

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

**FINANCIAL STATEMENTS WITH  
ACCOMPANYING INFORMATION**

**FOR THE YEAR ENDED JUNE 30, 2012**  
*(With Comparative Totals for 2011)*

DHHR - Finance

DEC - 3 2012

Date Received

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

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

For the Year Ended June 30, 2012

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## 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, 2012 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 Rea of Hope Fellowship Home's 2011 financial statements and in our report dated October 14, 2011 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, Inc. as of June 30, 2012 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 November 2, 2012 on our consideration of Rea of Hope, 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

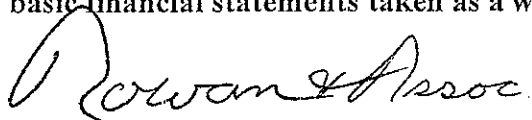
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Date Received

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 accompanying schedule of receipts and expenditures of state awards and the schedule of property and equipment purchased with Office of Behavioral Health Services (OBHS) funds are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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.



Dunbar, WV  
November 13, 2012

REA OF HOPE FELLOWSHIP HOME, INC.  
STATEMENT OF FINANCIAL POSITION  
FOR THE YEAR ENDED JUNE 30, 2012  
*(With Comparative Totals for 2011)*

Assets:	<u>2012</u>	<u>2011</u>
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 118,240	\$ 186,573
Investments	51,739	52,022
Accounts Receivable	125,145	18,743
Prepaid Expenses	<u>5,355</u>	<u>2,855</u>
<b>Total Current Assets:</b>	<u>300,479</u>	<u>260,193</u>
 <b>Property &amp; Equipment:</b>		
Buildings & Improvements	898,719	643,802
Land	130,000	75,000
Phase III Construction in Progress	-	5,200
Furniture and Equipment	142,315	75,644
Accumulated Depreciation	<u>(142,709)</u>	<u>(111,135)</u>
<b>Total Property &amp; Equipment (Net)</b>	<u>1,028,325</u>	<u>688,511</u>
 <b>Total Assets</b>	 <u>\$ 1,328,804</u>	 <u>\$ 948,704</u>
 <b>Liabilities and Net Assets:</b>		
<b>Current Liabilities:</b>		
Accounts Payable	\$ 22,125	\$ 9,402
Deferred Revenue	-	5,200
Security Deposits	650	1,941
Accrued Employee Expenses	<u>19,767</u>	<u>15,435</u>
<b>Total Current Liabilities</b>	<u>42,542</u>	<u>31,978</u>
 <b>Net assets:</b>		
Temporarily Restricted	841,917	432,500
Unrestricted	<u>444,345</u>	<u>484,226</u>
<b>Total Net Assets</b>	<u>1,286,262</u>	<u>916,726</u>
 <b>Total Liabilities and Net Assets</b>	 <u>\$ 1,328,804</u>	 <u>\$ 948,704</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, 2012  
*(With Comparative Totals for 2011)*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2012 Total</u>	<u>2011 Total</u>
Revenues and Other Support				
DHHR	\$ 194,500	\$ -	\$ 194,500	\$ 144,500
Contributions	106,282	-	106,282	71,026
In-Kind Contributions	34,256	-	34,256	25,084
Rent	82,719	-	82,719	65,800
Greater Kanawha Valley Foundation	20,000	-	20,000	17,500
Other Grants	76,000	400,000	476,000	141,700
West Virginia Housing Development Fund	-	57,500	57,500	-
Department of Justice	27,900	-	27,900	31,000
Food Income	16,225	-	16,225	12,350
City of Charleston	8,100	-	8,100	9,000
Investment Income	2,260	-	2,260	1,361
(Loss) Gain on Investments	(1,645)	-	(1,645)	4,633
Total Increases to Net Assets	<u>566,597</u>	<u>457,500</u>	<u>1,024,097</u>	<u>523,954</u>
Net Assets Released from Donor Restrictions	<u>48,083</u>	<u>(48,083)</u>	<u>-</u>	<u>-</u>
Total Increases of Net Assets	<u>614,680</u>	<u>409,417</u>	<u>1,024,097</u>	<u>523,954</u>
Expenses				
Program Costs	563,354	-	563,354	338,165
Administration	67,117	-	67,117	54,914
Fundraising	24,090	-	24,090	20,261
Total Reductions of Net Assets	<u>654,561</u>	<u>-</u>	<u>654,561</u>	<u>413,340</u>
Change in Net Assets	<u>(39,881)</u>	<u>409,417</u>	<u>369,536</u>	<u>110,614</u>
Net Assets - Beginning of the Year	<u>484,226</u>	<u>432,500</u>	<u>916,726</u>	<u>806,112</u>
Net Assets - End of the Year	<u>\$ 444,345</u>	<u>\$ 841,917</u>	<u>\$ 1,286,262</u>	<u>\$ 916,726</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, 2012  
 (With Comparative Totals for 2011)

<u>Description</u>	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>2012</u>	<u>2011</u>
	\$	\$	\$	Expenses	Expenses
Wages	\$ 199,280	\$ 38,884	\$ 4,860	\$ 243,024	\$ 191,096
Payroll Taxes Expense	20,938	4,085	511	25,534	21,545
Benefits Expense	13,030	2,542	318	15,890	16,388
Loss in market value of building	138,984	-	-	138,984	-
Utilities	40,946	3,082	-	44,028	34,516
Depreciation	29,365	2,210	-	31,575	27,062
Contract Services	5,968	-	-	5,968	5,651
Household Expenses	42,139	-	-	42,139	23,229
Resident Counseling Services	12,196	-	-	12,196	12,759
General Program Supplies / Food	17,558	-	-	17,558	12,521
Development	-	-	10,198	10,198	9,705
Fundraising	-	-	8,203	8,203	7,652
Professional Fees	-	4,911	-	4,911	3,095
Office Supplies	8,111	611	-	8,722	5,590
Repairs & Maintenance	15,128	1,139	-	16,267	20,184
Landscaping	3,404	256	-	3,660	1,522
Staff Travel / Development	5,089	5,089	-	10,178	9,032
Insurance	5,625	423	-	6,048	6,048
Auto/Travel Expense	3,386	255	-	3,641	3,601
Website/Technology	2,207	166	-	2,373	-
Miscellaneous	-	3,464	-	3,464	2,144
<b>TOTAL</b>	<b>\$ 563,354</b>	<b>\$ 67,117</b>	<b>\$ 24,090</b>	<b>\$ 654,561</b>	<b>\$ 413,340</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, 2012  
*(With Comparative Totals for 2011)*

	<u>2012</u>	<u>2011</u>
Cash Flows Used for Operating Activities:		
Change in Net Assets	\$ 369,536	\$ 110,614
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	31,575	27,062
(Increase) Decrease in Accounts and Pledges Receivable	(106,402)	13,436
(Increase) Decrease in Prepaid Expense	(2,500)	632
Increase in Accounts Payable	12,723	5,481
(Decrease) Increase in Notes Payable	(5,200)	5,200
(Decrease) Increase in Prepaid Rent	(1,291)	1,411
Increase (Decrease) in Accrued Employee Benefits	<u>4,332</u>	<u>(2,350)</u>
Net Cash Flows Provided by Operating Activities	<u>302,773</u>	<u>161,486</u>
Cash Flows from Investing Activities:		
Decrease (Increase) in Investments	283	(23,140)
Construction in Progress	-	(5,200)
Purchase of Property & Equipment	<u>(371,389)</u>	<u>(11,689)</u>
Cash (Used) by Investing Activities	<u>(371,106)</u>	<u>(40,029)</u>
Net (Decrease) Increase in Cash	(68,333)	121,457
Cash at the Beginning of the Year	<u>186,573</u>	<u>65,116</u>
Cash at the End of the Year	<u>\$ 118,240</u>	<u>\$ 186,573</u>

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



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

**NOTE 1. NATURE OF ORGANIZATION:**

Rea of Hope Fellowship Home, Inc. is a not-for-profit corporation established under the laws of the State of West Virginia on October 3, 2001. Rea of Hope is a 24-hour faith based women's residential program that provides a supportive safe environment while encouraging personal growth and responsibility. Rea of Hope can support up to fourteen women age 18 or older recovering from alcohol and/or drug addiction. Rea of Hope 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.

In February 2008, Rea of Hope purchased an apartment building that is used as low income housing to provide the next step in independent living for the graduates of Rea of Hope. The "New Life" Apartments introduced 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 deals with learning to live independently with minimal assistance. Rea of Hope 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.

During August 2011, Rea of Hope purchased two additional properties to expand their services. The new properties provide 4 additional beds for the 24-hour residential program and two additional apartments for the graduates of the residential program.

**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 Rea of Hope 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 Rea of Hope 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 THE 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 - Rea of Hope considers only bank deposits that are available on demand to be cash and cash equivalents. At June 30, 2012, cash deposits did not exceed federally insured limits.

Investments - Investments are stated at fair market value. Investment income is reported net of related expenses. Investments constitute 3% of total assets and are deposited with the Greater Kanawha Valley Foundation.

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, 2012 and 2011 was \$31,756 and \$27,062, respectively.

Accounts Receivable - Accounts receivable consists of rent due and grant reimbursements. Rea of Hope 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, 2012 and 2011 the bad debt expense was \$778 and \$31, 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, 2012 and 2011 were \$34,256 and \$25,084, respectively.

Functional Allocation of Expenses - The costs of providing Rea of Hope's various supporting services and fundraising expenses have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on employee time records, square feet of area used, etc.

NOTE 3. INCOME TAX STATUS:

Rea of Hope, Inc. is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Rea of Hope has no unrelated business income, which would be

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

**NOTE 3. INCOME TAX STATUS: (continued)**

subject to income tax. Rea of Hope 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). The Organization's federal information returns, Form 990, are subject to audit by the IRS, generally for three years after they are filed.

**NOTE 4. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Rea of Hope, Inc. discloses for each class of financial instruments the methods, and when a valuation technique is used, the significant assumptions applied in determining the fair values of financial assets and liabilities. If there is a change in the valuation technique, Rea of Hope, Inc. discloses both the change and the reasons of the change.

Rea of Hope, Inc. estimates that the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying financial statements. The estimated fair value amounts have been determined by Rea of Hope, Inc. using appropriate valuation methodologies. The organization's financial instruments consist primarily of cash, pledges receivables, receivables, endowment investments and accrued assets and liabilities.

The Financial Accounting Standards Board ("FASB") issued a statement that defines fair value and establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

**Level 1** - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

**Level 2** - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted priced for identical or similar assets or liabilities in inactive markets;
- Inputs that are derived principally from or corroborated by observable market data.

If the asset or liabilities has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3** - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The assets or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurements.

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

**NOTE 4. FAIR VALUE OF FINANCIAL INSTRUMENTS: (continued)**

Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at June 30, 2012.

*Investments*

Investments are valued based on quoted prices in active markets for identical investments and are classified as Level 1 of the valuation hierarchy.

*Pledges Receivable*

Pledges receivable consist of current pledges and are valued at the face amount of the gift and are classified as Level 2 of the valuation hierarchy.

*Receivables*

Receivables are valued at their estimated net collectible amount and are classified as Level 2 of the valuation hierarchy.

*Real Property*

Real estate assets are valued based on an independent appraisal as needed. There were three possible approaches for the appraisal: value by sales comparison approach; value by cost approach; and value by income approach. The properties were appraised based on the value by sales comparison approach which is classified at Level 2 of the valuation hierarchy.

*Accruals*

Accruals are valued at present value and are classified as Level 2 of the valuation hierarchy.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets and liabilities at fair value as of June 30, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Endowment Fund	\$ 51,739	\$ -0-	\$ -0-	\$ 51,739
Pledges Receivable	-0-	2,000	-0-	2,000
Receivables	-0-	123,145	-0-	123,145
Accruals	-0-	42,542	-0-	42,542

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

**NOTE 4. FAIR VALUE OF FINANCIAL INSTRUMENTS: (continued)**

The following table sets forth by level, within the fair value hierarchy, the Organization's assets and liabilities at fair value as of June 30, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Endowment Fund	\$ 52,022	\$ -0-	\$ -0-	\$ 52,022
Pledges Receivable	-0-	3,000	-0-	3,000
Receivables	-0-	15,743	-0-	15,743
Accruals	-0-	31,978	-0-	31,978

**NOTE 5. IMPAIRMENT:**

Rea of Hope purchased and remodeled two properties during the fiscal year ended June 30, 2012 to increase the number of beds and apartments available for both phases of the program. After renovations were completed, the properties had a cost of \$483,984 for both the buildings and the land. An independent appraisal of the buildings was performed and the properties were valued at \$295,000. Items such as asbestos removal, installation of a sprinkler system and fire alarm system would not have added to the appraised value but did add significantly to the cost of preparing the properties for occupancy. As the organization has always carried its property at the lower of cost or market, an impairment loss of \$138,984 was recognized in the financial statements for the period ended June 30, 2012.

**NOTE 6. 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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Beginning Balance	\$ 52,022	\$ 28,882
Interest and Dividend Income	946	542
Realized Gain (Loss) on Sales	962	603
Unrealized Gain (Loss)	(1,645)	4,633
Grant Distributions	-0-	(2,213)
Bank Fees and Administrative Fees	(546)	(425)
	<u>51,739</u>	<u>32,022</u>
Net Transfers from Checking	-0-	20,000
Ending Balance	<u>\$ 51,739</u>	<u>\$ 52,022</u>

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

**NOTE 7. CONCENTRATIONS:**

During the year, Rea of Hope, Inc. received significant portions of its total revenue from the following sources:

	<u>2012</u>	<u>2011</u>
Department of Health & Human Resources	19%	36%
Federal Home Loan Bank, WV Housing Development Fund, WV Affordable Housing	44%	0%
Contributions and Grants	22%	34%
Rent and Food Income	<u>9%</u>	<u>16%</u>
	<u>94%</u>	<u>86%</u>

**NOTE 8. RETIREMENT 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% of the normal monthly gross compensation to the pension account of all participating employees. Retirement expense was \$5,451 and \$5,160 for the years ended June 30, 2012 and 2011 respectively.

**NOTE 9. COMPARATIVE 2011 AMOUNTS:**

The amounts shown for the period ended June 30, 2011 in the accompanying financial statements are included to provide a basis for comparison with 2012 and represent summarized totals only. Accordingly, the 2011 amounts are not intended to present all information necessary for a fair presentation in accordance with generally accepted accounting principles.

**NOTE 10. TEMPORARILY RESTRICTED NET ASSETS & CONTINGENT LIABILITIES:**

During 2008 Rea of Hope purchased additional property to provide the next phase of the recovery process which is to make affordable housing available for Rea of Hope graduates and their minor children. The new property provided seven "New Life" apartments for the graduates of Rea of Hope. As the need for additional rooms/apartments for the program continued to grow, two more properties were purchased during the 2012 fiscal year to provide four additional beds and two more apartments for the graduate program. The purchase and renovation of the three properties in 2008 and 2012 was made possible through grants awarded from the Federal Home Loan Bank (FHLB) of Pittsburgh's Affordable Housing Program, the WV Housing Development Fund and the WV Affordable Housing Trust Fund.

In 2008 the FHLB grant was \$275,000 and as long as the property is used to provide affordable housing to low income families for a period of no less than 15 years from the project completion date of September 1, 2008, the loan will be forgiven. If Rea of Hope would fail to use the "New Life" apartments for affordable housing, it would be required to immediately repay the full

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

**NOTE 10. TEMPORARILY RESTRICTED NET ASSETS & CONTINGENT LIABILITIES:**  
**(continued)**

amount of the grant plus interest at a rate that would be determined by the Bank as of the default date. The Bank has subsequently filed a protective lien against the "New Life" apartment building for the full \$275,000. In 2011, the FHLB awarded a grant for \$250,000 for the purchase and remodeling of the two additional properties. The terms of the agreement are the same as the prior grant and will be forgiven after 15 years of continued use as affordable housing from the date of completion, June 1, 2012. The Bank has filed a protective lien against the properties for the full \$250,000. As it is the intention of the board that the "New Life" apartments always exist for affordable housing within Rea of Hope's mission, the funds will be temporarily restricted until the Bank's fifteen year requirement for both loans is met.

The West Virginia Housing Development Fund under the Special Assistance Loan Program (SALP) awarded \$125,000 for the purchase of the property in 2008 and \$57,500 for the purchase of the properties in 2011. The terms of this grant require that the properties be continuously used to provide affordable housing for a period of no less than 10 years. The \$125,000 loan will be reduced by \$12,500 each year until the award is no longer subject to repayment. The \$57,500 will be forgiven after a period of 10 years of continued use and will

not be reduced each year as the prior grant. A protective lien was filed for the properties until the 10 year period for each has expired. The balance due for the years ended June 30, 2012 and 2011 was \$132,500 and \$87,500, respectively and will be temporarily restricted until forgiven.

A third grant was awarded from the WV Affordable Housing Trust Fund in the amount of \$150,000 for the most recent properties purchased. This loan will be forgiven after 18 months of continued use for affordable housing and the Trust Fund has secured a deed of trust on the properties. The full amount of the loan will be temporarily restricted until the loan is forgiven.

Temporarily Restricted Net Assets:	<u>2012</u>	<u>2011</u>
Federal Home Loan Bank	\$ 525,000	\$ 275,000
WV Housing Development Fund	132,500	87,500
WV Affordable Housing Trust Fund	150,000	-0-
Benedum Foundation (staff salaries)	<u>34,416</u>	<u>70,000</u>
Total:	<u>\$ 841,916</u>	<u>\$ 432,500</u>

**NOTE 11. SUBSEQUENT EVENTS:**

Management evaluated subsequent events through November 13, 2012 the date the financial statements were available to be issued.

**REA OF HOPE FELLOWSHIP HOME, INC.**  
**SCHEDULE OF RECEIPTS AND EXPENDITURES OF STATE AWARDS**  
**Year Ended June 30, 2012**

State Grantor	Grant Number	Award Amount	Receipts * 7/01/2011- 6/30/2012	Expenditures 7/01/2011- 6/30/2012
<u>West Virginia Department of Health and Human Resources</u>				
Provide safe housing for women 18 years of age and older who are in recovery from alcohol and/or drug addiction.				
(7/1/2011-6/30/2012)	G120114	\$ 194,500	\$ 194,500	\$ 194,500
<u>West Virginia Housing Development Fund</u>				
Rehabilitation project for two additional facilities to provide affordable housing for women 18 years of age and older recovering from alcohol and/or drug addiction				
(5/11/2012)	SALP-Loan	\$ 57,500	\$ 57,500	\$ 57,500

\* This schedule is prepared on the accrual basis of accounting

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



**REA OF HOPE FELLOWSHIP HOME, INC.  
SCHEDULE OF PROPERTY & EQUIPMENT  
PURCHASED WITH OBHS FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012**

**During the fiscal years 2012 and 2011 Rea of Hope Fellowship Home, Inc. used no Office of Behavioral Health Services (OBHS) funds to purchase property and equipment.**



**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, 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, 2012, and have issued our report thereon dated November 2, 2012. 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 Rea of Hope Fellowship Home, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Rea of Hope'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'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.

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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings as 2012-1. Rea of Hope's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Rea of Hope's response and, accordingly, we express no opinion on it.

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.



Dunbar, WV  
November 13, 2012

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REA OF HOPE FELLOWSHIP HOME, INC.  
Schedule of Findings and Responses

2012-1

*Criteria-*

Internal Revenue Form 1099 is required to be filed annually with the Internal Revenue Service (IRS) when an entity pays \$600 or more to an independent contractor for services rendered.

*Condition-*

During the course of our audit we discovered several independent contractors that should have been issued a 1099 form.

*Effect-*

Failure to comply with IRS rules can result in fines and penalties if audited.

*Recommendation-*

We recommend that a process be developed to determine when a 1099 should be issued. This process could begin with having all potential independent contractors complete a W-9 form (Request for Taxpayer Identification Number). Additional information is located on the IRS website to determine when a 1099 should be filed.

*Management Response-*

*Rea of Hope will develop a procedure that ensures all applicable entities will be given a 1099. Due to our expansion and utilizing contractors for construction and rehab, which is out of our daily operating procedures, the 1099 for several of the contractors were not issued. The Executive Director has discussed the plan and asked the Bookkeeper to print off W 9's to have available for all applicable entities.*



November 13, 2012

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

We have audited the financial statements of Rea of Hope Fellowship Home, Inc. for the year ended June 30, 2012, and have issued our report thereon dated November 13, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 4, 2012. Professional standards also require that we communicate to you the following information related to our audit:

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Rea of Hope Fellowship Home, Inc. are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the impairment loss is based on the appraised value of the new properties purchased and remodeled during the fiscal year ended June 30, 2012. We evaluated the key factors and assumptions used to develop the impairment loss amount and determined that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

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Note 10- If the new properties purchased are not used for the period of time specified in the loan/grant agreement, Rea of Hope has a significant contingent liability to repay the loans.

Note 5- The impairment loss that represents the difference between the market value of the new properties and the cost of the properties is significant and material to the financial statements

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The most significant entries were associated with the purchase and remodeling of the new properties, to adjust to the appraised value of the new properties, and to clear out the construction in progress account. The total impairment loss for the property adjustments was \$138,984. The majority of the remaining entries were reclassification of expenses to and from fixed assets.

#### *Disagreements with Management*

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

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated November 13, 2012.

#### *Management Consultations with Other Independent Accountants*

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

#### *Other Audit Findings or Issues*

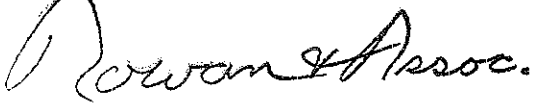
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Sincerely,



Rowan & Associates CPA's, PLLC

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DEC - 3 2012

**Date Received**