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STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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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, 2007 to June 30, 2008. 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, 2008, 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 five comments.

STATE BOARD OF ACCOUNTS

RECOVERY ASSOCIATES, INC

Financial Statements and Report of
Independent Certified Public Accountants

JUNE 30, 2008 and 2007

CONTENTS

McCULLOUGH
& COMPANY, INC.

Jeff McCullough, CPA

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Terre Haute, IN 47803

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INDEPENDENT AUDITORS REPORT

Board of Directors
Recovery Associates, Inc.
Terre Haute, Indiana

We have audited the accompanying statement of financial position of Recovery Associates, Inc. as of June 30, 2008 and 2007, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the 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 U.S. generally accepted auditing standards. 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 Recovery Associates, Inc. as of June 30, 2008 and 2007, and the results of their operations and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

McCullough & Company Inc

McCullough and Company, Inc.
Terre Haute, Indiana

July 31, 2009

RECOVERY ASSOCIATES, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2008 and 2007

ASSETS	2008	2007
CURRENT ASSETS		
Cash	$ 30,119	$ 93,224
Accounts receivable - Net of Allowance	21,854	47,318
Prepaid expenses	7,584	10,211
Investments	6,590	6,125
TOTAL CURRENT ASSETS	66,146	156,878
PROPERTY & EQUIPMENT		
Household furnishings	29,920	25,833
Office furniture and equipment	50,831	41,124
Appliances	4,031	3,856
Vehicles	32,133	32,134
Goodwill	3,000	3,000
Allowances for Depreciation and Amortization	(77,571)	(67,064)
TOTAL PROPERTY & EQUIPMENT	42,344	38,883
TOTAL ASSETS	$ 108,490	$ 195,761

LIABILITIES AND NET ASSETS

	2008	2007
CURRENT LIABILITIES		
Accounts payable	$ 2,798	$ 1,536
Accrued salaries and wages	25,881	19,514
Payroll taxes and withholdings	5,193	5,382
Notes Payable - Current Portion	3,567	3,293
TOTAL CURRENT LIABILITIES	37,439	29,725
LONG-TERM LIABILITIES		
Notes Payable - Van	11,360	14,910
TOTAL LONG-TERM LIABILITIES	11,360	14,910
UNRESTRICTED NET ASSETS	59,690	151,126
TOTAL LIABILITIES & NET ASSETS	$ 108,490	$ 195,761

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, 2008 and 2007

	2008	2007
UNRESTRICTED NET ASSETS:		
Service fees	$ 234,767	$ 272,594
USPO fees	59,070	47,810
Residential fees	74,359	84,704
Outpatient and relapse services	155,241	140,511
Grants	62,954	25,000
Interest income	1,150	1,587
Miscellaneous	664	157
TOTAL UNRESTRICTED SUPPORT AND REVENUE	588,207	572,363
UNRESTRICTED EXPENSES		
Program services	620,601	519,802
Management and general	59,041	56,941
TOTAL UNRESTRICTED EXPENSES	679,642	576,743
DECREASE IN UNRESTRICTED NET ASSETS	(91,436)	(4,380)
UNRESTRICTED NET ASSETS BEGINNING OF THE YEAR	151,126	155,506
UNRESTRICTED NET ASSETS END OF THE YEAR	$ 59,690	$ 151,126

The accompanying notes are an itegral part of the financial statements

RECOVERY ASSOCIATES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2008

	Program Services	Management & General	Total Expenses
Salaries	$ 361,392	$ 49,281	$ 410,673
Payroll taxes	30,738	4,192	34,930
Health insurance	32,744	4,465	37,209
Professional fees	2,288	-	2,288
Travel expenses	1,641	-	1,641
Office supplies	3,361	177	3,538
Cable	437	-	437
Depreciation and Amortization	10,507	-	10,507
Repairs	1,643	-	1,643
Telephone	5,245	926	6,171
Education and training	2,828	-	2,828
Insurance	21,958	-	21,958
Interest Expense	1,359	-	1,359
Food	20,372	-	20,372
Contracted services	1,700	-	1,700
Health and safety	6,166	-	6,166
Miscellaneous	1,744	-	1,744
Client assistance	19,952	-	19,952
Bad Debt Expense - Client Services	27,520	-	27,520
Internet fees	1,872	-	1,872
Storage	900	-	900
Vehicle expenses	6,116	-	6,116
Rent	48,800	-	48,800
Equipment rental	5,445	-	5,445
Postage	430	-	430
Advertising	3,443	-	3,443
TOTAL EXPENSES	$ 620,601	$ 59,041	$ 679,642

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.
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (91,436)	$ (4,380)
Adjustments to reconcile changes in net assets to cash used by operating activities:		
Depreciation & Amortization	10,507	8,316
Decrease (increase) in operating assets:		
Accounts receivable	25,465	(7,527)
Prepaid expenses	2,627	(5,181)
Increase (decrease) in operating liabilities:		
Accounts payable	1,261	291
Accrued salaries & wages	6,367	8,184
Payroll taxes & withheld amounts	(188)	(184)
NET CASH USED BY OPERATING ACTIVITIES	(45,397)	(481)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Certificate of Deposit	(464)	(6,125)
Acquisition of property	(13,968)	(19,228)
NET CASH USED BY INVESTING ACTIVITIES	(14,432)	(25,353)
CASH FLOWS FROM FINANCING ACTIVITIES		
Note Payable - Van	-	19,000
Payment on loans	(3,276)	(797)
NET CASH USED BY FINANCING ACTIVITIES	(3,276)	18,203
NET DECREASE IN CASH AND CASH EQUIVALENTS	(63,105)	(7,631)
CASH AT BEGINNING OF YEAR	93,224	100,855
CASH AT END OF YEAR	$ 30,119	$ 93,224

SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:

Cash paid during the year for:		
Interest	$ 1,359	$ 362

The accompanying notes are an itegral part of the financial statements

RECOVERY ASSOCIATES, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008, and 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.

Note 1. Summary of Significant Accounting Policies – Continued

Property and Equipment - Continued

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.

Accounts Receivable

Accounts receivable is recorded at the amount the Organization expects to collect on the balances outstanding at fiscal year-end. The Organization maintains an allowance for doubtful accounts based on aging. As of June 30, 2008 and 2007, the allowances are $62,587 and $35,067 respectively. Accounts Receivable is reflected net of allowance for doubtful accounts in the financial Statements.

Advertising

The Organization expenses advertising costs as they are incurred. Advertising expenses for the period then ended June 30, 2008 was $3,443.

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, 2008 and 2007, the Organization received $ 234,767 and $272,594 respectively.

RECOVERY ASSOCIATES, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008, and 2007

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 2008. The agreement was renewed in February of 2008 through November 2008 and since has been a month to month agreement. Monthly rent was $3,000 through March, 2008 at which time it increased 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.

Total rent and leased equipment expenses for fiscal year ending June 30, 2008 is $55,145 and for June 30, 2007 is $52,998.

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. Note is collateralized by vehicle.

Amount due June 30, 2008	$14,927
Less amount due within one year	(3,567)
	$11,360

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

Year ending June 30:	
2009	$ 3,567
2010	3,863
2011	4,183
2012	3,314
Total	$14,927

RECOVERY ASSOCIATES, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008, and 2007

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 (40%). 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 $36,800 in Fiscal Year 2007 and $32,000 in Fiscal Year 2006. An employee of the landlord has been a member of the Organizations Board of Directors from 2002 through 2008.

Note 7. Promise to Give

Unconditional promises to give consist of the following:

On April 4, 2008 the United Way of Wabash Valley awarded the Organization a grant of $50,000. The grant period is for January 1, 2008 through December 13, 2008 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. It is anticipated the remaining six months of funding will be received in fiscal year 2009. No amount has been recorded as promise to give for the remaining $25,000.00 as of June 30, 2008.

Note 8. Cash Flow Information

Cash paid for interest for years ended June 30, 2008 and 2007 was $1,360 and $362 respectively. Interest paid was the result of financing for the purchase of an Organization 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 $250,000. As of June 30, 2008 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 February of 2009 paying 3.26%.

Note 11. Subsequent Events

On January 15, 2009 the Organization borrowed $16,000 from a local financial institution to fund operational expenses. The loan matured July 15, 2009 and was extended through January, 2010. Amounts due upon loan maturity are interest which is based on the prime interest rate plus 2% points and the principal balance. The loan is collateralized by the assets of the Organization.

McCULLOUGH
& COMPANY, INC.

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

In planning and performing our audit of the financial statements of Recovery Associates, Inc. as of and for the year ended June 30, 2008, 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, 2008 most cash-on-hand accounts ended with negative balances or were not reconciled properly. 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 un-deposited 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.

Payroll Liability Accounts

The Organization uses QuickBooks to prepare employee payroll and reporting payroll taxes. The payroll tax liabilities section on the statement of financial position has several accounts that were not reconciled for accurate reporting.

We recommend revising the Payroll Item setup in QuickBooks to consolidate the number accounts to a minimum and to reconcile these accounts on a monthly basis.

Revenue Accrual

The Organization has arrangements with certain third-party payers that are billed on monthly basis. Currently the Organization records these revenues when the services are paid as opposed to when the services are provided.

We recommend the Organization record the revenue in the month the services are provided and reflect an accounts receivable for the balance due. When the funds are received to pay for the services, they can be applied to the accounts receivable balance.

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
July 31, 2009

McCULLOUGH & COMPANY, INC.

Jeff McCullough, CPA

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Terre Haute, IN 47803

Tel: 812-232-3300
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July 31, 2009

To the Board of Directors
Recovery Associates, Inc.

We have audited the financial statements of Recovery Associates, Inc. for the period ended June 30, 2008, and have issued our report thereon dated July 31, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 31, 2009. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Recovery Associates, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during Fiscal Year 2008. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The sensitive estimate affecting the financial statements was:

> Management's estimate for the allowance for doubtful accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in the relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements was:

> The disclosure of Grant – Subrecipient in Note 2 to the financial statements. We examined

this issue in detail and confirmed the grant balance with the granting network.

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements
Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management
For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations
We have requested certain representations from management that are included in the management representation letter dated July 31, 2009.

Management Consultations with Other Independent Accountant
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues
As referenced above and in a separate letter dated July 31, 2009, we expressed concern about use of Cash-ON-Hand Accounts, Accounts Receivable, and Petty Cash Funds.

This information is intended solely for the use of Board of Directors and management of Cloverdale Community Housing, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

McCullough and Company, Inc.