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# B & B OF MARION, LLC
# d/b/a RAYVILLE RECOVERY

## FINANCIAL AND COMPLIANCE REPORTS

## DECEMBER 31, 2009 AND 2008

B & B OF MARION, LLC
d/b/a RAYVILLE RECOVERY

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BOND & TOUSIGNANT, LLC
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# INDEPENDENT AUDITORS' REPORT

To the Partners
B & B of Marion, LLC
Rayville, Louisiana

We have audited the accompanying balance sheets of B & B of Marion, LLC as of December 31, 2009 and 2008, and the related income statements, partners' equity (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 B & B of Marion, LLC as of December 31, 2009 and 2008, and the results of its operations, changes in partners' equity (deficit) and cash flows for the years 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 June 15, 2010, on our consideration of B & B of Marion, LLC's internal control over financial reporting and 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 should be considered in assessing the results of our audit.

Bond + Tousignant, LLC

Monroe, Louisiana
June 15, 2010

B & B OF MARION, LLC
d/b/a RAYVILLE RECOVERY
BALANCE SHEET
DECEMBER 31, 2009 AND 2008

## ASSETS

| | 2009 | 2008 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and Cash Equivalents | $ 100,574 | $ 15,547 |
| Accounts Receivable | 182,693 | 112,468 |
| Prepaid Expenses | 7,289 | 5,124 |
| Total Current Assets | 290,556 | 133,139 |
| **PROPERTY AND EQUIPMENT** | | |
| Leasehold Improvements | 8,900 | 8,900 |
| Furniture and Equipment | 64,850 | 60,464 |
| Vehicles | 25,173 | 25,173 |
| Total | 98,923 | 94,537 |
| Less: Accumulated Depreciation | (14,485) | (5,108) |
| Total Property and Equipment | 84,438 | 89,429 |
| **OTHER ASSETS** | | |
| Utility Deposits | 8,176 | - |
| Total Other Assets | 8,176 | - |
| **TOTAL ASSETS** | $ 383,170 | $ 222,568 |

## LIABILITIES AND PARTNERS' EQUITY

| | 2009 | 2008 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Accounts Payable | $ 34,587 | $ 34,590 |
| Accrued Payroll Liabilities | 19,306 | 16,195 |
| Line of Credit | - | 20,290 |
| Total Current Liabilities | 53,893 | 71,075 |
| Total Liabilities | 53,893 | 71,075 |
| **PARTNERS' EQUITY** | | |
| Partners' Equity (Deficit) | 329,277 | 151,493 |
| **TOTAL LIABILITIES AND PARTNERS' EQUITY** | $ 383,170 | $ 222,568 |

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

B & B OF MARION, LLC
d/b/a RAYVILLE RECOVERY
INCOME STATEMENT
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

| | 2009 | 2008 |
|---|---|---|
| **REVENUE** | | |
| State Contract | $ 1,198,889 | $ 1,092,958 |
| Access to Recovery | 145,052 | - |
| Other Patient Service Revenue | 133,385 | 39,458 |
| Other Income | 13,196 | 17,721 |
| Total Revenue | 1,490,522 | 1,150,137 |
| **EXPENSES** | | |
| Advertising | 3,304 | 100 |
| Automobile | 9,963 | 7,063 |
| Client Expenses | 10,000 | 6,094 |
| Conferences & Meetings | 3,186 | - |
| Contracted Services | 12,804 | 18,228 |
| Depreciation | 9,376 | 5,108 |
| Dues & Subscriptions | 967 | 225 |
| Food | 140,381 | 85,385 |
| Insurance | 47,137 | 47,302 |
| Interest | 245 | 4,785 |
| Licenses | 1,488 | 1,688 |
| Miscellaneous | 4,731 | 240 |
| Payroll Taxes & Benefits | 50,623 | 46,528 |
| Postage | 6,276 | 3,929 |
| Professional Services | 11,447 | 11,556 |
| Rent | 152,400 | 118,500 |
| Repairs & Maintenance | 35,791 | 41,893 |
| Salaries & Wages | 586,655 | 521,461 |
| Supplies | 48,547 | 52,492 |
| Telephone & Internet | 10,994 | 7,023 |
| Utilities | 53,915 | 60,496 |
| Workers' Compensation | 10,767 | 8,163 |
| Total Expenses | 1,210,997 | 1,048,259 |
| Income (Loss) from Operations | 279,525 | 101,878 |
| Net Income (Loss) | $ 279,525 | $ 101,878 |

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

B&B OF MARION, LLC
d/b/a RAYVILLE RECOVERY
STATEMENT OF PARTNERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

| | Total | Phillip R. Branch | Greeson Family Trust | Thompson Medical Practice, Inc. | Stacy Smith | LWJ, Inc. |
|---|---|---|---|---|---|---|
| Partners' Equity (Deficit), January 1, 2008 | $ - | $ - | $ - | $ - | $ - | $ - |
| Contributions | 49,615 | 18,854 | 12,708 | 18,053 | - | - |
| Net Income (Loss) | 101,878 | 4,075 | 31,583 | 30,563 | 5,094 | 30,563 |
| Partners' Equity (Deficit), December 31, 2008 | 151,493 | 22,929 | 44,291 | 48,616 | 5,094 | 30,563 |
| Net Income (Loss) | 279,525 | 11,181 | 86,652 | 83,858 | 13,976 | 83,858 |
| Distributions | (101,741) | (20,939) | (28,868) | (33,692) | (2,607) | (15,635) |
| Partners' Equity (Deficit), December 31, 2009 | $ 329,277 | $ 13,171 | $ 102,075 | $ 98,782 | $ 16,463 | $ 98,786 |
| Profit and Loss Percentages | 100.00% | 4.00% | 31.00% | 30.00% | 5.00% | 30.00% |

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

B & B OF MARION, LLC
d/b/a RAYVILLE RECOVERY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

| | 2009 | 2008 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Income (Loss) | $ 279,525 | $ 101,878 |
| Adjustments to reconcile change in net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation | 9,376 | 5,108 |
| (Increase) decrease in: | | |
| Accounts Receivable | (70,225) | (112,468) |
| Prepaid Expenses | (2,165) | (5,124) |
| Utility Deposits | (8,176) | - |
| Increase (decrease) in: | | |
| Accounts Payable | (1) | 34,588 |
| Accrued Expenses | 3,109 | 16,197 |
| Net Cash Provided by (Used in) Operating Activities | 211,443 | 40,179 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of Property and Equipment | (4,385) | (94,537) |
| Net Cash Provided by (Used in) Investing Activities | (4,385) | (94,537) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Contributions from Partners | - | 49,615 |
| Distributions to Partners | (101,741) | - |
| Proceeds from Line of Credit | - | 260,030 |
| Payments on Line of Credit | (20,290) | (239,740) |
| Net Cash Provided by (Used in) Financing Activities | (122,031) | 69,905 |
| Net Increase (decrease) in Cash and Cash Equivalents | 85,027 | 15,547 |
| Cash and Cash Equivalents at Beginning of Year | 15,547 | - |
| Cash and Cash Equivalents at End of Year | $ 100,574 | $ 15,547 |

*Supplemental Disclosures of Cash Flow Information:*

| | 2009 | 2008 |
|---|---|---|
| Cash paid during the year for interest | $ 245 | $ 4,785 |

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

## NOTE A - ORGANIZATION

B & B of Marion, LLC ("Partnership") is a limited liability company organized under the laws of the State of Louisiana. The Partnership was organized in 2007 to provide residential treatment for persons recovering from alcoholism and other chemical dependencies. The thirty-six bed state-licensed private inpatient hospital, Rayville Recovery, is located in Rayville, Louisiana. The facility provides extended care in a supervised living environment where the residents receive counseling and therapy. The primary source of funding for the facility is a three-year $3.6 million contract with the State of Louisiana, Department of Health and Hospitals, Office of Addictive Disorders. During 2009, the Partnership was awarded a contract to administer an Access to Recovery voucher program for substance abuse treatment. The Partnership is thus subject to the administrative directives, rules, and regulations of state regulatory agencies, including but not limited to, the Department of Health and Hospitals Office of Addictive Disorders. Such administrative directives, rules, and regulations are subject to change by federal and state agencies.

## NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

### Basis of Accounting

The financial statements of the Partnership are prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Partnership considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents. All cash on deposit with financial institutions is fully secured through a combination of deposit insurance and collateralization of sufficient U.S. Government securities owned by the institution.

### Capitalization and Depreciation

Furniture, equipment and improvements are recorded at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are

## NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the income statement.

Special provisions in the state contract specify that ownership of property purchased with funds received from the state shall revert back to the state upon termination of the contract.

Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the following estimated useful lives:

| Asset | Estimated Life |
|---|---|
| Furniture and Equipment | 10 years |
| Vehicles | 10 years |
| Leasehold Improvements | 15 years |

All expenditures for fixed assets in excess of $1,000 are capitalized.

### Income Taxes

No provision or benefit for income taxes has been included in these financial statements since taxable income or loss passes through to, and is reportable by, the partners individually.

### Concentration of Credit Risk

The Partnership has various checking accounts at a regional high credit quality bank. The accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000.

The Partnership received approximately 80% of its revenue from a State of Louisiana contract based on monthly client occupancy units of service on a per day fixed fee for service basis. The concentration of credit risk with respect to accounts receivable is low, as it relates to receivables from the State of Louisiana under contractual terms. As of December 31, 2009, the Partnership had no significant concentrations of credit risk in relation to its accounts receivable.

## NOTE C – ACCOUNTS RECEIVABLE

Accounts receivable due at year-end is as follows:

| | 2009 | 2008 |
|---|---|---|
| State of Louisiana, Office of Addictive Disorders | $100,440 | $ 94,860 |
| Access to Recovery | 21,968 | - |
| Private Insurance | 60,285 | 17,608 |
| Total Accounts Receivable | $182,693 | $112,468 |

## NOTE D – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2009 and December 31, 2008 consist of the following:

| | 2009 | 2008 |
|---|---|---|
| Leasehold Improvements | $ 8,900 | $ 8,900 |
| Furniture and Equipment | 64,850 | 60,464 |
| Vehicles | 25,173 | 25,173 |
| Less accumulated depreciation | (14,485) | (5,108) |
| Net book value of fixed assets | $84,438 | $89,429 |

Total depreciation expense charged to operations was $9,376 for the year ended December 31, 2009.

## NOTE E – LINE OF CREDIT

The Partnership established an unsecured $150,000 line of credit as of February 22, 2008 with BancorpSouth Bank. It matured on February 14, 2009 and has a 6% rate of interest. The balance outstanding at December 31, 2009 and 2008 was $0 and $20,290, respectively.

## NOTE F – LEASE COMMITMENTS

The Partnership leases its facility, in a one year term with options to renew each year for twenty years under an operating lease arrangement. Rent expense for the year ended December 31, 2009 was $152,400.

Future minimum lease payments for the next five years ending December 31 are as follows:

| | |
|---|---|
| 2010 | 150,000 |
| 2011 | 150,000 |
| 2012 | 150,000 |
| 2013 | 150,000 |
| 2014 | 150,000 |
| | 750,000 |

## NOTE G – PARTNERS' CAPITAL

The Partnership has five Members – Phillip R. Branch, Greeson Family Trust, Thompson Medical Practice, Inc., Stacy Smith and LWJ, Inc. All profits and losses are allocated based on ownership percentages to the Members.

## NOTE H - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

### Lease Expense

The Partnership leases its facility from a corporation in which two of the partners are shareholders of the corporation. The Partnership incurred expenses of $150,727 in 2009 and $131,132 in 2008 for services rendered in connection with the leasing, utilities, and operations of the facility. Lease expense is charged at a rate of $12,500 per month.

### Other

The Partnership purchased gasoline, tobacco products, and various incendiary items from a company in which one of the partners is the corporation's stockholder. The Partnership incurred operating expenses of $9,293 for these items.

The Partnership rented hospital beds for $2,600 in 2009 and purchased hospital equipment and supplies of $11,603 in 2008 from a company in which two of the partners are shareholders of the corporation.

## NOTE I - ADVERTISING

The Partnership incurred advertising costs of $3,304 in 2009 and $100 in 2008. These costs are expensed as incurred.

## NOTE J – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Partnership's financial instruments, none of which are held for trading purposes, consist primarily of cash on deposit at a financial institution. The Partnership estimates that the fair value of all financial instruments at December 31, 2009 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet.

## NOTE K – CONCENTRATION OF REVENUE

The majority of the Partnership's revenues and accounts receivable are from a contract funded and administered by the Louisiana Department of Health and Hospitals (DHH). If state funding levels for the program is reduced, or if the contract is not renewed, the impact on the Partnership could be severe.

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# 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 Partners
B & B of Marion, LLC

We have audited the financial statements of B & B of Marion, LLC as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated June 15, 2010. 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 B & B of Marion, LLC'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 the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity'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 entity'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 entity's financial statements 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 a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether B & B of Marion, LLC'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*.

This report is intended solely for the information and use of the partners, management and the United States Department of Agriculture Rural Development and is not intended to be and should not be used by anyone other than these specific parties.

Bond + Tousignant, LLC

Monroe, Louisiana
June 15, 2010