

Community Solutions, Inc. & Subsidiaries

**Report on Consolidated Financial Statements
(With Supplementary Information)**

Years Ended June 30, 2010 and 2009

COMMUNITY SOLUTIONS, INC. & SUBSIDIARIES

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Report of Independent Public Accountants

To the Board of Directors
Community Solutions, Inc.

We have audited the accompanying consolidated statements of financial position of Community Solutions, Inc. (a nonprofit organization) & Subsidiaries as of June 30, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 financial statements referred to above present fairly, in all material respects, the financial position of Community Solutions, Inc. & Subsidiaries as of June 30, 2010 and 2009, 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 18, 2010 on our consideration of Community Solutions, Inc. & Subsidiaries' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, 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 audits.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information on pages 22 through 24 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits 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.

 J.H. Cohn LLP

Glastonbury, Connecticut
October 18, 2010

COMMUNITY SOLUTIONS, INC. & SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009**

ASSETS

	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents	\$ 3,389,341	\$ 2,796,033
Grants and accounts receivable, net of allowances of \$28,323 and \$41,802	2,239,344	2,545,169
Notes receivable, current portion, net	680,000	-
Prepaid expenses	519,027	316,588
Accounts receivable - other	29,089	118,209
Total current assets	<u>6,856,801</u>	<u>5,775,999</u>
Property and equipment, at cost:		
Buildings and renovations	773,557	773,557
Leasehold improvements	643,315	640,103
Equipment and furnishings	483,930	453,243
Vehicles	46,373	10,960
Land improvements	4,061	4,061
	<u>1,951,236</u>	<u>1,881,924</u>
Less accumulated depreciation and amortization	<u>(1,035,763)</u>	<u>(839,151)</u>
	915,473	1,042,773
Land	108,000	108,000
Property and equipment, net	<u>1,023,473</u>	<u>1,150,773</u>
Other assets:		
Investments	6,941,493	6,236,481
Security deposits	131,405	114,977
Notes receivable, less current portion, net	-	807,500
	<u>7,072,898</u>	<u>7,158,958</u>
Totals	<u>\$ 14,953,172</u>	<u>\$ 14,085,730</u>

COMMUNITY SOLUTIONS, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
Current liabilities:		
Accrued expenses	\$ 1,380,301	\$ 1,503,374
Deferred revenue	690,518	1,032,290
Accounts payable	305,104	384,981
Deferred gain on sale-leaseback, current portion	226,286	226,286
Long-term debt, current portion	94,319	87,389
Deferred bonding revenue, current portion	19,602	19,602
Total current liabilities	<u>2,716,130</u>	<u>3,253,922</u>
Long-term liabilities:		
Deferred gain on sale-leaseback, less current portion	2,489,151	2,715,437
Long-term debt, less current portion	210,325	304,617
Deferred bonding revenue, less current portion	63,139	82,741
Deferred annuity payable	23,174	-
Total long-term liabilities	<u>2,785,789</u>	<u>3,102,795</u>
Total liabilities	<u>5,501,919</u>	<u>6,356,717</u>
Commitments and contingencies		
Net assets:		
Unrestricted	9,426,645	7,708,505
Temporarily restricted	24,608	20,508
Total net assets	<u>9,451,253</u>	<u>7,729,013</u>
Totals	<u>\$ 14,953,172</u>	<u>\$ 14,085,730</u>

See Notes to Consolidated Financial Statements.

COMMUNITY SOLUTIONS, INC. & SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Changes in unrestricted net assets:		
Program support and revenue:		
Fees and grants from governmental agencies	\$ 27,728,117	\$ 32,391,951
Third party reimbursements	1,708,331	856,476
Resident subsistence	327,349	599,508
Other program revenue	385,347	307,878
School lunch revenue	31,923	29,175
Miscellaneous revenue	13,126	21,193
	<u>30,194,193</u>	<u>34,206,181</u>
Net assets released from restrictions:		
Satisfaction of program and time restrictions	14,650	30,375
Total program support and revenue	<u>30,208,843</u>	<u>34,236,556</u>
Program expenses:		
Direct program expenses	(25,348,625)	(29,696,756)
Administrative and general expenses	(3,924,909)	(4,246,281)
Total expenses	<u>(29,273,534)</u>	<u>(33,943,037)</u>
Increase in unrestricted net assets before other revenue (expenses) and capital additions	<u>935,309</u>	<u>293,519</u>
Other revenue (expenses):		
Interest income	97,800	125,493
Public support	56,381	57,617
Restricted grant/contributions	22,918	71,207
Restricted grant expenses	(22,918)	(71,207)
Bad debt expense	(70,000)	(50,000)
Investment gain (loss), net	679,048	(635,977)
Loss on disposal of property and equipment	-	(4,280)
Total other revenue (expenses)	<u>763,229</u>	<u>(507,147)</u>
Capital additions:		
Deferred bonding income	<u>19,602</u>	<u>19,602</u>
Increase (decrease) in unrestricted net assets	<u>1,718,140</u>	<u>(194,026)</u>

COMMUNITY SOLUTIONS, INC. & SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Changes in temporarily restricted net assets:		
Contributions	\$ 18,750	\$ 20,508
Net assets released from restrictions - satisfaction of program and time restrictions	<u>(14,650)</u>	<u>(30,375)</u>
Increase (decrease) in temporarily restricted net assets	<u>4,100</u>	<u>(9,867)</u>
Change in net assets	1,722,240	(203,893)
Net assets, beginning of year	<u>7,729,013</u>	<u>7,932,906</u>
Net assets, end of year	<u>\$ 9,451,253</u>	<u>\$ 7,729,013</u>

See Notes to Consolidated Financial Statements.

COMMUNITY SOLUTIONS, INC. & SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Operating activities:		
Change in net assets	\$ 1,722,240	\$ (203,893)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	196,612	195,046
Loss on disposal of property and equipment	-	4,280
Deferred bonding revenue	(19,602)	(19,602)
Amortization of deferred gain on sale-leaseback	(226,286)	(226,286)
Unrealized (gain) loss on investments	(633,999)	827,962
Realized loss (gain) on investments	118,099	(23,685)
Bad debt expense	70,000	50,000
Changes in operating assets and liabilities:		
Grants and accounts receivable	305,825	(260,412)
Prepaid expenses	(202,439)	29,358
Accounts receivable - other	89,120	(5,844)
Security deposits	(16,428)	(476)
Accrued expenses	(123,073)	103,569
Deferred revenue	(411,772)	(46,081)
Accounts payable	(79,877)	(351,719)
Deferred annuity payable	23,174	-
Net cash provided by operating activities	<u>811,594</u>	<u>72,217</u>
Investing activities:		
Capital expenditures	(69,312)	(93,295)
Purchases of investments	(3,760,104)	(2,559,426)
Proceeds from sale of investments	3,570,992	2,390,953
Proceeds from notes receivable	127,500	452,889
Net cash (used in) provided by investing activities	<u>(130,924)</u>	<u>191,121</u>
Financing activities:		
Payments on long-term debt	(87,362)	(80,053)
Net increase in cash and cash equivalents	593,308	183,285
Cash and cash equivalents, beginning of year	<u>2,796,033</u>	<u>2,612,748</u>
Cash and cash equivalents, end of year	<u>\$ 3,389,341</u>	<u>\$ 2,796,033</u>

COMMUNITY SOLUTIONS, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Supplemental disclosures of cash flow information:		
Interest paid	\$ 20,871	\$ 30,866
Income taxes paid	\$ 8,721	\$ -
Noncash investing and financing activities:		
Decrease in notes receivable	\$ 127,500	\$ 442,889
Bad debt recoveries	-	10,000
Proceeds from notes receivable	\$ 127,500	\$ 452,889

See Notes to Consolidated Financial Statements.

COMMUNITY SOLUTIONS, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Business and significant accounting policies:

Organizations' activities:

The consolidated financial statements include the accounts of Community Solutions, Inc. ("CSI") and its subsidiaries, CSI Connecticut, Inc. and Collins Group, Inc. (collectively referred to as the "Organizations"). All significant intercompany transactions have been eliminated in consolidation.

Community Solutions, Inc. is a private, not-for-profit, community-based provider that provides comprehensive services to criminal justice, juvenile justice and child welfare clients in several states including Rhode Island, New Jersey, Pennsylvania, Georgia, Louisiana, Florida and Maryland. In addition, Community Solutions, Inc. operates Federally funded programs in Connecticut.

CSI Connecticut, Inc. is a private, not-for-profit, community-based provider that provides comprehensive services to criminal justice, juvenile justice and child welfare clients in the State of Connecticut.

Collins Group, Inc. is a private, not-for-profit organization that owns and operates commercial real estate and equipment for CSI, CSI Connecticut, Inc. and certain mission-related third party organizations.

Basis of presentation:

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. They are described as follows:

Unrestricted - Net assets that are not subject to explicit donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted - Net assets whose use by the Organizations are subject to either explicit donor-imposed stipulations or by operation of law that can be fulfilled by actions of the Organizations or that expire by the passage of time.

Permanently Restricted - Net assets subject to explicit donor-imposed stipulations that they be maintained permanently by the Organizations and stipulate the use of income and/or appreciation as temporarily restricted based on donor imposed stipulations or by operation of law. The Organizations have no permanently restricted net assets.

COMMUNITY SOLUTIONS, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Business and significant accounting policies (continued):

Tax exempt status:

The Organizations are exempt from Federal income taxes under provisions of Internal Revenue Code 501(c)(3). However, certain operations of the Organizations qualify as unrelated business taxable income and the Organizations have accrued \$3,791 and \$8,721 of unrelated business tax as of June 30, 2010 and 2009, respectively.

The Organizations adopted the new accounting for uncertainty in income taxes guidance on July 1, 2009. The adoption of that guidance did not result in the recognition of any unrecognized tax benefits and the Organizations have no unrecognized tax benefits at June 30, 2010. The Organizations' U.S. Federal and state information and unrelated business income tax returns prior to calendar year 2006 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If the Organizations have unrelated business income taxes, they will recognize interest and penalties associated with uncertain tax positions as part of the income tax provision and include accrued interest and penalties with the related tax liability in the consolidated statements of financial position.

Cash and cash equivalents:

Cash and cash equivalents include all cash balances and highly liquid short-term instruments with an original maturity of three months or less when acquired. Cash equivalents as of June 30, 2010 and 2009 were \$2,864,820 and \$2,219,231, respectively.

Restricted funds:

Certain amounts of cash, cash equivalents and investments are pledged as collateral for real estate operating leases with one third party lessor as follows:

<u>Period</u>	<u>Amount Pledged</u>
July 2007 - June 2012	\$ 3,000,000
July 2012 - June 2017	2,000,000

Investments:

The Organizations report investments at their current fair values and reflect any gains or losses in the consolidated statements of activities. Gains and losses are considered unrestricted unless restricted by donor stipulation or law. Nonmonetary investments received as gifts are immediately sold and recorded at the realized value.

COMMUNITY SOLUTIONS, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Business and significant accounting policies (continued):

Grants and accounts receivable:

Receivables arising from per diem contracts and cost reimbursement grants made by various funding agencies and third party payers are stated net of an allowance for doubtful accounts. Allowances for receivables are determined by management based on an assessment of their collectability. Management considers past history, current economic conditions and overall viability of the third party when determining the need for an allowance. Receivables are written off only when management believes amounts will not be collected. Receivables are considered past due based on the invoice date.

Notes receivable:

Notes receivable are carried at unpaid principal balances less an allowance for loan losses. Management's periodic evaluation of the necessity of an allowance is based on specific impaired notes receivable, adverse situations that may affect the borrower's ability to repay, and the estimated value of any underlying collateral. Past due status is determined based on contractual terms. Notes receivable are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual terms. The Organizations' practice is to charge off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, the depreciation of the underlying collateral, or for other reasons.

Notes receivable are placed on nonaccrual status when management believes, after considering business conditions and collection efforts, that the notes receivable are impaired or collection of interest is doubtful. Uncollected interest previously accrued is charged off or an allowance is established by a charge to interest income. Interest income on nonaccrual loans is recognized only to the extent cash payments are received.

Interest on notes receivable that are not impaired is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

Property and equipment:

Capital assets purchased with funds received from some state contracts are expensed in the year acquired and are charged to the program benefited. Title to the equipment remains with the funding agency and the property reverts to that agency at the termination of the program. An annual schedule of equipment purchased is provided to the agencies.

COMMUNITY SOLUTIONS, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Business and significant accounting policies (continued):

Property and equipment (concluded):

The Organizations capitalize all expenditures for property and equipment in excess of \$1,000 and having a useful life of greater than three years. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation of property and equipment is charged against income over the estimated useful lives of the assets, using the straight-line method. Leasehold improvements are amortized over the shorter of the useful life or the lease term. Estimated lives for financial reporting purposes are as follows:

<u>Asset</u>	<u>Estimated Lives</u>
Buildings and renovations	7 - 40 years
Leasehold improvements and land improvements	7 - 40 years
Equipment and furnishings	3 - 10 years
Vehicles	5 years

Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is reflected in the consolidated statements of activities.

Revenue recognition:

Fees and grants from governmental agencies:

The Organizations recognize grants to the extent that eligible grant costs are incurred. Per diem contract revenue is recognized when a unit of service is provided. Deferred revenue represents grant advances and other revenue which exceed eligible costs incurred. With certain fee for service contracts, the Organizations are allowed to retain a portion of unspent funds received.

Expenditures charged to contracts are subject to audit by various Federal and state agencies. The expenditures reported for the years ended June 30, 2010 and 2009 have not been audited by the respective funding agencies.

Third party reimbursements:

The revenue related to third party reimbursements is recognized in the period in which the reimbursable costs are incurred.

Resident subsistence:

Certain residents of the Organizations are required to remit 25% to 35% of their earnings to the Organizations as subsistence. For some of the Department of Correction's residents, 3% of the subsistence collected is donated to a victim's compensation fund.

COMMUNITY SOLUTIONS, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Business and significant accounting policies (concluded):

Revenue recognition (concluded):

Other program revenue:

Other program revenue is recognized as revenue in the period in which the related services are provided.

Contributions:

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restrictions expire in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Bonding revenue:

The Organizations have received bond funds over the years for various renovations. The provider of the bond funds places a ten-year lien on the property when the projects are complete. If the property is not utilized by the Organizations, the bond funds will have to be repaid. The repayment is made in an amount equal to the amount of the bond less 10% for each full year of the ten year period that the location was utilized. The unamortized balance is recorded as deferred bonding revenue.

Deferred gain on sale-leaseback:

The gain from the sale-leaseback transaction is being amortized over the term of the lease, which is 15 years, and is offset against rental and lease payments in the consolidated direct program expenses. The unamortized balance is recorded in the consolidated statements of financial position as deferred gain on sale-leaseback.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent events:

The Organizations have evaluated events and transactions for potential recognition or disclosure through October 18, 2010, which is the date the consolidated financial statements were available to be issued.

COMMUNITY SOLUTIONS, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 - Concentrations:

Concentration of credit risk:

Financial instruments which potentially subject the Organizations to concentrations of credit risk consist primarily of cash, cash equivalents, investments and receivables. The Organizations maintain their cash and cash equivalents with high-credit quality financial institutions. At times, such amounts may exceed Federally insured limits. At June 30, 2010, the Organizations had cash balances in excess of Federally insured limits in the amount of approximately \$2,365,000.

The Organizations invest in various investment securities. Accordingly, the value of the investment securities can fluctuate due to interest rates, reinvestment, credit and other risks depending on the nature of the specific investment. Therefore, it is at least reasonably possible that these factors will result in changes in the value of the Organizations' investments which could materially affect amounts reported in the consolidated financial statements.

Concentrations of credit risk with respect to grants and accounts receivable are limited to contractual agreements with various Federal and state agencies.

Funding source concentrations:

The following agencies provided over 10% of the Organizations' total support and revenue for the years ended June 30, 2010 and 2009:

<u>Granting Agency</u>	<u>2010</u>	<u>2009</u>
Connecticut Court Support Services Division	\$ 7,235,774	\$ 10,273,426
Connecticut Department of Corrections	5,792,385	6,146,605
	<u>\$13,028,159</u>	<u>\$16,420,031</u>

Note 3 - Investments:

The following summarizes the Organizations' investments at June 30, 2010 and 2009:

2010:	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Cash equivalents	\$ 281,192	\$ 281,192	\$ -
Money market	92,461	92,461	-
Certificates of deposit	300,000	308,391	8,391
Mutual funds	3,470,341	3,029,198	(441,143)
Exchange-traded funds	3,314,555	3,230,251	(84,304)
Totals	<u>\$ 7,458,549</u>	<u>\$ 6,941,493</u>	<u>(517,056)</u>

COMMUNITY SOLUTIONS, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 - Investments (concluded):

	Cost	Fair Value	Unrealized Gain (Loss)
2009:			
Cash equivalents	\$ 54,110	\$ 54,110	\$ -
Money market	460,124	460,124	-
Certificates of deposit	500,000	510,010	10,010
Mutual funds	3,230,051	2,364,013	(866,038)
Exchange-traded funds	2,997,904	2,746,223	(251,681)
Corporate bonds	145,347	102,001	(43,346)
Totals	\$ 7,387,536	\$ 6,236,481	(1,151,055)

Net unrealized gain for the year
ended June 30, 2010

\$ 633,999

Included in investments are the assets related to the Organizations' nonqualified deferred compensation plan in the amount of \$23,174 and \$0 as of June 30, 2010 and 2009, respectively.

Investment income (loss) for the years ended June 30, 2010 and 2009 was comprised of the following:

	2010	2009
Dividends and interest	\$ 191,535	\$ 186,511
Realized (loss) gain	(118,099)	23,685
Unrealized gain (loss)	633,999	(827,962)
Total gain (loss)	707,435	(617,766)
Investment expenses	(28,387)	(18,211)
Investment gain (loss), net	\$ 679,048	\$ (635,977)

There are Board restrictions on the use of the Organizations' investments and it is the intent of the Board of Directors to not use these investments for current operations.

Note 4 - Fair value measurements:

The Organizations value their financial assets and liabilities based on 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. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

COMMUNITY SOLUTIONS, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 - Fair value measurements (continued):

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Organizations utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as consider counterparty credit risk in their assessment of fair value.

Financial assets and liabilities carried at fair value at June 30, 2010 and 2009 are classified in the table below in one of the three categories described above:

	2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$ -	\$ 281,192	\$ -	\$ 281,192
Money market	-	92,461	-	92,461
Certificates of deposit	-	308,391	-	308,391
Mutual funds:				
Domestic equities	925,602	-	-	925,602
International equities	751,434	-	-	751,434
International bonds	531,165	-	-	531,165
Domestic bonds	523,510	-	-	523,510
Commodities	297,487	-	-	297,487
Total mutual funds	3,029,198	-	-	3,029,198
Exchange-traded funds:				
Domestic bonds	1,671,363	-	-	1,671,363
Domestic equities	1,392,305	-	-	1,392,305
International equities	166,583	-	-	166,583
Total exchange-traded funds	3,230,251	-	-	3,230,251
Total assets	\$ 6,259,449	\$ 682,044	\$ -	\$ 6,941,493
Liabilities under deferred annuity payable	\$ -	\$ 23,174	\$ -	\$ 23,174
	2009			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ -	\$ 54,110	\$ -	\$ 54,110
Money market	-	460,124	-	460,124
Certificates of deposit	-	510,010	-	510,010
Mutual funds:	2,364,013	-	-	2,364,013
Exchange-traded funds:	2,746,223	-	-	2,746,223
Corporate bonds	-	102,001	-	102,001
Total assets	\$ 5,110,236	\$ 1,126,245	\$ -	\$ 6,236,481

The fair value of cash, money market and certificates of deposit are estimated using third party quotations (Level 2).

COMMUNITY SOLUTIONS, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 - Fair value measurements (concluded):

Investments in mutual funds consisting of equities and exchange-traded funds that are listed on a national securities exchange or reported on the NASDAQ national market are valued at their last sales price on the valuation date (Level 1).

The fair value of corporate bonds are estimated using market price quotations (where observable), recently executed transactions or bond spreads of the issuer. If the spread data does not reference the issuer, then data that references a comparable issuer is used. When observable price quotations are not available, fair value is determined based on cash flow models with yield curves or bond spreads (Level 2).

The deferred annuity payable is valued using inputs that are based primarily on quoted prices for similar liabilities in active or inactive markets (Level 2).

There were no changes in the valuation techniques and related inputs in 2010 and 2009.

Note 5 - Notes receivable:

A summary of notes receivable is as follows:

	2010	2009
8.5% mortgage note receivable. Payments of principal are \$21,250 for each condominium unit the borrower sells until the entire principal has been paid. All unpaid principal is due by December 31, 2010. Payments of accrued interest are due each month until the note is paid in full. The note is secured by an assignment of all rents of the condominium.	\$ 680,000	\$ 807,500
Promissory note receivable amended May 6, 2009 with an interest rate of 5% on the remaining principal balance of \$50,000 due November 6, 2012.	50,000	50,000
Less allowance for impaired notes receivable	(50,000)	(50,000)
	680,000	807,500
Less current portion	(680,000)	-
	\$ -	\$ 807,500

At June 30, 2010 and 2009, the \$50,000 note receivable is impaired and is fully reserved at June 30, 2010 and 2009. Interest income on this impaired note receivable was not recognized in 2010 and 2009. The Organizations have no commitments to lend additional funds to the borrower of the impaired note receivable.

COMMUNITY SOLUTIONS, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Line of credit:

The Organizations have an agreement with Connecticut Bank and Trust Company for a revolving line of credit which provides borrowings up to a maximum of \$1,500,000 through February 27, 2011. Borrowings under the line bear interest at the prime rate (3.25% at June 30, 2010) and are collateralized by all of the assets of the Organizations. There was no outstanding balance on the line of credit at June 30, 2010 and 2009.

Note 7 - Long-term debt:

A summary of long-term debt is as follows:

	<u>2010</u>	<u>2009</u>
Adjustable term note payable to Connecticut Bank and Trust Company due in monthly principal and interest installments of \$8,034, due in February 2012. The rate is subject to change based on the Federal Home Loan Bank of Boston Index. The interest rate at June 30, 2010 is 7.50%. The note is secured by the Organizations' assets.	\$ 150,483	\$ 232,033
Adjustable rate mortgage note payable to CCO Mortgage in monthly principal and interest installments of \$1,166 effective July 1, 2008, \$992 effective July 1, 2009 and \$953 effective July 1, 2010, due in June 2028. The adjustable interest rates are 5.875% effective July 1, 2008, 3.875% effective July 1, 2009 and 3.375% effective July 1, 2010. The note is secured by a first mortgage interest on property located in Johnston, Rhode Island.	<u>154,161</u>	<u>159,973</u>
	304,644	392,006
Less current portion	<u>(94,319)</u>	<u>(87,389)</u>
	\$ 210,325	\$ 304,617

The aggregate of future payments are as follows:

<u>Year Ending June 30,</u>	
2011	\$ 94,319
2012	69,160
2013	6,891
2014	7,127
2015	7,371
Thereafter	<u>119,776</u>
	\$ 304,644

The Organizations incurred interest expense of \$20,871 and \$30,061 for the years ended June 30, 2010 and 2009, respectively.

COMMUNITY SOLUTIONS, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 - Deferred bonding revenue:

The Organizations have received funding through various contracts with the State of Connecticut which provided funding for facilities and improvements. These contracts place liens on certain real property for a ten-year period and expire at various dates through 2018. The liens are reduced by 10% per year, provided the properties are used as private, not-for-profit community facilities. The liens are as follows:

	<u>2010</u>	<u>2009</u>
Safe Home, South Windsor, CT	\$ 42,762	\$ 49,935
Kellogg House, Vernon, CT	35,925	44,906
Carriage House, Hartford, CT	<u>4,054</u>	<u>7,502</u>
	82,741	102,343
Current portion	<u>(19,602)</u>	<u>(19,602)</u>
Long-term portion	<u>\$ 63,139</u>	<u>\$ 82,741</u>

Note 9 - Temporarily restricted net assets:

Temporarily restricted net assets are made up of contributions restricted by donors for funding the following programs as of June 30:

	<u>2010</u>	<u>2009</u>
Golf tournament for 2011 and 2010, respectively	\$ 13,000	\$ 15,730
Safe Home donation	5,750	-
Kitchen for Hartford House	3,200	3,200
Client supplies	1,578	1,578
Coventry donation	<u>1,080</u>	<u>-</u>
	<u>\$ 24,608</u>	<u>\$ 20,508</u>

Note 10 - Operating lease agreements:

Real estate:

The Organizations lease facilities in the states of Connecticut, New Jersey, Pennsylvania, Maryland, Georgia, Florida, Louisiana and California. These facilities are primarily used for programs. In addition, the Organizations lease a facility in Connecticut for administration.

Rent expense for the years ended June 30, 2010 and 2009 was \$1,950,255 and \$2,129,830, respectively. Aggregate monthly rents are \$152,581 and leases expire at various times through June 2022.

COMMUNITY SOLUTIONS, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 - Operating lease agreements (concluded):

Real estate (concluded):

Future minimum real estate lease payments in each of the five years subsequent to June 30, 2010 and thereafter are as follows:

<u>Year Ending June 30,</u>	
2011	\$ 1,695,978
2012	1,477,903
2013	1,246,104
2014	1,004,189
2015	872,937
Thereafter	5,355,000
	<u>\$11,652,111</u>

Equipment and motor vehicles:

The Organizations lease certain equipment and motor vehicles and are generally responsible for their maintenance and insurance. The leases expire at various dates through May 2013. Total lease expense was \$146,272 and \$149,033 for the years ended June 30, 2010 and 2009, respectively.

Future minimum lease payments due under noncancelable operating leases for equipment and motor vehicles in each of the years subsequent to June 30, 2010 are as follows:

<u>Year Ending June 30,</u>	
2011	\$ 68,366
2012	40,711
2013	9,294
	<u>\$ 118,371</u>

Note 11 - Retirement plans:

CSI maintains a 401(k) profit-sharing plan and a tax sheltered annuity plan covering all employees of CSI and its subsidiary, CSI Connecticut, Inc. who satisfy the eligibility requirements. An employee is immediately eligible for participation in the plan. CSI matches 100% of participant 401(k) contributions up to 4% of compensation. Employer contributions are fully vested after five years of service. Retirement expense for the years ended June 30, 2010 and 2009 was \$292,658 and \$363,168, respectively.

CSI maintains a nonqualified deferred compensation plan for eligible employees. Benefit payments to a participant or beneficiary are made according to the manner and method of payment, as elected in a participation agreement provided within the plan. Investments in the amount of \$23,174 as of June 30, 2010 have been segregated as an asset of CSI, which represents the total amount of deferred annuity payable. Deferred compensation expense was \$22,257 for the year ended June 30, 2010.

COMMUNITY SOLUTIONS, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 - Contingencies:

The Organizations are the defendants in proceedings involving various employee matters. The proceedings may result in judgments being assessed against the Organizations which may impact their assets in the future, however all judgments are expected to be covered by insurance policies.

In these cases, the Organizations intend to contest the proceedings vigorously and cannot predict the outcome of the potential lawsuit or estimate the amount of loss that may result. The Organizations do not believe the proceedings are material to its consolidated results of operations or financial condition and, accordingly, no provision for any liability that may result has been made at June 30, 2010.

Note 13 - Subsequent event:

On July 1, 2010, as part of a corporate reorganization, CSI Connecticut, Inc. was dissolved and merged into CSI. Management transferred the net assets along with all contracts and operations to CSI as of that date. In addition, CSI assumed all government contracts as well as lease obligations.

COMMUNITY SOLUTIONS, INC. & SUBSIDIARIES

**CONSOLIDATED FEES AND GRANTS FROM GOVERNMENTAL AGENCIES
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Connecticut Court Support Services Division	\$ 7,235,774	\$ 10,273,426
Connecticut Department of Corrections	5,792,385	6,146,605
Pennsylvania Commission on Crime and Delinquency and various Pennsylvania counties	2,060,548	1,817,902
Rhode Island Care Management Network	1,829,840	1,763,429
Federal Bureau of Prisons	1,814,070	1,770,430
Georgia Department of Juvenile Justice	1,796,915	2,571,782
Florida Department of Juvenile Justice	1,575,744	1,184,286
Connecticut Department of Children and Families	1,305,294	2,411,522
New Jersey State Parole Board and Department of Juvenile Justice Commission	1,262,800	993,171
Court Support Services Division Training Services	1,208,463	1,145,958
Baltimore County and the Baltimore City Health Department	865,344	970,349
New Jersey Department of Children and Families - Division of Child Behavioral Health Services	727,650	770,766
Louisiana Department of Public Safety and Corrections - Youth Services	247,624	550,784
Connecticut - other	5,666	21,541
	<u> </u>	<u> </u>
Total fees and grants from governmental agencies	<u>\$ 27,728,117</u>	<u>\$ 32,391,951</u>

See Report of Independent Public Accountants.

COMMUNITY SOLUTIONS, INC. & SUBSIDIARIES

**CONSOLIDATED DIRECT PROGRAM EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Salaries and wages	\$ 14,778,964	\$ 17,143,445
Employee benefits	3,433,199	3,896,526
Rental and lease payments	1,710,587	1,896,563
Food	1,025,865	1,095,827
Contract services	734,249	910,887
Training and in-service	667,439	980,411
Mileage reimbursement	574,724	834,585
Utilities	511,631	559,158
Property insurance	307,025	357,434
Telephone	271,535	355,132
Maintenance supplies and expense	220,459	311,379
Depreciation and amortization	172,041	170,248
Office supplies and expense	170,316	208,764
Lab fees	142,656	171,685
Other	124,740	125,417
Housekeeping	108,193	126,608
Vehicle expenses	85,343	111,887
Minor equipment	75,984	146,896
Vehicle insurance	57,134	76,863
Dietary nonfood	52,075	57,124
Inmate recreational services	42,891	55,364
Inmate training and education	27,519	28,068
Interest expense	20,871	30,061
Property and real estate taxes	17,299	15,247
Recruitment advertising	15,886	31,177
	<u> </u>	<u> </u>
Total direct program expenses	<u>\$ 25,348,625</u>	<u>\$ 29,696,756</u>

See Report of Independent Public Accountants.

COMMUNITY SOLUTIONS, INC. & SUBSIDIARIES

CONSOLIDATED ADMINISTRATIVE AND GENERAL EXPENSES

YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Salaries and wages	\$ 2,498,265	\$ 2,665,820
Employee benefits	457,503	442,846
Contract services	300,741	315,833
Staff training and in-service	167,028	210,104
Rental and lease payments	159,654	156,014
Other	76,260	66,737
Office supplies and expense	72,748	82,205
Telephone	39,544	69,073
Dues, licenses and fees	33,976	28,716
Utilities	31,080	30,851
Mileage reimbursement	30,137	46,020
Depreciation	24,571	24,798
Program advertising	14,093	34,526
Property insurance	7,074	6,911
Minor equipment	4,048	5,742
Recruitment advertising	3,357	5,662
Temporary help	2,620	36,336
Maintenance supplies and expense	1,455	143
Food	702	1,786
Development costs	53	16,158
	<u>53</u>	<u>16,158</u>
Total administrative and general expenses	<u>\$ 3,924,909</u>	<u>\$ 4,246,281</u>

See Report of Independent Public Accountants.

Community Solutions, Inc.

**Report on State Financial Assistance In
Accordance with the Florida Single Audit Act**

Year Ended June 30, 2010

COMMUNITY SOLUTIONS, INC.
REPORT ON STATE FINANCIAL ASSISTANCE
IN ACCORDANCE WITH THE FLORIDA SINGLE AUDIT ACT
YEAR ENDED JUNE 30, 2010

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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Community Solutions, Inc.

We have audited the financial statements of Community Solutions, Inc. as of and for the year ended June 30, 2010, and have issued our report thereon dated October 18, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Community Solutions, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Community Solutions, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Community Solutions, Inc.'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 reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Directors, the Auditor General's Office, 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.

Handwritten signature of J.H. Cohn LLP in cursive script.

Glastonbury, Connecticut
October 18, 2010

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS 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 FLORIDA SINGLE AUDIT ACT**

To the Board of Directors
Community Solutions, Inc.

Compliance

We have audited Community Solutions, Inc.'s compliance with the types of compliance requirements described in the Florida State Projects Compliance Supplement that could have a direct and material effect on each of Community Solutions, Inc.'s major state programs for the year ended June 30, 2010. Community Solutions, Inc.'s major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of Community Solutions, Inc.'s management. Our responsibility is to express an opinion on Community Solutions, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the standards applicable to financial audits contained in the Florida Single Audit Act. Those standards and the Florida 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 Community Solutions, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Community Solutions, Inc.'s compliance with those requirements.

In our opinion, Community Solutions, Inc. complied, in all material respects, with the 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, 2010.

Internal Control Over Compliance

Management of Community Solutions, Inc. 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 Community Solutions, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major state program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Florida 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 Community Solutions, Inc.'s internal control over compliance.

Internal Control Over Compliance (concluded)

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.

Schedule of Expenditures of State Financial Assistance

We have audited the basic financial statements of Community Solutions, Inc. as of and for the year ended June 30, 2010 and have issued our report thereon dated October 18, 2010. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of State Financial Assistance is presented for purposes of additional analysis as required by the Florida Single Audit Act and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Directors, the Auditor General's Office, 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.

Handwritten signature of J.H. Cohen LLP in cursive script.

Glastonbury, Connecticut
October 18, 2010

COMMUNITY SOLUTIONS, INC.

**SCHEDULE OF STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2010**

State Agency Pass-Through Agency State Project Title	CSFA Number	Awards
Department of Juvenile Justice:		
Passed through Evidence-Based Associates:		
Conditional Release Services	80.018	\$ 805,670
Contracted Intensive Probation	80.019	<u>749,450</u>
Total State Financial Assistance		<u><u>\$ 1,555,120</u></u>

See Note to Schedule of State Financial Assistance.

COMMUNITY SOLUTIONS, INC.

NOTE TO SCHEDULE OF STATE FINANCIAL ASSISTANCE

Note 1 - Basis of Presentation:

The accompanying schedule of state financial assistance includes the state grant activity of Community Solutions, Inc. in the State of Florida. The accounting policies of Community Solutions, Inc. conform with accounting principles generally accepted in the United States of America for not-for-profit agencies. The information in this schedule is presented in accordance with the requirements of the Florida Single Audit Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

COMMUNITY SOLUTIONS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

I. Summary of Auditors' Results:

Financial Statements:

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified that are not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements noted? yes X no

Management letter issued? yes X no

State Financial Assistance:

Internal control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified that are not considered to be material weaknesses? yes X none reported

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

Any audit findings disclosed that are required to be reported in accordance with the Florida Single Audit Act? yes X no

Identification of major programs:

<u>CSFA Number(s)</u>	<u>Name of State Program</u>
80.018	Conditional Release Services
80.019	Contracted Intensive Probation

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

Auditee qualified as low-risk auditee? X yes no

II. Schedule of findings in accordance with *Government Auditing Standards*:

None.

III. Schedule of findings and questioned costs in accordance with the Florida Single Audit Act:

None.

IV. Schedule of prior audit findings:

No prior audit findings.