

REA OF HOPE FELLOWSHIP HOME, INC.  
(A NOT-FOR-PROFIT CORPORATION)

FINANCIAL STATEMENTS WITH  
ACCOMPANYING INFORMATION

FOR THE YEAR ENDED JUNE 30, 2009  
*(With Comparative Totals for 2008)*

DHHR - Finance

AUG 26 2010

Date Received

REA OF HOPE FELLOWSHIP HOME, INC.  
(A NOT-FOR-PROFIT CORPORATION)

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

For the Year Ended June 30, 2009

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-11
Schedule of Receipts and Expenditures of State Awards	12
Cumulative Schedule of Property and Equipment Purchased With OBHS Funds	13
Report on Internal Control over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	14-15
Schedule of Findings, Questioned Costs and Responses	16-17



## INDEPENDENT AUDITORS REPORT

To the Board of Directors of  
Rea of Hope Fellowship Home, Inc.

We have audited the accompanying statement of financial position, of the Rea of Hope Fellowship Home, Inc. (a nonprofit organization) as of June 30, 2009 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Home's 2008 financial statements and in our report dated November 26, 2008 we expressed an unqualified opinion on those financial statements.

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. 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 statements' presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rea of Hope Fellowship Home, Inc. as of June 30, 2009 and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2010 on our consideration of Rea of Hope Fellowship Home, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Receipts and Expenditures of State Awards and the Cumulative Schedule of Property and Equipment purchased with OBHS Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Rouan & Associates*

Dunbar, WV  
January 13, 2010

REA OF HOPE FELLOWSHIP HOME, INC.  
STATEMENT OF FINANCIAL POSITION  
FOR THE YEAR ENDED JUNE 30, 2009  
*(With Comparative Totals for 2008)*

Assets:	<u>2009</u>	<u>2008</u>
Current Assets:		
Cash and Cash Equivalents	\$ 48,585	\$ 72,764
Investments	27,271	22,159
Accounts Receivable	8,627	2,990
Prepaid Expenses	<u>2,878</u>	<u>2,504</u>
Total Current Assets:	<u>87,361</u>	<u>100,417</u>
Property & Equipment:		
Construction in Progress	-	265,429
Building & Improvements	638,425	318,426
Land	75,000	45,000
Furniture and Equipment	68,616	41,140
Accumulated Depreciation	<u>(59,564)</u>	<u>(35,687)</u>
Total Property & Equipment (Net)	<u>722,477</u>	<u>634,308</u>
 Total Assets	 <u>\$ 809,838</u>	 <u>\$ 734,725</u>
Liabilities and Net Assets:		
Current Liabilities:		
Accounts Payable	\$ 2,101	\$ 7,076
Accrued Employee Expenses	<u>10,310</u>	<u>10,335</u>
Total Current Liabilities	<u>12,411</u>	<u>17,411</u>
Net assets:		
Temporarily Restricted	387,500	253,930
Unrestricted	<u>409,927</u>	<u>463,384</u>
Total Net Assets	<u>797,427</u>	<u>717,314</u>
 Total Liabilities and Net Assets	 <u>\$ 809,838</u>	 <u>\$ 734,725</u>

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

REA OF HOPE FELLOWSHIP HOME, INC.  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2009  
 (With Comparative Totals for 2008)

	Unrestricted	Temporarily Restricted	2009 Total	2008 Total
<b>Revenues and Other Support</b>				
DHHR	\$ 194,500	\$ -	\$ 194,500	\$ 94,500
WV Housing Development Grant	-	79,517	79,517	45,483
FHL Bank Grant	-	66,553	66,553	208,447
Contributions	57,097	-	57,097	79,432
Rent	45,891	-	45,891	31,237
Greater Kanawha Valley Foundation	17,500	-	17,500	17,500
Other Grants	17,080	-	17,080	10,000
Kanawha County Commission	15,000	-	15,000	-
Food Income	11,674	-	11,674	11,371
City of Charleston	9,000	-	9,000	9,000
Investment Income	810	-	810	1,713
Attorney General Assistance	-	-	-	50,000
Loss on Investments	(4,122)	-	(4,122)	(2,583)
<b>Total Increases to Net Assets</b>	<u>364,430</u>	<u>146,070</u>	<u>510,500</u>	<u>556,100</u>
<b>Net Assets Released from Donor Restrictions</b>	<u>12,500</u>	<u>(12,500)</u>	<u>-</u>	<u>-</u>
<b>Total Increases of Net Assets</b>	<u>376,930</u>	<u>133,570</u>	<u>510,500</u>	<u>556,100</u>
<b>Expenses</b>				
Program Costs	339,664	-	339,664	197,707
Administration	64,501	-	64,501	39,458
Fundraising	26,222	-	26,222	15,508
<b>Total Reductions of Net Assets</b>	<u>430,387</u>	<u>-</u>	<u>430,387</u>	<u>252,673</u>
<b>Change in Net Assets</b>	<u>(53,457)</u>	<u>133,570</u>	<u>80,113</u>	<u>303,427</u>
<b>Net Assets - Beginning of the Year</b>	<u>463,384</u>	<u>253,930</u>	<u>717,314</u>	<u>413,887</u>
<b>Net Assets - End of the Year</b>	<u>\$ 409,927</u>	<u>\$ 387,500</u>	<u>\$ 797,427</u>	<u>\$ 717,314</u>

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

REA OF HOPE FELLOWSHIP HOME, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2009  
*(With Comparatives Totals for 2008)*

<u>Description</u>	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>2009</u> <u>Expenses</u>	<u>2008</u> <u>Expenses</u>
Wages	\$ 89,883	\$ 36,115	\$ 11,525	\$ 137,523	\$ 106,775
Payroll Taxes Expense	11,894	4,757	1,647	18,298	12,684
Benefits Expense	7,406	3,150	1,057	11,613	7,342
Impairment Loss	101,107	-	-	101,107	-
Utilities	28,656	2,157	-	30,813	20,558
Depreciation	22,207	1,671	-	23,878	11,673
Contract Services	23,535	-	-	23,535	24,655
Household Expenses	16,411	-	-	16,411	13,510
General Program Supplies / Food	12,428	-	-	12,428	10,957
Development	-	-	11,733	11,733	10,923
Professional Fees	-	7,372	-	7,372	2,450
Facility and Equipment Expense	6,777	-	-	6,777	939
Office Supplies	-	4,942	260	5,202	6,752
Repairs & Maintenance	4,794	361	-	5,155	2,875
Landscaping	4,552	343	-	4,895	1,403
Staff Travel / Development	2,348	2,348	-	4,696	4,290
Insurance	4,046	305	-	4,351	6,612
Auto Expense	3,620	-	-	3,620	2,178
Miscellaneous	-	980	-	980	1,897
Moving Expenses Paid	-	-	-	-	4,200
<b>TOTAL</b>	<b>\$ 339,664</b>	<b>\$ 64,501</b>	<b>\$ 26,222</b>	<b>\$ 430,387</b>	<b>\$ 252,673</b>

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

REA OF HOPE FELLOWSHIP HOME, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2009  
*(With Comparative Totals for 2008)*

	<u>2009</u>	<u>2008</u>
Cash Flows Used for Operating Activities:		
Change in Net Assets	\$ 80,113	\$ 303,427
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	23,878	11,673
Impairment	101,107	-
(Increase) in Accounts and Pledges Receivable	(5,637)	(1,952)
(Increase) in Prepaid Expense	(374)	(211)
(Decrease) Increase in Accounts Payable	(4,975)	5,683
(Decrease) Increase in Accrued Employee Benefits	<u>(25)</u>	<u>3,990</u>
Net Cash Flows Provided by Operating Activities	<u>194,087</u>	<u>322,610</u>
Cash Flows from Investing Activities:		
(Increase) Decrease in Investments	(5,113)	2,375
Construction in Process Purchases	-	(265,429)
Purchase of Property & Equipment	<u>(213,153)</u>	<u>(18,223)</u>
Cash (Used) by Investing Activities	<u>(218,266)</u>	<u>(281,277)</u>
Net (Decrease) Increase in Cash	(24,179)	41,333
Cash at the Beginning of the Year	<u>72,764</u>	<u>31,431</u>
Cash at the End of the Year	<u>\$ 48,585</u>	<u>\$ 72,764</u>
Supplemental Information:		
Interest Costs Capitalized in Construction In Progress	\$ -	\$ 2,438

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



REA OF HOPE FELLOWSHIP HOME, INC.  
NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ORGANIZATION:

The Rea of Hope Fellowship Home, Inc. (the Home) is a not-for-profit corporation established under the laws of the State of West Virginia on October 3, 2001. The Home is a 24-hour faith based women's residential program that provides a supportive safe environment while encouraging personal growth and responsibility. The Home can support up to ten women age 18 or older recovering from alcohol and drug addiction. The Home provides referral assistance for alcohol and drug counseling, mental health counseling, GED preparation/continuing education, resume preparation, job placement assistance, exercise programs, nutrition assistance, parenting skills, life skills, and personal hygiene training.

These services are provided primarily for women of Kanawha, Boone, Putnam, Clay, Lincoln, and Fayette counties; however referrals may be accepted from neighboring counties where no such services are available. The Home was purchased on July 15, 2003 and an occupancy permit was issued March 3, 2005 after remodeling was completed.

In February 2008, the Home purchased an apartment building that will be used as low income housing to provide the next step in independent living for the graduates of the Home. The remodeling was completed in September 2008. The "New Life" Apartments introduce seven apartments exclusively for Rea of Hope graduates and their minor children. The goals are to further assist women in their recovery by becoming independent and positioning them to provide a safe living environment for themselves and their children. This phase will deal with learning to live independently with minimal assistance. The Home will continue to establish long term goals and provide the necessary support to help each resident remove any barrier that may prevent them from realizing their goals for themselves and taking their proper place in society.

NOTE 2. ACCOUNTING POLICIES:

Method of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of The Home and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Home and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, any temporary restriction met in the same period that it was received is recognized as unrestricted in the period of receipt.

REA OF HOPE FELLOWSHIP HOME, INC.  
NOTES TO FINANCIAL STATEMENTS

NOTE 2. ACCOUNTING POLICIES: - continued

Estimates- The preparation of financial statements in conformity with generally accepted accounting principles requires the use of the management's estimates. Accordingly, actual results may differ from anticipated outcomes.

Cash and Cash Equivalents - The Home considers only bank deposits that are available on demand to be cash and cash equivalents. At June 30, 2009, cash deposits did not exceed federally insured limits.

Investments - Investments are stated at fair market value. Investment income is reported net of related expenses.

Property and Equipment - Acquisitions of furniture and equipment in excess of \$500 are capitalized. Furniture and equipment are reported at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is calculated using the straight-line method over the estimated useful life of the asset. Depreciation expense for the years ended June 30, 2009 and 2008 was \$23,878 and \$11,673, respectively.

Accounts Receivable - The Home considers accounts receivable to be fully collectible; accordingly, no allowance for bad debts is required. However, if an account is judged to be uncollectible, the balance of the account is expensed as a bad debt. As of June 30, 2009 and 2008 the bad debt expense was \$748 and \$1,025, respectively.

Contributed Services and Property and Equipment - The contributions of services are recognized if the services received (a) create or enhance non-financial assets, or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributed property and equipment is recorded at fair value at the date of the gift. If the donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. The total in-kind contribution of services and property and equipment for the years ended June 30, 2009 and 2008 were \$5,209 and \$-0-, respectively.

Functional Allocation of Expenses - The costs of providing The Home's various supporting services and fundraising expenses have been summarized on a functional basis in the statement of activities.

Fair Value of Financial Instruments - Rea of Hope has a number of financial instruments, none of which are held for trading purposes. Rea of Hope estimates that the fair value of all financial instruments at June 30, 2009 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position.

REA OF HOPE FELLOWSHIP HOME, INC.  
NOTES TO FINANCIAL STATEMENTS

NOTE 3. INCOME TAX STATUS:

The Home is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. The Home has been classified as an entity that is not a private foundation within the meaning of Section 509 (a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi).

NOTE 4. CONCENTRATIONS:

During the year ended June 30, 2009, the Home received 38% of its base revenue from the Department of Health and Human Resources. In support of the new apartment building construction, the Home received a combined 29% of total revenue from the Federal Home Loan Bank of Pittsburgh and the West Virginia Housing and Development Fund. Without the support of the Department of Health and Human Resources, the Home would not be able to operate in a manner that they have become accustomed to.

NOTE 5. INVESTMENTS:

In May 2006, Rea of Hope set up a non-endowed account with The Greater Kanawha Valley Foundation. The initial deposit was based on depreciation expense with additional deposits from fundraising activities. Invasion of the principal is permitted up to 100%. The following is a summary of the activity and fair market value as of June 30, 2008 and 2009:

Balance June 30, 2008	\$ 22,159
Interest and Dividend Income	598
Realized Loss on Sales	(549)
Unrealized Loss	(3,572)
Bank Fees and Administrative Fees	<u>(232)</u>
	18,404
Net Transfers to/from Checking	<u>8,867</u>
Balance June 30, 2009	<u>\$ 27,271</u>

Rea of Hope considers the fair value of investments to be the market value as quoted by independent exchange market reports at June 30, 2009.

NOTE 6. RETIREMENT PLAN:

Effective January 1, 2007, the board set up a Simple IRA plan. All employees receiving at least \$5,000 in compensation during any two prior years and who are reasonably expected to receive at least \$5,000 in compensation during the current year are eligible to participate in the plan. Rea of Hope contributes 3% to the pension plans of all participating employees. Retirement expense was \$3,687 and \$2,800 for the years ended June 30, 2009 and 2008 respectively.

REA OF HOPE FELLOWSHIP HOME, INC.  
NOTES TO FINANCIAL STATEMENTS

NOTE 7. COMPARATIVE 2008 AMOUNTS:

The amounts shown for the period ended June 30, 2008 in the accompanying financial statements are included to provide a basis for comparison with 2009 and represent summarized totals only. Accordingly, the 2008 amounts are not intended to present all information necessary for a fair presentation in accordance with generally accepted accounting principles.

NOTE 8. TEMPORARILY RESTRICTED NET ASSETS and CONTINGENT LIABILITIES:

During the 2008 fiscal year, the Home was a recipient of two grants for the purpose of purchasing and renovating the "New Life" apartment building. One of the grants was from The Federal Home Loan Bank of Pittsburgh's Affordable Housing Program. This \$275,000 grant requires that the proceeds be used to provide affordable housing to low income families for a period of no less than fifteen years from the project completion date. As of June 30, 2009, the Home had earned \$275,000 of these funds. If the Home would fail to use the "New Life" apartments for affordable housing, it would be required to immediately repay the full amount of the grant plus interest at a rate that would be determined by the Bank as of the default date. As it is the intention of the board that the "New Life" apartments always exist for affordable housing within the Home's mission, the funds will be temporarily restricted until the Bank's fifteen year requirement is met. The Bank has subsequently filed a protective lien against the New Life apartment building for the full \$275,000.

The second grant was through the West Virginia Housing Development Fund under the Special Assistance Loan Program (SALP). The amount of the grant was originally for \$75,000 but was increased to \$125,000 during the 2009 fiscal year. As of June 30, 2009, the Home had earned the full \$125,000 of the funds. The terms of this grant require that the New Life apartments be continuously used to provide affordable housing. However, the total \$125,000 to be repaid will be reduced by \$12,500 per year for each year the affordable housing is provided until none of the award is subject to repayment. Another protective lien has also been filed for \$125,000 against the New Life apartments.

Temporarily Restricted Net Assets:

Federal Home Loan Bank award	\$ 275,000
WV Housing Development Fund award	<u>112,500</u>
Total:	<u>\$ 387,500</u>

NOTE 9. IMPAIRMENT:

The New Life Apartment building was purchased in 2008, renovated and opened in September 2008 to provide affordable housing for recovering women. After renovations were completed, the New Life Apartments had a cost of \$451,107 in both the building and the land. An appraisal of the building was performed and valued at \$350,000. Based on generally accepted accounting principles, the lower of cost or market was used and an impairment loss of \$101,107 was recognized in the financial statements.

REA OF HOPE FELLOWSHIP HOME, INC.  
NOTES TO FINANCIAL STATEMENTS

NOTE 10. SUBSEQUENT EVENTS:

Management evaluated subsequent events through January 13, 2010 the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2009 but prior to January 13, 2010 that provided additional evidence about conditions that existed at June 30, 2009, have been recognized in the financial statements for the year ended June 30, 2009. Events or transactions that provided evidence about conditions that did not exist at June 30, 2009, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended June 30, 2009.

**REA OF HOPE FELLOWSHIP HOME, INC.**  
**SCHEDULE OF RECEIPTS AND EXPENDITURES OF STATE AWARDS**  
**Year Ended June 30, 2009**

State Grantor	Grant Number	Award Amount	Receipts 7/1/2008- 6/30/2009	Expenditures 7/1/-2008- 6/30/2009
<u>West Virginia Department of Health and Human Services</u>				
Provide safe housing for women 18 years of age and older who are in recovery from alcohol and/or drug addiction.				
(7/1/2008-6/30/2009)	G090301	\$ 194,500	\$ 194,500	\$ 194,500
<u>West Virginia Housing Development Fund</u>				
Rehabilitation project of new apartment facility to provide affordable housing for women 18 years of age and older recovering from alcohol and/or drug addiction				
(7/1/2007-6/30/2008)	SALP-Loan	\$ 125,000	\$ 79,517	\$ 79,517

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

REA OF HOPE FELLOWSHIP HOME, INC.  
CUMULATIVE SCHEDULE OF PROPERTY & EQUIPMENT  
PURCHASED WITH OBHS FUNDS  
FOR THE YEAR ENDED JUNE 30, 2009

During the fiscal year 2009 the Rea of Hope Fellowship Home, Inc. purchased the following property with OBHS funds:

Expenditure:	Rea of Hope New Life Apartments at 200 Beauregard Street, Charleston Apartment Remodeling
Vendor Name:	Various
Date of Acquisition:	July 1, 2008 – June 30, 2009
Cost:	\$50,000
State Account Number:	G090301
Identification Number:	55-0784408

During the fiscal year 2004 the Rea of Hope Fellowship Home, Inc. purchased the following property with OBHS funds:

Expenditure:	Home at 1429 Lee Street, Charleston
Vendor Name:	Andrew Goodwin
Date of Acquisition:	July 15, 2003
Cost:	\$119,909
State Account Number:	G040074
Identification Number:	55-0784408
Expenditure:	Home at 1429 Lee Street, Charleston Construction
Vendor Name:	Various
Date of Acquisition:	July 1, 2003 – June 30, 2004
Cost:	\$43,742
State Account Number:	G040074
Identification Number:	55-0784408



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*

Board of Directors  
Rea of Hope Fellowship Home, Inc.  
Charleston, WV

We have audited the financial statements of Rea of Hope Fellowship Home, Inc. (a nonprofit organization) as of and for the year ended June 30, 2009, and have issued our report thereon dated January 13, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Rea of Hope Fellowship Home, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rea of Hope Fellowship Home, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified deficiencies in internal control over financial reporting that we consider to be a significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.



We consider the deficiencies described in the accompanying schedule of findings, questioned costs and responses as 2009-1 and 2009-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rea of Hope Fellowship Home, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Management's written response to the findings identified in our audit is described in the accompanying schedule of findings, questioned costs and responses. We did not audit management's response and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Directors, and federal or 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.

*Rowan & Associates*

Dunbar, WV  
January 13, 2010

REA OF HOPE FELLOWSHIP HOME, INC.  
SCHEDULE OF FINDINGS, QUESTIONED COSTS AND RESPONSES  
June 30, 2009

2009-1

<u>Condition-</u>	During our audit we found that all timesheets showed total hours worked but did not properly allocate time.
<u>Criteria-</u>	OMB Circular A-122 requires that charges to awards for salaries and wages will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports (timesheets).
<u>Cause-</u>	Management did not have knowledge of this requirement.
<u>Effect-</u>	Insufficient documentation to support allocation of wages to state awards.
<u>Questioned Costs-</u>	WV Department of Health and Human Resources-Bureau of Behavioral Health and Health Facilities Grant: Reporting period: 07/01/2008 – 06/30/2009 Grant Number: G090301 Amount: \$ 111,910
<u>Recommendation-</u>	Timesheets should be formatted to reflect categories of program activities such as project (specific programs) expense, and time spent for administrative and fundraising activities. The timesheets should then be approved by a responsible official. Salaries and wages must always be charged to grants based on the time documented and approved on the timesheets.
<u>Management Response-</u>	<i>New timesheets will be developed to meet the requirements of OMB Circular A-122. Timesheets will continue to be approved by the immediate supervisor.</i>

2009-2

<u>Condition-</u>	During our review of the contracts for the “house techs” (workers who stay at the home to monitor and mentor the tenants when the program coordinator and/or program assistant are not on the premises), we found that most of the contracts contain the phrase “employment contract” and/or “employee.” We also noted that in the description of duties for the position, Rea of Hope has the right to control what the worker does and how the worker does their job.
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REA OF HOPE FELLOWSHIP HOME, INC.  
SCHEDULE OF FINDINGS, QUESTIONED COSTS AND RESPONSES  
June 30, 2009

2009-2 (continued)

Criteria-

The IRS has specific criteria to determine if a worker is an independent contractor or employee.

Cause-

Lack of knowledge of IRS rules.

Effect-

If audited and the IRS determines that the independent contractors were employees, they can go back three years and collect employment taxes. First the company is liable for up to 28% of taxes that should have been withheld from the employees' pay. If the company cannot pay the total taxes due, then the officers and the governing board can be held liable for the taxes.

Recommendation-

The contracts should not be termed as "employment contracts" and the word employee should not be anywhere in the contract. The contracts should refer to the individuals as "independent contractors." If the work is sporadic and to fill in as needed this further establishes that the worker is an independent contractor. If the work is on a continuous basis and is not sporadic or temporary, the house techs should be hired and paid as employees.

Management Response-

*The "independent contractors" contracts have been corrected and the term employment and employee have been removed. Two independent contractors were hired as employees in April 2009. Independent contractors are limited to coverage only when an employee is unavailable.*

# Grant Listing by WVFIMS # and SFY

WVFIMS Vendor #

**39104**      **West Virginia Medical Institute**

DBA:

3001 Chesterfield Place                      Charleston                      WV    25304

Contact Name: Marc McCombs                      Contact Title:

Grantee FYE    12/31

2nd Address Exists?    No

FSPB?    No

Non-Profit Organization

Phone:    (304) 346-9864                      2267

Fax:

**Affiliated Grantee WVFIMS #**

**G090910**

Commitment #    C316295

DHHR Spending Unit    Bureau for Public Health

Office of Environmental Health Services

Grant Period: 03/30/2009    to    03/29/2010

Org Fed Amount	Org State Amount	Original Total Grant Award	Change Order #	Change Order Fed Amt	Change Order State Amt
\$ 59,888.00	\$ 0.00	\$ 59,888.00			

Revised Grant Period:                      to

**Current Federal Amount                      Current State Amount                      Current Total Grant Award**

**Total Grantees                      1                      Total Grants Awarded                      1**

# Grant Listing by WVFIMS # and SFY

WVFIMS Vendor #

**437094** Rea of Hope Fellowship Home

DBA:

1429 Lee Street East Charleston WV 25301

Contact Name: Marie Beaver Contact Title: Executive Director

Phone: (304) 344-5363

Affiliated Grantee WVFIMS #

Grantee FYE 06/30

2nd Address Exists? No

FSPB? No

Non-Profit Organization

Fax:

**G090301**

Commitment # C301861

DHHR Spending Unit Bureau for Behavioral Health & Health Facilities Office of Finance & Administration

Grant Period: 07/01/2008 to 06/30/2009

Org Fed Amount	Org. State Amount	Original Total Grant Award	Change Order #	Change Order Fed Amt	Change Order State Amt
\$ 32,000 00	\$ 62,500 00	\$ 94,500 00	1	\$ 50,000 00	\$ 50,000 00

Revised Grant Period: to

Current Federal Amount	Current State Amount	Current Total Grant Award
\$ 82,000.00	\$ 112,500.00	\$ 194,500.00

Total Grantees 1 Total Grants Awarded 1