

**GILEAD COMMUNITY SERVICES, INC. AND
RAINBOW HOUSING CORPORATION**

**Consolidated Financial Statements
and Supplementary Information
with Independent Auditor's Report**

June 30, 2011 and 2010

GILEAD COMMUNITY SERVICES, INC. AND RAINBOW HOUSING CORPORATION

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INDEPENDENT AUDITOR'S REPORT



GUILMARTIN • DIPIRO • SOKOLOWSKI LLC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Gilead Community Services, Inc. and Rainbow Housing Corporation:

We have audited the accompanying consolidated statements of financial position of Gilead Community Services, Inc. and Rainbow Housing Corporation, (nonprofit organizations) as of June 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organizations' management. Our responsibility is to express an opinion on these consolidated 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 audits 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 the 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Gilead Community Services, Inc. and Rainbow Housing Corporation, as of June 30, 2011 and 2010 and the changes in their net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2011 on our consideration of Gilead Community Services, Inc.'s and Rainbow Housing Corporation's internal control over financial reporting and on our tests of their 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 audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements of Gilead Community Services, Inc. and Rainbow Housing Corporation taken as a whole. The accompanying schedule of expenditures of state financial assistance is also presented for purposes of additional analysis as required by the Office of Policy and Management *Compliance Supplement to the State Single Audit Act*, and is also not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic consolidated financial statements taken as a whole.

Guilmartin, DiPiro + Sokolowski, LLC

Middletown, Connecticut
October 27, 2011

FINANCIAL STATEMENTS

GILEAD COMMUNITY SERVICES, INC. AND RAINBOW HOUSING CORPORATION

Consolidated Statements of Financial Position

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
	<u>Assets</u>	
Current assets:		
Cash	\$ 547,465	\$ 608,628
Restricted cash	-	157,397
Investments	107,034	70,458
Accounts and grants receivable	125,114	175,004
Receivables from tenants in loan program	122,228	142,979
Prepaid expenses	31,245	51,311
Other assets	14,282	11,911
Total current assets	<u>947,368</u>	<u>1,217,688</u>
Property and equipment, net	<u>4,833,555</u>	<u>4,444,403</u>
Total assets	<u>\$ 5,780,923</u>	<u>\$ 5,662,091</u>
	<u>Liabilities and Net Assets</u>	
Current liabilities:		
Credit line payable	\$ 350,000	\$ 200,000
Current portion of long-term debt	120,241	104,759
Accounts payable	143,618	158,371
Accrued expenses	424,817	586,422
Deferred income	54,561	6,621
Funds held on behalf of others	629,241	507,407
Total current liabilities	<u>1,722,478</u>	<u>1,563,580</u>
Long-term debt, net of current portion	<u>2,541,014</u>	<u>2,402,408</u>
Net assets:		
Unrestricted	1,063,486	1,212,298
Temporarily restricted	453,946	483,805
Total net assets	<u>1,517,431</u>	<u>1,696,103</u>
Total liabilities net assets	<u>\$ 5,780,923</u>	<u>\$ 5,662,091</u>

See accompanying consolidated notes to financial statements.

GILEAD COMMUNITY SERVICES, INC. AND RAINBOW HOUSING CORPORATION

Consolidated Statements of Activities

For the years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Public support and revenue:		
State grants	\$ 8,218,762	\$ 8,689,675
Fees earned:		
Room and board	437,345	385,487
Fee for service - Clinics and Wise	594,607	377,026
Medicaid rehab options	1,940,057	451,800
Rental income	151,344	254,010
United Way and other donations	207,362	187,483
(Loss) gain on sale of property, plant and equipment - net	(162)	135,454
Other	70,114	38,361
Interest and investment income	432	781
Unrealized gain on investments	14,367	5,183
Release from restriction - depreciation	38,654	34,982
Total public support and revenue	<u>11,672,882</u>	<u>10,560,242</u>
Expenses:		
Program services:		
Residential services:		
Gilead I	618,822	572,366
Gilead II	625,572	577,217
Gilead Apartment Program	1,002,604	1,158,726
Liberty Home (Note 1)	566,689	166,051
Womens' Program	521,580	197,851
Anchorage Home	849,545	808,902
Baldwin Home	861,539	865,473
Iris Home	862,327	810,761
A.C.T. Program	1,614,102	1,258,353
Social Center	538,911	537,618
Clinics and Wise program - Middletown	429,073	350,799
Gateway community treatment - Chester	498,378	541,539
SCAP	853,661	768,457
Specialty Care	181,408	-
Occupancy	458,413	660,331
Total program services	<u>10,482,624</u>	<u>9,274,444</u>
Administration	<u>1,339,070</u>	<u>1,272,599</u>
Total expenses	<u>11,821,694</u>	<u>10,547,043</u>
(Decrease) increase in net assets	(148,812)	13,199
Unrestricted net assets, beginning of year	<u>1,212,298</u>	<u>1,199,099</u>
Unrestricted net assets, end of year	<u>\$ 1,063,486</u>	<u>\$ 1,212,298</u>
Changes in temporarily restricted net assets:		
State funding for building renovations and equipment	\$ 8,795	\$ 86,222
Other restricted donations	-	-
Release from restriction - depreciation	<u>(38,654)</u>	<u>(34,982)</u>
(Decrease) increase in temporarily restricted net assets	<u>(29,859)</u>	<u>51,240</u>
Temporarily restricted net assets, beginning of year	<u>483,805</u>	<u>432,565</u>
Temporarily restricted net assets, end of year	<u>\$ 453,946</u>	<u>\$ 483,805</u>
Total change in net assets	<u>\$ (178,671)</u>	<u>\$ 64,439</u>

See accompanying consolidated notes to financial statements.

GILEAD COMMUNITY SERVICES, INC. AND RAINBOW HOUSING CORPORATION

Consolidated Statements of Cash Flows

For the years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	<u>\$ (178,671)</u>	<u>\$ 64,439</u>
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	307,121	297,621
Loss (gain) on disposal of assets	162	(135,454)
Unrealized (gain) on investments	(14,367)	(5,183)
Decrease (increase) in accounts receivable	49,890	(31,364)
Decrease in tenants receivable	20,751	49,552
Decrease in prepaid expenses	20,066	13,628
(Increase) in other assets	(3,370)	-
(Decrease) increase in accounts payable	(14,753)	23,160
(Decrease) increase in accrued liabilities	(161,605)	227,463
Increase (decrease) in deferred income	47,940	(50,520)
Increase in funds held for others	121,834	-
Total adjustments	<u>373,669</u>	<u>388,903</u>
Net cash provided by operating activities	<u>194,998</u>	<u>453,342</u>
Cash flows from investing activities:		
Proceeds from sale of assets	-	172,659
Proceeds from maturity of investments	-	41,514
Purchase of property and equipment, net	(695,437)	(306,104)
(Increase) in investments	(22,209)	(6,825)
Net cash (used) in investing activities	<u>(717,646)</u>	<u>(98,756)</u>
Cash flows from financing activities:		
Proceeds from long-term debt	261,000	182,388
Proceeds on line-of-credit	695,000	1,175,000
Payments on line-of-credit	(545,000)	(1,315,000)
Principal payments on long-term debt	(106,912)	(102,903)
Net cash provided by (used) in financing activities	<u>304,088</u>	<u>(60,515)</u>
Net (decrease) increase in cash and equivalents	(218,560)	294,071
Cash and cash equivalents, beginning of year	<u>766,025</u>	<u>471,954</u>
Cash and cash equivalents, end of year	<u>\$ 547,465</u>	<u>\$ 766,025</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	<u>\$ 172,512</u>	<u>\$ 164,437</u>

See accompanying consolidated notes to financial statements.

GILEAD COMMUNITY SERVICES, INC. AND RAINBOW HOUSING CORPORATION

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of activities

For purposes of these consolidated financial statements, Gilead Community Services, Inc. (Gilead) and Rainbow Housing Corporation (Rainbow) are collectively referred to as the Organizations.

Gilead Community Services, Inc. (a nonprofit organization) is primarily funded by state grant programs under Section 17-226B of the Connecticut General Statutes, as administered by the Department of Mental Health and Addiction Services and the Department of Children & Families. Gilead assists individuals who have experienced a severe disruption in their psychiatric and behavioral function to live an optimum life in the community. By providing psychiatric assessment and treatment, residential services, case management and social and vocational rehabilitation services, such individuals learn daily living skills, develop satisfying personal relationships and take responsibility for managing their own life.

Rainbow Housing Corporation is a nonprofit organization, whose purpose is to identify, prepare and establish residential facilities for persons with mental illness and to hold these, and all other fixed assets, for the benefit of Gilead.

Basis of presentation

The accompanying financial statements have been prepared on the accrual method of accounting in accordance with generally accepted accounting principles as accepted in the United States (referred to as GAAP).

Income tax status

Gilead and Rainbow have received exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organizations have also been classified as entities that are not private foundations within the meaning of Section 509(a) and qualify for deductible contributions as provided in Section 170(b)(1)(a)(vi).

Management has reviewed the Organizations' reporting and believe they have not taken tax positions that are more likely than not to be determined to be incorrect by the Internal Revenue Service and therefore no adjustments or disclosures are required.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the certain reported amounts. Accordingly actual results could differ from those estimates.

Cash and cash equivalents

For the purpose of the statements of cash flows, the Organizations consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. At June 30, 2011, included in the cash balance is \$455,282 of housing assistance funding and \$50,976 of client funds.

Restricted cash

Restricted cash reflects cash that was utilized for improvements and equipment under a construction mortgage from Liberty Bank (see Note 6) for renovations of the 309 Main Street, Portland, Connecticut property.

Allowance for bad debts

The Organizations have specific contractual agreements to support their accounts receivable. The allowance for doubtful accounts is based on management's evaluation of specific accounts receivable at the end of the year. Receivables are written off to the allowance when it is probable that the Organizations will not collect the receivable.

Property and equipment

Gilead and Rainbow follow the practice of capitalizing all property and equipment with a cost exceeding \$5,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets with a range in lives from 5 to 30 years. There are no planned major maintenance activities.

If a grant is completed or terminated, assets purchased with grant funds must be returned to the funding agency.

Net assets

To ensure observance of limitations and restrictions placed on the use of resources available to the Organizations, the limitations and restrictions are maintained in the following net asset categories:

GILEAD COMMUNITY SERVICES, INC. AND RAINBOW HOUSING CORPORATION

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

Unrestricted

Unrestricted net assets represent resources that may be utilized for any purpose at the discretion of the Board of Directors.

Temporarily restricted

Temporarily restricted net assets represent costs of buildings and renovations that have been acquired with grant funds since 2001. The Organizations must utilize each property under the purpose for which the bond funds were given, under certain designated time periods. The temporarily restricted net assets are released through depreciation ratably over time.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized.

For the years ended June 30, 2011 and 2010, the Organizations had temporarily restricted net assets of \$453,946 and \$483,805, respectively.

Permanently restricted

Permanently restricted net assets represent contributions that are so restricted that neither the passage of time nor actions by the Organizations can fulfill the restriction.

For the years ended June 30, 2011 and 2010, there were no permanently restricted net assets.

Reclassifications

Certain line items in the fiscal year 2010 consolidated statement of activities have been adjusted in order to conform to the presentation of the fiscal year 2011 amounts.

NOTE 2

CONCENTRATIONS

Workforce

Gilead's workforce includes 47% union employees and the Organization is under negotiations to renew the contract currently.

State funding

The economic viability of Gilead is dependent on funding of their programs through the State of Connecticut's Department of Mental Health and Addiction Services and Department of Children & Families.

Amounts received or receivable under reimbursement agreements are subject to examination and retroactive adjustment by third-party payors. Any such adjustment could have a material effect on the financial position of Gilead.

Credit

The Organizations maintain their cash balances with various financial institutions. Such deposits at times have exceeded federal depository limits; however, the Organizations believe their cash deposits are not subject to significant credit risk.

NOTE 3

REVENUES

Grants and contracts

Grants and contracts are agreements in which the grantor or contractor requires expenditures for the performance of specified activities. Gilead records its grant or contract revenue equal to the expenditure of funds in accordance with grant specification. Grant and contract receipts in excess of allowable expenditures are recorded as deferred revenue if the grant extends beyond Gilead's fiscal year and as due to grantor if the grant was completed within the fiscal year.

Funds held on behalf of others

Gilead receives and distributes assets under certain intermediary arrangements with grantors and individuals. For grantors, Gilead accepts pass-through contributions and agrees to transfer those assets, the return on investments of those assets, or both, to eligible individuals approved by the granting agency. These assets are used to secure and retain housing. For individuals requiring assistance with money management, Gilead agrees to accept, hold and disburse funds on their behalf.

NOTE 4

INVESTMENTS

All investments are available for sale and transfer to support the Organizations' requirements (including Board designations) and are presented on the financial statements at fair market value. Generally accepted accounting principles have determined that short-term and long-term investments traded on the open market (individual stocks, ETF's and mutual funds) are determined by reference to quoted prices of identical instruments generated by active market transactions and are considered to be level one transactions.

GILEAD COMMUNITY SERVICES, INC. AND RAINBOW HOUSING CORPORATION

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

Investments, continued

Investments consist of the following at June 30:

	<u>2011</u>	<u>2010</u>
Pooled investments	<u>\$107,034</u>	<u>\$70,458</u>

The Organizations' investments are valued using the level one hierarchy under Accounting Standards Codification (ASC) 902 which is based upon unadjusted quoted prices for identical instruments traded in active markets. Cumulative unrealized gains on investments for the years ended June 30, 2011 and 2010 amounted to \$20,863 and \$3,897, respectively.

Expenses relating to investment revenues for the years ended June 30, 2011 and 2010, including investment advisory fees, amounted to \$1,676 and \$1,335, respectively.

NOTE 5

PROPERTY AND EQUIPMENT

Components of property and equipment are as follows:

	<u>2011</u>	<u>2010</u>
Land and improvements	\$1,282,658	\$1,147,058
Building and improvements	5,125,772	4,427,623
Equipment	303,711	306,359
Motor vehicles	502,995	502,995
Leasehold improvements	72,381	191,193
Construction in progress	-	51,315
	<u>7,287,517</u>	<u>6,626,543</u>
Less: accumulated depreciation	<u>2,453,962</u>	<u>2,182,140</u>
Total	<u>\$4,833,555</u>	<u>\$4,444,403</u>

The consolidated financial statements reflect depreciation expense of \$306,123 and \$296,642 as of June 30, 2011 and 2010, respectively.

Gilead has received grants from the State of Connecticut Department of Mental Health and Addiction Services to assist with the purchase of buildings or make renovations to existing structures. Under the terms of the agreement, the Organization must continue to assist individuals who have

experienced a severe disruption in their psychiatric and behavioral function on a continuous basis for ten years from the date the grant funds were expended. If the Organization were to discontinue usage of the property for the specified grant purpose, the grant would be repayable to the State of Connecticut, less 10% for each year which has elapsed. The State of Connecticut has liens on properties for the amounts of the grants which will terminate from May 21, 2011 through August 16, 2017.

None of the properties purchased or renovated by state bonding funds ceased to be used for their designated purposes for the years ended June 30, 2011 and 2010.

NOTE 6

DEBT OBLIGATIONS

Line of credit

	<u>2011</u>	<u>2010</u>
Gilead has a \$750,000 line of credit with Bank of America. The interest rate is the prime rate plus one half of one percent per annum. Balances due on the line are secured by a security interest on the personal property of Gilead. Balances due on the line are payable on demand. The line of credit agreement expires February 17, 2012.	<u>\$350,000</u>	<u>\$200,000</u>

The line of credit carries a debt service coverage ratio. The line also requires an out-of-debt period requiring a balance of more than zero dollars for a period of at least 30 consecutive days during the renewal period.

Interest paid on the line of credit for the years ended June 30, 2011 and 2010 was \$856 and \$5,534, respectively.

GILEAD COMMUNITY SERVICES, INC. AND RAINBOW HOUSING CORPORATION

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

Mortgages payable

Mortgages payable at June 30 consisted of the following:

	<u>2011</u>	<u>2010</u>
Mortgage payable to Bank of America, dated April 24, 2003. Monthly payments in the amount of \$963 include principal and interest at the rate of 6.82% on the unpaid balance. Final payment is due on December 24, 2022. The note is secured by property located at 222 Main Street Extension, Middletown, Connecticut.	\$ 93,345	\$ 98,222
Mortgage payable to Bank of America, dated July 21, 2004. Monthly payments in the amount of \$1,607 include principal and interest at the rate of 6.74% on the unpaid balance. Final payment is due on July 21, 2014. The note is secured by property located at 26 Silver Street, Middletown, Connecticut.	166,659	174,270
Mortgage payable to Wesleyan University, dated March 1, 1995. Monthly payments in the amount of \$922 include principal and interest at the rate of 7.7% on the unpaid balance. Final payment is due on March 1, 2025. The note is secured by property located at 451-453 High Street, Middletown, Connecticut.	93,368	97,319
Mortgage payable to Bank of America, dated September 27, 2005. Monthly payments in the amount of \$1,552 include principal and interest at the rate of 6.66% on the unpaid balance. Final payment is due on September 27, 2025. The note is secured by property located at 18 Spencer Drive, Middletown, Connecticut.	170,076	176,958
Mortgage payable to Bank of America, dated April 13, 2006. Monthly payments in the amount of \$2,393 include principal and interest at the rate of 7.49% on the unpaid balance. Final payment is due on April 13, 2026. The note is secured by property located at 461 Main Street, Cromwell, Connecticut.	255,287	264,301
Mortgage payable to Bank of America, dated February 15, 2007. Monthly payments in the amount of \$2,965 include principal and interest at the rate of 7.43% on the unpaid balance. Final payment is due on February 15, 2027. The note is secured by property located at 7 Anchorage Lane, Old Saybrook, Connecticut.	330,587	340,837
Mortgage payable to Bank of America, dated March 14, 2008. Monthly payments in the amount of \$3,979 include principal and interest at the rate of 7.08% on the unpaid balance. Final payment is due on March 14, 2028. The note is secured by property located at 230 Main Street Extension, Middletown, Connecticut.	467,631	481,741
Mortgage payable to Bank of America, dated July 24, 2008. Monthly payments in the amount of \$1,204 include principal and interest at the rate of 7.38% on the unpaid balance. Final payment is due on July 24, 2018. The note is secured by property located at 31 DeJohn Drive, Middletown, Connecticut.	114,672	120,311
Mortgage payable to Bank of America, dated July 24, 2008. Monthly payments in the amount of \$3,228 include principal and interest at the rate of 7.14% on the unpaid balance. Final payment is due on July 24, 2018. The note is secured by properties located at 89 High Street, Clinton, Connecticut and 436-438 Washington Street, Middletown, Connecticut.	217,927	240,008

GILEAD COMMUNITY SERVICES, INC. AND RAINBOW HOUSING CORPORATION

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

Mortgages payable, continued

	<u>2011</u>	<u>2010</u>
Mortgage payable to Bank of America, dated December 30, 2008. Monthly payments in the amount of \$1,143 include principal and interest at the rate of 4.75% on the unpaid balance. Final payment is due on December 30, 2015. The note is secured by property located at 25 Silver Street, Middletown, Connecticut.	\$ 128,559	\$ 135,887
Installment note payable to Peterson Oil, dated May 27, 2009. Monthly payments in the amount of \$797 include principal and interest at the rate of 0.00% on the unpaid balance. Final payment is due on January 1, 2011.	-	5,581
Mortgage payable to Bank of America, dated April 30, 2010. Monthly payments in the amount of \$1,051 include principal and interest at the rate of 6.5% on the unpaid balance. Final payment is due on May 1, 2030. The note is secured by property located at 169-171-171½ Liberty Street, Middletown, Connecticut.	136,222	139,732
Construction mortgage payable to Liberty Bank, dated June 10, 2010. Monthly payments in the amount of \$1,580 commencing August 1, 2010 include principal and interest at the rate of 6.5% on the unpaid balance. On July 1, 2015 and every 5 years thereafter, the rate of interest is adjusted to an index rate from FHLB Bank of Boston plus 2.5%. Final payment is due on July 1, 2035. The note is secured by property located at 309 Main Street, Portland, Connecticut.	228,513	232,000
Mortgage payable to Bank of America, dated February 11, 2011. Monthly payments in the amount of \$877 include principal and interest at the rate of 6.33% on the unpaid balance. Final payment is due on February 11, 2016. The note is secured by property located at 3 West Silver Street, Middletown, Connecticut	42,409	-
Mortgage payable to Liberty Bank, dated May 3, 2011. Monthly payments in the amount of \$1,527 include principal and interest at the rate of 5.78% on the unpaid balance. Final payment is due on June 1, 2031. The note is secured by property located at 3 Quarry Lane, Middletown, Connecticut.	<u>216,000</u>	<u>-</u>
Total mortgages payable	2,661,255	2,507,167
Less: current portion	<u>120,241</u>	<u>104,759</u>
	<u>\$2,541,014</u>	<u>\$2,402,408</u>

Total interest paid for the years ended June 30, 2011 and 2010 was \$171,656 and \$158,903, respectively.

Maturities of mortgages payable are as follows:

<u>Year ended June 30:</u>	<u>Amount</u>
2012	\$ 120,241
2013	129,918
2014	139,143
2015	278,302
2016	230,650
Thereafter	<u>1,763,001</u>
	<u>\$2,661,255</u>

GILEAD COMMUNITY SERVICES, INC. AND RAINBOW HOUSING CORPORATION

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

NOTE 7

LEASE OBLIGATIONS

Vehicles

Gilead leases vehicles from Rainbow with monthly payments ranging from \$400 to \$450. These leases also require the payment of certain annual operating expenses.

Gilead has paid Rainbow rent for the use of vehicles for the years ended June 30, 2011 and 2010 of \$102,732 and \$99,582, respectively. Intercompany charges between Gilead and Rainbow for vehicle lease expense have been eliminated in the consolidated financial statements.

Equipment rental

Gilead leased computers from Rainbow for the years ended June 30, 2011 and 2010 of \$20,000 each year. Intercompany charges between Gilead and Rainbow for computer lease expense has been eliminated in the consolidated financial statements.

Gilead leases office equipment. The total lease expense for the years ended June 30, 2011 and 2010 was \$35,358 and \$36,523, respectively.

The following is a schedule of future minimum lease payments required under the leases for the following fiscal years:

<u>Year ended June 30:</u>	<u>Amount</u>
2012	\$9,521
2013	8,705
2014	2,176

Leased facilities

Gilead conducts a significant part of its operations in leased facilities. During fiscal years 2011 and 2010, there were three leases with outside parties, two of which expired and were purchased outright by the Organizations. The remaining outside lease expired in March 2011. Gilead also leases facilities from Rainbow which are month-to-month leases that are expected to be renewed.

Gilead paid rent for residential housing for its clients, programming and administrative offices. Intercompany charges between Gilead and Rainbow for facility rent expense noted below for the years ended June 30, 2011 and 2010 has been eliminated in the consolidated financial statements. Total rent expense for the years ended June 30, 2011 and 2010, including rent paid to a related party, Rainbow, is as follows:

	<u>2011</u>		
	<u>Others</u>	<u>Rainbow Housing Corporation</u>	<u>Total</u>
Residential services:			
Gilead I	\$ -	\$ 14,324	\$ 14,324
Gilead II	-	12,927	12,927
SCAP	-	30,251	30,251
Baldwin Home	-	21,754	21,754
Iris Home	-	32,249	32,249
Anchorage Home	-	39,704	39,704
Liberty Home	-	13,969	13,969
Specialty care	-	6,016	6,016
A.C.T. Program	-	15,227	15,227
Social Center	-	23,816	23,816
Quarry Road CC 006	37,200	-	37,200
Gateway - Chester	<u>1</u>	<u>7,511</u>	<u>7,512</u>
	<u>\$37,201</u>	<u>\$217,748</u>	<u>\$254,949</u>

	<u>2010</u>		
	<u>Others</u>	<u>Rainbow Housing Corporation</u>	<u>Total</u>
Residential services:			
Gilead I	\$ -	\$ 13,485	\$ 13,485
Gilead II	-	14,083	14,083
GAP	23,500	-	23,500
Liberty Home	-	1,571	1,571
SCAP	-	30,942	30,942
Baldwin Home	-	18,813	18,813
Iris Home	-	32,901	32,901
Anchorage Home	-	39,868	39,868
A.C.T. Program	-	10,904	10,904
Social Center	-	24,252	24,252
Essex	500	-	500
Quarry Road	37,200	-	37,200
OPC - Middletown	-	4,673	4,673
Gateway - Chester	<u>1</u>	<u>6,112</u>	<u>6,113</u>
	<u>\$61,201</u>	<u>\$197,604</u>	<u>\$258,805</u>

NOTE 8

RELATED PARTY TRANSACTIONS

For the years ended June 30, 2011 and 2010, the Organizations paid \$68,794 and \$58,570, respectively for heating oil, services and equipment to Peterson Oil of which one of the Board of Directors is also the owner of the company. In fiscal year 2009, Rainbow purchased \$35,935 of

GILEAD COMMUNITY SERVICES, INC. AND RAINBOW HOUSING CORPORATION

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

Related party transactions, continued

equipment of which \$14,350 was financed. During fiscal year 2011, payments of \$5,581 were made on the loan and the balance due at June 30, 2011 is \$0.

The Organizations paid \$21,743 and \$22,409, respectively for the years ended June 30, 2011 and 2010 for supplies to Suburban Stationers of which one of the Board of Directors is the owner of the company. For the year ended June 30, 2011, the Organizations paid \$6,475 for temporary services to A.R. Mazzotta Employment of which one of the Board of Directors is also the owner of the company.

NOTE 9

DEFINED CONTRIBUTION PLAN

Gilead maintains two plans for employees. A 403(b) plan for union employees and a 401(k) plan for non-union employees. Employees who participate in the 401(k) plan are eligible for an employer safe harbor matching contribution. Gilead's contribution to the 403(b) and 401(k) plans totaled \$128,899 and \$125,819 for the years ended June 30, 2011 and 2010, respectively.

NOTE 10

FUND-RAISING

Gilead conducts various fund-raising activities during the year including special events and appeals for donations. The total costs of fund-raising activities for the years ended June 30, 2011 and 2010 were \$50,193 and \$36,684, respectively.

NOTE 11

SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 27, 2011, the date on which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

GILEAD COMMUNITY SERVICES, INC. AND RAINBOW HOUSING CORPORATION

Schedule of Expenditures of State Financial Assistance

For the year ended June 30, 2011

State Grantor Pass-through Grantor <u>Program Title</u>	State CORE - CT <u>Number</u>	<u>Amount</u>
<u>Department of Mental Health and Addiction Services:</u>		
Psychiatric and Mental Health Services	11000-MHA53000-16053	\$2,408,911
Managed Service System	11000-MHA53000-12157	1,274,414
Young Adult Services	11000-MHA53000-12250	201,651
Discharge and Diversion Services	11000-MHA53000-12330	937,764
Jail Diversion	11000-MHA53000-12278	10,500
Housing Supports and Services	11000-MHA53000-12035	<u>300,000</u>
		5,133,240
<u>Department of Children & Families:</u>		
Board and Care for Children - Residential	11000-DCF91110-16138	2,848,245
Bond Funds	12048-DCF91110-42864	<u>8,795</u>
Total State Financial Assistance		<u>\$7,990,280</u>

See notes to schedule.

GILEAD COMMUNITY SERVICES, INC. AND RAINBOW HOUSING CORPORATION

Notes to the Schedule of Expenditures of State Financial Assistance

For the year ended June 30, 2011

Various departments and agencies of the State of Connecticut have provided financial assistance to Gilead Community Services, Inc. and Rainbow Housing Corporation through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. These financial assistance programs fund several programs including day and residential programs.

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Gilead Community Services, Inc. and Rainbow Housing Corporation conform to generally accepted accounting principles as applicable to not-for-profit agencies. The following is a summary of the more significant policies relating to the aforementioned grant programs.

Basis of accounting

The financial statements contained in Gilead Community Services, Inc.'s and Rainbow Housing Corporation's annual audit report are prepared on the accrual basis of accounting. The following is a summary of such basis:

- Revenues are recognized when earned.
- Expenditures are recorded when incurred.

The Schedule of Expenditures of State Financial Assistance, contained in this report, is prepared based on regulations established by the State of Connecticut Office of Policy and Management. In accordance with these regulations (Section 4-236-22), certain grants are not dependent on expenditure activity, and accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts are reflected in the expenditures column of the Schedule of Expenditures of State Financial Assistance.

SUPPLEMENTARY REPORTS



GUILMARTIN • DIPIRO • SOKOLOWSKI LLC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S 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*

The Board of Directors
Gilead Community Services, Inc. and Rainbow Housing Corporation:

We have audited the consolidated financial statements of Gilead Community Services, Inc. and Rainbow Housing Corporation (the Company) as of and for the year ended June 30, 2011 and have issued our report thereon dated October 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company'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 combination of deficiencies in internal control, such that there is a possibility that a material misstatement of the entities' 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 the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, the Office of Policy and Management, 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.

Guilmartin, DiPiro + Sokolowski LLC

Middletown, Connecticut
October 27, 2011



GUILMARTIN • DIPIRO • SOKOLOWSKI LLC

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE STATE SINGLE AUDIT ACT**

The Board of Directors
Gilead Community Services, Inc. and Rainbow Housing Corporation:

Compliance

We have audited Gilead Community Services, Inc.'s and Rainbow Housing Corporation's (the Company) compliance with the types of compliance requirements described in the *Office of Policy and Management Compliance Supplement* that could have a direct and material effect on each of the Company's major state programs for the year ended June 30, 2011. The major state programs 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 their major state programs is the responsibility of the Company's management. Our responsibility is to express an opinion on the Company'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; and the State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act 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 state program occurred. An audit includes examining, on a test basis, evidence about the Company'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 the Company's compliance with those requirements.

In our opinion, the Company complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of their major state programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to state programs. In planning and performing our audit, we considered the Company's internal control over compliance with the requirements that could have a direct and material effect on a major state program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the State Single Audit Act, 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 the Company's internal control over compliance.

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 state program 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 state program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the audit committee, the Board of Directors, others within the entity, the Office of Policy and Management, 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.

Gulmarin, D.P. + Sokolowski LLC

Middletown, Connecticut
October 27, 2011

GILEAD COMMUNITY SERVICES, INC. AND RAINBOW HOUSING CORPORATION

Schedule of Findings and Questioned Costs

For the year ended June 30, 2011

1. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes x No
- Significant deficiency(ies) identified? _____ Yes x None reported

Noncompliance material to financial statements noted? _____ Yes x No

State Financial Assistance

Internal control over major programs:

- Material weakness(es) identified? _____ Yes x No
- Significant deficiency(ies) identified? _____ Yes x None reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 4-236-24 of the Regulations to the State Single Audit Act? _____ Yes x No

The following schedule reflects the major programs included in the audit:

<u>State Grantor and Program</u>	<u>State CORE - CT Number</u>	<u>Expenditures</u>
<u>Department of Mental Health and Addiction Services:</u>		
Psychiatric and Mental Health Services	11000-MHA53000-16053	\$2,408,911
Managed Service System	11000-MHA53000-12157	1,274,414
Young Adult Services	11000-MHA53000-12250	201,651
Discharge and Diversion Services	11000-MHA53000-12330	937,764
Housing Supports and Services	11000-MHA53000-12035	300,000
<u>Department of Children & Families:</u>		
Board and Care for Children - Residential	11000-DCF91110-16138	2,848,245

Dollar threshold used to distinguish between type A and type B programs: \$200,000

2. FINANCIAL STATEMENT FINDINGS

- We issued reports, dated October 27, 2011, 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*.
- Our report on compliance indicated no reportable instances of noncompliance.
- Our report on internal control over financial reporting indicated no significant deficiencies.

3. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

No findings or questioned costs are reported relating to State Financial Assistance Programs.