

ARCHWAYS, INC.

FINANCIAL STATEMENTS

June 30, 2010 and 2009

ARCHWAYS, INC.
Ft. Lauderdale, Florida

FINANCIAL STATEMENTS
June 30, 2010 and 2009

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Archways, Inc.
Fort Lauderdale, Florida

We have audited the accompanying statements of financial position of Archways, Inc. (a not-for-profit corporation) as of June 30, 2010 and 2009, and the related statements of activities, cost center functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Archways, Inc.'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 audits provide 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 Archways, Inc. as of June 30, 2010 and 2009, and the changes in its net assets and its 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* and the Florida Single Audit Act, we have also issued a report dated April 18, 2011, on our consideration of Archways, Inc.'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 the Florida Single Audit Act and should be considered in assessing the results of our audit.

(Continued)

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Archways, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance 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*, the Florida Single Audit Act, and is not a required part of the 2010 basic financial statements. The schedules of other federal and state funding, other local funding, program / cost center actual revenues and expenses schedule and state earnings, are also presented for purposes of additional analysis and are not a required part of the 2010 basic financial statements. All supplemental information has been subjected to the auditing procedures applied in the audit of the 2010 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2010 basic financial statements taken as a whole.


Crowe Horwath LLP

April 18, 2011
Fort Lauderdale, Florida

ARCHWAYS, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Current assets:		
Cash	\$ 448,982	\$ 361,354
Accounts receivable - net of allowance for doubtful accounts and contractual allowances of approximately \$751,000 and \$1,021,000, respectively (Note 2)	585,678	1,426,854
Prepaid expenses and other current assets	<u>183,522</u>	<u>93,857</u>
Total current assets	1,218,182	1,882,065
Non-current assets:		
Deposits	6,287	4,015
Deferred loan costs - net of accumulated amortization of \$7,306 and \$7,015, respectively (Note 1)	42,776	50,082
Property and equipment, at cost - net of accumulated depreciation of \$2,707,243 and \$2,618,174, respectively (Note 4 and 8)	<u>1,860,304</u>	<u>1,949,442</u>
Total non-current assets	<u>1,909,367</u>	<u>2,003,539</u>
	<u>\$ 3,127,549</u>	<u>\$ 3,885,604</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt (Note 4)	\$ 131,726	\$ 109,412
Accounts payable and accrued expenses	402,677	352,114
Accrued salaries	83,376	72,807
Accrued vacation	<u>82,904</u>	<u>81,877</u>
Total current liabilities	700,683	616,210
Long-term debt, net of current portion (Note 4)	<u>1,942,921</u>	<u>2,051,205</u>
Total liabilities	2,643,604	2,667,415
Net assets:		
Unrestricted:		
Undesignated	<u>483,945</u>	1,218,189
Total unrestricted net assets	<u>483,945</u>	<u>1,218,189</u>
Total liabilities and net assets	<u>\$ 3,127,549</u>	<u>\$ 3,885,604</u>

See accompanying notes to financial statements.

ARCHWAYS, INC.
STATEMENTS OF ACTIVITIES
Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Public support and operating revenues		
Operating revenues		
Program service fees - governmental agencies	\$ 3,157,747	\$ 3,227,437
Medicaid (net of contractual allowance)	784,511	1,435,684
Medicare (net of contractual allowance)	18,531	15,480
Other program fees (net of contractual allowance)	<u>498,170</u>	<u>530,970</u>
Total operating revenues	4,458,959	5,209,571
Public support		
Donated public support (in kind)	269,122	162,116
Other Income/(expense)	36,538	(20,863)
Contributions	<u>9,367</u>	<u>18,040</u>
Total public support	<u>315,027</u>	<u>159,293</u>
Total public support and operating revenues	4,773,986	5,368,864
Expenses		
Program services		
Case management	397,446	282,700
Outpatient	1,166,461	642,245
Outpatient – medical	730,719	561,900
Residential Level 2 – room, board, and supervision	593,561	495,175
Residential Level 3 – room, board, and supervision	667,300	446,889
Supported employment	143,449	162,845
Intensive case management	173,563	93,205
Comprehensive community support team	443,307	440,714
Prevention	219,619	229,497
Outreach	35,044	40,873
Incidentals	160,651	193,228
Assessment	126,858	47,852
Intervention	129,172	147,498
Other support	<u>143,018</u>	<u>335,468</u>
Total program services expenses	5,130,168	4,120,089
Supporting services		
General and administrative expenses	239,285	478,868
Creative Colors	<u>103,585</u>	<u>176,194</u>
Total supporting services	342,870	655,062
Other expense		
Unrealized loss on interest rate swap (Note 5)	<u>(35,192)</u>	<u>(61,136)</u>
Total expenses	<u>5,508,230</u>	<u>4,836,287</u>
Increase (decrease) in unrestricted net assets	(734,244)	532,577
Unrestricted net assets at beginning of year	<u>1,218,189</u>	<u>685,612</u>
Unrestricted net assets at end of year	<u>\$ 483,945</u>	<u>\$ 1,218,189</u>

See accompanying notes to financial statements.

ARCHWAYS, INC.
 STATEMENTS OF CASH FLOWS
 Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Increase (decrease) in unrestricted net assets	\$ (734,244)	\$ 532,577
Net cash provided by operating activities:		
Depreciation and amortization	163,946	134,355
Loss on disposal of property and equipment	(1,650)	5,729
Unrealized loss on interest rate swap	35,192	61,136
(Increase) decrease in:		
Accounts receivable – net	841,176	(427,775)
Prepaid expenses and other current assets	(89,665)	(37,346)
Deposits	(2,272)	5,100
Increase (decrease) in:		
Accounts payable and accrued expenses	15,371	55,557
Accrued salaries	10,569	6,533
Accrued vacation	1,027	5,503
Net cash provided by operating activities	<u>239,450</u>	<u>341,369</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(31,266)</u>	<u>(221,964)</u>
Net cash used in investing activities	(31,266)	(221,964)
Cash flows from financing activities:		
Principal repayments on long-term debt	<u>(120,556)</u>	<u>(86,983)</u>
Net cash used in financing activities	<u>(120,556)</u>	<u>(86,983)</u>
Net change in cash	87,628	32,422
Cash at beginning of year	<u>361,354</u>	<u>328,932</u>
Cash at end of year	<u>\$ 448,982</u>	<u>\$ 361,354</u>
Non Cash Financing Activities		
Equipment purchased incurring long-term debt	<u>\$ 34,586</u>	<u>\$ -</u>
Supplemental disclosure of cash flow information:		
Donated goods and services	<u>\$ 269,122</u>	<u>\$ 162,116</u>
Interest paid	<u>\$ 111,013</u>	<u>\$ 133,829</u>

See accompanying notes to financial statements.

ARCHWAYS, INC.
STATEMENT OF COST CENTER FUNCTIONAL EXPENSE
 Year ended June 30, 2010

	PROGRAM SERVICES									
	Case Management	Intensive Case Management	Comprehensive Community Support Team		Intervention	Medical Services	Outpatient	Room, Board, & Supervision Residential		Supported Employment
			Level 2	Level 3				Level 2	Level 3	
I. SALARIES AND RELATED EXPENSES	\$ 213,154	\$ 97,341	\$ 287,692	\$ 87,668	\$ 516,285	\$ 327,631	\$ 360,971	\$ 76,131	\$ 141,721	
Salaries	23,508	10,735	31,728	9,668	56,938	36,133	39,607	8,396	15,630	
Employee Health and Retirement Benefits	17,554	8,017	23,693	7,220	42,519	24,927	29,577	6,270	11,671	
Payroll Taxes										
Total Salaries and Related Expenses	254,216	116,093	343,113	104,556	615,742	388,691	430,155	90,797	169,022	
II. OTHER EXPENSES										
Building Occupancy	6,382	2,908	8,768	2,645	17,612	54,172	92,761	15,653	4,279	
Professional Services	7,525	3,437	10,157	3,095	21,942	12,567	13,406	3,543	5,003	
Travel	6,746	4,125	17,792	2,766	108	48	-	578	14,896	
Equipment Cost	3,230	4,454	6,314	1,276	12,159	9,770	15,102	1,133	2,064	
Food Services	-	-	-	-	84,765	24,371	-	118	-	
Medical and Pharmacy	246	32	515	32	13,647	553	1,197	187	101	
Insurance	9,178	4,191	12,388	3,775	19,091	14,107	15,464	3,278	6,102	
Interest	8,854	4,043	11,950	3,642	21,445	13,609	14,918	3,162	5,887	
Operating Supplies and Expense	5,405	2,795	14,993	2,115	17,961	23,556	18,628	5,746	3,752	
Other	83,171	25,780	455	132	312,230	32,410	44,620	14,792	207	
Donated Items	-	-	-	-	170,527	-	-	-	-	
Total Other Expenses	130,737	51,765	83,332	19,478	520,459	185,668	216,096	48,190	42,291	
Total Expenses Before Depreciation and Amortization	384,953	167,858	426,445	124,034	1,136,201	574,359	646,251	138,987	211,313	
Depreciation and Amortization	12,493	5,705	16,862	5,138	30,260	19,202	21,049	4,462	8,306	
TOTAL EXPENSES	\$ 397,446	\$ 173,563	\$ 443,307	\$ 129,172	\$ 1,166,461	\$ 593,561	\$ 667,300	\$ 143,449	\$ 219,619	

(Continued)

ARCHWAYS, INC.
STATEMENT OF COST CENTER FUNCTIONAL EXPENSE
Year ended June 30, 2010

	PROGRAM SERVICES (Continued)				SUPPORT SERVICES			Total Expenses
	Outreach	Incidentals	Assessment	Other Support	Total Program Services	Creative Cobours	Administration	
I. SALARIES AND RELATED EXPENSES	\$ 21,918	\$ -	\$ 87,962	\$ 54,078	\$ 2,525,984	\$ 53,906	\$ 94,459	2,674,349
Salaries	2,417	-	9,701	5,971	278,382	5,945	10,418	294,745
Employee Health and Retirement Benefits	1,805	-	7,244	4,458	205,826	4,439	7,779	218,044
Payroll Taxes								
Total Salaries and Related Expenses	26,140	-	104,907	64,507	3,010,192	64,290	112,656	3,187,138
II. OTHER EXPENSES								
Building Occupancy	659	-	2,665	3,389	219,642	1,689	2,776	224,107
Professional Services	2,974	-	3,105	50,465	293,425	1,903	36,163	331,491
Travel	1,215	-	-	229	48,503	291	239	49,033
Equipment Cost	318	-	1,289	6,045	67,105	926	2,051	70,082
Food Services	-	-	-	108	109,362	-	80	109,442
Medical and Pharmacy	8	-	33	433	18,042	297	78	18,417
Insurance	944	-	3,787	2,331	105,548	2,321	4,068	111,937
Interest	910	-	3,654	2,249	104,850	2,239	3,924	111,013
Operating Supplies and Expense	558	160,651	2,119	9,959	278,769	26,367	9,937	315,073
Other	34	-	144	130	543,667	102	61,045	604,814
Donated Items	-	-	-	-	183,120	-	732	183,852
Total Other Expenses	7,620	160,651	16,796	75,338	1,972,033	36,135	121,093	2,129,261
Total Expenses Before Depreciation and Amortization	33,760	160,651	121,703	139,845	4,982,225	100,425	233,749	5,316,399
Depreciation and Amortization	1,284	-	5,155	3,173	147,943	3,160	5,536	156,639
TOTAL EXPENSES	\$ 35,044	\$ 160,651	\$ 126,858	\$ 143,018	\$ 5,130,168	\$ 103,585	\$ 239,285	\$ 5,473,038

See accompanying notes to financial statements.

ARCHWAYS, INC.
STATEMENT OF COST CENTER FUNCTIONAL EXPENSE
Year ended June 30, 2009

	PROGRAM SERVICES											
	Case Management	Intensive Case Management	Comprehensive Community Support Team		Intervention	Medical Services	Outpatient	Room, Board, & Supervision Residential		Supported Employment	Prevention	
			Level 2	Level 3				Level 2	Level 3			
I. SALARIES AND RELATED EXPENSES												
Salaries	\$ 171,130	\$ 59,341	\$ 281,447	\$ 100,005	\$ 192,217	\$ 352,374	\$ 271,873	\$ 242,068	\$ 100,764	\$ 147,170		
Employee Health and Retirement Benefits	18,109	6,312	32,774	11,480	21,140	38,760	30,296	26,178	11,399	16,938		
Payroll Taxes	13,472	4,659	23,228	8,182	15,336	28,160	21,879	19,161	8,187	12,015		
Total Salaries and Related Expenses	202,711	70,312	337,449	119,667	228,893	419,294	324,048	287,407	120,350	176,123		
II. OTHER EXPENSES												
Building Occupancy	5,999	2,098	6,179	2,474	5,948	15,118	52,021	71,559	14,726	3,855		
Professional Services	8,954	3,264	9,378	3,590	149,284	16,780	13,372	13,660	4,656	5,564		
Travel	5,862	2,335	10,854	1,485	1	21	-	-	809	14,048		
Equipment Cost	4,085	3,080	3,890	1,546	3,718	14,591	9,305	11,960	1,782	2,328		
Food Services	-	-	-	-	-	87,227	22,763	-	306	-		
Medical and Pharmacy	495	27	536	25	14,142	442	767	946	113	92		
Insurance	10,693	3,604	17,532	6,319	11,881	21,528	16,886	14,827	6,442	9,262		
Interest	8,811	3,099	14,522	5,159	9,726	18,668	14,200	12,760	5,279	7,601		
Operating Supplies and Expense	25,876	2,046	19,992	2,113	9,472	13,828	25,884	19,532	3,287	3,003		
Other	68	31	5,883	40	170	2,495	358	986	37	61		
Donated Items	-	-	-	-	118,545	13,043	1,183	-	-	-		
Total Other Expenses	70,843	19,584	88,766	22,751	322,887	203,741	156,739	146,230	37,437	45,814		
Total Expenses Before Depreciation and Amortization	273,554	89,896	426,215	142,418	551,580	623,035	480,787	433,637	157,787	221,937		
Depreciation and Amortization	9,146	3,309	14,499	5,080	10,320	19,210	14,388	13,252	5,058	7,560		
TOTAL EXPENSES	\$ 282,700	\$ 93,205	\$ 440,714	\$ 147,498	\$ 561,900	\$ 642,245	\$ 495,175	\$ 446,889	\$ 162,845	\$ 229,497		

(Continued)

ARCHWAYS, INC.
STATEMENT OF COST CENTER FUNCTIONAL EXPENSE
Year ended June 30, 2009

	PROGRAM SERVICES (Continued)				SUPPORT SERVICES			Total Expenses
	Outreach	Incidentals	Assessment	Other Support	Total Program Services	Creative Colours	Administration	
I. SALARIES AND RELATED EXPENSES								
Salaries	\$ 27,429	\$ -	\$ 32,482	\$ 219,200	\$ 2,197,500	\$ 63,140	\$ 294,246	\$ 2,554,886
Employee Health and Retirement Benefits	3,170	-	3,544	25,176	245,276	7,177	34,133	286,586
Payroll Taxes	2,249	-	2,580	17,972	177,080	5,131	24,287	206,498
Total Salaries and Related Expenses	32,848	-	38,606	262,348	2,619,856	75,448	352,666	3,047,970
II. OTHER EXPENSES								
Building Occupancy	670	-	958	5,608	187,213	29,732	6,805	223,750
Professional Services	975	-	1,758	10,503	241,738	2,639	36,581	280,958
Travel	295	-	-	543	36,253	321	678	37,252
Equipment Cost	419	-	437	9,271	66,412	5,676	8,048	80,136
Food Services	-	-	-	196	110,492	25	80	110,597
Medical and Pharmacy	196	-	9	1,316	19,106	839	97	20,042
Insurance	1,742	-	1,804	14,473	136,993	4,007	19,382	160,382
Interest	1,436	-	1,581	11,644	114,486	3,450	15,893	133,829
Operating Supplies and Expense	901	193,228	669	9,168	328,999	50,788	14,245	394,032
Other	11	-	24	68	10,232	62	9,438	19,732
Donated Items	-	-	-	-	132,771	-	924	133,695
Total Other Expenses	6,645	193,228	7,240	62,790	1,384,695	97,539	112,171	1,594,405
Total Expenses Before Depreciation and Amortization	39,493	193,228	45,846	325,138	4,004,551	172,987	464,837	4,642,375
Depreciation and Amortization	1,380	-	2,008	10,330	115,538	3,207	14,031	132,776
TOTAL EXPENSES	\$ 40,873	\$ 193,228	\$ 47,852	\$ 335,468	\$ 4,120,089	\$ 176,194	\$ 478,868	\$ 4,775,151

See accompanying notes to financial statements.

ARCHWAYS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Archways, Inc. (the "Organization") is a not-for-profit community mental health organization located in Fort Lauderdale, Florida, which provides behavioral healthcare services to persons with severe persistent mental illnesses.

The principal programs provided by the Organization are:

Case Management – helps clients develop comprehensive service and treatment plans, link clients with support services, monitor client progress and the effectiveness of services received, and advocate on behalf of clients when needed as a partner in the rehabilitation process.

Outpatient Services – provides on-site evaluations to assess mental status, assist in treatment planning, and coordinate psychiatric treatment services.

Day Program – provides psychosocial rehabilitation services, psychiatric day program activities and partial hospitalization for those needing more structure and supervision. This includes assessment, intervention, medical services, and incidentals.

Supported Employment Program – provides clients the opportunity to improve their work skills and make the transition to community employment.

Residential Program – provides residential facilities ranging from highly structured to very independent settings, which include group home and supervised apartments.

CCST – allows individuals to restore competency and provides individuals with a mental illness assistance in identifying goals and making choices to promote resiliency and facilitate recovery.

Substance Abuse Prevention Program – provides information dissemination and educational outreach to community groups to promote alternatives to substance abuse. Different types of presentations are offered encompassing a variety of different topics. In addition, referrals are provided when a substance abuse problem is identified.

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 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. Areas where significant estimates that are sensitive to change in the near term used in the accompanying financial statements include allowance for doubtful accounts, estimated third-party contractual allowances and contractual adjustments, and estimated third-party settlements – Medicare and Medicaid. Actual results could differ from those estimates.

(Continued)

ARCHWAYS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable: Uncollectible accounts receivable are provided for by using the allowance method which includes a provision for charity discounts for those individuals unable to pay the full cost of services. The allowance for uncollectible accounts receivable is based on prior collection history and specific review of all receivables. The allowance provided at June 30, 2010 and 2009 was approximately \$645,000 and \$1,021,000, respectively. The Organization does not accrue interest on any of its accounts receivable.

Revenue Recognition: The Organization recognizes grants, contracts and contributions of cash or other assets as restricted support if they are received with grantor or donor stipulations that limit the use of the donated assets. Temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction when a donor restriction expires, when a stipulated time restriction ends or purpose restriction is accomplished. A receivable is recognized by the Organization for grants or contracts to be received from the grantor or donor.

The Organization recognizes revenues from exchange transactions when the service is rendered. A receivable is recognized by the Organization for outstanding invoices.

Inventories: Inventories of \$149,360 and \$55,713 are stated principally at the lower of cost or market and are included in prepaid expenses and other current assets in the accompanying financial statements at June 30, 2010 and 2009, respectively. Inventories include \$35,821 and \$27,137 of Indigent Drug Program medications at June 30, 2010 and 2009, respectively.

Property and Equipment: The Organization capitalizes all property and equipment in excess of \$500. Property and equipment, acquired from outside sources, are recorded at cost. Property and equipment acquired by gift are stated at fair value as determined by management and other available sources at the date of acquisition. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 5 to 25 years. Expenditures for maintenance and repairs are charged against operations as incurred.

Deferred Loan Costs: The costs associated with the origination of the long-term debt are amortized over the life of the debt using the straight-line method. Amortization expense for the years ended June 30, 2010 and 2009 amounted to \$7,306 and \$7,015.

Functional Allocation of Expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Credit Risk: The Organization conducts all its banking transactions with its depository bank. At June 30, 2010 and 2009, the bank balance of the Organization's deposits was \$521,185 and \$421,767, respectively held at one institution. Of the cash balance, \$250,000 (per total amount at institution) is covered by federal depository insurance and any excess is uninsured and uncollateralized.

(Continued)

ARCHWAYS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of accounts receivable. Concentrations of credit risk with respect to accounts receivable are limited since a substantial portion of accounts receivable is due from the Medicaid Program and is based on predetermined rates set by this third-party payer.

Basis of Accounting: The accompanying financial statements have been prepared using the accrual basis of accounting. Using this method, revenues are recognized when earned and expenses are recognized when incurred.

Fair Value of Financial Instruments: As of June 30, 2010 and 2009, the Organization has certain financial instruments including debt and a related interest rate swap agreement. The carrying amounts reported in the Organization's balance sheet for debt and the interest rate swap at June 30, 2010 and 2009 approximates their fair values based on the current interest rate environment and terms of the instrument.

Net Assets: The Organization classifies its net assets into three categories: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets include net assets that impose no restrictions on the Organization as to their use or purpose. Such net assets are expended for charitable purposes as deemed appropriate by the Board of Directors of the Organization and for operating purposes. Unrestricted net assets include donor-restricted contributions where restrictions are met in the same reporting period. Unrestricted net assets also include board designated amounts for new software and a reserve for repairs and maintenance to property.

Temporarily restricted net assets include donor-designated gifts whereby the donor, at the time of the gift, specifically identifies the purpose(s) or project(s) to be benefited. When a donor restriction has been accomplished, temporarily restricted assets are reclassified to unrestricted assets and reported in the statement of activities as net assets released from restriction. During the year, the Organization received no temporarily restricted funds.

Permanently restricted net assets include gift arrangements that provide that the principal be maintained in perpetuity. Income from permanently restricted net assets is reflected as temporarily restricted or unrestricted for charitable or operating purposes in accordance with donor specifications. During the year, the Organization received no permanently restricted funds.

At June 30, 2010 and 2009, net assets were all unrestricted.

(Continued)

ARCHWAYS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Income Tax: The Organization has received determination of tax exempt status from the Internal Revenue Service under Code Section 501(c)(3) and, consequently, the earnings of the Organization are not taxed.

As of July 1, 2009, the Organization adopted guidance pertaining to the accounting for uncertainty in income tax provisions. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The adoption had no effect on the Organization's financial statements.

The Organization is no longer subject to examination by taxing authorities for years before June 30, 2007. The Organization does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Organization recognizes interest and/or penalties related to income tax matters in income tax expense. The Organization did not have any amount accrued for interest and penalties at June 30, 2010.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2010 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2010. Management has performed their analysis through April 18, 2011, 2010, the date the financial statements were available to be issued.

NOTE 2 - ACCOUNTS RECEIVABLE - NET

Accounts receivable – net at June 30, 2010 and 2009 consists of the following:

	<u>2010</u>	<u>2009</u>
Medicaid receivables	\$ 129,679	\$ 476,807
Medicare receivables	2,311	102,690
State grants receivable	289,089	563,285
County grants receivable	44,159	125,637
Miscellaneous receivables	<u>120,440</u>	<u>158,435</u>
	<u>\$ 585,678</u>	<u>\$ 1,426,854</u>

(Continued)

ARCHWAYS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 3 - PUBLIC SUPPORT - DONATED GOODS AND SERVICES

Donated goods and services are reflected as contributions and expenses at their estimated fair value at date of receipt. Donated services are recognized when meeting the following criteria:

- a. The services received create or enhance nonfinancial assets; or
- b. The services received require specialized skills, which are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

The services of an instructor provided to the Organization by the Broward County Board of Education has been reflected in the accompanying statements based on the prevailing salary scale of the school system. In addition, the services of various interns have been reflected in the accompanying statements based on the prevailing salary of comparable staff. The Organization receives donated food and medicines on a regular basis from a community-based organization. The value of the donated goods and services recognized in the accompanying financial statements is as follows:

	<u>2010</u>	<u>2009</u>
Donated services	\$ 9,367	\$ 10,039
Donated goods	<u>259,755</u>	<u>152,077</u>
	<u>\$ 269,122</u>	<u>\$ 162,116</u>

(Continued)

ARCHWAYS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 4 -LONG-TERM DEBT

Long-term debt as of June 30, 2010 and 2009 consists of the following:

	<u>2010</u>	<u>2009</u>
Note payable in equal monthly installments over 10 years beginning September 22, 2006, plus interest at LIBOR plus 2.5% (4.10% and 3.70% at June 30, 2010 and 2009) through September 2016, collateralized by buildings and improvements with a net book value of \$1,306,144 at June 30, 2010.	\$ 1,847,200	\$ 1,899,600
Note payable in equal monthly installments of \$5,727 over 5 years beginning November 22, 2008, including interest at LIBOR plus 3% (4.60% and 4.20% at June 30, 2010 and 2009) through March 2013, collateralized by buildings and improvements with a net book value of \$1,462,651 at June 30, 2010 and by the assignment of the State of Florida, Department of Children and Families contract.	200,012	261,017
Note payable in equal monthly installments of \$920 over 3 years beginning December 31, 2009 through December 31, 2013 collateralized by transportation equipment with a net book value of \$29,552 at June 30, 2010.	<u>27,435</u>	<u>-</u>
	2,074,647	2,160,617
Less: current portion	<u>131,726</u>	<u>109,412</u>
Total long-term portion	<u>\$ 1,942,921</u>	<u>\$ 2,051,205</u>

(Continued)

ARCHWAYS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 4 - LONG-TERM DEBT (Continued)

Principal maturities of long-term debt are as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Principal Maturities</u>
2011	\$ 131,726
2012	138,271
2013	139,543
2014	76,662
2015	78,400
Thereafter	<u>1,510,045</u>
	<u>\$ 2,074,647</u>

Interest expense for the years ended June 30, 2010 and 2009, amounted to approximately \$111,000 and \$133,000, respectively.

The debt is subject to a debt service coverage ratio and financial reporting requirements. On January 31, 2011 these covenants were waived.

NOTE 5 - INTEREST RATE SWAP

On September 22, 2006, the Organization entered into an interest rate swap agreement to hedge the exposure to the variable rate associated with a portion of the note payable above (\$1,010,000). This agreement involved an exchange of floating and fixed rate interest payments without the exchange of the underlying principal amount (the "notional amount"). Interest paid under the swap agreement is based on the one-month LIBOR plus 2.5% (2.85% as of June 30, 2010) and the interest received under the agreement is fixed at 8.10%. The net difference between the interest paid and the interest received is reflected as an adjustment to interest expense. The swap agreement's notional amount is \$923,600 and expires September 2016.

As of June 30, 2010 and 2009, the interest rate swap agreement was classified in accounts payable and accrued expenses at its fair value of \$172,714 and \$137,522, respectively, with the offsetting adjustment in other expense.

(Continued)

ARCHWAYS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 6 - PENSION PLAN

The Organization has a defined contribution pension plan for the benefit of its employees. All employees are eligible for the plan upon one year of service and attainment of age 21. The Organization funds the plan by making monthly contributions equivalent of six percent of the participants' compensation. Pension plan expense for the years ended June 30, 2010 and 2009 amounted to approximately \$106,000 and \$111,000, respectively.

NOTE 7 - COMMITMENTS

The Organization offers a cash management service to its residents. These funds remain the sole property of each respective resident, to be disbursed only as requested and, accordingly, these funds are excluded from the Organization's net assets. The Organization has a fiduciary duty of accountability for the years ended June 30, 2010 and 2009 of \$103,552 and \$93,575, respectively.

NOTE 8 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2010</u>	<u>2009</u>
Buildings and improvements	\$ 2,868,054	\$ 2,861,581
Furniture, fixtures and equipment	795,696	743,110
Transportation equipment	<u>74,259</u>	<u>133,386</u>
	3,738,009	3,738,077
Accumulated depreciation	<u>(2,707,244)</u>	<u>(2,618,174)</u>
	1,030,765	1,119,903
Land	<u>829,539</u>	<u>829,539</u>
	<u>\$ 1,860,304</u>	<u>\$ 1,949,442</u>

Depreciation and amortization expense amounted to approximately \$157,000 and \$133,000 for the years ended June 30, 2010 and 2009, respectively.

(Continued)

ARCHWAYS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 9 - ECONOMIC DEPENDENCE

The Organization is economically dependent upon the receipt of funds for its various programs from the State of Florida. During the years ended June 30, 2010 and 2009 the Organization received grants, contracts and/or other funding from the State of Florida as follows:

	<u>2010</u>	<u>2009</u>
Department of Children and Families	\$ 3,058,558	\$ 2,530,019
Department of Labor and Employment		
Employment Security	11,966	12,950
Department of Elder Affairs	45,629	52,727
Disaster Relief Funding	-	124
Medicaid	<u>757,803</u>	<u>1,177,623</u>
	<u>\$ 3,873,956</u>	<u>\$ 3,773,443</u>

A significant reduction in the level of this support would have an adverse effect on the Organization's programs and activities and its ability to satisfy its financial and program obligations and commitments.

NOTE 10 - LEASES

The Organization leases equipment under operating leases expiring through January 2013. The leases require monthly payments aggregating approximately \$1,700 per month. In addition, the Organization leases equipment on a month to month basis. Rent expense related to the leases for the years ended June 30, 2010 and 2009, was approximately \$26,350 and \$34,500, respectively.

(Continued)

ARCHWAYS, INC.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2010 and 2009

NOTE 10 – LEASES (Continued)

Minimum annual rentals under the terms of the above operating leases subsequent to June 30, 2010 are as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Amount</u>
2011	\$ 20,400
2012	20,400
2013	<u>11,900</u>
	<u>\$ 52,700</u>

NOTE 11 - GRANTS AND CONTRACTS FOR CLIENT SERVICES

Funding agreements for services to be provided are entered into on an annual basis. The release of funds is subject to monies being made available by the Federal Government, the Florida Legislature and certain other grantor agencies. Generally, agreements may be terminated by either party with thirty days written notice.

In addition, certain funding arrangements require the Organization to provide additional services on a specified matching basis. In all such contract arrangements, the Organization has met its matching requirements. Matching requirements fulfilled for the year ended June 30, 2010, are as follows:

<u>Grantor</u>	<u>Contract Number</u>	<u>Matching Requirement</u>
State of Florida Department of Children and Families	JH311	\$ 275,040

Program expenditures made by the Organization are subject to additional audit by grantor agencies. As a result of such audits, the grantor may require that amounts be returned. In certain instances, the grantor may increase its grant of funds to the Organization to offset amounts which would otherwise be refundable based on audits.

(Continued)

ARCHWAYS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 12 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Accounting Standards Board Account Standards Codification, ASC 820, Fair Value Measurements and Disclosures defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Organization's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The Statement establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Derivative contracts are valued using quoted market prices and significant other observable inputs. Such financial instruments consist of an interest rate swap contract. Interest rate swaps do not have observable market quotes. For these financial instruments the Organization's swap counterparty provides a quarterly valuation using the difference between the fixed rate paid by the Organization and the counterparty's LIBOR interest rate forecast discounted at the swap yield curve. The models are based on observable inputs for forward interest rates and discount rates. As such, these derivative instruments are classified within Level 2 of the fair value hierarchy.

SUPPLEMENTAL REPORTS

ARCHWAYS, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 AND STATE FINANCIAL ASSISTANCE
 Year ended June 30, 2010

Federal Agency, Pass-through Entity	Federal CFDA Number	Contract Grant Number	Expenditures	Transfers to Subrecipients
<u>FEDERAL AGENCY:</u>				
Department of Health and Human Services - Passed through the State of Florida Department of Children and Families				
Temporary Assistance for Needy Families	*93.558	JH311	\$ 247,416	\$ -
Community Adult Mental Health Service	93.958	JH311	53,426	-
Adult and Children Substance Abuse Prevention Program	*93.959	JH311	<u>309,744</u>	<u>-</u>
Total Department of Health and Human Services			610,586	-
Department of Education Passed through the State of Florida Department of Labor and Employment Security				
Vocational Rehabilitation Service	84.187	VS568	<u>15,750</u>	<u>-</u>
Total Department of Education			15,750	-
Department of Agricultural (USDA) Passed through the State of Florida Department of Elder Affairs				
Adult Care Food Program	10.558	Y8082	13,572	-
	10.558	Y9082	<u>41,256</u>	<u>-</u>
Total Department of Agriculture			<u>54,828</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 681,164</u>	<u>\$ -</u>

*Denotes a major program

Note: This schedule was prepared on the accrual basis of accounting.

ARCHWAYS, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 AND STATE FINANCIAL ASSISTANCE
 Year ended June 30, 2010

State Agency, Pass-through Entity, <u>State Project</u>	State CSFA <u>Number</u>	Contract Grant <u>Number</u>	<u>Expenditures</u>	Transfers to <u>Subrecipients</u>
STATE AGENCY NAME				
Department of Health and Human Services - Passed through the State of Florida Department of Children and Families				
Adult Community Mental Health Community Support Services	*60.053	JH311	\$ 1,881,237	\$ -
Substance Abuse Treatment and Aftercare Services for Adults	60.033	JH311	49,235	-
Community Forensic Beds	60.114	JH311	244,526	-
Indigent Psychiatric Outpatient Services	60.039	JH311	13,588	-
Baker Act Program	60.006	JH311	<u>5,000</u>	<u>-</u>
Total Expenditures of State Awards			<u>\$ 2,193,586</u>	<u>\$ -</u>

*Denotes a major project

Note: This schedule was prepared on the accrual basis of accounting.

ARCHWAYS, INC.
SCHEDULE OF OTHER LOCAL FUNDING
Year ended June 30, 2010

<u>Grantor</u>	<u>Program Title</u>	<u>Contract Number</u>	<u>Expenditures</u>
LOCAL FINANCIAL ASSISTANCE:			
Broward County, Florida	Local Match - Community Mental Health and Substance Abuse	06-SAHCS-8452	\$ <u>309,110</u>
Total Expenditures of Other Local Funding			\$ <u>309,110</u>

Note: This schedule was prepared on the accrual basis of accounting.

ARCHWAYS, INC.
PROGRAM/COST CENTER ACTUAL REVENUES AND EXPENSES SCHEDULE
Year ended June 30, 2010

	Combined Programs							
	Case Management	Intervention	Incidentals	Assessment	Outreach	Prevention	Outpatient Group	Total Combined Programs
STATE SAMH FUNDING	\$ 129,398	\$ 147,532	\$ 156,704	\$ 48,369	\$ 22,617	\$ 276,322	\$ 320,895	\$ 1,101,837
OTHER GOVERNMENT FUNDING								
Other State Agency Funding	-	-	-	-	-	-	48,700	48,700
Medicaid	110,596	-	-	691	-	-	572,474	683,761
Local Government	-	49,295	-	141,993	1,998	-	-	193,286
Federal Grants and Contracts	-	-	-	-	-	-	-	-
In-kind from local govt. only	-	-	-	-	-	-	-	-
TOTAL OTHER	110,596	49,295	-	142,684	1,998	-	621,174	925,747
GOVERNMENT FUNDING								
ALL OTHER REVENUES								
First and Second Party Payments	-	-	-	-	-	-	14,630	14,630
Third Party Payments	-	-	-	-	-	-	-	-
(except Medicare)	-	-	-	-	-	-	-	-
Medicare	-	-	-	-	-	-	-	-
Contributions and Donations	-	-	-	-	-	-	-	-
Other	1,000	-	-	-	-	-	-	-
In-kind	-	-	-	-	-	-	12,592	1,000
TOTAL ALL	-	-	-	-	-	-	12,592	12,592
OTHER REVENUES								
TOTAL FUNDING	\$ 239,994	\$ 196,827	\$ 156,704	\$ 191,053	\$ 24,615	\$ 276,322	\$ 968,291	\$ 2,055,806

(Continued)

ARCHWAYS, INC.
PROGRAM/COST CENTER ACTUAL REVENUES AND EXPENSES SCHEDULE
 Year ended June 30, 2010

	Adult Mental Health										Total Adult Mental Health
	Room and Board With Supervision		Intensive Care Management	Comprehensive Community Support Team		Medical Services	Outpatient Individual	Supported Employment			
	Level II	Level III									
STATE SAMH FUNDING	\$ 276,610	\$ 280,446	\$ 638,888	\$ 37,092	\$ 224,160	\$ 74,619	\$ 147,639	\$ 1,679,454			
OTHER GOVERNMENT FUNDING											
Other State Agency Funding	-	-	-	-	-	-	18,646	18,646			
Medicaid	-	-	-	40,832	34,522	25,396	-	-	100,750		
Local Government	-	-	-	56,108	-	59,716	-	-	115,824		
Federal Grants and Contracts	-	-	-	-	-	-	-	-	-		
In-kind from local govt. only	-	-	-	-	-	-	-	-	-		
TOTAL OTHER	-	-	-	-	-	-	-	-	-		
GOVERNMENT FUNDING	-	-	-	96,940	34,522	85,112	18,646	235,220			
ALL OTHER REVENUES											
First and Second Party Payments	156,341	279,774	-	-	3,490	-	-	-	439,605		
Third Party Payments	-	-	-	-	-	-	-	-	-		
Medicare (except Medicare)	-	-	-	-	-	-	-	-	-		
Medicaid	-	-	-	-	17,952	579	-	-	18,531		
Contributions and Donations	-	-	-	-	-	-	-	-	-		
Other	-	-	-	-	-	-	-	-	-		
In-kind	-	-	-	-	255,490	-	-	-	255,490		
TOTAL ALL	-	-	-	-	276,932	579	-	-	713,626		
OTHER REVENUES	156,341	279,774	-	-	276,932	579	-	-	713,626		
TOTAL FUNDING	\$ 432,951	\$ 560,220	\$ 638,888	\$ 134,032	\$ 535,614	\$ 160,310	\$ 166,285	\$ 2,628,300			

(Continued)

ARCHWAYS, INC.
PROGRAM/COST CENTER ACTUAL REVENUES AND EXPENSES SCHEDULE
 Year ended June 30, 2010

	Total Adult Substance Abuse	Total State Funded SAMH-	Total Non-State Funded SAMH-	Total For All State Designated SAMH-	Non-SAMH Cost Center	Total Funding
STATE SAMH FUNDING	\$ -	\$ 2,781,291	\$ -	\$ 2,781,291	\$ -	\$ 2,781,291
OTHER GOVERNMENT FUNDING						
Other State Agency Funding	-	67,346	-	67,346	-	67,346
Medicaid	-	784,511	-	784,511	-	784,511
Local Government	-	309,110	-	309,110	-	309,110
Federal Grants and Contracs	-	-	-	-	-	-
In-kind from local govt. only	-	-	-	-	-	-
TOTAL OTHER	-	-	-	-	-	-
GOVERNMENT FUNDING	-	1,160,967	-	1,160,967	-	1,160,967
ALL OTHER REVENUES						
First and Second Party Payments	-	454,235	-	454,235	-	454,235
Third Party Payments (except Medicare)	-	-	-	-	-	-
Medicare	-	18,531	-	18,531	-	18,531
Contributions and Donations	-	-	-	-	-	-
Other	-	1,000	-	1,000	79,473	80,473
In-kind	-	268,082	-	268,082	10,407	278,489
TOTAL ALL	-	741,848	-	741,848	89,880	831,728
OTHER REVENUES	-	-	-	-	89,880	89,880
TOTAL FUNDING	\$ -	\$ 4,684,106	\$ -	\$ 4,684,106	\$ 89,880	\$ 4,773,986

(Continued)

ARCHWAYS, INC.
PROGRAM/COST CENTER ACTUAL REVENUES AND EXPENSES SCHEDULE
Year ended June 30, 2010

		Combined Programs							
Case		Management	Intervention	Incidentals	Assessment	Outreach	Prevention	Outpatient Group	Total Combined Programs
PERSONNEL EXPENSES									
Salaries	\$ 213,154	\$ 87,668	\$ -	\$ 87,962	\$ 21,918	\$ 141,721	\$ 443,770	\$ 996,193	
Fringe Benefits	41,062	16,888	-	16,945	4,222	27,301	85,488	191,906	
TOTAL PERSONNEL EXPENSES	254,216	104,556	-	104,907	26,140	169,022	529,258	1,188,099	
OTHER EXPENSES									
Building Occupancy	6,382	2,645	-	2,665	659	4,279	15,427	32,057	
Professional Services	7,525	3,095	-	3,105	2,974	5,003	19,382	41,084	
Travel	6,746	2,766	-	-	1,215	14,896	108	25,731	
Equipment	3,230	1,276	-	1,289	318	2,064	11,099	19,276	
Food Services	-	-	-	-	-	-	84,765	84,765	
Medical and Pharmacy	246	32	-	33	8	101	528	948	
Insurance	9,178	3,775	-	3,787	944	6,102	15,968	39,754	
Interest Paid	8,854	3,642	-	3,654	910	5,887	18,433	41,380	
Operating Supplies and Expenses	5,405	2,115	160,651	2,119	558	3,752	16,228	190,828	
Other	83,171	132	-	144	34	207	290,011	373,699	
Donated Items	-	-	-	-	-	-	12,593	12,593	
TOTAL OTHER EXPENSES	130,737	19,478	160,651	16,796	7,620	42,291	484,542	862,115	
TOTAL PROGRAM SERVICES	384,953	124,034	160,651	121,703	33,760	211,313	1,013,800	2,050,214	
INDIRECT EXPENSES									
Other Support Costs	11,117	3,582	4,640	3,515	975	6,103	29,278	59,209	
Administration	15,928	5,132	6,647	5,036	1,397	8,743	41,947	84,830	
TOTAL INDIRECT EXPENSES	27,045	8,714	11,287	8,550	2,372	14,846	71,225	144,038	
TOTAL EXPENSES	\$ 411,998	\$ 132,748	\$ 171,938	\$ 130,253	\$ 36,132	\$ 226,159	\$ 1,085,024	\$ 2,194,252	

(Continued)

ARCHWAYS, INC.
PROGRAM/COST CENTER ACTUAL REVENUES AND EXPENSES SCHEDULE
 Year ended June 30, 2010

	Adult Mental Health										Total Adult Mental Health	
	Room and Board With Supervision		Comprehensive Community		Intensive Care		Medical Services		Outpatient			Supported Employment
	Level II	Level III	Support Team	Management	Individual	Individual	Individual	Individual				
PERSONNEL EXPENSES												
Salaries	\$ 327,631	\$ 360,971	\$ 97,341	\$ 287,692	\$ 253,432	\$ 76,131	\$ 1,475,713				\$ 76,131	\$ 1,475,713
Fringe Benefits	61,060	69,184	18,752	55,421	48,821	14,666	281,873				14,666	281,873
TOTAL PERSONNEL EXPENSES	388,691	430,155	116,093	343,113	302,253	90,797	1,757,586				90,797	1,757,586
OTHER EXPENSES												
Building Occupancy	54,172	92,761	2,908	8,768	7,749	15,653	184,196				15,653	184,196
Professional Services	12,567	13,406	3,437	10,157	156,206	3,543	201,876				3,543	201,876
Travel	48	-	4,125	17,792	-	578	22,543				578	22,543
Equipment	9,770	15,102	4,454	6,314	3,951	1,133	41,784				1,133	41,784
Food Services	24,371	-	-	-	-	118	24,489				118	24,489
Medical and Pharmacy	1,058	1,197	32	515	13,647	187	16,661				187	16,661
Insurance	14,107	15,464	4,191	12,388	10,912	3,278	63,463				3,278	63,463
Interest Paid	13,609	14,918	4,043	11,950	10,527	3,162	61,221				3,162	61,221
Operating Supplies and Expenses	23,556	18,628	2,795	14,993	10,531	5,746	77,982				5,746	77,982
Other	32,410	44,620	25,780	455	29,562	14,792	169,838				14,792	169,838
Donated Items	-	-	-	-	170,527	-	170,527				-	170,527
TOTAL OTHER EXPENSES	185,668	216,096	51,765	83,332	413,612	48,190	1,034,580				48,190	1,034,580
TOTAL PROGRAM SERVICES	574,359	646,251	167,858	426,445	715,865	138,987	2,792,166				138,987	2,792,166
INDIRECT EXPENSES												
Other Support Costs	16,587	18,663	4,848	12,315	20,674	4,014	80,636				4,014	80,636
Administration	23,765	26,739	6,945	17,645	29,620	5,751	115,528				5,751	115,528
TOTAL INDIRECT EXPENSES	40,352	45,403	11,793	29,960	50,293	9,765	196,165				9,765	196,165
TOTAL EXPENSES	\$ 614,711	\$ 691,654	\$ 179,651	\$ 456,405	\$ 766,158	\$ 148,752	\$ 2,988,331				\$ 148,752	\$ 2,988,331

(Continued)

ARCHWAYS, INC.
PROGRAM/COST CENTER ACTUAL REVENUES AND EXPENSES SCHEDULE
 Year ended June 30, 2010

	Total Adult Substance Abuse	Total State Funded SAMH+		Total Non-State Funded SAMH+		Total For All State Designated SAMH+		Non-SAMH Cost Center	Other Support Costs	Administration	Total Expenses
		Cost Centers		Cost Centers		Cost Centers					
PERSONNEL EXPENSES											
Salaries	\$ -	\$ 2,471,906	\$ -	\$ -	\$ 2,471,906	\$ 53,906	\$ 54,078	\$ 94,459	\$ 2,674,349		
Fringe Benefits	-	473,779	-	-	473,779	10,384	10,429	18,197	512,789		
TOTAL PERSONNEL EXPENSES	-	<u>2,945,685</u>	-	-	<u>2,945,685</u>	<u>64,290</u>	<u>64,507</u>	<u>112,656</u>	<u>3,187,138</u>		
OTHER EXPENSES											
Building Occupancy	-	216,253	-	-	216,253	1,689	3,389	2,776	224,107		
Professional Services	-	242,960	-	-	242,960	1,903	50,465	36,163	331,491		
Travel	-	48,274	-	-	48,274	291	229	239	49,033		
Equipment	-	61,060	-	-	61,060	926	6,045	2,051	70,082		
Food Services	-	109,254	-	-	109,254	-	108	80	109,442		
Medical and Pharmacy	-	17,609	-	-	17,609	297	433	78	18,417		
Insurance	-	103,217	-	-	103,217	2,321	2,331	4,068	111,937		
Interest Paid	-	102,601	-	-	102,601	2,239	2,249	3,924	111,013		
Operating Supplies and Expenses	-	268,810	-	-	268,810	26,367	9,959	9,937	315,073		
Other	-	543,537	-	-	543,537	102	130	61,045	604,814		
Donated Items	-	183,120	-	-	183,120	-	-	732	183,852		
TOTAL OTHER EXPENSES	-	<u>1,896,695</u>	-	-	<u>1,896,695</u>	<u>36,135</u>	<u>75,338</u>	<u>121,093</u>	<u>2,129,261</u>		
TOTAL PROGRAM SERVICES	-	<u>4,842,380</u>	-	-	<u>4,842,380</u>	<u>100,425</u>	<u>139,845</u>	<u>233,749</u>	<u>5,316,399</u>		
INDIRECT EXPENSES											
Other Support Costs	-	139,845	-	-	139,845	-	(139,845)	-	-		
Administration	-	233,749	-	-	233,749	-	-	(233,749)	-		
TOTAL INDIRECT EXPENSES	-	<u>373,594</u>	-	-	<u>373,594</u>	-	<u>(139,845)</u>	<u>(233,749)</u>	-		
TOTAL EXPENSES	\$ -	\$ <u>5,215,974</u>	\$ -	\$ -	\$ <u>5,215,974</u>	\$ <u>100,425</u>	\$ -	\$ -	\$ <u>5,316,399</u>		

ARCHWAYS, INC.
SCHEDULE OF STATE EARNINGS
Year ended June 30, 2010

1	Total expenditures	\$ 5,316,399
2	Less: other state and federal funds	(1,683,585)
3	Less: nonmatch SAMH funds	(1,989,602)
4	Less: unallowable costs per 65E-14, FAC	<u> -</u>
5	Total allowable expenditures	<u>\$ 1,643,212</u>
6	Maximum available earnings	\$ 1,232,409
7	Amount of state funds requiring match	\$ 814,571
8	Amount due to department	(1) \$ -

(1) The Florida Department of Children and Families Guide to Performance Contracting provides that if the amount on Line 7 exceeds the amount calculated on Line 6, then this amount would be due to the Department.

COMPLIANCE AND INTERNAL CONTROLS

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
Archways, Inc.
Fort Lauderdale, Florida

We have audited the financial statements of Archways, Inc. as of and for the year ended June 30, 2010, and have issued our report thereon dated April 18, 2011. 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 Archways, 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 the Archways, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Archways, 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we considered to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control 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 *material weakness* is a deficiency, or combination of deficiencies, in internal control such as there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2010-1 to be a material weakness.

(Continued)

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described accompanying Schedule of Findings and Questioned Costs as items 2010-2 and 2010-3 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Archways, 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 that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that we reported to management of the Organization in a separate letter dated April 18, 2011.

The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, Federal and State awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Crowe Horwath LLP

April 18, 2011
Fort Lauderdale, Florida

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE WITH OMB
CIRCULAR A-133 AND CHAPTER 10.650, RULES OF THE AUDITOR GENERAL

To the Board of Directors
Archways, Inc.
Fort Lauderdale, Florida

Compliance

We have audited the compliance of Archways, Inc. with the types of compliance requirements described in the requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the requirements described in the Department of Financial Services State Projects Compliance Supplement, that could have a direct and material effect on each of Archways, Inc.'s major federal programs and state financial assistance projects for the year ended June 30, 2010. Archways Inc.'s major federal programs and state financial assistance projects are identified in the summary of auditor's 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 and state financial assistance projects is the responsibility of Archways, Inc.'s management. Our responsibility is to express an opinion of Archways, 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.650, Rules of the Auditor General. Those standards, OMB Circular A-133, and Chapter 10.650, Rules of the Auditor General, 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 programs and state financial assistance project occurred. An audit includes examining, on a test basis, evidence about Archways, 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 Archways, Inc.'s compliance with those requirements.

(Continued)

In our opinion, Archways, Inc. complied, in all material respects, with the requirements referred to above that that could have a direct and material effect on each of its major federal programs and state financial assistance projects for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Archways, 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 and state financial assistance projects. In planning and performing our audit, we considered Archways, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program or state financial assistance projects to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Archway Inc.'s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program or state financial assistance project on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2010-4 to be a material weakness.

We noted certain matters that we have reported to the management of Archways, Inc. in a separate letter dated April 18, 2011.

This report is intended solely for the information of the Board of Directors, management, state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Crowe Horwath LLP

April 18, 2011
Fort Lauderdale, Florida

ARCHWAYS, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FEDERAL PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS
 Year ended June 30, 2010

1. Financial Statements:

The type of report issued on the financial statements: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards and State Financial Assistance:

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) OMB Circular A-133, and Chapter 10.650, Rules of the Auditor General? Yes No

Identification of major programs:

<u>Federal Programs</u>	<u>Federal CFDA No.</u>
Adult and Children Substance Abuse Prevention Program	93.959
Temporary Assistance for Needy Families	93.558
 <u>State Projects</u>	 <u>State CSFA No.</u>
Florida Department of Children and Families, Adult Community Mental Health Community Support Services	60.053

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

(Continued)

ARCHWAYS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS
Year ended June 30, 2010

2. Findings related to financial statements that are required to be reported in accordance with GAGAS:

Material Weakness

Finding #2010-1: Preparation of Financial Statements

Criteria or specific requirement: Management is responsible for establishing and maintaining internal controls to provide appropriate and reliable financial reports and to select and apply appropriate accounting principles. Management is not required to prepare their financial reports, but management needs to demonstrate the level of qualifications and controls to prepare their financial reports without significant deficiencies or material weaknesses in these controls. Such controls over the preparation of financial reports may include management effectively reviewing their financial reports for material accuracy if the report preparation has been outsourced.

Condition: Management does not have the internal resources to be able to prepare the financial reports and select and apply the appropriate accounting principles without significant deficiencies.

Effect: The above conditions directly affect the presentation and data included in the Organization's monthly financial reporting package as the Organization's overall reconciliation and review process is not adequate to prevent and detect material misstatements. In addition, new accounting literature continues to be added at an astonishing pace. Many business transactions have complex accounting rules and guidance is being produced from various authoritative sources. Each of these elements add a significant financial cost to the internal control process, a pressure that small and mid-size Organizations alike have been facing for years. Thus, it is no surprise that the financial statement process is often outsourced to the auditor. However, daily business decisions may be made based on inaccurate financial data. In addition, inappropriate financial data may be shared with outside users. When there is a system change this also enhances the need for timely reconciliations.

Cause: The limited availability of resources, the size of the finance department, turnover in the finance department in the CFO position contributed to the cause of this deficiency.

Recommendation: The Organization could consider outsourcing the preparation of the year end financial statements and Schedule of Expenditures of Federal Awards and State Financial Assistance.

Views of responsible officials and planned corrective actions: MANAGEMENT IS CONFIDENT THAT DESPITE THE TURNOVER IN THE CFO POSITION FOR THE AUDIT FOR FY 2010, AND UNDERSTANDS THAT THERE IS A LEARNING CURVE, THE EXPERIENCE WITH THIS AUDIT COMBINED WITH AN UPGRADE TO OUR SOFTWARE, WILL PUT THE ORGANIZATION IN A BETTER POSITION TO PRODUCE FINANCIAL STATEMENTS. MANAGEMENT IS OPEN TO CONTINUAL EVALUATION AND FEEDBACK OF THIS PROCESS.

(Continued)

ARCHWAYS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS
Year ended June 30, 2010

Significant Deficiencies

Finding #2010-2: Patient Service Processing

Criteria or specific requirement: The Organization has a limited time frame to submit claims for Medicaid and Medicare benefit payments for services provided to clients.

Condition: Patient charts completed by PSR Staff after client services have been provided are not being timely processed and delivered to the accounting department for prompt billing. During our control testing we noted 8 exceptions on a sample of 33 (approximately 24%).

Effect: The above conditions directly affect the recognition of revenue as revenue is only recognized after services provided have been billed. Also, Given the strict timelines required to obtain payment for patient claims, it is critical that patient chart and all related notes are processed within 45 days of service being provided so as to avoid claims been denied.

Cause: The limited availability of resources, turnover in the PSR department, and limited availability of resources to monitor billing contributed to the cause of this deficiency.

Recommendation: The Organization's internal audit department could test a random sample of transactions on monthly basis to ensure that proper monitoring is in place over the timing for processing claims for services provided

Views of responsible officials and planned corrective actions: THIS ISSUE CAME TO MANagements ATTENTION, JUST PRIOR TO THE BEGINNING OF THE AUDIT. MANAGEMENT CHOSE TO MAKE PERSONNEL CHANGES AND CHARGE THE BILLING DEPARTMENT WITH MONITORING AND NOTIFYING MANAGEMENT OF ANY AND ALL BILLING ISSUES. MANAGEMENT AGREES.

ARCHWAYS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS
Year ended June 30, 2010

Finding #2010-3: IT Policies and Procedures

Criteria or specific requirement: The Organization does not have documentation of performance of IT Policies and Procedures.

Condition: There are IT policies and procedures the Organization is to be following and management representation that the policies and procedures are being followed, but there is a lack of documentation of management's performance of the policies and procedures related to periodic review of user access and IT audits that test the adequacy of the Organization's IT controls.

Effect: The lack of IT process controls such as user access review and IT adequacy tests could result in weakness in the Organization's operating and financial systems.

Cause: The limited availability of resources contributed to the cause of this deficiency.

Recommendation: The Organization should formally document the performance of IT policies and procedures particularly related to the review of user access and IT audits.

Views of responsible officials and planned corrective actions: Management Agrees

ARCHWAYS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS
Year ended June 30, 2010

3. Findings and questioned costs for Federal Programs and State financial assistance projects:

Department of Health and Human Services
CFDA No. 93.959
Temporary Assistance for Needy Families

Department of Health and Human Services
CFDA No. 93.558
Adult and Children Substance Abuse Prevention Program

State of Florida Department of Children and Families
CFSA No. 60.053
Adult Community Mental Health Community Support Services

Material Weakness

Finding #2010-4: Preparation of Schedule of Expenditure of Federal Awards and State Financial Assistance

Criteria or specific requirement: Management is responsible for establishing and maintaining internal controls to provide appropriate and reliable federal and state financial reports. Management is not required to prepare their federal and state financial reports, but management needs to demonstrate the level of qualifications and controls to prepare their federal and state financial reports without significant deficiencies or material weaknesses in these controls. Such controls over the preparation of federal and state financial reports may include management effectively reviewing their federal and state financial reports for material accuracy if the report preparation has been outsourced.

Condition: Management does not have the internal resources to be able to prepare and review the federal and state financial reports.

Effect: The above conditions directly affect the presentation and data included in the Organization's federal and state financial reporting package as the Organization's overall reconciliation and review process is not adequate to prevent and detect material misstatements.

Cause: The limited availability of resources, the size of the finance department, turnover in the finance department in the CFO position contributed to the cause of this deficiency.

Recommendation: The Organization could consider outsourcing the preparation of the Schedule of Expenditures of Federal Awards and State Financial Assistance.

Views of responsible officials and planned corrective actions: MANAGEMENT IS CONFIDENT THAT DESPITE THE TURNOVER IN THE CFO POSITION FOR THE AUDIT FOR FY 2010, AND UNDERSTANDS THAT THERE IS A LEARNING CURVE, THE EXPERIENCE WITH THIS AUDIT COMBINED WITH AN UPGRADE TO OUR SOFTWARE, WILL PUT THE ORGANIZATION IN A

ARCHWAYS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS
Year ended June 30, 2010

BETTER POSITION TO PRODUCE FINANCIAL STATEMENTS. MANAGEMENT IS OPEN TO CONTINUAL EVALUATION AND FEEDBACK OF THIS PROCESS.

ARCHWAYS, INC.
SUMMARY OF PRIOR YEAR AUDIT FINDINGS
Year ended June 30, 2010

AUDIT REFERENCE

Finding #2009-2: Reconciliation of Grant Receivable

Status: Implemented. Management has developed a tool to reconcile grants receivable on a monthly basis. As of June 30, 2010 financials the process was fully implemented.

ARCHWAYS, INC.
CORRECTIVE ACTION PLAN
Year ended June 30, 2010

Finding #2010-4: Preparation of Schedule of Expenditure of Federal Awards and State Financial Assistance

MANAGEMENT IS CONFIDENT THAT DESPITE THE TURNOVER IN THE CFO POSITION FOR THE AUDIT FOR FY 2010, AND UNDERSTANDS THAT THERE IS A LEARNING CURVE, THE EXPERIENCE WITH THIS AUDIT COMBINED WITH AN UPGRADE TO OUR SOFTWARE, WILL PUT THE ORGANIZATION IN A BETTER POSITION TO PRODUCE FINANCIAL STATEMENTS. MANAGEMENT IS OPEN TO CONTINUAL EVALUATION AND FEEDBACK OF THIS PROCESS.

Board of Directors
Archways, Inc.
Ft. Lauderdale, Florida

We have audited the financial statements of Archways, Inc. (the Organization), as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated April 18, 2011.

We conducted our audit 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. We have issued our Independent Auditor's Report on Compliance and Internal Control over Financial Reporting, Independent Auditor's Report on Compliance and Internal Control over Compliance Applicable to each Major State Project, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated April 18, 2011, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.650, Rules of the Auditor General, which requires disclosure in the management letter of violations of provisions of contracts or grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In addition, for matters that are inconsequential, considering both quantitative and qualitative factors, the following may be reported based on professional judgment: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements or major State projects; (2) improper expenditures or illegal acts that would not materially affect the financial statements or major State projects; (3) control deficiencies that are not significant deficiencies, including, but not limited to: (a) improper or inadequate accounting procedures (e. g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor.

(Continued)

In planning and performing our audit of the financial statements of Archways, Inc. ("Organization") as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's 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 Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain matters that we are required to or wish to communicate to you. Matters communicated in this letter are classified based on Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, as follows.

- **Best Practice** – A matter which you may find of interest.
- **Deficiency** – 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 and correct misstatements on a timely basis.
- **Significant Deficiency** – A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
- **Material Weakness** – A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Follow up on Prior Year Recommendations:

Recommendation	Classification	Status
Reconciliation of Grant Revenue	Significant Deficiency	Implemented
Timely Account Reconciliation	Deficiency	Partially Implemented – See Evidence of Reviews and Approvals
Procedures to Monitor Debt Covenants	Deficiency	Not Implemented
Procedures to Monitor and Record Fair Value of Interest Rate Swap Agreement	Deficiency	Not Implemented
Fixed Asset Inventory Procedures	Deficiency	Implemented

(Continued)

Board of Directors
Archways, Inc.

Recommendation (Continued)		Status (Continued)
IT Policies and Procedures	Significant Deficiency	Partially Implemented – See IT Policies and Procedures
Fixed Asset Procedures	Deficiency	Implemented
Journal Entries	Deficiency	Partially Implemented – See Journal Entries
Documentation of Grant Reports	Deficiency	Implemented
Recording of Transactions in Accounting Software	Deficiency	Implemented
Documentation of Posting Date	Best Practice	Not Implemented
Update Documentation of Job Descriptions	Best Practice	Implemented
Transactions with Related Parties	Best Practice	Implemented
Bank Reconciliation Procedures	Best Practice	Implemented
Training and Research Tools	Best Practice	Implemented
Segregation of Duties	Best Practice	Not Implemented

(Continued)

Current Year Recommendations:

FINANCIAL REPORTING		Material Weakness
Observation:	<p>Management is responsible for establishing and maintaining internal controls to provide appropriate and reliable financial reports and to select and apply appropriate accounting principles. Management is not required to prepare their financial reports, but management needs to demonstrate the level of qualifications and controls to prepare their financial reports without significant deficiencies or material weaknesses in these controls. Such controls over the preparation of financial reports may include management effectively reviewing their financial reports for material accuracy if the report preparation has been outsourced.</p> <p>Management does not have the internal resources to be able to prepare the financial reports and select and apply the appropriate accounting principles without significant deficiencies.</p> <p>The above conditions directly affect the presentation and data included in the Organization's monthly financial reporting package as the Organization's overall reconciliation and review process is not adequate to prevent and detect material misstatements. In addition, new accounting literature continues to be added at an astonishing pace. Many business transactions have complex accounting rules and guidance is being produced from various authoritative sources. Each of these elements add a significant financial cost to the internal control process, a pressure that small and mid-size Organizations alike have been facing for years. Thus, it is no surprise that the financial statement process is often outsourced to the auditor. However, daily business decisions may be made based on inaccurate financial data. In addition, inappropriate financial data may be shared with outside users. When there is a system change this also enhances the need for timely reconciliations.</p> <p>The limited availability of resources, the size of the finance department, turnover in the finance department in the CFO position contributed to the cause of this deficiency.</p>	
Recommendation:	<p>We recommend the Organization consider outsourcing the preparation of the year end financial statements and Schedule of Expenditures of Federal Awards and State Financial Assistance.</p>	
Management's Response:	<p>MANAGEMENT IS CONFIDENT THAT DESPITE THE TURNOVER IN THE CFO POSITION FOR THE AUDIT FOR FY 2010, AND UNDERSTANDS THAT THERE IS A LEARNING CURVE, THE EXPERIENCE WITH THIS AUDIT COMBINED WITH AN UPGRADE TO OUR SOFTWARE, WILL PUT THE ORGANIZATION IN A BETTER POSITION TO PRODUCE FINANCIAL STATEMENTS. MANAGEMENT IS OPEN TO CONTINUAL EVALUATION AND FEEDBACK OF THIS PROCESS.</p>	

(Continued)

PREPARATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE	Material Weakness
<p>Observation:</p>	<p>Management is responsible for establishing and maintaining internal controls to provide appropriate and reliable federal and state financial reports. Management is not required to prepare their federal and state financial reports, but management needs to demonstrate the level of qualifications and controls to prepare their federal and state financial reports without significant deficiencies or material weaknesses in these controls. Such controls over the preparation of federal and state financial reports may include management effectively reviewing their federal and state financial reports for material accuracy if the report preparation has been outsourced.</p> <p>Management does not have the internal resources to be able to prepare and review the federal and state financial reports.</p> <p>The above conditions directly affect the presentation and data included in the Organization's federal and state financial reporting package as the Organization's overall reconciliation and review process is not adequate to prevent and detect material misstatements.</p> <p>The limited availability of resources, the size of the finance department, turnover in the finance department in the CFO position contributed to the cause of this deficiency.</p>
<p>Recommendation:</p>	<p>We recommend The Organization could consider outsourcing the preparation of the Schedule of Expenditures of Federal Awards and State Financial Assistance.</p>
<p>Management's Response:</p>	<p>MANAGEMENT IS CONFIDENT THAT DESPITE THE TURNOVER IN THE CFO POSITION FOR THE AUDIT FOR FY 2010, AND UNDERSTANDS THAT THERE IS A LEARNING CURVE, THE EXPERIENCE WITH THIS AUDIT COMBINED WITH AN UPGRADE TO OUR SOFTWARE, WILL PUT THE ORGANIZATION IN A BETTER POSITION TO PRODUCE FINANCIAL STATEMENTS. MANAGEMENT IS OPEN TO CONTINUAL EVALUATION AND FEEDBACK OF THIS PROCESS.</p>

(Continued)

Patient Service Processing		Significant Deficiency
Observation:	During the course of the audit, we noted that patient charts completed by PSR Staff after services had been provided were not being timely processed into the accounting department for prompt billing. During our control testing we noted 8 exceptions on a sample of 33 (approximately 24%). Given the strict timelines required to obtain payment for patient claims, it is critical that patient chart and all related notes are processed within 45 days of service being provided so as to avoid claims being denied. Moreover, revenue is recognized only after services provided have been billed; therefore, without promptly processing of patient notes the risk for inappropriate cutoff increases.	
Recommendation:	We recommend that internal audit test a random sample of transactions in monthly bases to ensure that proper monitoring is in place over the timing for processing claims for services provided	
Management's Response:	THIS ISSUE CAME TO MANAGERMENTS ATTENTION, JUST PRIOR TO THE BEGINNING OF THE AUDIT. MANAGEMENT CHOSE TO MAKE PERSONNEL CHANGES AND CHARGE THE BILLING DEPARTMENT WITH MONITORING AND NOTIFYING MANAGEMENT OF ANY AND ALL BILLING ISSUES. MANAGEMENT AGREES.	

IT Policies and Procedures		Significant Deficiency
Observation:	<p>The Organization does not have documentation of performance of IT Policies and Procedures.</p> <p>There are IT policies and procedures the Organization is to be following and management representation that the policies and procedures are being followed, but there is a lack of documentation of management's performance of the policies and procedures related to periodic review of user access and IT audits that test the adequacy of the Organization's IT controls.</p> <p>The lack of IT process controls such as user access review and IT adequacy tests could result in weakness in the Organization's operating and financial systems.</p> <p>The limited availability of resources contributed to the cause of this deficiency.</p>	
Recommendation:	The Organization should formally document the performance of IT policies and procedures particularly related to the review of user access and IT audits	
Management's Response:	Management agrees.	

(Continued)

Evidence of Reviews and Approvals	Deficiency
Observation:	Accounting tasks such as monthly reconciliations play a key role in proving the accuracy of accounting data and information included in financial statements. While conducting our audit, we noted that there was no clear indication of supervisory review of month end reconciliations being performed. Specifically, we observed that prepaids, loan costs, and security deposit reconciliations were not documented as reviewed by the reviewer. A lack of supervisory review could allow errors to occur, and without subsequent correction, they will continue to grow in magnitude. This accounting function inefficiency could cause the financial records and financial statements to be misrepresentative as well as allow possible irregularities, including fraud, to exist and continue without notice.
Recommendation:	All monthly reconciliations should be clearly marked to indicate who prepared and who reviewed the work in order to ensure all accounts are reviewed.
Management's Response:	Management agrees.

Procedures to Monitor Debt Covenants	Deficiency
Observation:	Management is responsible for monitoring and verifying compliance with debt covenants. The Organization has a loan agreement with a financial institution that requires the maintenance of certain debt service coverage ratios as well as other covenants. The Organization has only implemented policies to monitor compliance with these covenants on an annual basis. The Organization could be out of compliance with the covenants and this condition may not be detected on a timely basis. The Organization's long term note payable could become payable on demand if a waiver is not able to be obtained in a timely manner.
Recommendation:	To avoid being out of compliance with debt covenants, we suggest that the Chief Financial Officer (or other Staff Member) monitor these covenants at least quarterly. If any are violated or if a violation may occur by the end of the fiscal year, we suggest that a plan for correction be implemented as soon as possible.
Management's Response:	Management agrees.

(Continued)

Journal Entries		Deficiency
Observation:	During our procedures to test journal entries, we noted 4 of 33 journal entries tested the preparer did not sign the documentation to evidence who prepared the work. Additional information was available to determine who actually prepared the information, although this was not documented on the journal entry itself.	
Recommendation:	The Organization should follow up and insure documentation of the procedures being performed.	
Management's Response:	Management agrees.	

Invoice Documentation		Deficiency
Observation:	During our audit, we noted two instances for which invoices did not have the general ledger coding stamp and one instance where an invoice had not been stamped as posted.	
Recommendation:	We recommend that all invoices should include coding and posting date information (stamp) to ensure invoices are being coded properly and to assist the reviewer in determining the appropriateness of the classification timing of the expense.	
Management's Response:	Management agrees.	

Aging of Receivables		Deficiency
Observation:	During the audit, it was noted that receivables are not being monitored, with evidence of review, on a quarterly basis for aging issues.	
Recommendation:	We suggest receivables agings are prepared quarterly and reviewed by management (indicated by a signature or initial) in conjunction with credit decisions and determining necessary allowances. The preparing of the schedule and subsequent review and posting of necessary adjustments be properly segregated.	
Management's Response:	Management agrees.	

(Continued)

Duties Surrounding Member Exchange Process	Deficiency
Observation:	Currently, the Patient Benefits Coordinator's role for the member exchange process includes the receiving of client's checks, preparation of a deposit list, receipt of invoices, and preparation and posting of disbursements. Duties are not ideally segregated when the receipt and disbursement function is performed by the same individual.
Recommendation:	An additional procedure could be added to the member exchange process to further segregate duties. For example, an employee independent of this process could collect and open member checks upon receipt. This individual could prepare and maintain a cash receipts listing by member documenting the date received, amount received, and the intended recipient. The list would be retained as additional documentation for reconciliation purposes and serve as a mitigating control.
Management's Response:	Management agrees.

Segregation of Duties	Deficiency
Observation:	During the audit process, we noted the same individual performing balance sheet reconciliations prepares and post resulting entries. As a mitigating control we also noted that an independent review of all entries is performed before and after journal entries are posted.
Recommendation:	In order to establish adequate internal controls over the origination and posting of journal entries to the general ledger and to simplify the analysis of account activity, we recommend appropriate segregation of duties should be implemented so the person reconciling the account is not posting journal entries. Having strong internal controls over journal entries is a key in reducing the opportunity for misappropriation of assets and / or the misreporting of financial information. It is management's responsibility to design an internal control system to reduce this risk of error or fraud.
Management's Response:	Management agrees.

(Continued)

We also identified certain other matters which you may find of interest.

Fixed Asset Inventory Observation		Best Practice
Observation:	Currently, Management does not take a periodic inventory of fixed assets or periodically review the original useful life of assets for adjustment or impairment.	
Recommendation:	In order to ensure that the fixed asset detail is up to date it is important for management to review and inventory the items and document these procedures. Included in the procedures should be fixed asset identification tags for tracking, an inventory of both the floor to the detail and the detail to the floor and a review of significant assets that appear to have deteriorated quicker than the original useful life.	
Management's Response:	Management agrees.	

Revise Inventory Listing		Best Practice
Observation:	During our test count of inventory we noted that the inventory count sheets only contain the brand name of drugs and does not include the generic names as well.	
Recommendation:	We recommend Archways revise the inventory count sheet to include the know generic names for drugs. This would allow counters with a non-medical background to perform the count more efficiently and accurately/	
Management's Response:	Management agrees.	

Management's written responses to the matters identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on those responses.

This communication is intended solely for the information and use of management, the Board of Directors, federal and state awarding agencies and the Florida Department of Children and Families, and is not intended to be and should not be used by anyone other than these specified parties.



Crowe Horwath LLP

April 18, 2011
Fort Lauderdale, Florida