

ARCHWAYS, INC.

FINANCIAL STATEMENTS

June 30, 2011 and 2010

ARCHWAYS, INC.
Ft. Lauderdale, Florida

FINANCIAL STATEMENTS
June 30, 2011 and 2010

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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, 2011 and 2010, 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, 2011 and 2010, 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 December 13, 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.

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 2011 basic financial statements. The schedules of 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 2011 basic financial statements. All supplemental information has been subjected to the auditing procedures applied in the audit of the 2011 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2011 basic financial statements taken as a whole.


Crowe Horwath LLP

Fort Lauderdale, Florida
December 13, 2011

ARCHWAYS, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets:		
Cash	\$ 38,672	\$ 345,430
Restricted cash (Note 7)	104,905	103,552
Accounts receivable - net of allowance for doubtful accounts and contractual allowances of approximately \$1,237,000 and \$690,000, respectively (Note 2)	739,704	465,238
Prepaid expenses and other current assets	122,760	183,522
Total current assets	1,006,041	1,097,742
Non-current assets:		
Deposits	11,256	6,287
Miscellaneous receivables - net of allowance for doubtful accounts of approximately \$84,000 and \$61,000 respectively (Note 2)	65,577	120,440
Deferred loan costs - net of accumulated amortization of \$31,107 and \$23,818, respectively (Note 1)	35,490	42,776
Property and equipment, at cost - net of accumulated depreciation of \$2,847,688 and \$2,707,244, respectively (Note 4 and 8)	1,828,714	1,860,304
Total non-current assets	1,941,037	2,029,807
	<u>\$ 2,947,078</u>	<u>\$ 3,127,549</u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt (Note 4)	\$ 146,215	\$ 131,726
Accounts payable and accrued expenses	347,311	276,806
Accrued salaries	90,962	83,376
Accrued vacation	60,299	82,904
Total current liabilities	644,787	574,812
Long-term debt, net of current portion (Note 4)	1,797,813	1,942,921
Other long-term debt, net of current portion (Note 5)	108,138	125,871
Total liabilities	2,550,738	2,643,604
Net assets:		
Unrestricted:		
Undesignated	396,340	483,945
Total unrestricted net assets	396,340	483,945
Total liabilities and net assets	<u>\$ 2,947,078</u>	<u>\$ 3,127,549</u>

See accompanying notes to financial statements.

ARCHWAYS, INC.
STATEMENTS OF ACTIVITIES
Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Public support and operating revenues		
Operating revenues		
Program service fees - governmental agencies	\$ 3,121,384	\$ 3,157,747
Medicaid (net of contractual allowance)	924,519	784,511
Medicare (net of contractual allowance)	20,160	18,531
Other program fees (net of contractual allowance)	<u>431,497</u>	<u>498,170</u>
Total operating revenues	4,497,560	4,458,959
Public support		
Donated public support (in kind)	149,959	269,122
Other income/(expense)	98,903	36,538
Contributions	<u>5,796</u>	<u>9,367</u>
Total public support	<u>254,658</u>	<u>315,027</u>
Total public support and operating revenues	4,752,218	4,773,986
Expenses		
Program services		
Case management	565,156	397,446
Outpatient	512,198	1,166,461
Outpatient – medical	428,815	730,719
Residential Level 2 – room, board, and supervision	473,290	593,561
Residential Level 3 – room, board, and supervision	469,206	667,300
Supported employment	122,956	143,449
Intensive case management	172,139	173,563
Comprehensive community support team	533,080	443,307
Prevention	194,013	219,619
Outreach	88,130	35,044
Incidentals	123,052	160,651
Assessment	23,975	126,858
Intervention	32,071	129,172
Other support	<u>568,151</u>	<u>143,018</u>
Total program services expenses	4,306,232	5,130,168
Supporting services		
General and administrative expenses	515,169	239,285
Creative Colors	<u>35,610</u>	<u>103,585</u>
Total supporting services	550,779	342,870
Other income (expense)		
Unrealized gain (loss) on interest rate swap (Note 5)	<u>17,188</u>	<u>(35,192)</u>
Total expenses	<u>4,839,823</u>	<u>5,508,230</u>
Decrease in unrestricted net assets	(87,605)	(734,244)
Unrestricted net assets at beginning of year	<u>483,945</u>	<u>1,218,189</u>
Unrestricted net assets at end of year	<u>\$ 396,340</u>	<u>\$ 483,945</u>

See accompanying notes to financial statements.

ARCHWAYS, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Decrease in unrestricted net assets	(87,605)	\$ (734,244)
Net cash provided by (used in) operating activities:		
Depreciation and amortization	147,730	163,946
Provision for contractual allowance and uncollectible accounts	570,267	(270,559)
Loss on disposal of property and equipment	-	(1,650)
Department of transportation grant	(60,562)	-
Unrealized (gain) loss on interest rate swap	(17,188)	35,192
(Increase) decrease in:		
Restricted cash	(1,353)	(9,977)
Accounts receivable	(789,870)	1,111,735
Prepaid expenses and other current assets	60,762	(89,665)
Deposits	(4,969)	(2,272)
Increase (decrease) in:		
Accounts payable and accrued expenses	70,504	15,371
Accrued salaries	7,586	10,569
Accrued vacation	<u>(22,606)</u>	<u>1,027</u>
Net cash provided by (used in) operating activities	(127,303)	229,473
 Cash flows from investing activities:		
Purchase of property and equipment	<u>(36,916)</u>	<u>(31,266)</u>
Net cash used in investing activities	<u>(36,916)</u>	<u>(31,266)</u>
 Cash flows from financing activities:		
Principal repayments on long-term debt	<u>(142,539)</u>	<u>(120,556)</u>
Net cash used in financing activities	<u>(142,539)</u>	<u>(120,556)</u>
 Net change in cash	(306,758)	77,651
Cash at beginning of year	<u>345,430</u>	<u>267,779</u>
 Cash at end of year	<u>\$ 38,672</u>	<u>\$ 345,430</u>
 Non Cash Financing Activities		
Equipment purchased through short-term financing	<u>\$ 11,375</u>	<u>\$ 34,586</u>
Equipment purchased through DOT funding	<u>\$ 60,562</u>	<u>\$ -</u>
 Supplemental disclosure of cash flow information:		
Donated goods and services	<u>\$ 149,959</u>	<u>\$ 269,122</u>
Interest paid	<u>\$ 107,140</u>	<u>\$ 111,103</u>

See accompanying notes to financial statements.

ARCHWAYS, INC.
STATEMENT OF COST CENTER FUNCTIONAL EXPENSE
Year ended June 30, 2011

	PROGRAM SERVICES									
	Case Management	Intensive Case Management	Comprehensive Community Support Team	Intention	Medical Services	Outpatient	Residential Level 2	Residential Level 3	Supported Employment	Prevention
I. SALARIES AND RELATED EXPENSES										
Salaries	\$ 414,573	\$ 111,635	\$ 368,755	\$ 21,418	\$ 75,290	\$ 272,657	\$ 244,074	\$ 238,536	\$ 78,695	\$ 120,366
Employee Health and Retirement Benefits	38,047	14,843	28,615	317	5,324	29,853	29,536	25,499	9,859	14,288
Payroll Taxes	35,333	9,378	31,403	2,116	6,614	23,397	20,589	21,122	8,690	10,184
Total Salaries and Related Expenses	487,953	135,856	428,773	23,851	87,228	325,907	294,199	285,157	97,244	144,838
II. OTHER EXPENSES										
Building Occupancy	8,199	4,089	9,950	855	4,198	12,437	58,061	93,814	13,501	4,003
Professional Services	10,158	5,072	12,314	1,021	175,949	13,104	14,481	14,238	2,162	4,939
Travel	8,842	3,419	18,605	1,766	-	115	-	42	936	15,217
Equipment Cost	3,662	2,724	5,679	352	1,689	13,107	5,759	7,159	440	1,682
Food Services	21	11	26	2	154	75,493	23,103	62	105	10
Medical and Pharmacy	1,203	80	903	7	42,725	917	699	493	205	35
Insurance	9,694	4,842	11,752	974	4,703	12,479	12,408	12,408	1,223	4,712
Interest	10,446	5,217	12,663	1,050	5,067	13,446	13,370	13,370	1,317	5,077
Operating Supplies and Expense	8,550	3,454	14,473	711	4,808	12,472	32,220	23,579	3,940	6,341
Other	1,931	134	367	24	(3,913)	2,204	432	326	54	112
Donated Items	-	-	-	-	99,174	11,857	-	-	-	-
Total Other Expenses	62,706	29,042	86,732	6,762	334,554	167,631	160,533	165,491	23,883	42,128
Total Expenses Before Depreciation and Amortization	550,659	164,898	515,505	30,613	421,782	493,538	454,732	450,648	121,127	186,966
Depreciation and Amortization	14,497	7,241	17,575	1,458	7,033	18,660	18,558	18,558	1,829	7,047
TOTAL EXPENSES	\$ 565,156	\$ 172,139	\$ 533,080	\$ 32,071	\$ 428,815	\$ 512,198	\$ 473,290	\$ 469,206	\$ 122,956	\$ 194,013

(Continued)

ARCHWAYS, INC.
STATEMENT OF COST CENTER FUNCTIONAL EXPENSE
Year ended June 30, 2011

	PROGRAM SERVICES (Continued)					SUPPORT SERVICES			Total Expenses
	Outreach	Incidentals	Assessment	Other Support	Total Program Services	Creative Colours	Administration		
I. SALARIES AND RELATED EXPENSES									
Salaries	\$ 59,921	\$ -	\$ 207	\$ 382,472	\$ 2,388,599	\$ 8,278	\$ 305,962		2,702,839
Employee Health and Retirement Benefits	8,764	-	1,138	47,052	253,135	(1,463)	28,380		280,052
Payroll Taxes	4,614	-	(13)	31,079	204,506	1,052	24,335		229,893
Total Salaries and Related Expenses	73,299	-	1,332	460,603	2,846,240	7,867	358,677		3,212,784
II. OTHER EXPENSES									
Building Occupancy	1,016	-	2,948	7,171	220,242	2,885	7,194		230,321
Professional Services	1,261	-	3,637	48,814	307,150	2,596	23,609		333,355
Travel	6,860	-	-	103	55,905	-	698		56,603
Equipment Cost	428	-	1,242	6,822	50,745	883	3,045		54,673
Food Services	3	-	9	74	99,073	5	19		99,097
Medical and Pharmacy	150	-	26	785	48,228	457	63		48,748
Insurance	1,203	-	3,481	8,511	88,390	2,475	8,561		99,426
Interest	1,296	-	3,750	9,170	95,239	2,668	9,233		107,140
Operating Supplies and Expense	785	122,652	2,289	12,952	249,226	11,895	16,471		277,592
Other	29	400	58	418	2,576	176	44,333		47,085
Donated Items	-	-	-	-	111,031	-	30,463		141,494
Total Other Expenses	13,031	123,052	17,440	94,820	1,327,805	24,040	143,689		1,495,534
Total Expenses Before Depreciation and Amortization	86,330	123,052	18,772	555,423	4,174,045	31,907	502,366		4,708,318
Depreciation and Amortization	1,800	-	5,203	12,728	132,187	3,703	12,803		148,693
TOTAL EXPENSES	\$ 88,130	\$ 123,052	\$ 23,975	\$ 568,151	\$ 4,306,232	\$ 35,610	\$ 515,169	\$	4,857,011

See accompanying notes to financial statements.

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

PROGRAM SERVICES (Continued)

	PROGRAM SERVICES (Continued)					SUPPORT SERVICES			Total Expenses
	Outreach	Incidentals	Assessment	Other Support	Total Program Services	Creative Colours	Administration		
I. SALARIES AND RELATED EXPENSES									
Salaries	\$ 21,918	\$ -	\$ 87,962	\$ 54,078	\$ 2,525,984	\$ 53,906	\$ 94,459	\$ 2,674,349	
Employee Health and Retirement Benefits	2,417	-	9,701	5,971	278,382	5,945	10,418	294,745	
Payroll Taxes	1,805	-	7,244	4,458	205,826	4,439	7,779	218,044	
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.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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 and psychiatric day program activities for those needing more structure and supervision.

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.

Basis of presentation: Certain reclassifications (having no net profit or loss impact) have been made to the previously reported amounts in the 2010 financial statements to reflect comparability with the 2011 presentation.

(Continued)

ARCHWAYS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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

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.

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, 2011 and 2010 was approximately \$1,321,000 and \$751,000, 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 \$89,083 and \$149,360 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, 2011 and 2010, respectively. Inventories include \$16,715 and \$35,821 of Indigent Drug Program medications at June 30, 2011 and 2010, 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, 2011 and 2010 amounted to \$7,289 and \$7,286.

(Continued)

ARCHWAYS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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

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: For the year ending June 30, 2010, the Organization maintained cash balances in excess of Federal depository insurance limits. All cash balances held were fully insured at June 30, 2011.

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, 2011 and 2010, 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, 2011 and 2010 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.

(Continued)

ARCHWAYS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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

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, 2011 and 2010, net assets were all unrestricted.

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, 2008. 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, 2011.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2011 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2011. Management has performed their analysis through December 13, 2011, the date the financial statements were available to be issued.

(Continued)

ARCHWAYS, INC.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011 and 2010

NOTE 2 - ACCOUNTS RECEIVABLE - NET

Accounts receivable – net at June 30, 2011 and 2010 consists of the following:

	<u>2011</u>	<u>2010</u>
Medicaid receivables	\$ 97,490	\$ 129,679
Medicare receivables	3,373	2,311
State grants receivable	527,012	289,089
County grants receivable	111,829	44,159
Miscellaneous receivables	<u>65,577</u>	<u>120,440</u>
	<u>\$ 805,281</u>	<u>\$ 585,678</u>

Miscellaneous receivables consist of residency fees classified as long term based on their anticipated collection date.

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>2011</u>	<u>2010</u>
Donated services	\$ 11,856	\$ 9,367
Donated goods	<u>138,103</u>	<u>259,755</u>
	<u>\$ 149,959</u>	<u>\$ 269,122</u>

(Continued)

ARCHWAYS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 4 -LONG-TERM DEBT

Long-term debt as of June 30, 2011 and 2010 consists of the following:

	<u>2011</u>	<u>2010</u>
Note payable in equal monthly installments over 10 years beginning September 22, 2006, plus interest at LIBOR plus 3%, 2.5% in 2010 (3.19% and 4.10% at June 30, 2011 and 2010) through September 2016, collateralized by buildings and improvements with a net book value of \$1,238,858 at June 30, 2011.	\$ 1,790,000	\$ 1,847,200
Note payable in equal monthly installments of \$5,727 over 5 years beginning November 22, 2008, including interest at LIBOR plus 3% (3.19% and 4.60% at June 30, 2011 and 2010) through March 2013, collateralized by buildings and improvements with a net book value of \$1,396,908 at June 30, 2011 and by the assignment of the State of Florida, Department of Children and Families contract.	130,407	200,012
Note payable in equal monthly installments of \$950 through November 2012 collateralized by transportation equipment with a net book value of \$26,842 at June 30, 2011.	16,038	27,435
Note payable in equal monthly installments of \$948 through June 2012 collateralized by equipment with a net book value of \$10,292 at June 30, 2011.	<u>7,583</u>	<u>-</u>
	1,944,028	2,074,647
Less: current portion	<u>146,215</u>	<u>131,726</u>
Total long-term portion	<u>\$ 1,797,813</u>	<u>\$ 1,942,921</u>

(Continued)

ARCHWAYS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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>
2012	\$ 146,215
2013	136,608
2014	72,400
2015	78,400
2016	84,400
Thereafter	<u>1,426,005</u>
	<u>\$ 1,944,028</u>

Interest expense for the years ended June 30, 2011 and 2010, amounted to approximately \$107,000 and \$111,000, respectively.

The debt is subject to a debt service coverage ratio and financial reporting requirements. On December 8, 2011 these covenants were waived.

NOTE 5 - INTEREST RATE SWAP

On September 22, 2006, the Organization entered into an interest rate swap agreement to make fixed interest payments in exchange for variable interest payments. The interest rate swap is used to mitigate risk to changes in LIBOR during the life of the swap and is a component of the Organization's asset liability management strategy to reduce the risk of changes in interest rates. The notional amount of the interest rate swap does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the interest rate swap.

This interest rate swap converts the variable rate portion of the Organization's long term debt (see Note 4) at the one-month LIBOR plus 2.5% to a fixed rate of 8.10%. The Organization believes the derivative utilized is effective in hedging economic risk of the Organization in accordance with its risk management policy but it may not meet the correlation criteria outlined in ASC 815, Derivatives and Hedging. The derivative is therefore not considered a hedge and is recorded at fair value with the offset recorded in operating income.

During 2011 and 2010, the Organization reported \$17,188 and \$(35,192) of gain (loss) related to changes in the fair value under other income & (expense) in the statement of operations. As of June 30, 2011 and 2010, the interest rate swap agreement was classified in accounts payable and accrued expenses and other long term debt at its fair value of \$155,726 and \$172,174 respectively.

(Continued)

ARCHWAYS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 5 - INTEREST RATE SWAP (Continued)

Qualitative Disclosures:

Summary information about interest rate swaps at year-end follows.

	<u>2011</u>	<u>2010</u>
Fair value	\$ (155,726)	\$ (172,174)
Gain (loss) due to change in fair value	\$ 17,188	\$ (35,192)

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, 2011 and 2010 amounted to approximately \$92,000 and \$106,000, 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, 2011 and 2010 of \$104,905 and \$103,552, respectively.

NOTE 8 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2011</u>	<u>2010</u>
Buildings and improvements	\$ 2,887,239	\$ 2,868,054
Furniture, fixtures and equipment	820,233	795,696
Transportation equipment	<u>139,391</u>	<u>74,259</u>
	3,846,863	3,738,009
Accumulated depreciation	<u>(2,847,688)</u>	<u>(2,707,244)</u>
	999,175	1,030,765
Land	<u>829,539</u>	<u>829,539</u>
	<u>\$ 1,828,714</u>	<u>\$ 1,860,304</u>

Depreciation and amortization expense amounted to approximately \$148,000 and \$164,000 for the years ended June 30, 2011 and 2010, respectively.

(Continued)

ARCHWAYS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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, 2011 and 2010 the Organization received grants, contracts and/or other funding from the State of Florida as follows:

	<u>2011</u>	<u>2010</u>
Department of Children and Families	\$ 2,483,824	\$ 3,058,558
Department of Labor and Employment		
Security	14,230	11,966
Department of Elder Affairs	54,572	45,629
Medicaid	<u>956,709</u>	<u>757,803</u>
	<u>\$ 3,509,335</u>	<u>\$ 3,873,956</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 it's financial and program obligations and commitments.

NOTE 10 - LEASES

The Organization leases equipment under operating leases expiring through June 2016. The leases require monthly payments aggregating approximately \$1,550 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, 2011 and 2010, was approximately \$25,270 and \$26,350, respectively.

Minimum annual rentals under the terms of the above operating leases subsequent to June 30, 2011 are as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Amount</u>
2012	\$ 18,600
2013	18,600
2014	18,600
2015	18,600
2016	<u>17,050</u>
	<u>\$ 91,450</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.

(Continued)

ARCHWAYS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 11 - GRANTS AND CONTRACTS FOR CLIENT SERVICES (Continued)

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, 2011, are as follows:

<u>Grantor</u>	<u>Contract Number</u>	<u>Matching Requirement</u>
State of Florida Department of Children and Families	JH311	\$ 246,692

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.

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, 2011

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	\$ 168,242	\$ -
Community Adult Mental Health Service	93.958	JH311	46,855	-
Adult and Children Substance				
Abuse Prevention Program	*93.959	JH311	153,765	-
Passed through United Way of Broward				
County				
Partnership for a Health & Drug-Free				
Broward	*93.959	JD260-1	<u>69,752</u>	<u>-</u>
Total Department of Health				
and Human Services			438,614	-
Department of Agricultural (USDA)				
Passed through the State of Florida Department				
of Elder Affairs				
Adult Care Food Program	10.558	Y8082	<u>37,349</u>	<u>-</u>
Total Department of Agriculture			37,349	-
Department of Housing and				
Urban Development -				
Passed through Broward Housing Solutions				
Supportive Housing Program	14.235	9761-024-0988-8278	<u>83,761</u>	<u>-</u>
Total Department of Housing				
and Urban Development			83,761	-
Department of Education				
Passed through the State of Florida				
Department of Education				
Supported Employment Service for				
Individuals with the Most Significant				
Disabilities	84.187	VS568	<u>16,564</u>	<u>-</u>
Total Department of Agriculture			16,564	-
Total Expenditures of Federal Awards			<u>\$ 576,288</u>	<u>\$ -</u>

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, 2011

State Agency, Pass-through Entity, <u>State Project</u>	<u>State CSFA Number</u>	<u>Contract Grant Number</u>	<u>Expenditures</u>	<u>Transfers to 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	\$ 1,749,527	\$ -
Substance Abuse Treatment and Aftercare Services for Adults	60.033	JH311	49,236	-
Community Forensic Beds	*60.114	JH311	222,085	-
Indigent Psychiatric Outpatient Services	60.039	JH311	10,120	-
Baker Act Program	60.006	JH311	<u>3,724</u>	<u>-</u>
Total Expenditures of State Awards			<u>\$ 2,034,692</u>	<u>\$ -</u>

*Denotes a major project

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

ARCHWAYS, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
Year ended June 30, 2011

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance include the federal and state award activity of Archways, Inc. and are presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.650, Rules of the Auditor General, therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

There were no non-cash awards in the current year.

There were no sub-recipients of federal awards and state financial assistance in the current year.

ARCHWAYS, INC.
SCHEDULE OF LOCAL ASSISTANCE
Year ended June 30, 2011

<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	11-CP-HCS-8452-LM	\$ <u>185,064</u>
Total Expenditures of Other Local Funding			\$ <u>185,064</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, 2011

	Combined Programs							Total Combined Programs
	Case Management	Intervention	Incidentals	Assessment	Outreach	Prevention	Outpatient Group	
STATE SAMH FUNDING	\$ 111,488	\$ 144,134	\$ 135,476	\$ 24,729	\$ 26,974	\$ 279,968	\$ 204,537	\$ 927,306
OTHER GOVERNMENT FUNDING								
Other State Agency Funding	-	-	-	-	-	-	-	-
Medicaid	106,528	-	-	1,146	-	-	711,279	818,953
Local Government	114,524	-	-	-	-	-	5,967	120,491
Federal Grants and Contracts	-	-	-	-	-	-	51,581	51,581
In-kind from local govt. only	-	-	-	-	-	-	-	-
TOTAL OTHER	-	-	-	-	-	-	-	-
GOVERNMENT FUNDING	221,052	-	-	1,146	-	-	768,827	991,025
ALL OTHER REVENUES								
First and Second Party Payments	-	-	-	-	-	-	12,469	12,469
Third Party Payments	-	-	-	-	-	-	-	-
(except Medicare)	-	-	-	-	-	-	-	-
Medicare	-	-	-	-	-	-	-	-
Contributions and Donations	-	-	-	-	-	-	-	-
Other	2,259	227	-	811	280	1,098	63,224	67,899
In-kind	-	-	-	-	-	-	11,856	11,856
TOTAL ALL	-	-	-	-	-	-	-	-
OTHER REVENUES	2,259	227	-	811	280	1,098	87,549	92,224
TOTAL FUNDING	\$ 334,799	\$ 144,361	\$ 135,476	\$ 26,686	\$ 27,254	\$ 281,066	\$ 1,050,913	\$ 2,010,555

(Continued)

ARCHWAYS, INC.
PROGRAM/COST CENTER ACTUAL REVENUES AND EXPENSES SCHEDULE
Year ended June 30, 2011

	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	\$ 523,855	\$ 523,005	\$ 45,498	\$ 586,178	\$ 160,260	\$ 82,702	\$ 69,350	\$ 1,990,848
OTHER GOVERNMENT FUNDING								
Other State Agency Funding							14,230	14,230
Medicaid			24,779		49,225	31,562		105,566
Local Government					5,145		11,783	16,928
Federal Grants and Contracts								
In-kind from local govt. only								
TOTAL OTHER								
GOVERNMENT FUNDING			24,779		54,370	31,562	26,013	136,724
ALL OTHER REVENUES								
First and Second Party Payments	105,762	305,305			53 ^m			411,120
Third Party Payments								
(except Medicare)								
Medicare					20,160			20,160
Contributions and Donations								
Other	2,892	2,897	1,129	2,740	138	248	285	10,329
In-kind					136,244			136,244
TOTAL ALL								
OTHER REVENUES	108,654	308,202	1,129	2,740	156,595	248	285	577,853
TOTAL FUNDING	\$ 632,509	\$ 831,207	\$ 71,406	\$ 588,918	\$ 371,225	\$ 114,512	\$ 95,648	\$ 2,705,425

(Continued)

ARCHWAYS, INC.
PROGRAM/COST CENTER ACTUAL REVENUES AND EXPENSES SCHEDULE
 Year ended June 30, 2011

	Total Adult Substance Abuse	Total		Total		Total Funding
		Total SAMH- Cost Centers	State Funded SAMH+ Cost Centers	Non-State Funded SAMH+ Cost Centers	For All State Designated SAMH- Cost Centers	
STATE SAMH FUNDING	\$ -	\$ 2,918,154	\$ -	\$ 2,918,154	\$ -	\$ 2,918,154
OTHER GOVERNMENT FUNDING						
Other State Agency Funding	-	14,230	-	14,230	-	14,230
Medicaid	-	924,519	-	924,519	-	924,519
Local Government	-	137,419	-	137,419	-	137,419
Federal Grants and Contracts	-	51,581	-	51,581	-	51,581
In-kind from local govt. only	-	-	-	-	-	-
TOTAL OTHER	-	-	-	-	-	-
GOVERNMENT FUNDING	-	1,127,749	-	1,127,749	-	1,127,749
ALL OTHER REVENUES						
First and Second Party Payments	-	423,589	-	423,589	-	423,589
Third Party Payments (except Medicare)	-	-	-	-	-	-
Medicare	-	20,160	-	20,160	-	20,160
Contributions and Donations	-	-	-	-	5,796	5,796
Other	-	78,228	-	78,228	28,583	106,811
In-kind	-	148,100	-	148,100	1,859	149,959
TOTAL ALL	-	670,077	-	670,077	36,238	706,315
OTHER REVENUES	-	670,077	-	670,077	36,238	706,315
TOTAL FUNDING	\$ -	\$ 4,715,980	\$ -	\$ 4,715,980	\$ 36,238	\$ 4,752,218

(Continued)

ARCHWAYS, INC.
PROGRAM/COST CENTER ACTUAL REVENUES AND EXPENSES SCHEDULE
Year ended June 30, 2011

Combined Programs

	Case Management	Intervention	Incidentals	Assessment	Outreach	Prevention	Outpatient Group	Total Combined Programs
PERSONNEL EXPENSES								
Salaries	\$ 414,573	\$ 21,418	\$ -	\$ 207	\$ 59,921	\$ 120,366	\$ 272,594	\$ 889,079
Fringe Benefits	73,380	2,433	-	1,125	13,378	24,472	52,907	167,695
TOTAL PERSONNEL EXPENSES	487,953	23,851	-	1,332	73,299	144,838	325,501	1,056,774
OTHER EXPENSES								
Building Occupancy	8,199	855	-	2,948	1,016	4,003	11,514	28,535
Professional Services	10,158	1,021	-	3,637	1,261	4,939	11,989	33,005
Travel	8,842	1,766	-	-	6,860	15,217	115	32,800
Equipment	3,662	352	-	1,242	428	1,682	12,724	20,090
Food Services	21	2	-	9	3	10	75,491	75,536
Medical and Pharmacy	1,203	7	-	26	150	35	910	2,331
Insurance	9,694	974	-	3,481	1,203	4,712	11,415	31,479
Interest Paid	10,446	1,050	-	3,750	1,296	5,077	12,299	33,918
Operating Supplies and Expenses	8,550	711	122,652	2,289	785	6,341	11,721	153,049
Other	1,931	24	400	58	29	112	2,179	4,733
Donated Items	-	-	-	-	-	-	11,857	11,857
TOTAL OTHER EXPENSES	62,706	6,762	123,052	17,440	13,031	42,128	162,214	427,333
TOTAL PROGRAM SERVICES	550,659	30,613	123,052	18,772	86,330	186,966	487,715	1,484,107
INDIRECT EXPENSES								
Other Support Costs	84,521	4,699	18,887	2,881	13,251	28,697	74,859	227,796
Administration	76,447	4,250	17,083	2,606	11,985	25,956	67,708	206,036
TOTAL INDIRECT EXPENSES	160,968	8,949	35,970	5,487	25,236	54,654	142,568	433,831
TOTAL EXPENSES	\$ 711,627	\$ 39,562	\$ 159,022	\$ 24,259	\$ 111,566	\$ 241,620	\$ 630,283	\$ 1,917,938

(Continued)

ARCHWAYS, INC.
PROGRAM/COST CENTER ACTUAL REVENUES AND EXPENSES SCHEDULE
Year ended June 30, 2011

	Adult Mental Health										Total Adult Mental Health		
	Room and Board With Supervision		Comprehensive Community Support Team		Intensive Care Management		Medical Services		Outpatient Individual			Supported Employment	
	Level III	Level III	Level III	Support Team	Management	Management	Services	Services	Individual	Individual		Employment	Employment
PERSONNEL EXPENSES													
Salaries	\$ 244,074	\$ 238,536	\$ 368,755	\$ 111,635	\$ 75,290	\$ 63	\$ 78,695	\$ 1,117,048			\$ 78,695	\$ 1,117,048	
Fringe Benefits	50,125	46,621	60,018	24,221	11,938	343	18,549	211,815			18,549	211,815	
TOTAL PERSONNEL EXPENSES	294,199	285,157	428,773	135,856	87,228	406	97,244	1,328,863			97,244	1,328,863	
OTHER EXPENSES													
Building Occupancy	58,061	93,814	9,950	4,089	4,198	923	13,501	184,536			13,501	184,536	
Professional Services	14,481	14,238	12,314	5,072	175,949	1,115	2,162	225,331			2,162	225,331	
Travel	-	42	18,605	3,419	-	-	936	23,002			936	23,002	
Equipment	5,759	7,159	5,679	2,724	1,689	383	440	23,833			440	23,833	
Food Services	23,103	62	26	11	154	2	105	23,463			105	23,463	
Medical and Pharmacy	699	493	903	80	42,725	7	205	45,112			205	45,112	
Insurance	12,408	12,408	11,752	4,842	4,703	1,064	1,223	48,400			1,223	48,400	
Interest Paid	13,370	13,370	12,663	5,217	5,067	1,147	1,317	52,151			1,317	52,151	
Operating Supplies and Expenses	32,220	23,579	14,473	3,454	4,808	751	3,940	83,225			3,940	83,225	
Other	432	326	367	134	(3,913)	25	54	(2,575)			54	(2,575)	
Donated Items	-	-	-	-	99,174	-	-	99,174			-	99,174	
TOTAL OTHER EXPENSES	160,533	165,491	86,732	29,042	334,554	5,417	23,883	805,652			23,883	805,652	
TOTAL PROGRAM SERVICES	454,732	450,648	515,505	164,898	421,782	5,823	121,127	2,134,515			121,127	2,134,515	
INDIRECT EXPENSES													
Other Support Costs	69,797	69,170	79,125	25,310	64,739	894	18,592	327,627			18,592	327,627	
Administration	63,130	62,563	71,567	22,892	58,555	808	16,816	296,330			16,816	296,330	
TOTAL INDIRECT EXPENSES	132,926	131,733	150,691	48,203	123,295	1,702	35,408	623,958			35,408	623,958	
TOTAL EXPENSES	\$ 587,658	\$ 582,381	\$ 666,196	\$ 213,101	\$ 545,077	\$ 7,525	\$ 156,535	\$ 2,758,473			\$ 156,535	\$ 2,758,473	

(Continued)

ARCHWAYS, INC.
PROGRAM/COST CENTER ACTUAL REVENUES AND EXPENSES SCHEDULE
 Year ended June 30, 2011

	Total Adult Substance Abuse	Total		Total For All State Designated SAMH-	Non-SAMH Cost Center	Other Support Costs	Administration	Total Expenses
		Total State Funded SAMH- Cost Centers	Non-State Funded SAMH- Cost Centers					
PERSONNEL EXPENSES	\$ -	\$ 2,006,127	\$ -	\$ 2,006,127	\$ 8,278	\$ 382,472	\$ 305,962	\$ 2,702,839
Salaries	-	379,510	-	379,510	(411)	78,131	52,715	509,945
Fringe Benefits	-	2,385,637	-	2,385,637	7,867	460,603	358,677	3,212,784
TOTAL PERSONNEL EXPENSES								
OTHER EXPENSES								
Building Occupancy	-	213,071	-	213,071	2,885	7,171	7,194	230,321
Professional Services	-	258,336	-	258,336	2,596	48,814	23,609	333,355
Travel	-	55,802	-	55,802	-	103	698	56,603
Equipment	-	43,923	-	43,923	883	6,822	3,045	54,673
Food Services	-	98,999	-	98,999	5	74	19	99,097
Medical and Pharmacy	-	47,443	-	47,443	457	785	63	48,748
Insurance	-	79,879	-	79,879	2,475	8,511	8,561	99,426
Interest Paid	-	86,069	-	86,069	2,668	9,170	9,233	107,140
Operating Supplies and Expenses	-	236,274	-	236,274	11,895	12,952	16,471	277,592
Other	-	2,158	-	2,158	176	418	44,333	47,085
Donated Items	-	111,031	-	111,031	-	-	30,463	141,494
TOTAL OTHER EXPENSES		1,232,985		1,232,985	24,040	94,820	143,689	1,495,534
TOTAL PROGRAM SERVICES		3,618,622		3,618,622	31,907	555,423	502,366	4,708,318
INDIRECT EXPENSES								
Other Support Costs	-	555,423	-	555,423	-	(555,423)	-	-
Administration	-	502,366	-	502,366	-	-	(502,366)	-
TOTAL INDIRECT EXPENSES		1,057,789		1,057,789		(555,423)	(502,366)	
TOTAL EXPENSES	\$ -	\$ 4,676,411	\$ -	\$ 4,676,411	\$ 31,907	\$ -	\$ -	\$ 4,708,318

ARCHWAYS, INC.
SCHEDULE OF STATE EARNINGS
Year ended June 30, 2011

1	Total expenditures	\$ 4,708,318
2	Less: other state and federal funds	(1,645,064)
3	Less: nonmatch SAMH funds	(1,866,475)
4	Less: unallowable costs per 65E-14, FAC	<u>(85,621)</u>
5	Total allowable expenditures	<u>\$ 1,111,158</u>
6	Maximum available earnings	\$ 833,369
7	Amount of state funds requiring match	\$ 740,075
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, 2011, and have issued our report thereon dated December 13, 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

Management of Archways is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Archways' 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 Archways' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Archways' 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 consider 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a 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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as 2011-1, to be material weaknesses.

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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as 2011-2 to be a significant deficiency.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Archways' 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*.

We also noted certain matters that we reported to management of the Organization in a separate letter dated December 13, 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

Fort Lauderdale, Florida
December 13, 2011

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 Archways, Inc.'s compliance with the types of compliance requirements described in the *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, 2011. 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.

As described in item 2011-3 in the accompanying Schedule of Findings and Questioned Costs, the Organization did not comply with requirements regarding reporting that are applicable to its Adult and Children Substance Abuse Prevention Program. Compliance with such requirements is necessary, in our opinion, for Archways to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Archways, Inc. complied, in all material respects, with the compliance 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, 2011.

Internal Control Over Compliance

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 deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2011-3 and 2011-4 to be a material weaknesses.

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

We noted certain matters that we have reported to the management of Archways, Inc. in a separate letter dated December 13, 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

December 13, 2011
Fort Lauderdale, Florida

ARCHWAYS, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FEDERAL PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS
 Year ended June 30, 2011

1. Financial Statements:

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

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes X No

Federal Awards and State Financial Assistance:

Internal control over major programs:

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

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

Adult and Children Substance Abuse Prevention Program	<i>Qualified</i>
All other Major Programs	<i>Unqualified</i>

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? X 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
Community Forensic Beds and Competency Restoration Training	60.114

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

Auditee qualified as low-risk auditee? Yes X No

(Continued)

ARCHWAYS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS
Year ended June 30, 2011

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

Material Weakness

Finding #2011-1: 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 agrees with outsourcing the preparation of the year end financial statements and the Schedule of Expenditures of Federal Awards and State Financial Assistance. Management does have the ability to produce monthly financials for our Board of Directors and other stakeholders. The lack of internal resources related to the preparation of the year end financial statements and the Schedule of Expenditures of Federal Awards and State Financial Assistance does not reflect on management's ability to effectively manage grants, sub-grants and contracts.

Management will actively pursue an alternate vendor to outsource the preparation of the Schedule of Expenditures of Federal Awards and State Financial Assistance which is prepared from the preliminary schedule prepared by Archways' staff.

(Continued)

ARCHWAYS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS
Year ended June 30, 2011

Significant Deficiencies

Finding #2011-2: Member Trust Accounts

Criteria or specific requirement: Individual client trust accounts should be reviewed and reconciled timely on a regular basis.

Condition: We noted several deficiencies relating to the Member Trust Accounts. We discovered that currently there is an overall lack of review and reconciliation of the individual client accounts held within the Member Trust Cash Account. While the aggregate account is reconciled monthly to the bank statement, the workbook detailing each client's portion of the total is not reconciled. We also found that disbursements from client accounts are not formally approved by written authorization. We tested several disbursements relating to residential fee payments and noted that the majority of Residential Fee Agreements, that authorize Archways to pay those fees on the client's behalf, were either outdated or missing; however, all disbursements tested were in payment of the residents' living expenses.

Effect: The lack of review, reconciliation, and authorization agreements could result in inaccurate trust account balances in client accounts.

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

Recommendation: Management should establish and implement formal policies and procedures in connection with the Member Trust Accounts including: written authorizations for all disbursements, obtaining and maintaining proper documentation supporting disbursements, and timely and accurate accounting and reconciliation of individual client accounts balances. We also recommend that documentation relating to Residential Fee Agreements is reviewed and updated to ensure the current rent payments being made on the client's behalf are properly authorized.

Views of responsible officials and planned corrective actions: Management agrees. Currently all Residential Fee Agreements are in the process of being updated. Reconciliation of the work books to the aggregate account is also being worked on with an expected completion date by the end of FY 2012.

ARCHWAYS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS
Year ended June 30, 2011

3. Findings and questioned costs for Federal Programs:

Material Weaknesses

Department of Health and Human Services
CFDA No. 93.959
Adult and Children Substance Abuse Prevention Program

Department of Health and Human Services
CFDA No. 93.558
Temporary Assistance for Needy Families

Finding #2011-3: 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. As a result of the lack of resources we observed that the preliminary Schedule of Federal Expenditures and State Financial Assistance Projects omitted two grants from the schedule that are part of a Major Federal program.

Context: Two grants with CFDA # 93.959 - Adult and Children Substance Abuse Prevention Program were omitted from the preliminary Schedule of Federal Expenditures and State Financial Assistance Projects.

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, 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: Although the revenues for both grants were on the preliminary cost allocation schedule, Management agrees that CFDA numbers were omitted from the schedule because of a lack of clarification from new funding sources this fiscal year.

Management will request written verification from any new funding sources detailing whether or not Federal funding is involved.

ARCHWAYS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS
Year ended June 30, 2011

4. Findings and questioned costs State Financial Assistance Projects:

Material Weaknesses

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

State of Florida Department of Children and Families
CFSA No. 60.114
Community Forensic Beds and Competency Restoration Training

Finding #2011-4: 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, 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 agrees with outsourcing the preparation of the year-end financial statements and the Schedule of Expenditures of Federal Awards and State Financial Assistance. Management does have the ability to produce monthly financials for our Board of Directors and other stakeholders. The lack of internal resources related to the preparation of the year end financial statements and the Schedule of Expenditures of Federal Awards and State Financial Assistance does not reflect on management's ability to effectively manage grants, sub-grants and contracts.

Management will actively pursue an alternate vendor to outsource the preparation of the Schedule of Expenditures of Federal Awards and State Financial Assistance which is prepared from the preliminary scheduled submitted by Archways' staff.

ARCHWAYS, INC.
SUMMARY OF PRIOR YEAR AUDIT FINDINGS
Year ended June 30, 2011

AUDIT REFERENCE

Finding #2010-1: Preparation of Financial Statements

Status: This finding is still outstanding as of June 30, 2011, see current year finding 2011-1.

Finding #2010-2: Patient Service Processing

Status: This finding was partially implemented as of June 30, 2011, see current management letter comment.

Finding #2010-3: IT Policies and Procedures

Status: This finding was implemented as of June 30, 2011.

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

Status: This finding is still outstanding as of June 30, 2011, see current year finding 2011-3.

ARCHWAYS, INC.
CORRECTIVE ACTION PLAN
Year ended June 30, 2011

Finding #2011-1: Preparation of Financial Statements

Management agrees with outsourcing the preparation of the year end financial statements and the Schedule of Expenditures of Federal Awards and State Financial Assistance. Management does have the ability to produce monthly financials for our Board of Directors and other stakeholders. The lack of internal resources related to the preparation of the year end financial statements and the Schedule of Expenditures of Federal Awards and State Financial Assistance does not reflect on management's ability to effectively manage grants, sub-grants and contracts.

Management will actively pursue an alternate vendor to outsource the preparation of the Schedule of Expenditures of Federal Awards and State Financial Assistance which is prepared from the preliminary schedule prepared by Archways' staff.

Finding #2011-2: Member Trust Accounts

Management agrees. Currently all Residential Fee Agreements are in the process of being updated. Reconciliation of the work books to the aggregate account is also being worked on with an expected completion date by the end of FY 2012.

Finding #2011-3: Preparation of Schedule of Expenditure of Federal Awards and State Financial Assistance

Although the revenues for both grants were on the preliminary cost allocation schedule, Management agrees that CFDA numbers were omitted from the schedule because of a lack of clarification from new funding sources this fiscal year.

Management will request written verification from any new funding sources detailing whether or not Federal funding is involved.

Finding #2011-4: Preparation of Schedule of Expenditure of Federal Awards and State Financial Assistance

Management agrees with outsourcing the preparation of the year-end financial statements and the Schedule of Expenditures of Federal Awards and State Financial Assistance. Management does have the ability to produce monthly financials for our Board of Directors and other stakeholders. The lack of internal resources related to the preparation of the year end financial statements and the Schedule of Expenditures of Federal Awards and State Financial Assistance does not reflect on management's ability to effectively manage grants, sub-grants and contracts.

Management will actively pursue an alternate vendor to outsource the preparation of the Schedule of Expenditures of Federal Awards and State Financial Assistance which is prepared from the preliminary schedule submitted by Archways' staff.

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

In planning and performing our audit of the financial statements of Archways, Inc. ("Organization") as of and for the year ended June 30, 2011, 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.

We have included in this letter all of the single audit findings as well as additional items defined as "deficiencies" and "best practices".

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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters and our Report of Independent Auditors on Compliance with Requirements Applicable to each Major Federal Program and State Project and on Internal Control Over Compliance. Disclosures in those reports and schedule, which are dated December 13, 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. In connection with our audit, the following matters are required to be disclosed:

Follow up on Prior Year Recommendations:

Recommendation	Classification	Status
Financial Reporting	Material Weakness	Not Implemented
Preparation of Expenditures of Federal Awards and State Financial Assistance	Material Weakness	Not Implemented
IT Policies and Procedures	Significant Deficiency	Implemented
Patient Service Processing	Significant Deficiency	Partially Implemented – See current year recommendations
Member Exchange Process	Deficiency	Not Implemented
Evidence of Reviews and Approvals	Deficiency	Partially Implemented – See current year recommendations
Procedures to Monitor and Record Fair Value of Interest Rate Swap Agreement	Deficiency	Implemented
Procedures to Monitor Debt Covenants	Deficiency	Implemented
Invoice Documentation	Deficiency	Implemented
Journal Entries	Deficiency	Implemented
Aging of Receivables	Deficiency	Implemented
Segregation of Duties	Deficiency	Implemented
Fixed Asset Inventory Observation	Best Practice	Implemented
Revised Inventory Listing	Best Practice	Not Implemented

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><i>Management agrees with outsourcing the preparation of the year end financial statements and the Schedule of Expenditures of Federal Awards and State Financial Assistance. Management does have the ability to produce monthly financials for our Board of Directors and other stakeholders. The lack of internal resources related to the preparation of the year end financial statements and the Schedule of Expenditures of Federal Awards and State Financial Assistance does not reflect on management's ability to effectively manage grants, sub-grants and contracts.</i></p>

PREPARATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE	Material Weakness
Observation:	<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, contributed to the cause of this deficiency.</p>
Recommendation:	We recommend The Organization could consider outsourcing the preparation of the Schedule of Expenditures of Federal Awards and State Financial Assistance.
Management's Response:	<i>See Management Response on page 44.</i>

MEMBER TRUST ACCOUNTING	Significant Deficiency
Observation:	As a result of our audit procedures, we noted several deficiencies relating to the Member Trust Accounts. We discovered that currently there is an overall lack of review and reconciliation of the individual client accounts held within the Member Trust Cash Account. While the aggregate account is reconciled monthly to the bank statement, the workbook detailing each client's portion of the total is not reconciled. We also found that disbursements from client accounts are not formally approved by written authorization. We tested several disbursements relating to residential fee payments and noted that the majority of Residential Fee Agreements, that authorize Archways to pay those fees on the client's behalf, were either outdated or missing; however, all disbursements tested were in payment of the residents' living expenses.
Recommendation:	We recommend that management establish and implement formal policies and procedures in connection with the Member Trust Accounts, including: written authorizations for all disbursements, proper documentation supporting disbursements, and proper accounting and reconciliation of individual client accounts so balances may be determined at a given time. We also recommend that documentation relating to Residential Fee Agreements is reviewed and updated to ensure the current rent payments being made on the client's behalf are properly authorized.
Management's Response:	<i>Management agrees. Both Residential Fee agreement update and the account reconciliation are being worked on. The reconciliation is expected to be completed the end of the FY 2012.</i>

PATIENT SERVICE PROCESSING		Deficiency
Observation:	During the course of the audit, we noted that patient charts completed by PSR Staff after services had been provided are not being timely processed into the accounting department for prompt billing. Improvements were made to the billing process resulting in increased billings, collections and the avoidance of loss revenue in the current year; however, given the strict timeliness required to obtain payment for patient claims, it is critical that patient chart and all related notes are processed within 45 days of service been provided so as to avoid claims been denied. Moreover, revenue is recognized only after services provided have been billed; therefore, without promptly processing of patient notes the risk for inappropriate cut-off 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:	<i>Great strides have been made in terms of timeliness, increased billing and collections as well as the reduction of lost revenue. Management agrees that the process can be further improved.</i>	

PATIENT FILES		Deficiency
Observation:	The Organization is required to maintain patient service files with certain documentation to support eligibility criteria as defined by the Department of the Children and Families. During our audit procedures, we noted there were several instances where patient service files did not initially include the complete list of required documentation to support patients' eligibility. The Organization had acquired the required eligibility documentation but had not properly filed the documentation at the time of eligibility determination. The Organization subsequently provided the all requested documentation to us. The above condition directly affects the internal control procedures over the maintenance of patient files but did not result in questioned costs during the current year.	
Recommendation:	The limited availability of resources of the Organization and turnover of personnel within the medical records department contributed to the cause of this significant deficiency in controls.	
Management's Response:	<i>Management agrees that there is room for improvement.</i>	

MEMBER EXCHANGE PROCESS		Deficiency
Observation:	Currently, the Client 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:	<i>Direct deposit for clients on whose behalf Archways acts as representative payee began with the Social Security Administration in September 2011. A report is printed from the bank website by the Accounting Manager, who reviews it at that time. The report is given to the Client Benefits Coordinator to for processing and to administer the funds for each client.</i>	

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

EVIDENCE OF REVIEW AND APPROVALS		Best Practice
Observation:	Accounting tasks such as monthly reconciliations play a key role in proving accurate accounting data and information included in financial statements. While conducting our audit, we noted that period end reconciliations were not formally signed off by management. Specifically, reconciliations were not documented as reviewed by the reviewer.	
Recommendation:	All monthly reconciliations should be clearly marked to indicate who prepared and who reviewed the work.	
Management's Response:	<i>All journal entries are signed by both the preparer and reviewer. Management agrees that the process can be improved.</i>	

REVISED 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 known generic names for drugs. This would allow counters with a non-medical background to perform the count more efficiently and accurately.	
Management's Response:	<i>Management agrees.</i>	

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

Fort Lauderdale, Florida
December 13, 2011