668	$ 48,227	$ 401,895
Payroll taxes	38,658	5,270	43,928
Health insurance	22,910	3,125	26,035
Professional fees	8,964	7,795	16,759
Travel expenses	1,301		1,301
Office supplies	4,160	220	4,380
Cable	1,346		1,346
Depreciation and Amortization	7,867		7,867
Repairs	3,981		3,981
Telephone	7,531	1,330	8,861
Staff Development	1,710		
Education and training	1,766		1,766
Insurance	5,393		5,393
Food	36,126		36,126
Contracted services	3,875		3,875
Recreational therapy	589		589
Health and safety	5,346		5,346
Miscellaneous	3,666		3,666
Client assistance	777		777
Internet fees	1,478		1,478
Storage	1,135		1,135
Vehicle expenses	3,781		3,781
Rent	51,260		51,260
Equipment rental	6,158		6,158
Postage	649		649
Advertising	3,190		3,190
TOTAL EXPENSES	$ 577,285	$ 65,967	$ 643,252

The accompanying notes are an itegral part of the financial statements

RECOVERY ASSOCIATES, INC.
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2007 and 2006

CASH FLOWS FROM OPERATING ACTIVITIES	2007	2006
Change in net assets	$ (4,380)	$ (78,549)
Adjustments to reconcile changes in net assets to cash used by operating activities:		
Depreciation & Amortization	8,316	7,867
Decrease (increase) in operating assets:		
Accounts receivable	(7,527)	(19,984)
Prepaid expenses	(5,181)	(705)
Increase (decrease) in operating liabilities:		
Accounts payable	291	(5,414)
Accrued salaries & wages	8,184	(1,310)
Accrued professional fees	-	(3,405)
Payroll taxes & withheld amounts	(184)	3,940
NET CASH USED BY OPERATING ACTIVITIES	(481)	(97,560)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Certificate of Deposit	(6,125)	
Acquisition of property	(19,228)	(192)
NET CASH USED BY INVESTING ACTIVITIES	(25,353)	(192)
CASH FLOWS FROM FINANCING ACTIVITIES		
Note Payable - Van	19,000	-
Payment on loans	(797)	-
NET CASH USED BY FINANCING ACTIVITIES	18,203	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(7,631)	(97,752)
CASH AT BEGINNING OF YEAR	100,855	198,607
CASH AT END OF YEAR	$ 93,224	$ 100,855

SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:

Cash paid during the year for:		
Interest	$ 362	$ -

The accompanying notes are an itegral part of the financial statements

RECOVERY ASSOCIATES, INC.
NOTES TO THE FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

Nature of Organization

Recovery Associates, Inc. is a not-for-profit corporation organized for the purpose of establishing and operating a transitional residential facility and outpatient services for individuals recovering from alcoholism, drug and gambling addictions. It is the intention of the Organization to provide comfortable, informal living arrangements in a structured atmosphere for the residential clients and intensive counseling, relapse prevention programs, and gender specific group programs for their outpatient clients. The goals of Recovery Associates, Inc. are to assist clients in obtaining employment, continuing abstinence from drugs, alcohol, and gambling, achieving personal independence, and successful reinvolvement in the community. Recovery Associates, Inc. is a partner in Addiction Resources Network of Indiana, Inc. (A.R.N.I.). Through their association with A.R.N.I., Recovery Associates, Inc. provides a broad range of addiction services to individuals enrolled in the Hoosier Assurance Plan.

Basis of Accounting

The financial statements of Recovery Associates, Inc. have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Income Tax

Recovery Associates, Inc. is a not-for-profit organization exempt from federal income tax under Section 501 c (3) of the Internal Revenue Code and Indiana taxes, accordingly, no provision has been made for income taxes in the financial statements. The Internal Revenue Service has not classified Recovery Associates, Inc. as a private foundation.

Property and Equipment

Property and equipment are carried at cost. Additions and betterments are charged to the property accounts while maintenance and repairs, which do not improve or extend the life of the respective assets, are expensed currently. When assets are retired or otherwise disposed of the related cost and accumulated depreciation are removed from the respective accounts and any profit or loss on disposition is credited or charged to income.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Use of 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.

Note 2. Grant - Subrecipient

Through a partnership in the A.R.N.I. network, the Organization receives federal funds through the Hoosier Assurance Program administered by the State of Indiana. The Organization participates in a U.S. Department of Health and Human Services, Indiana Family and Social Services Administration, Division of Mental Health and Addictions Substance Abuse Prevention and Treatment (SAPT) Block Grant (Federal CFDA Number 93.959 , State Grant Number 49-06-SA-1273). During year ended June 30, 2007, the Organization received $272,594.

Note 3. Lease Arrangements

The Organization's leases consist of real estate and business equipment.

Rent is paid to the Housing Authority of Terre Haute, in the amount of $1,000 per month for two transitional living units on a month to month agreement.

Rent is paid for the outpatient facility and office space on Ohio Street which expired November 2007. The agreement automatically renewed in November of 2007 for an additional twelve month period. Monthly rent is $3,000 through February, 2008 at which time it will increase to $3,200 per month.

Copiers and office equipment are being leased. Monthly lease payments are $332.43 until September 2012 for a large copier, $51.34 until January 2010 for small copier, and $72.46 until February 2008 for computer equipment.

Total rent and leased equipment expenses for fiscal year ending June 30, 2007 is $52,998 and for June 30, 2006 is $57,418.

Note 4. Long-Term Notes Payable

Note payable to Old National Bank dated March 27, 2007, with interest at 8.00%, due in monthly installments of $386.31 thru March 2012.

Amount due June 30, 2007	$18,203
Less amount due within one year	(3,293)
	$14,910

Maturities of long-term debt for the next 5 years are as follows:

Year ending June 30:	
2008	$ 3,293
2009	3,567
2010	3,863
2011	4,183
2012	3,297
Total	$18,203

Note 5. Concentration of Risk

A material part of the Organization's revenue and support was received from Indiana Family and Social Services Administration and pass through grants of Federal funds (49%). These funds are awarded on a year to year basis by the funding agencies, the loss of which would have a materially adverse effect on the Organization.

Note 6. Transaction with Related Party

The Organization leases its outpatient facility and office space on Ohio Street which represent approximately $32,000 in Fiscal Year 2007 and $39,000 in Fiscal Year 2006. An employee of the landlord has been a member of the Organizations Board of Directors since 2002.

Note 7. Promise to Give

Unconditional promises to give consist of the following:

On March 1, 2007 the United Way of Wabash Valley awarded the Organization a grant of $50,000. The grant period is for January 1, 2007 through December 13, 2007 and to be split evenly to support Outpatient Services and the Fellowship House. The intent of the grant is to fund the organization evenly over the twelve month period. The first three months of 2007 will be paid in November 2007. As of June 30, 2007 the Organization has received $12,498 and accrued $12,500 as a receivable from the grant.

Note 8. Cash Flow Information

Cash paid for interest for years ended June 30, 2007 and 2006 was $362 and $0 respectively. Interest paid was the result of financing for the purchase of a company van used for transportation of clients residing in the fellowship homes.

Note 9. Concentration of Credit Risk

The company maintains cash balances at several financial institutions located in Indiana. Accounts at each institution are insured by the Federal Deposit insurance Corporation up to $100,000. As of June 30, 2007 the Company's uninsured cash balance totaled zero.

Note 10. Investments

The Organization's investments consist of one Certificate of Deposit held at a financial institution located in Indiana. The Certificate is a thirteen month term maturing January of 2008 paying 3.26%.

McCULLOUGH
& COMPANY, INC.

Jeff McCullough, CPA

3131 Wabash Ave.
Terre Haute, IN 47803

Tel: 812-232-3300
Fax: 812-232-1030

Board of Directors
Recovery Associates, Inc.
605 Ohio, Suite 204
Terre Haute, IN 47807

CO

In planning and performing our audit of the financial statements of Recovery Associates, Inc. as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Recovery Associates internal control over financial reporting (internal control) 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 the Organizations' internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily indentify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control 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 in a timely basis. A significant deficiency is a control deficiency, or a 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 organizations financial statements that is more than inconsequential will not be prevented or detected by the organizations internal control. We consider the following deficiencies to be significant deficiencies in internal control.

Use of Cash-On-Hand Accounts

The organization uses multiple cash-on-hand accounts for posting payments. At some point the organization posts a deposit against the cash-on-hand account which transfers the funds on paper to the operating account. As of June 30, 2007 most cash-on-hand accounts ended with negative balances. These negative balances could indicate several control issues one of which is the control over cash and reporting of revenue.

We recommend management reconcile the cash-on-hand accounts or use the undeposited funds feature in QuickBooks and monitor it as part of the monthly bank reconciliation. This will allow for proper cash reconciliation.

Accounts Receivable

The organization charges clients a fee based on a sliding scale as determined from client income. During our examination it appears several accounts are past due and in need of collection. The organization utilizes a collection service. We recommend the Organization review each client account that becomes inactive for 90 days or more for write-off and submission to collections.

Petty Cash Funds

The organization currently comingles petty cash and client receipts at its group homes. Incidental operating costs for the group homes are paid from weekly client collections.

We recommend separating the funds and preparing a petty cash reimbursement request that results in a disbursement check that reimburses the petty cash fund for operating costs.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

McCullough & Company, Inc.
Terre Haute, In
September 8, 2008