

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

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

June 30, 2014 and 2013

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:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Gilead Community Services, Inc. and Rainbow Housing Corporation (nonprofit organizations), which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gilead Community Services, Inc. and Rainbow Housing Corporation as of June 30, 2014 and 2013, and the consolidated changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of state financial assistance as required by the Office of Policy and Management Compliance Supplement to the State Single Audit Act is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Gilead Community Services, Inc.'s and Rainbow Housing Corporation's internal control over financial reporting and compliance.

Guilmetti, DiPiro & Sokolowski LLC

Middletown, Connecticut
November 21, 2014

FINANCIAL STATEMENTS

GILEAD COMMUNITY SERVICES, INC. AND RAINBOW HOUSING CORPORATION

Consolidated Statements of Financial Position

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
	<u>Assets</u>	
Current assets:		
Cash and cash equivalents	\$ 569,015	\$ 644,615
Restricted cash	88,644	170,124
Investments	257,462	158,647
Accounts and grants receivable	189,649	208,104
Receivables from tenants in loan program	72,461	90,361
Prepaid expenses	190,512	82,641
Other assets	56,463	62,032
Total current assets	<u>1,424,206</u>	<u>1,416,524</u>
Property and equipment, net	<u>5,155,160</u>	4,985,454
Total assets	<u>\$ 6,579,366</u>	<u>\$ 6,401,978</u>
	<u>Liabilities and Net Assets</u>	
Current liabilities:		
Current portion of long-term debt	\$ 97,402	\$ 93,067
Accounts payable	302,560	205,902
Accrued expenses	592,452	488,845
Deferred income	44,775	527,777
Funds due back to funder	465,475	-
Funds held on behalf of others	275,620	390,622
Total current liabilities	<u>1,778,284</u>	<u>1,706,213</u>
Long-term debt, net of current portion	<u>2,724,668</u>	2,821,993
Total liabilities	<u>4,502,952</u>	4,528,206
Net assets:		
Unrestricted	1,446,097	1,380,981
Temporarily restricted	630,317	492,791
Total net assets	<u>2,076,414</u>	<u>1,873,772</u>
Total liabilities and net assets	<u>\$ 6,579,366</u>	<u>\$ 6,401,978</u>

See accompanying notes to consolidated financial statements.

GILEAD COMMUNITY SERVICES, INC. AND RAINBOW HOUSING CORPORATION

Consolidated Statements of Activities and Changes in Net Assets

For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Public support and revenue:		
State grants	\$ 9,500,099	\$ 8,883,212
Fees earned:		
Room and board	507,729	473,830
Fee for service - Clinics and Wise	1,447,779	1,747,556
Medicaid rehab options	823,292	880,256
Rental income	56,784	53,405
Contributions	254,520	235,917
Gain (loss) on sale of property, plant and equipment - net	900	(2,827)
Other	57,053	115,819
Interest and investment income	26,320	4,990
Unrealized and realized gain on investments	-	13,643
Release from restriction - depreciation	54,004	37,613
Total public support and revenue	<u>12,728,480</u>	<u>12,443,414</u>
Expenses:		
Program services:		
Residential services:		
Gilead I	615,930	568,480
Gilead II	621,780	605,696
Gilead Apartment Program	836,209	879,405
Liberty Home	542,836	516,856
Women's Program	526,640	479,861
Anchorage Home	870,740	772,249
Baldwin Home	61,350	831,845
Iris Home	-	103,498
SCAP	893,223	862,487
Valor Home	572,760	382,334
Magnolia Home	1,032,750	323,919
Juniper Home	205,530	-
A.C.T. Program	1,179,943	1,087,624
Social Center	479,181	494,220
Clinics and Wise program - Middletown	540,529	427,404
Gateway community treatment - Chester	590,850	535,992
Specialty Care	916,005	1,239,440
Occupancy	313,581	360,832
Total program services	<u>10,799,837</u>	<u>10,472,142</u>
Administration	1,863,527	1,680,121
Total expenses	<u>12,663,364</u>	<u>12,152,263</u>
Increase in net assets	65,116	291,151
Unrestricted net assets, beginning of year	<u>1,380,981</u>	<u>1,089,830</u>
Unrestricted net assets, end of year	<u>\$ 1,446,097</u>	<u>\$ 1,380,981</u>
Changes in temporarily restricted net assets:		
State funding for building renovations and equipment	\$ 191,530	\$ 81,590
Release from restriction - depreciation	<u>(54,004)</u>	<u>(37,613)</u>
Increase in temporarily restricted net assets	<u>137,526</u>	<u>43,977</u>
Temporarily restricted net assets, beginning of year	<u>492,791</u>	<u>448,814</u>
Temporarily restricted net assets, end of year	<u>\$ 630,317</u>	<u>\$ 492,791</u>
Total change in net assets	<u>\$ 202,642</u>	<u>\$ 335,128</u>

See accompanying notes to consolidated financial statements.

GILEAD COMMUNITY SERVICES, INC. AND RAINBOW HOUSING CORPORATION

Consolidated Statements of Cash Flows

For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ <u>202,642</u>	\$ <u>335,128</u>
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	361,404	309,354
Gross proceeds on the sale of assets	900	1,000
(Gain) loss on disposal of assets	(900)	2,827
Unrealized (gain) on investments	-	(13,643)
Decrease (increase) in accounts receivable	18,456	(98,023)
Decrease in tenants receivable	17,900	18,336
(Increase) decrease in prepaid expenses	(107,871)	58,414
Decrease (increase) in other assets	5,569	(48,841)
Increase in accounts payable	96,658	130,379
Increase in accrued liabilities	103,607	13,691
(Decrease) increase in deferred income	(483,002)	479,858
Increase funds due back to funder	465,475	-
(Decrease) in funds held for others	<u>(115,002)</u>	<u>(257,366)</u>
Total adjustments	<u>363,194</u>	<u>595,986</u>
Net cash provided by operating activities	<u>565,836</u>	<u>931,114</u>
Cash flows from investing activities:		
Decrease (increase) in restricted cash	81,480	(170,124)
Purchase of property and equipment, net	(531,110)	(623,759)
(Increase) in investments	<u>(98,815)</u>	<u>(27,538)</u>
Net cash (used in) investing activities	<u>(548,445)</u>	<u>(821,421)</u>
Cash flows from financing activities:		
Proceeds from long-term debt	-	2,368,395
Proceeds on line of credit	-	761,000
Payments on line of credit	-	(961,000)
Principal payments on long-term debt	<u>(92,991)</u>	<u>(1,988,834)</u>
Net cash (used in) provided by financing activities	<u>(92,991)</u>	<u>179,561</u>
Net (decrease) increase in cash and cash equivalents	<u>(75,600)</u>	289,254
Cash and cash equivalents, beginning of year	<u>644,615</u>	<u>355,361</u>
Cash and cash equivalents, end of year	\$ <u>569,015</u>	\$ <u>644,615</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ <u>132,688</u>	\$ <u>235,074</u>

See accompanying notes to consolidated financial statements.

GILEAD COMMUNITY SERVICES, INC. AND RAINBOW HOUSING CORPORATION

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

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 daily functioning related to significant psychiatric and behavioral challenges. These challenges impact their ability to attain an optimum level of independence in the community. By providing psychiatric assessment and treatment, residential services, case management and social 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.

The Organizations' informational returns for fiscal years ended after June 30, 2010 remain open to inspection by the Internal Revenue Service.

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, 2014 and 2013, included in the cash balance is \$40,991 and \$144,367 of housing assistance funding and \$115,532 and \$114,669 of client funds, respectively.

Restricted cash

In April 2013 the Organizations received financing for capital improvements to their properties. These funds are restricted and will be utilized exclusively for improvements on the properties which are under the debt obligations with Liberty Bank.

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.

GILEAD COMMUNITY SERVICES, INC. AND RAINBOW HOUSING CORPORATION

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

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:

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, 2014 and 2013, the Organizations had temporarily restricted net assets of \$630,317 and \$492,791, 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, 2014 and 2013, there were no permanently restricted net assets.

Reclassifications

Certain line items in the fiscal year 2013 consolidated statement of activities and changes in net assets have been adjusted in order to conform to the presentation of the fiscal year 2014 amounts.

Evaluation of subsequent events

Management has evaluated subsequent events through November 21, 2014, the date on which the financial statements were available to be issued.

NOTE 2

CONCENTRATIONS

Workforce

Gilead's workforce includes 53% union employees and the Organization is under contract until April 2015.

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.

GILEAD COMMUNITY SERVICES, INC. AND RAINBOW HOUSING CORPORATION

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Funds due back to funder

Gilead had funds received for a fee for service state program which has ended and the funds were not fully expended. Gilead is required to return these unexpended funds back to the State.

NOTE 4

FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements*, governs the application of accounting principles generally accepted in the United States of America that require fair value measurements of Gilead's and Rainbow's assets and liabilities. Fair value as defined in ASC 820 is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 established a three tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the value of the financial instruments as noted below:

- *Level 1* - quoted prices in active markets for identical inputs.
- *Level 2* - other significant observable inputs.
- *Level 3* - significant unobservable inputs (including Gilead's and Rainbow's own assumptions in determining fair value).

Gilead's and Rainbow's additional financial instruments consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities. These instruments approximate their fair values as of June 30, 2014 and 2013 due to their short-term nature.

NOTE 5

INVESTMENTS

All investments are held in a community foundation. The community foundation maintains a diversified portfolio (investing in individual stocks, ETF's, mutual funds, corporate bonds, government obligations and short-term treasury). These funds are presented in the consolidated financial statements at fair market value. Generally accepted accounting principles have determined that short-term and long-term investments traded on the open market (i.e. 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. Inputs, other than the quoted prices in active markets that are observable either directly or indirectly, such as quoted prices for similar assets or liabilities (i.e. corporate

bonds, government obligations and short-term treasuries), quoted prices in markets that are not active, or other inputs that are observable and are considered to be level two transactions.

Investments consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Pooled investments	<u>\$257,462</u>	<u>\$158,647</u>

The Organizations' investments are valued using the level one and level two hierarchies. Cumulative unrealized gains on investments for the years ended June 30, 2014 and 2013 amounted to \$20,896.

Expenses relating to investment revenues for the years ended June 30, 2014 and 2013, including investment advisory fees, amounted to \$3,617 and \$2,712, respectively.

NOTE 6

PROPERTY AND EQUIPMENT

Components of property and equipment are as follows:

	<u>2014</u>	<u>2013</u>
Construction in progress	\$ -	\$ 85,728
Land and improvements	1,303,878	1,292,158
Building and improvements	5,984,532	5,672,650
Equipment	473,385	301,101
Motor vehicles	527,326	467,551
Leasehold improvements	<u>89,181</u>	<u>72,381</u>
	8,378,302	7,891,569
Less: accumulated depreciation	<u>3,223,142</u>	<u>2,906,115</u>
Total	<u>\$5,155,160</u>	<u>\$4,985,454</u>

The consolidated financial statements reflect depreciation expense of \$361,404 and \$309,354 as of June 30, 2014 and 2013, 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 terminate from February 2015 through June 2024.

GILEAD COMMUNITY SERVICES, INC. AND RAINBOW HOUSING CORPORATION

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Property and equipment, continued

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, 2014 and 2013.

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, 2014 and 2013 of \$71,711 and \$107,532, 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, 2014 of \$25,400 and June 30, 2013 of \$20,000. 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, 2014 and 2013 was \$19,537 and \$13,414, 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>
2015	\$21,975
2016	21,975
2017	21,975
2018	8,283
2019	-

Leased facilities

Gilead conducts a significant part of its operations in leased facilities. The one remaining lease expires in September 2019. 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, 2014 and 2013 has been eliminated in the consolidated financial statements. Total rent expense paid to a related party, Rainbow, for the years ended June 30, 2014 and 2013 is as follows:

	<u>2014</u>
Residential services:	
Gilead I	\$ 10,555
Gilead II	8,708
SCAP	22,079
Baldwin Home	3,805
Anchorage Home	29,528
Liberty Home	14,632
Valor Home	23,216
Magnolia Home	18,836
Women's Program	4,558
Gilead Apartment Program	3,578
Juniper	18,973
A.C.T. Program	46,700
Social Center	22,450
Gateway - Chester	8,057
Administration	<u>11,564</u>
	<u>\$247,239</u>

	<u>2013</u>
Residential services:	
Gilead I	\$ 13,477
Gilead II	9,537
SCAP	24,681
Baldwin Home	46,151
Iris Home	2,271
Anchorage Home	33,938
Liberty Home	13,497
Valor Home	24,714
Magnolia Home	3,108
Women's Program	4,558
Gilead Apartment Program	3,286
Specialty Care	16,402
A.C.T. Program	16,738
Social Center	15,850
Gateway - Chester	8,757
Administration	<u>5,068</u>
	<u>\$242,033</u>

GILEAD COMMUNITY SERVICES, INC. AND RAINBOW HOUSING CORPORATION

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

NOTE 8

DEBT OBLIGATIONS

Line of credit

As of June 30, 2014 and 2013 the Organizations had an unused line of credit with Liberty Bank.

The Bank of America line of credit was closed on April 16, 2013.

The line of credit carries a debt service coverage ratio. The line also requires an out-of-debt period requiring that the line of credit be paid in full for a period of at least 60 consecutive days during the renewal period.

Interest paid on the line of credit for the years ended June 30, 2014 and 2013 was \$0 and \$2,177, respectively.

Mortgages payable

Mortgages payable at June 30 consisted of the following:

	<u>2014</u>	<u>2013</u>
Mortgage payable to Liberty Bank, dated April 16, 2013. Monthly payments in the amount of \$1,448 include principal and interest at the rate of 4.13% on the unpaid balance. Final payment is due on May 1, 2033. The note is secured by property located at 222 Main Street Extension, Middletown, Connecticut.	\$226,711	\$234,415
Mortgage payable to Liberty Bank, dated April 16, 2013. Monthly payments in the amount of \$949 include principal and interest at the rate of 4.13% on the unpaid balance. Final payment is due on May 1, 2033. The note is secured by property located at 26 Silver Street, Middletown, Connecticut.	148,568	153,617
Mortgage payable to Liberty Bank, dated April 16, 2013. Monthly payments in the amount of \$536 include principal and interest at the rate of 4.13% on the unpaid balance. Final payment is due on May 1, 2033. The note is secured by property located at 451-453 High Street, Middletown, Connecticut.	83,932	86,783
Mortgage payable to Liberty Bank, dated April 16, 2013. Monthly payments in the amount of \$936 include principal and interest at the rate of 4.13% on the unpaid balance. Final payment is due on May 1, 2033. The note is secured by property located at 18 Spencer Drive, Middletown, Connecticut.	146,639	151,622
Mortgage payable to Liberty Bank, dated April 16, 2013. Monthly payments in the amount of \$1,355 include principal and interest at the rate of 4.13% on the unpaid balance. Final payment is due on May 1, 2033. The note is secured by property located at 461 Main Street, Cromwell, Connecticut.	212,240	219,452
Mortgage payable to Liberty Bank, dated April 16, 2013. Monthly payments in the amount of \$1,713 include principal and interest at the rate of 4.13% on the unpaid balance. Final payment is due on May 1, 2033. The note is secured by property located at 7 Anchorage Lane, Old Saybrook, Connecticut.	268,195	277,244
Mortgage payable to Liberty Bank, dated April 16, 2013. Monthly payments in the amount of \$2,729 include principal and interest at the rate of 4.13% on the unpaid balance. Final payment is due on May 1, 2033. The note is secured by property located at 230 Main Street Extension, Middletown, Connecticut.	427,376	441,897

GILEAD COMMUNITY SERVICES, INC. AND RAINBOW HOUSING CORPORATION

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Mortgages payable, continued

	<u>2014</u>	<u>2013</u>
Mortgage payable to Liberty Bank, dated April 16, 2013. Monthly payments in the amount of \$1,879 include principal and interest at the rate of 4.13% on the unpaid balance. Final payment is due on May 1, 2033. The note is secured by property located at 31 DeJohn Drive, Middletown, Connecticut.	\$ 294,242	\$ 304,241
Mortgage payable to Liberty Bank, dated April 16, 2013. Monthly payments in the amount of \$665 include principal and interest at the rate of 4.13% on the unpaid balance. Final payment is due on May 1, 2033. The note is secured by property located at 89 High Street, Clinton, Connecticut.	104,191	107,731
Mortgage payable to Liberty Bank, dated April 16, 2013. Monthly payments in the amount of \$444 include principal and interest at the rate of 4.13% on the unpaid balance. Final payment is due on May 1, 2033. The note is secured by property located at 436 Washington Street, Middletown, Connecticut.	69,460	71,821
Mortgage payable to Liberty Bank, dated April 16, 2013. Monthly payments in the amount of \$721 include principal and interest at the rate of 4.13% on the unpaid balance. Final payment is due on May 1, 2033. The note is secured by property located at 25 Silver Street, Middletown, Connecticut.	112,873	116,709
Mortgage payable to Liberty Bank, 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.	124,223	128,497
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.	215,652	220,237
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 5.75% 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.	197,297	203,907
Mortgage payable to Liberty Bank, dated November 2, 2012. Monthly payments in the amount of \$1,272 include principal and interest at the rate of 4.50% on the unpaid balance. Final payment is due on December 1, 2032. The note is secured by property located at 681 Saybrook Road, Middletown, Connecticut.	<u>190,471</u>	<u>196,887</u>
Total mortgages payable	2,822,070	2,915,060
Less: current portion	<u>97,402</u>	<u>93,067</u>
	<u>\$2,724,668</u>	<u>\$2,821,993</u>

Total interest paid for the years ended June 30, 2014 and 2013 was \$132,688 and \$235,074, respectively.

GILEAD COMMUNITY SERVICES, INC. AND RAINBOW HOUSING CORPORATION

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Mortgages payable, continued

Maturities of mortgages payable are as follows:

<u>Year ended June 30:</u>	<u>Amount</u>
2015	\$ 97,402
2016	101,198
2017	107,097
2018	111,681
2019	116,913
Thereafter	<u>2,287,779</u>
	<u>\$2,822,070</u>

NOTE 9

RELATED PARTY TRANSACTIONS

For the years ended June 30, 2014 and 2013, the Organizations paid \$74,331 and \$67,573, 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.

The Organizations paid \$26,929 and \$ 27,499, respectively for the years ended June 30, 2014 and 2013 for supplies to Suburban Stationers of which one of the Board of Directors is the owner of the company.

A member of the Board of Directors of Gilead provides his services to the Organizations' pension plans as a special assistant to the plan administrators of the plan in his professional capacity as a retirement plan specialist with Northstar Wealth Partners, a financial services firm. The firm

is paid indirectly through a shared fee arrangement with a broker dealer who receives compensation from the plan's mutual funds internal fund costs (12b-1 fees). These transactions are also related party transactions. The board member's compensation approximates less than one half of one percent of the invested assets of each of the Organization's pension plans.

NOTE 10

DEFINED CONTRIBUTION PLAN

Gilead maintained two plans for employees. A 403(b) plan for union employees and a 401(k) plan for non-union employees. As of July 31, 2013, Gilead terminated its 403(b) plan for union employees. These employees are eligible for the Organization's 401(k) plan. Non-union employees who participate in the 401(k) plan are eligible for an employer safe harbor matching contribution. Union employees who participate in the 401(k) plan are eligible for a non-elective employer contribution. Gilead's contribution to the 403(b) and 401(k) plans totaled \$185,863 and \$184,623 for the years ended June 30, 2014 and 2013, respectively.

NOTE 11

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, 2014 and 2013 were \$62,063 and \$43,746, respectively.

SUPPLEMENTARY INFORMATION

GILEAD COMMUNITY SERVICES, INC. AND RAINBOW HOUSING CORPORATION

Schedule of Expenditures of State Financial Assistance

For the year ended June 30, 2014

<u>State Grantor</u> <u>Pass-through Grantor</u> <u>Program Title</u>	<u>State Grant Program</u> <u>CORE - CT Number</u>	<u>Amount</u>
<u>Department of Mental Health and Addiction Services:</u>		
Psychiatric and Mental Health Services	11000-MHA53000-16053	\$2,077,915
Managed Service System	11000-MHA53000-12157	2,733,729
Young Adult Services	11000-MHA53000-12250	1,609,617
Discharge and Diversion Services	11000-MHA53000-12330	1,926,298
Jail Diversion	11000-MHA53000-12278	10,605
Housing Supports and Services	11000-MHA53000-12035	100,000
<u>Department of Children & Families:</u>		
Board and Care for Children - Residential	11000-DCF91110-16138	<u>1,041,935</u>
Total State Financial Assistance		<u>\$9,500,099</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, 2014

The accompanying schedule of expenditures of state financial assistance includes state grant activity of Gilead Community Services, Inc. under programs of the State of Connecticut for the fiscal year ended June 30, 2014. Various departments and agencies of the State of Connecticut have provided financial assistance 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. conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations.

The information in the schedule of expenditures of state financial assistance is presented based upon regulations established by the State of Connecticut, Office of Policy and Management.

Basis of accounting

The expenditures reported on the schedule of expenditures of state financial assistance are reported on the accrual basis of accounting. In accordance with Section 4-236-22 of the Regulations to the State Single Audit Act, 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, in accordance with the 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, the consolidated financial statements of Gilead Community Services, Inc. and Rainbow Housing Corporation (nonprofit organizations), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 21, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Gilead Community Services, Inc.'s and Rainbow Housing Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gilead Community Services, Inc.'s and Rainbow Housing Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organizations' internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gilead Community Services, Inc.'s and Rainbow Housing Corporation's consolidated financial statements are free from 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organizations' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organizations' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Guilmetti, DiPiro & Sokolowski LLC

Middletown, Connecticut
November 21, 2014



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:

Report on Compliance for Each Major State Program

We have audited Gilead Community Services, Inc.'s and Rainbow Housing Corporation's compliance with the types of compliance requirements described in the Office of Policy and Management's *Compliance Supplement* that could have a direct and material effect on each of Gilead Community Services, Inc.'s and Rainbow Housing Corporation's major state programs for the year ended June 30, 2014. Gilead Community Services, Inc.'s and Rainbow Housing Corporation's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Gilead Community Services, Inc.'s and Rainbow Housing Corporation's major state programs based on our audit of the types of compliance requirements referred to above. 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 Gilead Community Services, Inc.'s and Rainbow Housing Corporation'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 on compliance for each major state program. However, our audit does not provide a legal determination of Gilead Community Services, Inc.'s and Rainbow Housing Corporation's compliance.

Opinion on Each Major State Program

In our opinion, Gilead Community Services, Inc. and Rainbow Housing Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Gilead Community Services, Inc. and Rainbow Housing Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Gilead Community Services, Inc.'s and Rainbow Housing Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program 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 Gilead Community Services, Inc.'s and Rainbow Housing Corporation'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. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the State Single Audit Act. Accordingly, this report is not suitable for any other purpose.

Guilmetti, DiPiro & Sokolowski LLC

Middletown, Connecticut
November 21, 2014

GILEAD COMMUNITY SERVICES, INC. AND RAINBOW HOUSING CORPORATION

Schedule of Findings and Questioned Costs

For the year ended June 30, 2014

1. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's opinion issued: Unmodified

Internal control over financial reporting:

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

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

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

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>		
Discharge and Diversion Services	11000-MHA53000-12330	\$1,926,298
Psychiatric and Mental Health Services	11000-MHA53000-16053	2,077,915
Young Adult Services	11000-MHA53000-12250	1,609,617
Housing Supports and Services	11000-MHA53000-12035	100,000

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

2. FINANCIAL STATEMENT FINDINGS

None.

3. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

None.